

# CO-OPERATIVES LINKING PRACTICE AND THEORY



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## FOREWORD

Much has been written about co-operatives by co-operators and for co-operators. Co-operative principles and values, governance, regulation, models, and case studies all explore the rich ecosystem of co-operative organisations. Moreover, there are sustained and thoughtful debates exploring the intersections between co-operatives and contemporary topics such as social justice, decent work, housing, sustainable development goals (SDGs), the social solidarity economy, resilience, and climate justice. Where there is a problem to be addressed, or an alternative way of organising to be considered, the international community of co-operative practitioners and academics can usually make an impassioned, strong case for the co-operative advantage.

Outside the co-operative ecosystem, however, the co-operative model can suffer from invisibility. People might be familiar with ‘The Co-op’ as a brand, but they might not know anything about co-operative principles and values. Similarly, building society members might not necessarily understand the idea of mutuality. If someone wanted to learn more about co-operatives and asked for a recommendation, where should they start? As Ian Adderley discovered when he was asked that question, there is so much in-depth research to choose from that a simple recommendation can quickly become a substantial reading list, when what is actually needed is a primer that could introduce people to co-operatives, spark their interest, and encourage them to engage further with the world of co-operatives.

For this reason, the UK Society for Co-operative Studies (UKSCS) is delighted to support *Co-operatives: Linking practice and theory*. UKSCS was founded in 1967 and throughout its history has focused on sharing critical practice and engaged research on co-operatives and co-operation. *Co-operatives: Linking practice and theory* contributes to the Society’s charitable aims by offering an accessible introduction to co-operatives in sections that explore principles and context, technical aspects, and co-operative

philosophy. The book acts both as a portrait of co-operatives in all their variety and a synthesis of research knowledge and practical expertise. It will be a valuable resource for everyone who wants to learn more about the co-operative advantage.

**Anita Mangan**  
**Editor, Journal of Co-operative Studies**  
**University of Bristol, UK**

## PREFACE

Standing in the Rochdale Pioneers Museum in Toad Lane in Rochdale, I was asked by a civil servant whether there was a book I could recommend, giving an overview of co-operatives. I thought of over a dozen great books about co-operatives that I've enjoyed reading and shared this list with them. On reflection, it struck me that this was perhaps not ideal.

Students, academics, public servants, policymakers, lawyers, and others may want introduction, overview, or primer on co-operatives. While much has been written, asking each person to piece together this picture from the large volume of material available seems too high a hurdle (though thankfully many have crossed it).

My first hope was that I had overlooked an available resource that would give them what I thought they wanted. After spending some time looking around, and asking those that I knew, the conclusion I reached several months later was that I may need to write this book.

The aim of the book is not to set out anything new, but to synthesise what is already there. The references will signpost you to those who know more about specific topics.

Much has been written on the history of the co-operative movement. The past does of course inform the present and is especially important in the co-operative movement. I am however no historian, and therefore have provided only a brief history summary within this work. Though I do encourage you to explore the vast array of excellent historical accounts of individual co-operatives and the wider movement.

As a global movement, there was a challenge as to whether this book should be sufficiently high level to be of use in any country, or instead be specific to the UK. In the end, it has been written from a UK perspective with a UK audience in mind. International context and comparison are given where relevant.

Despite best endeavours, as a lawyer who has spent over a decade working

on the registration of co-operatives and mutuals in the UK, there is clearly a risk that bureaucratic tendencies may permeate the content. Do feel free to skip those chapters of less interest!

The co-operative movement is diverse. As is often the case, differences can arise between theory and practice. Throughout much of co-operative history the practice has come before the theory, and so, at some point during the drafting, the title was switched to the less common 'practice and theory' formulation. I have tried to avoid making any value-based judgments, and instead sought to sign-post alternative perspectives for you to do with what you wish.

**Ian Adderley LLB(Hons) FCG, FRSA**

**London, England**

**2024**

## ABOUT THE AUTHOR

Ian Adderley, a Chartered Secretary and Fellow of the Chartered Governance Institute, was called to the Bar in England and Wales in 2010 and has worked for the UK's Financial Conduct Authority in their role as the registering authority for mutual societies for over a decade. He is on the board of IUS Cooperativum, trustee and Vice Chair of the Co-operative Heritage Trust, and a trustee of the UK Society for Co-operative Studies – which he chaired for five years.

Before this, Ian was an elected member within co-operative societies, including as a member of a local area committee for a retail consumer co-operative. He worked for the regional bodies supporting co-operatives and social enterprises in Yorkshire and the Humber. And was previously employed as a national officer at the UK's largest public sector trade union.

He writes in a personal capacity, with views expressed not necessarily reflective of any of the organisations mentioned here.

*Any profits due to the author from the sale of this book will instead go directly to the UK Society for Co-operative Studies, registered charity number: 1175295. [ukscs.coop](http://ukscs.coop).*

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## ACRONYMS, GLOSSARY AND LANGUAGE

Where it is the author's text, 'co-operative' has been written with the hyphen, as the grammatically correct English usage. Elsewhere, the trend has been to omit the hyphen: cooperative. For parts of the 20th century at least, American English used 'coöperative' as the spelling of the word. Where text is quoted, the use within the quote is retained.

Similarly, in words such as 'organisation', the English spelling has been maintained. The Americanised 'organization' is used only in quotes, or to reflect usage by that body, e.g. the International Labour Organization.

### Acronyms

Acronym	Definition
ABCUL	Association of British Credit Unions Limited
AFM	Association of Financial Mutuals
AGM	Annual General Meeting
BIPC	British-Indian Pattern of Co-operation
BOAL	Basic Organizations of Associated Labor
BSA	Building Societies Association
CBS	Community Benefit Society
CCDS	Core Capital Deferred Shares
CCEW	Charity Commission for England and Wales
CCNI	Charity Commission for Northern Ireland
CDA	Co-operative Development Association
CDB	Co-operative Development Bodies
CDFI	Community Development Finance Institution
CDPS	Co-operative Deposit Protection Scheme
CEARC	Centre of Excellence in Accounting and Reporting for Co-operatives

<b>CECOP</b>	European Confederation of Industrial and Service Co-operatives
<b>CET</b>	Co-operative Education and Training
<b>CGI</b>	Chartered Governance Institute
<b>CIC</b>	Community Interest Company
<b>CICOPA</b>	International Organisation of Industrial and Service Cooperatives
<b>CIU</b>	Working Men's Club and Institute Union (see also WMCIU)
<b>CME</b>	Co-operative and Mutual Enterprise
<b>CORCA</b>	Committee of Registered Club Associations
<b>CoRNet</b>	Co-operative Research Network
<b>CREDS</b>	Credit union handbook chapter - FCA Handbook
<b>CRS</b>	Co-operative Retail Society
<b>CSO</b>	Co-operative support organisations
<b>CSR</b>	Corporate Social Responsibility
<b>CSU</b>	Community Shares Unit
<b>CUSO</b>	Credit Union Service Organisation
<b>CWB</b>	Community Wealth Building
<b>CWS</b>	Co-operative Wholesale Society Limited
<b>DisCO</b>	Distributed Co-operative Organisation
<b>EACB</b>	European Association of Co-operative Banks
<b>EOA</b>	Employee Ownership Association
<b>EOB</b>	Employee-owned business
<b>ERT</b>	Recuperated companies - Argentina
<b>ESG</b>	Environmental, Social and Governance
<b>ESOP</b>	Employee Share Ownership Plans
<b>EU</b>	European Union
<b>FCA</b>	Financial Conduct Authority
<b>FRC</b>	Financial Reporting Council

<b>FRS</b>	Financial Reporting Standard
<b>FSA</b>	Financial Services Authority (became FCA in 2013)
<b>FSMA</b>	Financial Services and Markets Act 2000
<b>GAAP</b>	Generally Accepted Accounting Principles
<b>GB</b>	Great Britain
<b>GBP</b>	Great British Pound £
<b>GDP</b>	Gross Domestic Product
<b>GRI</b>	Global Reporting Initiative
<b>HC</b>	House of Commons
<b>HL</b>	House of Lords
<b>HMRC</b>	His Majesty's Revenue and Customs
<b>IAS</b>	International Accounting Standards
<b>IASB</b>	International Accounting Standards Board
<b>ICA</b>	International Co-operative Alliance
<b>ICDC</b>	Institute for Co-operation in Developing Countries (University of Marburg)
<b>ICOM</b>	Industrial Common Ownership Movement
<b>IDBM</b>	Inclusive and Democratic Business Models
<b>IFRS</b>	International Financial Reporting Standard
<b>ILO</b>	International Labour Organization
<b>IOB</b>	Investor-owned business
<b>IOF</b>	Investor-owned firms
<b>IPS</b>	Industrial and Provident Society
<b>ISO</b>	International Organization for Standardization
<b>IUS</b>	IUS Cooperativum
<b>LAS</b>	Law Amendment Society
<b>LLP</b>	Limited Liability Partnership
<b>MDG</b>	Millennium Development Goals
<b>MERCOSUR</b>	Southern Common Market

<b>MOB</b>	Member-owned Business
<b>MPR</b>	Mutuals Public Register
<b>NED</b>	Non-executive director
<b>NGO</b>	Non-governmental organisation
<b>OCB</b>	Organização das Cooperativas Brasileiras (Organisation of Brazilian Co-operatives)
<b>OCFCU</b>	Oromia Coffee Farmers Cooperative Union
<b>OECD</b>	Organisation for Economic Co-operation and Development
<b>OHADA</b>	Organization for the Harmonization of Business Law in Africa
<b>OMOV</b>	One-member-one-vote
<b>ONS</b>	Office for National Statistics
<b>OSCR</b>	Office of the Scottish Charity Regulator
<b>P2P</b>	Peer-to-peer
<b>PCB</b>	People-centred business
<b>PECOL</b>	Principles of European Cooperative Law
<b>PIBS</b>	Permanent Interest-Bearing Shares
<b>PLC</b>	Public limited company
<b>PRA</b>	Prudential Regulation Authority
<b>RACS</b>	Royal Arsenal Co-operative Society
<b>RECMA</b>	Revue Internationale de L'économie Sociale (International Journal of the Social Economy)
<b>RFCCBS</b>	Registration Function for Co-operative and Community Benefit Societies Guidance
<b>RFS</b>	Registry of Friendly Societies
<b>RMP</b>	Resale Price Maintenance
<b>ROSCA</b>	Revolving Savings and Credit Association
<b>SACCO</b>	Saving and Credit Co-operatives
<b>SCE</b>	European Co-operative Society
<b>SDG</b>	Sustainable Development Goals

<b>SHE</b>	Self-help enterprises
<b>SIC</b>	Standard Industrial Classification Code
<b>SME</b>	Small and Medium Enterprises
<b>SORP</b>	Statement of Recommended Practice
<b>SSE</b>	Social and solidarity economy
<b>UK</b>	United Kingdom
<b>UKCC</b>	UK Co-operative Council
<b>UKSCS</b>	UK Society for Co-operative Studies
<b>UN</b>	United Nations
<b>UNESCO</b>	United Nations Educational, Scientific and Cultural Organization
<b>US</b>	United States of America
<b>USA</b>	United States of America
<b>USDA</b>	United States Department of Agriculture
<b>WMCIU</b>	Working Men's Club and Institute Union (see also CIU)
<b>WSC</b>	Withdrawable Share Capital

## Glossary

Brief definitions are provided here for ease of reference. Various terms are more precisely defined at relevant points within the text.

Term	Definition
<b>Agricultural co-operative</b>	Co-operative involved in agricultural production or supply, whose members are usually farmers – e.g. dairy co-operatives. Where involved in production, a type of 'producer' co-operative where its members supply goods and services; or as a supplier, type of 'consumer' co-operative where the co-operative supplies goods or services to its members.
<b>Apex body</b>	Top-level membership organisation – such as the ICA internationally, and Co-operatives UK domestically.
<b>Bencom (also BenCom)</b>	Short for 'Community Benefit Society' (based on the term historically being a society 'conducting business for the benefit of the community' (see also 'Community Benefit Society').
<b>Birchall (Johnston)</b>	The late Professor Johnston Birchall.
<b>Board</b>	Board of directors.
<b>Body corporate</b>	A legal person – such as a society or company. Has its own identity, can enter into contracts in its own name.
<b>Bona fide co-operative</b>	Under the Co-operative and Community Benefit Societies Act 2014 – as a co-operative must meet the test that it is a 'bona fide co-operative'.
<b>Building Society</b>	A mutual society registered under the Building Societies Act 1986 primarily providing residential mortgages.
<b>Christian Socialists</b>	Referencing the Christian Socialists in Victorian England, using the term from 1850, who were active in the co-operative movement, including: E.V Neale, Thomas Hughes, J.M Ludlow, Charles Kingsley, and F.D Maurice.

<b>CIC Regulator</b>	The regulator of Community Interest Companies in the UK.
<b>Co-operation</b>	The practice of forming or advocating for co-operatives and the co-operative movement. The individual is the 'Co-operator'. Used in the same way as 'Co-operativism'.
<b>Co-operative</b>	Referencing the ICA definition: 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.
<b>Co-operative Identity</b>	The ICA Statement of Identity, Values and Principles – used as shorthand to refer to the characteristics of a co-operative deriving from that.
<b>Co-operative Movement</b>	The worldwide movement relating to co-operatives.
<b>Co-operative Wholesale Society (CWS)</b>	The Co-operative Wholesale Society Limited (CWS), formed in 1863 by consumer co-operatives in the UK to bulk purchase goods to supply to them. Over time, it became the Co-operative Group Limited.
<b>Co-operator</b>	A person (often a co-operative member) practising or advocating in relation to co-operatives. Used in conjunction with 'Co-operation'.
<b>Committee</b>	Board of directors.
<b>Common bond</b>	The membership qualification in a credit union, restricting membership to people with a particular commonality, such as living or working in the same locality, being employed by the same employer etc.
<b>Commonwealth</b>	The 'Co-operative Commonwealth' or Commonweal – refencing the creation of an economy (society) based on co-operative principles.
<b>Community Benefit Society</b>	A society registered under the Co-operative and Community Benefit Societies Act 2014 to conduct its business for the benefit of the community (see also 'Bencom').

<b>Community share</b>	Usually the withdrawable non-transferable share issued to the public by a society.
<b>Company</b>	A type of legal structure, registered in the UK under the Companies Act 2006.
<b>Consumer co-operative</b>	A co-operative owned by its customers or users, who purchase goods or services from it. Examples include retail co-operatives, financial service co-operatives, housing co-operatives.
<b>Cooperativism</b>	Another term for 'co-operation', often associated with Spanish speaking countries, and used in connection with 'Cooperativist' (rather than 'Co-operator').
<b>Cooperativist</b>	A co-operative member or person advocating in relation to co-operatives, often used in connection with 'Cooperativism', used more frequently in Spanish speaking countries.
<b>Credit union</b>	A financial services co-operative providing deposits and loans to its members. Included here as a type of consumer co-operative.
<b>Demutualisation</b>	The process of converting a co-operative or mutual into an investor-owned firm (e.g. a company). Often, but doesn't always, involve the distribution of an accumulated surplus to shareholders.
<b>Distributive (societies/ co-operatives)</b>	An earlier term to describe consumer co-operatives who sell (distribute) goods.
<b>Employee-owned business (EOB)</b>	A business in which employees have a significant or meaningful stake of ownership.
<b>Fairtrade</b>	System of certification based on standards relating to how goods are produced (including working conditions, pay etc.).
<b>Federation</b>	A type of secondary co-operative whose members are usually other co-operatives. They often tend to have an advocacy/trade body type relationship.

<b>Financial Conduct Authority</b>	The registering authority for mutual societies in the UK (and, distinctly, a regulatory of financial services).
<b>Firm</b>	Umbrella term for a type of business/organisation.
<b>Friendly society</b>	A mutual society registered under the Friendly Societies Act 1974 or 1992, usually providing insurance or similar benefits to their members.
<b>General meeting</b>	A meeting of members (usually shareholders) of an organisation (e.g. company, society), who often have powers to vote on motions and elect or remove a board. In other countries, this may be referred to as a General Assembly.
<b>Governance (corporate)</b>	The way in which organisations are directed and controlled.
<b>Holyoake (George Jacob)</b>	George Jacob Holyoake, prolific 19th century writer on co-operatives (especially the Rochdale Pioneers), considered a "father" the co-operative movement'.
<b>Housing co-operative</b>	A co-operative providing housing to its members, included here as a type of consumer co-operative.
<b>ICA Statement</b>	Reference to the International Co-operative Alliance Statement of Identity, Values, and Principles.
<b>ILO Recommendation</b>	A decision of the International Labour Organization, agreed as a Recommendation (guidelines) to its members.
<b>Incorporation</b>	The process of setting up and registering a legal person e.g. a co-operative society (in other countries, it may be referred to as 'chartering').
<b>Indivisible (Reserves)</b>	An amount of money kept by a co-operative, that cannot be distributed to members.

<b>Industrial and Provident Society</b>	The name of the first and subsequent (until 2014) co-operative legislation in the UK (Industrial and Provident Societies Act). Refers to co-operatives registered under that legislation as 'Industrial and Provident Societies' distinct from other types of legal structure, such as a company.
<b>International Co-operative Alliance (ICA)</b>	The apex body for co-operatives – representing co-operatives worldwide.
<b>International Labour Organization</b>	An executive agency of the United Nations, constituted with representation from national governments, business, and workers.
<b>Investor-owned firm</b>	Used here to refer to a business owned by investors – and listed on the stock exchange. Other authors, some quoted here, use it more broadly to refer to companies trading for profit (tri-partite).
<b>Juridical person</b>	A non-natural legal person – such as a company, or society (i.e. a person created by law). See 'Legal person'.
<b>Legal person(ality)</b>	A non-natural legal person – such as a company, or society (i.e. a person created by law). If something has 'legal personality', it is a legal person. See 'Juridical person'.
<b>Limited Liability</b>	The limit on the extent to which shareholders are liable for losses incurred by a body corporate.
<b>MacPherson (Ian)</b>	The late Professor Ian MacPherson, lead author of the ICA Statement.
<b>Mondragon</b>	The Mondragon Corporation – a group of worker co-operatives in Spain, from which many draw inspiration.
<b>Multi-stakeholder co-operative</b>	A co-operative with two or more groups of members (e.g. consumers and workers).
<b>Mutual</b>	Broadly, an organised owned and controlled by its members, with whom it exclusively trades.

<b>Mutual societies</b>	Refers to societies in the UK for whom the FCA is the registering authority, including building societies, friendly societies, credit unions, co-operatives, and community benefit societies.
<b>Natural person</b>	A human (as opposed to a juridical/legal person – like a society or company).
<b>Non-user investor</b>	A co-operative member who has invested capital but does not consume products/services of the co-operative, work for it, or supply to it.
<b>One-member-one-vote (OMOV)</b>	The principle that every member only gets one vote, irrespective of how many shares they have purchased.
<b>Open co-operative</b>	A type of multi-stakeholder co-operative combining co-operative principles with those of the commons and P2P movements, usually involved in open-source technology.
<b>Organisation</b>	A firm or business – including societies, companies, charities etc.
<b>Owen (Robert)</b>	Robert Owen – considered a founder of the co-operative movement.
<b>Partnership</b>	A type of business arrangement between people with a view to making profit. They may be general partnerships, limited partnerships, or limited liability partnerships. By contrast, for non-profit organisations, see 'Unincorporated associations'.
<b>Patronage dividend</b>	A dividend (payment) to a co-operative member based on their trade (patronage) with the co-operative (e.g. on purchases of goods in a consumer co-operative).
<b>Platform co-operative</b>	A type of co-operative, usually but not always multi-stakeholder, involved in running a platform (e.g. digital platform like Uber etc.) linking precarious workers and customers.
<b>Principle(s)</b>	Reference to the Principles contained in the ICA Statement.

<b>Producer co-operative</b>	A co-operative owned by members who supply goods or services to the co-operative, particularly in agriculture, such as dairy co-operatives.
<b>Productive societies/ co-operatives</b>	An earlier term to describe worker co-operatives who create (produce) goods.
<b>Registrar</b>	The position within legislation, in the UK and other countries (particularly the British Commonwealth) responsible for registering (and to differing extents, supervising) co-operatives.
<b>Remutualisation</b>	The process by which a previously demutualised co-operative or mutual becomes a mutual again.
<b>Rochdale Pioneers</b>	Rochdale Society of Equitable Pioneers, founded by 28 textile workers in Rochdale, UK, in 1844.
<b>Social co-operative</b>	Co-operatives providing social services – such as childcare or care for the elderly – particularly prominent in Italy.
<b>Social economy</b>	A sector of the economy including co-operatives, social enterprises, and trading voluntary organisations.
<b>Social enterprise</b>	A business with primarily social objectives.
<b>Social Solidarity Economy</b>	A sector of the economy combining the social economy and solidarity economy.
<b>Society (societies)</b>	An organisation registered under society legislation e.g. the Industrial and Provident Societies Acts historically, and now the Co-operative and Community Benefit Societies Acts.
<b>Solidarity economy</b>	A sector of the economy similar to the social economy, but broader to include informal and political actors.
<b>Sponsoring body</b>	Organisations (such as trade bodies) providing a set of rules that can be used to register new co-operative societies.

<b>Statutory asset lock</b>	A legal restriction on an organisation impacting how it can use its assets (e.g. it may require that any money from the sale of an asset is used only to further the objects of the organisation).
<b>Unincorporated association</b>	An organisation of people with agreed aims and ways of work, but setup without any structure (e.g. they have not formed a company or society). Tend to be non-profit. By contrast, see Partnerships.
<b>Union</b>	Used to mean a federation of co-operatives (e.g. the Co-operative Union), distinct from 'trade unions'.
<b>Value(s)</b>	Reference to the Values contained in the ICA Statement.
<b>Worker co-operative</b>	A co-operative owned by those who work for it. This includes worker co-operatives producing goods and services that are sold to others, and labour co-operatives, where workers provide their labour to others.

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As ever, any errors or omissions remain those of the author alone.

PART 1

# **INTRODUCTORY OVERVIEW**



## INTRODUCTION

Co-operatives are enterprises (businesses)<sup>1</sup> owned by and run for the benefit of people (members) who democratically control it. They are values-based businesses – generally operating to the International Co-operative Alliance (ICA) Statement of Identity, Values and Principles (ICA Statement),<sup>2</sup> which includes values such as self-help, self-responsibility, equality, equity and solidarity.

You can find co-operatives in most countries across the globe. The ICA estimate there are more than 3 million co-operatives globally, with 12% of humanity in their membership.<sup>3</sup>

You may know you are dealing with a co-operative through its name or its communications. But in many instances, you may not. Some operate using formal legal structures specifically designed for them. Others adapt different legal structures or operate informally.

Co-operatives engage in a variety of economic activity: agriculture, financial services, housing, retail, education, healthcare, utilities, and more. They range in scale from small co-operatives operating informally without bank accounts to organisations turning over billions of pounds annually.<sup>4</sup>

The nature of the relationship between the member and the co-operative

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1 The term 'business' is used broadly, in contrast to a charitable or benevolent organisation or foundation that relies on donations or grants. For example, it includes housing co-operatives – who charge rent as their trade, social clubs – who sell beverages, allotment co-operatives – whose members pay for leases etc.

2 International Co-operative Alliance, "Co-operative identity, values and principles"

3 International Co-operative Alliance "Facts and Figures"

4 World Co-operative Monitor, *Exploring the cooperative economy Report 2022*

varies. Members are generally: consumers, producers, workers, or a combination of these.<sup>5</sup>

In a consumer co-operative, members mainly engage in the economic activity of the co-operative by purchasing goods or services from it. For example: purchasing goods from co-operative food stores.

In producer co-operatives, members would usually be providing goods or services to the co-operative. This tends to include most agricultural co-operatives, where members may be farmers providing milk to the co-operative. The co-operative would pool the supplies of members to negotiate a better price.

Members in a worker co-operative provide their labour to the co-operative, they are employed by the co-operative. In these co-operatives, most if not all employees will generally be members of it.

Some co-operatives bring together multiple types of members. These are known as 'multi-stakeholder co-operatives'.<sup>6</sup> For example, you may have a consumer co-operative that also brings its employees into their membership. This would generally be done by having different categories of membership, with the rights of those categories of member carefully balanced to ensure no one category has dominance over another.

Their members provide the initial funding (share capital) usually through buying shares to help set up the co-operative. Co-operatives seek to have a different relationship with capital than the traditional investor-owned enterprise.

In a co-operative, members will generally only have one vote irrespective of the number of shares they own, known as 'one-member-one-vote'. By contrast, in a typical investor-owned enterprise, an individual has one vote per share, effectively enabling individuals to buy control.

While co-operatives may pay some interest on the share capital members

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5 International Labour Organization, *Statistics of Cooperatives: Concepts, classification, work and economic contribution measurements*

6 International Labour Organization, *Statistics of Cooperatives: Concepts, classification, work and economic contribution measurements*

invest, this is not the main way in which members are rewarded. Members should primarily get their benefit or reward through their participation in the activity of the co-operative. In a producer co-operative, members would hope to get a better price for their goods than if they tried to sell them outside of the co-operative. Workers provide their labour and receive a salary. And consumers aim to get a better price for their goods or services. These rewards may not be instant. Instead, they may come at the end of the year through the payment of a dividend.

In a traditional investor-owned enterprise, profits would usually be 'divided' among shareholders. The more shares you own, the more of the divided profits (dividend) you get. In a co-operative, the dividend is calculated differently. It is generally calculated based on your economic activity with the society, rather than the amount of share capital you hold.

For consumer co-operatives the dividend would generally be based on the amount a member has purchased over the year (sometimes known as 'patronage'). If at the end of a year a co-operative has a surplus of cash available that it doesn't need to run its business, they have effectively charged members more than they needed to on their goods or services. The members who have bought more goods or services have contributed to a greater extent than those who spent less. To address this, members receive a dividend based on their purchases. This would usually be in the form of a cash payment to the member. This is sometimes referred to as the 'patronage dividend'.

This important feature shows the reciprocal nature of co-operatives (mutual aid). The more the member supports the co-operative, the better the co-operative does. The more successful the co-operative is, the greater the return to the member. The better the co-operative does at identifying and providing for the needs of their members, the more likely it is that the member will support it. And so on.

Co-operatives are however not solely economic enterprises. They focus too on the social and cultural needs of their members. Co-operative members – as owners and users of the co-operative will set how this is to be done.

The first part of this book sets the scene – with an introduction to ‘co-operative identity’, a short history, international overview, and a more detailed exploration of the co-operative movement in the UK today, and some context setting compared to other types of organisations. Throughout this work, and reflecting international consensus, reference is made to the ICA’s Statement of Identity, Values and Principles (ICA Statement), which sets out what constitutes the co-operative identity.

Technical chapters explore co-operative governance, law, finance, and economics. It is here the interaction between practice and theory is most evident. You will find that in many cases, academia has neglected to cover the co-operative model. In others, it has developed theory disputed by practice. The work of Elinor Ostrom<sup>7</sup> inspired the adage that ‘what works in practice can work in theory’.<sup>8</sup> With co-operatives, the practice tends to come before the theory. Thankfully, there is a body of practice-informed theory to draw from.

The final part of the book delves into co-operative thinking, looking at ideology, politics, and religion, before concluding with education and social responsibility. Co-operatives are said to have an ideological flexibility.<sup>9</sup> This becomes apparent when noting that the development of co-operatives spans several centuries and has taken different forms in different countries at different times – reflecting the contemporary needs of individuals as shaped by the local social, economic, and political climate. Despite many differences, they do however come together as part of a global movement, within a shared identity.

For those new to the topic, the introductory chapters in Part 1 of this work may be all you need. Parts 2 and 3 of the book are written in such a way that should enable you to jump to the chapters you are most interested in.

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7 Ostrom, *Governing the Commons*

8 Fennell, “Ostrom’s Law”

9 Furlough and Strikwerda, *Consumers against capitalism*, 3

## CO-OPERATIVE IDENTITY

The International Co-operative Alliance (ICA) published the ‘Statement of Co-operative Identity, Values and Principles’ (the Statement).<sup>1</sup> The Statement was published in 1995 and builds on earlier Statements of Principles from 1937 and 1966.<sup>2</sup> The 1995 Statement followed substantial international consultation.<sup>3</sup>

The Statement consists of four interrelated parts, which are intended to be given equal weight:

- A definition of a co-operative
- Co-operative values
- Ethical values
- Co-operative principles<sup>4</sup>

The Statement is intended to be taken as a whole. The ICA have set out diagrammatically how the definition, values, and principles interrelate.<sup>5</sup>

### Co-operative definition

For the first time, the Statement contained a definition of a co-operative:

A co-operative is an autonomous association of persons united

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1 International Co-operative Alliance, “Co-operative identity, values and principles”

2 MacPherson, “What Is the End Purpose of It All?”, 109

3 MacPherson, “Background paper to the ICA Statement”, and MacPherson, “What Is the End Purpose of It All?”. Though each statement was the product of international dialogue through the ICA e.g., for 1937, see: Rhodes, *The International Co-operative Alliance*

4 MacPherson, “Co-operative Principles [Keynote Presentation]”, 18

5 International Co-operative Alliance, “Examining our Cooperative Identity”, 15

voluntarily to meet their common economic, social and cultural needs and aspirations through a jointly-owned and democratically-controlled enterprise.<sup>6</sup>

The definition is intended to be a minimal statement of what a co-operative is.<sup>7</sup> It is not intended to be aspirational. The definition was drafted after the codification of a set of co-operative values, which are reflected within it.<sup>8</sup> Each word within the definition is carefully constructed and reflects an important feature of a co-operative:

- ‘autonomous’ suggests that the co-operative should be its own organisation, free from outside control, whether by the state or other organisations or individuals. It has been said that this was implied in earlier iterations of principles but called out for the first time in 1995.<sup>9</sup>
- ‘association of persons’ reflects that co-operatives are the joining together of people rather than capital. This follows the general view within the co-operative movement that companies are associations of capital.<sup>10</sup> It has been argued that this is perhaps the most important aspect of the definition.<sup>11</sup> It should however be noted that ‘persons’ does not necessarily mean natural persons (i.e. humans); it can also mean juridical persons (i.e. other entities, like other co-operatives).<sup>12</sup>
- ‘united’ – a re-occurring theme, along with ‘association’, ‘common’

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6 International Co-operative Alliance, “Examining our Cooperative Identity”

7 MacPherson, “Background paper to the ICA Statement”

8 MacPherson, “What Is the End Purpose of It All?”, 119

9 Münker, *Co-operative Principles*, 44, 119

10 This is not accurate. Within the UK, for instance, the memorandum of a company must set out that the named subscribers (people) wish to form a company: See s8 Companies Act 2006. The difference is the purpose for which individuals join the entity, see Hall and Watkins, *Co-operation*, 15

11 International Co-operative Alliance, *Examining our Cooperative Identity*, 9

12 MacPherson, “Background paper to the ICA Statement”

and 'jointly-owned', reflecting that people are joining together for some common purpose.

- 'voluntarily' – covers both the nature of the act of joining and leaving a co-operative<sup>13</sup> and the decisions on the extent to which members use the services and facilities of the co-operative.<sup>14</sup>
- 'to meet their common' – emphasises that co-operatives are there to meet the individual and mutual needs of those individuals joining together to form the co-operative.<sup>15</sup>
- 'economic, social and cultural' – establishes that co-operatives are not merely economic enterprises, but also serve the social and cultural needs of their members. The 'and' is important<sup>16</sup> in reflecting all three types of need are to be met.<sup>17</sup> The social and cultural needs of members are to be met in an economic way.<sup>18</sup>
- 'needs and aspirations' – reflecting both the immediate and future needs of members.
- 'through' is not often commented on in isolation<sup>19</sup> but signifies that the members forming the co-operative usually set up – or constitute – 'something' to act as the vehicle for delivering on their needs. That 'something' will usually be a body corporate (being a legal structure

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13 MacPherson, "Background paper to the ICA Statement"

14 Münkner, Co-operative Principles and Co-operative Law, 97

15 MacPherson, "Background paper to the ICA Statement"

16 Adderley, "Don't forget the definition"

17 International Co-operative Alliance, *Examining our Cooperative Identity*, 9

18 MacPherson, "Background paper to the ICA Statement 1996"

19 It is not commented on in either MacPherson, "Background paper to the ICA Statement", or International Co-operative Alliance, *Examining our Cooperative Identity*, but is covered by Bajo and Roelants, *Capital and the Debt Trap*, 116

with its own identity separate from that of the members),<sup>20</sup> subordinate to the association of persons.<sup>21</sup> It is the ‘enterprise’ referenced later in the definition. The following words go on to set out the terms on which that enterprise is established.

- ‘jointly-owned’ deals with the characteristic of ownership of a co-operative. Members are both owners of the entity, and participants in its business.<sup>22</sup> That ownership is ‘joint’ reflects that its members each own an equal proportion of the co-operative.<sup>23</sup>
- ‘democratically-controlled’ reflects that co-operatives are to be controlled by their members, and that the control is to be exercised democratically. Implicit in ‘democracy’ is freedom and equality.<sup>24</sup>
- ‘enterprise’ – as noted earlier, co-operatives are established as enterprises – that is businesses functioning in the market.<sup>25</sup>

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20 Münker, *Co-operative Principles*, 62-63, and for an informed and critical assessment on the role of incorporation on co-operatives, see Mulqueen, “Constituting the Co-operative”

21 Bajo and Roelants, *Capital and the Debt Trap*, 116

22 MacPherson, “Background paper to the ICA Statement”

23 The intended use here does not sit comfortably with English property law when it comes to dissolution, as ‘joint ownership’ tends to mean the asset passes from one joint owner to the other on death. Similarly, while ‘commonly owned’ may have addressed that challenge, ‘common ownership’ does not in of itself equate to equal ownership under property law. Adding ‘owned equally in common’ may have expressed the intended sentiment, but would have extended the definition, and may not work in other legal jurisdictions, recognising that this is an international definition. For practical application, ‘joint’ can therefore be taken to reflect the collective and equal nature of the ownership.

24 See for instance the Cambridge Dictionary definition: <https://dictionary.cambridge.org/dictionary/english/democracy>

25 MacPherson, “Background paper to the ICA Statement”

The existence of the definition has been incorporated into international law (see *Chapter 7 – Co-operative law*), through International Labour Organization Recommendation 193.<sup>26</sup>

## Earlier definitions

Before 1995 there was not a universally arrived at definition of a co-operative. An analysis of earlier definitions, and how they relate to the ICA Statement, is provided by Hans-H Münkner.<sup>27</sup> Many earlier ‘definitions’ avoided attempts to distil the nature of a co-operative into a sentence, and instead provided long lists of underlying principles or characteristics – largely stemming from the principles emerging from the Rochdale Pioneers. A few did however provide some relatively concise definitions:

- Herrick, then American Ambassador to France, writing about rural credit and co-operatives says: *Cooperation is the act of persons, voluntarily united, of utilizing reciprocally their own forces, resources or both under their mutual management to their common profit or loss.*<sup>28</sup>
- Mladenatz sets out: *they are associations of persons, small producers or consumers, who have come together voluntarily to achieve some common purpose by a reciprocal exchange of services through a collective economic enterprise working at their common risk and with resources to which all contribute.*<sup>29</sup>
- Fay provided: *an association for the purposes of joint trading, originating among the weak and conducted always in unselfish spirit, on such terms that all who are prepared to assume the duties of membership share in its rewards in proportion to the degree in which they make use*

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26 International Labour Organization, “Recommendation 193”

27 Münkner, *Co-operative Principles*, 1-22

28 Herrick and Ingalls, *Rural Credits, Land and Cooperative*, 247

29 Mladenatz, *Histoire des Doctrines Cooperatives*. Mladenatz, a Romanian scholar, wrote extensively, but unfortunately no well translated English versions of these texts exist.

*of their association.*<sup>30</sup>

- Calvert, a British registrar in India, summarised a series of available definitions from other sources before setting out his own definition: *Co-operation, then, is a form of organisation, wherein persons voluntarily associate together as human beings, on a basis of equality, for the promotion of the economic interests of themselves.*<sup>31</sup>
- Calvert's colleague, Strickland, who went on to operate as a registrar in several other countries commenting on Calvert's definition added: *and if the word 'economic' may be interpreted in a wide sense to include moral and social interests which conduce to the well-being and prosperity and are thus indirectly economic, I subscribe to this belief and intelligence definition.*<sup>32</sup>
- In 1939, following amendments to legislation in the UK, the registrar defined a bona fide co-operative as: *... the society must so conduct its business as to show that its main purpose is the mutual benefit of its members, and that the benefit enjoyed by the member depends upon the use which he makes of the facilities provided by the society and not upon the amount of money which he invests in the society. ... A rule (by law) providing that any person should have more than one vote might suggest prima facie that the society was not a true co-operative society.*<sup>33</sup>
- ILO Recommendation 127, from 1966 set out: *it is an association of persons who have voluntarily joined together to achieve a common end through the formation of a democratically controlled organisation, making equitable contributions to the capital required and accepting a fair share of the risks and benefits of the undertaking in which the members actively participate.* The Recommendation also spoke of co-operatives 'improving the economic, social and cultural situation of persons'.<sup>34</sup>

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30 Fay, *Co-operation*, 5

31 Calvert, *The Law and Principles of Co-operation*, 14

32 Strickland, *Co-operation for Africa*, 3

33 Registrar of Friendly Societies, "Report 1938-52", 25

34 International Labour Organization, "Recommendation 127"

Reviewing these earlier definitions helps demonstrate the success of the ICA Statement in 1995 in pulling together its single-sentence definition covering the core characteristics of a co-operative, which clearly draws on a long line of consistency in approach.

## Co-operative values

The ICA Statement was the first articulation of a set of values – contextualising the principles within that and earlier lists.<sup>35</sup> As noted earlier, the definition was crafted after deciding on co-operative values. The values were created following extensive research and international engagement.<sup>36</sup>

It is common to consider the values as a single set of values. However, a better understanding is to be gained by splitting them out.

The first set of values are those on which co-operatives are based:

Cooperatives are based on the values of self-help, self-responsibility, democracy, equality, equity, and solidarity.<sup>37</sup>

These values are said to directly underlie the organisational structure of a co-operative.<sup>38</sup> The values are largely self-explanatory, but some context is added below.

- Self-help – reflects the mutual efforts of members to help themselves – individually and collectively. In defining the purpose (or ‘objects’) of a particular co-operative, one should be able to see that it is established by individuals to meet their own common needs.
- Self-responsibility was added to the list right at the end of the process to reflect the autonomous nature of co-operatives.<sup>39</sup> You could expect

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35 MacPherson, “Co-operative Principles [Keynote Presentation]”

36 MacPherson, “Background paper to the ICA Statement”, and Böök, *Co-operative Values in a Changing World*

37 International Co-operative Alliance, “Co-operative identity”

38 MacPherson, “Co-operative Principles [Keynote Presentation]”, 18

39 MacPherson, “Co-operative Principles [Keynote Presentation]”, 18

to see that the structure within a co-operative enables its members to run it without outside interference.

- Democracy will materialise in both the design and operation of a co-operative's structures. The governance arrangements in a co-operative – including in relation to decision making, voting, elections, would go to show the extent to which the design of the organisation is democratic.
- Equality is underpinned by the fact that 'the basic unit of the co-operative is the member, who is either a human being or a grouping of human beings'.<sup>40</sup>
- Equity is distinct from equality, and in this context refers to the treatment of members, and fairness. There will be times where one needs to treat members differently (unequally) to ensure they are being treated equitably. Examples of this include weighted voting structures in co-operatives with multiple classes of member.
- Solidarity was feared to be too closely aligned with causes traditionally regarded as left-wing, such as trade unions.<sup>41</sup> This value is multi-dimensional – looking at i) member solidarity, both individually between members and for the co-operative in looking after the collective interests of members (e.g. avoiding limited self-interest);<sup>42</sup> ii) between co-operatives and co-operators; and iii) as the 'very cause and consequence of self-help and mutual help, two of the fundamental concepts at the heart of co-operative philosophy'.<sup>43</sup>

The second, and equal, set of values are the 'Ethical Values':

In the tradition of their founders, co-operative members believe in the ethical values of honesty, openness, social responsibility and caring for others.<sup>44</sup>

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40 MacPherson, "Background paper to the ICA Statement"

41 MacPherson, "What Is the End Purpose of It All?", 118

42 MacPherson, "Background paper to the ICA Statement"

43 MacPherson, "Background paper to the ICA Statement"

44 International Co-operative Alliance, "Co-operative identity"

Ethical values can be seen to make a ‘broader, normative claim about the right way to live or act’.<sup>45</sup>

The reference to ‘founders’ is not just to the Rochdale Pioneers<sup>46</sup> (which implicitly includes references to the likes of Dr William King<sup>47</sup>, and Robert Owen),<sup>48</sup> but to the various kinds of co-operative founder who informed the establishment of the co-operative movement<sup>49</sup> including<sup>50</sup> Frederich Wilhelm Raiffeisen,<sup>51</sup> Hermann Schultze-Delitsch,<sup>52</sup> Philippe Buchez,<sup>53</sup> Bishop Grundtvig<sup>54</sup> and Alphonse Desjardins.<sup>55</sup>

Importantly, this looks to the beliefs of the *members* of a co-operative (‘co-operators’). These should be transmitted into the operation of the co-operative itself through the members. The first two: honesty and

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45 Mayo, *Values: How to Bring Values to Life in Your Business*, 83

46 The Rochdale Pioneers Museum is on the site of their original shop – see <https://www.co-operativeheritage.coop>

47 From England, Dr William King produced *The Co-operator*, which is said to have influenced the Rochdale Pioneers. See <https://www.principle5.coop/books/dr-william-king-and-the-co-operator-1828-1830>

48 From England, Robert Owen is often considered a ‘father’ of the co-operative movement. See <https://www.newlanark.org/introducing-robert-owen>.

49 MacPherson, “Co-operative Principles [Keynote Presentation]”

50 MacPherson, “Background paper to the ICA Statement”

51 From Germany, Raiffeisen pioneered a model of rural credit unions in 1862. See <https://www.ica.coop/en/friedrich-wilhelm-raiffeisen>

52 Also from Germany, Schultze-Delitsch established the first model of credit unions in 1850. See: <https://www.woccu.org/about/history>

53 From France, Buchez is credited as the first theorist of worker co-operatives. See Watkins, “Workers’ Participation in Co-operatives”

54 Nikolaj Frederik Severin Grundtvig of Denmark, with influence on early agricultural co-operatives. See Zamagni, “World Historical Perspective”, 102, and Shaffer, *Historical Dictionary*, 244

55 Of Quebec, founder of the ‘Caisse populaire’ model of financial co-operative. See <https://www.desjardins.com/ca/about-us/desjardins/who-we-are/our-history-museum/alphonse-desjardins/index.jsp>

openness are intended to reflect the personal values of members.<sup>56</sup> The second two: social responsibility, and caring for others, reflect co-operative commitment to community and social objectives.<sup>57</sup> Co-operatives are 'collective institutions existing in one or more communities'.<sup>58</sup> This reflects that while co-operatives are serving member-benefit, they are not insular; those individual members are attached to their own communities.

- Honesty reflects the early Rochdale Pioneers' commitment to honest and unadulterated goods, with the value being seen as a longstanding 'special tradition'.<sup>59</sup>
- Openness is in some senses implicit within honesty but goes further to impact the operation of a co-operative in terms of its provision of information to members and others. Openness involves members having access to information and resources to exercise their governance role.<sup>60</sup>
- Social responsibility applies to all the activities of the co-operative,<sup>61</sup> and shows a commitment to the world outside of the co-operative enterprise itself.<sup>62</sup>
- Caring for others articulates co-operatives' commitment to their members, their communities, and the wider co-operative movement too.<sup>63</sup>

Clearly these values are not the preserve of the co-operative movement. Many other businesses demonstrate these values and the extent to which

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56 MacPherson, "Background paper to the ICA Statement"

57 MacPherson, "What Is the End Purpose of It All?", 118

58 MacPherson, "Background paper to the ICA Statement"

59 MacPherson, "Background paper to the ICA Statement"

60 International Co-operative Alliance, *Examining our Cooperative Identity*, 14

61 MacPherson, "Background paper to the ICA Statement"

62 International Co-operative Alliance, *Examining our Cooperative Identity*

63 MacPherson, "Background paper to the ICA Statement"

co-operatives articulate their values varies.<sup>64</sup> There is however a distinction between having a set of values, and delivering on them. But co-operatives would argue that as people-centred businesses,<sup>65</sup> they are ‘particularly co-gent and undeniable within a co-operative enterprise’.<sup>66</sup>

## Co-operative principles

The use of the word ‘principle’ needs to be looked at first. The co-operative principles are not rules or permanent truths that cannot be changed.<sup>67</sup> They have in fact been revised at least three times.<sup>68</sup> The principles were designed as ‘general principles’, and are intended to be read as a whole, rather than looked at in isolation.<sup>69</sup> They are said to be more than just the sum of their parts:<sup>70</sup>

... the Principles are a seamless web: ignore any of them at your peril.<sup>71</sup>

The principles are therefore guidelines. This is articulated clearly in the ICA Statement itself:

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

It was the intention that different sectors (or groups of specific types of co-operatives) would go on to develop their own sector-specific operating

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64 Mayo, *Values: How to Bring Values to Life in Your Business*, 40-43

65 Parnell, *Reinventing the Co-operative Enterprise*, and Birchall, *People-Centred Businesses*

66 MacPherson, “Background paper to the ICA Statement”

67 MacPherson, “What Is the End Purpose of It All?”, 109

68 International Co-operative Alliance, *Examining our Cooperative Identity*

69 MacPherson, “What Is the End Purpose of It All?”, 108-109; and MacPherson, “Background paper to the ICA Statement”

70 Birchall, “Co-operative Values and Principles”

71 MacPherson, “Co-operative Principles [Keynote Presentation]”, 21

guidelines consistent but complementary to the general principles.<sup>72</sup> While this has happened in some instances,<sup>73</sup> the sector-specific principles have not materialised in the way first envisaged.

The seven principles have evolved over time, tracing back to the principles drawn from the Rochdale Pioneers and amended in 1937 and 1966. A summary of that evolution is available.<sup>74</sup> The ICA Statement followed extensive work<sup>75</sup> exploring co-operative principles. This culminated in a set of seven principles:<sup>76</sup>

1. Voluntary and open membership
2. Democratic member control
3. Member economic participation
4. Autonomy and independence
5. Education, training and information
6. Co-operation among co-operatives
7. Concern for community

Though numbered, the list is not hierarchical. Each principle has underlying text setting out further detail.

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72 MacPherson, "Co-operative Principles [Keynote Presentation]"

73 Mondragon, "About Us": See for instance the 10 principles of the Mondragon co-operatives, which add in 'sovereignty of labour', 'wage solidarity', and 'participation in management' into a modified but still consistent articulation of principles aligning with the ICA Statement.

74 International Co-operative Alliance, *Examining our Cooperative Identity*, 44-45; and Myers, "Co-operative Principles Variations and Adoptions"

75 Watkins, Co-operative Principles

76 International Co-operative Alliance, "Co-operative identity"

# International Co-operative Alliance – Principles

## Principles

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

### 1. 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.

### 2. 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.

### 3. 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.

### 4. Autonomy and independence

Co-operatives are autonomous, self-help organisations controlled by their members. If they enter into agreements with other organisations, including governments, or raise capital from external sources, they do so on terms

that ensure democratic control by their members and maintain their co-operative autonomy.

## **5. 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.

## **6. 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.

## **7. Concern for community**

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

The first three principles directly impact the governance of the co-operative – its ‘internal dynamics’.<sup>77</sup> Though, one could also consider the fourth principle – autonomy and independence – to also impact the internal dynamics where it is not being met (e.g. you may see controlling interests of an outside party hardwired into control of the Board).

The last four principles are said to ‘affect both the internal and external relationships of co-operatives’.<sup>78</sup>

The principles were designed to be flexible, and set out the minimum behaviour expected of a co-operative.<sup>79</sup> As to how a co-operative will implement the principles, it will vary. It will depend on the type of co-operative – reflecting the nature of the relationship between the member and the

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<sup>77</sup> MacPherson, “Background paper to the ICA Statement”

<sup>78</sup> MacPherson, “Background paper to the ICA Statement”

<sup>79</sup> MacPherson, “Co-operative Principles [Keynote Presentation]”, 19

co-operative (e.g. worker, consumer, producer), and other factors including the size of the co-operative, the economic activity it carries out (e.g. some sectors, like banking, are subject to regulatory requirements), and the stage of development the co-operative is in (e.g. is it newly formed, or longstanding), looking at the associated characteristics of an individual co-operative.<sup>80</sup>

The ICA have produced detailed guidance on the principles, which need not be repeated here.<sup>81</sup>

## Conclusion

Co-operatives existed for a long time without recourse to an agreed definition. The definitions have sought to catch up with practice. Definitions can however be an enabler or facilitator of future development, as they allow for targeting support. There were clearly a variety of definitions available, especially before 1995. Though the wording of each differs, there are core elements that can be seen across each, which are neatly captured in the ICA Statement. There will be differences of opinion, still, on some of the specific ways in which co-operatives operate. This is partly a reflection of local circumstances, but also of historical context.

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80 Henry, *Guidelines for Cooperative Legislation*, 55

81 International Co-operative Alliance, *Guidance Notes*



## SHORT HISTORY

Much has been written on the history of the co-operative movement. This chapter provides a whistlestop tour from the 1500s to date, tracing the continuum from mutual aid societies through to present day co-operatives. Co-operatives spread internationally, with experiments in one country influencing another. This chapter provides a broadly chronological summary of co-operative development.

### Early history

There is a long history of individuals forming together for self-improvement through guilds, associations, clubs, or societies, dating back to 16<sup>th</sup> century in Britain.<sup>1</sup> They tended to be voluntary in nature with a focus on helping their members through sharing costs, skills, or knowledge. Mutual aid has been correctly described as ‘an ancient way of getting things done’,<sup>2</sup> with the ‘co-operative ideal’ being ‘as old as human society’.<sup>3</sup>

Friendly societies emerged helping their members in times of sickness, and providing social outlets, with the earliest being dated to the Incorporation of Carters in Leith in 1555.<sup>4</sup> By 1802, there were at least 10,000 known friendly societies in the UK.<sup>5</sup> Mutual insurers more generally started to be found in other industries – such as the hull clubs providing marine

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- 1 Clark, *British Clubs and Societies 1580-1800*. Others trace origins back to artels in 14<sup>th</sup> Century Russia, as an early form of labour co-operative (a type of worker co-operative): Louis, *Labour co-operatives*
- 2 Mayo, *A short history of co-operation and mutuality*, 8
- 3 Carr-Saunders, Sargent, and Peers, *Consumers' Co-operation in Great Britain*, 23
- 4 Beveridge, *Voluntary Action*
- 5 Cordery, *British Friendly Societies, 1750-1914*

insurance.<sup>6</sup> The first mutual insurance company in the United States is said to have been formed in 1752.<sup>7</sup>

The first building society<sup>8</sup> formed in 1775 with the aim of building each member a house and then closing.<sup>9</sup> In 1845, the first 'permanent' building society formed, following early legislation in 1836.<sup>10</sup>

Along this continuum,<sup>11</sup> co-operatives started to develop as a form of business, with early examples in the United Kingdom such as the Fenwick Weavers,<sup>12</sup> forming in Scotland in 1761 (or 1769)<sup>13</sup> as part of a line of 'victual-living' societies.<sup>14</sup> Examples in England can be seen through flour and corn mills in Woolwich and Chatham in the 1760s.<sup>15</sup> The Anti-Mill Industrial

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6 Semark, *P&I Clubs: Law and Practice*, 3

7 Credit is often given to Benjamin Franklin, in founding Philadelphia Contributionship for the Insurance of Houses from Loss by Fire as the first US mutual (for example, Scanlan, *Prosperity in the Fossil-Free Economy*, 52) But a friendly society insurer was formed in Charles Town in 1732 (but only survived 3 years). Earlier examples of fire insurance mutuals can be found in England, the Netherlands and Germany: International Cooperative and Mutual Insurance Federation, "A practical guide to understanding mutual insurance"

8 Known as 'mutual savings and loans' organisations in the US

9 Known as 'terminating societies'. Casu and Gall, *Building Societies in the Financial Services Industry*, 24

10 Casu and Gall, *Building Societies in the Financial Services Industry*, 24

11 Robinson, *The Spirit of Association*

12 National Library of Scotland, "Fenwick Weavers' Society foundation charter"

13 Maxwell, *The History of Co-operation in Scotland*, 43. Some date it to 1769. On 9 November 1769 members agreed to "take what money we have in our Box and buy what Victwal may be thought Nesessar to sell for the benefit of our society" [Victwal being 'victual' i.e. food, and 'Nessar' being 'necessary'] marking its move from a box society into a trading co-operative.

14 Maxwell, *The History of Co-operation in Scotland*, chapters 7-8. Meaning food provision.

15 Birchall, *Co-op: the people's business*

Society Limited formed in Hull in 1795 and lasted until 1895.<sup>16</sup>

Examples of co-operatives can be seen throughout the early 1800s, with notable examples including the Brighton Co-operative Society, established following a merger of two other co-operative organisations in 1827.<sup>17</sup> By 1830, there were at least 300 similar societies.<sup>18</sup> This activity was not confined to the UK, it had started to spread. Co-operative experience found its way to other countries, including Australia.<sup>19</sup> This is often seen as the first wave of co-operatives.

## From 1844

In 1844, 28 individuals joined together in the town of Rochdale, many of them textile workers, to form a co-operative shop as the 'Rochdale Society of Equitable Pioneers'. They opened selling sugar, butter, flour, oatmeal, and candles.<sup>20</sup> While there are many earlier examples of mutual self-help, the so named 'Rochdale Pioneers' are generally credited with striking on a model for consumer co-operatives, based on a set of underlying principles or practices that inspired others.<sup>21</sup>

While the distributive (consumer) co-operatives form the focus of much history, particularly relating to the UK, early examples of worker (often called 'productive') co-operatives can be seen too. The Rochdale Pioneers provided some initial capital to set up the Rochdale Co-operative Manufacturing Society in 1854, as an independent venture.<sup>22</sup> Though by 1862

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16 Marshall, *History of Co-operative Development (Hull and District)*

17 Durr, *William King of Brighton: Co-operation's Prophet?*

18 King, *The Co-operator*, Issue 28.

19 Patmore, Balnave, and Marjanovic, *A History of Australian Co-operatives 1827-2023*, 68

20 Patmore and Balnave, *A Global History*, 41

21 Cole, *A Century of Co-operation*; Wilson, Webster and Vorberg-Rugh, *Building Co-operation*, 36.; Yeo, *A Useable Past. Volume 1*: provides an important account on the work of George Jacob Holyoake

22 Patmore and Balnave, *A Global History*, 49

the entity had fallen into minority worker ownership.<sup>23</sup> The Hebden Bridge Fustian Society Limited is an example of an early worker co-operative.<sup>24</sup> Formed in 1870 not far from Rochdale, and lasting until it was purchased by Co-operative Wholesale Society Limited in 1918,<sup>25</sup> this was a society of fustian workers.

France led an early charge on the creation of worker co-operatives more generally – first with a Parisian society of carpenters in 1831, followed by associations of goldsmiths, stonecutters, and bakers. By 1848 there were 255 of these associations.<sup>26</sup>

Co-operation spread, with early examples seen in the USA from the 1830s – both consumer and then later worker co-operatives in large number;<sup>27</sup> Switzerland in 1851, Italy in 1854, to name a few examples.<sup>28</sup> In France, worker co-operatives were more prevalent than consumer co-operatives, with a growth in their number after the February Revolution in France in 1848.<sup>29</sup>

In Germany, service co-operatives (a type of consumer co-operative)<sup>30</sup> developed in the form of credit unions from the 1850s onwards.<sup>31</sup> Two models emerged. The first was established by Hermann Schultze-Delitzsch. These were urban-based financial co-operatives focused on thrift (partly inspired by the UK friendly society dedication to thrift)<sup>32</sup>. The first self-sustaining model – with members providing share capital – was arrived at in 1852.<sup>33</sup>

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23 Patmore and Balnave, *A Global History*, 50

24 Bibby, *All Our Own Work*

25 Bibby, *All Our Own Work*

26 Zamagni, "World Historical Perspective", 102

27 Leikin, *The Practical Utopians*

28 Patmore and Balnave, *A Global History*, 59-60

29 Patmore and Balnave, *A Global History*, 60; for example, textile workers in Lille founding 'the Humanite' – Furlough, *Consumer Cooperation*, 23

30 International Labour Organization, *Statistics of Cooperatives*

31 Patmore and Balnave, *A Global History*, 61

32 Patmore and Balnave, *A Global History*, 62; Fay, *Co-operation*, 19

33 Patmore and Balnave, *A Global History*, 62

Friedrich Wilhelm Raiffeisen developed a model of credit union in rural Germany. Their models were similar: 'The Raiffeisen bank is the Schultze-Delitzsch bank applied to the country, with the variances required and justified by the difference of environment'.<sup>34</sup> These models spread across Europe.<sup>35</sup>

The 1840s and '50s saw the development of agricultural co-operatives and worker co-operatives in the United States of America,<sup>36</sup> with examples of consumer and agricultural co-operatives following in the late 1850s and 1860s in New Zealand and Australia.<sup>37</sup>

Following legislative changes brought in through the Industrial and Provident Societies Act 1862, the Co-operative Wholesale Society Limited (CWS) formed in 1863.<sup>38</sup> The CWS was owned by consumer co-operatives in England, to act as their wholesaler for goods to be sold in individual co-operative society shops. The history of CWS is well documented.<sup>39</sup> Co-operation became an increasingly globalised business in the late 19<sup>th</sup> century.<sup>40</sup>

## From 1890s

Agricultural co-operatives started to develop in Scandinavia in the 1890s, particularly in Denmark.<sup>41</sup> The 1880s-1890s also saw the development of co-operative butchers, in Denmark, followed by Sweden and Finland. By 1899 there was a confederation of 390 Finnish agricultural co-operatives, 'Pellervo'.<sup>42</sup>

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34 Fay, *Co-operation*, 42

35 Poli, *Co-operative Banking Networks*, 8

36 Patmore and Balnave, *A Global History*, 63-64

37 Patmore and Balnave, *A Global History*, 63-65

38 Cole, *A Century of Co-operation*, 123

39 Wilson, Webster and Vorberg-Rugh, *Building Co-operation*

40 Webster, *Co-operation and Globalisation*

41 Zamagni, "World Historical Perspective", 102

42 Zamagni, "World Historical Perspective", 103; Kuisma et al, *The Pellervo Story*

British colonialism expanded the development of co-operatives throughout the British Empire, including in India from 1904 (in what became the British-India Pattern of Co-operation (BIPC)), and then into South Africa, Australia, New Zealand, Canada, and beyond.<sup>43</sup> Britain's approach in the Empire differed from the approach within the UK, not least in giving the registrars far greater power<sup>44</sup>, and is of course not without problems (see *Chapter 7 – Co-operative law*).<sup>45</sup>

Co-operatives started to develop through Asia-Pacific throughout the late 19<sup>th</sup> century, with inspiration provided for credit co-operatives from Germany, agricultural co-operatives from Denmark, and consumer co-operatives from the UK.<sup>46</sup>

The co-operative movement was international in its outlook and reach.<sup>47</sup> As early as 1869, the Co-operative Congress meeting in the UK was attended by visitors from France, Norway, Belgium and the USA.<sup>48</sup> That Congress discussed forming an international organisation.<sup>49</sup> What followed was the foundation of the International Co-operative Alliance at a conference in London in 1895.<sup>50</sup>

## Early 20<sup>th</sup> Century

The 20<sup>th</sup> century saw periods of war and depression across much of the world. Co-operatives continued to expand and grow up until 1914. Within

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43 Rhodes, *Empire and Co-operation*

44 Calvert, *The Law and Principles of Co-operation*, 27

45 Windel, *Cooperative Rule*

46 Kurimoto and Dongre, "Emerging Asian Pacific cooperative models from a global history perspective", 35

47 Patmore, *Innovative Consumer Co-operatives*, 57: Advocates such as Robert Owen travelled, establishing the New Harmony co-operative village in Indiana in the US in 1825

48 Patmore and Balnave, *A Global History*, 105

49 Rhodes, *The International Co-operative Alliance*, 17

50 Rhodes, *The International Co-operative Alliance*, 21-22

the UK, most growth was in the consumer co-operative societies.<sup>51</sup> Within France, consumer co-operation started to develop in the 1880s into the 1900s,<sup>52</sup> alongside their more prevalent worker co-operative movement. Within Denmark, it was agricultural co-operatives (especially co-operative creameries)<sup>53</sup> that were growing; and in Germany – credit unions.<sup>54</sup> The period up to 1914 saw the number of co-operative societies in Russia grow to 13,000, compared to 1,385 in the UK. Denmark, Switzerland, and the UK had the highest density of population in co-operative membership respectively.<sup>55</sup>

In Canada, the year 1900 saw the foundation of the first People's Bank (*La Caisse Populaire de Lévis*), by Alphonse Desjardins and Dorimene Desjardins, helping them develop across Canada and later (in 1909) helping establish credit unions in the USA.<sup>56</sup> The Schulze-Delitzsch (urban) model of credit co-operative arrived in Japan in 1900.<sup>57</sup>

In part inspired by success in Ireland,<sup>58</sup> agricultural co-operatives started to develop in Great Britain from around 1900, with around 600 agricultural societies formed by 1908.<sup>59</sup>

Though examples can be found in the years before, housing co-operatives

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51 Patmore and Balnave, *A Global History*, 89-91; Bonner, *British Co-operation*; Gurney, *Co-operative Culture*; Potter, *Co-operative Movement*

52 Furlough, *Consumer*, 76: increasing from 104 consumer co-operatives in 1869, to 2,166 by 1907

53 Bolger, *The Irish co-operative movement*, 64

54 Patmore and Balnave, *A Global History*, 89-91

55 Patmore and Balnave, *A Global History*, 90, quoting: Gide, *Consumers' Co-operative Societies*, 49

56 Patmore and Balnave, *A Global History*, 98; Moody and Fite, *The Credit Union Movement*, ch2

57 Kagawa, *Brotherhood Economics*, 104 – credited to Tosuke Hirata, a former minister of the interior

58 Webb, *Industrial Co-operation*, 176; Digby, *Agricultural co-operation*, 14; Bolger, *The Irish co-operative movement*

59 Webb, *Industrial Co-operation*, 175-176, and 225.

started to appear in greater numbers in Germany,<sup>60</sup> Denmark<sup>61</sup> from the early 1900s. Sweden and Norway also saw growth in their housing co-operative sector after World War One.<sup>62</sup>

The year 1917 saw the establishment of the Co-operative Party in the UK, a distinct political party for the co-operative movement. This had been long debated, with the adverse treatment of co-operatives by the Government on matters of rationing, taxation, and conscription during World War One being seen as the final impetus for its establishment (see *Chapter 11 – Co-operative politics and religion*).<sup>63</sup>

Following the Treaty of Versailles, the International Labour Organization (the ILO) was established with co-operator, Albert Thomas as its first director.<sup>64</sup> The ILO, now a specialised agency of the United Nations has a long history of promoting and supporting co-operatives.<sup>65</sup>

The year of 1919 also saw the foundation of both the Co-operative College,<sup>66</sup> and the Plunkett Foundation.<sup>67</sup> The Co-operative College would go on to play an important role in international co-operative development for the decades that followed.<sup>68</sup> Substantial content on co-operative law and devel-

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60 Pfatteicher, McCarthy and Power, *Housing Co-operatives in Germany*

61 Larsen, "Denmark Anti-urbanism and segregation", 25

62 Birchall, *The International Co-operative Movement*, 28

63 Rosen, *Serving the People*, 3-5; Cole, *A Century of Co-operation*, 315-317

64 Smith, *Promoting cooperatives: An information guide to ILO Recommendation No. 193*, 8

65 Smith, *Promoting cooperatives: An information guide to ILO Recommendation No. 193*, 2

66 Co-operative College: "Our History": established by the co-operative movement to extend the education of co-operators.

67 Plunkett Foundation, "Our Story": originally the 'Sir Horace Plunkett Foundation' to continue the work and legacy of Sir Horace Plunkett.

68 Moulton, "Co-opting the cooperative movement?"

opment was produced under the auspices of the Plunkett Foundation too.<sup>69</sup> Both organisations have evolved over time (see *Chapter 3 – Co-operatives today*).

The following period leading up the end of the World War Two in 1945 saw pressures on consumer co-operatives across the globe, but growth in other types of co-operatives such as financial co-operatives in India and the USA; and agricultural co-operatives in the USA and Canada.<sup>70</sup> Britain continued exporting versions of the co-operative society model under colonial rule into the 1940s in places including Singapore.<sup>71</sup> From the 1950s, the ICA started to play a greater role in developing co-operatives in countries where the infrastructure was less well established.<sup>72</sup>

The co-operative movement in Japan began to grow post-war, particularly in the agricultural sector, and with an increasing consumer co-operative presence.<sup>73</sup> Much of Japan's consumer co-operative sector was destroyed during World War Two.<sup>74</sup> But, immediately thereafter, the 'buying associations' purchasing food for their members grew to more than 6,500 in number by 1947.<sup>75</sup>

## 1950s onwards

There was some growth in the co-operative movement in the 1950s, governments within Asia started to see agricultural co-operatives as a way of

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69 For example: A Manual of Co-operative Law and Practice by Margaret Digby of the Plunkett Foundation, and former Registrar, B.J Surridge. The book was a successor to Calvert's much quoted 'Law and Principles of Co-operation'

70 Patmore and Balnave, *A Global History*, 146

71 Rhodes, *Empire and Co-operation*, 272

72 Rhodes, *Empire and Co-operation*, 290

73 Zamagni, "World Historical Perspective", 111

74 Kurimoto, "Building Consumer Democracy", 677

75 Kurimoto, "Building Consumer Democracy", 678

revitalising rural economies.<sup>76</sup> Worker co-operatives in Japan started to increase in number.<sup>77</sup>

The 1950s also saw the founding of the worker co-operative, Mondragon Corporation in Spain under the influence of Father José María Arizmendi-arieta,<sup>78</sup> becoming an important inspiration for worker co-operative development.

From the 1960s, ‘social co-operatives’ started to develop in Italy<sup>79</sup> where the benefit is not just to members, but to others too, with formal legal recognition coming in 1991.<sup>80</sup>

The UK consumer co-operative movement sought to address its decline and launched an Independent Commission with Hugh Gaitskell MP (Leader of the Labour Party) as its Chair and Tony Crosland<sup>81</sup> as its secretary.<sup>82</sup> The report was commissioned in 1956 and published in 1958.<sup>83</sup> The Report, at 320 pages, contains useful historical detail, and many recommendations and next steps for the movement to take, including for strategic consolidation of the number of societies through amalgamations.<sup>84</sup> However, ‘not a lot’ happened following this.<sup>85</sup>

The 1960s saw decline in consumer co-operatives in Germany and the UK.<sup>86</sup> This period marked one of increasing competition for co-operatives

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76 Patmore and Balnave, *A Global History*, 165

77 Kurimoto, “Building Consumer Democracy”, 681

78 Mondragon, “Our History”; Barandiaran and Lezaun, “The Mondragon Experience”

79 Zamagni, “World Historical Perspective”, 104

80 OECD, “Case study – Law on Social Cooperatives in Italy”

81 Tony Crosland had previously been a Labour Member of Parliament and was again subsequently, but during this period he was not.

82 Co-operative Commission, *The Co-operative Advantage*, 99; Gurney, “A House Divided”; Gurney, “The Battle of the Consumer”

83 Co-operative Independent Commission, *Report 1958*

84 Co-operative Independent Commission, *Report 1958*, 241-242

85 Co-operative Commission, *The Co-operative Advantage*, 101

86 Patmore and Balnave, *A Global History*, 158

from conventional firms.<sup>87</sup>

Consumer societies within the UK in the 1960s started to voluntarily solvently liquidate where their trading performance was suffering. Within the UK, a TV report highlighting the failure of Millom Co-operative Society, filmed outside an entirely different store in a different area, caused a run on people's savings in co-operatives.<sup>88</sup> This period also saw consolidation in numbers as smaller societies transferred engagements<sup>89</sup> into larger ones.<sup>90</sup>

The 1960s saw the establishment of credit unions, first in Ireland, partly inspired by the Raiffeisen model,<sup>91</sup> and later in the UK. Legal recognition first appeared in Northern Ireland in 1969<sup>92</sup> and in Great Britain in 1979<sup>93</sup> in the context of wider changes to financial services and banking regulation at that time.<sup>94</sup> During this period, European dominance of the ICA declined, and the movement is said to have become more international.<sup>95</sup>

By the early 1970s, the movement was growing again.<sup>96</sup> This period also saw the growth of the 'industrial and common ownership' movement

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87 Patmore and Balnave, *A Global History*, 159

88 Co-operative Commission, *The Co-operative Advantage*, 103, and with thanks to Gillian Lonergan.

89 Often the term 'merger' is used – suggesting the coming together of two societies into one. The legal mechanism to affect that is an 'amalgamation'. By contrast, societies instead 'transferred engagements', whereby one existing society transfers engagements to another society. Usually a smaller society transferring to a larger one. In the corporate world, this would be seen as an acquisition, but the reality is more nuanced.

90 Ekberg, "Organization: Top Down or Button Up?", 23

91 Münkner, *Ten Lectures on Co-operative Law*, 31: the model is said to have come to Ireland via the USA and Canada. Further details in Chapter 8 – *Co-operative finance*

92 Industrial and Provident Societies Act (Northern Ireland) 1969 as it was then

93 Credit Unions Act 1979

94 Registry of Friendly Societies, *Credit Unions in Great Britain*

95 Patmore and Balnave, *A Global History*, 181

96 Patmore and Balnave, *A Global History*, 181

- including in the passing of the Industrial and Common Ownership Act 1976. The Industrial and Common Ownership Movement (ICOM) was established in 1971 as the representative or promoting body for worker co-operatives - entities owned and controlled by their employees, with a statutory lock on their assets.<sup>97</sup>

Unlike their consumer co-operative counterparts, most of these organisations established as 'companies limited by guarantee', largely due to the requirement for Industrial and Provident Societies to have at least 7 members.<sup>98</sup> The comparative ease and lower cost of establishing a company was also a factor.

In the 1970s, the UK consumer co-operative movement carried out significant numbers of mergers between societies.<sup>99</sup> There was less willingness to undertake mergers in Austria, Germany, and France, while meanwhile the consumer co-operative sector in Italy thrived.<sup>100</sup>

From the late 1970s onwards co-operatives faced increasing competition following reductions in trade barriers, reductions in regulation in certain sectors such as finance, and declines in government support.<sup>101</sup> Consumer co-operation in Australia and New Zealand suffered.<sup>102</sup> And, from the 1980s onwards, there were a rise in members voting to turn co-operatives into investor-owned companies, taking the accumulated assets for themselves in the process (demutualisation) - including in the building society sector in the UK.<sup>103</sup>

The movement benefited from the growth of the co-operative sector in Asia and Africa.<sup>104</sup> Alongside this were exponential technological changes.

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97 Industrial and Common Ownership Act 1976, s2, as enacted.

98 Huckfield, *How Blair Killed the Co-ops*, 70-72

99 Patmore and Balnave, *A Global History*, 189-190

100 Patmore and Balnave, *A Global History*, 190-191

101 MacPherson, "Background paper to the ICA Statement"

102 Patmore and Balnave, *A Global History*, 207

103 Casu and Gall, *Building Societies in the Financial Services Industry*, 24

104 MacPherson, "Background paper to the ICA Statement"

The culmination of these factors influenced the ICA to review co-operative principles, resulting in the 1995 Statement.<sup>105</sup>

The 'Lanica Affair' is well known within the UK consumer co-operative movement, being seen as 'One of the most traumatic events in recent British co-operative history'.<sup>106</sup> It saw city financer Andrew Regan attempt a £1.2bn bid to buy and asset-strip the Co-operative Wholesale Society Limited.<sup>107</sup> The attempt was defeated and gave impetus for renewal.<sup>108</sup>

The co-operative movement in the UK was successful in persuading the then Prime Minister, Tony Blair, to sponsor another co-operative commission in 2000.<sup>109</sup> Though many of its ideas were not new<sup>110</sup> the report was 'enthusiastically endorsed' at the following Co-operative Congress.<sup>111</sup> It was however criticised for inherent contradictions and the need to earn the 'advantage it spoke of'.<sup>112</sup>

## 21st Century

The ILO passed Recommendation 193 on the promotion of co-operatives in 2002, giving the text of the ICA Statement recognition in international law.<sup>113</sup>

In 2003, the European Union regulated to provide for the optional legal structure of the European Co-operative Society (SCE) to facilitate cross-border and transnational activities.<sup>114</sup>

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105 MacPherson, "Background paper to the ICA Statement"

106 Wilson, Webster and Vorberg-Rugh, *Building Co-operation*, 325

107 Birchall, "The Lanica Affair", 90

108 Wilson, Webster and Vorberg-Rugh, *Building Co-operation*, 335; Birchall, "The Lanica Affair", 90

109 Wilson, Webster and Vorberg-Rugh, *Building Co-operation*, 351; Co-operative Commission, *The Co-operative Advantage*

110 Bamfield, "Can the Co-operative Commission do the trick?" details the links to earlier commissions

111 Wilson, Webster and Vorberg-Rugh, *Building Co-operation*, 353

112 Sparks, "Being the Best?"

113 Henry, *Guidelines for Cooperative Legislation*, 47

114 European Union, "European Cooperative Society (SCE)"

During the 2007-2008 financial crash and immediately thereafter, models of financial services were tested. Financial co-operatives based on the German model appeared to have proved more resilient than investor-owned counterparts.<sup>115</sup> Except for the USA, the 'customer-owned' financial institutions were not badly affected.<sup>116</sup>

In 2009, the United Nations passed a resolution naming 2012 to be the International Year of Co-operatives, which saw the movement come together to promote the co-operative movement, including an international exposition in Manchester, UK in October 2012.<sup>117</sup>

The early 2010s saw some challenges within the consumer society sector in the UK.<sup>118</sup> Parts of the sector started to explore the topic of governance in large co-operatives, which resulted in two publications: the first in 2014,<sup>119</sup> and the second in 2017,<sup>120</sup> the second edition of which differs substantively from the first, in focusing less on descriptions and more on analysis and co-operative governance theory (see *Chapter 5 – Co-operative governance and structures*).

Multi-stakeholder co-operatives – where different types of member (workers, consumers, producers) are brought into the membership of the co-operative in a way that balances their interests – are technically not new.<sup>121</sup> However, the development of them (and associated legislative treatment in

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115 Birchall, *Resilience in a Downturn*

116 Birchall, *Finance in an Age of Austerity*, 115

117 United Nations, Resolution A/RES/64/136

118 Myners, *Report of the Independent Governance Review*; Birchall, *The Governance of Large Co-operative Businesses* (2017), 32-33

119 Birchall, *The Governance of Large Co-operative Businesses* (2014)

120 Birchall, *The Governance of Large Co-operative Businesses* (2017)

121 Sacchetti and Birchall, "The Comparative Advantages", 3. Robert Owen and Charles Fourier articulated a view of holistic membership; Dr William King involved both consumers and producers. Similarly, Raiffeisen favoured 'multi-purpose' co-operatives: Henry, "Friedrich Wilhelm Raiffeisen and Cooperative Law". See *Chapter 10 – Co-operative ideology*, for further discussion

different countries) has accelerated since 1991.<sup>122</sup>

There is a growing body of work exploring ‘new cooperativism’,<sup>123</sup> encompassing earlier articulations by Marcelo Vieta.<sup>124</sup> It has been summarised as:

... a way of organising co-operation that takes co-operatives back to their original radical roots but that is also connected to the responses and proposals by contemporary social movements and local actors against and beyond neoliberal capitalism. The new cooperativism forms part of the social and solidarity economy ... the related proposals for economic democracy ... and the traditional aims of the cooperative movement. However, it is less concerned with formal cooperative structures than it is about imaging new forms of solidarity economies grounded in social justice and practices of collective action aimed at broadening social and increasingly environmental care and wellbeing.<sup>125</sup>

Relevant impacts on the development of new cooperativism include the social co-operative movement of Italy, increased focus on multi-stakeholder co-operatives which place greater emphasis on workers, and the ‘recovered company’ movement in Argentina which saw workers reclaim companies from their owners.<sup>126</sup>

Linked to the above, new types of co-operatives have started to emerge. Platform co-operatives have arisen out of the ‘sharing economy’,<sup>127</sup> with the idea promoted by Scholz.<sup>128</sup> Contrasting platform capitalism, where online platforms or applications (apps) like Uber, or Facebook are owned

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122 Münker, “Multi-stakeholder co-operatives”

123 Ridley-Duff and O’Shaughnessy, “Guest Editorial”; webinar series: Ridley-Duff (UKSCS), “New Cooperativism Seminar Series”

124 Vieta, “The New Cooperativism”

125 Vieta and Lionais, “The new cooperativism,”

126 Ridley-Duff and O’Shaughnessy, “Guest Editorial”

127 Mannan and Pek, “Solidarity in the Sharing Economy”

128 Scholz and Schneider, *Ours to hack and to own*

by investors with profits made from its users, platform co-operatives seek to be an alternative to the gig-economy through co-operative structures to provide democratic ownership and control. While in some instances, platform co-operatives are a type of worker co-operative, the multi-stakeholder co-operative model is noted as being particularly well suited.<sup>129</sup>

Along this continuum, we see the development of 'open co-operatives', described as being at the 'experimental edge' of platform co-operativism.<sup>130</sup> Davies-Coates described open co-operatives as:

Co-ops that combine best practices from the international co-operative movement with best practices from the open source software and hardware communities ...<sup>131</sup>

The model combines the peer-to-peer (P2P), commons, and co-operative movements, developing multi-stakeholder co-operatives for activity such as open-source software development.<sup>132</sup> Further along this continuum, we see the more recent development of 'open-value cooperativism' through 'Distributed Co-operative Organisations' (DisCOs). This links to blockchain, and distributed-ledger technology. Decentralised autonomous organisations (DAOs) were developed to manage the decision making and finances of blockchain technology. DAOs have been criticised due to features such as penalties and secrecy.<sup>133</sup> The DisCO model seeks to bring in a distributed, rather than decentralised, form of organisation, based on co-operative values and principles. They add 7 of their own principles to the ICA Principles and bring in aspects of feminist economics, such as accounting for care work. The DisCOs are structured as a multi-stakeholder co-operative, reflecting the different contributions by members.<sup>134</sup>

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129 Pentzien, "The Politics of Platform Cooperativism"

130 Troncoso and Utratel, "DisCO Manifesto", 31

131 Davies-Coates, "Open Co-ops"

132 Troncoso and Utratel, "From Platform to Open Cooperativism"

133 Troncoso and Utratel, "DisCO Manifesto"

134 Troncoso and Utratel, "DisCO Manifesto"

## Conclusion

Co-operatives did not appear as part of a big bang, but as part of a long continuum of associationism. Within the UK, co-operatives arrived in waves, growing at the height of the industrial revolution. While the Rochdale Pioneers were clearly not the first co-operative, they struck on a model that inspired others, and largely survived.

Co-operatives have emerged across the world, focusing on local needs. We saw early concentrations of consumer co-operatives in the UK, worker co-operatives in France, financial co-operatives in Germany, and agricultural co-operatives in Scandinavia.

It is no surprise that we see agricultural co-operatives appearing more prevalently in countries with more agrarian industries, or that we see consumer co-operatives emerge where the odds were stacked against the consumer.

The co-operative model has clearly adapted as the world around it has changed. From this, we can conclude that the co-operative model is sufficiently flexible to see co-operatives evolve in different local contexts across the globe, throughout periods of social, political, environmental, economic, and technological change.



## CO-OPERATIVES TODAY

This chapter gives a sense of the scale and type of co-operatives in operation today. This is shown primarily from a UK perspective, with international comparisons included for context.

Co-operatives can carry out any economic activity. There are examples of co-operatives in health care, financial services (including insurance and banking), agriculture, food retail, housing, and numerous other sectors.

To give a sense of size and scale, some statistics are included in the pages that follow. Detailed statistics inevitably become out of date quickly. You can find refreshed statistics on co-operatives from the following sources:

- The World Co-operative Monitor provides statistics on co-operatives across the globe, and is updated periodically: <https://monitor.coop>
- Co-operatives UK collate and publish statistics on co-operatives within the UK: <https://www.uk.coop/resources/open-data> – including both organisational and economic data
- The World Council of Credit Unions provide global statistics on credit unions: <https://www.woccu.org/>
- The Financial Conduct Authority's Mutuals Public Register provides organisational data on registered societies: <https://mutuals.fca.org.uk> as well as registration documentation on societies individually.

Detailed case studies have been omitted for similar reasons. But you will find some:

- Stories.coop have a large database of co-operative case studies: <https://stories.coop>
- Co-operatives UK produce case studies on UK co-operatives: <https://www.uk.coop/case-studies>

## International overview

At a global level, the International Co-operative Alliance (ICA) state that in 2021 there were 3 million co-operatives, with at least 1 billion members.<sup>1</sup> They set out that the top 300 co-operatives turnover more than \$2,146 billion US Dollars.

Country by country comparisons are only so useful, given the differing population and economic sizes. The availability of consistent data varies, but a brief indicative picture is given.<sup>2</sup>

Within Europe, co-operatives have significant shares of the following markets within their countries:<sup>3</sup>

- Agriculture:
  - Netherlands: 83%
  - Finland: 79%
  - Italy: 55%
  - France: 50%
- Banking:
  - France: 50% [other sources give a higher figure closer to 70%]<sup>4</sup>
  - Cyprus: 37%
  - Finland: 35%
  - Austria: 31%
  - Germany: 21%
- Forestry:
  - Sweden: 60%
  - Finland: 31%

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1 International Co-operative Alliance, "Facts and Figures"

2 The is a limited selection of countries, where information is available in English, proving examples of different types of co-operative activity to give a sense of the overall picture.

3 European Commission, "Co-operatives"

4 European Association of Co-operative Banks, "Key Statistics as of 31-12-21"

- Pharmaceutical and health care:
  - Spain: 21%
  - Belgium: 18%
- Retail:
  - Finland: 36%
  - Sweden: 20%
- Housing:<sup>5</sup>
  - Norway: 14%
  - Sweden: 24%

Some countries see higher concentrations of co-operatives in particular sectors of the economy. For example, in France co-operative banks account for more than 60% of banking deposits – with Crédit Agricole, BPCE, Crédit Mutuel financial co-operatives being 3 of the top 6 French banks.<sup>6</sup> Agricultural co-operatives account for 40% of agri-food business, and consumer co-operatives 30% of the retailing business.<sup>7</sup> Worker co-operatives are also particularly prolific in France, with major sectors including services, construction, and industry.<sup>8</sup>

Italy has many co-operatives, without around 29,414 worker co-operatives out of a total of 59,027 co-operatives (around 49.8%).<sup>9</sup> Italy is unusual in having the concept of a ‘social co-operative’. Social co-operatives ‘aim to pursue the general interests of the community’ rather than its members.<sup>10</sup> There are around 14,263 of these.

Across Italian co-operatives, their economic activity is particularly prevalent in construction, business support services, health and social care,

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5 Housing Europe, “The State of the Housing in Europe 2023”, 77 and 85

6 Coop FR, “Survey of Cooperatives Summary: 2022 Edition”

7 Coop FR, “Survey of Cooperatives Summary: 2022 Edition”, 4

8 Les Scop, “Key Figures 2022”

9 Borzaga, Calzaroni, et al, “Structure and performance of Italian cooperatives”

10 Article 1, Italian Law 381/1991. More details in *Chapter 10 – Co-operative ideology*

transport and storage, and manufacturing.<sup>11</sup> They employ around 18% of all those working in transport.<sup>12</sup> Italy sees a particular concentration of co-operative activity in the northern region of Emilia Romagna, with co-operatives accounting for around 30% of its GDP.<sup>13</sup> Within this region,<sup>14</sup> and more generally,<sup>15</sup> networks of co-operatives (secondary co-operatives) are a common feature.

Networks of co-operatives are also a particularly common feature found in co-operative banking within Europe, most countries with co-operative banks having at least one type of secondary co-operative/structure to internalise or share certain functions – like back-office administration, liquidity management, training and education.<sup>16</sup>

It is difficult to look at Spain without mentioning Mondragon.<sup>17</sup> Mondragon is a network of 95 co-operatives in the Basque region of Spain, employing 70,000 people.<sup>18</sup> Each of its 95 co-operatives are autonomous and self-governed, coming together to run the Mondragon Corporation. Their co-operatives are primarily worker co-operatives, though the consumer co-operative, Eroski is also part of the network. Turning over more than €11bn in 2023,<sup>19</sup> their main operations are in finance, industry (e.g. manufacturing), retail, and knowledge. They support their work with 14 research and development centres, a university, and a bank. Mondragon is often taken as a model, inspiring other worker co-operatives.

Around 17,300 of Spain's 20,000+ co-operatives are said to be worker

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11 Poli, *Co-operative Banking Networks in Europe*, 75

12 Corbetta, "The spatial dimension of productivity in Italian co-operatives"

13 Voinea, "Co-ops step in to support Emilia Romagna"

14 Restakis, *Humanizing the Economy*, chapter 3

15 Borzaga, Calzaroni, et al, "Structure and performance of Italian cooperatives"

16 Poli, *Co-operative Banking Networks in Europe*, 77-79

17 Romeo, "How Mondragon Became the World's Largest Co-op"

18 Mondragon Corporation, "About Us"

19 Mondragon Corporation, "Mondragon Summary Annual Report 2023"

co-operatives.<sup>20</sup> Spain also has around 3,669 agricultural co-operatives, accounting for 68% of the value of Spain's agricultural production.<sup>21</sup>

Outside of Europe, we can look to the United States of America. The picture varies by state, with co-operative law being devolved to state level. New York is home to the world's largest housing co-operative:<sup>22</sup> Co-op City in the Bronx with more than 40,000 residents.<sup>23</sup> It is sufficiently large to be labelled as an area on the map. More generally, you will find around 6,400 housing co-operatives with over 1.2m dwellings within the USA.<sup>24</sup>

The USA is also home to nearly 5,000 credit unions, with more than 140m members.<sup>25</sup> Collectively they have assets of more than \$2.21 trillion US dollars.<sup>26</sup> The largest credit union: Navy Federal Credit Union had deposits of \$144 billion US dollars, while lending \$177 billion US dollars.<sup>27</sup>

Credit unions in the USA tend to be based around occupation/employment (rather than locality). They tend not to be integrated formally into networks in the same way as European co-operative banks. Instead, credit unions have formed a range of credit union service organisations (CUSOs) used to provide products or services, along with corporate credit unions providing sources of funding.<sup>28</sup>

Other types of co-operatives found in the USA include 832 electricity co-operatives – providing electricity to 42 million people (particularly in rural areas – covering 56% of the USA's landmass).<sup>29</sup>

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20 COCETA, "Know Us"

21 Cooperativas agro-alimentarias, "Cooperativism Data"

22 ICA Housing International, "Co-op City, the world's largest housing cooperative in the Bronx"

23 US Census Data for 2022

24 ICA Housing International, "About United States of America" (Data at 2018)

25 World Council of Credit Unions, "Statistical Report 2021"

26 National Credit Union Administration, "Industry at a Glance"

27 Navy Federal Credit Union, "Annual Report 2022"

28 Lauer, CUSOs

29 NRECA, "America's Electric Cooperatives"

Canada has a diverse range of co-operatives across multiple sectors, but with heavy concentrations in housing co-operatives (43%), followed by 14% in health and social care; 9% in services; and 8% of co-operatives in financial services.<sup>30</sup> However, when looking at turnover, wholesale and retail dominates (46%) followed by financial services (36%) and construction and manufacturing (11%). Well-known examples include the financial co-operatives, Vancity, and Desjardins. Desjardin is a network of individual entities which people join: ‘caisse populaire’ or ‘caisse d’économie’ – the former has individuals who join based on location; and the latter based on occupation or employment.<sup>31</sup>

Co-operatives exist to varying degrees throughout Africa. There is a large co-operative sector in Ethiopia, with 92,755 co-operatives employing just under 2 million people.<sup>32</sup> Of these, 21,238 are Savings and Credit Co-operative Organisations (SACCOs).<sup>33</sup> Other co-operatives include agricultural co-operatives, particularly in coffee farming.

There is a strong link between the co-operative movement and the Fairtrade Mark. The international Fairtrade standards require farmers working within producer organisations to operate democratically.<sup>34</sup> The principles underpinning the Fairtrade International standards require collaboration with co-operative movements.<sup>35</sup>

Kenya has a longstanding co-operative movement, with large agricultural and banking co-operative sectors.<sup>36</sup> There are around 14 million members

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30 Duguid and Karaphillis, “Economic Impact of the Canadian Co-operative and Mutual Sector”

31 Desjardins, “Desjardins Group Structure”

32 International Co-operative Alliance, “Mapping Key Figures: National Report Ethiopia”

33 Known in the Caribbean as Rotating Savings and Credit Associations (ROSCAs)

34 Fairtrade International, “Aims of the Fairtrade Standards”

35 Fairtrade International, “Fairtrade Organisation Code”, Principle 10

36 International Co-operative Alliance, “Mapping Key Figures: National Report Kenya”

in 25,050 co-operatives, with most of these being SACCOs. The Co-operative Bank of Kenya is the largest entity, though since 2008 has been majority owned, rather than entirely owned, by co-operatives following its public listing.<sup>37</sup>

In South America, there are examples of strong co-operative sectors. Co-operatives in Brazil produce 48% of the country's agricultural production, and in more than 100 cities and villages are the only financial services provider.<sup>38</sup> The 6800 co-operatives provide are represented by a national apex body, Organizaçao das Cooperativas Brasileiras (OCB), recognised as such in Brazilian law.

Moving further south, Argentina has a large consumer co-operative presence, among its 8,616 co-operatives more generally.<sup>39</sup> Most noticeable is Cooperativa Obrera, with 2.4 million members, out of the total 17.8 million members across the co-operative sectors. They have long operated a system of 'consumer circles' as an additional mechanism to their formal governance to involve members in the running of the co-operative.<sup>40</sup> Argentina is also home to 'worker recuperated companies' (ERT, in its Spanish acronym). Workers began occupying and then self-managing failing/bankrupt companies, many of which became worker co-operatives.<sup>41</sup>

In Asia we find large numbers of co-operative memberships. The 290 million memberships of co-operatives in India are spread across 845,000 co-operatives.<sup>42</sup> Around 98% of India's rural networks are covered by co-operatives, 84% of the milk distributed in the country goes via a co-operative,

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37 Co-operative Bank of Kenya, "About us"

38 International Labour Organization, "OCB: Promoting and innovating in cooperative enterprises in Brazil"

39 International Co-operative Alliance, "Mapping Key Figures: National Report Argentina"

40 Glas, "Consumers Circle at Cooperativa Obrera", 110-111

41 Giovannini and Vieta, "Co-operatives in Latin America", 339-340; Ridley-Duff and Bull, *Understanding Social Enterprise*, 131-134

42 National Co-operative Union of India, "Indian Cooperative Movement"

and 20% of people fishing are active in co-operatives. Additionally, India has a large credit and banking co-operative sector and a growing consumer co-operative sector, alongside smaller housing, and labour co-operative sectors. India's largest co-operative is the Indian Farmers Fertiliser Cooperative, which is a secondary co-operative owned by 36,000 other co-operatives with a turnover of \$5.3 billion US dollars.

Co-operatives in Japan have tended to be organised on sectoral lines, reflecting that legislation tends to be specific to sectors e.g. there is a separate piece of legislation for consumer co-operatives, agricultural co-operatives, and so on. More recently, work has taken place bringing these sectors together under the Japanese Co-operative Alliance as a cross-sector national apex body.<sup>43</sup> There are 42,000 co-operatives, with 105 million memberships.<sup>44</sup> There are specialised co-operatives for forest ownership, fisheries and agriculture, health and welfare for example. In financial services, around 23% of deposits are held by co-operatives. Consumer co-operatives in Japan are incredibly localised – as they are only permitted to do business in the prefecture in which they are registered and can only trade with members.<sup>45</sup> Japan also has an enlarged replica of the Rochdale Pioneers Toad Lane shop, in Kobe.

Recent years have seen significant growth in the number of co-operatives in the Republic of Korea. There are 9 pieces of legislation, 8 of which are sectoral, covering areas of activity such as agriculture, fisheries, and credit unions. Since 2012, there has also been a Framework Act on Co-operatives. This has been seen to help facilitate local governments supporting the creation of co-operatives that sit as part of the social and solidarity economy. Since the passing of this legislation in 2012, the number of co-operatives has

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43 Japan Joint Committee of Co-operatives, "Reorganization to a New Apex Organization"

44 Japan Co-operative Alliance, "Statistics on Co-operatives for the 2018 Business Year"

45 Japan Consumer Co-operative Act; Japanese Consumers' Co-operative Union, "What is Consumer Co-op"

increased from 50 in its first year, to 9,991 by 2016, to 23,939 by 2022.<sup>46</sup> There are strong federated models, including ones bringing together consumers and producers. The consumer co-operative group iCOOP, has brought together producer and other co-operatives into the group, SAPENet.<sup>47</sup>

## Country-by-country co-operative density

Finland claims to be the most co-operative country in the world with around 80% of their population in membership of at least one co-operative.<sup>48</sup> In Ireland, there are around 3.7 million members of credit unions<sup>49</sup> out of a total population of around 5 million people (around 74%).<sup>50</sup> By contrast, the UK has around 14 million memberships (with 4.2 million of those in a single co-operative),<sup>51</sup> but the total population density of co-operative memberships is around 21%.<sup>52</sup> A comparison of membership densities for

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46 Sumi Cho, ICA European Research Conference, Dundee, June 2024

47 Cho and Jang, "Cooperative Membership and Strategizing in a Korean Consumer Cooperative Network"

48 Pellervo Coop Center, "Co-operation Finland", quotes 7 million co-operative memberships, against a population of 5.5m people.

49 World Council of Credit Unions, "Statistical Report 2021". Credit unions are a type of financial co-operative (a subset of 'consumer co-operatives').

50 World Council of Credit Unions, "Statistical Report 2021". Penetration rate in Ireland of 130%, based on the population of those aged 15-64 in membership of a credit union. Some may be members of multiple credit unions.

51 Co-operative Group Limited, "Annual Return and Accounts for the year ending 1 January 2022", retrieved from the Financial Conduct Authority, Mutuals Public Register.

52 Co-operatives UK, "Co-operative Economy Report 2021". Data compared with total UK population.

the top 25 countries is provided in Table 1.<sup>53</sup>

**Table 1 – Membership density by country**

Country	Density of memberships
Netherlands	112%
USA	105%
Finland	84%
Japan	84%
Ireland	77%
Peru	59%
Norway	44%
France	42%
Sweden	42%
Cyprus	41%
Argentina	39%
Uruguay	38%
Sri Lanka	37%
Austria	35%
Jamaica	35%
New Zealand	30%
Germany	27%
Italy	21%
Poland	21%
Nepal	21%
United Kingdom	21%

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53 World Bank, "Open Data". Based on World Bank population totals compared with membership data at International Co-operative Alliance, "Coops4Dev", adjusted for Ireland to take into account credit union membership from World Council of Credit Unions, "Statistical Report 2021"; and for the UK to take updated figures from Co-operatives UK, "Co-operative Economy Report 2021".

Switzerland	21%
Canada	21%
Bolivia	19%
Ethiopia	17%

These figures look at ‘memberships’ rather than individuals holding memberships. It is probable in most countries that some individuals will be members of multiple co-operatives. The figures are compared with total populations. Whereas the reality is that not everyone will be old enough to join a co-operative. Therefore densities based on adult populations are likely to be higher, whereas densities that manage to factor out individuals holding multiple members would most likely lower the figures.

We get a different picture looking at the number of co-operatives within each country:<sup>54</sup>

**Table 2 – Number of co-operatives by country**

Country	Number of co-operatives
India	854,355
Indonesia	212,135
Ethiopia	92,755
Iran	92,089
Japan	42,000
Italy	41,011
Myanmar	40,613
Nepal	34,837
USA	29,285

54 Table compiled by the author using data from International Co-operative Alliance, “Coops4Dev” as at August 2023, unless adjusted as per previous footnote. Figure for Canada updated based on Duguid and Karaphillis, “Economic Impact of the Canadian Co-operative and Mutual Sector”.

Morocco	27,262
Vietnam	24,618
France	22,589
Uganda	21,346
Spain	20,050
Sri Lanka	16,000
Zambia	9,498
Philippines	9,432
Poland	8,917
Argentina	8,618
Germany	7,319
United Kingdom	7,063
Brazil	6,828
Canada	6,367
Norway	5,592
Sweden	5,495

There are however obvious economic variances between countries by whatever measure. Looking at the size of the co-operative economy compared with Gross Domestic Product (GDP), there are four countries where the annual gross turnover of co-operatives comprises over 10% of GDP:<sup>55</sup> New Zealand (20%), Netherlands (18%), France (18%) and Finland (14%).<sup>56</sup> This compares to a figure of around 2% for the UK.<sup>57</sup>

Data looking at the 'top' 300 co-operatives is produced regularly.<sup>58</sup> Looking

55 Dave Grace Associates, "Measuring the Size and Scope of the Cooperative Economy"

56 Dave Grace Associates, "Measuring the Size and Scope of the Cooperative Economy", 2

57 Co-operatives UK, "Co-operative Economy Report 2021", figure of turnover compared with UK GDP for 2021.

58 International Co-operative Alliance, "World Co-operative Monitor"

at turnover of the largest 300 co-operatives, the USA, France, Germany, Japan, and the Netherlands are the top 5 of the list. The data does however also look at the turnover over GDP per capita, to give a sense of the turnover of the entity in relation to the wealth of the country. This gives a ranking of France, USA, Germany, Japan, and now Brazil. The UK sits 16<sup>th</sup> and 18<sup>th</sup> in the list of turnover, and turnover/GDP per capita, respectively.

**Table 3 – Top 300 by turnover and GDP per capita**

Country	Number of top 300 co-ops by turnover <sup>59</sup>	Number of top 300 co-ops by turnover/GDP per capita
USA	71	38
France	42	42
Germany	31	28
Japan	22	22
Netherlands	17	14
Italy	14	16
Finland	10	10
Denmark	10	7
Brazil	9	22
Spain	8	10
Canada	8	7
Sweden	7	7
Norway	7	4
Switzerland	6	5
New Zealand	5	5
United Kingdom	5	4
Austria	4	4

59 International Co-operative Alliance, "Exploring the cooperative economy: Report 2022"

Republic of Korea	4	4
Belgium	4	3
India	3	16
Argentina	3	4
Australia	3	2
Singapore	2	2
Ireland	2	1
Poland	1	2
Malaysia	1	1
Saudi Arabia	1	1
Columbia	0	11
Turkey	0	3
Costa Rica	0	1
Mexico	0	1
Uruguay	0	1
Kenya	0	1
Portugal	0	1

Attempts have been made to classify countries by how 'co-operative' they are. This list was produced weighting memberships, employment, and cross revenue to GDP ratios:<sup>60</sup>

**Table 4 – Co-operative Economy Index**

Rank	Co-operative Economy Index
1	New Zealand
2	France
3	Switzerland
4	Finland

60 Dave Grace Associates, "Measuring the Size and Scope of the Cooperative Economy", 4

5	Italy
6	Netherlands
7	Germany
8	Austria
9	Denmark
10	Norway

It has been noted that ‘two-thirds of the countries listed in the top ten most co-operative economies also make up to 8 of the top 12 spots on the Social Progress Index’.<sup>61</sup> Similar observations have been drawn looking at the adverse impacts of demutualisation on inequality.<sup>62</sup> Analysis has also been undertaken mapping the co-operative economy to measures such as the World Bank indication of the ease of doing business generally within that country, the level of democracy within a country, and measures of income equality, finding positive correlations.<sup>63</sup>

Others<sup>64</sup> have mapped the extent to which co-operative values are prevalent within a country.<sup>65</sup> By using the Schwartz Survey values of ‘Universalism/Benevolence’ as a proxy for the co-operative values, and contrasting peoples scores with those they give to the ‘Achievement/Power’ values, a ranking of countries by co-operative values was produced. The ranking runs through 89 countries. The top 30 are:

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61 Dave Grace Associates, “Measuring the Size and Scope of the Cooperative Economy”, 4

62 Wilkinson and Pickett, *The Spirit Level*, 251

63 Groeneveld, “Doing Co-operative Business”

64 Crompton and Mayo, *The International Prevalence of Cooperative Values*. With thanks Ed Mayo for providing a copy of the report.

65 From the ICA Statement: Cooperatives are based on the values of self-help, self-responsibility, democracy, equality, equity, and solidarity. And the ethical values of honesty, openness, social responsibility and caring for others.

**Table 5 – Countries by Values**

1	Brazil
2	Andorra
3	Norway
4	Uruguay
5	Canada
6	Spain
7	Finland
8	Argentina
9	Iceland
10	Great Britain
11	Columbia
12	Mexico
13	Taiwan
14	Sweden
15	Indonesia
16	Georgia
17	Luxembourg
18	Australia
19	Germany
20	Denmark
21	New Zealand
22	Uzbekistan
23	United States
24	Estonia
25	Trinidad and Tobago
26	Belgium
27	Switzerland
28	Cyprus
29	Peru
30	Netherlands

## **International co-ordination**

The International Co-operative Alliance (ICA) provides global protection of the Statement of Identity, Values and Principles for the co-operative movement. Within the ICA there are a range of geographic (regional), sectoral

groups, and thematic groups. To name a few examples:

- Cooperatives Europe acts as the voice for its 84 co-operative member organisations within Europe.<sup>66</sup>
- The International Cooperative Banking Association is a sectoral assembly within the ICA structures,<sup>67</sup> and the European Association of Co-operative Banks is active across Europe representing the interests of its members.<sup>68</sup>
- CICOPA is the International Organisation of Industrial and Service Cooperatives (e.g. worker co-operatives), and has three regional bodies within it,<sup>69</sup> including CECOP – the European confederation of industrial and service co-operatives.<sup>70</sup>

Organisations such as Co-operatives UK, and some individual co-operative societies will be members of the ICA, with other organisations joining sector or thematic bodies at both regional and international levels.

The ICA launched a co-operative ‘marque’ or logo in 2013,<sup>71</sup> and has a top-level website domain: .coop.<sup>72</sup>



This was with a view to a globally recognised and shared identity. The domain and marque have been adopted by co-operatives around the world, including in the UK.

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66 Cooperatives Europe

67 International Cooperative Banking Association, “Relationship-between-ICA-and-ICBA”

68 European Association of Co-operative Banks

69 CICOPA, “About”

70 CECOP

71 International Co-operative Alliance, “Global image for co-operatives launches”

72 DotCooperation, “The .Coop Domain”

## The UK co-operative movement today

There is no legislative definition of a 'co-operative' in the UK. Co-operatives are free to use any type of legal structure they wish, or none (i.e. an unincorporated association). As such, there is no official source of figures on co-operatives. The UK co-operative movement itself has however sought to quantify its size and scale. Co-operatives are said to have a combined annual income of £42.7bn, with over 15 million memberships in over 7,370 co-operatives.<sup>73</sup> These tend to be the figures reflected in international statistics.<sup>74</sup>

In national statistics from other countries, the equivalent of UK friendly societies, as mutual insurers,<sup>75</sup> have featured in some datasets.<sup>76</sup> Mutual insurers have around an 8% share of the UK insurance market.<sup>77</sup>

Similarly other countries would likely have included organisations similar to building societies. Building societies had around 25.5 million members and held around 23% of the mortgage market share – around £345bn in mortgage assets.<sup>78</sup>

Historically, UK figures have tended to not include friendly societies or building societies. However, Co-operative UK's Economy Report for 2023 includes the wider mutuals sector for the first time. Repeated in 2024, the report has the combined turnover of co-operative and mutual enterprises at £165.7bn, and a total number of memberships standing at 68.8m for the UK.<sup>79</sup>

Within a narrower data set of 7,300+ co-operatives most of the economic activity is in the food retail sector (consumer co-operatives), turning over around £28.8bn.

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73 Co-operatives UK, "Co-operative and Mutual Economy Report 2024", 13

74 International Co-operative Alliance, "World Co-operative Monitor"

75 For the difference between a mutual and a co-operative, see *Chapter 6 – Co-operatives in context*

76 For example, mutual insurers are included the numbers in the USA: Deller et al, "Research on the Economic Impact of Cooperatives"

77 Association of Financial Mutuals, "UK Market Insights 2022"

78 Building Societies Association, "Sector Information: 2020/21"

79 Co-operatives UK, "Co-operative and Mutual Economy Report 2024", 5

Co-operatives UK produce useful data on entities they consider to be co-operatives<sup>80</sup> by type of legal structure, set out in Table 6.<sup>81</sup>

**Table 6 – Co-operatives by legal structure (at 1 October 2024)**

Registration type	Number of co-operatives by type	% of total
Act of Parliament <sup>82</sup>	1	0.0%
Community Interest Company	118	1.6%
Company	728	9.9%
Limited Partnership	1	0.0%
Limited Liability Partnership (LLP)	118	0.2%
Scottish Charitable Incorporated Organisation	2	0.0%
Co-operative and Community Benefit Societies Acts <sup>83</sup>	6258	85.0%
Friendly Societies Act 1974 (working men's club)	36	0.5
Unincorporated <sup>84</sup>	180	2.4%
Total	7360	100%

Most co-operatives are registered as ‘societies’ under the Co-operative and Community Benefit Societies Acts (previously ‘industrial and provident

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80 There will be differences of opinion on whether everything in this data constitutes a co-operative. For instance, the figures include ‘John Lewis Partnership plc’, which is an employee-owned trust. The figures also include several community focused entities that some would not consider to be co-operatives, such as community benefit societies.

81 Co-operatives UK, “Open Data”

82 This is a now uncommon way to constitute an organisation. This particular organisation was constituted under Agriculture Marketing Acts – including The British Wool Marketing Scheme (Approval) Order 1950

83 This figure includes 382 credit unions

84 This would also include ‘general partnerships’, which are likely to be small in number.

societies').<sup>85</sup> The registering authority for these societies is the Financial Conduct Authority (FCA). They produce data setting out the number of societies registered, and a reporting classification.<sup>86</sup> That data is integrated into the Co-operatives UK datasets.<sup>87</sup>

The data from the FCA covers a range of mutual societies (such as building societies and friendly societies) that are not counted as co-operative and so do not appear in Table 6. The FCA data is confined to societies registered by them, so does not include other types of co-operatives (such as Limited Liability Partnerships). FCA data also includes community benefit societies, which they do not regard as co-operatives.<sup>88</sup> By 'reporting category', the summary of registered societies is shown in Table 7<sup>89</sup>

**Table 7 – FCA reporting categories (at 9 October 2024)**

Reporting classification	Number	% of total
Advocacy and campaigning	63	0.7%
Agriculture	356	3.7%
Allotment and gardening	305	3.2%
Art, culture and education	290	3%
Associations and networks	57	0.6%
Community Enterprise	171	1.8%
Community Land Trusts	294	3.1%

85 In Great Britain: Co-operative and Community Benefit Societies Act 2014; in Northern Ireland: Co-operative and Community Benefit Societies Act (Northern Ireland) 1969.

86 Financial Conduct Authority, "Mutual societies registration function: 2023-24". Though to note that these figures include entities other than co-operatives – namely community benefit societies, benevolent societies, friendly societies, building societies, and specially authorised societies.

87 Co-operatives UK, "Open Data" as at 1 October 2024

88 Financial Conduct Authority, *FG15/12 Summary of Feedback Received*

89 Financial Conduct Authority, "Mutuals Public Register" (retrieved October 2023)

Community pubs	265	2.8%
Community shops	306	3.2%
Energy and environment	371	3.9%
Financial Services	638	6.6%
Fishing	50	0.5%
Health and social care	93	1.0%
Housing	2178	22.6%
Leisure and recreation facilities	105	1.1%
Manufacturing and services	57	0.6%
Produce markets	87	0.9%
Professional services	72	0.7%
Retail societies	125	1.3%
Social clubs	2876	29.9%
Sports clubs	516	5.4%
Supporters Trusts	166	1.7%
Technology and communications	61	0.6%
Transport	83	0.9%
Welfare and support	43	0.4%
Total	9628	100%

Some categories of society predominantly consist of community benefit societies – such as in housing, with many registered providers of social housing. Others, such as agriculture, financial services, and social clubs, are predominantly co-operatives.

## Consumer co-operatives

Consumer co-operatives are the largest subset of co-operatives, turning over more than £28.8bn.<sup>90</sup> Consumer co-operative economic activity is concentrated in food retail consumer co-operatives. These being the Co-operative Group Limited – who have both a wholesale role for other societies, and the

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90 Co-operatives UK, "Co-operative and Mutual Economy Report 2024", 20

'independent societies' who operate independent co-operative businesses, but with a voluntarily wholesale relationship with the Co-operative Group Limited.<sup>91</sup> These are all registered as societies and are the 'co-op shops' you see on the high street. The top 10 by turnover are set out in Table 8.<sup>92</sup>

**Table 8 – Turnover of large retail consumer co-operatives**

Entity:	Turnover (GBP £)
Co-operative Group Limited	£11.3bn
Central England Co-operative Limited	£960.8m
The Midcounties Co-operative Limited	£837m
The Southern Co-operative Limited	£545.8m
Scottish Midland Co-operative Society Limited	£425m
East of England Co-operative Society Limited	£395.6m
Lincolnshire Co-operative Society Limited	£353.9m
The Channel Islands Co-operative Society Limited	£208.5m
Heart of England Co-operative Society Limited	£95.8m
Chelmsford Star Co-operative Society Limited	£83.3m
Tamworth Co-operative Society Limited	£29m

The market share of the food retail market in Great Britain for the Co-operative Group Limited stood at around 6.1% and with other the other co-operatives added in, places the co-operative food sector around 7th place in terms of market share, at around 7%.<sup>93</sup> Most of the societies here will also tend to operate in other sectors – such as travel, funeral care, or property

91 Co-operatives UK, "Co-operative Economy Report 2021"

92 Figures taken from the latest annual return and accounts for each entity, as published by each society, available as at 9 October 2024 (and generally for a year ending on either the first or last Saturday in January, a common year-end chosen by many (but not all) retail consumer co-operatives)

93 Kantar, "Grocery Market Share" (at 6 August 2023)

management, with the size of other businesses within each society varying significantly.

There are other large retail co-operatives including the National Merchant Buying Society Limited who operate as a centralised buying society for independent traders (builders, plumbers) with a turnover of around £1.9bn. And the International Exhibition Co-operative Wine Society Limited (trading as 'The Wine Society') who sell wine only to their members, turning over around £149m<sup>94</sup>.

## Agricultural co-operatives

Second economically to the retail societies are the agricultural co-operatives, turning over a collective £7.8bn. It is said that around half of UK farmers are in an agricultural co-operative.<sup>95</sup> This £7.8bn turnover is around 6% of the UK farming industry, whereas agricultural co-operatives in other countries have a far larger market share.<sup>96</sup> Dairy, cereals, horticulture, and agricultural supply are the most prominent areas for agricultural co-operatives. There are however variances within the UK, with a stronger presence of agricultural co-operatives in Northern Ireland and Scotland. The Scottish Agricultural Organisation Society Limited is particularly active in promoting and supporting agricultural co-operatives.

The range of activities vary including:

- Suppliers – collectively purchasing goods such as seeds, food, fertilisers to sell to their members.

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94 Financial Conduct Authority, "Mutuals Public Register", Annual Return and Accounts For the year ending 26 January 2024

95 MacMillan and Cusworth, *Farmer co-operation in the UK Opportunities for the industry*

96 MacMillan and Cusworth, *Farmer co-operation in the UK Opportunities for the industry*: 68% in the Netherlands, 55% in France, 45% in Spain, 17% in Germany.

- Marketing – including selling the goods of their members, running market stalls, etc.
- Producer Organisations – could be considered alongside marketing but have designated statuses both within the European Union<sup>97</sup> for things like fruit and vegetables, and in the UK – especially for fish<sup>98</sup> and play a role in quota management.
- Services – providing services to their members such as specialist support, advice, and advocacy (e.g. standard setting).

There are features of the governance of agricultural co-operatives not generally seen in other types of co-operatives – including the use of ‘wet’ and ‘dry’ shares to distinguish between active suppliers (usually in milk/dairy) and those no longer supplying. And voting can often be based on one-share-one-vote where the shareholding requirements are directly linked to the supply of goods by the member.<sup>99</sup> This is designed to create an equitable outcome where some members are trading to a significantly greater extent than others.

After this sector, the total economic picture of the sector tends to be less relevant, as the next biggest sector (sport and recreation) drops to around £755m collective turnover. The number of individual co-operatives becomes a more relevant figure for explanatory purposes.

## Social Clubs

By number, the largest single category of co-operative is the social club. Depending on whether you include societies registered under the Friendly

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<sup>97</sup> European Commission, “Producer and interbranch organisations”

<sup>98</sup> UK Government, “Producer and interbranch organisations”

<sup>99</sup> Financial Conduct Authority, “Handbook RFCCBS 6.1.27”: These are given specific mention.

Societies Act 1974, their number range from 2,504<sup>100</sup> to 3,161.<sup>101</sup> They are approximately 35% of the total number of co-operatives. The clubs generally operate a bar (selling alcohol and other drinks), are owned by and run for the benefit of their members, controlled democratically by members based on one-member-one-vote, with an elected committee. They generally restrict sales to members only.<sup>102</sup> The early working men's club movement was closely linked to the co-operative movement with representation at the International Co-operative Alliance and Co-operative Union.<sup>103</sup> Today these societies operate under several 'sponsoring bodies'<sup>104</sup> including:

- Club and Institute Union
- Association of Conservative Clubs
- Royal British Legion
- Royal Naval Association

These bodies, and others, coordinate activity through the Committee of Registered Club Associations (CORCA).

## Financial services (credit unions)

Financial services are a large category of society – with more than 638 included in it. This includes friendly societies (as mutual insurers), building societies (as mutuals providing mortgages and savings products for members); credit unions (as a form of financial co-operative); and community development finance institutions (CDFIs) which tend to operate for the

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100 Co-operatives UK, "Co-operative Economy Report 2021"

101 Financial Conduct Authority, "Mutual societies registration function: 2022-23". The difference in number is largely explained by the latter including societies registered under the Friendly Societies Act 1974 as 'working men's clubs' within their figures.

102 In part linked to their tax treatment: HM Revenue and Customs, "Mutual Trading Status'

103 Marlow, "The Working Men's Club Movement", 343-344

104 Financial Conduct Authority, "Model Rules List"

benefit of the wider community.

Credit unions – as a form of co-operative and the largest in number in this category (420 registered across the UK) are the focus here. Of those, 143 are in Northern Ireland.<sup>105</sup> Credit unions are authorised by the Prudential Regulation Authority, and regulated by the Financial Conduct Authority and Prudential Regulation Authority ('dual regulated'). For the year ending 2023, credit unions reached their highest level of membership, at 2.2m members, with lending of £2338.4m and deposits of £3.9bn.<sup>106</sup> Within these figures, Northern Ireland accounts for 752,555 members, £701.8m in lending, and £1.7bn in deposits. Significant differences can be seen in relation to extent to which people within each country are members of a credit union, set out in Table 9.

**Table 9 – UK Credit Union membership Density**

	Membership density <sup>107</sup>
England	1.82%
Scotland	7.95%
Wales	2.53%
Northern Ireland	41.22%

## Sports

There are over 500 sports clubs registered as either co-operatives or community benefit societies. Professional sports clubs – such as the County Cricket Clubs, Rugby Football Union, and some lower-league football clubs

<sup>105</sup> Data based on Financial Conduct Authority, "Mutuals Public Register" as at 9 October 2024

<sup>106</sup> Prudential Regulation Authority, "Credit Union Annual Statistics 2023"

<sup>107</sup> Based on 'Adult' and 'Non-qualifying' members for credit unions for the year 2021: Prudential Regulation Authority, "Credit Union Annual Statistics 2022" as a percentage of those aged 15 and above in Office for National Statistics, "Estimates of the population for the UK"

operate as co-operatives<sup>108</sup> including AFC Wimbledon and FC United.<sup>109</sup>

Clubs improving health and wellbeing through the promotion of amateur sport tend to be registered for the benefit of the community, rather than as co-operatives. Rugby clubs are the most prolific in number in that category.<sup>110</sup>

Clubs are distinct from ‘supporters trusts’ which are established to increase the influence/ownership of fans in the football clubs.<sup>111</sup> These tend to register as community benefit societies rather than co-operatives, and often involve seeking supporter ownership of shares in football clubs:

The CBS [Community Benefit Society] form of society is better suited to community ownership of football clubs than a co-operative society because it aims to serve the interests of the whole community, and not just the members of the co-operative. All supporters’ trusts and many supporter-owned clubs are formed as a CBS with obligations to benefit the wider community as well as the club and supporters.<sup>112</sup>

Much of the development of football supporters’ trusts was supported by Supporters Direct, which merged with the Football Supporters’ Federation in 2018 to become the Football Supporters Association.<sup>113</sup>

The UK is not unique in having sport co-operatives.<sup>114</sup> Other high-profile

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108 Financial Conduct Authority, “Mutuals Public Register” (at 9 September 2023)

109 Irving, “Sustainability in football”, 26

110 Financial Conduct Authority, “Mutuals Public Register” (at 9 September 2023) cross-referencing reporting category with the names of societies where they indicate a sport (which is the case for 86% of those societies).

111 The work has largely focused on football clubs but has extended to other sports too

112 Supporters Direct, *Supporter Share Ownership*, 6

113 Irving, “Sustainability in football”, 53

114 Harvey, “The goal of sport co-operatives”

examples include Barcelona FC in Spain,<sup>115</sup> a world-famous football club; and Green Bay Packers – an American Football team in the top league in the USA.<sup>116</sup> Writers in the UK often reference these clubs as being co-operatives. However, literature within Spain and the USA respectively tends not to include these clubs in the literature describing their co-operative sectors.<sup>117</sup>

## Housing

Housing is a consistent and reappearing subject within the co-operative movement. The first building society appeared in 1775, and the Rochdale Pioneers included provision of housing for their members within their rules. The retail societies themselves were active in the provision of housing.<sup>118</sup>

There are said to be 788 housing co-operatives with a turnover of £636.9m.<sup>119</sup>

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115 FC Barcelona, "FC Barcelona Statutes": registered as 'Futbol Club Barcelona'; Ridley-Duff, "New frontiers in democratic self-management", 102

116 LaSalle, "The Green Bay Packers". Others argue it is a 'misnomer' to call them a co-operative: Mulder, *Transcending Capitalism*, 124. They are owned by fans, with one-share-one-vote, and non-profit status within their State. On dissolution, surplus assets are to go to a charitable foundation.

117 Based on author's research on references to sports co-operatives within legal and academic writing from both within the specified countries, and in international commentary more generally.

118 Registry of Friendly Societies, *Report 1972*, 35-36

119 Co-operatives UK, "Co-operative and Mutual Economy Report 2023"

Over time, numerous models of housing co-operative have developed through various phases, and are described briefly (and broadly<sup>120</sup> chronologically):<sup>121</sup>

- Tenant Co-operative<sup>122</sup> – growing from the 1870s, with houses built neighbouring each other. The building was financed through<sup>123</sup> a £1 share from the member, loans from small investors, and larger loans from the Public Works Loan Board (a government body providing loans). Members paid rent to cover the loan repayments at 4% interest, repairs, and the building of a reserve. Surpluses were accredited to a member's share account which would build up over time. If they wanted to leave, they could either move to another co-operative tenancy or sell their shares back to the co-operative. Examples of these co-operatives still exist today.<sup>124</sup>
- Co-partnership Tenant Housing – evolved from the earlier tenant co-operative, particularly in the 1910s. The addition of 'partnership' reflected the shares by members were held alongside other investors who anticipated a return. These took partial inspiration<sup>125</sup> from the Garden Cities movement.<sup>126</sup>
- Co-ownership Housing Co-operative<sup>127</sup> started to develop from the

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120 Inevitably there are early individual or sporadic examples of certain types of each co-operative. The periods of time reflected here contextualise the point at which there became a critical mass of these type of societies.

121 Shelter, "Living in a housing co-operative", provides overview; further details from: Birchall, *Building Communities*; Registry of Friendly Societies, *Report 1972*; Hands, *Housing Co-operatives*, 120

122 Bibby, *These Houses Are Ours*

123 Birchall, *Building Communities*, 95

124 Tending to be registered under the Co-operative and Community Benefit Societies Act 2014 with '[Placename] Tenants Limited' as the naming convention.

125 Registry of Friendly Societies, *Report 1972*, 34

126 Howard, *Garden Cities*

127 Birchall, *Building Communities*, 95, 113

1960s, in part inspired by examples in Scandinavia. A sponsoring entity would carry out the design and building of the property. Unlike in Scandinavia, the sponsoring entities in the UK were not always co-operative bodies in themselves, which is said to have impacted their success. The property would then be vested *collectively* in those occupying the housing. Tenants were members and would appoint a management committee to oversee the work of a managing agent. Their rent included a surplus which went toward them gaining an interest in the collective property. When they wanted to leave (after a minimum of 5 years) they would receive a payment calculated on the percentage of the mortgage principal repaid by then and a percentage in the increase of the value of the dwelling. That increase was not a market valuation but was largely based on what it would cost to build the dwelling again at the time the member left.

- Common Ownership Housing Co-operative (also known as 'par value' housing co-operatives) started to appear as a model in the mid 1970s. The model is 'fully mutual' in that only members can be tenants, and tenants must be members. Each member puts in a £1 share which they get back again at the same value (hence 'par value'). The property is held in common ownership. Tenants (members) pay rent. When members leave, they get their £1 back but nothing further.
- Tenant Management Co-operatives (also known as 'Tenant Management Organisations) are voluntary associations of tenants who usually enter into an agency agreement with a landlord (generally a housing association or local authority) to manage an estate or body of housing. Their responsibilities vary – including allocating housing, managing transfer requests, repairs and maintenance of property.
- Short-life Housing Co-operatives developed from the 1980s for temporary occupation of properties e.g. those waiting demolition/repair. The co-operative is generally granted a licence to occupy the property (individual members do not generally get tenancies). The co-operative will tend to move from property to property, providing

accommodation for members on a temporary basis.

- Self-build Housing Co-operatives proliferated in the 1980s, though earlier examples exist. Here the members of the co-operative are actively involved in the building of the properties. Members generally have their contribution accounted for in the share capital of the society as a form of 'sweat equity' (see Chapter 8 – Co-operative finance).
- Shared Ownership Co-operatives again evolved in the 1980s with co-operatives sharing ownership with a housing association or other body. Generally the model has moved into individual shared ownership without a co-operative playing any role, though some examples of the earlier model still exist.
- Mutual Home Ownership Co-operatives<sup>128</sup> developed during the 2000s, with the ownership of land detached from the ownership of property. The model sees the land held in a community land trust.<sup>129</sup> Members lease property from the co-operative – with the rent based on a proportion of that member's income. Property remains owned by the co-operative. When a member wants to leave, they get a proportion of their payments back, adjusted for any increase/decrease in the house price, and minus a deduction toward long-term maintenance of the property.
- Student Housing Co-operatives are means of providing housing for students (usually at a university). The model generally sees the co-operative purchase large multi-room properties, with students becoming members and renting a room. Property remains owned by the co-operative. There are also earlier examples of student co-operative housing building dating back to the late 1960s and 1970s through the Student Co-operative Dwellings organisation.<sup>130</sup>

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128 Conaty, Birchall, et al., *Common Ground*

129 Community Land Trusts are defined in England under section 79 of the Housing and Regeneration Act 2008, and generally register as community benefit societies rather than co-operatives

130 Hands, *Housing Co-operatives*, 124; Schwittay, "Students take over"

These phases have been summarised as:<sup>131</sup>

- Co-partnership Housing
- Co-ownership Housing
- Common Ownership and Tenant Management

Housing co-operatives are generally distinct from 'housing associations'.<sup>132</sup>

Housing associations are instead usually seeking to relieve homelessness through the provision of social housing. In some cases tenants are members of their housing association and/or on its board. More commonly though, tenants are not members or directors of their housing association. Board members tend to be 'professionals' appointed as executives or non-executive directors.<sup>133</sup> This differs from housing co-operatives where you would usually expect to see all tenants as members, with the organisation democratically controlled by their members.

Though there are numerous models, it is estimated that less than 1% of the housing stock in the UK is with housing co-operatives.<sup>134</sup>

Support for housing co-operatives is provided by several bodies including The Confederation of Co-operative Housing, CDS Co-operatives, Radical Routes, and Student Co-operative Homes.

## Worker co-operatives

Worker co-operatives are co-operatives owned and controlled by their workers (employees). There are around 360+ worker co-operatives in the UK using a range of legal structures,<sup>135</sup> with most using the company legal form,

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131 Rowlands, *Forging Mutual Futures*, 10

132 Some housing co-operatives are technically recognised as housing associations for specific legislative treatment e.g. the Housing Act 1985

133 Rowlands, *Forging Mutual Futures*; Moore, *The Governance Role of Boards of English Housing Associations*; Marsh, *Social Housing Governance*

134 Co-operative Housing International, "About United Kingdom"

135 Co-operatives UK, "Open Data" at 1 October 2024, based on 'SIC Code – Level 2 Description'

shown in Table 10.

**Table 10 – Worker co-operatives by legal structure**

Legal Structure	Number
Company	242
Society	89
Community Interest Company	20
Limited Liability Partnership	12
Limited Partnership	1

Based on a simplified version of their standard industrial classification (describing their economic activity) the majority are operating in the sectors detailed in Table 11.

**Table 11 – Worker co-operatives by Standard Industrial Classification**

Legal Structure	Number
Retail trade, except of motor vehicles and motorcycles	46
Education	29
Activities of head offices; management consultancy activities	28
Computer programming, consultancy and related activities	27
Creative, arts and entertainment activities	23
Crop and animal production, hunting and related service activities	19
Other professional, scientific and technical activities	16
Social work activities without accommodation	16
Publishing activities	14
Food and beverage service activities	12
Human health activities	11

Worker co-operatives were previously supported as part of the 'Industrial and Common Ownership Movement' (ICOM), supported between 1971-2001 by an umbrella body by that name. ICOM merged with the Co-operative Union to form Co-operatives UK, with representation under the

‘Worker Co-op Council’. In 2022 a new federation ‘workers.coop’ formed as an independent organisation.<sup>136</sup>

## Co-operative networks and support

Co-operatives UK exists as the main representative body for co-operatives in the UK, regarded as their apex body. Co-operatives UK is itself a co-operative society owned by its members.<sup>137</sup> Its objects include representing the UK co-operative movement in Europe and internationally. It is a member of the ICA.<sup>138</sup>

Co-operatives UK was formed following a merger of two federal bodies: the Co-operative Union (who represented consumer co-operatives), and the Industrial and Common Ownership Movement (who represented worker co-operatives).<sup>139</sup>

Co-operatives UK operates a series of member groups, such as the Co-operative Governance Expert Reference Panel, and the Co-operative Accounting Standards Committee.<sup>140</sup>

There are numerous sector specific ‘federal’ bodies that represent and support categories of co-operatives. These federations tend to be members of Co-operatives UK and include:

- Association of British Credit Unions Limited (ABCUL) – representing

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136 Harvey, “New federation planned for worker co-ops”. Though it maintains links and membership with Co-operatives UK

137 Financial Conduct Authority, “Mutuals Public Register”, society 2783R, registered rules

138 International Co-operative Alliance, “Members of the International Co-operative Alliance”

139 The legal entity ‘Co-operative Union Limited’ registered on 20 July 1889. Through amendments to its rules on 28 November 2001 and 4 July 2003 it incorporated ICOM into membership, and renamed itself ‘Co-operatives UK: Financial Conduct Authority, “Mutuals Public Register”

140 Co-operatives UK, “Member Groups” previously the Co-operative Performance Committee.

some credit unions in Great Britain, along with several other bodies coordinated through a ‘National Liaison Group’.<sup>141</sup>

- Building Societies Association – representing all building societies and some credit unions.
- Confederation of Co-operative Housing – supporting housing co-operatives.
- National Allotment Society – supporting allotment co-operatives.<sup>142</sup>
- Radical Routes – a network of worker and housing co-operatives.
- Scottish Agricultural Organisation Society – supporting agricultural co-operatives.
- Workers.coop – a federation of worker co-operatives.

The 1970s and 1980s saw growth in local ‘Co-operative Development Agencies’ largely supporting worker co-operatives.<sup>143</sup> A number of these still exist, including:

- Coventry and Warwickshire Co-operative Development Agency
- Cwmpas (formerly the Wales Co-operative Development and Training

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141 British Credit Union Historical Society, “The Credit Union Movement”, including, ABCUL, the Scottish League of Credit Unions, Irish League of Credit Unions, Ulster Federation of Credit Unions, National Credit Union Forum, ACE Credit Union Services, UK Credit Unions

142 Digby, *Producers and Consumers*, 7-9. Co-operatives of allotment holders have existed as part of the UK co-operative movement since the 1890s, with a resolution passed at the 1895 Co-operative Congress supporting this work and legislative impetus in part prompted by the movement in the form of the Small Holdings and Allotments Act 1908. The National Society of Allotment and Leisure Gardeners Limited (11144R) formed in 1930 as The National Allotment Society Limited following an amalgamation between The Allotments Organisation Society and Small Holders Limited and The National Union of Allotment Holders Limited (see registration document: Financial Conduct Authority, “Mutuals Public Register”

143 Cornforth, “The Role of Local Co-operative Development Agencies”; Lawrie, *Co-operative development and the client*; Co-operatives UK, *Do it ourselves* (Co-operatives UK 2017)

Centre)

- Hackney Co-operative Development Agency
- Humberside Co-operative Development Agency

Newer bodies became known as Co-operative Development Bodies (CDBs).

In other countries, these are known as Co-operative Support Organisations (CSOs).<sup>144</sup> These are a larger number CDBs providing support both for new and existing co-operatives.<sup>145</sup>

Organisations known as 'regional co-operative councils' started to emerge in 1998, following the introduction by the UK Government of a commitment to create 'Regional Development Agencies'.<sup>146</sup> These bodies were set up to represent, promote and connect co-operatives in those regions.

A pattern emerged of the creation of regional co-operative councils in each region.<sup>147</sup> In 2005, Co-operatives UK set up legal structures that some of the existing regional co-operative councils chose to use.<sup>148</sup> While a few of these regional co-operative councils remain, many closed – reflecting a combination of factors including a move away from the regional focus by Government, funding arrangements within the co-operative movement, and the extent of local activity or engagement.

Scotland is an outlier within the UK in having a publicly funded co-operative development agency, Co-operative Development Scotland (CDS). CDS Scotland started work in 2006.<sup>149</sup> Its work focuses on co-operatives and employee-owned businesses, under the descriptor 'inclusive and democratic

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144 Lawrie, *Co-operative development and the client*, 5

145 Co-operatives UK, "Co-operative Development Forum"

146 Co-operative Solutions, "The Eastern Region Co-operative Council"; Alex Bird, "Thoughts on a Co-op Development Strategy"

147 The author draws on first-hand experience having worked for Co-operatives Yorkshire and the Humber. Organisations were generally named 'Co-operatives [name of region]'.

148 Generally established as companies limited by guarantee, in 2005, with the paperwork signed by officials working at Co-operatives UK.

149 Ekos Limited, *Review of CDS Scotland*

business models' (IDBM).<sup>150</sup>

There are also more than 30 bodies sponsoring sets of rules for those registering societies with the FCA.<sup>151</sup> The organisations classed as 'sponsoring bodies' include what would conventionally be seen as 'trade bodies', and development bodies.<sup>152</sup> They develop a set of rules that become a 'model' for individual societies to use when they apply through that body for registration with the FCA.

Further support is provided in terms of financing through Co-operative and Community Finance, originally founded as part of the industrial and common ownership infrastructure in the 1970s.

Stir to Action is the most recent addition to this list, founded in 2012 as a worker co-operative.<sup>153</sup> They describe themselves as national co-operative infrastructure body, focusing on economic development programmes, research and policy, and business and infrastructure support. Along with the publication of the quarterly STIR magazine, they also organise events and published *The ABCs of the New Economy* in 2023.<sup>154</sup>

## Wider co-operative movement in the UK

A range of UK organisations play a role in the co-operative movement:

- Co-operative College
- Co-operative Party
- Co-operative Heritage Trust
- Co-operative Press
- Plunkett UK
- UK Society for Co-operative Studies
- Woodcraft Folk

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150 Mcinroy, *Developing Scotland's Economy*

151 Financial Conduct Authority, "Model Rules List"

152 For further details, see Chapter 7 – Co-operative law

153 Companies House, "Stir to Action Ltd"

154 Stir to Action, *The ABCs*

The Co-operative College is an educational charity whose role has evolved over time.<sup>155</sup> On its establishment in 1919 its role largely focused on provision of education to those involved in running co-operative enterprises (co-operators), providing a range of residential courses.<sup>156</sup> Their work expanded with global reach over the decades that followed.<sup>157</sup> The early 2000s saw a focus on the development of the Co-operative Trust School model,<sup>158</sup> with later focus on the development of a Co-operative University<sup>159</sup> before funding challenges saw a change in direction.<sup>160</sup> The Co-operative College now is focusing on co-operative learning, thought leadership, international co-operative development, and youth empowerment.<sup>161</sup> Further details are provided in *Chapter 12 – Co-operative education*.

The Co-operative Party is a political party founded by the co-operative movement in 1917. Since 1927 it has stood candidates in elections on a joint ticket with the Labour Party.<sup>162</sup> In 2024, the Party had 43 Members of Parliament in the Westminster Parliament, 11 in the Scottish Parliament, 16 in Wales, along with 5 metro mayors and more than 1,500 councillors across the UK.<sup>163</sup> The Co-operative Party is a co-operative society, with its membership made up of individuals and societies.<sup>164</sup> See *Chapter 11 – Co-operative politics and religion*, for further details.

The Co-operative Heritage Trust is a charity safeguarding the heritage of

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155 Charitable Incorporated Organisation: 1159105

156 Co-operative College, "Our History"

157 Moulton, "Co-opting the cooperative movement?"

158 Woodin, *Co-operation, Learning and Co-operative Values*

159 Neary and Winn, "Making a Co-operative University"; Noble and Ross, *Reclaiming the University*

160 Press, "A chequered past"

161 Co-operative College, "New Three Year Strategy"

162 Rosen, *Serving the People*

163 Co-operative Party, "About"

164 Financial Conduct Authority, "Mutuals Public Register": Society 30027R. The author declares an interest as a previous member of the National Executive Committee of the Co-operative Party.

the co-operative movement.<sup>165</sup> It runs the Rochdale Pioneers Museum and National Co-operative Archive. It was founded in 2007 by Co-operatives UK, the Co-operative College, and the Co-operative Group Limited.<sup>166</sup>

Co-operative Press Limited produce *Co-operative News* – a monthly periodical reporting on the co-operative movement both in the UK and internationally. Registered in 1873, but producing its first edition of *The Co-operative News* in 1871. It is a co-operative society open to individual and organisational members.<sup>167</sup>

Reflecting their origins and role in the movement, all four of these organisations have representation on their boards from Co-operatives UK, and for the Co-operative Party, Co-operative Heritage Trust and Co-op Press from the Co-operative Group too.

Plunkett UK, previously the Plunkett Foundation, have a long history and association with the co-operative movement. Founded by, and named after, Sir Horace Plunkett in 1919, the organisation originally focused on becoming a ‘clearing house of information on agricultural co-operation’ – both in the UK and internationally.<sup>168</sup> As the Plunkett Foundation for Co-operative Studies, many significant texts on co-operatives were published, especially those authored by Margaret Digby.<sup>169</sup> Over time its focus has shifted<sup>170</sup> to development and support of rural community business, particularly through the support of community benefit societies.<sup>171</sup>

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165 The author declares an interest as an independent trustee, and vice-chair, of the charity – registered as a charitable incorporated organisation: 1179727

166 Co-operative Heritage Trust, “Our History”

167 Financial Conduct Authority, “Mutuals Public Register”, society 1585R

168 Plunkett UK, “Our story”; Digby, *Horace Plunkett*

169 Digby, *The Little Nut Tree*, is her autobiography.

170 Their publication, “World Co-operative Enterprise” merged into the UK Society for Co-operative Studies’ *Journal of Co-operative Studies* in 2001, with reciprocal arrangements in place between the two organisations: Rhodes and Button, “Statement by the Chairs”

171 Plunkett UK, “Our story”

The UK Society for Co-operative Studies is an independent charity advancing the education of the public concerning all aspects of the co-operative movement, and co-operative forms of structure.<sup>172</sup> The Society, founded in 1967, produces an academic journal: *Journal of Co-operative Studies*, and runs conferences, lectures, and other events.<sup>173</sup> It has individual and organisational members, with no organisation having fixed representation on its board.

The Woodcraft Folk describes itself as 'the co-operative movement for children and young people'.<sup>174</sup> They have had the status of an 'auxiliary' body to the co-operative movement. And, though there have been brief periods during which that support varied, they have remained a part of the co-operative movement.<sup>175</sup> They are a registered charity<sup>176</sup> and have been running since 1925.<sup>177</sup>

Though this is by no means a complete list of the organisations operating in the UK co-operative movement, it provides an overview of those most actively involved across the movement, outside of individual co-operative societies.

## Co-operative entrepreneurial ecosystems

Networks, which can vary depending on their purpose,<sup>178</sup> and supporting organisations such as those above have been recognised as an important

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172 The author declares an interest as a trustee and former chair of the charity, registration number: 1175295.

173 UK Society for Co-operative Studies, "About us"

174 Woodcraft Folk, "About"

175 Harper, *A People's History of Woodcraft Folk*, 136

176 Charity number: 1148195

177 Harper, *A People's History of Woodcraft Folk*,

178 Novkovic, "Co-operative Networks", 50

part of the theory of an 'entrepreneurial ecosystem'.<sup>179</sup> The entrepreneurial ecosystems:

... represent the sum of factors in a place that stimulate productive entrepreneurship. They involve the inter-related set of institutions (both formal and informal), infrastructures, organisations, policies, regulations that together define the conditions in which new businesses are created and grow. The success of entrepreneurial ecosystems in stimulating productive entrepreneurship activities is determined by a range of elements, such as a culture conducive to entrepreneurship, strong business networks, availability of finance and attractiveness to talent. Each entrepreneurial ecosystem differs, and the strengths and weaknesses vary.<sup>180</sup>

The definitions and approaches to entrepreneurial ecosystems vary, but they consistently include the need for networks, and partnerships, between organisations. The United Nations place importance on these networks:

Cooperative networks are part and parcel of the cooperative identity, although they are not always easy to coordinate and maintain and therefore need focused attention and dedicated resources.<sup>181</sup>

This sits alongside factors such as the right enabling environment – including the right laws and policies; sufficient capacity for those setting up co-operatives – including the availability of research, training, and skills;

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179 Co-operatives entrepreneurial ecosystems: Groeneveld, *Doing Co-operative Business*; Beishenaly, and Dufays, "Entrepreneurial ecosystem for cooperatives"; Spicer and Zhong, "Multiple entrepreneurial ecosystems?". In relation to the social economy ecosystem: Catala, Savall and Chaves-Avila, "From entrepreneurial and innovation ecosystem". Chapter 6 – *Co-operatives in context*, covers the social economy more broadly.

180 OECD, "Entrepreneurial Ecosystems"

181 United Nations, *Cooperatives in social development*

access to finance to help fund co-operative start-ups and growth; and perceived needs – the co-operative needs to be addressing the needs of its members.<sup>182</sup>

## Conclusion

The UK co-operative movement is historically rich. Though there is great variety in the type of co-operative and their economic activity within the UK, the co-operative movement is economically dominated by consumer societies. Compared to other countries, the co-operative share of different markets is low, aside from building societies and the mortgage market. Social clubs make up many of the co-operative operating in the UK. Without those, the number of co-operatives reduces drastically.

There are a range of networks and federal bodies supporting specific types of co-operatives, and on the co-operative movement more generally. Perhaps less common (particularly compared to Europe) are business-focused secondary structures, supporting co-operatives in their economic activity.

Co-operatives in the UK have flexibility and freedom of choice on the type of structure they use. This inevitably means there may also be co-operatives in operation that are harder to identify and missed by this analysis. Notwithstanding that, there is a clear co-operative identity internationally.

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182 Groeneweld, *Doing Co-operative Business*; Defourny and Develtere, "The Social Economy"

## CO-OPERATIVES IN CONTEXT

The term ‘co-operative’ is a descriptor of a type of enterprise with certain characteristics, such as the value of self-help, and principle of democratic member control – as set out in earlier chapters. This descriptor sits within a landscape populated by others, including:

- Mutuals
- Employee-owned businesses
- Charities
- Social enterprises
- BC corps
- Investor-owned businesses

These descriptors are broad and tend to be less well defined in law.<sup>1</sup> In being less well defined, the terms are open to variations in use. One person may consider something to be a co-operative that someone else does not. Some of these descriptors can also overlap, to a degree. For example, some will regard a co-operative as a type of mutual, and as a social enterprise.

In seeking to understand whether something is a co-operative, or whether it sits within any other descriptors, it is important to understand the distinguishing features of the entity, and the reasons for classifying it. This chapter explores those features in more detail.

Descriptors, as used here, are distinct from ‘legal structures’ (sometimes referred to as ‘legal forms’ or ‘legal entities’, ‘corporate structures’ etc.) – such as a ‘public limited company’, ‘co-operative society’, or ‘charitable incorporated organisation’. These are covered in more detail in *Chapter 7 – Co-operative law*.

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1 For instance, in the UK, there is no overarching legal definition of the term ‘co-operative’ or ‘mutual’. The outlier in the list is ‘charity’ – which is defined in law but is not the focus of this text.

There is an overlap between descriptors and legal structures. Generally, most businesses will be constituted using a particular type of legal structure (sometimes referred to as being ‘incorporated’, ‘registered’ or ‘chartered’). Sometimes the overlap is self-evident: something registered as a ‘co-operative society’ will fit within the descriptor ‘co-operative’. Similarly, something registered as a ‘charitable incorporated organisation’ fits within the descriptor ‘charity’ as a matter of law. In other instances, the overlap will be less clear: a ‘private company limited by shares’<sup>2</sup> may be a mutual, co-operative, social enterprise, BCorp, or – to some people – all of those simultaneously.

This chapter explains some of these descriptors, and that interaction with legal structures, in more detail.

Attempts are often made to classify the economy by systems of sectors – traditionally split into the: private, public, and third sector. This chapter concludes by highlighting how co-operatives do not sit easily within this approach and introduces classifications such as the ‘social economy’, and ‘social and solidarity economy’.

## Distinguishing features

It is important to start with: why? The reason for needing to find similarities or differences between organisations will change the focus.

For example, if you are the state or a charitable foundation and need to ensure money you are distributing is used only for a particular purpose, you will naturally focus on the purpose for which an organisation exists. You will also want to look to other factors, such as who can benefit, and what happens to any profits (both in the life of the organisation, and on solvent closure).

In other circumstances, you may be looking to facilitate engagement by people in a particular plan, in which case, how the organisation is controlled may be particularly important – is it one-member-one-vote or controlled

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2 A type of legal entity registered under the Companies Act 2006

exclusively by a founder.

Points of similarity and difference tend to be found by looking at:

**Table 12 – Distinguishing organisational features**

<b>Purpose</b>	<b>What does the organisation exist to do?</b>
<b>Powers</b>	Can the organisation do anything to pursue its purpose, or are its powers restricted in some way? Does it need to be a 'legal person' who can enter contracts in its own name and sue and be sued. Or can it be unincorporated with people appointed to hold property on trust for it?
<b>Benefit</b>	For whose benefit does it exist to do that? It could be its members, investors, the public, a particular subset of the public, people falling into categories – e.g. those who are homeless.
<b>Activity</b>	What activity does it carry out? Is it a trading business, or a grant awarding foundation, for instance. Can it carry out any activity? Is that activity regulated?
<b>Ownership</b>	Who owns it? And on what basis? Is it owned by another entity, by the government, by individuals (who, and how many). Is it owned equally, or is ownership shared based on some other formula (e.g. proportionate to the level of your investment in it). Does it have shares, or is it owned in some other way? Is ownership direct, or indirect through some kind of trust?
<b>Control</b>	Who controls the entity? And on what basis? Is it democratically controlled, and if so – is that based on equal votes or votes per share. Is it controlled by one individual, one family, etc.
<b>Financing</b>	How is it funded? Does it receive state aid or grant funding, or does it receive its income through profit from trade, or something else.
<b>Profit</b>	Does it intend to make profit, and – more importantly – how does it intend to use its profit? Can profits be distributed to anyone, and if so, who and in what proportion?

<b>Assets</b>	Can it use its assets in anyway it likes, or are they restricted in their use. Is there a restriction (lock) on the use of the assets (e.g. a building must be kept), or a restriction on the use of the value of the assets (e.g. the building can be sold, but profits from the sale must be used in a particular way). Is the restriction mandatory and permanent, or voluntary and changeable, or something in between.
<b>Liability</b>	Who is financially liable for the organisation, and is that liability limited? Is it its members, and if so, to what extent? Is the state ultimately liable? Are its members liable to an unlimited amount?
<b>Dissolution</b>	What happens when it wants to solvently wind-down? Can profits go to owners, or must they go somewhere else?

Sometimes these features will be enshrined in law. For example, the objects of a credit union (a type of consumer co-operative) are prescribed in legislation<sup>3</sup> – thus restricting its purpose. In other instances, a feature may be voluntary. For example – an organisation may say it donates a percentage of its profits to good causes – but is it legally required to do so or is this a decision it has voluntarily taken which could be reversed.

Some of these features vary from one co-operative to another and can generally be determined by looking at the rules (also known as the ‘constitution’, ‘articles of association’ etc.) of the individual co-operative. For example:

- Profits – some co-operatives will distribute profits to their members through a dividend on purchases, as in the case of a consumer co-operative. In a worker co-operative, it may be done through some kind of bonus to workers. Some co-operatives may not pay any form of dividend.
- Dissolution – some co-operatives will have all funds dissolving

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<sup>3</sup> Section 1(2A), Credit Unions Act 1979

to their own members on solvent dissolution (often referred to as 'co-ownership'). Others will have rules specifying the funds must go to some other organisation, like a similar co-operative. This tends to be referred to as 'common ownership'.

In setting up a co-operative, understanding each of these features will help to determine the legal form, and the sort of clauses to include in the rules.

## Descriptors

This section briefly explains the following descriptors through the lens of their relationship to co-operatives:

- Mutuals
- Employee-owned businesses
- Charities
- Social enterprises
- BCorps
- Investor-owned businesses

## Mutuals

There are different descriptors that place co-operatives and mutuals together. Birchall popularised use of the 'Member Owned Business' (MOB),<sup>4</sup> Mazzarol prefers 'Co-operative and Mutual Enterprises' (CME).<sup>5</sup> Much less commonly, Parnell uses 'Self-Help Enterprises' (SHE) as a collective term.<sup>6</sup> Most recently (2024), the term 'inclusive and democratic business models' (IDBMs) has

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4 Birchall, "A 'Member-Owned Business' Approach"

5 Mazzarol, Clark et.al., "Developing a conceptual framework"

6 Parnell, *Enterprises that Change Lives*

been used to group together businesses with democratic ownership.<sup>7</sup>

There is no legislative definition of 'mutual' in the UK. The term 'mutual' is often used in a broad sense, to cover a range of organisations including co-operatives, friendly societies, building societies, and other organisations.<sup>8</sup> In its loosest definition, a mutual is an organisation owned by its members, and democratically controlled by them. Birchall articulates this at a high level as:

Mutuals are part of a class of organisations (also including co-operatives and associations) that have one common feature – they are membership-based.<sup>9</sup>

Some say that 'all co-operatives are mutuals, but not all mutuals are co-operatives'.<sup>10</sup> But Birchall later articulates in more detail three common distinctions between co-operatives and mutuals, summarised here as:<sup>11</sup>

- That the term 'mutual' is usually applied to member owned businesses operating in financial services. With their purpose to raise funds from their customers to provide them with services including savings and

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7 Mcinroy, *Developing Scotland's Economy*, 7 fn2: "to refer to social enterprises, employee-owned businesses, worker co-operatives, co-operatives, Development Trusts and other forms of democratic ownership models. These are referred to as the Social and Solidarity Economy, Social Economy or Inclusive and Democratic Enterprises in other countries and academia. In using the term IDBMs, we are not diluting individual elements but augmenting by giving them more collective strength. Furthermore, whilst there are distinctions between the different types of IDBMs, they are not mutually exclusive and there is crossover and bleed between these forms."

8 For example, Parliament used 'Mutual Societies' to refer to the function given to the Financial Conduct Authority under The Financial Services Act 2012 (Mutual Societies) Order 2013.

9 Birchall, "The 'Mutualisation' of Public Services"

10 Nuttall, *Sharing Success*, 74

11 Birchall, *People-Centred Businesses*, 6-7

loans, and insurance. And, that this is usually done ‘through recycling money within a closed system that does not include – or need – outside investors’.

- Different stakeholders can take part in governance – providing the example of building societies with customers as savers, borrowers, or both.
- ‘Mutuals insist that customers become members, while co-operatives often have dealings with customers who are not members’. This includes consumer co-operatives.

Taking a historical approach, Laville explains that during the second half of the 19<sup>th</sup> century:

Co-operatives were distinguished from mutuals, with the former becoming a type of capital company focused on production or consumption, while the latter focused on providing assistance.<sup>12</sup>

This explanation sees mutuals focusing on areas linked to state protection. This could be seen in the case of friendly societies in the UK, who focused heavily on providing insurance for sickness and health.

The term ‘mutual’ is often used precisely within Europe. Within the European Union, mutuals account for around 25% of the insurance market and are described as:

... enterprises providing life and non-life insurance services, complementary social security schemes, and small value services of social nature. Their primary purpose is to satisfy common needs while not making profits or providing a return on capital. Mutual societies are managed according to solidarity principles between members who participate in its corporate governance. They are intended to be accountable to those whose needs they were created to serve.<sup>13</sup>

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12 Laville, *The Solidarity Economy*, 69

13 European Commission, “Mutual societies”

For statistical purposes, the United Nations articulate the difference as:

Mutual societies differ from cooperatives, however, in that they are mechanisms for sharing risk, either personal or property, through periodic contributions to a common fund.<sup>14</sup>

In contextualising co-operatives, mutuals and other types of organisations, the United Nations explain that they would not generally class co-operatives and mutuals as 'non-profit institutions' and would instead include them in the commercial sector, but notes they operate in a 'gray area between the non-profit sector and ... the corporate sector ...'.<sup>15</sup>

Further articulation on the differences is given elsewhere:

The main difference in behaviour between co-operatives and mutual societies is that the mutuals operate with own funds which are collective and indivisible, rather than with a capital represented by shares that are bought by the members. The members of mutuals pay a fee rather than acquiring shares, whereas share purchase is obligatory in the co-operatives. In the mutual societies, member and policy-holder are totally and exclusively one and the same, whereas it is possible for some co-operatives to have (a minority of) non-user members. Another point is that there is no undistributable equity in mutual societies, whereas this is a possibility for co-operatives in many countries.<sup>16</sup>

Others have articulated that 'the main difference with cooperatives is that 'mutuals are not established through the provision of capital provided by members'',<sup>17</sup> or highlight that in a mutual, profits tend not be distributed

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14 United Nations, "National Accounts Publications", "Handbook on Non-Profit Institutions"

15 United Nations, "National Accounts Publications", "Handbook on Non-Profit Institutions", 22

16 Barea and Monzon, *Manual for drawing up satellite accounts*, 46

17 Bajo and Roelants, *Capital and the Debt Trap*, 127

to members but are instead kept within the business.<sup>18</sup> Though many UK friendly societies operate a ‘with profits’ fund, with members able to participate in profit distribution.

Within the UK, building societies and friendly societies tend to be seen as mutuals.

Credit unions are often seen as ‘financial co-operatives’ rather than mutuals, even though individuals *must* become a member to benefit from their services, and their services (loans and deposits) are only provided to members. Credit unions in the UK have never been able to divide profits among the members on solvent dissolution and are capitalised through share capital (which is held as deposits) rather than through the purchase of policies. Building societies and friendly societies have, by contrast, been demutualised with money going to members, and do tend to be financed – particularly in friendly society insurers – through the purchase of policies.<sup>19</sup>

Credit unions are however often included within the descriptor ‘mutual’. Explained in the context of a framework for National Accounts within the EU:

Only the savings and credit co-operatives and insurance co-operatives are placed with the mutual societies in institutional sector S12 (financial corporations). All the other co-operatives are classified into the non-financial corporation sector (S11). In all other respects, the operating principles of co-operatives and mutual societies are similar.<sup>20</sup>

This goes to suggest the differences can at times be hard to see, and that despite best attempts at definitions, there is an inevitable degree of overlap.

Mutuals also use a range of legal structures – including ‘building society’,

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18 Defourny and Develtere, “The Social Economy”, 15

19 For further detail, in relation to friendly societies, on the legal nuances of members as policy holders, and members as members: Financial Conduct Authority, *PS14:5 – Response to CP12/38*, 38

20 Barea and Monzon, *Manual for drawing up satellite accounts*, 47

‘friendly society’, ‘co-operative society’, ‘credit union’, ‘company limited by guarantee’, ‘company limited by shares’.

In proposing a definition of a mutual in Australia, where there are commonalities with UK mutuals, Apps suggests:

A ‘mutual company’ is a company whose dominant purpose is to provide economic and/or social benefits to satisfy the common needs of its members as the recipient of its services and whose constitution provides that each member of the company has no more than one vote at a general meeting of the company.<sup>21</sup>

For tax purposes in the UK, there is greater specificity. Mutual Trading Status is a particular type of tax treatment afforded to mutuals providing they meet certain criteria:<sup>22</sup>

- Complete identity, as a class, between the contributors to the mutual surplus and the participators in it.
- Arrangements which ensure that the surplus ultimately finds its way back to the contributors and no arrangements for it to go to anybody else.
- A reasonable relationship between the amount a person contributes to the surplus and the amount distributed to them on winding up.
- Arrangements that entitle the contributors to the common fund to control it.

This recognises a tax principle that ‘a person cannot trade with themselves’.

This definition is however only relevant where the organisation is claiming mutual tax status from His Majesty’s Revenue and Customs (HMRC).

For completeness, we also saw use of the term ‘mutual’ in the context of Public Service Mutuals.<sup>23</sup> The term ‘mutual’ was however given a broad in-

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21 Apps, “A legal identity for mutuals”

22 HMRC, “BIM24020”

23 Department for Culture, Media and Sport, “Introduction to Public Service Mutuals”

terpretation that does not provide clarity.<sup>24</sup> They are a contested concept, beyond the scope of this work.

By way of summary a mutual, in taking an approach that differentiates it from a co-operative, could be defined as follows:

A mutual is a business owned and democratically controlled, equally, by its members, who fund it through the purchase of products or services it provides exclusively to them, with profits generally retained.<sup>25</sup>

That co-operatives and mutuals can be differentiated should not distract from the fact they have much in common, including a purpose to benefit members, member-ownership, and member democratic control.<sup>26</sup> In most circumstances, co-operatives and mutuals can be combined under a single descriptor.

## Employee-owned businesses

As may be expected, employee-owned businesses (EOBs) are businesses owned by their employees. The Employee Ownership Association estimate there are more than 1,400 employee-owned businesses in the UK.<sup>27</sup> They argue EOBs are more productive and create more jobs than conventional businesses.<sup>28</sup> John Lewis Partnership, and Scott Bader are examples of EOBs.

There is no legislative definition by which something is definitively

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24 Birchall, "The 'Mutualisation' of Public Services"

25 An approach by this author in synthesising the main characteristics from earlier referenced definitions

26 Mazzarol, Clark et.al., "Developing a conceptual framework", provide an overview of definitions

27 Employee Ownership Association, "Home"

28 Employee Ownership Association, *People Powered Growth*, 10

'employee-owned'.<sup>29</sup> The UK's 'Nuttall Review of Employee Ownership'<sup>30</sup> defined employee ownership as a business in which the employees have a 'significant and meaningful stake'.<sup>31</sup> For the stake to be meaningful, it is said to require that the organisational structures 'promote employee engagement'. It has been noted that while this figure can be as low as 25% employee ownership, the majority of UK EOBS are 'majority' or 100% employee owned.<sup>32</sup>

The nature of ownership varies. Shares in the EOB are held either directly by employees, indirectly through a trust for the employees, or in some hybrid arrangement combining the two. In the USA, Employee Stock Ownership Plans (ESOP) are popular, with more than 10m employees involved, across more than 6,500 companies.<sup>33</sup> In this model, an employee trust<sup>34</sup> acquired shares to then hand over for individual direct ownership by employees.<sup>35</sup>

Indirect ownership, through an 'Employee Ownership Trust' is the most prolific form of employee ownership in the UK, especially since gaining legislative recognition and specialist tax treatment in 2014.<sup>36</sup>

Worker co-operatives are generally businesses directly owned by their employees i.e. their employees individually hold the shares in the business. To this extent, worker co-operatives can be said to be a form of EOB.

Unlike worker co-operatives, EOBS need not be 'controlled' by the employees. Employees in EOBS may have rights to elect the directors of the 'employee-owned trust', but this varies and can be distinguished from

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29 Though there is specialist legislative treatment – including tax treatment – for particular types of employee ownership, such as Employee Ownership Trusts through the Finance Act 2014

30 Nuttall, *Sharing Success*

31 Nuttall, *Sharing Success*, 20

32 Pendleton, Robinson and Nuttall, "Employee ownership in the UK"

33 The ESOP Association, "ESOP Association Advocacy"

34 Often some kind of company – such as a company limited by guarantee, holding shares on behalf of the employees.

35 In the USA, this tends to be on retirement – so the ownership is indirect for a long period of time before becoming direct.

36 Pendleton, Robinson and Nuttall, "Employee ownership in the UK"

employee control on the running of the business itself. For instance – in 94% of instances, worker co-operatives enabled employees to vote on strategic decisions, compared with 47% of EOBs structured with trusts, and only 35% of directly employee-owned businesses.<sup>37</sup>

EOBs tend to start life as privately-owned companies that get converted to employee ownership, often as part of a succession plan enabling the owner to retire.<sup>38</sup> While this can be true of worker co-operatives, the worker co-operative model is also well suited for the establishment of new businesses.

There is a degree of overlap between the EOB descriptor, and ‘co-operative’ (especially worker co-operatives). Previous versions of Co-operatives UK’s ‘Co-operative Economy Report’ have included some employee-owned businesses within the statistics for the co-operative movement.<sup>39</sup> Of the distinguishing features listed earlier in this chapter – the main differences centre on ownership (direct vs indirect) and control.

## Charities

Unlike other descriptors here, whether something is a charity is a matter of law. Charities must exist for a charitable purpose delivered for the public benefit. Examples of charitable purposes include:<sup>40</sup>

- The prevention or relief of poverty.
- The advancement of education.
- The advancement of amateur sport.
- The relief of those in need because of youth, age, ill-health, disability, financial hardship or other disadvantage.

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37 Employee Ownership Association, *People Powered Growth*, 15

38 Erdal, *Beyond the Corporation*; Pendleton, Robinson and Nuttall, “Employee ownership in the UK”

39 Co-operatives UK, *Co-operative Economy Report 2021*; Co-operatives UK, *Co-operative and Mutual Economy Report 2023*

40 Section 3(1) Charities Act 2011

An organisation that has a mix of charitable and non-charitable purposes is not a charity.<sup>41</sup>

For there to be public benefit, there must be identifiable benefit that outweighs any harm, and the benefit must be for the public in general, or a sufficient section of the public. Any personal benefit to individuals (other than in delivering the charitable activity e.g. a homeless person receiving housing) must be incidental.<sup>42</sup>

Co-operatives exist to meet the economic, social, and cultural needs and aspirations of their members. It is difficult to reconcile this with a requirement for charities to exist for public (rather than member) benefit, for the advancement of a particular charitable purpose. It is generally therefore the case that co-operatives cannot be considered charities, and vice versa.

## Social enterprises

There is no overarching legislative definition of ‘social enterprise’ in the UK. Organisations may therefore call themselves a ‘social enterprise’ and operate in a significantly different way to other organisations using the same descriptor. Social Enterprise UK estimate there are 131,000 social enterprises in the UK, with a GDP generation of £60bn.<sup>43</sup>

The UK Government used the following definition of social enterprise in *guidance* (not a legal requirement):

The term “Social Enterprise” describes the purpose of a business, not its legal form. It is defined (by Government) as “a business with primarily social objectives whose surpluses are principally reinvested for that purpose in the business or in the community, rather

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41 See for instance s1(1)(a) of the Charities Act 2011 – ‘established for charitable purposes only’.

42 Charity Commission for England and Wales, “Public benefit: rules for charities”

43 Social Enterprise UK, “Home”

than being driven by the need to maximise profit for shareholders and owners".<sup>44</sup>

Other definitions of social enterprise exist, and the descriptor has changed over time. Comprehensive analysis of social enterprise definitions, and how they have changed over time, are well documented.<sup>45</sup>

Earlier definitions included expectations to democratically involve members in the governance of the enterprise.<sup>46</sup> An early and co-operative-based definition of social enterprise is provided by Spreckley:

An enterprise that is owned by those who work in it and perhaps reside in a given locality, is governed by registered social as well as commercial aims and objectives and run co-operatively may be termed a social enterprise.<sup>47</sup>

Later definitions have evolved from collective definitions to ones that are more individualistic.<sup>48</sup> It has been argued the evolution of the definitions have resulted in convergence toward the lowest common denominator of trading for social aims.<sup>49</sup>

Social enterprises may be democratic, but they need not be.<sup>50</sup> They may be owned by one individual (the 'social entrepreneur') who has executive control or owned in other ways. Social enterprises may retain all their profits for social objectives, or they may distribute a lot of the profit to their owner(s).

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44 Department for Business, innovation and Skills, *A Guide to Legal Forms for Social Enterprise*

45 Ridley-Duff and Bull, *Understanding Social Enterprise*, chapter 2

46 Pearce, *Social Enterprise in Anytown*, 32

47 Spreckley, *Social Audit*, 3

48 Ridley-Duff and Bull, *Understanding Social Enterprise*

49 Ridley-Duff and Bull, *Understanding Social Enterprise*, 95

50 In the sense that there is no legal or definitional requirement requiring them to be. Many advocates, including Spreckley still, recently, argue democracy as a core principle of social enterprise: Spreckley, *Essential Social Enterprise*

A wide range of legal structures are used by social enterprises – including ‘community interest companies’, ‘companies limited by guarantee’, ‘companies limited by shares’ and ‘community benefit societies’. As to whether a co-operative is, or sees itself as, a social enterprise will depend entirely on both the definition of social enterprise being used, and the features of that individual co-operative.

## BCorps

The BCorp descriptor emphasises businesses making a positive society and environmental impact. The concept of the BCorp grew out of the USA, where it focuses on ‘for profit’ entities. A different approach for the UK has been adopted, noting ‘the UK has a very different legal environment to the USA and there is a pre-existing and established social enterprise movement’.<sup>51</sup>

There is a certification process by a private body that a business must go through before being able to use the trademarked term ‘BCorp’. There are several requirements including:

- That it is a business. Charities are not included. The criteria look to whether most of the revenue is generated from trading and competing in a competitive marketplace.
- A business impact assessment, that looks to the social and environmental impact of an organisation. They set out 5 key areas of: governance, workers, community, environment, and customers.
- Legal requirements:<sup>52</sup>
  - with wording to include in company articles including a commitment to ‘have a material positive impact on (a) society and (b) the environment.’ This utilises section 172(2) of the Companies Act 2006 to expand the objects of a company beyond that of serving its members

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51 B Lab, “The Legal Requirement for a B Corp”

52 B Lab, “The Legal Requirement for a B Corp”

- aligning the director duties to that object; and
- producing an annual impact report.

While template wording for co-operatives has not been provided, the BCorp legal criteria reference co-operatives. Co-operatives could therefore choose to apply for certification as a BCorp. There are co-operatives, and building societies, who have achieved BCorp certification in the UK.

BCorp designation focuses on the external impact being had by a business, rather than its ownership, control or use of profits. As to whether a co-operative meets the criteria of a BCorp will vary.

## Investor-owned businesses

A 'business' is generally a broad term (which could include companies, sole traders etc), with 'firm' (or 'enterprise') being a subset of it to cover legally constituted bodies – such as companies. Both terms would generally include co-operatives within them.

There is scope for confusion when talking about 'companies'. In British English, the term 'company' is often used in the same way American English uses 'corporation'.<sup>53</sup> In the UK today, the term 'company' most accurately refers to an entity registered under the Companies Act 2006 – such as a 'public limited company' or a 'private limited company' – whether limited by shares or guarantee. However the term is often unhelpfully used interchangeably with 'business', or 'firm'. This should be avoided, because there are a wide variety of businesses registered as companies – including charities, co-operatives, mutuals, social enterprises, EOBs, and investor-owned businesses (IOBs).

'Investor-owned' would generally denote that the business is owned by

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53 Kay, *The Corporation*, 75-80. This has changed over time. Historically, in Britain a 'company' was a group of people who then formed a 'corporation'; DuBois, *The English Business Company*, 139: in referencing usage until the early 19<sup>th</sup> century: "society, association and company were used interchangeably to describe the unincorporated unit".

private individuals (i.e. not the state) – who are businesses (such as private equity firms etc.) or individuals. Most typically, these IOBs would use the ‘public limited company’ (plc) legal structure – being a type of company whose shares are available to be bought and sold. Often a plc will be listed on a stock exchange, enabling their shares to be readily bought and sold (i.e. ‘publicly traded’). These fall clearly within the common use of the descriptor of IOB. There are however other types of business that, like a plc, generate profit to pay investors based on their shareholding, including:

- family-owned businesses – with the ‘investors’ in this sense being the family members
- private-companies – who may only have one or a small number of owners, with shares not available to other parties.

As to whether these businesses are included within the descriptor IOB (or ‘investor-owned firm’ (IOF)) will vary from one author to the next.

Co-operatives are generally not considered to be IOBs, because they are owned by members, with profits shared equitably based on a member’s participation in the business activity of the co-operative. This is the case even where co-operative members invest capital into the co-operative, or where the co-operative has ‘external’ investors (i.e. investors who are not using the services of the co-operative).

As shown in *Chapter 7 – Co-operative law*, many co-operatives use the ‘company’ legal structure. They would tend to be constituted as private limited companies – either by shares, or by guarantee. Though using the company structure, they tend to make alterations to the standard articles (constitution) of a company – by changing the voting to ‘one-member-one-vote’ rather than one-share-one-vote. They would also tend to change the way profits are distributed – to an equitable formula based on member-participation in business, rather than share-ownership. Those adaptations mean they will generally not be classified as IOBs. It is therefore important to look not just at legal structure, but also the underlying characteristics.

All IOBs are considered to be part of the ‘private’ sector – because they are

not owned by the state and make profits for private individuals. This distinguishes them from the public sector (i.e. the state). As to what constitutes the 'third' sector is contested and will be explored in more detail.

## **Sectoral classifications**

The systems or sectors of the economy are commonly split between: private sector, public sector, and the third sector. Co-operatives are clearly not within the public (state) sector – in that they should be autonomous from the state.

Some co-operatives may be regarded as sitting within the private sector, and others within the third sector. Given a co-operative should be meeting the common economic, social, and cultural needs of its members, with profits shared equitably, there is an inherent challenge in seeking to classify co-operatives as part of the private sector.

Co-operatives are often included as part of the third sector, which is explored here in more detail.

## **Third sector**

Historically the third sector has been seen as the 'voluntary sector', charity sector, 'non-profit' or 'civil society', with benevolent organisations providing services to those in need. Such organisations have tended to be seen as 'non-market' actors, in that they are not competing in a market for the services they provide.

These have sometimes been combined with 'market' actors – those generating income through trade, such as some social enterprises, and co-operatives and mutuals. Use of the term third sector therefore often includes:

- Non-market organisations that generally don't trade (often collectively known as 'civil society'): <sup>54</sup>
  - Charities

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54 NCVO, *The UK Civil Society Almanac 2014*, 4

- Other voluntary associations, community groups, etc.
- Market organisations that trade including:
  - Social enterprises
  - Employee-owned businesses
  - Co-operatives and Mutuals

Two of the main challenges are that the ‘third sector’ approach i) is generally less comfortable with organisations distributing profits (which many co-operatives do); and ii) does not require the organisations within it to operate democratically (which is a consistent feature of co-operatives).<sup>55</sup> This sometimes sees some co-operatives classified as ‘private sector’, or results in co-operatives being grouped with organisations that do not share the feature of democratic control.<sup>56</sup>

There are other ways to approach classifications. For example, one approach distinguishes enterprises by the type of interest served: capital interest (e.g. traditional investor-owned firm), mutual interest (e.g. self-help organisations, including co-operatives), or general interest (e.g. public, like the state, or charities).<sup>57</sup>

Other descriptors, such as the ‘social economy’ have been developed.

## Social economy

Co-operatives are a clearer fit within the ‘social economy’ label than they are the ‘third sector’. The EU set out a working definition of the social economy, with organisations needing to share these ‘main common principles and features’:<sup>58</sup>

- The primacy of people as well as social and/or environmental purpose over profit.
- The reinvestment of most of the profits and surpluses to carry out

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55 Defourny and Develtere, “The Social Economy”, 18

56 Pearce, *Social Enterprise in Anytown*, ch2

57 Defourny and Nyseens, “Fundamentals for an International Typology”

58 European Commission, *Building an economy that works for people*, 3

- activities in the interest of members/users ('collective interest') or society at large ('general interest').
- Democratic and/or participatory governance.

And goes on to note that it refers to:

four main types of entities providing goods and services to their members or society at large: cooperatives, mutual benefit societies, associations (including charities), and foundations. They are private entities, independent of public authorities and with specific legal forms.<sup>59</sup>

Different approaches have been taken to the characterisation of social economy organisations. Drawing on definitions by Desroche<sup>60</sup> and Vienney<sup>61</sup> in particular, the following 'qualification criteria' have been presented:<sup>62</sup>

- That the entity carries on economic activity e.g. production of goods or provision of services.
- Limited or prohibited 'profit distribution to capital' (distinct from a dividend based on patronage).
- Voluntary association of people (or collective bodies), independent from the state, with open membership.
- Democratic governance processes.

It has been noted that in some countries, the 'social economy' is referred to as the 'solidarity economy' or the 'social and solidarity economy'.<sup>63</sup> Though there are some differences between these descriptors, and use can differ from one country to the next.<sup>64</sup>

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59 European Commission, *Building an economy that works for people*, 3

60 Desroche, *Pour un traité d'Economie Sociale*

61 Vienney, *L'économie sociale*

62 Bouchard, Ferraton, and Michaud, "First Steps of an Information System"

63 OECD, *Policy Guide on Legal Frameworks*

64 Carini, Galera, et al., "Benchmarking the socio-economic performance"

## Solidarity economy

Whereas the focus of social economy definitions tend revolve around organisational and economic structures, the solidarity economy descriptor broadens this by adding a political dimension.<sup>65</sup> Utting articulates this by explaining how the solidarity economy (by contrast to the social economy):

pushed the envelope of transformative change. It fundamentally challenged several core institutions of the capitalist system and sought alternatives centred on redistributive justice, deep sustainability, active citizenship and a more profound reconfiguration of power relations. Indeed, it has been referred to as 'the only new way of thinking about and envisaging effective and profound transformative processes' capable of addressing a broader 'crisis of civilization'<sup>66</sup>

The solidarity economy, originating largely from South America, tends to include within it the 'popular' economy, and more informal practices.<sup>67</sup> The popular economy includes informal sectors such as mutual-aid and self-help groups, artisanal networks, solidarity groups etc. The International Labour Organization (ILO) have recommended the formalisation of the informal economy, in which it includes all economic activity by workers or other economic units (e.g. co-operatives) that are insufficiently covered by formal arrangements (e.g. legal recognition)<sup>68</sup> – whether as a matter of law or practice.

While the social economy operates within the existing economic system, the solidarity economy (or at least parts of it) seek to change or transform the economic system and look to social transformation and systemic change. This classification includes co-operative activity falling with the scope of

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65 Laville, *The Solidarity Economy*, 215

66 Utting, *Mainstreaming Social and Solidarity Economy*, 1-2

67 Utting, "Contemporary Understandings"

68 International Labour Organization, "Recommendation 204"

‘new cooperativism’,<sup>69</sup> which often relies less on formal legal structures.

## Social and solidarity economy

There is a clear overlap between the solidarity economy and social economy. It is perhaps unsurprising to see a convergence with reference to the ‘Social and Solidarity Economy’ (SSE). In 2022, the ILO settled on a definition of the SSE:

The SSE encompasses enterprises, organizations and other entities that are engaged in economic, social, and environmental activities to serve the collective and/or general interest, which are based on the principles of voluntary cooperation and mutual aid, democratic and/or participatory governance, autonomy and independence, and the primacy of people and social purpose over capital in the distribution and use of surpluses and/or profits as well as assets. SSE entities aspire to long-term viability and sustainability, and to the transition from the informal to the formal economy and operate in all sectors of the economy. They put into practice a set of values which are intrinsic to their functioning and consistent with care for people and planet, equality and fairness, interdependence, self-governance, transparency and accountability, and the attainment of decent work and livelihoods. According to national circumstances, the SSE includes cooperatives, associations, mutual societies, foundations, social enterprises, self-help groups and other entities operating in accordance with the values and principles of the SSE.<sup>70</sup>

The OECD have produced a guide for policy makers on the legal frameworks

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69 Ridley-Duff and O’Shaughnessy, “Guest Editorial”

70 International Labour Organization, “The definition of the social and solidarity economy”

for SSE,<sup>71</sup> and guidelines have been produced for drafting legislation.<sup>72</sup> Some countries have legislated for the SSE as a whole – including France and Mexico.<sup>73</sup>

This does not however mean that there is consensus on exactly what the SSE is, and how one should define it.<sup>74</sup> Varying definitions do however tend to consistently include co-operatives.

Within the UK, the term ‘social and solidarity economy’ is not in common use, at least within Government.<sup>75</sup> Work has however been undertaken outside of Government to explore and understand the UK’s SSE.<sup>76</sup>

## Conclusion

Descriptors such as ‘mutual’ and ‘social enterprise’ can be helpful in informally grouping together similar types of organisations. As the definition of each descriptor vary depending on who you ask, and why you are asking, it is important to be clear on the range of underlying distinguishing features that matter at that time, whether that’s ownership, control, purpose, use of profits, etc.

Co-operatives and mutuals can be defined distinctly, but there is a heavy overlap between the two descriptors, seeing regular use of classifications such as ‘member-owned business’ or ‘co-operative mutual enterprises’ (CMEs). The UK has a legally flexible approach to the definitions.

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71 OECD, *Policy Guide on Legal Frameworks*

72 Hiez, *Guide to the Writing of Law for the Social and Solidarity Economy*

73 OECD, *Policy Guide on Legal Frameworks*

74 Utting, “Contemporary Understandings”

75 Searches carried out on the gov.uk website at 17 January 2024 found only one official reference, in hosting an abstract by the Department of International Development to an external report on its development in the MERCOSUR region.

76 See for instance a report by the Greater Manchester Community and Voluntary Organisation (GMCVO): Russell and Lear, *Transform GM: A Pilot Study of the Social & Solidarity Economy*

Systems of the economy that divide between private, public, and third sectors are useful, but co-operatives do not fit neatly into one sector. Emerging descriptors such as the ‘social economy’, or most recently the ‘social and solidarity economy’ (SSE) have provided helpful in better accommodating co-operatives in context.



PART 2

**TECHNICAL CONTENT**



## CO-OPERATIVE GOVERNANCE AND STRUCTURES

This chapter provides an overview of the classifications and internal structures of different types of co-operatives, and then contextualises co-operatives from a governance perspective more broadly, looking at theory and practice. The key to understanding of any type of co-operative governance arrangement is to recognise the nature of the relationship between the member and the business of the co-operative.

### Classifying co-operatives

While there is no universally agreed taxonomy of types of co-operatives,<sup>1</sup> the International Labour Organization (ILO) and International Co-operative Alliance (ICA) have made significant progress for statistical purposes at least.<sup>2</sup> They classify co-operatives as being:

- Consumer

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1 See for instance: i) 'Member-owned business' classification: Birchall, "A 'Member-Owned Business' Approach"; ii) An approach differentiating the nature of ownership between common/individual ownership: Somerville, "Co-operative Identity"; iii) enterprise model vs organisation purpose: Miner and Novkovic, "Diversity in Governance". Within the member-activity type of classification, there are differences too: 'service co-operatives' are seen by some distinct from consumer co-operatives: Münker, *Co-operative Principles and Co-operative Law*, 31; the ICA added 'independent business owners' to the categories of co-operative users: International Co-operative Alliance, *Guidance Notes to the Co-operative Principles*; which was also reflected in part in Co-operative UK's use of 'Enterprise Owned' rather than 'producer': Atherton et al, *Practical tools*.

2 International Labour Organization, *Statistics of Cooperatives*

- Worker
- Producer
- Multi-stakeholder

This reflects the nature of the relationship between the member and the co-operative, particularly in relation to their engagement in the economic activity of the co-operative. But, in all cases, the member must also have ownership and democratic control of the co-operative from a governance perspective.

For instance, in a consumer co-operative, members are generally consuming (i.e. purchasing) something whether that be goods like food, or services like broadband. This category also tends to include financial services – where members are using the services of banking (e.g. savings accounts and loans); and housing co-operatives, where members are paying to live and collectively manage the property.

In a worker co-operative, members are generally working to create the economic output of the co-operative, usually as employees of the entity. That could include production of goods such as building electronic equipment or providing services such as repairing bikes for customers. The economic activity will vary. The key characteristic is that those employed by the entity own and democratic control it. This category also includes labour co-operatives, where members ‘sell their labour and skills to other enterprises’.<sup>3</sup>

In a producer co-operative, their members are involved in supplying goods or services that the co-operative then sells, markets, transforms in some way. Here the individuals are not employed by the co-operative directly. Examples include agriculture, where farmers may club together to sell their produce e.g. grain or milk to get a better price on the market. Farmers are producing the grain for the co-operative to sell. Other examples would include co-operatives transforming supplies into goods such as in cheese production. There are other examples including doctors’ co-operatives

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3 Tchami, *Handbook on Cooperatives*; International Labour Organization, *Statistics of Cooperatives*, 18; Louis, *Labour co-operatives*

– where the doctors provide services through the co-operative without employment. This category tends to include co-operatives owned by other enterprises, and those providing work for the self-employed.<sup>4</sup>

Not all co-operatives have a single homogenous group of members (i.e. workers, producers, consumers). Co-operatives, like all other businesses, inevitably have multiple groups of *stakeholders*. Businesses generally have employees, customers, suppliers, creditors, who can be seen as strategic stakeholders (being necessary once a business is viable).<sup>5</sup> Humanistic views on governance,<sup>6</sup> and stakeholder approaches to corporate governance more generally consider it essential to consider the views of stakeholders in decision making.<sup>7</sup> Multi-stakeholder co-operatives seek to do this by incorporating certain stakeholders into membership – resulting in a heterogeneous membership.

The ILO classification defines a multi-stakeholder co-operative as one in which ‘more than one type of member is represented in the governance’ and ‘no type of member has a dominant vote through a majority of votes in the governance body or an exclusive veto over decisions’.<sup>8</sup> The comparative advantages of multi-stakeholder co-operatives have been explored,<sup>9</sup> but the one undisputed point is that having a heterogeneous membership has an impact on the governance design and structure of a co-operative.

The economic activity of co-operatives, as with any other business, can be classified. In the UK, this is done through the Office for National Statistics Standard Industrial Classifications.<sup>10</sup> This allows for comparison of

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4 International Labour Organization, *Statistics of Cooperatives*, 17 fn17

5 Turnbull, “The Competitive Advantage of Stakeholder Mutuals”, 172

6 Miner and Novkovic, “Diversity in Governance”, 8

7 E.g. the ‘Inclusive stakeholder approach’ established under the King Reports in South Africa

8 International Labour Organization, *Statistics of Cooperatives*, 19

9 Sacchetti and Birchall, “The Comparative Advantages”

10 Financial Conduct Authority, “Mutuals Public Register”; Co-operatives UK, “Open Data”

economic activity across all types of corporate form/ownership.

The relationship between a co-operative and its members may differ depending on whether it is:

- Primary
- Secondary
- Tertiary or hybrid

Primary co-operatives are generally co-operatives that operate their enterprise for the benefit of their members who are usually natural persons, or businesses which are not in themselves co-operatives.<sup>11</sup>

Secondary co-operatives are generally seen to be a 'co-operative of co-operatives'. In other words, a co-operative whose membership is made up of primary co-operatives.<sup>12</sup> For example, several housing co-operatives may partner and create a secondary co-operative that they own and control, to provide shared services for them.

Tertiary or hybrid co-operatives will generally be either co-operatives of secondary co-operatives, or quite often a co-operative whose membership includes both primary and secondary co-operatives. For example, Co-operatives UK has both individual primary co-operatives in its membership, alongside sector specific federal bodies. Some co-operatives may have a class of primary membership, and a class of secondary membership. The Co-operative Group Limited is an example of this.<sup>13</sup>

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11 International Co-operative Alliance, *Guidance Notes to the Co-operative Principles*, 101

12 International Co-operative Alliance, *Guidance Notes to the Co-operative Principles*, 101

13 Reflecting that it started life as the Co-operative Wholesale Society, providing services to other co-operatives, but then branched out into direct retailing to individuals, it has two classes of member: i) individual members (i.e. natural persons shopping with it), where members have one vote each; and ii) other societies, where members have votes calculated based on an equitable formula. These two classes of members are then equitably balanced in terms of voting rights.

These distinctions matter because they may have a material impact on the internal governance arrangements of a co-operative. If one is to look through the value of 'equity' and whether voting arrangements are 'equitable', in a multi-stakeholder co-operative with 10 employees and 1,000 customers, one-member-one-vote would present a challenge as employees would always be out-voted. Similarly, in a secondary co-operative, one primary co-operative may be small with only 10 members, another may be large with 1 million members. Allocating one vote to each organisation may create inequitable outcomes. This is recognised in the ICA Statement in Principle 2: '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'.

You will see other classifications of co-operative, including:

- Housing co-operatives
- Agricultural co-operatives
- Financial co-operative

These types of categorisations are effectively shorthand for a summary for the characteristics of those types of entity reflecting a mix of economic activity, ownership, and governance. Some of this is internally driven (i.e. by the co-operatives themselves), and in other instances it may reflect external factors such as classification in tax law or legislation more generally. These are best seen as sub-categories of the consumer, worker, producer, member relationship.<sup>14</sup> For example, a housing co-operative is a type of consumer co-operative in which it will generally be the case that all members live within property provided by the co-operative.

## Internal structures

This section works through the internal structures of co-operatives from the straightforward to the complex. We look first at where decisions are

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14 Atherton et al., *Practical tools*, Annex B

made, and then look at how they are made. This section focuses on these aspects from a normative perspective i.e. how they are meant to operate. Those more familiar with the internal workings of co-operatives may wish to move ahead to governance theory.

Phraseology varies from country to country. In the UK, we generally refer to meetings of members as the 'general meeting', whereas in other jurisdictions it may be referred to as the 'general assembly'.

The use of 'board of directors' is common in the company law space, but historically the phrase 'committee of management' was used in society law.<sup>15</sup> For simplicity, the phrase 'board' is used here to refer to that structure of those elected to hold fiduciary responsibility for the running of the business.

In corporate governance more generally, the UK (as with other Anglo-Saxon models) generally operates with a 'unitary' board – i.e. a single board of directors. Whereas in other countries (such as Germany) there is a two-tier structure, with a supervisory board elected by the shareholders and employees (in larger companies) who then appoint and dismiss a management board. Co-operatives in the UK do generally default to a unitary board.

## **Decision making forums**

This section provides more detail on how decisions are made – looking at the role of boards, members, and other forums of decision making.

### **Members and a board**

In primary co-operatives (where members are individuals) most co-operatives elect a board of directors. The board then oversee the day-to-day running of the co-operative. In larger co-operatives the day-to-day running of the co-operative will be carried out by managers and other staff. As with other firms, the board will appoint the chief executive, who in turn may

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15 Co-operative and Community Benefit Societies Act 2014, s14

then appoint other staff.

The members vote on certain matters in general meetings (whether annual or more frequent) such as approval of the annual accounts. Directors will be elected by the members either annually, or at other intervals (e.g. every 3 years).

The frequency of meetings and the power of members within meetings varies from co-operative to co-operative. For example, a smaller worker co-operative may find it convenient for members to meet by general meeting monthly, with less power vested in the directors.

In a consumer co-operative with many members, members may decide they only need to meet annually (at an Annual General Meeting (AGM)) with extensive power being vested in the board.

### ***Members as the board***

Some co-operatives will structure in such a way that in practice there is no board of directors. All members meet to make any decision (subject to any delegations to individuals). Depending on the legal structure being used, members may be legally required to have a board of directors. Where this is the case, they may deem every member to be a 'director'.<sup>16</sup>

This may suit smaller worker co-operatives with only a few members working in the same location. Meeting regularly to make decisions about the work is conceptually easy. As to whether to admit a member to the co-operative – and have them join as a fellow worker, is a significant decision.

### ***Tiered representative – delegate democracy***

Larger consumer co-operatives have historically (and some currently)

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16 Co-operatives UK, "Model governing documents "E.g. the model rules 'Housing Co-operative (General Meeting Governed)' produced by Co-operatives UK, the Confederation of Co-operative Housing, and the then named Wales Co-operative Centre.

operated a tiered structure of representative democracy. The specifics vary between co-operatives, but generally:

- Members elect the bottom tier of a democratic structure, which will usually comprise of several similarly sized units (or 'constituencies', 'branches' etc.) – such as distinct geographical areas.
- The members of that first tier then elect the next tier, which will usually consist of a smaller number of larger units (e.g. larger geographical areas), or direct to the board of directors.

The number of tiers, and size of the units within them will vary depending on the size and scale of the co-operative (whether economically or by membership size).

In many of tiered representation examples, it was representatives from one of those tiers that attended general meetings to vote. Their votes would tend to be either: 1) weighted based on the number of members they were deemed to be representing; or 2) given equal votes on the basis that the underlying units they were elected from are broadly equivalent to each other in terms of size/trade etc. These sorts of structures were common in UK retail consumer co-operatives.<sup>17</sup>

The models will vary in some regards as to whether the individuals elected to certain tiers are either i) representatives allowed to exercise discretion as they wish; or ii) delegates, mandated to support positions in line with the wishes of the voters in their constituency. This may vary from issue to issue. For example, people may generally be representatives in their participation in committee meetings (and therefore free to vote how they wish) but delegated to vote in a particular way in general meetings.

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17 A structure like this exists in Scottish Midland Co-operative Society Limited (see their registered rules (society 2059RS): Financial Conduct Authority, "Mutuals Public Register"; and was the subject of commentary in the Lord Myners review of the governance structures of the Co-operative Group Limited: Myners, *Report of the Independent Governance Review*

## ***Members, representative bodies, and a board***

This model is some ways a hybrid of other models. Its starting point is that you have members elect a board of directors. But, recognising that in larger co-operatives in particular this can present challenges in terms of democratic control, an additional structure is added in the form of a member or representative 'council'.<sup>18</sup>

In this system, members directly elect the board of directors, and still vote in annual general meetings. Members also elect the 'member council'. The member council is given a distinct role in being representative of the members more generally, and in scrutinising the board and providing input to their work. It is envisaged that the board will be relatively small and expert (but with some member nominated directors), whereas the member council will be larger and more focused on member voice.

They will generally operate in a system of asymmetrical bicameralism – in that one of the organs of governance is stronger than the other. The composition of the board, council, and balance of power between those component parts of the structure is important in securing democratic member control.<sup>19</sup>

## ***Virtual meetings***

While the topic of virtual meetings for co-operatives is not new,<sup>20</sup> restrictions in place between 2020 and 2021 because of COVID-19 lockdowns, accelerated their use. Within the UK, many co-operative societies found themselves able to hold virtual meetings (i.e. one where all participants are attending virtually) without any change to their constitution.<sup>21</sup>

Anecdotally, this was a result in many cases, of the co-operatives own

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18 Birchall, *The Governance of Large Co-operative Businesses* (2017)

19 Birchall, *The Governance of Large Co-operative Businesses* (2017)

20 Snaith, "Virtual Co-operation", published in 2000

21 Financial Conduct Authority, "Mutual societies registration function: 2021-22"

rules simply being silent on the point and having no provision necessitating an in-person meeting. Others relied on temporary measures brought forward under the Corporate Insolvency and Governance Act 2020.

There is limited empirical analysis of the benefits of solely virtual meetings, contrasted with hybrid meetings (some participants virtual, some physical), or solely physical meetings. Context, including the type and size of the co-operative and the demographics and preferred means of engagement of members will have an obvious impact.

There were anecdotal reports of virtual meetings increasing turnout during the lockdown restrictions. Though of course people had fewer places to be. The current trend appears to see larger co-operatives opting for hybrid meetings of some form. Though this is both an area requiring further study, and an opportunity for additional means of member engagement.

## **Member decision making (voting)**

This section deals with how members make decisions within a co-operative, whether by voting or through other means, such as consensus.

### ***One-member-one-vote (OMOV)***

A common position is that each member has only one vote, reflecting that co-operatives are associations of people, and that people have equal rights. This is set out in Principle 2 of the ICA Statement.

Decisions by members are made by members voting on a particular resolution – either in person at a meeting, through a proxy they have nominated, or through some other means (e.g. postal or electronic ballot). Some co-operatives will specify that votes need a simple majority to pass (e.g. 50%+1) or, need a special majority of some sort depending on the issue e.g. 75% for significant changes like dissolving the co-operative.

Co-operatives may put a minimum turnout requirement on the vote, but the tendency in most model rules is simply to specify a quorum (minimum attendance at the meeting). This varies from one co-operative to another.

Some will specify the minimum attendance as a percentage of the members (e.g. 10%), others may set out the minimum number of members e.g. 100, or a combination thereof (e.g. the lesser of 10% of members, or 100 members). In a large co-operative, you may see a lower percentage figure or number. In a smaller co-operative where members are regularly attending the meeting venue (e.g. a social club), you may expect to see a proportionately higher figure as it's expected to be easier for members to attend.

### ***Single constituency weighted voting***

Societies may depart from the one-member-one-vote principle where it appears equitable to do so. This is particularly the case in secondary and tertiary co-operatives, where many of their members are other co-operatives. They will generally seek to determine an equitable formula for allocating votes among their members.

In the case of a wholesale co-operative, whose membership is made up of retail co-operatives purchasing goods from it, you may see voting based on the amount (cash or percentage) of trade that a primary co-operative has had with the secondary co-operative. Therefore a member that accounts for 20% of the secondary co-operative's turnover may get more votes than a member accounting for only 0.5% of turnover. This reflects the reciprocal nature of the membership, in that the more the member trades with the secondary co-operative, the better the economic purchasing power it has, and the better it can do. The better it does, the better its members do, and so on. However, this could produce inequitable outcomes if larger members are allowed to dominate or control the voting, and as such you would tend to see the maximum vote of any member capped at an appropriate level agreed by the membership.

In other types of secondary co-operative, particularly representative bodies, you may see voting based on their subscription rate (e.g. linked to the membership fee they are charged each year). The subscription rate may be based on the turnover of the member, or based on how many members

the primary co-operative has itself. This reflects that the primary co-operative is effectively acting as the voice for its own members when voting on matters in the secondary co-operative.

In these examples, the members are all in a single constituency of members, with each member's vote being weighted accordingly.

### ***Electoral colleges***

Some co-operatives, particularly in multi-stakeholder co-operatives, designate certain classes or 'constituencies' of member e.g.: worker members, consumer members, non-user investor members.

Each constituency may be given a maximum amount of the vote e.g. 40% to workers, 40% to user members, and 20% to investor members. Members vote within their constituency. The majority of votes cast in that constituency (on a one-member-one-vote basis) determine how the votes of that constituency will be cast in the general meeting.

### ***Multi-constituency weighted voting***

This builds on the previous two models. You may have a co-operative with consumer members, worker members, and non-user investor members (or any other classes of member as defined within that co-operative). Each member still has only one vote, but the total impact of that *constituency* (rather than member) is capped.

For instance, the consumer member category may be weighted so that votes from that constituency may never exceed 40% of the total vote. This has the effect of reducing the possibility of a disproportionately large number of consumer members (who are generally likely to outnumber worker members) outvoting worker members. Examples include the Somerset Model Rules<sup>22</sup> and FairShares model.<sup>23</sup> There are usually calculations un-

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22 South West Co-operative Development, "Template Somerset Rules"

23 FairShares Association, "FairShares Model"

derpinning the vote counting, with templates provided for practical implementation.

### **Consensus decision making**

In this model, votes are avoided in preference for consensus being achieved. Depending on the model, decisions may go through various rounds of meetings, and either i) never be decided upon; or ii) eventually voted upon if consensus cannot be achieved. Radical Routes (network of housing and worker co-operatives) are an example of an organisation operating a consensus-based model in the second approach above.<sup>24</sup>

### **Consent and sociocracy based decision making**

Sociocracy (also known as 'dynamic governance') operates on a system of consent on the basis that decisions are within an acceptable level of risk or 'good enough for now and safe enough to try', rather than being perfect.<sup>25</sup> Sociocracy operates on having a system of interlinked 'circles' with specified areas of responsibility, and representatives from one circle participating in another to ensure information flows appropriately.

Sociocracy is however more than just a system of decision making. It has been described as a 'movement' that supports life-serving collaboration and ensures shared power.<sup>26</sup> Those seeking to understand or implement sociocracy should read the resources available elsewhere.<sup>27</sup>

### **Sortition (random selection)**

Random selection is used in the legal system in the UK to select juries. The role it could play in co-operative decision making (as one of the ways in

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24 Radical Routes, "An Introduction to Radical Routes"

25 Co-operatives UK, *Sociocracy in co-operative organisations*

26 Rau and Koch-Gonzalez, *Many Voices One Song*, chapter 1

27 Rau and Koch-Gonzalez, *Many Voices One Song*; Co-operatives UK, *Sociocracy in co-operative organisations*

which a member becomes a director of a co-operative) is being explored, noting that the method of selection of candidates for a board can impact their effectiveness on several measures.<sup>28</sup> Though there are some examples of its use,<sup>29</sup> research on the role it can play is ongoing. These experiments could, for example, see a co-operative with a large membership randomly selecting a small proportion of its board members.

### **One-share-one-vote (patronage voting)**

Allocating one vote to each share held is the normal position in an investor-owned company. The more shares you buy, the greater control you have. This can create inequitable outcomes as control is allocated based on wealth. It generally sits outside of Principle 2 of the ICA Statement. There is however at least one exception. Some agricultural co-operatives are structured based on one-share-one-vote. The more shares the member owns, the greater their vote.<sup>30</sup> These have been seen as 'proportional' systems based on 'patronage'.<sup>31</sup>

This model has however been recognised as being consistent with the ICA Statement.<sup>32</sup> This is best illustrated with an example. Take a dairy co-operative, where the members are farmers who supply milk to the co-operative to sell on to supermarkets. The farmers may have formed the co-operative to help them get a better price for the milk, and to deal with the time-consuming work of the negotiations with supermarkets and others. Each farmer, though an individual person, is in effect a business.

Each individual farmer will supply a different amount of milk to the co-operative. This may reflect either the size of the farming operation, or

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28 Pek, "Drawing out Democracy"

29 Shared Interest, "Council": the Members Council at Shared Interest Limited has 50% of its membership is chosen at random

30 Bijman, Sangen, and Hanish, *Exploring Innovations in Internal Governance*

31 Reynolds, Gray and Kraenzle, Voting and Representation Systems in Agricultural Cooperatives; Karakas, Briefing: Cooperatives: Characteristics

32 Financial Conduct Authority, "Handbook, RFCCBS", para 6.1.27

the choice of the farmer as to how much of their milk they sell to the co-operative, versus directly to other customers.

The more milk a farmer provides to the co-operative, the greater the bulk selling power of the co-operative, the better the price they can achieve, and the better the farmers do. It is a reciprocal arrangement as seen in other types of co-operatives.

The main difference here is that the share capital of the farmer is in effect a proxy to reflect their participation in the business of the co-operative. This is the same sort of arrangement, in effect, as a secondary co-operative who bases voting power on either subscription levels or levels of trade.

Farming is a capital-intensive business. Therefore the farming co-operative tends to need large amounts of cash. Farmers capitalise the co-operative by buying shares. However, unlike in an investor-owned firm where one can buy as many available shares as one can afford, the number of shares a farmer must buy is based on an equitable formula. Farmers are required to buy a number of shares that reflect their trade with the co-operative. For example, a farmer may be required to buy 1 share for every 1,000 litres of milk supplied. This is usually based on supply in the previous year (or some other time periods – whether averaged out or based on a particular point in time).

To give each farmer only one vote could be seen as inequitable where one is supplying 1,000 litres of milk, and another 100,000.

Safeguards must be put in place to ensure no individual member has too great a vote. Where that safeguard is in place the voting arrangement can create more equitable outcomes than a simple one-member-one-vote arrangement.<sup>33</sup>

The example given here is a simplification or generalisation of what may happen in practice. The rules of individual agricultural co-operatives will tend to involve degrees of complexity to manage the share accounts of farmers and determine the respective share purchasing requirements.

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33 Alboek and Shultz, "One Cow, One Vote?"

## **Executive management**

The approach to the management of the day-to-day activities of a co-operative will vary depending on its size, scale, and type (e.g. worker, consumer, producer, multi-stakeholder), and a range of other factors. From a co-operative perspective, there can be a perception of a challenge between democratic member control, and management capture.

Co-operatives structured with a board of non-executive directors, who appoint a chief executive, may be managed in much the same way as any other firm. There will be the usual vertical hierarchies, from chief executive down, reflecting the size, scale and complexity of the organisation. This is particularly true of co-operatives with large workforces – especially consumer co-operatives. There are risks of managerial capture (see later, *Co-operative Lifecycle*). However, there are principles of co-operative management that can help address that (see later, *Co-operative Stewardship*).

Alternatively, Davis noted the existence in some co-operatives of an ‘old civil service’ style of management, whereby the elected board considered itself solely responsible for setting strategies and policies, with managers executing instructions.<sup>34</sup> Anecdotally, this model still exists in some co-operatives, including for example, social clubs.

As noted earlier, in some co-operatives – especially worker co-operatives – the board may consist of all employees, with collective decision-making (through either consensus or voting) being the dominant form of management.<sup>35</sup> Broadly, this model sees all employees given the option to be involved in management decisions. This can create tensions, particularly as the size of a co-operative increases.<sup>36</sup> Addressing this generally involves distinguishing between management as a role, and management as a

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34 Davis, *Managing the Cooperative*

35 The topic of management in worker co-operatives is subject to a vast array of literature, analysis of which is beyond the scope of this work.

36 Davis, *Managing the Cooperative*, ch2; Cornforth, “Patterns of Cooperative Management”

function, favouring the latter. This can create a flat and networked management structure, different from the conventional vertical hierarchies.<sup>37</sup>

## **Executive pay**

As with other businesses, the approach to setting the rate of pay for staff will vary. In larger co-operatives, particularly consumer co-operatives, the rate of pay may be seen as being primarily influenced by the market rate. Co-operatives may have fewer components of executive pay packages at their disposal compared to investor-owned firms, given the absence of share options. Conversely, it has been argued that there are non-monetary factors influencing individual choice, linked to social identities.<sup>38</sup>

Some studies have looked into the rate of pay for chief executives in co-operatives compared to counterparts at comparably sized competitor investor-owned firms, and found the executive pay in co-operatives to be noticeably lower.<sup>39</sup>

On pay more broadly, the principle of 'wage solidarity' can be found in some co-operatives. It is, for instance, one of the principles of the Mondragon Corporation, along with 'sovereignty of labour' as a basis for allocating profits based on the work contributed by each person.<sup>40</sup> Wage solidarity is a concept striving for equitable wages so as to minimise the gap between the highest and lowest paid staff (pay ratio).

Pay practices vary by type of co-operative and include models such as: i) flat pay structure, with everyone on the same salary; ii) equal basic pay but larger dividends based on a range of measures; iii) specified pay ratios – with the nature of the ratios varying; iv) convention pay structures as with any other business.<sup>41</sup> In worker co-operatives in particular, approaches

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37 Cannell, "Management in worker cooperatives"

38 Akerlof and Kranton, *Identity Economics*

39 van Rijn, Zeng and Hueth, "Do credit unions have distinct objectives?", in a study looking at credit unions in the US

40 Mondragon Corporation, "About us"

41 Simms and Boyle, *The Ratio*

include some wage flexibility in return for job security.<sup>42</sup>

## Governance

Governance is a broad term that can be taken to mean different things. The term 'corporate governance' has been popularised since its inception.<sup>43</sup> The Organisation for Economic Cooperation and Development (OECD) explain corporate governance as:

Corporate governance involves a set of relationships between a company's management, board, shareholders and stakeholders. Corporate governance also provides the structure and systems through which the company is directed and its objectives are set, and the means of attaining those objectives and monitoring performance are determined.<sup>44</sup>

Corporate governance is different to management. It is said that 'Management runs the business; the board ensures that it is being well run and in the right direction'.<sup>45</sup>

Corporate governance is important for all types of organisations, including charities, governments, publicly listed companies, and co-operatives. Aspects of corporate governance will generally include how decisions are made, who makes them, where they are made (e.g. boards, general meetings), managing of risk, financial oversight, systems of control, strategy, and remuneration. The purpose of an organisation is also of critical importance.

Co-operatives have a different purpose to investor-owned firms. Co-operatives exist to meet the economic, social, and cultural needs and aspirations of their members.

When looking at governance from a co-operative perspective, it is helpful

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42 Navarra and Tortia, "Employer Moral Hazard"

43 Tricker, "Perspectives on corporate governance"

44 OECD, *G20/OECD Principles of Corporate Governance*, 6

45 Tricker, *Corporate Governance*, 45

to consider:<sup>46</sup> structures, processes, and dynamics. There is no universally accepted definition of co-operative governance. Ammirato defines co-operative governance as:

Cooperative governance comprises rules, policies, processes, democratic practices, and management oversight, through which cooperatives achieve their stated purpose and a level of competitiveness to the satisfaction of their members. Cooperatives achieve their purpose whilst being an active member of the cooperative movement; by safeguarding the interests of current and future generations; in full compliance with the law and cooperative principles; by actively supporting local communities to overcome their economic and social needs; and by operating anywhere in the world without harming people, society, and the environment.<sup>47</sup>

Within many co-operatives, you have:

- Members, who own the co-operative and have ultimate democratic control. Ownership and votes will usually be shared equally.
- A board, elected by the membership.
- Management, appointed by the board.

While this is the dominant arrangement, this will vary from one type of co-operative to another. The type of co-operative will have an impact on its structure: worker, producer, consumer, or multi-stakeholder.<sup>48</sup> Within those categorisations, the level of co-operative (primary, secondary, or tertiary/hybrid) may also have an impact on its governance.

In providing generalised descriptions of co-operative governance, it is important to keep in mind that the associative characteristics of a particular co-operative may have an impact. Variables include: the purpose for which members are associating together (and the nature of the business they are

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46 Novkovic, Miner, McMahon, *Humanistic Governance*, 84

47 Ammirato, *Cooperative Enterprises*, 263

48 Novkovic, Miner, McMahon, *Humanistic Governance*, chapter 4

involved in); the size and nature of the membership; the differential levels of information, money, or needs between members. External factors such as legislation and regulation will also have an impact.

The constitution of an organisation is of fundamental importance to its governance.<sup>49</sup> It takes the form of a memorandum and articles of association in a company; and in a co-operative society as their 'rules'.

The constitution of a co-operative would usually cover:

- Objects – what it exists to do.
- Membership – who can join, how they join, and how membership is ended.
- Decision making – the composition and role of a board, rights of members in general meeting, voting rights etc.
- Share capital – for entities limited by share – including how many shares can be owned and any rights attached to them.
- End of life provisions – including setting out what happens in the case of a solvent dissolution e.g. do funds go to another organisation, members, or something else.

The constitutions may be short, at only a few pages long, or run into 100+ pages depending on the complexity of the governance arrangements, level of detail provided, and quality of the drafting.

Like with some other types of organisations, there will usually be (i) members (shareholders), who elect and hold to account (ii) a board of directors – who take strategic decisions and oversee the running of the organisation through (iii) managers they appoint and hold to account. Managers will generally have delegated responsibility for recruitment of staff to sit below them, and for operational delivery. In most businesses, the operation of this model will vary based on the size, scale and complexity of the business. External regulatory requirements may also inform the governance design.

For co-operatives, the nature of the relationship between members and the co-operative will also have an impact. For example, in smaller housing

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49 Tricker, *Corporate Governance*, 38-39

co-operatives, you may see the members/board/managers being one and the same. In worker co-operatives, you may see managers elected by members rather than appointed by the board. These differences are often reflected in governance codes.

## Governance codes

Governance codes have been a feature of corporate governance since the Cadbury Report in 1992<sup>50</sup>. They set out features or best practice of good governance. They started predominantly in the UK, before other countries followed.

The nature of governance codes varies. In some countries, particularly the United States of America, a 'rules-based' approach is adapted (see for instance the Sarbanes-Oxley Act 2002) – providing prescriptive rules where a failure to follow can result in a fine or other action.

In most other countries, a 'principles-based' approach is adopted for governance codes. These codes tend to be voluntary. They operate in different ways:<sup>51</sup>

- Comply or explain: a firm will comply with principles and provisions or explain why it is not doing so. As seen in the UK Corporate Governance Code.<sup>52</sup>
- Apply or explain: a firm will set out how they have applied aspects of the code or explain why they have not. This was a feature first seen in the South Africa King III code to avoid a tick-box approach.<sup>53</sup>
- Apply *and* explain: a firm will apply the code and explain how they have done so. This first materialised in the South African King IV code<sup>54</sup> and is used in the UK Wates Corporate Governance Principles

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50 Tricker, *Corporate Governance*, 115

51 Chartered Governance Institute, *Corporate Governance*, 16

52 Financial Reporting Council, "UK Corporate Governance Code"

53 King Committee, "King Report on Governance" 2009

54 King Committee, "King IV Report on Corporate Governance"

for Large Private Companies.<sup>55</sup>

Practically, even where there are principle-based approaches, there will be legislative requirements mandating certain features (especially around shareholder rights), which mean there is a mix of legal rules, and voluntary codes.

Within the UK, listed companies (i.e. those with premium listed shares on the London Stock Exchange) look to the Financial Reporting Council's 'UK Corporate Governance Code' which focuses on:<sup>56</sup>

- Board Leadership and Company Purpose
- Division of Responsibilities
- Composition, Succession and Evaluation
- Audit, Risk and Internal Control
- Remuneration

Other codes exist for companies that are not listed, such as the Wates Corporate Governance Principles for Large Private Companies. These focus on:<sup>57</sup>

- Purpose and Leadership
- Board Composition
- Director Responsibilities
- Opportunity and Risk
- Remuneration
- Stakeholder Relationships and Engagement

These codes are aimed at businesses operating under the company structure, where you would expect to see a separation between ownership and control. For co-operatives some of the underpinning principles may therefore not be appropriate without adaptation.

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55 Financial Reporting Council, "The Wates Corporate Governance Principles"

56 Financial Reporting Council, "UK Corporate Governance Code"

57 Financial Reporting Council, "The Wates Corporate Governance Principles"

Arguments for specific governance codes for co-operatives are well made, to have codes that best reflect and support characteristics of a co-operative.<sup>58</sup> The usefulness of having a governance code reflecting the characteristics of the organisations using it can be seen through the existence of the Charity Governance Code. This code focuses on:<sup>59</sup>

- Organisational purpose
- Leadership
- Integrity
- Decision making, risk, and control
- Board effectiveness
- Equality, diversity, and inclusion
- Openness and accountability

Within the UK, Co-operatives UK lead the way in setting out governance codes specific for co-operatives. The Co-operative Corporate Governance Code focuses on:<sup>60</sup>

- Member voice, participation, and engagement
- Co-operative leadership and purpose
- Roles and responsibilities
- Board composition, succession and evaluation
- Risk, financial management and internal controls
- Remuneration of the board and executive leadership

It is explained within the code:

... we considered the UK Corporate Governance Code and the Wates Corporate Governance Principles – and applied those elements

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58 Cossey et al., "How Do Institutional Prescriptions"

59 Charity Governance Code Steering Committee, *Charity Governance Code*

60 Co-operatives UK, *Co-operative Corporate Governance Code*

that apply to most organisations, while also ensuring that the code acknowledges the co-operative difference.<sup>61</sup>

While previous codes were specific to different types of co-operatives (e.g. consumer, agricultural, worker, etc.), the 2019 code covers all types of co-operative.

Codes for specific types of co-operatives are still in operation. The rationale for, and development of, a worker co-operative code of governance in the UK is well set out.<sup>62</sup> Workers.coop published a revised version of ‘The worker cooperative code’ in 2023, framed through the ICA Principles.<sup>63</sup>

The Confederation of Co-operative Housing produce a voluntary ‘comply or explain’ based governance code for community led housing, which can include housing co-operatives.<sup>64</sup>

In other sectors, such as mutual insurance, the Association of Financial Mutuals produce a code for their members. Since 2019, the code is a standalone code (earlier codes were annotated versions of the UK Corporate Governance Code).<sup>65</sup>

Questions of strategic governance in credit unions have been well explored<sup>66</sup> and codes of good governance have been in place there too.<sup>67</sup>

There are examples of co-operative governance codes outside of the UK including:

- Australia: the Business Council of Co-operatives and Mutuals (BCCM) publishes the ‘Co-operative and Mutual Enterprise (CME) Governance Principles’. This is a voluntary code based on the comply or explain approach (or, as it is known in Australia, the ‘if not, why not’ approach).

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61 Co-operatives UK, *Co-operative Corporate Governance Code*, Foreword

62 Cannell, “The Worker Co-operative Code of Governance”

63 Workers.coop, “Worker co-op code”

64 Confederation of Co-operative House, “Our Resources”

65 Association of Financial Mutuals, “AFM Governance Code”

66 Jones, Money and Swoboda, *Credit union strategic governance*

67 Canham, “Governing for Success”

- Netherlands: Dutch Council for Cooperatives (NCR) publishes a voluntary code for co-operatives,<sup>68</sup> and is an example of a code in a country where firms are required to operate a two-tier board structure (board, and supervisory board).
- Sweden: Svensk Kooperation publish a voluntary code for co-operatives, on a ‘comply and explain’ basis.<sup>69</sup> It is primarily aimed at their ‘major’ co-operatives, with large number of members, but can apply in spirit to the smaller co-operatives too.

Governance codes can be a useful way to help translate governance theory into practice.

## Governance theory

The main theories of corporate governance<sup>70</sup> as they relate to co-operatives have been well analysed.<sup>71</sup> This section focuses more on the relationship between theory and practice.

Unlike companies listed on a stock exchange, co-operatives are less likely to be subject to pressures that may otherwise drive performance:

- Threat of takeover/market for corporate control<sup>72</sup> – whether by management buyout or merger and acquisition from an external competitor.
- Market discipline – in the sense of listed shares readily traded on an exchange.

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68 Dutch Council for Cooperatives (NCR), “Governance Code”

69 Svensk Kooperation, “Swedish Cooperative Code”

70 Including Agency Theory, Stewardship Theory, Resource Dependency Theory, Stakeholder Theory and Managerial Hegemony Theory (see texts such as Tricker, *Corporate Governance*)

71 Cornforth, “The governance of co-operatives”; Spear, “Governance in Democratic Member-Based Organisations”; Novkovic, Puusa, and Miner, “Co-operative identity and the dual nature”; Michaud and Audebrand, “One governance theory to rule them all?”

72 Spear, “Governance in Democratic Member-Based Organisations”

- Legally mandated compliance/reporting on governance codes.

The role of members in a co-operative, and how actively they fulfil it, is therefore especially important.<sup>73</sup> It is possible to overstate the differences between co-operatives and other investor-owned businesses.<sup>74</sup> Like companies, co-operatives are largely still operating in a competitive market with the pressure on performance that brings. Equally, smaller private companies owned by one individual, or a family for instance, face a similar lack of external pressure, and do not have the countervailing role of a distinct membership to provide scrutiny either.

Members have multiple roles:<sup>75</sup>

- Owners of the co-operative – in being its shareholders.
- Democratic controllers (ultimately) of the co-operative – through their membership and voting rights.
- Users – through either consumption, supply, or their work.
- Beneficiaries of the co-operative – benefitting from use based on their relationship with it either as customers (consumer co-operative); employees (worker co-operative); or suppliers (producer co-operative).

Member roles have been referred to as ‘user-owner’, ‘user-controller’ and ‘user-benefit’ roles.<sup>76</sup> Others articulate that members have four roles: patron, investor, owner, and member of a community of purpose.<sup>77</sup>

There is therefore an at least dual nature members have, which is a key feature of co-operative identity. In other types of business, like

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73 Spear, “Governance in Democratic Member-Based Organisations” Birchall, *The Governance of Large Co-operative Businesses* (2014)

74 Groeneveld and Llewellyn, *Corporate Governance in Cooperative Banks*

75 Billiet, Bruneel and Dufays, “Exit, Voice, or Both”, 5-6; van Dijk, Sergaki and Baourakis, *The Cooperative Enterprise*, 67-68. My thanks as well to Stefanie Friedel, for sight of forthcoming work.

76 Mooney and Gray, *Cooperative Conversion and Restructuring*; van Dijk, Sergaki and Baourakis, *The Cooperative Enterprise*

77 Mazzarol, Simmons and Limnios, “A conceptual framework for research”

employee-owned businesses, the ownership and user-beneficiary roles may be present, but the democratic control role may not (as the employees may not have formal voting rights or governance roles). It is therefore important to consider the democratic control, and ownership, as distinct.

Arguments suggesting the governance roles in co-operatives increase costs have been countered with arguments that they increase resilience in a downturn.<sup>78</sup> See *Chapter 9 – Co-operative economics* for further detail.

At an organisational level, co-operatives have more than one purpose. This dual purpose is generally seen as being economic (enterprise) and social (association of people). There are potentially contrasting views on the dual purpose of co-operatives as both an enterprise, and an association of persons (see *Chapter 10 – Co-operative ideology*). Novkovic, Puusa, and Miner set out in detail how this dual role is inherent in the DNA of co-operatives.<sup>79</sup>

The economic and social dimensions are therefore intrinsically integrated in a way that would suggest viewing them as two separately pursuable goals was never the intention. Byrne outlines how a relational theoretical perspective can help facilitate this understanding.<sup>80</sup> All commentators are however consistent in emphasising the importance of self-help as a characteristic of co-operatives.

Co-operative governance cannot be a one-size fits all approach. There is recognition that the governance of co-operatives will vary depending on the nature of the relationship between members and the co-operative – whether they are producers, workers, consumers, or a combination of those.<sup>81</sup>

Theories of co-operative governance focus on the importance of serving the needs of their members.<sup>82</sup> Three key building blocks of co-operative gov-

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78 Billiet, Bruneel and Dufays, "Exit, Voice, or Both"

79 Novkovic, Puusa, and Miner, "Co-operative identity and the dual nature"

80 Byrne, "Understanding co-operative identity through relationality"

81 Novkovic, Miner, McMahon, *Humanistic Governance*; Birchall, "C: Control and Governance"

82 Birchall, *People-Centred Businesses*

ernance have been summarised as:<sup>83</sup>

- Humanism (people-centred approach).
- Joint (distributed) ownership and control.
- Democracy (self-governance).

The building blocks of co-operative governance *systems* have been described as:<sup>84</sup>

- Structures – including ownership and control, governance bodies, and formal rules and policies.
- Processes – democracy and participation, channels of communication, monitoring, and control.
- Dynamics – external forces, and changes induced internally.

Novkovic, Miner, and McMahon, pull together the various component parts impacting co-operative governance:<sup>85</sup>

- Membership – the type of co-operative (e.g. worker, producer, consumer, multi-stakeholder), and whether it is primary, secondary, or tertiary.
- Context – the purpose of the co-operative, who its stakeholders (which may be broader than membership) are, its size, and where in its lifecycle it is.
- Governance systems – being the structures, processes, and dynamics.

Different theories of co-operative governance have been articulated, including:<sup>86</sup>

- Co-operative stewardship.

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<sup>83</sup> International Co-operative Alliance, *Co-operative Governance Fit to Build Resilience*, 11

<sup>84</sup> Novkovic, Miner, McMahon, *Humanistic Governance*, 84

<sup>85</sup> Novkovic, Miner, McMahon, *Humanistic Governance*, 94, figure 4.2

<sup>86</sup> Birchall, *People-Centred Businesses*, 32-33, provides a summary table; Jamaluddin, et al., "Cooperative Governance and Cooperative Performance" produced a literature review

- Humanistic governance – taking a people-centred approach.
- Three Slices of Cake – aimed particularly at larger co-operatives, this focused on the balance between member voice, representation, expertise.<sup>87</sup>
- Governance Wheel.
- Quadrilateral.

Each of these are briefly explored.

## Co-operative stewardship

The concept of stewardship as it relates to governance goes well beyond the world of co-operatives.<sup>88</sup> In a co-operative context, it is said to be a long-standing value and practice:

Stewardship of the members' property has always been understood as a key responsibility for co-operative management and lay leadership alike.<sup>89</sup>

Davis argues a co-operative principle should include management being 'responsible for the stewardship of the co-operative community, values and assets'.<sup>90</sup> The concept of 'co-operative stewardship' is further developed later by MacPherson.<sup>91</sup>

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87 Birchall, *The Governance of Large Co-operative Businesses* (2017)

88 Davis, Schoorman and Donaldson, "Toward a Stewardship Theory of Management"

89 Davis, *Co-operative Purpose, Values and Management*

90 Davis, *Co-operative Purpose, Values and Management*

91 MacPherson, "Mainstreaming some lacunae", 189. Though writing in the context of 'co-operative studies', MacPherson is clear that the concept applies to the running of co-operatives, rather than just the study of them: 'Developing co-operatives by paying attention to all these spheres, can be thought of as co-operative stewardship'. Antecedents to this idea can be seen in more detail: MacPherson, "The Canadian Co-operative Credit Union Movement"

MacPherson describes co-operative stewardship as the role leaders in a co-operative (elected or appointed), members, and staff, undertake as they carry on their responsibilities by paying attention the following ‘five interconnected spheres of concern’:

- Engagement of *members*
- Involvement in *communities* (however defined)
- Associations with other co-operatives (*sector*)
- Relations with the *state*
- *Management* of resources, keeping in mind the four spheres above.

MacPherson suggests there are ‘at least’ these 5 interconnected spheres, suggesting others may arise.

## Humanistic governance

Humanistic governance focuses on human need, and takes a broader view than stakeholder theory, or the debates around expertise vs representation (see below).<sup>92</sup> Co-operative identity is emphasised, in that co-operatives are designed to meet economic and social goals, focusing on the complex needs of people. The approach stresses the importance of the nature of the relationship between members and the co-operative. Co-operatives are associations of people, with a collective membership. Members acquire control of the co-operative with their *use* of it (e.g. buying, supplying, working), rather than through capital investment. The approach emphasises that co-operatives are to be seen as meeting both individual and collective need.

## Three slices of cake

Often the core issue in co-operative governance is the respective rights and roles of members, the board, and management. Birchall suggests a need to balance within any co-operative governance system the underpinning principles (or three ‘slices of the cake’) of:

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92 Novkovic, Miner, McMahon, *Humanistic Governance*, chapter 2

- Member voice
- Representation
- Expertise

This tends to come to the fore when looking at the composition of a board of directors, especially in terms of how many are there because of their professional expertise, and how many are there in a 'representative' role because members have chosen them. To a lesser extent, this will also play out in deciding the balance of power between members in a general meeting, and the board.

Leading academics in this field tend to agree that there is a need for a mix of professional knowledge, representation, and member voice.<sup>93</sup> While co-operatives do not generally have executive management on their board, some do.<sup>94</sup> Davis sees the decision as to whether to have executives on the board as a matter of individual circumstance, rather than a point of principle.<sup>95</sup>

The nature of the relationship between management and the board is also important. Davis noted in 2001 that most co-operatives operated a civil-servant style relationship, and instead called for a shift toward more culture-led governance with co-operative managers leading membership.<sup>96</sup> Speaking 20 years later, Wilson argues 'management can and should give the board advice on how to do its job', and by helping in board succession by nudging the right people to stand to the board.<sup>97</sup>

The role of management – both as part of, and outside of, the board itself can help address the challenges in the debate between representation and

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93 Novkovic, Miner, McMahon, *Humanistic Governance*, 85-86; Birchall, *The Governance of Large Co-operative Businesses* (2017), 107; Eckart, *Cooperative Governance*

94 Myners, *Report of the Independent Governance Review*

95 Davis, "The Governance of Co-operatives under Competitive Conditions"

96 But with directors still accountable to members democratically. Davis, "The Governance of Co-operatives under Competitive Conditions", 38

97 Wilson, "Challenging Governance Orthodoxies"

expertise on boards. As to what the right balance is, and how it is achieved, varies greatly from one co-operative to another.

As well as looking at the types of people who can join a board, there are also different journeys for getting there. Co-operatives are not alone in deliberating on these challenges, which can be seen in other sectors.<sup>98</sup> Charities, for instance, weigh up whether to have members electing trustees (board), or have structures without members other than their trustees. Looking across a range of third sector organisations, Cornforth describes these as: self-selecting (where the board appoints itself); membership associations (where members elect the board); or mixed (where members elect a proportion of the board with others nominated by stakeholders, or appointed by the board itself).<sup>99</sup>

Within the private sector you may see a family-owned firm weighing up whether to bring in outside investors. Or a private company considering whether to go public to raise additional capital. In both instances, ownership and control could be impacted. In the context of improving employee engagement, for listed companies, Provision 5 of the UK Corporate Governance code envisaged companies opting to have one employee representative on their board. The reality as of 2020-21 is that just 5 companies have done so.<sup>100</sup>

As well as the board/member dynamic, you also have the relationship between the board and management to consider. The power of a board in practice often sits on a spectrum between complete management control with the board rubber stamping decisions, to boards controlling management to the extent managers cannot effectively do their job.

There are strong advocates in favour of a servant-leader model of professional managers within co-operatives (particularly consumer co-operatives) compared to what was seen as a civil-servant style manager

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<sup>98</sup> Spear, Cornforth and Aiken, *For Love and Money*, in relation to social enterprise

<sup>99</sup> Cornforth, "The governance of hybrid organisations"

<sup>100</sup> Rees and Brione, "Workforce Engagement", 26

responsible to a lay member board.<sup>101</sup> Though the important caveat given is that the professional managers should have attitudes and values that are synergistic with those of the co-operative.<sup>102</sup> Again, these challenges are not unique to co-operatives.<sup>103</sup>

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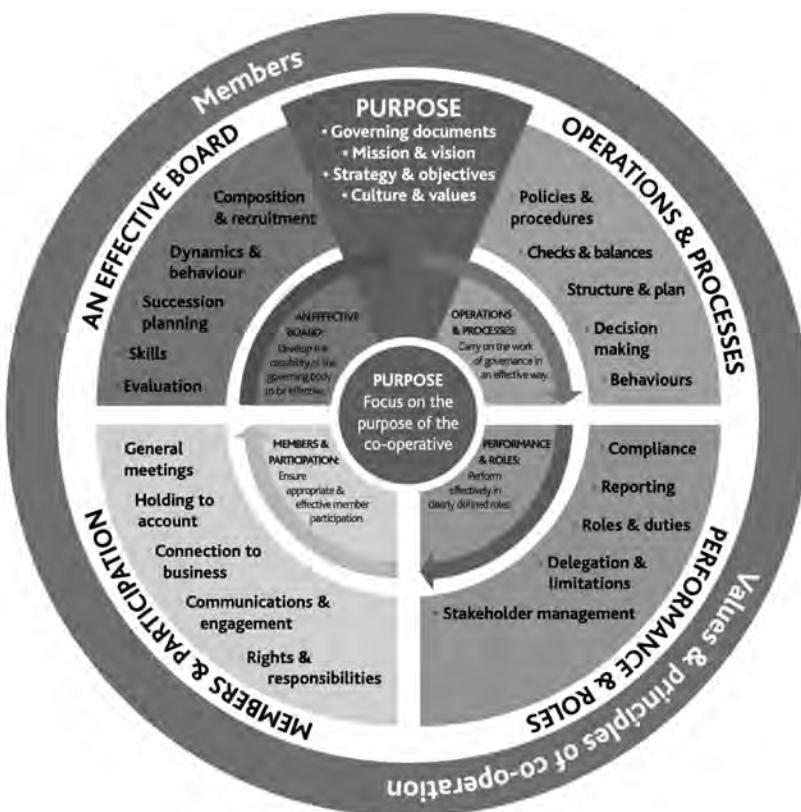
101 Davis, "Retrieving the Co-operative Value-Based Leadership"

102 Davis, "The Governance of Co-operatives under Competitive Conditions", 38. Including as 'guardians' of the co-operative values and principles. Exploratory analysis on the leadership qualities in co-operatives has been undertaken: Simkhada and Bhattacharai, "The quest for leadership qualities in cooperative societies"

103 Spear, Cornforth and Aiken, *For Love and Money*, 19-20

## Governance wheel

Given the range of perspectives, it is important to look at co-operative governance in the round. This means incorporating the other aspects of governance including systems of control, stakeholder management, compliance, etc. Co-operatives UK best set this out in their 'Governance Wheel'.<sup>104</sup>



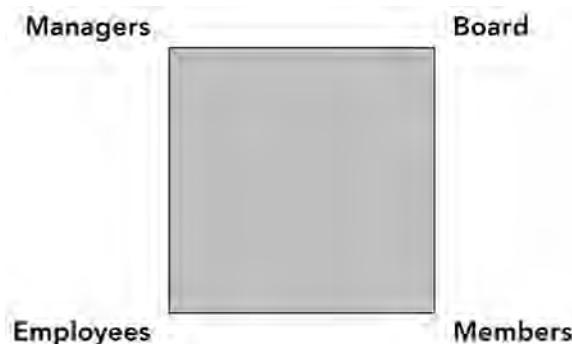
104 Co-operatives UK, "Governance Wheel", with thanks for permission to reproduce here

## Co-operative quadrilateral

Another approach to understanding co-operative governance can be seen through the ‘co-operative quadrilateral’ designed by Henri Desroche.<sup>105</sup> It sets out four ‘fundamental groups’ within a co-operative:<sup>106</sup>

- Members
- Board of Directors (originally called ‘Administrators’)
- Managers (i.e. executives)
- Employees (those reporting to managers)

These are set around a square:



Originally the model looked at ‘ruptures’ or ‘splits’ within the functioning of the co-operative. These are breaks in communication between ‘transmission’ and ‘reception’. One rupture was represented by a vertical line, with

105 Desroche, *Le Project Coopératif*; Desroche, “Communication et coopération ou le projet coopératif”; Koulytchizky, “Le Quadrilatère D’Henri Desroche Revisité”; Draperi, *La république cooperative*. For English language versions: Laville, Lévesque and Mendell, “Diverse Approaches and Practices in Europe and Canada”; and an in-depth explanation in an officially translated version of Cariou, “Applying Henri Desroche’s “cooperative quadrilateral”

106 Hiez, “Are Cooperatives Part of Social and Solidarity Economy?”

the board and members on one side, and managers and employees on the other. This would suggest a disconnect between the members (and those they elect) and those working in and running the co-operative. Another split could be seen across a horizontal line – with members and employees split from a grouping of managers and the board. There are any number of potential splits depending on the nature of the breakdown.

A more recent re-interpretation of the model sees it as a system to be held in dynamic tension by the different groups within it.<sup>107</sup> The goal is to ‘keep the quadrilateral in equilibrium by maintaining a healthy tension’ between the different groups.

Cariou develops this model looking at different ‘missions’:

- Political mission, set by members.<sup>108</sup>
- Strategic mission, set by the board.
- Operational mission, set by managers.

Cariou uses the metaphor of a co-operative orchestra playing three scores.

Power within the governance of the co-operative is distributed differently, with:

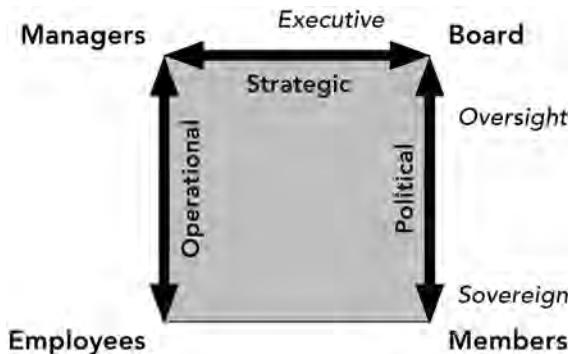
- Sovereign power resting with members in general meeting.
- Oversight power exercised by the board over management.
- Executive power, which is also argued to rest with the board.

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107 Cariou, “Applying Henri Desroche’s “cooperative quadrilateral”

108 Cariou, “Applying Henri Desroche’s “cooperative quadrilateral”, 5: “The use of the word “political” here is intentional. It seems to us that in order to form an organization, you need some political mission, whether it remains corporatist within the cooperative micro-republic, or whether it has some larger goal of social transformation”.

Displaying together these groups (shown in bold), missions (labelled within the square), and distributions of power (in italics), you see.<sup>109</sup>



You may find co-operatives without all four distinct groups. For instance, you may have a worker co-operative where all employees are members. It is suggested this then becomes a triangle, merging the member and employee category. This may however not be necessary, as in practice, worker co-operatives will often have individuals serve a probationary period as an employee before bringing them into membership or have individuals serving in specialist roles within the co-operative (e.g. human resources) which may see them distinguishing between their role as a member from their role as an employee.

In the case of a fully-mutual housing co-operative, you may find that the same people are the members, board, 'managers', and 'employees' – in volunteering their time on the upkeep and management of the property. This model could become less useful in those circumstances. However, while the same few people may fulfil each role, each role is different. In some cases, the difference is legal. As directors, people need to exercise fiduciary duties. They may separately act as members on certain key votes. It is possible too that there may be tensions between the allocation of work within the

<sup>109</sup> This author brings together in one diagram the work of Desroche as modified by Cariou (above).

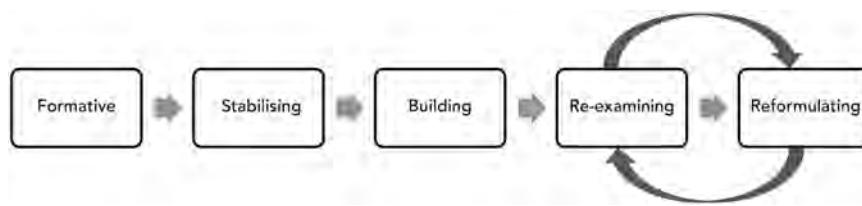
property, the management of its affairs, and the decision making, suggesting this model may still provide a useful diagnostic tool.

In a multi-stakeholder co-operative the 'member' category may be broadened to include multiple types of members, like employees, consumers, supporters. In those cases, mechanisms are needed within the governance to harmonise the interests to reach equitable and democratic decisions, without which the 'political' mission cannot be set.

The model is not without its limitations, particularly within group structures.<sup>110</sup>

## Co-operative lifecycle

The operation of a co-operative is not static. MacPherson contextualises the lifecycle of a co-operative:<sup>111</sup>



The last two phases are said to be repeated stages for co-operatives to re-examine and reformulate their 'vision and practices'.<sup>112</sup> Examples of strategic renewal in consumer co-operatives have recently been explored in detail.<sup>113</sup>

Cook has conceptualised a more detailed lifecycle model for co-operatives.<sup>114</sup> This sees stages along a bell curve starting with:

110 Ory, Gurtner and Jaeger, "The challenges of recent changes", as an example.

111 Adapted from the version: MacPherson, "Mainstreaming some lacunae", 190

112 MacPherson, "Mainstreaming some lacunae", 190

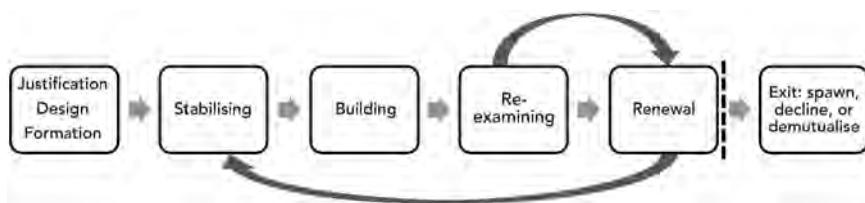
113 Wilson, Webster, et al., *The Consumer Co-operative Sector*

114 Cook, "A Life Cycle Explanation"

- Economic justification.<sup>115</sup>
- Organisational design – including the governance features and rules of the co-operative.
- ‘Growth-Glory-Heterogeneity’ – during which stage members and employees ‘tinker’ with the operation of the co-operative to mitigate risks/solve problems.<sup>116</sup>
- Recognition and introspection – usually at a time at which the health of the co-operative has declined.
- Choice – what to do next.

This last point is unpacked further, with co-operatives said to be faced with a choice between: maintaining the status quo, spawning into new connected entities, ‘exiting’ – which may include demutualisation, or reinvention. Byrne helpfully adapts this model focusing on ‘regeneration’ rather than ‘reinvention’.<sup>117</sup>

Taking these suggestions, and amalgamating with modification, we get:



Where there is no renewal, or closure of the co-operative (e.g. dissolution), that can leave demutualisation, or changes to the structure of the

115 Though this author suggests this could also be articulated more broadly as the existence of members economic, social and cultural needs, that are to be met economically.

116 In the sense of the emergence of divergent views/preferences of the goals of the co-operative.

117 Byrne, “Cooperative Lifecycle Framing”; for strategic renewal within co-operatives: Wilson, Webster, et al., *The Consumer Co-operative Sector*

co-operative that move it away from its co-operative identity (e.g. loss of democracy). This may happen formally and distinctly – such as a vote to convert to an investor-owned firm, or gradually/informally – through the erosion of co-operative features such as democracy. This is often articulated as ‘degeneration’.

Bretos, Errasti, and Marcuello set out a lifecycle approach<sup>118</sup> charting within it a change to the operation of democracy within the co-operative:

- Conquest – based on idealism and commitment, with direct member democracy.
- Economic consolidation – with growing member apathy and growing conflict between idealists and managers.
- Coexistence – with representative democracy and an increase in management power, as a first symptom of degeneration.
- Administrative power – with managers assuming total control.

This is followed by either a stage seeing the co-operative continue (regeneration), or an event ending the organisation’s life as a co-operative:

- Regeneration – where the issue of democratic decline is recognised and addressed, and the co-operative continues.
- Institutional isomorphism (degeneration) – where the business may continue, but no longer as a co-operative.
- Dissolution and exit from industry, where the business (and thus the co-operative itself) no longer operates.

This is not however inevitable.<sup>119</sup>

## Degeneration (isomorphism)

Changes to co-operative governance – whether in design or execution, can

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<sup>118</sup> Bretos, Errasti, Marcuello, “Is there life after degeneration?”

<sup>119</sup> Cornforth, “Patterns of Cooperative Management”; Byrne, “Cooperative Lifecycle Framing”; Cook, “A Life Cycle Explanation”; Bretos, Errasti, Marcuello, “Is there life after degeneration?”

distort or degenerate co-operative identity. This can lead to institutional isomorphism,<sup>120</sup> with the co-operative starting to look more like something else – such as a traditional investor-owned firm. There are different causes for this.<sup>121</sup> Examples include:

- Deliberate and intentional changes to the governance structure e.g. admission of investor members.
- Unconscious mission-creep over time, failing to focus on members and instead moving solely into charitable or benevolent activity.
- Management capture – whether deliberate or unconsciously incremental, without any actual changes to governance design.

Adverse impacts to co-operative identity, from a governance perspective, could arise from changes to any of the following:

- Why – the purpose of the co-operative. Whether its goals are economic, social, and cultural, or instead simply an economic enterprise; or at the other end of the spectrum, a social or cultural organisation that ceases to carry on any business.
- Who – whether the benefit is primarily for members, investors, managers, the state, community at large, and to what extent. While this may be reflected in a change in ownership, it need not be. It may be seen through practical reality of the activity carried on by the co-operative.
- How – the way in which the benefit is to be gained. Whether this is from the participation by a member in the business of the co-operative (whether through providing their labour, purchasing goods/services, or supplying products), or a return on capital investment, or executive pay.
- By – whether the co-operative is democratically controlled by its members, or is there management capture, interference from the state,

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120 The focus here is on what has been referred to as non-congruent institutional isomorphism: Bager, "Isomorphic Processes"

121 Spear, "Co-operative Hybrids"; Spear, "From co-operative to social enterprise"

or investor-control whether through shares or contractual agreements.

A co-operative could start to look like something else:

- An investor-owned firm or other for-private-profit firm who makes money to return to shareholders/owners based on their financial stake in the entity.
- A benevolent, charitable or community organisation where benefit is delivered by one group of people, to another, irrespective of the beneficiaries' membership of the co-operative. Here, the value of self-help would be missing.
- Part of the State – as a quasi-public entity carrying out work for, and under the control of, part of government. This could for instance see most of the board being appointed by Government, or work carried out exclusively under government contracts which mandate much of the ways and means of delivery.

If we were to display this in a simplified or generalised way, it could look as follows.<sup>122</sup>

The starting point would be an ideal co-operative, operating as an enterprise, owned by its members, while meeting their economic, social, and cultural needs.

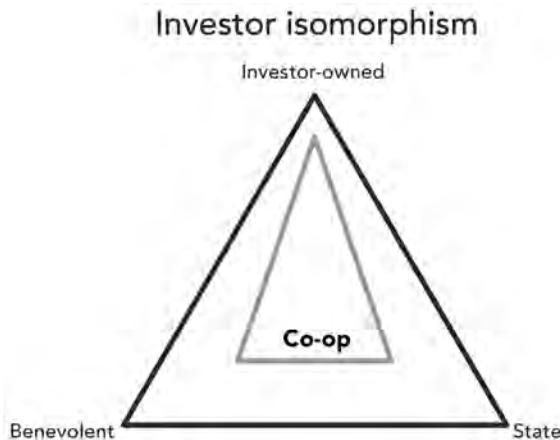
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122 These images have been created by the author, in a simplified attempt at showing the distortions that can take place. A more comprehensive mapping showing the multitude of combinations in overlapping circles has been detailed: Spear, "Formes cooperatives hybrides"

The points of the triangle represent the extremes of i) the private investor-owned firm; ii) the State; and iii) a benevolent or charitable community entity.



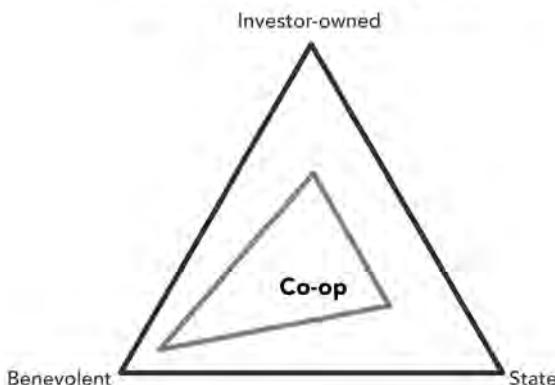
If a co-operative were to admit investor members – giving them voting rights in accordance with their share capital, then it risks looking more like a traditional investor-owned firm:



Appropriate countermeasures could be put into place to prevent this, where external investment is needed.<sup>123</sup>

Co-operative identity does involve concern for community, social responsibility, and sustainable development (see *Chapter 13 – Co-operatives and social responsibility*). However, co-operatives are also primarily providing benefits to members through their participation in its business. Membership must be voluntary, and individuals should be able to leave a co-operative. Co-operatives providing general benefit, not operating with the value of self-help, may start to look more like a charitable or benevolent organisation.

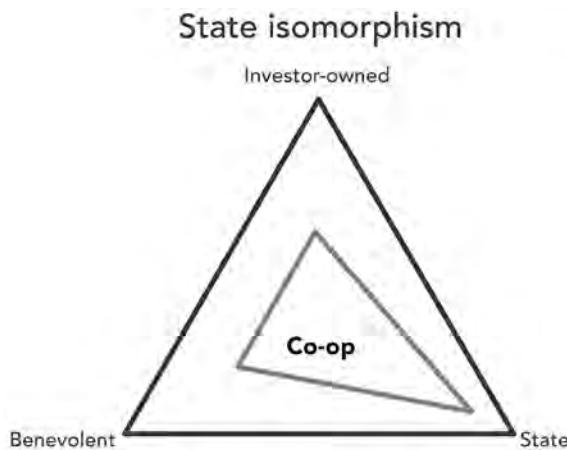
### Benevolent isomorphism



Lastly, a co-operative could either be created by, or grow closer to the state – whether in the design of its governance (e.g. control of the board), or through contracts or other agreements.

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123 Birchall, *Good governance in minority investor-owned co-operatives*; Financial Conduct Authority, "Handbook, RFCCBS", para 6.1.28 seq. in relation to non-user investor members.



With all of these, the changes may be formal or informal (i.e. de facto) and can occur at any point in the lifecycle of the co-operative. These examples are of course simplified – and in reality, myriad combinations and permutations exist.

The antidote is adherence to the ICA Statement, both in the design and execution of the governance of the co-operative, which can be supported by governance codes.

## Conclusion

When you've seen one co-operative, you've seen one co-operative. The associative characteristics of a co-operative are important context impacting its governance.

Much of the world of corporate governance applies to co-operatives in the same way it applies to other businesses. There will be a need for adaptation where it impacts co-operative identity. This may be seen in the formal governance design – such as board composition and voting arrangements, or in ways of working – to better facilitate member democratic control. Co-operative governance theories seek to address this.

Like all businesses, co-operatives go through a lifecycle. Degeneration is

not inevitable. Increased focus on strategic renewal at the appropriate time, and member democracy throughout the lifecycle, may help co-operatives continue to function co-operatively.

## CO-OPERATIVE LAW

In this context, co-operative law is law directly relating to co-operatives, and in particular, their registration.<sup>1</sup> Co-operative law is not a well-established field of law,<sup>2</sup> though attempts are underway to address this.<sup>3</sup> It is said that 'the ideal co-operative law would be that which would give every encouragement to genuine co-operation and every discouragement to shams'.<sup>4</sup>

In this chapter we briefly explore co-operative law from a jurisprudential perspective, before moving to look at an international overview. This is followed by more detail on the law within the UK. As much of the co-operative law still owes its drafting to 19<sup>th</sup> century legislation, a detailed section follows the legislative history from inception to present-day.

There are various phrases used throughout this chapter which warrant some further explanation. The use of 'firms', 'businesses' and 'organisations' are generally all referring to the same thing.

A 'body corporate' is a 'legal person', often also known as a 'juridical person'.<sup>5</sup> It is easier to explain what this is by explaining what it is not. You, as a human, are a 'natural person' – you can enter into contracts, sue people, be sued, make decisions etc. If a group of humans get together to run a business, the question arises as to who owns any assets (e.g. machinery). Who

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1 Cracogna, Fici and Henry, *International Handbook of Cooperative Law*, 9

2 As to whether it is or should be a 'field' of academia will no doubt be much debated. Some see it as sitting within organisational law more generally: Fici, "The Essential Role of Cooperative Law"

3 IUS Cooperativum, "International Journal of Co-operative Law"

4 Fay, *Co-operation at Home and Abroad*, 357. Similarly: Egger, *The Co-operative Movement and Co-operative Law*, 14: "... the wording must be wide enough to take in all types of genuine co-operative society and at the same time narrow enough to exclude pseudo-co-operatives."

5 There are views within jurisprudence suggesting these things are different: Hansmann and Kraakman, "The Essential Role of Organizational Law"

enters into the contracts to buy or sell goods and services? One answer is to create a legal person. An entity, a body, created by law, and given a personality (a 'legal personality'). That person can now own property, enter into contracts, sue and be sued etc. It can do so because the law says it can. That legal person must be owned by people, and managed by people – usually shareholders, and a board of directors with managers appointed for the day-to-day operations.

A company is one example of a legal person. There are many others, including a co-operative society. These are types of 'legal structure'. These may also be referred to as 'legal forms', 'corporate forms', 'legal entities' etc.

The act of setting up a body corporate is called 'incorporation'.

Alternatively, property for a group of people running a business can be held 'on trust' with a trustee appointed to hold that property to use exclusively for the reasons set out in a document establishing that trust (e.g. a trust deed). Or the property may be held by all of those involved, as equal 'partners' in the business. This may work well where there are a few individuals but will be more challenging where there are many.

Co-operatives exist using a range of legal structures, or none (e.g. unincorporated association, or general partnerships). The position differs both within the UK, and country by country.

## **Incorporation and co-operatives**

It is generally assumed that incorporation as a legal entity is a good thing, and it is certainly common in many countries, especially the UK.

Co-operatives have long used legal structures, starting with the Friendly Societies Act 1793. Legislative advances for co-operatives have generally been celebrated as important successes.<sup>6</sup>

The International Co-operative Alliance (ICA), in its Blueprint for a

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6 Cole, *A Century of Co-operation*; Acland and Jones, *Working Men Co-operators*, 18

Co-operative Decade, called out the importance of supportive legal frameworks.<sup>7</sup> International Labour Organization (ILO) Recommendation 193 specifically calls for institutional frameworks allowing for registration of co-operatives.<sup>8</sup>

Organisational law more generally is argued to be of essential importance enabling the partitioning of assets (e.g. property) within an entity separate from those of the individual persons involved in it.<sup>9</sup> One view is that legal persons serve as a ‘nexus of contracts’ with the firm as the common party with whom each person contracts.<sup>10</sup>

Elinor Ostrom, in her work ‘Governing the Commons’ notes that successful management of common pooled resources (e.g. fishing stock in an area) requires clear boundaries and ability to exclude ‘outsiders’ from expropriating those resources, with underpinning rules.<sup>11</sup> Creating a legal structure would be one way in which this can be achieved.

Where an organisation has a particular purpose – such as in the case of co-operatives in serving their members, it has been argued that the law has an essential role in helping define that identity.<sup>12</sup> It has been said that the law should have a role ‘as a structuring element of cooperatives; i.e. it emphasizes the normative aspect of an entity whose associative and enterprise activities create an institutional reality.’<sup>13</sup>

Conversely, it has been argued that incorporation of co-operatives has a disciplinary and depoliticising effect on them, subjecting them to market discipline.<sup>14</sup> Recent examples of developments within ‘new cooperativism’

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7 Mills and Davies, *Blueprint for a Co-operative Decade*

8 ILO Recommendation 193, art6

9 Hansmann and Kraakman, “The Essential Role of Organizational Law”

10 Hansmann and Kraakman, “The Essential Role of Organizational Law”, 391; and Chapter 9 – Co-operative economics, in this text.

11 Ostrom, *Governing the Commons*, 90-91

12 Fici, “The Essential Role of Cooperative Law”, 149

13 Henry, *Guidelines for Cooperative Legislation*, 40

14 Mulqueen, “Constituting the Co-operative”, 202-205; Mulqueen, “UKSCS Annual Lecture”

emphasise the importance of human relation, and autonomy of action and have been critical of registration (incorporation) of co-operatives.<sup>15</sup>

One must also draw a distinction between legislative expectations of how an entity will operate, and the reality of what it does (and whether deviations from the expectations are enforced against).

It has been argued that all firms and governments are forms of co-operatives,<sup>16</sup> with firms operating as a kind of 'capital co-operative' – where the members provide the capital (share capital) to enable the firm to meet their needs (financial return). This risks overlooking the distinct nature of co-operative membership<sup>17</sup> in that members are transacting with the co-operative<sup>18</sup> – whether through their purchase of goods or services (consumer co-operative), provision of labour (worker co-operative); or supply of provision of goods and services (producer).

This perhaps emphasises the usefulness of legal clarity, with countries taking different approaches to how this is achieved.

## International overview<sup>19</sup>

As you may expect, each country has its own system of law impacting co-operative forms and structures reflecting political and context, and the underlying legal systems within those countries.

Some countries operate on a civil legal system with single codes of law in operation, such as in France and Germany. Others, like the UK and USA operate common law systems. And some counties operate a hybrid of the two.

Within those common law systems you can contrast between those like the USA who have a codified constitution, and those like the UK who have

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15 Svensoon, "A few drops of plurality", 41

16 Hansmann, "All firms are cooperatives"

17 Pönkä, "The Legal Nature of Cooperative Membership"

18 Fici, "The Essential Role of Cooperative Law", 154

19 Cracogna, Fici and Henry, *International Handbook of Cooperative Law*, provide detailed country-by-country analysis.

an uncodified constitution.<sup>20</sup>.

The extent to which provision for co-operatives feature within the constitution of a country differs greatly, with far greater provision in countries in South America compared to Europe.<sup>21</sup>

You must also account for the extent of devolution within countries – particularly where you have a clear distinction between federal and state laws e.g. in the USA or Australia. And within the UK, where many matters relating to co-operatives are devolved between Great Britain, and Northern Ireland.

The approaches to legislating for co-operatives vary, including through:<sup>22</sup>

- A single piece of legislation dealing exclusively with co-operatives.<sup>23</sup>
- Multiple pieces of legislation specific to co-operatives,<sup>24</sup> often varying by the type of co-operative (e.g. worker, producer etc.), by subject matter (e.g. auditing, mergers, insolvency),<sup>25</sup> or by business activity (e.g. farming, fishing etc.).
- A single piece of legislation for businesses more generally, within which co-operatives are included (whether explicitly<sup>26</sup> or not<sup>27</sup>).

The UK is unusual in not legislating for a definition of co-operatives.<sup>28</sup> Co-op-

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20 Norton, *Governing Britain*. The UK constitution is often incorrectly stated to be 'unwritten'. It is more accurate to say it is uncodified.

21 Douvitsa, "National Constitutions"

22 Cracogna, Fici and Henry, *International Handbook of Cooperative Law*, 11; Egger, *The Co-operative Movement and Co-operative Law*

23 Münkner, *Ten Lectures on Co-operative Law*, 32: Germany, and most English-speaking countries within Africa

24 Münkner, *Ten Lectures on Co-operative Law*, 33: Japan

25 Cracogna, Fici and Henry, *International Handbook of Cooperative Law*, 11 fn26: Austria

26 Münkner, *Ten Lectures on Co-operative Law*, 32: Switzerland

27 Münkner, *Ten Lectures on Co-operative Law*, 32: Denmark

28 Cracogna, Fici and Henry, *International Handbook of Cooperative Law*, 9. Finland sets out 'traits': Douvitsa, *ICA-EU Partnership Legal Framework Analysis*, 9

eratives can use any legal structure (except for credit unions, who must register through the Credit Unions Act 1979). Section 2(2) of the Co-operative and Community Benefit Societies Act 2014 provides that to be a co-operative society, you must 'be a bona fide co-operative society', leaving it to the registering authority to determine what that is – save for the exemption at s2(3) effectively providing that a co-operative cannot be an investment vehicle. It is therefore useful to look at examples from other countries to provide a picture of the different approaches to co-operative law.

In Germany all co-operatives are registered under the Co-operative Societies Act 1889 (Genossenschaftsgesetz) which provides flexibility for different types of co-operatives to register.<sup>29</sup> Special separate rules exist covering specific matters, e.g. banking. As is common with German companies, societies operate a two-tier structure of a board of directors, and supervisory council, with a members meeting (general meeting) having ultimate authority. The legislation does not expressly reference the International Co-operative Alliance Statement of Identity, but it is said that the Statement is reflected in the substance of the legislative provisions.

South Africa also has a single co-operative act, Co-operative Act 14 of 2005, which brought in lighter touch regulation by the registrar, and leverages the International Co-operative Alliance definition of a co-operative as its basis.<sup>30</sup>

By contrast, Japan has specific legislation for different types of co-operatives.<sup>31</sup> Ten types of legislation cover co-operatives ranging from agricultural co-operatives, consumer co-operatives, fishery co-operatives, banking co-operatives, and as of 2020, worker co-operatives. An unusual feature of legislation is that laws in Japan effectively prohibit trade with non-members (within certain percentages).

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29 Münker, *Legal Framework Analysis National Report: Germany*

30 Theron, *Legal Framework Analysis National Report: South Africa*

31 Kurimoto, *Japan Legal Framework*

In the USA,<sup>32</sup> there is no federal co-operative law,<sup>33</sup> with responsibilities resting with each state. There is a tendency toward sector specific co-operative laws (e.g. agriculture, housing, credit, insurance etc.) though some states also provide general purpose co-operative law.<sup>34</sup>

As well as laws facilitating registration, we also find examples of legislation targeted at facilitating *support* for co-operatives in specified circumstances. For example, in Italy, the Marcora Law seeks to support workers setting up worker co-operatives to buy their firm if they risk losing their jobs due to the closure of that firm.<sup>35</sup>

The content of co-operative law varies. Ammirato has compared co-operative legislation from 26 jurisdictions around the world against the ICA Principles.<sup>36</sup> For example, all countries sampled included a requirement for open membership and most included requirements around democratic member control. On reserves, 16 countries required co-operatives to make contributions into reserves of some type. But in only 8 countries were surpluses not capable of distribution to members on solvent dissolution.<sup>37</sup>

## Supranational law

As well as country-specific legislation, there are examples of co-operative law sitting above/across countries, a few of which are dealt with here. The phrase 'supranational law' is being used loosely to refer to these arrangements. These take different forms in that some are frameworks for countries

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32 Hall et al, *National Report for the United States of America*

33 Though credit unions can choose to incorporate under either a state charter, or federal charter (Federal Credit Union Act 1934), with most (but not all) subject to a degree of federal regulation through participation in the National Credit Union Share Insurance Fund.

34 The USDA and NCBA provide a database of state cooperative legislation: <https://ncbaclusa.coop/resources/state-cooperative-statute-library/>

35 Vieta, "Savings jobs"

36 Ammirato, *Cooperative Enterprises*, 188-189, provides a summary table

37 Ammirato, *Cooperative Enterprises*, Chapter 6

to choose to adopt, whereas others enable cross-jurisdictional operation by a co-operative registering under a supranational piece of legislation.

The European Co-operative Society (SCE) is an example of the latter, enabling an entity to register under it as a co-operative and then operate anywhere within the European Union. To give parity with European Companies, the European Union adopted Council Regulation No 1435/2003 on the Statute for a European Co-operative Society Regulation in 2003. The Regulation came into force in 2006. They were detailed in their nature, including capital requirements, voting requirements, and other matters relating to governance.

The SCE regulation did not regulate co-operatives within each member state. Instead it created a type of co-operative, the European Co-operative Society. It cross-referenced national law in individual member states and is said to have effectively created 27 new types of legal entity.<sup>38</sup> Though, its commencement did prompt the then Financial Services Authority (now Financial Conduct Authority) to amend its policy approach on 'non-user investor shares' in co-operatives.<sup>39</sup> This followed Article 59(3) of the SCE model, which allowed for non-user investor members to have up to 25% of voting rights. The FSA, and its predecessors, previously prohibited non-user investor members. The policy can now be found reflected in current FCA guidance.<sup>40</sup>

One society within the UK did participate in a merger into a SCE. The UK Arla Farmers Cooperative Limited (registration number 32262R)<sup>41</sup> merged with two other entities to form a SCE based in Denmark in June 2018.<sup>42</sup> There were no SCEs registered within the UK.

Following the UK's exit from the European Union, it is no longer possible

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<sup>38</sup> Henry, *Guidelines for Cooperative Legislation*, 46

<sup>39</sup> Cook and Taylor, *Investor Membership*

<sup>40</sup> Financial Conduct Authority, "Handbook RFCCBS", para 6.1.30

<sup>41</sup> Financial Conduct Authority, "Mutuals Public Register"

<sup>42</sup> Arla Foods 2018 SCE-selskab med begraenset haeftelse (registration number 39902362)

to set up or operate an SCE within the UK.<sup>43</sup>

The SCE Regulation more generally is seen to have been of limited effect<sup>44</sup> with only around 24 created.<sup>45</sup>

The Principles of European Cooperative Law (PECOL) are worthy of note.<sup>46</sup> It is not a legally binding text issued by any public body, but instead the work of respected legal scholars drawing on national legislation across Europe. Published in 2017, the work seeks to distil legal principles supporting the ICA definition of a co-operative, reflecting European legal traditions. The work focuses on definition and objectives; governance; financial structures; external control; and co-operation amongst co-operatives.

The MERCOSUR countries<sup>47</sup> adopted a co-operative statute in 2009.<sup>48</sup> To be effective, this must be transposed into national law by the individual member countries. Unlike the SCE Regulations, it contains limited provisions impacting the governance of an entity, with them instead to operate under national law.<sup>49</sup> So far, the statute has not obtained the approval of all member states.

OHADA<sup>50</sup> created a ‘uniform law’ on co-operatives directly applicable to

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43 European Commission, “Notice to Stakeholders”. The regulation was not onshored, Article 2 requires EU residence.

44 Douvitsa, *ICA-EU Partnership Legal Framework Analysis*, 5

45 Karakas, *Briefing: Cooperatives: Characteristics*, 6

46 Fajardo et al, *Principles of European Cooperative Law*

47 MERCOSUR, “In Brief”: Southern Common Market (based on its initials in Spanish), with the founding members of: Argentina, Brazil, Paraguay, and Uruguay, and subsequent members of Venezuela and Bolivia (still in the accession procedure).

48 Estatuto de las Cooperativas (Mercosur/PM/SO/ANT.NORMA 01/2009)

49 Cracogna, *Regional report: Americas*, 6

50 Organization for the Harmonization of Business Law in Africa (based on its initials in French: Organisation pour l’harmonisation en Afrique du droit des affaires). The OHADA is an intergovernmental organization and is open to any member state of the African Union, with predominantly French-speaking countries in membership.

all member states of OHADA. It leverages the International Co-operative Alliance Statement of Identity definition of a co-operative.<sup>51</sup>

## International law

The ILO was established in 1919 and is an agency of the UN and is tri-partite with representation from: governments, business, and workers (trade unions). Its focus is on the world of work.<sup>52</sup> UK is a founding member of the ILO.<sup>53</sup>

The ILO can make Recommendations. It agreed Recommendation 193 on the 'Promotion of Co-operatives' in 2002.<sup>54</sup> The UK voted in favour of the Recommendation.<sup>55</sup>

It is argued that this creates international law.<sup>56</sup> Article 19(6)(d) of the ILO constitution does for instance require its members to report on matters dealt with by a Recommendation, showing the extent to which effect has been given to it.<sup>57</sup> Recommendations are distinct from conventions, and do not have the same effect.<sup>58</sup> Recommendations are 'non-binding guidelines'.<sup>59</sup>

The ILO Recommendation 193 imports the text of the ICA Statement and

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51 Cracogna, Fici and Henry, *International Handbook of Cooperative Law*, 95

52 Smith, *Promoting cooperatives: An information guide to ILO Recommendation No. 193*, 9-10

53 International Labour Organization, "United Kingdom ILO Cooperation"

54 International Labour Organization, "Recommendation 193"

55 International Labour Organization, "Final Record vote"

56 Henry, *Guidelines for Cooperative Legislation*, 47; Cracogna, Fici and Henry, *International Handbook of Cooperative Law*, 66-67

57 International Labour Organization, *Handbook of procedures*, 30

58 Statute of the International Court of Justice, art38 gives that court a remit over conventions, but not recommendations.

59 International Labour Organization, "Conventions, Protocols and Recommendations". Münkner, "Further Together": notes the purpose is to 'recommend' rather than 'impose', based on a country's own needs and experiences.

makes calls on governments to ensure a suitable legal framework is in place to support co-operatives.

The FCA, in their guidance under the Co-operative and Community Benefit Societies Act 2014 expressly reference ILO Recommendation 193 as a basis for adopting the text of the ICA Statement.<sup>60</sup>

ILO Recommendation 193 replaced the earlier ILO Recommendation 127, passed in 1966 and aimed at the governments of developing countries.<sup>61</sup> Recommendation 127 includes more granular detail than Recommendation 193, and may still be of interest.<sup>62</sup>

## Within the UK today

There is no legislative definition of a 'co-operative' within UK law. Co-operatives are free to use any type of legal structure they wish, or none (i.e. an unincorporated association or general partnership).<sup>63</sup> The use of the word 'co-operative' in business names is regulated,<sup>64</sup> requiring criteria to

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60 Financial Conduct Authority, "Handbook, RFCCBS", para 4.3.2

61 International Labour Organization, "Recommendation 127"

62 Münkner, "Further Together": minutes 8-12 (Hagen Henry)

63 In England, general partnerships and limited partnerships are arrangements between a number of people to carry on business with a view to profit. They are not bodies corporate. This is distinct from Limited Liability Partnerships. Unincorporated associations are also an arrangement between a group of people for a particular purpose, without being bodies corporate – they have rules or a constitution. Unincorporated associations tend to not trade for profit.

64 Companies Act 2006, ss55 and 1194 relate to names. The Company, Limited Liability Partnership and Business Names (Sensitive Words and Expressions) Regulations 2014 (SI 3140) set out the words covered, which include 'Co-operative' (Schedule 1). 'Co-operative Society' as a reference to a particular type of legal form is covered separately in Schedule 2 to The Company, Limited Liability Partnership and Business (Names and Trading Disclosures) Regulations 2015 (SI. 15).

be met.<sup>65</sup>

There are a wide variety of different types of legal structure (i.e. a corporate form that is a body corporate with its own legal personality) available for businesses in the UK including:<sup>66</sup>

- Private companies limited either by share capital or by guarantee<sup>67</sup>
- Public limited companies<sup>68</sup>
- Community Interest Companies – either public or private; and limited either by share or guarantee<sup>69</sup>
- Limited Liability Partnerships<sup>70</sup>
- Charitable Incorporated Organisations<sup>71</sup> (and Scottish Charitable Incorporated Organisations)<sup>72</sup>
- Building societies<sup>73</sup>
- Friendly societies<sup>74</sup>

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65 Companies House, "Co-operative"

66 This list is not complete as it omits the less commonly used types of legal structure e.g. unlimited companies.

67 Companies Act 2006, with Companies House as the registering authority

68 Companies Act 2006, with Companies House as the registering authority

69 The Companies Act 2006, Companies (Audit, Investigations and Community Enterprise) Act 2004 (with underlying detail in The Community Interest Company Regulations 2005). Community Interest Company Regulator and Companies House as the registering authorities.

70 Limited Liability Partnership Act 2000, with Companies House as the registering authority.

71 Charities Act 2011, with the Charity Commission for England and Wales as the registering authority.

72 Charities and Trustees Investment (Scotland) Act 2005, with the Office of the Scottish Charity Regulator as the registering authority.

73 Building Societies Act 1986, with the Financial Conduct Authority (FCA) as the registering authority

74 Friendly Societies Act 1992, with the FCA as the registering authority.  
NB – it has not been possible to register a society under the Friendly Societies Act 1974 since the commencement of the relevant provisions of the Friendly Societies Act 1992 in January 1993.

- Credit unions<sup>75</sup>
- Co-operative societies<sup>76</sup>
- Community benefit societies<sup>77</sup>

Some of these legal structures are specific to the type of business being carried on. For instance, a credit union in Great Britain must register under the Credit Unions Act 1979, and must be applying for permission under the Financial Services and Markets Act 2000 (FSMA) for deposit-taking.<sup>78</sup>

Others – like the company structures – are open to businesses undertaking any type of economic activity.

Some structures contain underlying requirements as to the purpose of the business. For example, Charitable Incorporated Organisations must be charities in law.<sup>79</sup>

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75 In Great Britain, the Credit Unions Act 1979 under the Co-operative and Community Benefit Societies Act 2014; and in Northern Ireland The Credit Unions (Northern Ireland) Order 1985, and before that – the Co-operative and Community Benefit Societies Act (Northern Ireland) 1969. The FCA is the registering authority under all of these.

76 In Great Britain, the Co-operative and Community Benefit Societies Act 2014; and in Northern Ireland: Co-operative and Community Benefit Societies Act (Northern Ireland) 1969. The FCA is the registering authority. For ease of reference included here are ‘pre-commencement societies’ – those registered before 1 August 2014 in Great Britain, (6 April 2018 in Northern Ireland) meeting the bona fide co-operative condition for registration, though legally they are distinct.

77 In Great Britain, the Co-operative and Community Benefit Societies Act 2014; and in Northern Ireland: Co-operative and Community Benefit Societies Act (Northern Ireland) 1969. The FCA is the registering authority. For ease of reference included here are ‘pre-commencement societies’ – those registered before 1 August 2014 in Great Britain, (6 April 2018 in Northern Ireland) meeting the community benefit condition for registration, though legally they are distinct.

78 Credit Unions Act 1979

79 Charities Act 2011, pt11

It is helpful to distinguish between:<sup>80</sup>

- Registering authorities (previously more commonly ‘Registrars’); and
- Regulators

Here the term ‘registering authority’ is used to refer to the organisation responsible for registering a business as a legal person (corporate body). That gives it its legal structure – the ability to sue and be sued in its own name, agree contracts etc. Members in these types of structures have their own personal liability limited to the amount of their share capital or guarantee (limited liability).

Regulators is used here to refer to organisations who have a legal responsibility to regulate the *activity* of an organisation (including how it is conducted). Usually, it is the business activity itself that subjects an organisation to regulation. For example:

- Selling alcohol requires you to have a licence from the local authority, who then have a regulatory role in relation to that.
- Providing personal care services to people may require you to be regulated by the Care Quality Commission.
- Carrying out certain financial service activity (like taking deposits or offering residential mortgages) may require regulation from the Prudential Regulation Authority and/or Financial Conduct Authority.
- The Information Commissioner’s Office regulates information law.

And of course, businesses are required to report to His Majesty’s Revenue and Customs (HMRC) in relation to tax.

Some entities will be required to report to a registering authority and numerous regulators because of their range of activity.

To add a layer of complexity to the picture, some registering authorities are also regulators. For example:

- The Charity Commission for England and Wales has long been a

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<sup>80</sup> Often the term ‘regulator’ is used more broadly to cover both – e.g. Legislative and Regulatory Reform Act 2006

regulator of charity law. Charities use different types of legal structure, with many operating as companies limited by guarantee. When the Charitable Incorporated Organisation legal structure was created,<sup>81</sup> they became the registering authority for that too – giving them a dual role for those types of charities.

- The FCA is a financial services regulator under FSMA but is separately and distinctly a registering authority under the mutuals legislation such as the Co-operative and Community Benefit Societies Act 2014.<sup>82</sup> Some mutual societies will however be both *registered* by the FCA under mutuals legislation and authorised for a financial services activity – for example building societies and residential mortgages.<sup>83</sup>

Where a business is incorporated under one of the legal structures available it gains certain advantages including limited liability. This means that members (shareholders) are generally not liable for any amount of money greater than their investment should things go wrong.<sup>84</sup> This obviously puts creditors and third parties at risk of financial loss, and was subject to much debate when first legislated for in 1855.<sup>85</sup> All corporate bodies are therefore subject to legal requirements to be included in a public register and to submit accounts that are available to public inspection.<sup>86</sup>

Within the UK, there is no definitive list of co-operatives, owing to the lack of legislative definition or requirement to use particular legal structures.

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81 Legislated for under the Charities Act 2006. Part of the rationale for the change was to avoid the need for dual reporting to both Companies House and the Charity Commission: Legislaton.gov.uk, "Explanatory Memorandum"

82 The registration function is a FSMA function under the Financial Services Act 2012 (Mutuals Order) 2013, but, FCA's statutory objectives under FSMA are disengaged – see s1B(7) FSMA.

83 Financial Conduct Authority, "The FCA and mutual societies"

84 Assuming there is no evidence of fraud, negligence etc.

85 Micklethwait and Woolridge, *The Company*, 55

86 Companies Act 2006, s1099

Co-operatives UK do however produce useful data<sup>87</sup> of entities they consider to be co-operatives by type of legal structure (see Table 7).<sup>88</sup>

The 'Society' legal structure is the most prevalent. This refers to societies registered under the Co-operative and Community Benefit Societies Act 2014,<sup>89</sup> previously the 'Industrial and Provident Society' legislation. This was legislation designed specifically for co-operatives and is covered in more detail below.

Where co-operatives use types of legal structure other than the society form, they are adapting it to suit their purposes. The company legal structure does not expressly or specifically cater for co-operative registration. Instead, companies adapt the memorandum and articles of association required for the establishment of a company.<sup>90</sup>

Companies, with more than 5 million registered,<sup>91</sup> are the most widely used legal structure by businesses in the UK.<sup>92</sup> They are the second most prevalent type of legal structure used by co-operatives in the UK, but insignificantly so. These are a mix of private companies limited by shares, and private companies limited by guarantee. Many worker co-operatives established in the 1970s and 1980s used the 'private company limited by guarantee' model.<sup>93</sup>

Limited liability partnerships became available after 2000 and were a way to create a body corporate structure for individuals coming together to form a business. They are often used among accountants and lawyers. They do not

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87 Co-operatives UK, "Open Data"

88 There will be differences of opinion on whether everything in this data constitutes a co-operative. For instance, the figures include 'John Lewis Partnership plc', which is an employee-owned trust. The figures also include several community focused entities that some would not consider to be co-operatives.

89 Or Co-operative and Community Benefit Societies Act (Northern Ireland) 1969

90 Co-operatives UK, "Model governing documents"

91 Companies House, "Companies register activities 2022 to 2023"

92 Companies House, "Companies register activities 2022 to 2023"

93 Huckfield, *How Blair Killed the Co-ops*, fn96

require share capital. They have tended to be used by worker co-operatives.<sup>94</sup>

Community interest companies (CICs) can be public or private,<sup>95</sup> and can be limited either by shares or by guarantee. Most are limited by guarantee and therefore do not have share capital.<sup>96</sup> The standard model constitutions provided by the Community Interest Company Regulator do not cater specifically for co-operatives. Instead, adapted models would need to be used.<sup>97</sup> By law, CICs must satisfy the registering authority that 'a reasonable person might consider that its activities are being carried on for the benefit of the community'.<sup>98</sup>

It has been questioned whether entities existing for the general interest of the community are genuine co-operatives.<sup>99</sup>

In the UK, charity law is devolved between England and Wales; Scotland; and Northern Ireland. Though for tax purposes, HMRC use the law of England and Wales. Charities must have exclusively charitable objects and exist for public benefit.

It is difficult to see how a co-operative can be a charity, given the tension between self-help and the need to serve the economic, social and cultural needs of members contrasted with the requirement to serve public benefit. The Charity Commission for England and Wales is on record as saying co-operatives cannot be charities.<sup>100</sup> Though of course there is no bar to

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94 Co-operatives UK, *Simply Legal*, 30-31

95 At 18 August 2023, there is only one active public community interest company based on an advanced search by 'Company type' and 'Company subtype' on Companies House

96 At 18 August 2023, 26,173 CICs out of a total of 30,386 (85%) are without share capital. One is a public limited company. 4,662 (15%) are limited by shares, from Companies House "Advanced Search"

97 Co-operatives UK, "Model governing documents"

98 Companies (Audit, Investigations and Community Enterprise) Act 2004, s35

99 Münkner, *Co-operative Principles and Co-operative Law*, 30-32

100 Charity Commission for England and Wales, "Industrial and provident societies": "Some [Industrial and Provident Societies] are set up as co-operatives, which cannot be charities ..."

charities having members and operating democratically.<sup>101</sup>

## Co-operative and Community Benefit Societies Act 2014

A detailed legal practitioner guide exists covering this legislation,<sup>102</sup> but it is worth drawing out some aspects in the pages that follow.

The FCA is the registering authority under this legislation, succeeding in the registration function in 2013 from the Financial Services Authority (FSA) and before them in 2000, from the Registry of Friendly Societies (and a long line of registrars before then).<sup>103</sup> Societies appear on the Mutuals Public Register<sup>104</sup> – including key details as to their registration, and documents such as their registered rules and annual return and account submissions.

The responsibilities of the FCA are set out in the 2014 Act itself, and in the Mutuals Order,<sup>105</sup> requiring the FCA to maintain arrangements enabling it to determine if people are complying with the legislation.

The FCA have produced guidance setting out their approach to the 2014

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101 Charity Commission for England and Wales, *Membership Charities* (RS7). Also: *Lehtimaki and others (Respondents) v Cooper (Appellant)* (2020) – a supreme court case determining the extent to which members in a charitable company have a fiduciary duty to the single-minded pursuit of the objects of the charity.

102 Snaith, *Handbook*. See Appendix 3 for an annotated bibliography

103 Fuller, *The Law of Friendly Societies*. The line is perhaps not as long as one might expect. The Friendly Societies Act of 1829 brought a role for a barrister, rather than the Magistrates, to register rules. The title of 'Registrar' appeared first in the Friendly Societies Act 1846. See Appendix 1 for further details

104 Financial Conduct Authority, "Mutuals Public Register"

105 The Financial Services Act 2012 (Mutual Societies) Order 2013

Act, giving examples of how societies can achieve compliance.<sup>106</sup>

This act applies in Great Britain and replaced the Industrial and Provident Societies Act 1965.<sup>107</sup> There are four types of society registered under this 2014 Act:

- **Pre-commencement societies** – being societies registered or treated as registered under the Industrial and Provident Societies Act 1965 immediately before the commencement of the 2014 Act on 1 August 2014.<sup>108</sup> These are generally referred to as ‘registered societies’.<sup>109</sup> They were registered to be either i) a bona fide co-operative; or ii) for the benefit of the community (historically referred to informally as ‘bencoms’).
- **Co-operative societies** – these are societies registered from 1 August 2014 on the basis that they are ‘bona fide co-operative societies’<sup>110</sup>
- **Community benefit societies** – registered from 1 August 2014 on the basis that their business is ‘conducted for the benefit of the community’<sup>111</sup>
- **Credit unions** – these are technically registered under the 2014 Act as

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106 Financial Conduct Authority, “Handbook, RFCCBS”. This guidance was first published in November 2015 as Financial Conduct Authority, FG15/12. The finalised guidance followed two earlier consultations. The first: CP14/22 in October 2014, and the second in June 2015 (GC15/4). The feedback received, and responses to it, were summarised in Financial Conduct Authority, FG15/12 – Summary of Feedback Received

107 Similar legislation exists in Northern Ireland: Co-operative and Community Benefit Societies Act (Northern Ireland) 1969, with the FCA also being the registering authority there too. For Northern Ireland references to 1 August 2014 should instead be taken as a reference to 6 April 2018.

108 Co-operative and Community Benefit Societies Act 2014, s150

109 Financial Conduct Authority, “Co-operative and Community Benefit Societies Act 2014”

110 Co-operative and Community Benefit Societies Act 2014, s2(2)(a)(i)

111 Co-operative and Community Benefit Societies Act 2014, s2(2)(a)(ii)

a credit union under the Credit Unions Act 1979.<sup>112</sup>

Covering credit unions would require a separate chapter, and so are not the focus of this work.

Community benefit societies are regarded by some as being co-operatives. The FCA is however of the view that community benefit societies are not co-operatives, and outlined their position clearly:

... we consider that the Co-operative and Community Benefit Societies Act 2014 (and its predecessors) presented a choice between two conditions for registration (bona fide co-operative society, or a society conducting its business for the benefit of the community). This distinction was underlined by the Co-operative and Community Benefit Societies and Credit Unions Act 2010 which created the two new legal forms of Co-operative Society and Community Benefit Society. There is no legislative provision to allow one type of society to convert to another.

We acknowledge that many co-operative societies also choose to benefit the community; and that many community benefit societies have active and engaged memberships who control the society democratically. However, a community benefit society must fundamentally exist entirely for the benefit of the community, not for benefits that depend on membership. Our view is that the purposes of a co-operative society and a community benefit society are fundamentally different.

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112 Co-operative and Community Benefit Societies Act 2014, s2(4)

We do not believe that the Act supports the registration of co-operatives as community benefit societies ...<sup>113</sup>

As such, community benefit societies are not the focus in the pages that follow.

All societies must be carrying on an 'industry, business or trade'.<sup>114</sup> They must have at least 3 members (or two if those two members are themselves societies).<sup>115</sup>

Societies are registered with a set of 'rules'. Some refer to it as the 'constitution' or 'governing document'. Societies do not have a 'memorandum and articles of association' like companies, though the purpose of those documents is similar. The rules of a society are binding on the members and the society,<sup>116</sup> enforceable through the courts.

There is no legislatively prescribed set of model rules, and the FCA do not provide any. This reflects the variety of types of society registered under the legislation and their bespoke governance arrangements. Instead, model

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113 Financial Conduct Authority, FG15/12, 15

114 Co-operative and Community Benefit Societies Act 2014, s2(1)

115 Co-operative and Community Benefit Societies Act 2014, s2(2)(b)

116 Co-operative and Community Benefit Societies Act 2014, s15

rules are produced by 'sponsoring bodies',<sup>117</sup> with a list provided on the FCA website.<sup>118</sup> There are however certain matters that must appear in the rules of a society<sup>119</sup> such as their objects, the provision of a board ('committee of management'), provisions about share capital, their name, registered address, and several other matters.

Societies are limited by shares, meaning all societies must have share capital. There is no 'limited by guarantee' equivalent.

Like companies and other types of legal structure, societies:

- Are bodies corporate – meaning they have their own legal identity, can sue and be sued in their own name, and can enter into contracts as that legal entity.
- Have limited liability – meaning members are generally only liable for

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117 Whereas under the friendly society legislation, the Registrar provided a model or framework set of rules, the practice was not maintained for industrial and provident societies (though a model was published as a guide in 1855: HMSO, 1855). Instead, this was done by the co-operative movement itself. Early practice developed whereby societies would submit to the Registrar a set of rules based on those they knew had already been approved by the Registrar for another society. Examples exist from 1832 (Bonner, *British Co-operation*, 30 and 507) for the registration of co-operatives under friendly society legislation. This reduced the likelihood of the rules being rejected because of some technical defect. Over time, the practice developed whereby particular bodies would create a set of rules that could be used. They have variously been called 'Promoting Bodies' (Registry of Friendly Societies, F280), 'sponsoring organisations' and 'sponsoring bodies'. The legislation does not expressly recognise the role of sponsoring bodies – though, they did appear in regulations relating to application fees – see for instance: The Industrial and Provident Societies (Fees) Regulations 1999. Schedule 2 of those regulations was clear that the application to register a new society could receive a reduced fee where it was using rules approved by the Registrar (model rules) and 'made through and endorsed by the sponsoring association or body which has sponsored said model rules'.

118 Financial Conduct Authority, "Model Rules List"

119 Co-operative and Community Benefit Societies Act 2014, s14

any losses up to the value of the share capital they have paid (or agreed to pay).

- Submit annual returns and accounts that appear on a public register.

Unlike companies, societies:

- Have variable rather than fixed capital. Generally, a company limited by shares has a fixed number of shares that it is not easy to change. Societies therefore do not set out a fixed number of shares. The number of shares will generally change every time a new member joins, or a member leaves.
- Have some limitations on their share capital<sup>120</sup>:
  - transfers in shares are restricted – requiring the board consent/registration for each transfer
  - shares generally remain at par value unless written down
  - they do not automatically give the shareholder a share in the underlying value of the society
  - individuals cannot hold (or have any interest in) more than £100,000 of withdrawable share capital.<sup>121</sup>
- Have one-member-one-vote (OMOV) requirements on statutory resolutions, rather than one-share-one-vote. OMOV is a requirement of special resolutions.<sup>122</sup>

For a co-operative society to register today, it must be shown to the satisfaction of the FCA that it is a 'bona fide co-operative society'. This has not been defined further, save that this does not include a society that:

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120 Financial Conduct Authority, "Handbook, RFCCBS", para 6.1

121 Co-operative and Community Benefit Societies Act 2014, s24

122 Co-operative and Community Benefit Societies Act 2014, s11: where votes are to be passed by "at least two-thirds of members who vote".

carries on, or intends to carry on, business with the object of making profits mainly for the payment of interest, dividends or bonuses on money invested or deposited with, or lent to, the society or any other person.<sup>123</sup>

The FCA set out their approach to the bona fide co-operative test in section 4 of their guidance.<sup>124</sup> Referencing ILO Recommendation 193, and ICA Statement, the guidance specifies:

We generally consider something to be a bona fide co-operative society where it 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.<sup>125</sup>

The guidance incorporates the Values and Principles from the ICA Statement. But it draws a distinction between the first four principles, and the last three, noting that they do not necessarily expect to be able to validate or verify principles 5 to 7 are met, but meeting them would be a positive indicator that an entity is a co-operative.<sup>126</sup>

Importantly, the guidance goes on to explain that the 'associative characteristics' of the co-operative will be looked at when applying the guidance – recognising the differences between consumer/worker/producer co-operatives, and between primary, secondary, and multi-stakeholder co-operatives for example.<sup>127</sup>

The FCA has a range of powers that it can use at its discretion. Some of its

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123 Co-operative and Community Benefit Societies Act 2014, s2(3). This section was introduced by the Prevention of Fraud (Investments) Act 1939.

124 Financial Conduct Authority, "Handbook, RFCCBS"

125 Financial Conduct Authority, "Handbook, RFCCBS", paras 4.3.1 to 4.3.3

126 Financial Conduct Authority, "Handbook, RFCCBS", para 4.3.5

127 Financial Conduct Authority, "Handbook, RFCCBS", para 4.3.6

own volition, and others on application of a specified number of members. Use of these powers tends to be detailed in annual updates published by the FCA. For example:

- Members of a society can apply to the FCA to call a special meeting of a society.<sup>128</sup> The annual update of 2021-22 details the use of this power.<sup>129</sup>
- A society can be cancelled where it appears to the FCA that a condition for registration is not met (i.e. to be a bona fide co-operative, or to conduct business for the benefit of the community).<sup>130</sup> The annual update of 2022-23 provides an example of the use of this power.<sup>131</sup>

Legislative provisions are available enabling societies to merge. The most common type of merger is a transfer of engagements, where one society transfers its engagements to another. The society receiving the transfer remains registered. The process is designed to facilitate the transfer in a 'relatively informal way without the intervention of the court'.<sup>132</sup> Though the resolution to transfer must first be approved as a special resolution by two meetings of members, and then registered by the FCA.<sup>133</sup> Two or more societies can also amalgamate together to form a new society. This route is used, but is less common.

Societies can transfer their engagements to, or amalgamate with, a company. Where this is the case the threshold for member support is greater.<sup>134</sup>

It is possible for societies to convert from companies, and to convert into

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128 Co-operative and Community Benefit Societies Act 2014, s106

129 Financial Conduct Authority, "Mutual societies registration function: 2021-22"

130 Co-operative and Community Benefit Societies Act 2014, s5(5), Condition D

131 Financial Conduct Authority, "Handbook, RFCCBS"

132 Lord Justice Mummery in *Co-operative Group (CWS) Limited v Stansell Limited* (2006)

133 Co-operative and Community Benefit Societies Act 2014, ss109-111

134 Co-operative and Community Benefit Societies Act 2014, s113

companies.<sup>135</sup> Where a conversion takes place, the society and company are seen as ‘the same thing in different costume’.<sup>136</sup> The underlying substratum of the entity is the same, just under a different legal structure.

Where a society wants to close – a range of processes are available depending on whether they are solvent or insolvent – including administration, company voluntary liquidation, court-ordered liquidation, and dissolution.<sup>137</sup>

Societies will generally opt to specify in their rules where their assets go on solvent dissolution. If they do not do so, they may see dissolution based on the number of shares held, rather than an equal or common ownership dissolution.<sup>138</sup>

While a statutory asset lock (i.e. legislative protection on the assets of the society) did exist briefly in the Industrial and Common Ownership Act 1976, there is no statutory asset lock for co-operative societies. This is beginning to change following the passage of the Co-operatives, Mutuals and Friendly Societies Act 2023. This allows the Government to bring forward secondary legislation providing for a voluntary asset lock for co-operatives who choose to adopt it.

Though wording has been modernised over time, large parts of the 2014 Act were drafted in the 20<sup>th</sup> century. It is therefore useful to understand its development over time.

## Legislative history

Co-operatives have, and still do, use a variety of legal structures. Looking at legislation for the range of mutual societies, and in the context of

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135 Co-operative and Community Benefit Societies Act 2014, s112-117

136 HHJ Matthews in *Mount Wellington Mine Ltd v Renewable Energy Co-operative Ltd* (2021)

137 Financial Conduct Authority, “Handbook, RFCCBS”, paras 8.12 to 8.17

138 Registrar Briggs in *Re Watford Printers Limited* (2018)

company law and the law of partnerships, provides important and necessary context.<sup>139</sup>

A view held of companies often sees them as associations of capital rather than persons,<sup>140</sup> with voting based on one-share-one-vote. This hasn't always been the case. It is important when considering 18<sup>th</sup> and 19<sup>th</sup> century developments of co-operative society law to consider them in the context of company law at that time.

Companies operated a range of voting systems – from one-share-one-vote to one-member-one-vote, and many versions in between (e.g. capping the total number of votes any one member could have) up until 1844.<sup>141</sup> It was the period from 1844 to 1850 when the views of companies started to evolve from seeing them as a kind of association, to one of a distinct legal entity with tradable shares.<sup>142</sup>

Before the 1860s, companies were generally large businesses with many members.<sup>143</sup> The concept of the smaller company appeared from 1862, with private companies not being specifically legislated for until 1907.<sup>144</sup>

The Rochdale Pioneers, in operating a system of membership without discrimination between men and women were seen to be 'socially progressive and radically ahead of their time'.<sup>145</sup> Yet, the presence of female shareholders in companies before 1850 was widespread.<sup>146</sup> However, the important distinction is perhaps that the model in co-operatives was that women of

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139 Smith, 'The Mid-Victorian Reform'

140 Watkins, *Co-operative Principles Today & Tomorrow*, 111; Fay, *Co-operation at Home and Abroad*, 363: "The co-operative society is a union of persons: the joint-stock company is a union of capitals."

141 Freeman, Pearson and Taylor, *Shareholder Democracies*, chapter 6. The Joint Stock Companies Act 1844, being the relevant turning point

142 Cornish et al, *Law and Society*, 248

143 Shareholders are members of a company

144 Cornish et al, *Law and Society*, 252-253

145 International Co-operative Alliance, *Guidance Notes to the Co-operative Principles*, 5

146 Freeman, Pearson and Taylor, *Shareholder Democracies*, 125

‘all classes’ were admitted into membership.<sup>147</sup> Whereas most female shareholders in companies listed no occupation,<sup>148</sup> suggesting they were middle to upper class.

The Industrial and Provident Societies Act 1852 was the first piece of legislation intended for use by co-operatives. Before that, co-operatives existed under other legal structures,<sup>149</sup> or remained unincorporated.<sup>150</sup>

It is important to set out the importance of partnerships as a type of business structure for this period. Partnerships are two or more individuals agreeing to operate a business together usually by way of a contract.<sup>151</sup> In English law, a partnership does not have a separate legal identity from its partners. But in Scotland, Scots law provides that they do.<sup>152</sup> The law of partnership still operates today.<sup>153</sup> By 1851, Parliament was calling for reviews to the law of partnership, and to facilitate limited liability.<sup>154</sup> For the relevant periods here – partnerships did however have unlimited liability and were particularly unsuited to enterprises with many participants i.e. co-operatives.<sup>155</sup>

In the 18<sup>th</sup> and 19<sup>th</sup> centuries, partnerships were the most common type

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147 International Co-operative Alliance, *Guidance Notes to the Co-operative Principles*, 5

148 Freeman, Pearson and Taylor, *Shareholder Democracies*, 127

149 Freeman, Pearson and Taylor, *Shareholder Democracies*, 37; Jones, *Co-operative Production*, 126-127. For example, co-operatives existed as joint-stock companies.

150 Jones, *Co-operative Production*, 126

151 Partnership Act 1890, s1: ‘Partnership is the relation which subsists between persons carrying on a business in common with a view of profit’.

152 The Law Commission, ‘Partnership Law’, 6-7

153 Partnership Act 1890. Subsequent developments include the Limited Partnership Act 1907, and the more recent Limited Liability Partnerships Act 2000.

154 Committee on the Law of Partnerships, *Report*

155 McQueen, *A Social History of Company Law*, 62

of business.<sup>156</sup> They could generally operate without any interaction of the state. Co-operatives did not tend to use the partnership model – in part reflecting the absence of legal recognition for the enterprise itself.<sup>157</sup>

From the passage of the Joint Stock Companies Act 1844, partnerships with transferable shares, consisting of 25 or more people, became obliged to register either as a joint stock company, or a friendly society.

### ***Early legislation***

Companies have existed within the UK for centuries.<sup>158</sup> By the early 1700s, there were a wide variety of legal structures in use including joint-stock companies, mutual organisations, friendly societies, and partnerships.<sup>159</sup> Initially, it took a Royal Charter to establish an individual company. The power to incorporate a company largely shifted from the Monarch to Parliament after the Revolution Settlement of 1689.<sup>160</sup> Still, each new company required an act of Parliament.

The Bubble Act 1720 sought to suppress the formation of joint-stock companies. The Bubble Act 1720 resulted in a relative decrease in the formation of new companies, but many did however still form.<sup>161</sup> The Act was principally focused on companies with transferable shares.

While the 1760s onwards saw an increase in company formations, it started to become more difficult to form a new company from the early 1800s as Parliamentary and judicial attitudes toward joint-stock companies became hostile.<sup>162</sup> Nonetheless, new companies were still formed and 1825 saw the

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156 Cornish et al, *Law and Society*, 241; Daunton, *Progress and Poverty*, 238

157 Cole, *A Century of Co-operation*, 115

158 Micklethwait and Woolridge, *The Company*

159 Freeman, Pearson and Taylor, *Shareholder Democracies*, 21-22

160 Freeman, Pearson and Taylor, *Shareholder Democracies*, 21

161 Freeman, Pearson and Taylor, *Shareholder Democracies*, 23. At least 1,400 new companies were established.

162 Freeman, Pearson and Taylor, *Shareholder Democracies*, 29

repeal of the Bubble Act 1720.<sup>163</sup>

Throughout this time many companies operated as unincorporated companies – without a Royal Charter or Act of Parliament.<sup>164</sup>

Demand for the registration of companies grew and was delivered through the Joint Stock Companies Act 1844 – allowing companies to be registered by a registrar rather than through Parliament. This was not however the first system of registration. The Encouragement and Relief of Friendly Societies Act 1793 (Friendly Societies Act 1793) facilitated friendly society registration from that year.

The Friendly Societies Act 1793 was the first piece of legislation aimed at mutual societies<sup>165</sup> and is sometimes referred to as the ‘Rose Act’ after its sponsor, George Rose MP.<sup>166</sup> It was in fact seen as the first divergence from the Bubble Act 1720.<sup>167</sup>

This Act provided for the ‘encouragement and relief’ of friendly societies. Societies could be formed for the ‘mutual relief and maintenance’ of their members in ‘old age, sickness, and infirmity’ or ‘for the relief of the widows and children of deceased members’.<sup>168</sup> Property of the society, including money and goods, was to be vested in trustees in their own name.<sup>169</sup> This feature was distinct from that of companies.

The Friendly Societies Act 1793 required societies to have rules, and for those rules to cover matters including the powers of the committee. The rules were to be confirmed by magistrates. The Act didn’t just apply to new societies who wanted registration but regulated existing societies too. The Act required the rules of all pre-existing societies to be confirmed and filed

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163 Micklethwait and Woolridge, *The Company*, 53

164 Freeman, Pearson and Taylor, *Shareholder Democracies*, 53

165 Fuller, *The Law of Friendly Societies*, 1

166 Cole, *A Century of Co-operation*, 117

167 DuBois, *The English Business Company*, 38 fn23

168 Friendly Societies Act 1793, s1

169 Friendly Societies Act 179, s12

with magistrates on or immediately after 1798.<sup>170</sup> That said, there were limited enforcement mechanisms, and many did not register.<sup>171</sup>

Its passing, and its use, was shaped by the wider context. Friendly societies and trade unions had at times been indistinguishable.<sup>172</sup> The 1793 Act sought to give them distinct legal character, but had the effect of rendering questionable in common law the existence of all other types of worker associations.<sup>173</sup> Rose is said to have been paternalistic, with the 1793 Act having 'combined an impulse to government oversight with a desire for paternal control'.<sup>174</sup> It has been argued the 'upper-class' preoccupations over economic and political disorder were the 'primary' motivation for the Act.<sup>175</sup> Others point to the prevalence of friendly societies, particularly in London,<sup>176</sup> as a driving force for legislation:

This form of group activity is not strictly within the scope of our study for, when bona fide, it was not intended for profit. Nevertheless, the great number of these organizations and the large amounts of money involved produced repercussions in the whole field of business organization. Indeed, practices evolved by mutual societies regarding management and finance were on occasion borrowed in modified form by profit-making units. During this period, these friendly societies became of such importance that an act was passed in 1793 which recognized the legality of such voluntary societies under certain regulations.<sup>177</sup>

The French Revolution took place during 1789 to 1799. The 1790s saw a

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170 Friendly Societies Act 1793, s2

171 Cordery, *British Friendly Societies*, 46

172 Cordery, *British Friendly Societies*, 44

173 Cordery, *British Friendly Societies*, 44

174 Cordery, *British Friendly Societies*, 45

175 Clark, *British Clubs and Societies 1580-1800*, 371-372

176 DuBois, *The English Business Company*, 231

177 DuBois, *The English Business Company*, 38

growing working-class consciousness.<sup>178</sup> With increasing worker organisation through trade unions (often called 'combinations'), and a fear of the spread of the ideas of the French Revolution,<sup>179</sup> a series of legislative measures were put in place to curtail the ability of people (principally workers) from agitating. This includes the Seditious Meetings Act 1795, Unlawful Societies Act 1799, Combination Acts of 1799 and 1800.

This fear can be seen in the example of the rules of the Beneficent Society of Tinwold, from January 1794:

None shall be admitted into this Society who are suspected of being friendly to the new fangled doctrines of LIBERTY and EQUALITY AND THE RIGHTS OF MAN as set forth by Thomas Pain and his Adherents.<sup>180</sup>

Despite the legislative measures put in place, the number of trade unions continued to grow, with many registering as friendly societies to disguise their activities.<sup>181</sup> This produced a sense of distrust toward friendly societies.<sup>182</sup>

Though sharing some common roots, and using similar structures, co-operatives were not targeted by Parliament and did not generally actively suffer in the way that trade unions did.<sup>183</sup> There are of course examples of consequential impact. The Unlawful Societies Act 1799 (often referred to as the Corresponding Societies Act) was the rationale used by the registrar of

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178 Thompson, *The Making of the English Working Class*, 199

179 O'Gorman, *The Long Eighteenth Century*, ch8. Cornish et al, *Law and Society*, 285: Though there is a risk of overstating the effect of the French Revolution on, for instance, industrial disputes, as these can be seen to map more closely to the economic environment domestically.

180 DuBois, *The English Business Company*, 271-272

181 Thompson, *The Making of the English Working Class*, 271; Cornish et al, *Law and Society*, 284; Cordery, *British Friendly Societies*, 52

182 Fuller, *The Law of Friendly Societies*, 2

183 Cole, *A Century of Co-operation*, 114; Lambourne, *Slaney's Act*, 13; Freeman, Pearson and Taylor, *Shareholder Democracies*, 37

friendly societies and the later industrial and provident societies to prevent federations of societies, branches, and other structures involving multiple societies linking together in any way.<sup>184</sup>

While many societies were registered under the Friendly Societies Act 1793, the years after it also saw an increase in the number of unregistered friendly societies.<sup>185</sup> This led to revisions to friendly society legislation – principally through the Friendly Societies Act 1819, and the Friendly Societies Act 1834.

Around this time, building societies became formally regulated in law. They were subject to the same political suspicion or distrust aimed at friendly societies with many of them having operated under the earlier friendly society legislation.<sup>186</sup> Through the Regulation of Benefit Building Societies Act 1836, they fell under the supervision of the Registrar of Friendly Societies (see *Appendix 1 – Registrars* for a list). The legislation in part adopted provisions of the Friendly Society legislation in force at the time. The 1836 Act was both beneficial to societies and restricting in its nature.<sup>187</sup>

Before 1834, co-operatives (particularly those founded based on the ideas of Robert Owen) were said to tend not to use any legal structure.<sup>188</sup> Though it was clearly the case that a few co-operatives registered as joint-stock companies.<sup>189</sup>

It has been noted that for some time, a percentage of unincorporated companies had requirements in their constitutions that the shareholder have some kind of connection with the company i.e. transacting business

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184 Lambourne, *Slaney's Act*, 53; Cole, *A Century of Co-operation*, 120

185 Cornish et al, *Law and Society*, 284; Fuller, *The Law of Friendly Societies*, 2; Cole, *A Century of Co-operation*, 117

186 Cornish et al, *Law and Society*, 152

187 Scratchley and Brabrook, *The Law of Building Societies*, 1

188 Cole, *A Century of Co-operation*, 116

189 Lambourne, *Slaney's Act*, 15; Bibby, *All Our Own Work*, 22-23; Freeman, Pearson and Taylor, *Shareholder Democracies*, 37, Jones, *Co-operative Production*, 126-127

with it. The percentage of unincorporated companies with such a clause reached a height of 31.6% in 1820-24, dropping to 0% by 1844.<sup>190</sup> While there is no evidence to conclude these entities were operating as co-operatives or mutuals of some sort, it does overlap to some extent with co-operative development before friendly society registration became the more common route for co-operatives in 1834.

The Friendly Societies Act 1834 allowed for trading societies, but still was not a particularly good fit for co-operatives.<sup>191</sup> Despite this, it was used by co-operatives<sup>192</sup> including the Rochdale Society of Equitable Pioneers (aka Rochdale Pioneers).<sup>193</sup>

## **From the 1840s**

The Friendly Societies Act 1846 authorised registration under that Act of 'the frugal investment of the savings of the members for the better enabling them to purchase food...' (known as the 'frugal investment clause').<sup>194</sup> Co-operatives were registered under this provision.<sup>195</sup> This was of some use for consumer co-operatives (though it technically meant they could only sell to members), but of much less use for worker co-operatives at the

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190 Freeman, Pearson and Taylor, *Shareholder Democracies*, 116

191 Cole, *A Century of Co-operation*, 116-117

192 Cordery, *British Friendly Societies*, 59-62. Shaffer, *Historical Dictionary of the Co-operative Movement*, 28:

Around 300 co-operatives may have been registered as friendly societies. Shaffer says: 'by 1830 more than 300 cooperative societies had been officially recognized' but does not say by whom, or under what legislation.

193 Cole, *A Century of Co-operation*, 118; Holyoake, *The History of the Rochdale Pioneers*, 11:

with rules based on those of the Rational Sick and Burial Society

194 Friendly Societies Act 1846, s1(4). Valko, *International Handbook of Cooperative Legislation*, 116:

considered it to be the 'first legal definition of cooperative – mutual trading – societies'

195 Fuller, *The Law of Friendly Societies*, 363

time.<sup>196</sup> The passage of the Joint Stock Companies Act 1844 would have increased the impetus for co-operatives of more than 25 members to register as friendly societies under the Friendly Societies Act 1846.<sup>197</sup>

The friendly society legislation – while initially or primarily aimed at those societies offering relief against sickness, burials, etc. also acted as a framework enabling registration of other types of societies. It has been described more generally as ‘a code of encouragement and a charter of protection’.<sup>198</sup> The least well defined of which were the ‘specially authorised’ societies, whereby by the Government could issue a special authority for a particular type of society to be registered under the friendly society legislation.<sup>199</sup>

These societies were generally not afforded the privilege of exemption from stamp duty and were ‘brought under the restrictions of those Acts, including the provisions for protection of members’.<sup>200</sup>

The system of registration under the Joint Stock Companies Act 1844 was expensive, and the minimum capital requirements were out of the reach of both the working and middle classes, at a time when there was a surplus of capital within the upper working class and middle classes.<sup>201</sup>

At this stage, co-operatives were left with a few options: continue operating as partnerships – potentially unlawfully (as they would likely have more than 25 members); register as joint-stock companies which required them to have transferable shares (and the cost of formation was high);<sup>202</sup> or operate under the friendly society legislation – again potentially unlawfully as

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196 Cole, *A Century of Co-operation*, 118-119

197 The Act included within it any partnership (which is what an unregistered co-operative may have been operating as) with more than 25 members.

198 Brabrook, *Provident Societies*, 111

199 Registrar of Friendly Societies, *Report 1893*, 45: Power first created in the Friendly Societies Act 1846, but the term ‘Specially Authorised Society’ first appeared in the Friendly Societies Act 1875.

200 Registrar of Friendly Societies, *Report 1893*, 45

201 McQueen, *A Social History of Company Law*, 58-59

202 Lambourne, *Slaney’s Act*, 23; Snaith, ‘Co-operative Principles’

provisions requiring member-only trade were unlikely to be practicable.<sup>203</sup>

The co-operative movement, and in particular – the Christian Socialists, along with Robert Slaney MP, set to work on creating bespoke legislation for co-operatives.<sup>204</sup> The effort was significant, in involving two select committee reports before a bill got a first reading:

MR. SLANEY , in moving the Second Reading of this Bill, said, it came before the House on the recommendation of two successive Committees, and he might describe its purpose almost in a word, which was to enable poor people with small sums invested in partnership transactions to have recourse when necessary to a cheap tribunal, and to bring those small partnerships within the meaning of the Friendly Societies' Act. He would not further detain the House, as he had found the principle of the Bill had met with general assent.<sup>205</sup>

Robert Slaney MP first proposed the formation of a Select Committee ‘to suggest means for giving facilities for safe investments for the savings of middle and working classes; and for affording them the means of forming societies to insure themselves against coming evils frequently recurring’.<sup>206</sup> This committee reported in 1850, but the report gained limited traction in either Parliament or the press.<sup>207</sup>

Slaney then moved to establish a Select Committee on the ‘Law of Partnerships’, reporting in 1851.<sup>208</sup>

Given Slaney’s focus on partnerships in particular,<sup>209</sup> it is perhaps unsur-

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203 Lambourne, *Slaney's Act*, 47: Evidence suggests co-operatives were in fact operating in breach of the Friendly Societies Act 1846

204 Lambourne, *Slaney's Act*, 11

205 HC Deb 21 April 1852, vol 120, col 967

206 HC Deb 16 April 1850 vol 110, col 420; Lambourne, *Slaney's Act*, 18

207 Saville, ‘Sleeping Partnership’, 420

208 Committee on the Law of Partnerships, *Report*

209 McQueen, *A Social History of Company Law*, 71

prisingly then that the Industrial and Provident *Societies* Act 1852 started its life as the Industrial and Provident *Partnerships*' Bill. This change of focus from 'partnership' to 'society' came from the select committee amendments after the second reading of the Bill.<sup>210</sup>

The Industrial and Provident Societies Act 1852 sat as a framework around the Friendly Societies Act 1846 – applying or modifying its provisions. Importantly, it recognised withdrawable share capital, without a requirement for transferable shares.<sup>211</sup>

It enabled the registration of societies:

... by the voluntary subscription of the Members ... carrying on or exercising in common any Labour, Trade or Handicraft ... except the working of Mines, Minerals or Quarries beyond the Limits of the United Kingdom ... and also except the Business of Banking ...<sup>212</sup>

The exceptions – covering overseas mining and quarrying, and banking, were added in the select committee reading. The rationale for the prohibition on carrying on the business of banking is not well documented.<sup>213</sup> Parliament was however said to have been 'naturally cautious' about this 'untried experiment'.<sup>214</sup> Restrictions on forming banks existed within the

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210 Lambourne, *Slaney's Act*

211 Industrial and Provident Societies Act 1852, s3

212 Industrial and Provident Societies Act 1852, s1

213 Pennington, *The Investor and the Law*, 46-47: in reference to the similar provisions of the Industrial and Provident Societies Act 1965 argues this limitation is an "essential precaution" because "the depositor relies on the retention of assets representing the institution's capital as a cushion for his protection. In the case of companies this is required by law, but an industrial or provident society may stipulate in its rules that its members may be repaid the share capital they have contributed, and if this were permission on the part of the society which had accepted large deposits, the depositors, as creditors, might well find in the winding up of the society that its assets were inadequate to repay them".

214 HC Deb 30 April 1862, vol 166, col 1091

various Joint Stock Company legislation during this time.

The word 'co-operative' did not appear in the Act. The Act passed with cross-party support, being sponsored by both Liberal and Conservative Members of Parliament.<sup>215</sup> It has been suggested that the name 'Industrial and Provident' was picked because there would 'probably have been serious opposition to the bill had any other name been adopted'.<sup>216</sup> The phrase 'industrial and provident' was however largely understood:

The expression 'Industrial and Provident Societies'... has never superseded the term 'Co-operative Societies', by which they are familiarly known. It aptly indicates their two-fold operation. They are 'industrial' in their productive sense, as combining the labour of many for the benefit of the whole; they are 'provident' in the distributive sense, as enabling the member to economize the cost of the necessities of life, and thus to obtain some modest luxuries, to increase his standard of comfort, to accumulate profits, to apply them to educational purposes, to become the proprietor of his own dwelling, and in many other ways to improve his position.<sup>217</sup>

It has been later commented that:

In some measure Industrial and Provident Societies have now lost these original characteristics, and their development mainly for mutual trading purposes as been recognised in later legislation, which has considerably widened their scope.<sup>218</sup>

From a judicial perspective, Lord Justice Mummery, then of the Court of

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215 Vulliamy, 'Charles Kingsley and Christian Socialism', 14: Slaney and Tufnell were Liberal MPs; Sotheron a Conservative

216 Sligman, 'Owen and the Christian Socialists', 238: John Malcolm Ludlow, writing to Edwin R. A. Seligman.

217 Brabrook, *Provident Societies*, 139-140

218 Southern, *Handbook*, 11: by the then Acting General Secretary of the Co-operative Union, Robert Southern

Appeal, articulated it as such:

Their purpose was to make profits from the personal participation and exertions of their members (“industrial”) and to apply the profits in making provision for their members’ future (“provident”). Acting together in a business-like and self-help way for the mutual benefit of members was a laudable activity encouraged and facilitated by legislators.<sup>219</sup>

There have however been alternative interpretations, most notably:

Co-operative societies are usually divided into two classes, viz., productive, i.e., industrial, and distributive, i.e., provident.<sup>220</sup>

In this context, ‘distributive’ is generally taken to refer to the co-operative shops like the Rochdale Pioneers,<sup>221</sup> and ‘productive’ would generally refer to what are today known as worker co-operatives.<sup>222</sup>

This view has been challenged as ‘certainly inconsistent with ordinary usage, in which the name *industrial* is most often used to distinguish the urban consumers’ societies from the agricultural societies.’<sup>223</sup>

The challenge to that description of ‘productive’ and ‘distributive’ classes of society does perhaps suggest a consumer co-operative focus by that author. It is clear productive (worker) co-operatives did establish under the Industrial and Provident Society legislation, adapting model rules created for co-operative shops.<sup>224</sup>

The Act was clearly understood as being one for co-operatives. It marked

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219 *Co-operative Group (CWS) Limited v Stansell Limited* (2006)

220 Fuller, *The Law of Friendly Societies*, 363, who gives thanks to the then Chief Registrar G. Stuart Robinson K.C. for his comments on the book

221 Webb, *Industrial Co-operation*, 17

222 Webb, *Industrial Co-operation*, 27

223 Jenkins, *Law for Co-operatives*, 240

224 Bibby, *All Our Own Work*, 51

an important step providing 'very real advantages' for co-operatives.<sup>225</sup> The position before 1852 was regarded as defective and of hinderance to the growth of co-operatives.<sup>226</sup>

Others have however pointed to the 'enclosing' effect incorporation of co-operatives can have, subjecting them to market discipline and removing the more political or 'utopian' motivations of earlier co-operators.<sup>227</sup> Similarly, others have positioned the legislation as part of a wider package of law reform (including companies and partnerships) with an underlying emphasis on 'fair competition'.<sup>228</sup>

Though these changes may be reflective of a change taking place more generally within the co-operative movement, marking a transition at around 1850 with the focus of the co-operative movement shifting from 'community building to shopkeeping'.<sup>229</sup> The work of the Christian Socialists sponsoring this legislation was only one part of this change,<sup>230</sup> with changes in social and economic environments largely accounting for those differences.<sup>231</sup>

The work of the Christian Socialists can also put in the broader context of work by the Law Amendment Society (LAS) whose membership included Christian Socialists like E.V. Neale.<sup>232</sup> The LAS is said to have been the 'central nexus for company law reform of partnerships, corporations and cooperatives',<sup>233</sup> and had positioned itself as an 'auxiliary to the Legislature'.<sup>234</sup>

Though the passage of the Industrial and Provident Societies Act 1852 was

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225 Cole, *A Century of Co-operation*, 118

226 Jones, *Co-operative Production*, 11-12

227 Mulqueen, 'History, alterity and obligation', 129-132

228 Smith, 'The Mid-Victorian Reform', 42

229 Pollard, 'Nineteenth-Century Co-operation'

230 Pollard, 'Nineteenth-Century Co-operation', 93

231 Pollard, 'Nineteenth-Century Co-operation', 112

232 Smith, 'The Mid-Victorian Reform', 19. Holyoake, *The History of the Rochdale Pioneers*, was dedicated to its President, Lord Brougham

233 Smith, 'The Mid-Victorian Reform', 19

234 Spectator, 'Law Amendment'

welcomed in the co-operative movement, it did not set out all it wanted to achieve.<sup>235</sup> Most notably was the topical question of limited liability. This left members with unlimited liability for the debts of the society. Slaney was of the view that if this 'prevents the working classes from co-operating, they never will be fit to co-operate, and don't deserve to enjoy the benefits of co-operation'.<sup>236</sup>

Limited liability is the concept whereby the members of an enterprise (whether it be a company, society etc.) are only liable to personally contribute a limited amount of money if the business goes bust and can't pay its debts. That amount is usually limited to the amount of share capital they have agreed to buy.<sup>237</sup> This concept is a common feature in company and society law now in the UK and across the world. At the time, it was however controversial.

There were debates over the merits of limited liability, with concerns by some that it simply passed the risk of doing business on to suppliers, customers, and lenders.<sup>238</sup> Others felt unlimited liability encouraged reckless credit seeking, whereas lenders would look more carefully where liability was limited.<sup>239</sup>

The Limited Liability Act 1855 made limited liability the default position for companies, subject to certain capital requirements which were removed a year later under the Joint Stock Companies Act 1856.<sup>240</sup>

Before that point, it had been a mixed picture in relation to the extent

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235 Cole, *A Century of Co-operation*, 119-120

236 Lambourne, *Slaney's Act*, 47-48: quoting pages 201-20,3 *Journal of Association*, 14 June 1852

237 Shares are sometimes 'fully paid up' e.g. the member has paid £100 to the entity for a £100 share. Sometimes however shares are not fully paid up. The member may have so far only given the entity £50 toward the £100 share, so still owes another £50. The member would usually be liable for the full £100.

238 Micklethwait and Woolridge, *The Company*, 56

239 Cornish et al, *Law and Society*, 249

240 Micklethwait and Woolridge, *The Company*, 57

to which liability was limited. For example, it has been argued that it was not possible for companies established under Royal Charter to be established *without* limited liability under the repeal of the Bubble Act in 1825.<sup>241</sup> Whereas those companies established under an act of parliament could not have limited liability unless there was a particular clause to that effect. From the 1840s, companies started including limited liability clauses in their constitutions.<sup>242</sup>

Even without such a clause, it has been argued that people believed their liability was limited because incorporation was assumed to provide limited liability.<sup>243</sup> There was a lack of business demand for limited liability, and slow take up once it was available.<sup>244</sup> Demand for limited liability:

did not come from business so much as from middle-class philanthropists and Christian Socialists who wished to encourage co-operative enterprises, an ambition partly achieved by the Industrial and Provident Societies Act 1852.<sup>245</sup>

It was therefore the Christian Socialists promoting the Industrial and Provident Society legislation who were included among those pushing for limited liability more generally, and then more specifically within the Industrial and Provident Societies Act 1852 itself.<sup>246</sup> It can be said that developments in the field of co-operative law influenced the development of company law in the 1850s, rather than the other way around.<sup>247</sup>

The failure to secure limited liability for members, in the context of companies not having general limited liability at that time, was generally seen as

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241 Freeman, Pearson and Taylor, *Shareholder Democracies*, 181

242 Freeman, Pearson and Taylor, *Shareholder Democracies*, 182

243 Freeman, Pearson and Taylor, *Shareholder Democracies*, 181

244 Cornish et al, *Law and Society*, 250

245 Daunton, *Progress and Poverty*, 239

246 Lamourne, *Slaney's Act*, 47

247 McQueen, *A Social History of Company Law*, 73

understandable<sup>248</sup> and was not a point pushed by the Christian Socialists.<sup>249</sup>

Momentum for limited liability more generally appeared to reduce following the passage of the Industrial and Provident Societies Act 1852:

... one of the main reasons for Slaney's Committee of 1850 was the desire to assist co-operative associations, and it is useful to take this point first, partly because it was first in time and partly also because the question of extending limited liability to producer's co-operatives for the purposes of stimulating working-class investments, became less urgent after the passing of the Industrial and Provident Societies Act of 1852, and only occasional echoes of the argument were heard by 1855. In the early 1850's the Christian Socialists were remarkably successful in convincing education opinion of the virtues of co-operative production. Here was the bridge between capital and labour; and to a generation that remembered the marching and the drillings of the previous decade, their most telling point that which stressed the sobering effects of associative enterprise upon the working men. Many of those who accepted the argument that co-operative production must be given a fair trial understood that to involve the application of limited liability. The Christian Socialists themselves did not press this point, being much more interested in the question of legal safeguards for such partnerships.<sup>250</sup>

The debate on limited liability did however continue, with Slaney pushing for the establishment of a Royal Commission on Mercantile Law.<sup>251</sup> However the impetus for change toward limited liability had reduced following the

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248 Cole, *A Century of Co-operation*, 120

249 Saville, 'Sleeping Partnership', 423

250 Saville, 'Sleeping Partnership', 422-423

251 Bryer, 'The Mercantile Laws', 40. 'Mercantile' was an earlier name for business and commercial law.

passage of the Industrial and Provident Societies Act 1852<sup>252</sup> and the Limited Liability Act 1855 followed but without much fanfare.<sup>253</sup> That act contained various capital requirements for companies. These were removed and the liability simplified in what is seen as the start of modern company law, the Joint Stock Companies Act 1856.<sup>254</sup> This Act was permissive in its nature and saw the role of registrar as being clerical.<sup>255</sup> This can be contrasted with the numerous examples of the Registrar of Friendly Societies involved in litigation with entities, and exercising discretion to refuse registrations.<sup>256</sup>

Limited liability was achieved for co-operative societies through the Industrial and Provident Societies Act 1862. Between 1852 and 1862, despite a resolution of a co-operative conference to encourage use of the society legal form<sup>257</sup> some co-operatives were looking again to the Joint Stock Company, including after encouragement from E.V Neale in 1860 due to the advantages of limited liability.<sup>258</sup>

This Act consolidated earlier legislation and brought in another significant change: body corporate status. Societies, like companies, became their own 'legal person' with property no longer being held in the name of trustees. This Act also created a framework on which later legislation was based.<sup>259</sup>

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252 McQueen, *A Social History of Company Law*, 75

253 Micklethwait and Woolridge, *The Company*, 57

254 Micklethwait and Woolridge, *The Company*, 57; Morse, *Palmer's*, para 1.104

255 McQueen, *A Social History of Company Law*, 132

256 Cornish et al, *Law and Society*, 152: the registrar being 'constantly tested' in litigation in relation to building societies; Cole, *A Century of Co-operation*, 120: refusal to register friendly societies on a federated basis; Freeman, Pearson and Taylor, *Shareholder Democracies*, 37: refusal to register the chartist land company; Jones, *Co-operative Production*, 123: a 'formidable' process of friendly society registration; McQueen, *A Social History of Company Law*, 190 fn37.

257 Lambourne, *Slaney's Act*, 56

258 Jones, *Co-operative Production*, 142

259 Snaith, *Handbook*, 90

It had previously been seen as unlawful for societies to work together, federate, or form any kind of secondary co-operative. The Industrial and Provident Societies Act 1862 changed this, enabling the establishment of the Co-operative Wholesale Society Limited in 1863,<sup>260</sup> by specifying the trade could be 'wholesale or retail'.<sup>261</sup>

Company law also underwent a process of minor review followed by consolidation through the Companies Act 1862. Like the Industrial and Provident Societies Act 1862, the Companies Act 1862 provided a framework for future legislation too. A point of departure though is that the Companies Act 1862 provided model articles of association for companies (Table A of the Companies Act), whereas the framework of the industrial and provident society legislation instead listed a 'table of matters' that societies must cover in their own rules.<sup>262</sup> Another practical point of departure is that of cost:

Heavy registration fees have to be paid for registering a company; but the first registry of a society under the Industrial and Provident Societies Act is gratuitous.<sup>263</sup>

The Companies Acts of 1856 and 1862 were liberalising, adopting a *laissez-faire* model when contrasted with the more paternalistic Joint Stock Companies Act 1844.<sup>264</sup> Society legislation maintained a more paternalistic

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260 Wilson, Webster and Vorberg-Rugh, *Building Co-operation*, 47-53

261 Industrial and Provident Societies Act 1862, s3

262 HMSO, *Forms of Rules for an Industrial Society*: a set of model rules was published as a guide in 1855

263 Fowke, *The Industrial and Provident Societies Act*, xix

264 McQueen, *A Social History of Company Law*, 176

approach,<sup>265</sup> arguably reflective of the class of those joining societies compared with those investing in companies.<sup>266</sup> It has been noted:

In cases decided up to the end of the Second World War the idea that a shareholder, even in a small private company, is a capitalist able to fend for himself, whereas a member of a building society or a co-operative society is one of the deserving poor who has raised himself by his bootstraps, pervades the judgments of the courts.<sup>267</sup>

The Co-operative and Community Benefit Societies Act 2014 today still talks of the 'privileges' of registration.<sup>268</sup> Where section 23 of the Joint Stock Companies Act 1844 spoke too of the privileges of registration, this language was abandoned by the time of the Joint Stock Companies Act 1856.<sup>269</sup>

While core differences between society and company legislation remained (including societies having withdrawable share capital), there was to some degree a harmonisation between society law and company law.<sup>270</sup> It is said of the 1862 Act had the effect of:

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265 McQueen, *A Social History of Company Law*, 190; Rhodes, *Cooperative Insights*, 74-93; Ferguson and Page, 289-291 "The Development of Investor Protection": which contrasts the 'disclosure philosophy' toward investor protection in the company law regime allowing greater freedoms for the entity providing investors can access public information, with the 'paternalistic' approach to building society and other similar legislation, protecting investors by placing restrictions on what the entity itself can do.

266 McQueen, *A Social History of Company Law*, 190; Ferguson and Page, "The Development of Investor Protection", 290-291: contrasting approaches between "the small an unsophisticated saver and the wealthy investor".

267 Pennington, *The Investor and the Law*, 405 fn120

268 Co-operative and Community Benefit Societies Act 2014, s6(7)

269 Contrast s23 Joint Stock Companies Act 1844 with s13 of the Joint Stock Companies Act 1856

270 HC Deb, 30 April 1862, vol 266, col 1091

... assimilating them rather to companies under the Companies Acts than to societies under the Friendly Societies Act. It retained, however, their more cheap and simple system of registration. They became, in fact, what the French call *societies a capital variable*, and in that lay the principal distinction between them and companies with fixed capital.<sup>271</sup>

The assimilation included, for example, the requirement for societies to consist of at least 7 members. This assimilation perhaps reflects too that societies were bodies corporate holding property in their own name, whereas friendly societies were without their own separate identity, had no limited liability, and property was still held by trustees. Though at this stage, aspects of the Friendly Societies Acts still applied.<sup>272</sup> That Brabrook saw in societies comparisons to French models is not unsurprising, given the work of the Christian Socialists is said to have been influenced by French socialist ideas.<sup>273</sup>

The Industrial and Provident Societies Acts of 1852 and 1862 were said to have been drafted:

... by men who understood cooperation enough to know what not to put in them. And what a difference it would have made to the British cooperative movement if this legislation had been placed in the setting of the Companies Acts instead of the Friendly Societies Acts!<sup>274</sup>

Minor amendments were made through the Industrial and Provident Societies Acts 1867 and 1871. Company law saw some change in 1867, including in relation to capital reduction.

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271 Brabrook, *Provident Societies*, 140

272 Industrial and Provident Societies Act 1862, s15

273 Smith, 'The Mid-Victorian Reform', 22

274 Valko, *International Handbook of Cooperative Legislation*, viii, in a foreword written by W.P Watkins, then director of the ICA

There were wider societal shifts in the 1870s impacting the operation of companies – including a shift away from middle-class investment in companies towards institutional investment.<sup>275</sup> With this, there was a decline in democratic rights within companies.<sup>276</sup>

Despite calls for reform to company law to bring in a greater degree of regulation (including in disclosure of information), the Companies Act 1877 largely focused again on share capital reduction.<sup>277</sup>

Building society law had remained largely unchanged between 1836 and 1874, until the passage of the Building Societies Act 1874. The Building Societies Act 1874 was a standalone piece of legislation no longer utilising provisions of the Friendly Societies Acts. It allowed societies to ‘incorporate’ as bodies corporate under that Act. The Building Societies Act 1874 remained the principal registration Act until the passage of the Building Societies Act 1962.

From 1870 to 1874 a Royal Commission undertook an extensive review of friendly societies resulting in the Friendly Societies Act 1875 as a substantive consolidating and amending act.<sup>278</sup>

The Industrial and Provident Societies Act 1876 represented the next significant change in co-operative society law. That 1876 Act was prepared by E.V. Neale,<sup>279</sup> the General Secretary of the Co-operative Union.<sup>280</sup> This Act was a consolidating act, but also made several changes. Importantly, the 1876 Act is seen as reversing the trend of assimilation with company law seen earlier<sup>281</sup> and instead largely mirrored many of the changes made under the Friendly Societies Act 1875.

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275 McQueen, *A Social History of Company Law*, 177-178

276 McQueen, *A Social History of Company Law*, 180

277 McQueen, *A Social History of Company Law*, 187

278 Fuller, *The Law of Friendly Societies*, 3

279 Rhodes, *Cooperative Insights*, 80-82

280 Brabrook, *Provident Societies*, 140; Neale, *The Industrial and Provident Societies Act 1876*

281 Brabrook, *Provident Societies*, 140

Notable changes of substance include:

- Allowing the transfer of shares at the consent of the Board, removing the additional requirement for agreement at a general meeting.
- Removal of the restriction on carrying on the business of banking. Though societies could not carry on this business where they had any significant amount of withdrawable share capital. This allowed for 'Penny Banks'.

The removal of the restriction on banking was said to have been done in a way to align with the regulation of banking for joint-stock companies.<sup>282</sup>

The 1876 Act was a standalone Act, in that none of the provisions of friendly society legislation applied to societies thereafter. Societies already incorporated under the Industrial and Provident Societies Act 1862 were deemed registered under this Act. And those societies who registered under the Industrial and Provident Societies Act 1852, but hadn't yet incorporated under the later legislation, had option to apply for registration under the 1876 Act.<sup>283</sup>

By 1890, there were four main groups of societies registered as industrial and provident societies:<sup>284</sup>

- The largest: 'societies for co-operative consumption, on what is termed the Rochdale plan'.
- A 'smaller group' for the purposes of 'co-operative production'.
- A third group of 'land and building societies' – registered under this legislation because 'the Building Societies Acts do not allow the purchase of land'.

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282 Neale, *The Industrial and Provident Societies Act 1876*, 9

283 Industrial and Provident Societies Act 1876, s7(4)

284 Registrar of Friendly Societies, *Report 1890*, 30

- A fourth group 'of societies which are merely companies on a small scale, existing neither for the benefit of consumer nor producer, but of the capitalist (or as respects some societies of late growth, it is to be feared, of the promoters only), dividing or allotting their profits on share capital'.

The Registrar wondered whether the 'invasion' of the 'promoter' societies may:

... make it necessary, in order to preserve the character of societies and prevent the multiplication of little bubble companies under the Industrial and Provident Societies Act, to make a division of profits, either upon consumption or labour, a necessary feature of societies seeking registry under it.<sup>285</sup>

Despite these fears, no specific measure was brought forward. The Industrial and Provident Societies Act 1893 followed as another consolidating Act, making minor amendments at the same time. Much of the wording of the 1893 Act is still in operation today, with minor modification.

One point of note was the change to the definition of the type of society that could be registered. Under the Industrial and Provident Societies Act 1876 societies had to be carrying on a 'labour, trade or handicraft'.<sup>286</sup> The Industrial and Provident Societies Act 1893 allows for registration of a society carrying on 'any industries, businesses or trades'.<sup>287</sup> It was said that the new definition was 'comprehensive enough to permit of almost any society being registered under the Act'.<sup>288</sup> The businesses of insurance and banking were in mind when broadening the definition.<sup>289</sup>

Other amendments in the 1893 Act included a reduction in the rights of

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285 Registrar of Friendly Societies, *Report 1890*, 32

286 Industrial and Provident Societies Act 1876, s6

287 Industrial and Provident Societies Act 1893, s4

288 Brabrook, *Provident Societies*, 143

289 Fay, *Co-operation at Home and Abroad*, 360 fn1

members to inspect the books of a society. This was criticised by former registrar (and Christian Socialist) John Ludlow,<sup>290</sup> as giving society members almost fewer rights than those in companies. Though Co-operative Union General Secretary, J.C. Gray noted the abuse of those earlier provisions of unlimited inspection and considered the amendments an improvement.<sup>291</sup>

The 1893 Act remained the principal registration act until the Industrial and Provident Societies Act 1965. The legislation was not without issue. In 1894 the Co-operative Congress passed a resolution calling for consideration of 'the question relating to the method of registration of co-operative societies, with a view to amending the law to prevent the registration of immature or bogus societies'.<sup>292</sup>

Friendly society legislation had undergone a patchwork of amendments during this time, with a substantive review and consolidation forming the Friendly Societies Act 1896. This remained the principal registration act for friendly societies until the Friendly Societies Act 1974.

Company law saw a high volume of legislative amendments following the Companies Act 1862 – with 18 amending statutes passed between then and 1908.<sup>293</sup> The Companies Act 1862 had seen growing development of small companies.<sup>294</sup> Though required to have 7 members, many established with dummy shareholders to make up the numbers.<sup>295</sup>

The 1880s and 1890s are worthy of further comment in their broader context. The 1880s was a period which saw an increased use of the company legal form, following a delayed appreciation of the advantages of the (Ireland 1984) Companies Act 1862, and fears of the consequences of unlimited liability in the context of more depressed economic circumstances.<sup>296</sup>

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290 Ludlow, "The Right of Inspection of Books", 706-707

291 Gray, *The Industrial and Provident Societies Act 1893*, 21

292 Registrar of Friendly Societies, *Report 1894*, 27

293 Morse, *Palmer's*, para 1.107

294 Cornish et al, *Law and Society*, 252

295 McQueen, *A Social History of Company Law*, 108

296 Ireland, "The Risk of the Limited Liability Company", 247-248

The broadening of the scope of registrations for societies to those carrying on a ‘business, industry or trade’ was said to have been an impetus for the registration of working men’s clubs (social clubs) under the Industrial and Provident Society legislation,<sup>297</sup> though registration had been permitted before this. The Registrar in 1890 reported ‘of late a tendency has shown itself to register them as societies under the Industrial and Provident Societies Act, the example being set by the Working Men’s Club and Institute Union’.<sup>298</sup>

Working men’s clubs first found legal recognition in 1864 through a special authority under the Friendly Societies Act 1846,<sup>299</sup> with the help of the Home Secretary.<sup>300</sup> The Friendly Societies Act 1875 gave express statutory recognition as a category of society that could be registered under that Act, with registration being encouraged by the Working Men’s Club and Institute Union (CIU).<sup>301</sup>

The founders of the working men’s club movement included individuals associated with the Christian Socialist, temperance, and co-operative movement, especially Henry Solly.<sup>302</sup> The CIU was formed in 1862 in the meeting rooms of the Law Amendment Society.<sup>303</sup> This follows a similar pattern of middle-class paternalism<sup>304</sup> to the formation of co-operative structures.<sup>305</sup> The working men’s club movement was seen to have a ‘consciously

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297 Marlow, “The Working Men’s Club Movement”, 324; Brabrook, *Provident Societies*, 143

298 Registrar of Friendly Societies, *Report 1890*, 18

299 Brabrook, *Provident Societies*, 100

300 Tremlett, *Clubmen*, 21

301 Marlow, “The Working Men’s Club Movement”, 343, quoting CIU Annual Report No. 27 (1889)

302 Gurney, “The Middle-Class Embrace”, 274; Jones, *Co-operative Production*, 550; Brown, *Clubland*, 41-42

303 Tremlett, *Clubmen*, 7

304 Thompson, “Social Control in Victorian Britain”

305 Rhodes, *Cooperative Insights*, 90: reference to ‘aristocratic paternalism’

designed role as an agency of social control'.<sup>306</sup>

It can however be seen that this was not how things remained. The tee-total nature of clubs changed<sup>307</sup> and by the 1880s, the working men's clubs and their members started to take control of the CIU from its middle-class patrons<sup>308</sup> and are said to have 'laid the foundations for the later growth of the working men's clubs as co-operatively run social centres'.<sup>309</sup> So much so that by 1889, when the CIU itself was registered under the Industrial and Provident Societies Act 1876 (thus giving its clubs legal ownership and control of the CIU), it happened 'without fireworks or conflict'.<sup>310</sup>

Similarly, the 1880s to early 1900s has been characterised for co-operatives more generally as the period during which the co-operative movement became fully self-managing.<sup>311</sup>

## ***Entering the 20th Century***

The Companies Act 1900 was significant in providing a requirement for prospectuses to be issued for public promotion of company shares, following decades of debate around appropriate disclosure of information.<sup>312</sup>

The Companies Act 1907 formally recognised the existence of private companies (distinct from public companies) for the first time. This saw rapid increases in company registration, combined with decreases in the amount of nominal share capital individuals were required to put into a company.<sup>313</sup>

Company law was consolidated in its 'second great consolidation

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306 Price, "The Working Men's Club Movement", 146

307 Which in turn meant they were in effect operating a 'business, industry or trade' in selling alcohol to their members.

308 Price, "The Working Men's Club Movement", 139; Thompson, "Social Control in Victorian Britain", 203

309 Thompson, 'Social Control in Victorian Britain', 203

310 Brown, *Clubland*, 130

311 Rhodes, *Cooperative Insights*, 88-90

312 McQueen, *A Social History of Company Law*, 261-267

313 Cornish et al, *Law and Society*, 253

enactment' through the Companies (Consolidation) Act 1908.<sup>314</sup>

There is a significant point of divergence in the approaches to legislative development. Friendly society legislative amendment followed a Royal Commission. Company law consolidation in 1908 set the pattern copied in subsequent exercises whereby the President of the Board of Trade convenes a committee of experts, the committee reports, and parliament legislates<sup>315</sup> (it could be conversely noted that the period from the 1860s-1890s established a pattern whereby committees were convened, with recommendations then largely ignored or watered down).<sup>316</sup> Industrial and Provident Society legislative reform was largely driven by the co-operative movement itself, with its representative body, the Co-operative Board/Union producing the bills. And generally saw the measures being proposed by individual Members of Parliament rather than the Government (albeit the measures then received cross-party support).

Company law underwent another series of review and reform, resulting in the Companies Act 1929. This Act made 'cautious' changes, including in recognising company group structures, redeemable preference shares, accounts, and special resolutions for winding up. During the same period, society law saw only minor alterations.<sup>317</sup>

Largely driven by concerns of 'bogus' co-operatives, the co-operative movement itself made several attempts to protect co-operatives.<sup>318</sup> Attempts

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314 Morse, *Palmer's*, para 1.107.1

315 Morse, *Palmer's*, para 1.107.1

316 McQueen, *A Social History of Company Law*, ch7

317 Morse, *Palmer's*, para 1.107.1

318 HC Deb 6 December 1929, vol 232; Standing Committee on the Industrial and Provident Societies (Amendment) Bill, *Report 28 January to 13 February 1930*, col 1758: Concern for the protection of the public is referred to frequently in both the second reading on 6 December 1929 and in the comments at Committee, e.g. Labour and Co-operative MP, Samuel Perry: "The case made for the Bill ... has not been so much for the protection of the co-operative movement as for the protection of the outside public".

were made through Bills presented in 1924 and 1929-30, neither became law.<sup>319</sup> The Industrial & Provident Societies (Amendment) Bill of 1930 made it to the substantive challenge at committee stage.<sup>320</sup>

The Bill sought to regulate the use of the word 'co-operative' (including abbreviated versions) in the use of the name of any business – whether an industrial and provident society, company, or unincorporated body.

The Bill provided a definition of a co-operative at Clause 1(2):

- (a) no member other than a registered society shall have more than one vote<sup>321</sup>;
- (b) no interest or bonus shall be paid or credited on the paid up share capital at a rate exceeding six per centum per annum; and
- (c) the balance of the profits, after provision has been made for any other application or payment authorised by the rules to be made out of the profits, shall be divided either among the members in proportion to the volume of business which they have done with or through the society, or among the employees of the society, or partly in one way and partly in the other.<sup>322</sup>

This Bill centred on regulating the use of the word 'co-operative' in a name, albeit at a time when names were more descriptive. This differs from the later approaches (see below) which focused on the underlying criteria

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319 The Industrial and Provident Societies (Amendment) Bill, in 1924 by Alfred Barnes MP and a bill by the same name in 1929-30 by Mr Grenfell. Longden, *Co-operative Politics*, 151

320 In what appeared to be a fractious series of exchanges, with narrow margins in support, and 115 pages of debate – including a series of exchanges about 'nurses associations' and their scope in the Bill.

321 The latter part of this sentence reflected the existence of federal societies where votes were based on other equitable formula, such as trade.

322 Standing Committee on the Industrial and Provident Societies (Amendment) Bill, *Report 28 January to 13 February 1930*

enabling continued registration under the Industrial and Provident Societies Act 1893. For example, clause 1(4) permitted existing registered industrial and provident societies to remain registered without meeting the definition above providing they removed 'co-operative' from their name.

The Bill was seen by its promoters to have effectively been 'killed'<sup>323</sup> when a hostile amendment to the definition above was agreed on 11 February 1930, adding to the definition above that:

no money shall be paid out of the funds or profits of the society in the furtherance of any particular party or cause.

This sought to prevent payments to the Co-operative Party. This was combined with an insistence of 'one-member-one-vote', which would not have allowed the Co-operative Wholesale Society Limited (CWS) to continue operating under that Act, as votes were weighted between the retail societies based on an equitable formula.

The law therefore remained unchanged.

The next significant change for industrial and provident societies came through the Prevention of Fraud (Investments) Act 1939.<sup>324</sup> The Act followed a Board of Trade commissioned report on 'Share-Pushing', often referred to as the 'Bodkin Report' after its Chairperson, Sir Archibald H. Bodkin.<sup>325</sup> The report explored the practices of share-pushing or 'share hawking' where people are convinced to buy shares which turn out to be worthless, or asked to give money for shares that are then never bought for them.

While primarily aimed at companies, the legislation covered industrial and provident societies (and building societies) too. In the debates that

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323 Standing Committee on the Industrial and Provident Societies (Amendment) Bill, *Report 28 January to 13 February 1930*

324 Arguably the Industrial and Provident Societies Act 1913 was significant in allowing a society to be formed with two other societies as its members, thus facilitating proper federation of societies. However, it was not a principal registration act or of broader application.

325 Board of Trade Departmental Committee, *Share-Pushing*

followed there was clearly concern about 'so-called Co-operative Property and Investment Companies' offering high rates of interest.<sup>326</sup> The Prevention of Fraud (Investments) Act 1939 was intended to have limited implications for co-operatives.<sup>327</sup>

The Act sought to bring in a licencing regime for those advertising shares. Industrial and provident societies were excluded from the scope of the licencing regime because they were 'otherwise regulated' by the Act.<sup>328</sup> The Act 'regulated' them by providing that no society shall be registered under the Industrial and Provident Societies Act 1893 unless 'the society is a bona fide co-operative'<sup>329</sup> and that the expression 'co-operative society':

...does not include a society which carries on, or intends to carry on, business with the object of making profits mainly for the payment of interest, dividends or bonuses on money invested or deposited with, or lent to, the society or any other person.<sup>330</sup>

This sought to rule out societies operating as investment vehicles from being capable of registration as a co-operative. Drafters struggled to settle on a more granular definition of 'co-operative', seeing the above as a place-holder.<sup>331</sup>

Concerns were raised in the passage of the Bill over societies pretending to be co-operatives,<sup>332</sup> with members reassured by the fact the 1939 Act brought in a power for the registrar to cancel the registration of a society if it appeared that it was not a bona fide co-operative.

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326 HL Deb 28 February 1939, vol 111, col 985; HC Deb, 21 November 1938, vol 341, col 1371-426

327 Snaith, 'What Is an Industrial and Provident Society?'

328 HL Deb 28 Feb 1939, vol 111, col 972, Lord Templemore

329 Prevention of Fraud (Investments) Act 1939, s10(1)(a)

330 Prevention of Fraud (Investments) Act 1939, s10(9)

331 Tamblyn et al, *Law Commission Consultation Paper 264*, 205-209: sharing historic correspondence by the Registry of Friendly Societies.

332 HC Deb 14 February 1939, vol 342, col 1607

The Act was said to have not had any practical effect 'on those co-operatives who had their affinity with the Co-operative Movement'.<sup>333</sup>

Following the passage of the Act, the registrar set out guidance on 'bona fide co-operatives' (*Appendix 2 - original 'bona fide co-operative' guidance*) in a memorandum issued to societies:<sup>334</sup>

The Act does not define a bona fide co-operative society, but the nature of such a society may be indicated in a general way by the following observations:-

- (a) An investment society as defined in Subsection (9) is expressly excluded, i.e. ... a society which is carried on with the object of making profits mainly for the payment of interest on money invested with or through the society.
- (b) The society must so conduct its business as to show that its main purpose is the mutual benefit of its members, and that the benefit enjoyed by a member depends upon the use which he makes of the facilities provided by the society and not upon the amount of money which he invests in the society. In a retail society or a social club run on co-operative lines (to mention two familiar examples), a person who takes up the minimum shareholding necessary to qualify for membership participates in the benefits of membership in proportion to the amount of his purchases from the society or the extent to which he uses the amenities of the club, as the case may be. In other words, the profits in the one case are distributed mainly as dividend on purchases and not as a dividend on capital, in the other case are devoted to improving and cheapening the facilities of the club. By contrast a society which is not co-operative usually aims at making profits with a view to applying them on the basis of the amount of money invested or to the

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333 Southern and Rose, *Handbook*, 19

334 Registrar of Friendly Societies, *Report 1938-52*, 23-25

advantage of promoters and the like.

In the case of such societies as agricultural co-operative societies, although the member may be required to take up shares in proportion to the amount of his land or stock, etc., the society nevertheless exists primarily to provide benefits for the member in proportion to the use which he makes of the marketing or other facilities furnished by the society.

- (c) There must be no artificial restriction of membership with the object of increasing the value of proprietary rights or interests. On the other hand there may be reasons for restricting membership which would not offend the co-operative principle, e.g., a clubs' membership may be limited by the size of its premises; a society may confine its activities to a particular class of persons or to a particular area. By contrast, if the membership were limited in order to give the maximum benefit to a restricted number of persons the society might not be regarded as truly co-operative.
- (d) A rule providing that any persons should have more than one vote might suggest *prima facie* that the society was not a true co-operative society.
- (e) The return on share and other capital must not exceed a moderate rate which may vary according to circumstances but should approximate to the minimum necessary to obtain such capital as is required to carry out the primary objects of the society.

The registrar sent out a questionnaire to all societies. Between 1939 and 1947, 172 societies were deregistered, with 84 of those being classed as investment trusts.<sup>335</sup> Of these 172 societies:<sup>336</sup>

- 121 converted to companies.

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335 Registrar of Friendly Societies, *Report 1938-52*, 25

336 Registrar of Friendly Societies, *Report 1938-52*, 26

- 7 transferred engagements to companies.
- 25 simply had registration cancelled without conversion.
- 6 passed instruments of dissolution to dissolve their assets.
- 13 were wound up under the Companies Act provisions available to societies at the time.

Societies could seek to remain registered despite not meeting the conditions for registration if they refrained from issuing further share offers to the public. Three of the societies who opted to do so later converted to companies. One – First Mortgage Co-operative Investment Trust Limited, was subject to an earlier winding up petition by the registrar.<sup>337</sup>

The Prevention of Fraud (Investments) Act 1939 marked the first occasion the word ‘co-operative’ appeared in the legislation. It also widened the scope of the industrial and provident societies legislation beyond co-operatives to include philanthropic organisations.

The Bill went through various iterations before its final form in the Prevention of Fraud (Investments) Act 1939. An earlier version of the bill set out in its clause 8 that an industrial and provident society must either be the aforementioned bona fide co-operative, or a society whose business:

... is being, or is intended to be, conducted mainly for the purposes of improving the conditions of living, or otherwise promoting the social well-being, of members of the working classes ...

And that there must be ‘special reasons why the society should be registered under said Act rather than as a company under the Companies Act 1929. It was said during the debate that this type of society was a:<sup>338</sup>

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337 Registrar of Friendly Societies, *Report 1938-52*, 26: The petition was deemed just, but not given as it would have involved the society selling property at a disadvantageous time.

338 HC Deb, 21 November 1938, vol 341, col 1382

... philanthropic society of the type we know so well, where people pay money with very little hope of return, for such purposes as slum clearance.

This clause was expanded as the Bill progressed. An amendment was moved to add that societies could be registered if they were 'otherwise for the benefit of the community'.<sup>339</sup> This reflected concern that a society – apparently named the 'Lake District Farm Estates Limited' could be struck off because it was i) not a co-operative; and ii) benefitting all classes, rather than just the working classes.<sup>340</sup> Assurance was given that these societies would not be able to call themselves 'co-operatives'.

From the passage of the Prevention of Fraud (Investments) Act 1939, the 'BenCom'<sup>341</sup> was born.

It was said that:

The broad purpose of section 10 of the 1939 Act was to confine future registrations to genuine co-operative and philanthropic societies, and to remove from the register existing societies that did not fall within either of these descriptions if they invited further investment.<sup>342</sup>

It is not clear how many societies, other than co-operatives, were registered under the Industrial and Provident Societies Act 1893 at the time. From the 172 societies who were removed from registration following the commencement of the 1939 Act, 88 of those were for reasons other than the entity being an investment trust.

The registrar reports did not historically separate out statistics between

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339 Prevention of Fraud (Investments) Act 1939, s10(b)(ii)

340 HC Deb, 14 February 1939, vol 343, column 1605

341 Community benefit societies, as they are now referred to, were (any by many still are) referred to as 'Bencoms', largely reflecting that they're societies conducting business for the 'benefit of the community'.

342 Registrar of Friendly Societies, Report 1938-52, 24

the then 3 criteria under which societies could be registered. The report on 1958 notes that the 'great majority' of societies registered are bona fide co-operatives.

Between 1939 and 1965 there were several acts making minor amendments, but there was nothing substantial. The Industrial and Provident Societies Act 1893 remained the principal registration act.

During that period, company law benefitted from another review and consolidation, resulting in the 'radical and far reaching' Companies Act 1948.<sup>343</sup> Changes included increased public accountability, increased powers of inspection over companies, group account provisions, and minority rights protections.

Building society law was revised and consolidated through the Building Societies Act 1962.

The Industrial and Provident Societies Act 1965 was a consolidating piece of legislation that made few substantive changes of law, owing to it having been made under the Consolidation of Enactments (Procedure) Act 1949. The Prevention of Fraud (Investments) Act 1939 criteria allowing societies 'for the benefits of the working-classes' was repealed, on the basis it was 'somewhat Victorian, or at least Edwardian',<sup>344</sup> and in any event covered by the business being conducted for the benefit of the community.<sup>345</sup>

The 3 years that followed saw:

- Industrial and Provident Societies Act 1967, covering the recording of charges.
- Friendly and Industrial and Provident Societies Act 1968, making substantive changes to auditing and account requirements.
- The Industrial and Provident Societies (Group Accounts) Regulations 1969 – making detailed provision for group accounts.

Meanwhile, company law had undergone another review, with the Jenkins

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343 Morse, *Palmer's*, para 1.110

344 Lord Chancellor's Memorandum, 'Industrial and Provident Societies', 50

345 Lord Chancellor's Memorandum, 'Industrial and Provident Societies', 50

Committee reporting in 1962 with legislation following in 1967. This time it was less significant, focusing mainly on reporting requirements. The Companies Act 1948 remained the principal registration act. A series of further amendments were made from 1972 following the commencement of the European Communities Act 1972, with an aim of harmonising company law across the community.

Friendly societies had benefitted from amendments in the Finance Act 1966 expanding their ability to insure, the aforenoted 1968 accounting changes, and amendments made by the Friendly Societies Act 1971 simplifying merger and dissolution provisions and expanding the supervisory role of the registrar.<sup>346</sup>

These laws were consolidated and updated, with the Friendly Societies Act 1974 replacing the Friendly Societies Act 1896 as the principal registration act.

Industrial and provident societies saw two amendment acts – one raising the share capital limit,<sup>347</sup> and the other raising the deposit limit.<sup>348</sup>

More significant though were changes connected to the industrial and provident society framework, but not principally within it: i) Industrial and Common Ownership Act 1976; and ii) the Credit Unions Act 1979.

The Industrial and Common Ownership Act 1976 sat as a distinct piece of legislation designed to support (including through grants or loans) worker co-operatives. The support was contingent on an entity being certified as either a 'co-operative enterprise' or a 'common ownership enterprise'. Common ownership enterprises were either companies limited by guarantee without share capital, or societies registered under the Industrial and Provident Societies Act 1965. While outside of the scope of the industrial and provident societies legislation itself, the Chief Registrar of Friendly Societies was given the role of determining if an entity is a common ownership

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346 Brading, *Guide to the Law*, iii

347 Industrial and Provident Societies Act 1975

348 Industrial and Provident Societies Act 1978

enterprise.<sup>349</sup>

Most of these organisations established as ‘companies limited by guarantee’, largely due to the requirement for Industrial and Provident Societies to have at least 7 members and costs and perceived ease of registering a company compared to a society.<sup>350</sup>

The Credit Unions Act 1979 brought into Great Britain the legal recognition of credit unions for the first time. Before this point, they had operated either as companies or industrial and provident societies.<sup>351</sup> Credit unions are generally seen as financial co-operatives. This is the first piece of sector-specific registration legislation for co-operatives within Great Britain.

Entities were to be registered under the Industrial and Provident Societies Act 1965 as a credit union under the Credit Unions Act 1979. This Act requiring entities operating as credit unions to register under it. The Credit Unions Act 1979 applied the Industrial and Provident Societies Act 1965, unless otherwise specified or modified, much like the way that early friendly society legislation applied to industrial and provident societies.

Northern Ireland had seen credit union legislation earlier.<sup>352</sup> While numerous attempts had been made to create credit union legislation in Great Britain, the implementation of European banking regulation prompted expedited attention (see *Chapter 8 – Co-operative finance*).<sup>353</sup>

Significant amendments were made to company law through the Companies Act 1980, implementing the Second European Economic Council Directive on Company Law Harmonisation (77/91).<sup>354</sup> This changed the default position in company law from being a public company unless otherwise

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349 Industrial and Common Ownership Act 1976, s2(1)(a); Registrar of Friendly Societies, *Report 1976*, 5

350 Huckfield, *How Blair Killed the Co-ops*, 70-72

351 Credit Unions Act 1979, s2(4), as enacted, making transitional provisions for existing societies.

352 Industrial and Provident Societies Act (Northern Ireland) 1969

353 Registry of Friendly Societies, *Credit Unions in Great Britain*

354 Morse, *Palmer's*, para 1.114

specified, to being a private company unless requirements for public companies were satisfied. The Act reduced the minimum members from 7 down to 2, and made a series of other changes including in relation to shares.

Much like with industrial and provident societies, company law then underwent a process largely confined to consolidation rather than amendment, resulting in the Companies Act 1985. Many pieces of amending legislation were passed in the years that followed.

Building society legislation received a major overhaul through the Building Societies Act 1986, as an act making 'fresh provision' for building societies.<sup>355</sup> Though it has been said that it 'struck a particular balance between continuity and change'.<sup>356</sup> Among other changes, this moved the supervisory responsibilities from the Chief Registrar to the newly formed Building Societies Commission.

The 1980s was particularly quiet legislatively for industrial and provident societies, with no amendments made to the legislation. The period of 1980 to 2000 has been described as one of 'modest change'.<sup>357</sup>

More substantive change was seen for friendly societies, through the Friendly Societies Act 1992. The rationale for the change was set out in a Government Green Paper: *Friendly Societies: A New Framework* which described itself as 'the most far-reaching law relating to friendly societies for over 100 years'.<sup>358</sup> This Act left much of the Friendly Societies Act 1974 intact but closed it off for new registrations. For the first time, it gave friendly societies incorporated under the 1992 Act limited liability and body corporate status. Friendly societies remaining under the 1974 Act comply with both pieces of legislation and remain unincorporated with trustees holding property.

The 1990s saw modest deregulatory measures for industrial and provident societies through the Deregulation (Industrial and Provident Societies) Order 1996, including reducing the minimum number of individuals

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355 Building Societies Act 1986, Preamble

356 Waters et al., *Wurtzburg and Mills*, para 1.02

357 Snaith, *Handbook*, 40

358 HM Treasury, *Friendly Societies*, 12

as members from 7 to 3. Deregulatory measures for credit unions were also put into place.

Building society law was further modernised a year later through the Building Societies Act 1997.

### ***Into the 21<sup>st</sup> Century***

The Financial Services and Markets Act 2000 saw an end to the post of 'Chief Registrar', with the registration function under all mutuals legislation instead moved to the Financial Services Authority (FSA) as an organisation.<sup>359</sup> This formed part of a wider re-organisation of financial services regulation, which also saw the FSA take over the functions of the Building Society Commission and Friendly Societies Commission.

The 2000s saw improvements to the law for industrial and provident societies. The Industrial and Provident Societies Act 2002 was brought as a private members bill and created an important mechanism enabling the Government to amend industrial and provident society law to reflect any changes made to company law after that date. It also made it more difficult for a society to convert to a company, as a protection against demutualisation.<sup>360</sup>

A further private member's bill made it into law as the Co-operative and Community Benefit Societies Act 2003. This was the first act to use this title, rather than the 'industrial and provident society' moniker. This Act enabled regulations to be brought forward to lock the value of assets of societies registered for the benefit of the community; and made modest amendments to the Industrial and Provident Societies Act 1965 in relation to transactions and documents. The asset lock regulations appeared in the form of The Community Benefit Societies (Restriction on Use of Assets) Regulations 2006. These do not however apply to co-operatives.

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359 Financial Services and Markets Act 2000 (Mutuals Order) 2001 (SI No 2617), arts 4 and 12(3)

360 Snaith, *Handbook*, 42

There were other changes relating to audit thresholds; and a measure to enable co-operatives and mutuals to merge.<sup>361</sup> In 2011, provisions were put in place to facilitate electronic communication.<sup>362</sup>

## ***From the 2010s***

The most substantive change was made through the Co-operative and Community Benefit Societies and Credit Unions Act 2010. This Act was passed (Royal Assent) in 2010, but its provisions didn't take effect (commence) until 2014. This was introduced as a Private Members' Bill by Malcolm Wicks MP. The Bill ran out of time and was re-introduced in the House of Lords by Lord Tomlinson in the next session of Parliament.<sup>363</sup>

In the intervening period between Royal Assent and commencement, there were a range of deregulatory measures, and measures of substance impacting the concept of the credit union common bond.<sup>364</sup> The FSA was replaced by the Financial Conduct Authority (FCA) and the Prudential Regulation Authority (PRA) in 2013, with the registration function residing with the FCA.<sup>365</sup>

In January 2012, the Prime Minister announced that there was to be a review of industrial and provident society legislation, undertaken by the Law

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361 The Building Societies (Funding) and Mutual Societies (Transfers) Act 2007, and subsequent Order: The Mutual Societies (Transfers) Order 2009 (SI No 509)

362 The Mutual Societies (Electronic Communications) Order 2011 (SI No 593)

363 HL Deb, 11 December 2009, vol 715, col 1241

364 The Legislative Reform (Industrial and Provident Societies and Credit Unions) Order 2011 (SI No 2687)

365 Financial Services Act 2012 (Mutual Societies) Order 2013 (SI No 496), which also put the FCA under a duty to 'maintain arrangements designed to enable it to determine whether persons are complying' with mutuals legislation (para 5 to Schedule 1). The common bond is the membership qualification to join a credit union, e.g. living in a particular locality, or working for a particular employer.

Commission.<sup>366</sup> That review was a consolidation exercise – meaning that substantive changes to the law could not be made as any improvements must be ‘minor’.<sup>367</sup> They produced a draft Bill, published in December 2013. One minor change included the removal of the ‘special reasons’ test under the ‘benefit of the community’ condition for registration – largely because in practice the test was tautologous in that the special reason was the community benefit.<sup>368</sup>

In April 2014, provisions were brought into place to modify and apply aspects of company law to industrial and provident societies. These related to insolvency rescue procedures (administration, creditors voluntary liquidation etc.),<sup>369</sup> and investigatory powers.<sup>370</sup> And the limit to the amount an individual could invest in a society was increased significantly: from £20,000 to £100,000 per person.<sup>371</sup> The Company Directors Disqualification Act 1986 was also applied to society directors.

Between the Royal Assent of the Co-operative and Community Benefit Societies and Credit Unions Act 2010, and April 2014, much had happened. The 2010 Act proposed some important changes to industrial and provident society law:

- Renaming ‘industrial and provident societies’ in legislative titles to ‘Co-operative and Community Benefit Societies’.
- Deeming all existing societies ‘pre-commencement societies’.
- Creating new types of legal entity: ‘Co-operative Society’ and ‘Community Benefit Society’.

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366 Law Commission, *Report on the consolidation*

367 Consolidation of Enactments (Procedure) Act 1949

368 Law Commission, *Report on the consolidation*, 2

369 The Industrial and Provident Societies and Credit Unions (Arrangements, Reconstructions and Administration) Order 2014 (SI No. 229)

370 The Co-operative and Community Benefit Societies and Credit Unions (Investigations) Regulations 2014 (SI No. 574)

371 The Industrial and Provident Societies (Increase in Shareholding Limit) Order 2014

This meant that for the first time, an entity would be registered as a ‘Co-operative Society’ rather than as an ‘industrial and provident society’ who met the condition for registration as a bona fide co-operative. And, for the first time, gave legal existence to the ‘Community Benefit Society’.

These changes, along with the Co-operative and Community Benefit Societies Bill produced as part of the consolidation exercise, were commenced on 1 August 2014. This meant that the 2010 Act changes (which modified the Industrial and Provident Societies Act 1965) were commenced, and then the 1965 Act was immediately repealed and replaced by the Co-operative and Community Benefit Societies Act 2014.

The Co-operative and Community Benefit Societies Act 2014 became the principal registration act in Great Britain, and the description ‘industrial and provident societies’ was no more.

Since 2014, the legislation has remained largely static.<sup>372</sup> In 2023, changes were implemented through the Financial Services and Markets Act 2023 amended the Credit Unions Act 1979 to widen the powers and objects of credit unions. And, the Co-operatives, Mutuals and Friendly Societies Act 2023 gained Royal Assent. Its provisions have not yet commenced but seeks to bring in an optional statutory asset lock for co-operatives and friendly societies. Originally the Bill had proposed to make changes to capital instruments, but these did not progress.<sup>373</sup>

This leaves us where we are today. The legislation for co-operatives is largely 19<sup>th</sup> century in its drafting, ending in the Industrial and Provident Societies Act 1893. Amendments made by the Prevention of Fraud (Investments) Act 1939 introduced an underlying requirement for the entities to be co-operatives (or be conducting business for the benefit of the community).

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372 There were increases in the audit thresholds through The Co-operative and Community Benefit Societies Act 2014 (Amendments to Audit Requirements) Order 2018; and in 2015, the Mutuals Deferred Shares Act 2015 sought to change capital options for friendly societies, but its provisions were not implemented.

373 Browning and Loft, *Research Briefing*

The law was consolidated in 1965, and again in 2014. In the intervening periods, a range of private members' bills and Government deregulatory measures have been enacted. This law has never had a review in the same way that company law, or charity law, have had.

In 2023, the Government announced the first review into this area of law, and of the Friendly Societies Act 1992. This work is to be undertaken by the Law Commission,<sup>374</sup> and unlike previous projects is a wider review of the law rather than a consolidation exercise.

## Conclusion

Legal recognition for co-operatives is important to help facilitate the growth of the movement. The aim is to facilitate registration of genuine co-operatives and prevent the registration of sham co-operatives. Drawing the line between the two is easier said than done. The approaches to co-operative law differ from one country to the next. This in part reflects the legal traditions in those countries – be they civil or common law systems. But it also reflects choices in approach – from a single co-operative act, to sector specific legislation, or a combination of the two.

The UK was the first country to provide legislation for co-operatives through the Industrial and Provident Societies Act 1852. This legislation was passed during the industrial revolution, in a century that saw substantive amendment to business law more generally – across mutuals, co-operatives, companies, and partnerships. From the 20<sup>th</sup> century, co-operative law started to be amended less frequently than company law. The main legislative amendments were designed to address concerns.

The UK operates a flexible regime for co-operatives, in allowing a choice of legal structure. Most choose to register as societies. It is therefore fitting that at the time of writing, a legislative review by the Law Commission is underway.

As well as understanding how a co-operative is legally structured, it is

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<sup>374</sup> Law Commission, "Law Commission invited to review legislation"

also important to understand how it is financed. Co-operative law deals with aspects of finance, in particular – share capital. The next chapter deals with finance more broadly.



## CO-OPERATIVE FINANCE

This chapter covers co-operative capital, accounting, and tax.

Co-operatives are businesses, and like all businesses, they need money to start and develop. Capital in a business is generally taken to include retained earnings and shares, as part of the equity of the business; and loans – recognised as a liability.

While some organisations, such as most charities, do not have share capital, co-operatives generally do.<sup>1</sup> Co-operatives will generally have share capital, whether they're structured as a co-operative society or a company limited by shares.<sup>2</sup> There are however examples of co-operatives in the UK, and elsewhere, using legal structures that do not permit share capital.<sup>3</sup> Where that is the case, they do not have share capital available to them as a form of funding.

That co-operatives have shares is envisaged in Principle 3 of the International Co-operative Alliance (ICA) Statement:

### *3. Member Economic Participation*

*Members contribute equitably to, and democratically control, the capital of their cooperative. At least part of that capital is usually the common property of the cooperative. Members usually receive*

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- 1 Most charities in the UK use legal structures such as (Scottish) Charitable Incorporate Organisations, Companies Limited by Guarantee without share capital, trusts, or unincorporated associations. The only type of charity with share capital is a charitable community benefit society (exempt from registration with the Charity Commission in England and Wales; but registered in Scotland and Northern Ireland).
- 2 For legal structures used by co-operatives in the UK: Chapter 3 – Co-operatives today
- 3 Fajardo et al, *Principles of European Cooperative Law*, 75

*limited compensation, if any, on capital subscribed as a condition of membership. Members allocate surpluses for any or all of the following purposes: developing their cooperative, possibly by setting up reserves, part of which at least would be indivisible; benefiting members in proportion to their transactions with the cooperative; and supporting other activities approved by the membership.*

Though it is said that 'capital' in this context is broader in being synonymous with 'assets'.<sup>4</sup> This principle also talks to the use of retained earnings, through 'indivisible reserves' (see later in this chapter). Principle 1 requires membership to be 'open' – excessive barriers in the form of high capital contributions can risk offending this principle. Principle 4 refers to a co-operative being 'autonomous and independent'. This may take the form of autonomy from the state, but this principle also comes into play in the context of financial autonomy<sup>5</sup> – such as the extent of reliance on loan capital.

Capital in the context of a co-operative differs from that in traditional investor-owned firms.

This chapter looks at co-operative capital – including its features, present use, and key themes and topics.

Co-operatives must produce accounts. This chapter briefly highlights the interaction between co-operatives and traditional accounting, not as an introduction to accounting, but instead to provide co-operative context to the topic. Matters related to tax are then explored.

Finally, this chapter looks historically at the relationship with co-operatives and finance.

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4 Fajardo et al, *Principles of European Cooperative Law*, 75. Spain is another example.

5 Bajo and Roelants, *Capital and the Debt Trap*: for an analysis of co-operatives and the impact of debt

This chapter is written mainly from a UK perspective, with international comparison brought in where relevant. The legal context of share capital is dealt with in more detail in *Chapter 7 – Co-operative law*, and so is avoided here.

## Co-operative capital

The focus here is on financial capital<sup>6</sup> – including shares, retained earnings, and loans. Capital means different things to different people. Economists, accountants, and lawyers take different views on its meaning both individually, over time, and from each other.<sup>7</sup>

When a new co-operative needs to finance its activity, it has several choices. It can raise debt – by taking out a loan from a bank or other lender. They may issue bonds (or other instruments) or take loans from members. Alternatively they may seek to attract investment through share capital.

Investors in a co-operative will vary. The investors may be members, providing additional funding (whether through loans or shares) on top of whatever is required as a condition for membership. Investment may come from within the co-operative movement – whether directly from other co-operatives, or through funds within the movement facilitating investment.<sup>8</sup> Investors may also include public bodies, or institutional investors.

For existing co-operatives, they could look to any cash reserves built up over the years through retained annual surpluses (also known as retained earnings) and consider using those.

Established co-operatives may consider selling assets or parts of their business to raise funds. Or, they can look to raise share capital. Each have

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6 Distinct from other types of capital, such as social capital, human capital, etc.

7 Nobes, "Accounting for capital"

8 Zevi et al., "Beyond the Crisis", 87: for examples with mandatory contributions to funds, including CoopFond. For an example from voluntary subscriptions, see UK based Solid Fund, a worker co-operative solidarity fund: <https://solidfund.coop>

their advantages and disadvantages.

A challenge for co-operatives is accessing enough capital to fund their activity without exposing the co-operative to the market to such an extent it compromises its co-operative identity.<sup>9</sup> This has been described as the 'capital conundrum'.<sup>10</sup> The solutions explored to this problem include adapting the co-operative model; and changing the dominant market theory more generally.

## Share capital

In the co-operative context, it has been argued that international frameworks relating to shares are directly to the disadvantage of co-operatives.<sup>11</sup> Therefore it's import to first look at the features of co-operative shares.

### Features of co-operative share capital<sup>12</sup>

Primary co-operatives are associations of people. People join, participate, and leave. Members are generally expected to share the risk of the co-operative enterprise, and to provide its capital. This reflects the value of 'self-help'.

The ICA explain:

the key economic concept enshrined in it is that in a co-operative capital is the servant, not the master of the enterprise. The whole structure of co-operative enterprise is designed around the concept of capital being in service of people and labour, not labour and people being in servitude to capital.<sup>13</sup>

9 Robb, Smith and Webb, *Co-operative Capital*: provides a summary contrasting capital in co-operatives to capital in investor-owned firms.

10 International Co-operative Alliance, *The Capital Conundrum*

11 International Co-operative Alliance, *The Capital Conundrum*, ch5 (Jean-Louis Bancel)

12 Henry, *Guidelines for Cooperative Legislation*, 90

13 International Co-operative Alliance, *Guidance Notes to the Co-operative Principles*, 30

The general features of co-operative share capital can be summarised as:<sup>14</sup>

- Withdrawable by the member (with consent of the co-operative).
- Variable – the total number of shares in the co-operative will fluctuate.
- Non-transferable, unless conditions are met.
- Par value, unless written down.
- Detached from voting rights (it's the membership, not the shareholding itself, that provides the voting right).
- Reflective of being member-based – with disinterred (equal or equitable) distribution (if any) on winding-up.

There are important caveats to the above. The summary represents the more common features found in many co-operatives. Some co-operatives will differ, including:

- Secondary co-operatives – who may allocate votes based on the number of shares held.
- Agricultural co-operatives – who may require subscription for share capital based on produce provided to the co-operative, and may link voting rights to share capital.
- Worker co-operatives – who may issue additional shares to members based on the financial performance of the co-operative – which may be linked to the member's participation in the co-operative.
- Societies subject to financial services regulation, who must meet regulatory requirements for capital to be loss-absorbing.

## ***Share value***

Members contribute share capital on joining. Some co-operatives do not have great need for share capital, instead relying on retained earnings or loans. They may operate having shares of £1 (or any other nominal value e.g. 10p) shares which are non-withdrawable and non-transferable. When a

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14 Financial Conduct Authority, "Handbook, RFCCBS", ch6; Co-ops UK, *Members' Moneys*, 3

member leaves, the share may simply be cancelled, and the money kept by the co-operative.

In other cases, the share capital required to join may be more substantial, such as €100. Some co-operatives, particularly producer co-operatives (in agriculture) may require £000s based on anticipated use. Some worker co-operatives in the Mondragon Corporation network require share capital equivalent to one-year's salary for a member.<sup>15</sup>

Co-operatives will want to ensure whatever minimum capital requirement conforms with the Principle 1 on 'voluntary and open membership', so that it does not constitute an unnecessary barrier to membership.

Shares may have to be paid in their entirety up front, or in instalments. Some co-operatives take the payment out of the next dividend payment. Members may be asked to volunteer to contribute additional share capital at times of need.

Shares will usually remain at 'par value'. This means if the shares are said to be £1, they will forever remain £1. This differs from publicly traded companies, where the market will determine the price paid for a share on an ever-changing basis. The shares may however be 'written down' in value. This could happen where the co-operative is at risk of insolvency. Members invest capital at risk and may have to absorb some loss for the co-operative to continue to operate.

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15 Bajo and Roelants, *Capital and the Debt Trap*, 123

In some countries (including the UK in relation to co-operative *societies*) legislation or rules of a co-operative society may also limit the amount of capital any one member can hold, to avoid risking undue informal control or influence.<sup>16</sup>

### ***Shares and voting rights***

One can distinguish between ownership, and control, which are said to be equally important.<sup>17</sup>

Unlike in an investor-owned firm, there is usually no link between the number of shares a member holds, and the number of votes they're entitled to. This is because in co-operatives voting rights are generally linked to *membership* rather than shares.

The main exception to this principle is in some agricultural co-operatives, where voting rights are linked to shares, because the minimum/maximum shareholding is itself determined by an equitable formula based on the

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16 Fajardo et al, *Principles of European Cooperative Law*, 81: The Principles of European Cooperative Law (PECOL) included a principle that no member may hold share capital higher than the maximum defined by law – to avoid “the risk of enabling a cooperator member with an excessive participation in the cooperative share capital to determine, in practice, the cooperative’s decisions.”; Committee on Investments for the Savings of the Middle and Working Classes, *Report 1850*, para 455: That a limit exists has been a consistent feature in UK law since the Industrial and Provident Societies Act 1852. Speaking to a Parliamentary Committee in 1850, Thomas Hughes QC, one of the architects of UK co-operative law, explained of the co-operative movement: “They find that the amount of capital wanted is very small, and they are also anxious to limit the interests of any single person in the concern”. Though the context of the discussion was one in which advocates for co-operatives were keen to facilitate their creation without creating undue worry over loss of funds by wealthier individuals, and had a paternalistic outlook toward the working classes. It is therefore possible numerous motivations were in play.

17 Bajo and Roelants, *Capital and the Debt Trap*, 100

member's participation in the business.

### ***Financial return – share interest***

Co-operatives may pay a return on share capital. Without doing so, there would be a challenge in raising sufficient funds.

Principle 3 of the ICA Statement distinguishes between the capital required as a condition of membership, and the additional capital subscribed over and above that.<sup>18</sup> For example, on joining a co-operative, a member may be required to subscribe for £1 (or any other specified figure) in share capital. That is the capital required to become a member. Anything above that amount may be seen as additional investment.

This return is often in the form of a rate of interest on the share capital.<sup>19</sup> For capital required as a condition of membership, there tends to be no interest paid on nominal share capital. For larger capital amounts, the rate of interest is meant to be compensatory in nature (preventing the shares from losing their value).<sup>20</sup>

Co-operatives will generally look to pay limited, if any, interest on the capital provided as a condition of joining the co-operative. Where co-operatives need additional capital, they may pay interest on that. This compensates members from loss of access to their capital.

The Financial Conduct Authority (FCA) explain:

Generally speaking, interest on shares should only be paid where the society can afford to do so, having taken into account other liabilities and any contribution to the society's reserves. Share interest should not be used as a means of profit or surplus distribution or as a substitute for dividends.<sup>21</sup>

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18 International Co-operative Alliance, *The Capital Conundrum*, 25

19 Financial Conduct Authority, "Handbook, RFCCBS", para 6.1.21G

20 Bajo and Roelants, *Capital and the Debt Trap*, 123; (International Co-operative Alliance 2015)

21 Financial Conduct Authority, "Handbook, RFCCBS", para 6.1.22G

This is underpinned by a series of indicators, consistent with ICA guidance.<sup>22</sup>

Co-operatives do not tend to pay a dividend on shares. Instead, the dividend is normally based on some equitable formula linked to a member's participation in the co-operative e.g. on purchases in a consumer co-operative.

There is likely to be an ongoing cost to a co-operative in paying interest on share capital. Where a co-operative has sufficient funding, they may wish to reduce their share capital to reduce their costs. Some co-operatives have terms within their governing document allowing them to return money to a member whether the member consents or not.

### ***Liquidity***

An individual putting money into a co-operative would usually want to be able to take their money back out again. The extent to which one can get their investment back again (realise it) is generally referred to as 'liquidity'. In an investor-owned company, liquidity can be created by facilitating the transferability of shares i.e. on a stock exchange.

### ***Transferability***

Shares in a company listed on the stock exchange are highly-liquid, as they can generally be sold by one investor to another (traded) rapidly. There is a market for the shares. Illiquid assets are generally regarded as ones where you cannot easily or quickly get your money back again – such as investment in property, which may take months or years to sell depending on how the investment is structured.

Shares in a co-operative are not generally transferable. Shares usually denote membership. Each co-operative will have its own rules or policies

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22 International Co-operative Alliance, *Guidance Notes to the Co-operative Principles*

on who can join. It is therefore not generally open to a member to choose to transfer their shares to someone else without agreement of the co-operative. However co-operatives can, and some do, issue transferable shares. Where this is the case, they are usually subject to some restrictions (e.g. consent of the board).

Restrictions exist because the introduction of a degree of transferability can result in a market for co-operative shares. The ease of transferability, and rules around it, will impact the extent to which a market operates. This could risk a move from shares at nominal price, to shares with fluctuating prices based on market value (speculation).<sup>23</sup>

It can detract from co-operative identity if it causes a shift from serving member benefit, to meeting market needs. Members in a co-operative would principally benefit from their participation in the business of the co-operative. In a consumer co-operative, members would purchase goods or services from it and receive a dividend. In a worker co-operative, members are employed (and paid a salary) and may receive a share of profits. In a producer co-operative members supply goods or services to the co-operative and share proportionately to that trade.

This creates a challenge for co-operatives who need to raise funds. The role of capital in a consumer co-operative, and the potential role for transferable shares has been explored.<sup>24</sup>

Consideration has been given to the role of a secondary market, or intermediary of some sort, distinct from the traditional investor-owned company stock exchanges.<sup>25</sup>

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23 Hayes, *The Capital Finance of Co-operative*, 41-44: for a discussion of ethical and legal implications; Financial Conduct Authority, "Handbook, RFCCBS", ch6

24 Mikami, "Raising capital by issuing transferable membership"; International Co-operative Alliance, *The Capital Conundrum*, 53-54: for details on transferable member certificates in Rabobank

25 Brown, *Co-operative Capital*; Hayes, *The Capital Finance of Co-operative*; Coop Exchange, "Coop Exchange"

Within the UK, the transfer of shares for co-operative societies is subject to consent of the board of directors of that society.<sup>26</sup> Public offers of transferable shares in societies are subject to the financial promotion regime and the prospectus requirements.

## Withdrawability

There are other ways to create liquidity. Shares in a co-operative are generally withdrawable. This means a member can usually withdraw (redeem) their shares and get their money back. The co-operative pays back the money, and the share is cancelled. This will normally be subject to the consent of the co-operative (as it may otherwise not constitute equity for accounting purposes – see *Co-operative Accounting* below). Though co-operatives with only nominal shares may give an absolute right of withdrawal. The governing document of the co-operative will impact the rights attached to shares.

The number of shares in a co-operative will therefore change every time a member leaves, or a new member joins. Their share capital is said to be variable.<sup>27</sup> This distinguishes them from a company that generally has a fixed amount of share capital.<sup>28</sup>

While useful for members, this may be less useful for creditors, who do not have a fixed sum against which they can seek to offset their risk. This is more likely to be the case when comparing a large well-capitalised co-operative

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26 Co-operative and Community Benefit Societies Act 2014, s14

27 Mills, "A Study of Indivisible Reserves": provides a comparative analysis

28 Brabrook, *Provident Societies*, 140: A previous chief registrar, writing in 1898 describes this difference as the 'principal distinction' between societies and companies comparing societies to the French 'societies a capital variable'. Though to note, there are mechanisms by which companies now can reduce their share capital – it is just not as easily done, as in the case of a society. Companies can also have redeemable shares, which function in a similar way to withdrawable shares (the principal is repaid, and the share cancelled), but companies cannot have only this type of share.

to a large well capitalised company. In practice, many co-operatives and companies have low levels of share capital, with creditors looking at a range of other measures to assess credit risk (e.g. trading performance, assets, levels of debt, etc.).

In some cases, co-operative rules or legislation may require that members are liable for their share capital up to a certain period after leaving, to avoid members evading liability by leaving in advance of a debt being called.

Co-operatives operating as societies in the UK, rather than companies, benefit from a unique type of share capital known as 'withdrawable share capital'. These are often known informally as 'community shares'.

## **Community Shares**

Within the UK, co-operative societies have long been able to raise capital by issuing their shares to the public.<sup>29</sup> Details as to how this was abused in the 1930s is set out in *Chapter 7 – Co-operative law*. Over time, the use of society shares over and above nominal fees for membership seemed to decline and was largely forgotten.<sup>30</sup>

The financing of co-operatives through the offering of shares started to emerge again in the 1990s.<sup>31</sup> By 2007, there were said to be 49 societies offering shares to the public.<sup>32</sup> These types of shares became known as 'community shares'.<sup>33</sup> While not a legislative defined term, 'community share' tends

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29 Societies registered under the Co-operative and Community Benefit Societies Act 2014 or Co-operative and Community Benefit Societies Act (Northern Ireland) 1969, rather than co-operatives registered as companies.

30 Brown, *The Practitioners' Guide to Community Shares*, 11

31 Brown, *Co-operative Capital*, 41

32 Brown, *Community Investment*, 13

33 Hill, *Community Share and Bond Issues*: for early use of the phrase

to refer to the shares issued by societies that are:<sup>34</sup>

- Withdrawable in that the member can request that their money is returned to them. And if it is, the number of shares in the society reduces accordingly. Societies generally retain a right to refuse withdrawal.
- Non-transferable. The shares cannot be transferred between members.<sup>35</sup>
- Specified value e.g. £1, or some other figure.
- Remain at par value unless written down.
- Additional to the capital a member subscribes as a condition for membership. These shares don't provide additional voting rights to the vote (usually only one vote) each member has.

There is a legislative cap on the amount any one person can invest in the shares.<sup>36</sup>

The Development Trusts Association (now Locality) and Co-operatives UK came together to help form the Community Shares Programme in 2009, with government backing.<sup>37</sup> This ran until 2011<sup>38</sup> after which it continued as the Community Shares Unit.<sup>39</sup> From 2017 onwards, funding for the project has been primarily through the 'Community Shares Booster Programme',

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34 Financial Conduct Authority, "Information for societies on community shares"; Co-operatives UK, *Community Shares: Inside the Market Report June 2015*, 5

35 There are exceptions linked to the death of a member, which are omitted for simplicity for this work.

36 Co-operative and Community Benefit Societies Act 2014, s24: currently set at £100,000

37 Department for Communities and Local Government: 'New 'Community Shares' to boost local services'; Co-operatives UK, *Community Shares: Inside the Market Report June 2015*: additionally later by the then Department for Energy and Climate Change

38 Brown, *The Practitioners' Guide to Community Shares*, 10-11

39 McCulloch and Dawson, *Communities doing it for themselves*, 4

with investment from Power to Change and the Architectural Heritage Fund.<sup>40</sup>

Over time, the number of share offers increased, rising from 17 in 2009, to 61 in 2014.<sup>41</sup> During this period, the main sectors were community retail, energy and environment, food and farming, pubs and brewing, regeneration and development, and from 2011, sports. Most growth was seen in the energy and environment sector.

These figures include both co-operatives, and community benefit societies, registered under the same legislation. Of the 61 offers in 2014, 19 were by co-operatives.<sup>42</sup>

The sectoral representation changed significantly between 2015 and 2021:<sup>43</sup>

- Energy – in 2015, 75 offers represented 68.8% of the overall number. In 2021, there were 8 offers, representing 14.3% of the total.
- Community pubs – in 2015, there were 5 offers representing 4.5% of the total. In 2021, there were 26 offers representing 46% of the total.

Though in both sectors, the societies are more likely to be community benefit societies than co-operatives.

The drivers for the use of community shares differ.<sup>44</sup> They include tax incentives (particularly in the case of energy); available grant funding; targeted campaigns/support for particular sector etc.

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40 McCulloch and Wharton, *Understanding a maturing community shares market*, 15

41 Co-operatives UK, *Community Shares: Inside the Market Report June 2015*, 13

42 Co-operatives UK, *Community Shares: Inside the Market Report June 2015*, 17

43 McCulloch and Dawson, *Communities doing it for themselves*, 10-11

44 McCulloch and Wharton, *Understanding a maturing community shares market*; McCulloch and Dawson, *Communities doing it for themselves*; Co-operatives UK, *Community Shares: Inside the Market Report June 2015*

There is no maximum size to a society share offer – with the total amounts being raised varying from society to society.

These type of shares – in being non-transferable, are subject to different regulatory treatment under the Financial Services and Markets Act 2000 than transferable shares. The withdrawable non-transferable shares can be issued to the public without the need for a prospectus and fall outside of financial promotion regulation.<sup>45</sup> However, the sector has sought to voluntarily set standards to help avoid harm.

One of the products of the work is the Community Shares Handbook.<sup>46</sup> This Handbook was put together under the oversight of a technical steering committee including representatives from the Financial Conduct Authority, HM Treasury, the Charity Commission for England and Wales, and legal advisors.<sup>47</sup> The document does not have legislative recognition – it is maintained by Co-operatives UK, but it does contain useful guidance on community shares.

### ***Non-user investor shares***

Where co-operatives raise share capital they may be able to get it from their members who use their business. They may also need to look to external investors.

One way co-operatives have achieved this is through the creation of a class of shares which allow external investors (who do not or cannot otherwise participate in the business of the co-operative) to provide capital, and own shares, but without compromising voting rights: non-user investor

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45 The Financial Services and Markets Act 2000 (Financial Promotions) Order 2005, para 14 to Schedule 1; The Financial Services and Markets Act 2000 (Regulated Activities) Order 2001, art 76

46 Co-operatives UK, *Community Shares Handbook*

47 Co-operatives UK, *Community Shares Handbook*, 1

shares. This is not necessarily new, but remains a still-debated topic.<sup>48</sup>

Non-user investor shares may be called different things, and may fall under the term 'community share'. The detail of a society's governing document would need to be checked to establish the exact terms.

At an EU level, the option for non-user investors was set out in the Statute for a European Co-operative Society (SCE).<sup>49</sup> Within the SCE regulation, the voting rights of members were limited to not more than 25% of total voting rights.<sup>50</sup>

Agricultural co-operatives and financial co-operatives particularly have wrestled with this topic.<sup>51</sup> Bringing in investor shares raises a range of governance questions around ownership and control.<sup>52</sup>

Within the UK, the then Financial Services Authority (subsequently the FCA), in respect of co-operative societies, modified its position to reflect this EU-wide change.<sup>53</sup> This is now reflected in the FCA Handbook – where a principles-based approach is taken. Rather than specifying a particular figure on total voting rights, the guidance provides:

Ultimate control of the society remains with members other than non-user investor members at all times. Non-user investor members do not together have voting rights that when combined would result in user-members losing control of the society.<sup>54</sup>

Co-operative societies are also subject to a requirement that they cannot

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48 Bibby, *All Our Own Work*: details the role of non-user investors in the Hebden Bridge Fustian Manufacturing Co-operative Society Limited, in the early 1900s

49 Council Regulation EC 1435/2003, art 14

50 Council Regulation EC 1435/2003, art 59(3)

51 Miribung, *The Agricultural Cooperative*; Birchall, *Good governance in minority investor-owned co-operatives*

52 Cook and Chaddad, "Redesigning Cooperative Boundaries"; Birchall, *Good governance in minority investor-owned co-operatives*

53 Cook and Taylor, *Investor Membership of Co-operatives*

54 Financial Conduct Authority, "Handbook, RFCCBS", para 6.1.31G

exist for the object of making profits mainly for the payment of interest, dividends, or bonuses on money invested in the society.<sup>55</sup> They cannot therefore operate as an investment vehicle.

## **Regulatory capital**

Businesses (banks) that carry on the financial services activity of deposit-taking (i.e. holding money from customers who can withdraw it when they wish) are generally subject to regulation by the state. This is particularly true in the UK<sup>56</sup> and EU. In these cases, they are required to have 'regulatory capital'.

This is capital within their organisation that meets certain regulatory requirements. The key principle is that the capital is 'loss absorbing'. Where a bank suffers a financial loss – such as from poor performance, impact from wider changes to the market etc. – they need to be holding enough capital that the loss can be taken by the bank without causing it to jeopardise the stability of the bank. Regulation (Basel III) specifies how much capital must be held (often known as a threshold or capital adequacy ratio).

There are different types of capital, each with underlying criteria. Common Equity Tier 1 (CET1) is the highest quality of regulatory capital. Followed by Additional Tier 1 (AT1) and Additional Tier 2 (AT2). There is some recognition of the position of capital in co-operatives.<sup>57</sup> However, there is criticism within the co-operative movement that the recognition of the nature of co-operative capital does not go far enough<sup>58</sup> and warn of the dangers of external capital.<sup>59</sup>

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55 Co-operative and Community Benefit Societies Act 2014, s2(3)

56 Credit unions in the UK are exempt from aspects of the capital regime, and have bespoke regulatory treatment

57 Regulation (EU) No 575/2013, art 29, of the European Parliament and of the Council of 26 June 2013 on prudential requirements for credit institutions and investment firms

58 International Co-operative Alliance, *The Capital Conundrum*, 25

59 Groeneveld, "Reconciling different truths about isomorphic pressure"

A key tension lies in co-operatives generally, historically, not having permanent capital. Withdrawable capital does not do well in absorbing loss. Where capital is permanent, investors usually want an exit route, which may be delivered through being able to transfer the shares. Transferability increases the extent to which co-operatives operate a market. There are however positions in between the extremes of freely withdrawable and forever permanent.

In the UK context, looking at the mutual sector more broadly, building societies were able to issue 'permanent interest-bearing shares' (PIBS), as a form of instrument that were permanent, paid interest, and could be recalled or redeemed. Changes to capital requirements in 2014 resulted in these instruments no longer meeting regulatory requirements. These were succeeded by 'core capital deferred shares' (CCDS) as an instrument that was both loss-absorbing and with limited voting rights to avoid compromising member control.<sup>60</sup>

### ***Other instruments***

Co-operatives have explored and implemented ways to raise additional funding. A few examples are provided below.

Initiatives have been instigated in Australia to facilitate co-operative capital raising. Co-operative Capital Units (CCUs) have sought to provide capital without compromising control.<sup>61</sup> From this, a model has been conceptualised that links the dividend on investor shares to the dividend paid on member shares (patronage dividend), with members holding both a member share, and an investor share.<sup>62</sup>

More recently in Australia, the 'Mutual Capital Instrument' (MCI) has

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60 The Building Societies (Core Capital Deferred Shares) Regulations 2013.

61 Mamouni, Limnios, et al, "Financial instruments and equity structures"

62 Mamouni, Limnios, et al, "Financial instruments and equity structures", 68

been developed<sup>63</sup> and issued by several mutuals.<sup>64</sup> The shares limit the voting rights, while providing a source of capital.

Elsewhere co-operatives have looked to ‘member certificates’ as a form of hybrid instrument (between debt and shares) that pays a return but doesn’t provide for voting rights.<sup>65</sup>

Within Great Britain, Parliament legislated to allow credit unions to offer ‘deferred shares’ and ‘interest bearing shares’ as ways of providing capital. Deferred shares are generally non-withdrawable but may be transferable between members.<sup>66</sup>

Common features of other instruments see co-operatives trying to balance ownership, voting rights, liquidity, exit, and return in a way that doesn’t undermine co-operative identity.

## **Co-operative capital – retained earnings**

Retained earnings are the profits from the business that have been kept, rather than distributed, often talked of as being ‘reserves’. Retained earnings are an important way for any business to fund its activity, not least as it generally has a lower cost than providing a return on share capital, or debt. This is of course relevant for existing trading businesses. New start-ups would need to find another source of capital initially (i.e. shares or loans).

While relevant to all businesses, retained earnings should be especially important to co-operatives. This in part reflects the challenges they have in raising capital elsewhere. But, importantly, also reflects a core component of co-operative identity.

Co-operatives are not intended to be investment vehicles, and in not

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63 Treasury Laws Amendment (Mutual Reforms) Act 2019, in amending the Corporations Act 2001

64 BCCM, “Mutual Capital Instruments”; Apps, “A legal identity for mutuals”, provides a legal commentary

65 International Co-operative Alliance, *The Capital Conundrum*, 54

66 Limited scope for repayment, as set out in s31A of the Credit Unions Act 1979

having to pay dividends on capital in the short term, should be able to take longer-term strategic positions. The steady building-up of reserves has been a common feature in many co-operatives, contributing to their resilience.<sup>67</sup>

The importance of this feature is recognised in Principle 3 (Member Economic Participation) of the ICA Statement: *possibly by setting up reserves, part of which at least would be indivisible.*

Where a reserve is indivisible, money cannot be distributed to members or other parties. This helps secure the co-operative as an intergenerational asset.<sup>68</sup> Though, as outlined in *Chapter 10 – Co-operative ideology*, there are differing views on this point.<sup>69</sup>

The presence of indivisible reserves has been suggested as a way to reduce the risk of fraud, and of demutualisation.<sup>70</sup>

## Co-operative capital – loans

Unlike share capital and retained earnings, loan capital (along with other debt) is a liability. Loans are a common way for a business to raise funds, and co-operatives are no different in this regard. The most common arrangement will see a co-operative seek a loan from a lender such as a bank. Loans may also be provided by others – including members of the co-operative.

The terms of the loan are offered by the lender – such as the term (length/maturity) of the loan, the interest or return payable on the loan (yield), and any conditions (on default, or covenants to not sell aspects of the business/assets). The loans may be secured over particular assets (as collateral) of the business (fixed charge), and/or over the business itself (floating charge).

While debt instruments could come with constitutional rights, such as seats on the board, or votes at a general meeting, this is less common. The

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67 Birchall, *Resilience in a Downturn*, 2; Bajo and Roelants, *Capital and the Debt Trap*, 124-125; International Co-operative Alliance, *The Capital Conundrum*, 54

68 International Co-operative Alliance, *The Capital Conundrum*, 28

69 Mills, "A Study of Indivisible Reserves"

70 Bajo and Roelants, *Capital and the Debt Trap*, 125

rights are usually financial in nature.

There are numerous types of debt instrument alongside conventional loans, including bonds, notes, debentures, and hybrid instruments such as certificates. Hybrid instruments include those that are technically debt and have some of the constitutional characteristics usually associated with share capital – such as voting rights. The co-operative bank in the Netherlands, Rabobank, issued these as ‘member certificates’.<sup>71</sup>

Some instruments may be convertible, starting life as debt, with the option to convert into shares, or the reverse. Debt can also be listed on an exchange – particularly bonds, notes and debentures.<sup>72</sup>

There can be a hierarchy of debt – with some subordinated to others. It is common to see ‘subordinated debt’. In terms of insolvency, all debt sits above share capital in the priority of repayment. Shareholders are always bottom of the list for repayment.

Broadly, the ability for a co-operative to raise debt should be similar or equivalent to that of any other type of enterprise. The boards of co-operatives will often have broad powers to agree loans on behalf of the co-operative.<sup>73</sup> There are however some aspects of this worth emphasising for co-operatives.

Principle 4 of the ICA Statement refers to co-operatives being ‘autonomous and independent’. The finance arrangements, particularly in relation to debt, can impact this. For example – if a co-operative were to agree a loan with strict covenants impacting the way it can conduct its business, it will have impacted its ability to act autonomously.

Aside from contractual undertakings impacting the business, co-operatives will need to carefully manage the granting of constitutional rights,

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71 International Co-operative Alliance, *The Capital Conundrum*, 54

72 Financial Conduct Authority, “The Official List”: At least one co-operative in the UK has listed debt instruments (as at September 2024)

73 For co-operative societies in the UK, the rules of the society are required to set out the limits and terms, and tend to do so in broad terms with large limits.

such as seats on the board, to their creditors.<sup>74</sup>

At least historically, the co-operative movement created its own line of credit – through banks and other credit institutions to lend to individual co-operatives. In Spain, this saw *Caja Laboral* as a lender to the Mondragon Corporation.<sup>75</sup> In the UK, this role was played for a long time by the Co-operative Bank, originating as a department within the Co-operative Wholesale Society Limited. Though other specialist lenders do still exist today in the UK, such as *Co-operative and Community Finance*.

We now turn to the accounting treatment for co-operative capital.

## Co-operative accounting

On a narrow interpretation, businesses need to produce annual financial statements (accounts) to determine tax liability. Those businesses which are incorporated as legal entities are also subject to legislative requirements to produce accounts to meet obligations to report to their stakeholders. While technical compliance is of course important, accounting can be multi-dimensional, providing wider benefit.<sup>76</sup>

A broader look, and historical context, help explain why co-operatives ought to have an interest in accounting concepts. Co-operatives were early adopters of publishing financial information to members, which ties back to the values of openness, honesty, and transparency.<sup>77</sup> Given there are wider aims of a co-operative, beyond profit maximisation, it has been argued that accounts for co-operatives are a form of stewardship.<sup>78</sup>

Accounts and accompanying narrative reporting help provide accountability.<sup>79</sup> They are read by those with an interest in the business: creditors, funders, the public, and other interested parties (customers, regulators,

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74 Financial Conduct Authority, "Handbook, RFCCBS", para 6.2.2

75 Zevi et al., "Beyond the Crisis", 148

76 Carnegie, Gomes and McBride, "COVID-19 and accounting"

77 Robb, "Stewardship"

78 Robb, "Stewardship"

79 Maddocks, "Developing a co-operative accountability model"

employees, suppliers) may look to accounts to learn more about the enterprise. In the case of co-operatives, they should be of great use to members in reporting on the activity of the co-operative over the previous year.

## Accounting standards

In the UK, these are primarily set out in the Companies Act 2006 for companies, Co-operative and Community Benefit Societies Act 2014 for co-operative societies,<sup>80</sup> and other legislation for partnerships, depending on the type of partnership.<sup>81</sup>

The 'Generally Accepted Accounting Practice' (GAAP) in the UK is set by the Financial Reporting Council (FRC). Separately, the International Financial Reporting Standards (IFRSs) are available. These are international standards set by the IFRS's International Accounting Standards Board and tend to be used by entities listed on stock exchanges.

The FRC summarise the accounting framework:<sup>82</sup>

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- 80 In Northern Ireland: Co-operative and Community Benefit Societies Act (Northern Ireland) 1969
- 81 The Limited Liability Partnerships (Accounts and Audit) (Application of Companies Act 2006) Regulations 2008; The Partnerships (Accounts) Regulations 2008 (SI 2008/569).
- 82 Financial Reporting Council, *Overview of the financial reporting framework*

Diagram 1

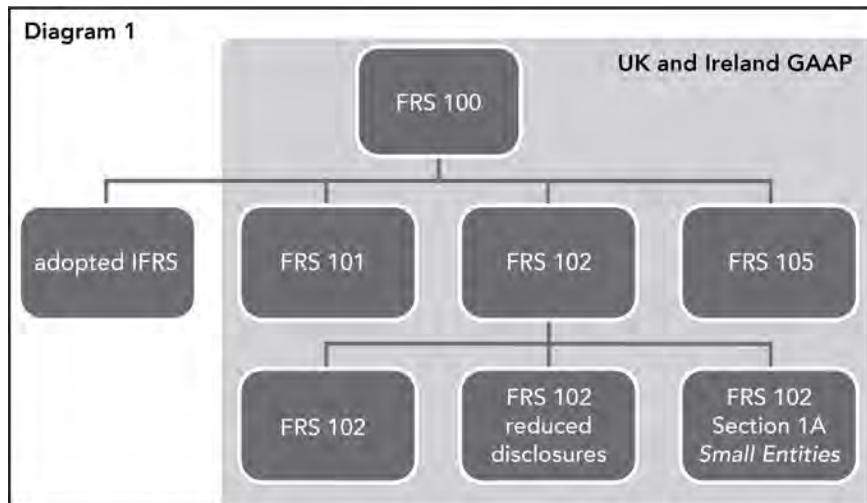


Figure 1 – FRC Overview of the financial reporting framework (Diagram 1)

The IFRS framework is the most complex, reflecting the nature of the entities using it- who tend to be larger and have requirements placed on them from being listed on stock exchanges.<sup>83</sup>

FRS 102 is widely used – with the underlying standards (e.g. FRS 102 vs FRS 102 1A) being determined by the size of the entity.

FRS 102 is however based on IFRS, for proportionate international consistency across accounts. The FRC explain:

It is designed to apply to general purpose financial statements and financial reporting of entities including those that are not constituted as companies and those that are not profit-oriented. General purpose financial statements are intended to focus on the common information needs of a wide range of users: shareholders, lenders, other creditors, employees and members of the public, for example.<sup>84</sup>

<sup>83</sup> Financial Reporting Council, *Overview of the financial reporting framework*, 5

<sup>84</sup> Financial Reporting Council, *Overview of the financial reporting framework*, 9

The standards provide guidance on presentation of balance sheets, profit and loss accounts, statements of cash flow etc.<sup>85</sup>

## **Equity or liability?**

Amendments to the (IFRSs) caused a debate as to whether capital in a co-operative constituted equity, or a liability.<sup>86</sup> It was a feature of co-operative share capital that shares could be withdrawn (redeemed) at the request of the member. Amendments made to IAS32 in 2002 caused co-operative capital with a redemption right to be classified as a liability rather than equity. Amendments in 2003 revised this. The IFRS have explained the issue:

Many financial instruments, including members' shares, have characteristics of equity, including voting rights and rights to participate in dividend distributions. Some financial instruments give the holder the right to request redemption for cash or another financial asset, but may include or be subject to limits on whether the financial instruments will be redeemed. How should those redemption terms be evaluated in determining whether the financial instruments should be classified as liabilities or equity?<sup>87</sup>

For the share capital to constitute equity, the IFRS explain:

Members' shares are equity if the entity has an unconditional right to refuse redemption of the members' shares.<sup>88</sup>

Practically, this resulted in many co-operatives in the UK amending their

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85 Financial Reporting Council, *FRS 102 The Financial Reporting Standard*

86 Beaubien, "Co-operative Accounting"; López-Espinosa, Maddocks and Polo-Garrido, "Equity-Liabilities Distinction"; López-Espinosa, Maddocks and Polo-Garrido, "Co-operatives and the Equity-Liabilities Puzzle"; Maglio, Agliata and Tuccillo, "Trend of IASB Project"

87 IFRS, *IFRIC 2: Members' Shares*

88 IFRS, *IFRIC 2: Members' Shares*

rules to give boards of co-operatives a right to refuse withdrawal. Co-operatives otherwise risked looking financially weaker than investor-owned companies due to the low capital base, particularly where shares made up a significant proportion of the total financial capital of the co-operative.<sup>89</sup>

## Statements of recommended practice

Reporting standards are supported by Statements of Recommended Practice (SORPs) in certain sectors. For example, a SORP exists for the charity sector.<sup>90</sup> Legal obligations (such as legislative requirements) must be complied with, followed by FRS 102, and then the SORP, in that order in the event of a conflict. The FRC is responsible for recognising a SORP, and explain their purpose:

SORPs are sector-driven recommendations on financial reporting, auditing practices and actuarial practices for specialised industries, sectors or areas of work, or which supplement FRC standards and other legal and regulatory requirements in the light of special factors prevailing or transactions undertaken in that particular industry, sector or area of work that are not addressed in FRC standards. SORPs also address matters that are addressed in FRC standards, but about which additional guidance is considered necessary.

It is estimated that co-operative accounting standards exist in 64 countries.<sup>91</sup> There are however no accounting standards specifically for co-operatives in the UK. At the ICA General Assembly in Rwanda in 2019, unanimous support was given for a resolution proposed by Co-operatives UK, and seconded by Kooperationen in Denmark, calling for development of

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<sup>89</sup> Mantzari et al, *Financial reporting in Co-operatives*, 16

<sup>90</sup> Joint SORP-Making Body, *Charities SORP (FRS 102) 2nd edition*

<sup>91</sup> Adderley, Mantzari et al. "Accounting and Reporting"

accounting standards for co-operatives.<sup>92</sup>

The rationale for a SORP for co-operative accounts in the UK has been set out,<sup>93</sup> with further research in progress.<sup>94</sup>

## Narrative reporting

Narrative reporting generally covers information provided alongside annual accounts – covering both financial and non-financial information. Non-financial information may include items such as environmental impact. The positive benefits of narrative reporting – including the benefit of participatory approaches to it, have been set out.<sup>95</sup>

For companies (other than small companies) there is a legal obligation to produce a 'Strategic Report',<sup>96</sup> and to produce information relating to the climate.<sup>97</sup> There is no equivalent obligation under co-operative society law. Though many larger co-operatives provide narrative reporting voluntarily.

The FRC produced principles-based guidance on the strategic report.<sup>98</sup> The strategic report is intended to help shareholders assess how directors have promoted the success of the company.<sup>99</sup>

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92 International Co-operative Alliance, *Official Meeting Documentation*, 35-37

93 Adderley, Mantzari et al. "Accounting and Reporting"

94 Mantzari, McCulloch, Rixon et al. *Accounting and Reporting of Co-operatives*

95 Michelon, Trojanowski and Sealy, "Narrative Reporting"

96 Companies Act 2006 (Strategic and Directors' Reports) Regulations 2013 (SI 2013/1970), with further requirements in The Companies (Miscellaneous Reporting) Regulations 2018; the Companies, Partnerships and Groups (Accounts and Non-Financial Reporting) Regulations 2016 (SI 2016/1245); The Companies (Miscellaneous Reporting) Regulations 2018 (SI 2018/860), with similar provisions for LLPs

97 The Companies (Strategic Report) (Climate-related Financial Disclosure) Regulations 2022 (SI 2022/31)

98 Financial Reporting Council, *Guidance on the Strategic Report*

99 Financial Reporting Council, *Guidance on the Strategic Report*, 4

Co-operatives UK have produced their own guidance to compliment the FRC guidance focusing on three pillars:<sup>100</sup>

- Member value
- Member voice
- Co-operative values

The framework sets out two important ‘building blocks’ for co-operative reporting as: quality of communications (to members), and co-operative principles.

## Integrated and alternative reporting

There have been numerous initiatives looking to bring reporting beyond only providing financial information.<sup>101</sup> Triple bottom line reporting, focusing on people, profit, and planet, first featured in 1994.<sup>102</sup>

Social value, or social capital, gained early focus, exploring how social accounting could help articulate the social and environmental effects of an organisation, and was also applied to co-operatives.<sup>103</sup>

Following numerous initiatives on reporting on sustainability and other measures, with mergers between organisations over time, the International Financial Reporting Standards (IFRS) Foundation exists to cover this area.<sup>104</sup> They maintain the Integrated Reporting Framework: ‘International <IR> Framework’.<sup>105</sup> They aim for integrated reporting to ‘become the corporate reporting norm’.<sup>106</sup> They define an integrated report as:

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100 Co-operatives UK, *Narrative Reporting*

101 Webb, “Accounting for Co-operation”: gives an example in the context of reporting on co-operatives

102 Elkington, *Cannibals with Forks*

103 Mook, Quarter and Richmond, *What Counts*

104 IFRS Foundation, “Who we are”: includes a merger with the International Integrated Reporting Council (IIRC).

105 IFRS Foundation, *International <IR> Framework*

106 IFRS Foundation, *International <IR> Framework*, 2

... a concise communication about how an organization's strategy, governance, performance and prospects, in the context of its external environment, lead to the creation, preservation or erosion of value over the short, medium and long term.<sup>107</sup>

The framework is aimed at private sector for-profit companies but is said to also be applicable (with adaptions) to public sector and non-profit organisations.<sup>108</sup> As set out in *Chapter 6 – Co-operatives in context*, co-operatives do not sit neatly into any of these classifications – instead sitting in the 'social economy' or 'social solidarity economy'. The 'primary' audience for the integrated report is the 'providers of financial capital'.<sup>109</sup>

A crucial component of integrated reporting is 'integrated thinking' – known as the 6 capitals:<sup>110</sup>

- Financial capital
- Manufactured capital
- Intellectual capital<sup>111</sup>
- Human capital
- Social and relationship capital
- Natural capital

These capitals have been analysed and reframed from a co-operative context.<sup>112</sup> There have been attempts to adopt integrated reporting, with the challenges and risks set out.<sup>113</sup> This includes the Total Value Framework set out by

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107 IFRS Foundation, *International <IR> Framework*, 10

108 IFRS Foundation, *International <IR> Framework*, 10

109 IFRS Foundation, *International <IR> Framework*, 11

110 IFRS Foundation, *International <IR> Framework*, 19

111 Noble and Ross, "From principles to participation"; see also *Chapter 12 – Co-operative education*

112 Ridley-Duff, Wren and McCulloch, "Wealth, Social Enterprise and the FairShares Model"

113 Rixon and Beubien, "Integrated Reporting for Co-operatives"

EY, for the Business Council of Co-operative and Mutuals in Australia.<sup>114</sup>

## Social and sustainability reporting

*Chapter 13 – Co-operatives and social responsibility*, sets out more broadly the role of co-operatives in this area. In this section, we focus on the reporting elements linked to that work.

It is argued that co-operatives have a key role to play in facilitating the Sustainable Development Goals (SDGs).<sup>115</sup> There are challenges in being able to report statistically what this contribution is.<sup>116</sup> The information is more readily available for the top 300 co-operatives.<sup>117</sup>

Co-operatives have engaged less in sustainability reporting than investor-owned companies.<sup>118</sup> Standardised reporting frameworks can risk distorting the distinctive nature of co-operatives, with suggestions that a bespoke framework is needed.<sup>119</sup>

Studies exploring the reporting frameworks used by co-operatives have identified more than a dozen types of co-operative framework used by individual co-operatives.<sup>120</sup>

The ICA produced a guidebook, ‘Sustainability Reporting for Co-operatives’.<sup>121</sup> And others have advocated the use of frameworks such as the Economy for the Common Good.<sup>122</sup>

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114 EY, *Sticky Money*

115 International Co-operative Alliance, *Cooperatives and the Sustainable Development Goals*

116 Carini, El-Youssef and Sparreboom, “The Importance of Statistics”; International Co-operative Alliance, *Cooperatives for 2030*

117 World Co-operative Monitor, *Exploring the cooperative economy Report 2022*

118 Herbert, “Leadership in Hegemony”, 299; Novković and Šimleša, “Measuring Transformational Impact”, 425

119 Herbert, “Leadership in Hegemony”, 300-303

120 International Co-operative Alliance, *Sustainability Reporting*

121 International Co-operative Alliance, *Sustainability Reporting*

122 Novković and Šimleša, “Measuring Transformational Impact”

There is however widespread reporting by co-operatives on social and sustainability impacts. The Global Reporting Initiative (GRI) has brought focus to reporting on environmental, social and economic impacts, and has been widely used by co-operatives.<sup>123</sup>

Most recently, thinking has developed using the 7 principles from the ICA Statement, aligned to the SDGs, as the basis for a reporting framework.<sup>124</sup> In part, these look at how the co-operative itself is functioning – through capturing metrics on attendance by members at general meetings, and the number of membership withdrawals. It also looks too at the external impact of the co-operative, through measures such as reducing waste creation, and water consumption.

It was noted that SDG 8 'Decent Work and Economic Growth' does not easily align to any of the principles, and that ICA Principle 7 (concern for community) risked being a 'catch-all' category.<sup>125</sup>

This perhaps goes to emphasise that the principles are intended only as guidelines for putting the values into practice, with the Statement to be taken as a whole.

There is however a trend of increased reporting on the SDGs, particularly among larger co-operatives including within the UK.<sup>126</sup>

This reporting is largely voluntary, noting that co-operatives registered under the Co-operative and Community Benefit Societies Act 2014 are not subject to a legislative reporting requirement on this topic, unlike large companies registered under the Companies Act 2006 who must provide

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123 Pritchard and Çalıyurt, "Sustainability Reporting in Cooperatives"

124 Duguid and Rixon, "The development of cooperative-designed indicators"; Rixon and Duguid, *Co-operative Leaders Need to Lead*: provides an accessible summary.

125 Mondragon Corporation, "About us"; Morlà-Folch et al, "The Mondragon Case". It is interesting to note that Mondragon Corporation uses a set of 10 principles, which add to the ICA Statement principles such as 'wage solidarity', 'participation in management' and 'sovereignty of labour', linking strongly with SDG 8

126 Sellés, "Sustainable Development Goals"

strategic reports – such as on climate-related financial disclosures. Within the UK, consumer co-operatives have led the way in the convenience sector in terms of environmental action on net-zero targets.<sup>127</sup>

Environmental, Social and Governance (ESG) reporting can also be considered here. ESG are factors considered by analysts and investors to inform investment decisions.<sup>128</sup> There is an obvious overlap here with reporting on the SDGs. Work has been carried out looking at a small sample of co-operative ESG reporting in Spain, and the development of a Cooperative ESG Reporting Index.<sup>129</sup>

External demands – such as regulatory or legal, will drive some reporting requirements. Sectors such as the co-operative banking sector in Europe are already reporting on ESG factors. It is argued that co-operatives in this context could lead the way on the ‘S’ – the social sustainability in particular.<sup>130</sup>

It is however worth noting a difference in motivation. In a broader investment context, ESG factors for those subject to fiduciary duties (like pension funds) are considered where financially material.<sup>131</sup> Financial materiality does include factors such as long-term sustainability. This is different from factoring in social factors because, for a variety of non-financial reasons, you want to. Though there are some synergies, in that investors may consider non-financial factors where they do not cause significant financial detriment, and where they reflect the views of members of a scheme.

More broadly, research is underway to develop an analytical framework to understand how co-operatives succeed or fail on implementing the SDGs.<sup>132</sup> This work will no doubt continue, and can be considered alongside co-operative accounting concepts.

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127 Hadfield, “Retail co-ops see net zero”

128 United Nations, *Who Cares Wins*

129 Castilla-Polo, et al., “The cooperative ESG disclosure index”

130 Bevilacqua, “European Cooperative Banks and Sustainability”, 189-190

131 Law Commission, *Fiduciary Duties*: provides a useful report on this matter

132 Gagliardi and Gindis, “Co-operatives for sustainable development”

## Co-operative accounting concepts

There are number of concepts within co-operative thought impacting accounts. These may be variations or adaptions of concepts in other sectors, or concepts unique to co-operatives. Some of these are practically dealt with in accounts now (dividends, sweat equity). Other concepts are recognised in some countries but are matters not currently incorporated into accounting practice within the UK.

### **Dividends**

A dividend in a co-operative is generally different to that in a company. In a company, shareholders get dividends based on their shareholding. In a co-operative, if members get a dividend, it will usually be based on their participation in the business of the co-operative. This is often known as the 'patronage dividend'.

The nature of the dividend, and how it is calculated, will vary particularly between consumer, producer, and worker co-operatives.

In a retail consumer co-operative (e.g. a shop), this may take the form of a dividend linked to the amount of money the member has spent purchasing goods from the shop. Here, for the member, the dividend is effectively a discount on the purchase price on the goods.<sup>133</sup> For the co-operative, these would tend to be recognised in the revenue account before determining operating profit.<sup>134</sup>

For worker co-operatives, a dividend based on labour is likely to be treated differently.

For producer co-operatives – particularly those in agriculture who themselves are commercial businesses, the position again will be different.<sup>135</sup>

The term 'dividend' will therefore mean different things in different

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133 HMRC Tax Manual CTM40530

134 Third Sector Accountancy Ltd, *Finance Toolkit*, 7-8

135 HMRC Tax Manual CTM40530

co-operatives, and so one must understand what is happening in practice to understand the appropriate accounting treatment.

Some co-operatives pay dividends as an end of year cash payment, others may allocate the fund to the share account of the member. In some cases, a dividend may be treated as an expense (e.g. a discount), whereas in other cases it may be seen as a form of profit distribution. Where seen as a distribution, the capital of the business is reduced. How it is accounted for therefore matters.

## ***Sweat equity***

Sweat equity is a concept that recognises that members of a co-operative – particularly founders – may put in large amounts of voluntary/unpaid time to help get the co-operative started. This time is clearly of benefit and value to the co-operative, but it may not have resources at that point to pay for it. In a conventional investor-owned firm, the same is true of their founders. The conceptual difference is that in an investor-owned firm, where the founder owns all the shares, they also get the bulk of the later reward. In a co-operative, as new members join, any distributed profits would be shared based on some equitable formula.

The term sweat equity is also used in other contexts, to represent an on-going contribution. Maddocks sets out differential uses of sweat equity and considerations on accounting treatment.<sup>136</sup>

Practically this can take the form of founders or others being allocated fully-paid up shares based on the contribution they've made, or deferred payment.<sup>137</sup>

This concept tends to be of most relevance to worker co-operatives. But also features in multi-stakeholder co-operatives too.<sup>138</sup>

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136 Maddocks, "Accounting for Sweat Equity"

137 Third Sector Accountancy Ltd, *Finance Toolkit*, 15

138 FairShares Enterprise, "FairShares Model": founder shares are expressly included in the FairShares Model

## ***Co-operative transactions***

Co-operative transactions or ‘actos cooperativos’ have recognition in law in some countries, originating with Brazil and as a feature more commonly found in Latin America.<sup>139</sup> The concept goes broader than accounting – and sits across law and tax. Co-operative transactions are transactions between members and their co-operative, and those between different co-operatives who are part of the same network.

Within the UK we have a related but narrower concept of mutual trading status (see below).

## ***Profit vs surplus***

This follows on from the ‘co-operative transactions’ theory. A distinction is often drawn between ‘profit’ and ‘surplus’.<sup>140</sup> This distinction is however not drawn by accountants, because it does not exist. This concept is not recognised in accounting standards applied in the UK – profit and surplus are the same thing.<sup>141</sup> For completeness, it is explained below to give a sense of the underlying idea.

Profit is said to be the money made from transactions with non-members, which is placed into indivisible reserves. Surplus is seen as the money made from transactions with members, which is then re-distributed to them through dividends.

The concept is applied in Germany, where a distinction is made between ‘purpose transactions’ – being transactions with members for which the co-operative was established – as part of an internal market, and ‘counter

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139 Münkner, *Co-operative Principles and Co-operative Law*, 48-50

140 International Co-operative Alliance, *Guidance Notes to the Co-operative Principles*, 40 and 101; Henry, *Guidelines for Co-operative Legislation*, 35; Ammirato, *Cooperative Enterprises*, 179

141 Ammirato, *Cooperative Enterprises*, 179: suggests at least 16 countries do not make a distinction, but that 10 do

transactions' – being those with non-members.<sup>142</sup>

This concept is perhaps easiest to see in a consumer co-operative, where there will be trade with members and non-members. It is harder to see the operation of this in a worker co-operative where receipts of income from the sale of goods or services will come almost exclusively from trade with non-members.

### ***Indivisible reserves***

This is a form of asset lock – in that part of the property (funds) of a co-operative are held in such a way that they cannot be distributed (divided) to members. It is expressly called for in Principle 3 of the ICA Statement: 'at least part of which would be indivisible'. Mills sets out the importance of indivisible reserves, evidencing legislative recognition of them in 23 EU Member States.<sup>143</sup>

On a solvent closure (e.g. winding-up/dissolution) of a co-operative, the funds would usually go to some other similarly asset-locked co-operative. This tends to be known as 'common ownership'. As to whether this happens in practice varies from country to country.<sup>144</sup>

Some countries allow the indivisible reserves to be used to offset losses, providing reserves are built up again.<sup>145</sup>

Within the UK, there was statutory recognition of this concept in the Industrial and Common Ownership Act 1976. More recently, the Co-operatives, Mutuals and Friendly Societies Act 2023 has set out a framework for more detailed regulation to bring about a kind of asset lock.

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142 Münkner, *Co-operative Principles and Co-operative Law*, 52

143 Mills, "A Study of Indivisible Reserves"

144 Mills, "A Study of Indivisible Reserves"

145 Cracogna, Fici and Henry, *International Handbook of Cooperative Law*, 497: Italy

## Tax

It is argued that there is a close link between how co-operatives are taxed, and co-operative identity.<sup>146</sup> Tax treatment of enterprises can of course directly impact how they operate, given the economic impact.

We can distinguish between i) tax based on the type of legal entity undertaking the activity (e.g. co-operative, company etc.); ii) tax on specific categories of activity (e.g. mutual trade). In the first category, you could consider tax treatment such as that given to charities, because of the fact they are a charity. In the secondary category, you can find consideration on types of transaction e.g. member to co-operative trade taxation of dividends, tax treatment on reserves etc.

## Special tax treatment for co-operatives generally

Some countries operate a tax regime that does not distinguish between a co-operative and any other type of entity, whereas others give specific tax treatment to either types of activity, or to co-operatives more generally.<sup>147</sup>

There are few examples of countries giving tax treatment specific to co-operatives more generally. Malta has operated an exemption from income tax for co-operatives since 1965.<sup>148</sup> In Italy, taxation and organisational form (i.e. type of legal entity) are relatively intertwined, with specific treatment for co-operatives.<sup>149</sup> Co-operatives in Spain are subject to a specific tax sys-

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146 Aguacil-Mari, "Editorial", 12

147 Rubio, "Models for Direct Taxation", 113. Groeneveld, *Doing Co-operative Business*, Annex 2: provides a comparative overview of tax regimes for co-operatives in 33 different countries

148 Baldacchino, Portelli and Grima, "The Implications and Relevance of a Tax Exemption"

149 Cracogna, Fici and Henry, *International Handbook of Cooperative Law*, 496

tem.<sup>150</sup> Some countries operate a system where co-operatives are taxed as companies but can be subject to a special co-operative tax regime where certain criteria are met, as in Denmark and Sweden.<sup>151</sup>

The position on tax has evolved over time. It is noted that the growing size of co-operatives in Germany removed the justification for a special tax regime.<sup>152</sup> Income tax exemptions for co-operatives in the USA changed over time, particularly as co-operatives grew and thus become competitors with other business.<sup>153</sup> Changes have been controversial. In the UK in 1933, the removal of the income tax exemption for co-operatives prompted a petition with over one million signatures.<sup>154</sup>

Within the UK, co-operatives generally are not subject to specialist tax treatment, and are taxed in broadly the same way as other types of business.<sup>155</sup>

## **Tax treatment for types of activity**

While specific tax treatment for co-operatives ‘as co-operatives’ are less common, there are examples of specific tax treatment for types of activity. These include:

- Trade between co-operatives and their members (distinct from trade with non-members).

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150 Cracogna, Fici and Henry, *International Handbook of Cooperative Law*, 715

151 Cracogna, Fici and Henry, *International Handbook of Cooperative Law*, 581

152 Cracogna, Fici and Henry, *International Handbook of Cooperative Law*, 425

153 Magill, “The Exemption of Cooperatives”; Goddard, McKillop and Wilson, “Who consumes the credit union subsidies?”, Feinberg and Meade, *Economic Benefits of the Credit Union Tax Exemption*

154 Miller, “How the Co-operative movement”

155 Cracogna, Fici and Henry, *International Handbook of Cooperative Law*, 753; HMRC, “CTM40505”

- Payment of dividends (both by the co-operative, and on the tax treatment applied to the member directly).
- Reserves – including indivisible reserves and types of mandatory reserves.

These link to some of the concepts explained earlier (see *Co-operative Accounting*) – such as member transactions, and the role of indivisible reserves.

### **Member trade**

Trade between a member and their co-operative is often treated differently than trade between a co-operative and a non-member.

Within the UK, we have the tax concept of ‘mutual trading’, based on the principle that ‘a person cannot trade with themselves’.<sup>156</sup> This is not a concept developed by Parliament through legislation, but instead developed by the courts through case law.

It has been explained that:

The cardinal requirement is that all the contributors to the common fund must be entitled to participate in the surplus and that all the participators in the surplus must be contributors to the common fund; in other words, there must be complete identity between the contributors and the participators. If this requirement is satisfied, the particular form which the association takes is immaterial.<sup>157</sup>

The transactions carried out must be with members who are entitled to a share of the surplus. Trade outside of this, including with non-members, is taxed.

This tax treatment is not expressly targeted at ‘co-operatives’, or dependent on use of a particular type of legal form. It goes to the substance of the

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156 HMRC, “BIM24020”

157 HMRC, “BIM24020”: Lord McMillan in: *Municipal Mutual Insurance Ltd v Hills* [1932]

transaction. The concept does not necessarily sit easily with that of indivisible reserves (see below) given the requirements that the surplus can be distributed to the contributor. Though this is yet to be tested.

Most co-operatives in the UK are unlikely to meet the requirements of mutual trading given their extent of trade with non-members.<sup>158</sup>

Outside of the UK, there are numerous examples of special tax treatment distinguishing between trade with members and non-members in co-operatives.<sup>159</sup>

## ***Dividends***

The exact nature of the co-operative dividend varies depending on the type of co-operative. The tax treatment on dividends differs from country to country. It has been noted that special tax treatment on 'co-operative transactions' (surplus generated from member-to-co-operative trade) is a common feature in Latin America.<sup>160</sup>

In the USA, the full amount paid to members (proportionate to their transactions) can be deducted for tax purposes irrespective of whether the initial trade was with a member or non-member, which is somewhat broader than the regime in other countries.<sup>161</sup>

In the UK it depends on the nature of the relationship between the member and their co-operative. For instance, a dividend paid to a member in a worker co-operative is treated differently to a dividend paid to a member in a consumer co-operative.<sup>162</sup>

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158 HMRC, "BIM24560"

159 Rubio, "Models for Direct Taxation"

160 Rubio, "Models for Direct Taxation"

161 Rubio, "Models for Direct Taxation"

162 HMRC, "CTM40505"

## Reserves

Some countries operate a system of 'mandatory reserves' for co-operatives, with percentages of profit required to be put into a fund for a particular purpose. For example, in Japan co-operatives must have a separate reserve fund for health care and social activities.<sup>163</sup> The concept of a mandatory reserve does not exist for co-operatives in the UK.

Italy has a clear example of tax treatment on indivisible reserves. Co-operatives are free from corporate income tax on the money placed into indivisible reserves. In some cases, all profits can be put into individual reserves without tax (specifically in social co-operatives). In other cases (agriculture), there are caps at 20% of profits.<sup>164</sup>

Tax treatment in Italy was subject to a ruling of the European Court of Justice, concluding that special (favourable) tax treatment in the specific circumstances did not constitute State Aid.<sup>165</sup>

There is currently no legislative concept of indivisible reserves within UK law. As such, there is no bespoke tax treatment.

## Historical perspective on co-operative finance

The present-day position of some co-operatives in relation to their approach to finance can be explained, at least in part, through its history. Not least, the relative lack of maturity in UK co-operative financial services compared with other countries, such as Germany.

Originating from Germany in the 1850s, credit co-operatives (credit

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163 Cracogna, Fici and Henry, *International Handbook of Cooperative Law*, 517

164 Cracogna, Fici and Henry, *International Handbook of Cooperative Law*, 497

165 Case C-25/10: Judgment of the Court (Second Chamber) of 10 February 2011 (reference for a preliminary ruling from the Tribunal de première instance de Liège (Belgium))  $\ominus$  Missionswerk Werner Heukelbach eV v État belge

unions) grew. They provided a form of savings and loans. Even at the founding of types of credit co-operative, the approach to capital differed.<sup>166</sup>

Schultze-Delitzsch's model, which spread to Italy as 'peoples banks', with artisanal and trader members required to pay for share capital, and paid dividends to members.<sup>167</sup> Raiffeisen's rural co-operatives did not require payment of share capital and retained profits in indivisible reserves. There was much debate between them on the merits of their respective models.<sup>168</sup>

Different models of co-operative banking have emerged: banks with larger membership and a broad range of business have developed along the Schulze-Delitzsch model, with small more local rural co-operative banks developing along the Raiffeisen model, as a generalisation.<sup>169</sup> Raiffeisen credit unions in Europe tended, in the 20<sup>th</sup> century, to evolve into co-operative banks.<sup>170</sup> The lineage does however blur, noting for instance that Alphonse Desjardin in the early 1900s combined ideas from both Schulze-Delitzsch and Raiffeisen, into the La Caissse Populaire model in Canada, replicated elsewhere.<sup>171</sup>

Despite attempts<sup>172</sup> by the likes of advocates like Henry Wolff,<sup>173</sup> credit unions (and financial co-operatives more generally) did not take off within Great Britain until much later. They were absent from Great Britain until the

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166 Ferguson and McKillop, *The Strategic Development*, 16; International Co-operative Alliance, *The Capital Conundrum*, 71; Guinnane, "Regional organizations"

167 Ferguson and McKillop, *The Strategic Development*, 16

168 Goglio and Leonardi, *The Roots of Cooperative Credit*

169 Boscia, Carretta and Schwizer, *Cooperative Banking*, 21

170 Ferguson and McKillop, *The Strategic Development*, 17

171 Ferguson and McKillop, *The Strategic Development*, 19. Moody and Fite, *The Credit Union Movement*, 21: Desjardins abandoned the rural vs urban divide seen in Germany and Italy, and adopted a model based on limited liability

172 Birchall, *Finance in an Age of Austerity*, 42

173 Wolff, *Co-operative Banking*

1960s. The gap may be partly explained, alongside savings banks,<sup>174</sup> by the role of building societies,<sup>175</sup> loan societies,<sup>176</sup> the Co-operative Bank in its various forms, and consumer co-operatives in providing sources of credit and places for savings, alongside attitudes to credit more generally.<sup>177</sup>

Britain did however have an impact in the development of financial co-operatives elsewhere. The German model (particularly that of Raiffeisen)<sup>178</sup> was modified (by the imposition of state control at the expense of autonomy) by Britain and forced upon its empire, starting with India in 1904, from which it spread significantly<sup>179</sup> in what became known as the British-Indian Pattern of Co-operation (BIPC).<sup>180</sup> Part of the spread of credit unions globally has also been attributed to the Catholic Church and the social catholic movement more broadly (see *Chapter 11 - Co-operative politics and religion*).<sup>181</sup>

This section explores the historical development and links between co-operatives, deposits, and credit in the UK.

## 19th Century

As early as 1850, there was considered in British society generally to be an

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174 Brabrook, "Friendly Societies and Similar Institutions", 196: "the Post Office Savings Bank has rendered unnecessary any further voluntary effort"

175 Fonteyne, *Cooperative Banks in Europe*, 8

176 Creighton, "What happened before today's Mutual Credit Unions?"

177 Lonergan, "Neither a borrower or lender be"

178 Birchall, *Finance in an Age of Austerity*, 37

179 Cuevas and Fischer, *Cooperative financial institutions*, 28

180 Birchall, *Finance in an Age of Austerity*, 37; Khafagy, *The Economics of Financial Cooperatives*, 90-91; Cuevas and Fischer, *Cooperative financial institutions*, 27-29; Münker, *Worldwide Regulation*, 13-18

181 Fonteyne, *Cooperative Banks in Europe*, 8; MacPherson, *Hands Around the Globe*, 43

'abundance' of capital,<sup>182</sup> with thought being given as to how to facilitate the creation of places for working and middle-class people to place their cash. This sat in the context of some distrust over the many savings banks that existed. Wealthier individuals had found opportunity to invest their funds into large scale schemes such as railway investment. There then existed a gap, for more moderate investment.

At the time, work was already underway seeking to support legal recognition of co-operatives (see *Chapter 7 – Co-operative law*).<sup>183</sup>

The Rochdale Pioneers, formed in 1844, were financed by capital subscribed by the initial members. Formed not long before the period described by Hobsbawm as the 'Age of Capital',<sup>184</sup> co-operatives benefitted from members depositing savings with them. The Rochdale Pioneers were seen as 'the only safe place' to put money after the collapse of the local Rochdale Savings Bank in 1849.<sup>185</sup> Capital in the Rochdale Pioneers grew from the original £28 in 1844 to around £300,000 in 1880.<sup>186</sup> Rochdale was not unique in this.<sup>187</sup>

A form of co-operative banking developed during the 19<sup>th</sup> century, largely focused on holding funds, rather than lending. Co-operatives established 'Penny Banks' and 'money clubs' small deposits.<sup>188</sup> These were generally operated as a department within a co-operative, rather than as standalone entities.<sup>189</sup>

The co-operative movement discussed proposals to establish a system of co-operative banking, between 1869 and 1872, with the authorisation for the creation of a banking department within the Co-operative Wholesale

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182 Committee on Investments, "Savings of the Middle and Working Classes"; Guinnane, "A Failed Institutional Transplant", 47 fn11: An excess of capital deposits was also seen in German credit co-operatives

183 Committee on Investments, "Savings of the Middle and Working Classes"

184 Hobsbawm, *The Age of Capital*: set as 1848 to 1875

185 Lonergan, "Neither a borrower or lender be"

186 Birchall, *Co-op: the people's business*, 44-45

187 Hughes and Neale, *Foundations*, 125

188 Fowke, *The Industrial and Provident Societies Act*, xxxi

189 Acland and Jones, *Working Men Co-operators*, 199

Society Limited (CWS) given in 1872.<sup>190</sup>

Industrial and provident societies faced legislative restrictions on the business of banking, confining them to small deposits. These restrictions did not apply to companies. This restriction has been seen as an 'essential precaution' because societies, unlike companies, do not have fixed capital and thus have less protection for creditors.<sup>191</sup> This treatment did however see exemptions for these societies from the first protection on deposit advertisement, introduced through the Protection of Depositors Act 1963.<sup>192</sup>

Unlike countries including Germany, Italy, Canada, Jamaica, and Barbados, Great Britain did not see the development of co-operative banking more generally in the late 19<sup>th</sup> and early 20<sup>th</sup> century. There are factors relating to both demand and supply.

### ***Demand and market provision***

There was a lack of demand for business credit from co-operatives – in that business banking was already widely available.<sup>193</sup> In other countries, such as Germany, the demand for credit came from agricultural business, in a way that did not materialise in Great Britain.<sup>194</sup>

For those who did need credit, the Loan Societies Act 1840 provided the legal mechanism for the creation of loan societies, providing credit to individuals. Loan societies were particularly active from around 1850 until around the 1930s.<sup>195</sup>

Building societies had been in operation throughout the 19<sup>th</sup> century (and late 18<sup>th</sup> century), providing credit to help individuals build/purchase property, along with Land and Building Societies for land purchase. Friendly societies existed providing a range of insurance products.

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190 Acland and Jones, *Working Men Co-operators*, 198

191 Pennington, *The Investor and the Law*, 46-47

192 Pennington, *The Investor and the Law*, 47

193 Wolff, *Co-operative Banking*, 295

194 Acland and Jones, *Working Men Co-operators*, 198

195 Creighton, "What happened before today's Mutual Credit Unions?"

For both savings and loans, there was therefore at best a limited gap in the market for co-operatives to fill.

### ***Supply – co-operatives and credit***

In terms of supply for individual deposits, savings banks, penny banks, and co-operatives were willing to take in capital. Though some co-operators were of the view their co-operative had too much capital and wanted to stop accepting it.<sup>196</sup>

Separately, there was also an unwillingness to supply credit. Consumer co-operatives had established on the principle of cash trading, with a strong aversion to offering shop credit. While bank credit is different to shop credit, there remained an instinctive aversion by many co-operatives to offering it.<sup>197</sup>

## ***20<sup>th</sup> Century***

Over the course of this century, we see the decline of co-operative deposit taking, and the increase of co-operative financial services in the form of credit unions. For clarity – deposits are dealt with first, followed by credit.

### ***Co-operative deposits***

There continued to be a supply of capital before World War One. It had been said there was a 'super-abundance' of it.<sup>198</sup>

Consumer co-operatives have therefore long provided a place for storing money (share capital) from members. For example, between 1938 and 1949, capital in societies rose from £154.6m to £238.5m.<sup>199</sup> In 1998, this figure stood at £308m, before starting to decline.<sup>200</sup> Hayes notes:

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196 Wolff, *Co-operative Banking*, 145

197 Wolff, *Co-operative Banking*, 295

198 Hall, *Handbook for Members*, 203

199 Cole, *The British Co-operative Movement in a Socialist Society*

200 Co-operative Commission, *The Co-operative Advantage*, 14

It is a matter of history that share accounts came to be treated as savings deposits with corresponding low interest rates, with the primary return to members arising through the dividend on purchase.<sup>201</sup>

In 1969, coverage of the closing of the small society Millom Co-operative Society in Cumbria<sup>202</sup> caused a run on the shares in co-operatives.<sup>203</sup> The next year, the Co-operative Permanent Building Society changed its name, eventually becoming the Nationwide Building Society.<sup>204</sup>

Banking in the UK gained greater statutory prescription through the Banking Act 1979. Part of its operation was to regulate the taking of deposits. This would have caught member share capital in societies, particularly retail consumer co-operatives.<sup>205</sup> The Co-operative Union and Co-operative Bank Limited developed the Co-operative Deposit Protection Scheme (CDPS).<sup>206</sup>

Deposits in co-operatives were exempt from banking deposit regulation providing the co-operative was an industrial and provident society in retail, participating in the CDPS. This exemption was continued under the Banking Act 1987, with the details of the deed included in regulation.<sup>207</sup>

The scheme came to an end in March 2000, relating to the passage of the

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201 Hayes, *The Capital Finance*, 11

202 Confusingly, filmed outside of Manchester & Salford Co-operative Society

203 Bale, "Member participation", fn8. My thanks to Gillian Lonergan for providing this information

204 Nationwide Building Society, "About us"

205 Snaith, "Regulating Industrial and Provident Societies", 175-176 provides a fuller commentary; Hayes, *The Capital Finance*

206 Banking Act 1979 (Exempt Transactions) Regulations 1979, Reg 11, as amended by The Banking Act 1979 (Exempt Transactions) (Amendment) Regulations 1980 Art 4. The CDPS was constituted through a deed between the Co-operative Union Limited and the Co-operative Bank Limited on 29 February 1980.

207 Banking Act 1987 (Exempt Transactions) Regulations 1997, Reg 7, Sch 1

current banking legislation, the Financial Services and Markets Act 2000 (FSMA). However, rather than require a deposit scheme, withdrawable share capital in societies in of itself was exempted from the definition of a 'deposit' under FSMA.

One legacy of the scheme is the existence of a code of practice on withdrawable share capital for retail consumer co-operatives. This originally sat in Schedule 3 to the deed of the CDPS, with it first taking effect on 15 January 1997.<sup>208</sup> It became a standalone document in 2000 following the ending of the CDPS, and still exists in an amended version (2018).<sup>209</sup>

The creation of the standalone code was a condition HM Treasury intended to place on the co-operative movement when allowing withdrawable share capital to continue to be exempt from deposit regulation.<sup>210</sup> Though the condition ultimately did not feature in the legislation.<sup>211</sup> Co-operatives UK note their code was made in 2000 'with agreement of HM Treasury', with subsequent consultation with the Financial Services Authority and later the Financial Conduct Authority.<sup>212</sup>

The co-operative movement saw challenges with the CDPS arrangement.<sup>213</sup> One challenge was practical – they effectively ended up securing 100% of the value of deposits (despite a lower requirement) to avoid reputational damage to the wider retail society movement, making the scheme expensive.<sup>214</sup> Another challenge was conceptual.

Co-operative members are the owners of an entity, and accept the risks associated with that (i.e. share capital may be lost if the entity became

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208 HM Treasury, "Proposed Changes to the Banking"

209 Co-operatives UK, *Code of Best Practice on Withdrawable Share Capital*

210 HC Deb 21 May 1999, vol 331, col 445W [85313]

211 The Financial Services and Markets Act 2000 (Exemption) Order 2001, para 24, Sch 1

212 Co-operatives UK, *Code of Best Practice on Withdrawable Share Capital*, 1

213 Snaith, "Regulating Industrial and Provident Societies"; Hayes, *The Capital Finance*

214 Snaith, "Regulating Industrial and Provident Societies"

insolvent). The view that it is 'risk capital' was shared by the co-operative movement and Government.<sup>215</sup> Protecting the share capital removed that risk.

### **Co-operative credit**

Consumer co-operatives and 'mutuality clubs' operated a form of consumer credit between the 1920s and 1970s.<sup>216</sup> The mutuality clubs involved door to door to collect payments for vouchers or coupons for use in the co-operative stores. Credit was generally only afforded to those who had built up some savings (share capital) in the co-operative (with the co-operative having a lien on those savings).<sup>217</sup> It is said:

The co-operative movement's involvement in mutuality clubs lasted for half a century and pumped vast amounts of credit into working-class homes.<sup>218</sup>

O'Connell sets out the role of co-operatives in the credit market, and notes that following the winding down of mutuality clubs, there was an increase in 'rotating savings and credit associations' (ROSCAs) as a form of loan club, colloquially known as 'diddly clubs' in some parts of England.<sup>219</sup> On a similar model, Pardner Hand community savings schemes operated by Caribbean communities in the UK were also an important source of financial inclusion.<sup>220</sup> These arrangements could be regarded as part of an informal or solidarity economy.

As saving and loan provision within consumer co-operatives started to reduce in the 1960s, those in the co-operative movement and elsewhere

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215 HM Treasury, "Proposed Changes to the Banking"

216 O'Connell, *Credit and Community*, ch6

217 O'Connell, *Credit and Community*, ch6

218 O'Connell, *Credit and Community*, ch6

219 O'Connell, *Credit and Community*, ch6

220 Ross and Burrell, "Community Savings and the Pardner Hand"

started to look to credit unions. The West Indian community in Great Britain played a significant role in the establishment of its credit union movement, as did Ireland.<sup>221</sup>

Credit unions in Ireland started to develop from around 1958, with impetus for their development including international examples, local activism, and support of the Catholic Church.<sup>222</sup> Though there was an earlier period of co-operative credit, based on the Raiffeisen model, that unsuccessfully<sup>223</sup> operated in Ireland between 1895 and around 1919.<sup>224</sup>

Credit unions had developed in Jamaica, informed by the experience in the USA, and by the Antigonish Movement from Nova Scotia in Canada.<sup>225</sup> The Antigonish approach places importance on adult education and study groups.<sup>226</sup> This can be seen in the development of credit unions in Great Britain, who traditionally form a 'study group' first.<sup>227</sup>

The first piece of legislation for credit unions in Great Britain was passed as the Credit Unions Act 1979. Before this time, a small number of credit unions operated under the Companies Act 1948 or Industrial and Provident

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221 O'Connell, *Credit and Community*, ch6

222 O'Connor, McCarthy and Ward, *Innovation and Change in Irish Credit Unions*

223 Guinnane, "A Failed Institutional Transplant"; Doyle, *Civilising Rural Ireland*, 109-110: Factors contributing to failure are said to include i) competition from pre-existing forms of credit; ii) lack of effective peer-oversight on repayment of the loan; iii) presence of joint-stock banking institutions

224 Doyle, *Civilising Rural Ireland*, 108-110

225 MacPherson, *Hands Around the Globe*, 43; Birchall, *Finance in an Age of Austerity*, 41

226 Stefanson, *Adult Educators in Co-operative Development*, 22; see Chapter 11 – Co-operative politics and religion

227 Financial Conduct Authority, "Handbook: CRED 13 Annex 1A Common Bond". O'Connor, McCarthy and Ward, *Innovation and Change in Irish Credit Unions*: similarly in Ireland; Birchall, *The International Co-operative Movement*, 211: also true of the Caribbean credit union development, later exported to Great Britain.

Societies Act 1965.<sup>228</sup>

When the credit union act was passed, it was estimated that nearly 50% of working families in Great Britain did not have a bank account.<sup>229</sup> The Act received cross-party support.<sup>230</sup> This was the third attempt at a credit union act, with two earlier attempts (1972 and 1977) failing for a lack of Parliamentary time.<sup>231</sup>

The origins of this credit union legislation are therefore unusual. Credit union legislation appeared first in Ireland before it appeared in the UK, influenced by the Raiffeisen model in Germany, as applied along with adaptations from the Schultze-Delitzsch model, in the USA and Canada.<sup>232</sup> Credit union legislation travelled from Ireland to Northern Ireland, through the then Industrial and Provident Societies Act (Northern Ireland) 1969. While numerous attempts had been made, including with encouragement from organisations in Ireland, to pass legislation in Great Britain, it is the wider context that gave the impetus to get it onto the statute book.

Following a European Communities (now European Union) directive on banking, credit unions needed regulating in some way to be allowed to continue taking deposits.<sup>233</sup> This could be done by subjecting them to the Banking Act 1979. The view held by the Registrar was that this would have 'killed off' credit unions.<sup>234</sup> Instead, a separate legislative regime was chosen. The Government thinking on the Credit Unions Act 1979 was clear:

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228 Ryder, "Credit Union Legislative Frameworks", 150

229 Registry of Friendly Societies, Report 1978, 5-6

230 Registry of Friendly Societies, Report 1978, 7

231 Registry of Friendly Societies, *Credit Unions in Great Britain*, 3

232 Münker, *Ten Lectures on Co-operative Law*, 31; Power et al., *The Origins, Ethos and Evolution*; MacPherson, *Hands Around the Globe*, 165

233 First Council Directive 77/780/EEC of 12 December 1977 on the coordination of the laws, regulations and administrative provisions relating to the taking up and pursuit of the business of credit institutions, which at Article 3 for the UK referenced 'credit unions', which at the time were legally undefined in Great Britain.

234 Registry of Friendly Societies, *Credit Unions in Great Britain*, 3

It is required not only to facilitate the actual operations of credit unions, but also to provide a measure of assurance, for those who are likely to entrust their savings to them, that there are built in checks and safeguards applying to credit unions, and some official supervision over them. Without this assurance, the confidence of savers, upon which Credit Unions must largely depend if they are to continue to develop and flourish, is less likely to be maintained.<sup>235</sup>

This perhaps helps to explain the more prescriptive nature of the legislation when compared to the provisions in place at the time in the Industrial and Provident Societies Act 1965.<sup>236</sup> The Credit Unions Act 1979 has been modified over time but remains in place.

As is common, savings in credit unions are held as share capital.<sup>237</sup> Credit unions seek to balance the amount of share capital, with the amount lent out, to specified ratios.

Shares in a credit union (member savings) are also 'regulated deposits' in that they are deposits under the Financial Services and Markets Act 2000 (FSMA) and are protected (up to a specified level) under the mandatory financial services industry-wide Financial Services Compensation Scheme.<sup>238</sup> There is some evidence to suggest the extent to which deposit protection impacts the behaviour of members varies, including by whether membership is based on locality or occupation.<sup>239</sup>

The position of credit unions and their share capital therefore differs from that of other types of co-operatives, particularly those operating outside of financial services regulation.

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235 HC Deb 12 February 1979, vol 962, cols 799-847

236 For instance: mandatory registration, prescribed objects, express limits on share interest, etc.

237 Credit Unions Act 1979, ss7-8

238 Financial Services Compensation Scheme, "Credit unions"

239 Gomez-Biscarri, Lopez-Epinosa and Mesa-Toro, "Drivers of depositor discipline in credit unions"

## Conclusion

Co-operative finance is an important topic. Co-operatives, like other businesses, need capital to operate. There are features of co-operative identity, such as the focus on meeting the economic, social and cultural needs of members, members benefitting through use of the business, and democratic member control, that mean the approach taken by conventional businesses will not always be appropriate for co-operatives.

Co-operatives in the UK emerged at a time awash with capital. This is not the position now. This makes a solution to the co-operative 'capital conundrum' even more important.

Co-operatives need to produce financial statements and reports. The financial standards are often set at an international level and are not designed with co-operatives in mind. This creates challenges as accounting and reporting frameworks can risk distorting co-operative identity. Work developing a Statement of Recommended Practice for co-operative accounts will go some way to addressing this. A good understanding of the operation and economics of co-operatives will be an important factor.



## CO-OPERATIVE ECONOMICS

Co-operatives have been largely missing from economic textbooks for the last century.<sup>1</sup> They have been described as the 'enfant terribles' of economics in being:

too economically oriented to be included in the non-profit sector, and too socially orientated to be considered as an economic for-profit organization.<sup>2</sup>

Yet co-operatives have operated over the last two centuries, with some currently trading co-operatives having originated from as early as the 1860s.<sup>3</sup>

The top 300 co-operatives collectively turnover more than 2,409.41 billion USD.<sup>4</sup> Nobel Prize winning economist, Joseph Stiglitz considers co-operatives as an essential pillar of a more balanced economy.<sup>5</sup> Clearly co-operatives are economically viable. They have also repeatedly proved to be

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1 Kamli, "The disappearance of cooperatives". At the time of writing, the following forthcoming publication looks set to be a significant contribution to this gap: Warren, Biggiero, Hübner, Ogunyemi, *The Routledge Handbook of Cooperative Economics and Management*

2 Levi and Davis, "Cooperatives as the "enfants terribles""

3 For example, Lincolnshire Co-operative Limited (141R) was registered as an industrial and provident society on 19 August 1861, and still operates today: Financial Conduct Authority, "Mutuals Public Register".

4 International Co-operative Alliance, "World Cooperative Monitor"

5 Stiglitz, "Moving Beyond Market Fundamentalism"

resilient, including during a crisis.<sup>6</sup>

This chapter aims only to briefly introduce some of the main interactions between economic thought and co-operatives. Theory and practice may diverge. For simplicity, this chapter is written largely from a normative perspective, focusing on how enterprises, including co-operatives, and markets are expected to operate.

## Co-operative advantage?

The International Co-operative Alliance (ICA) Statement sets out a definition of a co-operative, with the principles acting as guidelines to embed the values. Adherence to these principles is said to positively impact the economic performance of the co-operative.<sup>7</sup>

The nature of the relationship between members and the co-operative is important. The members own the co-operative; they democratically control it; they use it, and benefit from that use. Birchall gives more detail on the advantages arising from ownership, control, and sharing benefits.<sup>8</sup>

Member benefit is at least<sup>9</sup> dual – in being economic and social.<sup>10</sup> Taking a meta-economics perspective<sup>11</sup> allows for full consideration of these eco-

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6 Birchall and Hammond Ketilson, *Resilience of the Cooperative*; Birchall, *Resilience in a Downturn*; Roelants et al. *The resilience of the cooperative model*; Billiet, Dufays et al. "The resilience of the cooperative model"; Co-operatives UK, *Co-operative Economy Report 2021*; Borda-Rodriguez and Vicari, "Rural co-operative resilience"

7 Altman, "Are there core cooperative principles"; Novkovic, "Defining the co-operative difference"

8 Birchall, "The potential of co-operatives"

9 Cultural needs can be added to the list of economic and social (see Chapter 10 – *Co-operative ideology*).

10 Novkovic, "Defining the co-operative difference"; Novkovic, Puusa and Miner, "Co-operative identity"

11 Broadly, an approach bringing in a range of other factors, such as moral and social, to humanise economics

nomic and social dimensions, with an important balancing of the two.<sup>12</sup>

The nature of members' use varies, as members may be consumers – purchasing goods or services; producers – supplying to the co-operative; or workers, providing their labour. And in some cases, a combination of these (i.e. multi-stakeholder co-operative). The economics of each type of co-operative can differ.<sup>13</sup>

As with other businesses, some co-operatives succeed, some fail. Similarly, the drivers or causes of failure will vary. A co-operative failure is intrinsically no more a failure of the underlying model than is the failure of an investor-owned business on the model of a capitalist company.

Suggestions correlating the lower volume of co-operatives compared to other types of business with the economic viability of the model risk being incomplete. Numerous factors impact the choice of whether to establish a co-operative, including:<sup>14</sup>

- Motivation and purpose – those wanting to pursue economic or speculative gain, which is part of a functioning market, will be better placed focusing on entities traded on the market. Conversely, people may want to set out a charitable or benevolent organisation to help others. This is part of a functioning and caring society. But those involved in this activity will rightly tend to look at charitable structures instead. The purpose for establishing a co-operative differs. Co-operative members will still need their enterprise to be economically successful – but the benefit is redistributed based on their use of the business. And the aims it is intending to meet, while delivered in an economic way, will also be social too.
- Awareness and understanding – the level of knowledge and understanding of co-operative enterprises – including how to form and run

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12 Novkovic, "The balancing act"

13 Zamangi, "Interpreting the roles and economic importance"

14 Jensen, "The theoretical model of Asian capitalism" provides a more detailed theoretical model

them, will vary from one country to the next. As set out in *Chapter 12 – Co-operative education* – there is a general trend of an absence of information about co-operatives in key literature.

- External factors – the tax, regulatory, and legal regimes will differ from country to country. These factors could make co-operatives more, or less, economically viable depending on how they are designed and implemented. Similarly less tangible factors like public views, or the views of creditors, may have a bearing, whether positively or negatively.
- Reflection of social and political context<sup>15</sup> – organisational form and diversity can be impacted by the social context within a country. This could include the existence of other strong networks for members – such as in labour movements.<sup>16</sup> It has been suggested that where inequality is greater, there will be a greater propensity of ‘unequal’ companies (i.e. profit maximising/extracting).<sup>17</sup> The political context, and ideology more generally, can also be a driver of choice.<sup>18</sup>

The potential advantages of the co-operative model vary. Factors often attributed to success, and explored in more detail below include:

- The long-term outlook of the co-operative – including its ability to retain profits (rather than having to distribute as a dividend on shares), which can allow for a steady accumulation of reserves and act as a buffer in times of recession.<sup>19</sup>

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15 Mellor, Hannah, Stirling, *Worker Cooperatives in Theory and Practice*, 62: It is said to have “profound effects on the type of cooperative that is formed, its ideological predisposition and its chance of success”

16 Normark, “A Role for Cooperatives”

17 Kristensen and Morgan, “Danish foundations and cooperatives”

18 Battilani and Schröter, “Demutualization and its Problems” conclude ideology was more a driver than efficiency in demutualisation in the US and Canada; Boone and Özcan, “Why Do Cooperatives Emerge” explore the role of ideology and co-operatives in the US ethanol industry

19 Hesse and Čihák, *Cooperative Banks and Financial Stability*

- The role of social capital, as an important resource that gives an ability to adapt to unexpected events.
- Increased productivity through an increased incentive to members to improve quality and/or quantity because of the benefit from the co-operative to them (socially, not just economically), or for consumers because of positive preference (see *Behavioural Economics* below).

The level of economic analysis on co-operatives varies greatly by co-operative type. Producer co-operatives, particularly agriculture, have been the subject of thoughtful analysis over long periods of time, not least through the Journal of Cooperatives and work linked to the United States Department for Agriculture.<sup>20</sup>

The level of theorisation of consumer co-operatives varies extensively by industrial sector. Financial service co-operatives are the subject of numerous studies.<sup>21</sup> Much less has been produced in relation to retail consumer co-operatives<sup>22</sup> or housing co-operatives.<sup>23</sup> Consumer co-operatives more

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20 Torgerson, Reynolds and Gray, "Evolution of Cooperative" provide an overview of the earlier evolution of thought

21 Khafagy, *The Economics of Financial Cooperatives*; Birchall, *Finance in an Age of Austerity*; Groeneveld and Llewellyn, *Corporate Governance in Cooperative Banks*; Poli, *Co-operative Banking Networks*

22 Jussila, Tuominen and Tuominen, "Are We Owners or Regular Customers?"; Jussila, Tuominen and Saska, "Following a Different Mission" explore how consumer co-operatives compete; Marini and Zevi, "Just One of Us" on the role of consumer co-operatives in oligopolies

23 Kemeny, *The myth of home-ownership*, 54: from a sociological perspective, Kemeny, in studying co-operative housing in Sweden, suggests its strength appeared when it was 'supplementary' to the supply in the market – doing well when private rental options became more expensive. Andrusz, *The Co-operative Alternative*, 271: challenges this suggesting that instead co-operative housing thrives when it is 'complementary': "where competition from other tenures is low, and complements them by invading vacant market segments"

generally have been understudied from an economics perspective,<sup>24</sup> especially more recently.

The analysis of multi-stakeholder co-operative economics is more recent.<sup>25</sup> While on the face of it, multi-stakeholder co-operatives are potentially increasing their costs by bringing into governance different groups of stakeholders, other businesses have those same costs too. For instance, consumer co-operatives still need to engage their employees. The difference is whether these costs are internalised within the governance (as in multi-stakeholder co-operatives), or external costs. Research is likely to focus on the comparative merits of internalisation of these costs.

Worker co-operatives (often referred to as 'labour-managed firms' in economics literature) have been subject to sustained criticism. There have been views that worker co-operatives are small, specialised, and undercapitalised. These views have been discredited.<sup>26</sup> Pérotin sets out several important findings in relation to worker co-operatives. They:

- Are larger than other firms (taking the median size).
- Are present in most industries.
- Survive at least as well as other firms.

Co-operatives do not always operate in isolation. Principle 6 of the ICA Statement, labelled 'Co-operation among Co-operatives' encourages the opposite:

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24 Plakias and Entsminger, "Consumer cooperatives ", 467. Though some studies have looked at aspects of consumer co-operation – including why consumer co-operatives are less prone to need to use performance related pay for managers: Kopel and Marini, "Strategic delegation in consumer cooperatives"

25 Sacchetti and Birchall, "The Comparative Advantages"; Lund and Novkovic, "Multi-stakeholder cooperatives"; Borzaga and Sacchetti, *Why Social Enterprises Are Asking to Be Multi-stakeholder*

26 Pérotin, *What do we really know about worker co-operatives?*; Rothschild and Whitt, *The Cooperative Workplace*, ch7; Ellerman, *The Democratic Firm*

Cooperatives serve their members most effectively and strengthen the cooperative movement by working together through local, national, regional and international structures.<sup>27</sup>

This principle reflects the ICA value of solidarity. Co-operatives can and do form networks with each other, often in the form of federations<sup>28</sup> or 'secondary co-operatives'. Networks should be a natural fit for co-operatives.<sup>29</sup> Networks can help reduce transaction costs, improve efficiency, and help manage risk.<sup>30</sup>

While there are well-known examples of networks among worker co-operatives (e.g. Mondragon), networks among this type of co-operative are not common.<sup>31</sup>

Within the UK in particular, retail consumer co-operatives have a long track-record of network arrangements through what started out as the Co-operative Wholesale Society.<sup>32</sup> Outside of the UK, financial co-operatives have a particularly strong track record of forming and operating through networks.<sup>33</sup> Some are heavily integrated, others are structures with optional membership of secondary bodies providing products or services, such as credit union service organisations (CUSOs) used by credit unions in the USA.<sup>34</sup>

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27 International Co-operative Alliance, "Co-operative identity, values and principles"

28 Johnstad, "Co-operatives and federations"

29 Simmons and Birchall, "The role of co-operatives in poverty reduction"

30 Cuevas and Fischer, *Cooperative Financial Institutions*; Halary, "Co-operatives in Globalization"; Novkovic, "Co-operative Networks"; Novkovic and Holm, "Co-operative networks as a source of organizational innovation"

31 Halary, "Co-operatives in Globalization"

32 Webster, *Co-operation and Globalisation*; Wilson, Webster and Vorberg-Rugh, *Building Co-operation*

33 Poli, *Cooperative Banking Networks*; Cuevas and Fischer, *Cooperative Financial Institutions*

34 Lauer, *CUSOs*

Producer co-operatives themselves can be regarded as a network of small businesses – such as farmers or artisans.<sup>35</sup>

## Co-operative disadvantage?

In any area with multiple models of operation, there will be disadvantages to each. The potential disadvantages of the co-operative model are set out below from a theoretical perspective.

From a micro-economic perspective, Cook<sup>36</sup> synthesised some of the challenges within a co-operative (in the context of agricultural co-operatives, but with wider application), summarised here as:

- Free rider problem – members (or non-members) gaining the benefits of the co-operative without contributing to its success. This could include a non-member getting the benefit of negotiated rates of pay.
- Horizon problem – effectively the tension between maximising return to members now, versus the long-term interests of the co-operative which that individual member may never see.
- Portfolio problem – the challenges for members in diversifying their investment in the co-operative due to limited liquidity/transferability of shares. This is most relevant to agricultural co-operatives characterised with larger individual shareholdings.
- Control problem – the agency/principal issue – with members being less able to hold management to account, particularly in the absence of the monitoring information investor-owned firms would be required to produce.
- Influence costs problem – the costs associated with different groups of members looking to influence to pursue their own self-interest.

More generally Birchall<sup>37</sup> sets out the potential disadvantages derived from

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35 Mazzarol, Mamouni Limnios and Reboud, "Co-operatives as a strategic network"

36 Cook, "The Future of U.S. Agricultural Cooperatives"

37 Birchall, "The potential of co-operatives"

co-operative features:

- Diluted membership – where shareholding is nominal, members may have weak financial incentives to contribute more capital, to take part in governance, and have reduced loyalty. This lack of financial commitment could lead to either an overreliance on built-up reserves instead of taking necessary decisions; or an incentive to demutualise or extract capital where reserves have become unnecessarily large.
- Lack of control – members may not participate in the governance of the co-operative. Though Birchall refutes Cook's 'free rider' problem – noting that members have a range of motivation for participation.<sup>38</sup>
- Lack of benefit to members – when co-operatives lose their purpose, such as from changes to the market (either through regulation or competition) meaning they no longer provide something members need or cannot get elsewhere.

On balance, Birchall sees the disadvantages outweighed by the advantages.

It has also been seen that co-operatives can face challenges raising capital (see *Chapter 8 – Co-operative finance*).<sup>39</sup>

The relative advantages and disadvantages of a model are influenced by the perspective one takes. Variations emerge among different schools of economic thought.

## Economic theories

There is no generally accepted theory of co-operative economics.<sup>40</sup> As with economics more generally, there have been numerous schools of thought, developing over time. These are explored briefly to the extent to which they relate to co-operatives.

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38 Birchall and Simmons, "What Motivates Members"

39 International Co-operative Alliance, *The Capital Conundrum*

40 van Dijk, Sergaki and Baourakis, *The Cooperative Enterprise*

## Neoclassical

Neoclassical approaches to economic theory look toward profit maximisation or maximum utility as the goal of firms.<sup>41</sup> This approach tends to assume zero transaction costs and full possession of information by market participants. This approach is often inadequate at analysing the economics of co-operatives given co-operatives are generally said to have additional motivations beyond just economic need.<sup>42</sup>

Many of the earlier theorists focused on agricultural co-operatives, with the long line of analysis set out by Royer.<sup>43</sup> Emelianoff belonged to this school of thought, co-operatives as an aggregate of economic units, with decisions resting still with those units.<sup>44</sup> Others like Helmberger and Hoos, while also of a similar view in terms of profit maximisation, saw decisions instead resting with the co-operative itself.<sup>45</sup>

Theorists such as Enke<sup>46</sup> sought to analyse the economics of consumer co-operatives.<sup>47</sup> Ward,<sup>48</sup> and later Vanek,<sup>49</sup> theorised worker co-operatives ('labour managed firms'), finding them to be inferior and inefficient compared to investor-owned firms, though these hypotheses were not evidenced despite 'vast empirical work' assessing worker co-operatives in multiple countries.<sup>50</sup>

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41 van Dijk, Sergaki and Baourakis, *The Cooperative Enterprise*, pt 7.2, for details on use of the underlying mathematical models in co-operatives

42 Borzaga and Tortia, "Co-operation as Co-ordination Mechanism", 57; Royer, "The economic theory", 9

43 Royer, "The economic theory"

44 Emelianoff, "Economic Theory of Cooperation"

45 Helmberger and Hoos, "Cooperative enterprise and organization theory"

46 Enke, "Consumer co-operatives and economic efficiency"

47 A study published in 2020 claims to be the first to empirically test the hypothesis proposed by Enke: (Duarte, Magnolfi and Roncoroni 2021)

48 Ward, "The Firm in Illyria: Market Syndicalism"

49 Vanek, *The general theory of labour-managed market economies*

50 Novkovic and Gordon Nembhard, "Worker cooperatives"

## New Institutional Economics

New Institutional Economics considers a broader range of factors than neoclassical approaches, such as political science and sociology,<sup>51</sup> and is seen as doing a better job at exploring the economics of co-operatives.<sup>52</sup>

Early work in this area was developed by Coase in 'The Nature of the Firm',<sup>53</sup> combined with work on transaction cost theory more generally. This looks at minimising the cost of transactions (e.g. search costs, monitoring costs, etc.) – choosing between the market or a firm depending on the circumstances.<sup>54</sup>

Co-operatives were said to provide an advantage in being able to internalise the costs transactions between an entity jointly owned by the holders of those transactions.<sup>55</sup> Emphasis is placed on the advantages of co-operatives in lowering transaction costs from a networks theory perspective – owing to the close relationship between the co-operative (as its user) and the co-operative itself. The co-operative is said to be a network with 'extra communication capacity' compared to investor-owned firms.<sup>56</sup>

Valentinov, drawing on the work of Dranheim, distinguishes between co-operatives that are operating in the market as a protective mechanism – by mitigating against opportunism by trading partners, and those co-operatives that are 'instrumental' – in that they provide transactions that would otherwise not be provided by the market at all.<sup>57</sup>

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51 Elliott and Olson, "The new institutional economic theory of cooperatives"

52 Borzaga and Tortia, "Co-operation as Co-ordination Mechanism"; van Dijk, Sergaki and Baourakis, *The Cooperative Enterprise*; Elliott and Olson, "The new institutional economic theory of cooperatives"; Zamangi and Zamangi, *Cooperative Enterprise*

53 Coase, "The Nature of the Firm"

54 Elliott and Olson, "The new institutional economic theory of cooperatives"

55 Bonus, "The Cooperative Association"

56 Normark, "A Role for Cooperatives"

57 Valentinov, "Toward a Social Capital Theory"

Thinking evolved to look at firms as a bundle of property rights,<sup>58</sup> particularly through the work of Alchian and Demsetz.<sup>59</sup> This looks at the allocation of rights including the rights of ownership, and control, which in turn links to theories around agency costs (i.e. issues where the agent (e.g. board of directors) don't bear the costs of the decision which is instead taken by the principal (e.g. members)).

Hansmann<sup>60</sup> built on the transaction cost and agency theories to develop a legal theory of enterprise ownership that sees firms as a nexus of contracts, drawing on the work of economists Jensen and Meckling.<sup>61</sup> The theory considers the costs of ownership, and the costs of contracting within the market, as critical to organisational survival.

Hansmann's work has been particularly influential and cited by co-operative scholars,<sup>62</sup> despite it providing a somewhat reductionist or distorted definition of a co-operative.<sup>63</sup> Hansmann, for instance, views all firms as a type of 'capital co-operative'.<sup>64</sup> Co-operatives, in Hansmann's theory, are essentially transitional in nature, and are likely to either become traditional investor-owned firms or disappear. It is difficult to reconcile this theory with practice – given the longevity of many co-operatives.

The theory of ownership would suggest that homogenous membership is more economically efficient than heterogeneous membership (in that it costs more to have multiple categories of owner, than it does a single category). That poses a theoretical problem for multi-stakeholder co-operatives.

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58 Elliott and Olson, "The new institutional economic theory of cooperatives"

59 Alchian and Demsetz, "Production, Information Costs, and Economic Organization"

60 Hansmann, *The Ownership of Enterprise*

61 Jensen and Meckling, "Theory of the Firm"

62 Fici, "The Essential Role of Cooperative Law": though Fici challenges the articulation of the capital co-operative; Sacchetti and Birchall, "The Comparative Advantages"

63 Ellerman, *Corporations!*; Novkovic and Gordon Nembhard, "Worker cooperatives"

64 Hansmann, "All firms are cooperatives"

This increased transaction cost does not however seem to be borne out in practice, particularly when noting the costs associated with having otherwise excluded stakeholders.<sup>65</sup>

Away from transaction cost economics, there is the collective action approach. This is most closely associated with the work of Ostrom.<sup>66</sup> In 'Governing the Commons', Ostrom distilled from observed practice a set of principles that needed to be in place to effectively manage common pool resources (e.g. access to fishing stock, irrigation, forests etc.):<sup>67</sup>

- Clearly defined boundaries – both in terms of who can access the resource, and the resource itself.
- Congruence between appropriation and provision rules and the local conditions.
- Collective choice arrangements – with individuals affected by the rules able to participate in changing them.
- Monitors – who actively audit the conditions of the resources and are accountable to those using the resources.
- Graduated sanctions – to take proportionate action against those violating the rules.
- Conflict-resolution mechanism – for resolving disputes.
- Minimal recognition of rights to organise – groups set their own rules which they enforce, with the State providing some minimal recognition to legitimise this.
- Nested enterprises – for those part of a larger system – e.g. federated structures.

Increasingly, co-operative theorists are drawing on this work in an

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65 Borzaga and Sacchetti, *Why Social Enterprises Are Asking to Be Multi-stakeholder*

66 Ostrom, *Governing the Commons*

67 This author's summary based on: Ostrom, *Governing the Commons*, 90

expanded view of the ‘commons’<sup>68</sup> for its relevance in understanding co-operative economics and governance, particularly in relation to worker and multi-stakeholder co-operatives.<sup>69</sup>

Exploring the commons, and collective action, also involves a better understanding of people, moving away from the concept of pure economic self-interest.<sup>70</sup>

## People focused

Understanding the role of people in economics is clearly significant when trying to apply economic theory to people-centred businesses such as co-operatives.<sup>71</sup> Economic theory more broadly has critiqued *homo economicus* – with humans as self-interested rational beings.<sup>72</sup> Instead, the nature of human beings has been more fully reflected in the concept of *homo cooperans* (or *homo reciprocans* as it is alternatively known).

*Homo cooperans* draws on the nature of humans as a ‘co-operative species’<sup>73</sup> with co-operation seen as a defining human trait.<sup>74</sup> It brings into consideration factors such as trust, social capital, reciprocity and social relationships, and their impact economically.<sup>75</sup>

We see examples of analysis of the economics of co-operatives with this more rounded understanding of human nature in social capital, behavioural economics, social exchange theory, and humanistic economics.

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68 Bollier and Helfrich, *Free, Fair and Alive*, provide a comprehensive overview

69 Lund and Novkovic, “Multi-stakeholder cooperatives”

70 Allen, “A Role for Co-operatives”; Moor, “*Homo Cooperans*”

71 Birchall, *People-Centred Businesses*

72 Bourdieu, “Le champ économique”: describing the concept as an ‘anthropological monster’:

73 Bowles and Gintis, *A Cooperative Species*

74 Nowak, *Super Cooperators*

75 Novkovic and Gordon Nembhard, “Worker cooperatives”

## ***Neo-capital economics and social capital***

The concept of what constitutes 'capital' has evolved over time, with views broadening away from merely financial capital, to include a range of other capitals such as social, nature, manufacturing etc. Capital in this context can be seen as a 'store of value that can be built up or run down over time'.<sup>76</sup> The Integrated Reporting Framework ('*<IR>*') describes 6 capitals, including social capital (as 'social and relational capital') (see *Chapter 8 – Co-operative finance*).<sup>77</sup>

Social capital, simply put, is 'people's ability to co-operate'.<sup>78</sup> Social capital is built on trust. While definitions have varied<sup>79</sup>, there is an emerging consensus around this definition:

social networks and the associated norms of reciprocity and trustworthiness.<sup>80</sup>

The concept of social trust is said to be within this definition as a by-product of dense social networks.<sup>81</sup>

Social capital can be seen as a production cost, along with other types of capital like human capital (in the cost of labour), and other costs like land, technology etc.<sup>82</sup>

It can address the issues that arise in the New Institutional Economics

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76 IFRS, *Capitals Background Paper*, 2

77 IFRS Foundation, "International *<IR>* Framework"

78 Svendsen and Svendsen, *The Creation and Destruction*, 31

79 IFRS, *Capitals Background Paper*

80 IFRS, *Capitals Background Paper*; Stiglitz, Sen and Fitoussi, *Report by the Commission on the Measurement*; Valentinov, "Toward a Social Capital Theory" in a specifically co-operative context, the following earlier definition was given: 'norms, values, and trust embodied in the specific structural forms'

81 Stiglitz, Sen and Fitoussi, *Report by the Commission on the Measurement*, 182

82 Svendsen and Svendsen, *The Creation and Destruction*, 45

thought from information asymmetries (i.e. one party – usually the firm, having access to substantively more information about a transaction than another party e.g. a consumer), and is said to reduce transaction costs.<sup>83</sup> A feature causing the reduction in transaction cost is trust, with greater trust between parties shown to reduce opportunistic behaviour or free-riding.<sup>84</sup>

Social capital is considered to be a major resource of co-operatives.<sup>85</sup> There is a cost to creating social capital (through proper implementation of the ICA Statement), which is not faced to the same extent as other types of organisations. Social capital helps co-operatives deal with unexpected events,<sup>86</sup> and links to their resilience.<sup>87</sup> The economic and social dimensions of a co-operative help constitute it as a social capital based organisation.<sup>88</sup>

Co-operatives may however struggle to generate the necessary social capital to give them the advantages mentioned where their membership is large and effectively anonymised – in that members do not know each other,<sup>89</sup> subject to steps being taken to address this.

## **Behavioural economics**

Behavioural economics and psychology have been used to help understand the economics of co-operatives – including by looking at intrinsic motivations.

Altman uses behavioural economics to provide a framework to better

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83 Svendsen and Svendsen, *The Creation and Destruction*, 30

84 Svendsen and Svendsen, *The Creation and Destruction*, 30

85 Valentinov, "Toward a Social Capital Theory", 15; Mann and Stoinescu, "Exploring Draheim's three dimensions" provides a case study of social capital in practice

86 Valentinov, "Toward a Social Capital Theory": 'mutual adaptations to unforeseen contingencies'

87 Valentinov, "Toward a Social Capital Theory"; Wulandhari et al., "Exploring the role of social capital mechanisms"

88 Valentinov, "Toward a Social Capital Theory"

89 Nilsson, "Social capital and governance", 126-127

understand the competitive advantage co-operatives could have over other market participants.<sup>90</sup> Based, primarily on worker co-operatives, but argued as being relevant to all types, Altman suggests co-operatives can be more productive, and at least as competitive, as other businesses.

This view is rooted in 'x-efficiency theory' and suggests that where co-operatives apply the ICA Statement, they have an advantage in increasing the quality and quantity of input from members/workers (because they are incentivised by the fact the co-operative is meeting their needs including through factors such as improved working conditions), which improves productivity to an extent that more than makes up for any increased operating cost.

On the demand side, Altman suggests that where consumers are aware they are purchasing from a co-operative, they have a preference to do so over other firms where quality and price are the same, especially in oligopolistic conditions.<sup>91</sup>

### ***Social exchange theory***

Social exchange theory draws upon disciplines such as anthropology, sociology, and focuses on economic and social outcomes, which gives an obvious fit to the study of co-operatives. The importance of a balance between individual and collective socio-economic interest is emphasised.<sup>92</sup>

Borzaga, Tortia, and Galera challenge conventional economic thought with a model of co-operatives as an 'autonomous co-ordination mechanism of economic activity'.<sup>93</sup> This model factors in non-monetary goals (e.g. social

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90 Altman, "Are there core cooperative principles"; Altman, "Are Co-operatives a Viable Business Form?"

91 Altman, "Are there core cooperative principles", 27-28

92 Jussila, Goel and Tuominen, "Governance of Co-operative Organizations"

93 Borzaga and Tortia, "Co-operation as Co-ordination Mechanism", 67; Borzaga and Galera, *Promoting the Understanding of Cooperatives*

goals), with relations based on trust, and a role for intrinsic motivations.<sup>94</sup>

Zamagni and Zamagni similarly emphasise that you cannot detach the person from the transaction, and focus on the importance of reciprocity as the 'essential connotation of the cooperative form of enterprise'.<sup>95</sup> This emphasis on reciprocity is also made by Restakis.<sup>96</sup>

## **Humanistic Economics**

Incorporating socioeconomics and socio-ecological economics,<sup>97</sup> Novkovic champions humanistic economics in its application to co-operatives. Humanist economics is a 'people-first' approach recognising the meeting of 'dual' or complex needs by satisfaction of self and mutual interest.<sup>98</sup>

Zamagni contrasts two overarching schools of thought<sup>99</sup>

- Co-operatives as a specific response to a failure of the capitalist form of enterprise – by compensating to provide something that business has failed to deliver.
- Co-operatives as a more advanced form of enterprise in a more advanced society.

In subscribing to the latter, Zamagni quotes John Stuart Mill in support. This broader outlook brings the people focused aspects into co-operative economics.

Some have seen co-operatives as an alternative capitalism.<sup>100</sup> Hertz con-

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94 Kopel and Marini, "Strategic delegation in consumer cooperatives" provides an example of the role of intrinsic motivations in practice

95 Zamangi and Zamangi, *Cooperative Enterprise*, 93

96 Restakis, *Humanizing the Economy*

97 Novkovic and Gordon Nembhard, "Worker cooperatives", 526

98 Novkovic, Miner and McMahon, *Humanistic Governance*, 20; Novkovic and Gordon Nembhard, "Worker cooperatives", 520

99 Zamagni, "Choices, Incentives and Co-operative Organisation", 157

100 Deliberately not an alternative to capitalism. Hertz contrasts 'co-op capitalism' with the then present phase of capitalism she describes as 'Gucci Capitalism'.

ceptualised 'co-op capitalism',<sup>101</sup> setting out four defining characteristics:

- Recognising 'value in the collective' – believing public goods should be managed in a way that ensures fair access and use.
- That the quality of the relationship matters, with value in the process as well as the outcome.
- Recognising the economic and social value of connections between people.
- Collaboration can be better than competition.

Others suggest co-operatives cannot be a full alternative capitalism, owing to their place between the state, private enterprise, and civil society.<sup>102</sup>

This raises questions on the definition of capitalism, markets, and economics more generally.

Perhaps the most significant impact on the understanding of the market and economics in society is that of Polanyi.<sup>103</sup> The market, or the market society, operates in a wider context social and political context. Polanyi recognises Robert Owen, a founding father of the co-operative movement, as one of the earliest to recognise the role of people, or the social dimension, in industrial life.<sup>104</sup> Polanyi too recognised the connection between markets and nature.

## Ecological economics

Ecological economics recognises the economic system as a subset of society, and in turn, the biosphere. Focus is placed on natural capital, sustainability, resilience, and sustainable resource management.

This is linked to concepts such as the 'steady-state' economy, one without

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101 Hertz, *Co-op Capitalism*; Hertz, "Co-op Capitalism: A New Economic Model"

102 van Oorschot et al., "The three pillars of the co-operative"

103 Polanyi, *The Great Transformation*, quoted by too numerous a volume of work to list

104 Polanyi, *The Great Transformation*, 178

continued growth. Lewis and Conaty set out in detail the role of co-operatives in transitioning to a steady-state economy.<sup>105</sup> Whether there should be a steady-state, degrowth, post-growth,<sup>106</sup> green growth, etc. remains contested and beyond this work. That ecological concerns must be a factor is however widely accepted.

Concepts such as the circular economy are directly relevant here. The circular economy is an economic model that focuses on reducing waste. More specifically, it is:

an economic model based *inter alia* on sharing, leasing, reuse, repair, refurbishment and recycling, in an (almost) closed loop, which aims to retain the highest utility and value of products, components and materials at all times.<sup>107</sup>

Studies have found strong resonance between circular economy strategies and the co-operative model, finding a ‘comprehensive’ contribution by co-operatives to the circular economy.<sup>108</sup>

The role of co-operatives and ecology have been more broadly explored, particularly in relation to worker co-operatives.<sup>109</sup> Co-operatives are said to be more likely to prioritise ecological goals because of their ethos and democratic structure.<sup>110</sup> Focus has been placed on the potential for deliberative democratic decision making, and organisations (such as co-operatives) with wider societal aims to help drive focus on ecological considerations.<sup>111</sup>

The role of co-operatives and sustainability more generally are covered in

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105 Lewis and Conaty, *The Resilience Imperative*

106 Novkovic and Webb, *Co-operatives in a Post-growth Era*

107 Bourguignon, *Closing the loop*

108 Ziegler et al. “Circular Economy and Cooperatives”; Guerreschi and Díaz López, “A Bibliometric Analysis on Cooperatives”, for a wider literature review

109 Cheney et al, *Cooperatives at Work*

110 Johanišová and Franková, “Eco-Social Enterprises”

111 Akbulut and Adaman, “The Ecological Economics”

## **Co-operatives and the market**

Co-operatives operate economically as part of the market economy. Co-operative ideology on its place in the market has varied over time (see *Chapter 10 – Co-operative ideology*). Here, the role of co-operatives in the market is explored in the context of competitiveness, stability, and social need.

Determining the place of co-operatives in the economy, whether as part of the private sector, distinct sector, part of the third sector, or ‘social’ or ‘social and solidarity economy’ is covered in *Chapter 6 – Co-operatives in context*.

## **Competitive yardstick**

One concept that has proved relevant is that of the ‘competitive yardstick’,<sup>112</sup> first articulated by Nourse.<sup>113</sup> Nourse suggests that the presence of co-operatives within an imperfect market helps drive the market toward competitiveness.

On the supply side, this could see producers, such as farmers growing and selling crops, facing lower prices as one or a few buyers (i.e. monopsony or oligopsony) drive down price. On the demand-side, consumers could be faced with only a single or small number of sellers (i.e. monopoly or oligopoly), which could lead to an increase in price.

The role of consumer co-operatives in the 20<sup>th</sup> century in counteracting monopolies or cartels has been noted.<sup>114</sup> More recently, the role of consumer co-operatives in oligopolies has been theorised, with models showing a

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112 Novkovic, “Defining the co-operative difference”; Novkovic, “Cooperative identity as a yardstick”; Royer, “The economic theory”

113 Nourse, “The Economic Philosophy of Co-operation”; the phrase ‘competitive yardstick’ came from: Nourse, “The place of the cooperative”

114 Normark, “A Role for Cooperatives”

positive impact on the market as a whole in terms of output and welfare.<sup>115</sup>

It has been noted that the evidence of this competitive yardstick theory is largely descriptive without underlying mathematical models to support it.<sup>116</sup>

Co-operatives have also been seen to provide competitiveness in a market through their positive impact on vertical integration of supply-chains, particularly among agricultural producer co-operatives.<sup>117</sup>

Views diverge as to whether a co-operative should remain in the market once the competitiveness of it has been enhanced. Cook articulates a lifecycle approach to co-operatives, suggesting co-operatives then face a choice between maintaining the status quo, spawning into new connected entities, 'exiting' – which may include demutualisation, or reinvention.<sup>118</sup> Byrne adapts this model focusing on 'regeneration' rather than 'reinvention' (see *Chapter 5 – Co-operative governance and structures*).<sup>119</sup>

Novkovic takes the concept beyond economic competitiveness, emphasising an important role for co-operatives in providing a normative role as a social yardstick, including in relation to social and sustainability reporting.<sup>120</sup>

## Market stability and organisational diversity

A range of organisations operate within markets – including public limited companies (PLCs), family-owned businesses, private companies, state institutions, alongside a range of co-operatives and mutuals. This will vary from country to country, and between liberal market economies, and co-ordinated market economies. This organisational diversity, and its wider

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115 Marini and Zevi, "Just One of Us"

116 Royer, "The economic theory", 19

117 Rolfe et al., "Can cooperative business models"

118 Cook, "A Life Cycle Explanation"

119 Byrne, "Cooperative Lifecycle Framing"; see too the concept of strategic renewal: Wilson, Webster, et al., *The Consumer Co-operative Sector*

120 Novkovic, "Cooperative identity as a yardstick"

role, has been explored through various approaches including those more rooted in sociology,<sup>121</sup> and from a ‘Varieties of Capitalism’ perspective.<sup>122</sup>

Neither the role of co-operatives in organisational diversity, nor in turn the role of organisational diversity itself, have been conclusively proven to make markets function better.<sup>123</sup> It is however much easier to find evidence of the positive impact of organisational diversity in different case studies, than homogeneity.<sup>124</sup>

More specifically, we can look at the impact of co-operatives on the stability of particular markets. Within the financial markets, evidence goes to suggest that high concentrations of co-operative banks can reduce the stability of already weak banks.<sup>125</sup> Though, with co-operative financial institutions often being more stable than others,<sup>126</sup> evidence suggests their real-world lending increases in times of recession to meet market demand when other types of institutions step back,<sup>127</sup> thus helping to stabilise markets.

The resilience of co-operatives during a crisis has been repeatedly

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121 Hannan and Freeman, *Organisational Ecology*

122 Spicer, “Cooperative enterprise at scale”

123 Ayadi, et al., *Investigating Diversity*, 109-110

124 Hannan and Freeman, *Organisational Ecology*, provides a sociological perspective; Stiglitz, “Moving Beyond Market Fundamentalism” from an economics perspective; Damiana Costanzo, Succurro and Trivieri, “Banking diversity” for a case study

125 Goodhart, “Some New Directions for Financial Stability”; Hesse and Čihák, *Cooperative Banks and Financial Stability*; Barra and Zotti, “Bank Performance”. Though challenge to this is presented, under certain circumstances, by: Chiaramonte, Poli and Ercole Oriani, “Are Cooperative Banks a Lever”

126 Hesse and Čihák, *Cooperative Banks and Financial Stability*; Becchetti, Ciciretti and Paolantonio, “The cooperative bank difference”

127 McKillop, et al., “Cooperative financial institutions”

evidenced.<sup>128</sup> Co-operative resilience has been defined as:

organizations' ability to recover from disruptions, maintain dynamic integrity in the presence of ongoing stress, and exploit opportunities that pivot on achieving economic and social goals.<sup>129</sup>

This resilience is said to be dependent, at least in part, on the build-up of social capital within a co-operative (see above).

## Market expansion – social need

Co-operatives have been seen to play a role in expanding markets. This expansion materialises in different ways: providing access to the market that may not otherwise be available; operating in a space where neither the market nor the state have reached; and in local economic impact.

On providing entry to the market, Valentinov, drawing on the work of Dranheim, explains the role of co-operatives in filling a vacuum in the economy.<sup>130</sup> Co-operatives provide a mechanism for delivering access to the market by co-ordinating individuals to get access to something which i) they could not individually afford to do; and ii) is not sufficiently attractive/profitable to be provided by an investor-owned firm. Examples given include rural electricity co-operatives – coordinating the purchase of electricity from a generating company to a remote community.

In spaces where the state may otherwise have been expected to step in, and the market is absent, the role of co-operatives in welfare-services has been explored, including through a model of shared administration

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128 Birchall and Hammond Ketilson, *Resilience of the Cooperative*; Birchall, *Resilience in a Downturn*; Roelants et al. *The resilience of the cooperative model*; Billiet, Dufays et al. "The resilience of the cooperative model"; Co-operatives UK, *Co-operative Economy Report 2021*; Borda-Rodriguez and Vicari, "Rural co-operative resilience"

129 Wulandhari et al., "Exploring the role of social capital mechanisms"

130 Valentinov, "Toward a Social Capital Theory",

between public institutions and communities.<sup>131</sup>

The role of co-operatives in providing wider societal benefits, including employment has been well researched (see *Chapter 13 – Co-operatives and social responsibility*).

Research has also suggested co-operatives have positive impacts on the local communities in which they are based, including through local economic development.<sup>132</sup> Studies have explored the local economic impact of co-operatives through the 'Local Multiplier 3' methodology.<sup>133</sup> Case studies have been carried out in the UK<sup>134</sup> and Australia,<sup>135</sup> showing in the former that for every £10 spent in a retail consumer co-operative, an additional £4 is generated in benefits to the local economy; and in the latter, an extra 76 cents on every \$1 spent.

## Conclusion

Co-operatives operate in, and to some extent, shape, stabilise or extend markets. This varies from one country to the next, reflecting the path taken historically, and a range of other factors including social, political, and economic.

The economic viability of individual co-operatives has been theorised and assessed, reflecting on different schools of economic thought.

It is difficult to not observe that large amounts of critical economic theory in relation to co-operatives is rebutted by the continued successful operation of so many co-operatives. In many cases, practice seems to default the theory. We see co-operatives operating around the globe – in rural, industrialised, and post-industrial economies, at varying scales. Similarly, they operate as co-operatives of producers, workers, consumers, or a mix

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131 Salustri, et al., "The Role of Shared Administration" provides a theoretical framework for this interaction, participially in geographically distant communities

132 Gordon Nembhard, *Benefits and Impacts of Cooperatives*

133 Sacks, *The Money Trail*

134 Sacks, *Sticky Money*

135 EY, *Sticky Money*

of these, straddling both demand and supply sides of economic activity. These factors no doubt contribute to challenges in theorising co-operatives economically. These challenges seem most prevalent in economic theory neglecting the person, and best addressed by recognising the role people play in co-operatives, and the combination of motivations that focus not just on immediate economic self-interest.

Differing ideologies among economists impact the articulation of the economics of co-operation. To an extent, this overlaps with ideological differences within the co-operative movement on co-operative identity, which are explored in the next chapter.

PART 3

## **CO-OPERATIVE THINKING**



## CO-OPERATIVE IDEOLOGY

This chapter moves us from co-operatives as organisations, to the ‘co-operative movement’ and its thought or ideology. In co-operative ideology, there are points of consensus, and difference. These are most easily explored through the words of key co-operative influencers and thinkers over time. The term ‘ideology’ is used loosely to encompass ‘thinking’ about co-operatives, including theory, philosophy, doctrines, ideology, that is not wedded to a particular discipline such as law or economics.

As the next chapter focuses on politics and religion, this chapter focuses on the sometimes-competing foundational views as to what co-operation is.

### Co-operative movement

G.J.D.C. Goedhart, a previous International Co-operative Alliance (ICA) President explained: ‘Each for all and all for each is the universal motto of the Movement, and clearly indicates that Co-operation was, and is, the practice of the idea of social solidarity.’<sup>1</sup>

Frequent reference is made to the ‘co-operative movement’.<sup>2</sup> In referring to a co-operative movement, consideration is instantly broadened from that of an individual co-operative enterprise, to a wider combination of actors for some shared objective.

Whether there is one continuous co-operative ‘movement’ with multiple

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1 Treacy, “The Moral Aspects of Co-operation”

2 Holyoake, *The History of Co-operation*; Cole, *The British Co-operative Movement*; Bonner, *British Co-operation*; Birchall, *The International Co-operative Movement*; Fairbairn, *The Meaning of Rochdale*; International Co-operative Alliance, “What is a cooperative?”

phases, or a series or distinct 'movements' is debated.<sup>3</sup>

Taking a 'movement' in its broadest sense, as a series of actions by multiple actors for a specific object, there is a long history of regarding the 'co-operative movement' as such.<sup>4</sup> The co-operative movement has been regarded as a social movement.<sup>5</sup>

While approaches to defining social movements vary, one well-established conceptualisation sees three component aspects: i) conflictual collective action with identified opponents; ii) dense *informal* networks with those involved keeping their autonomy and independence; and iii) collective identity, including common purpose.<sup>6</sup> The economic character of co-operatives as businesses has excluded them from consideration by social movement theorists.<sup>7</sup>

In some countries, where co-operative models have been imposed with powerful registrars, it has been argued they have a co-operative 'sector', but not a 'movement' because people haven't seen it as their own creation.<sup>8</sup>

This has been seen to contribute to the emergence of two perspectives.<sup>9</sup> In less economically developed countries receiving external input, an 'ideal-type co-operative' has developed. This sees co-operative development (including law) looking to an idealised or utopian view of co-operatives. Whereas, by contrast, particularly in more economically developed countries in the West, a 'real-type co-operative' approach has been seen, factoring in more practical differences.

Along similar lines, two perspectives emerge depending on whether a

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3 Olewicz, "Sidney Pollard's Nineteenth-Century Co-operation"; Pollard, "Nineteenth-Century Co-operation"; Gurney, *Co-operative Culture*

4 Bonner, *British Co-operation*, 1

5 Forno, "Co-operative movement"; Reeves, *A Century of Rochdale*, 172; Puusa and Davis, "Co-operative identity interpretations"; Curl, "The Cooperative Movement"

6 Porta and Diani, *Social Movements*, 20-23

7 Diamantopoulos, "The Developmental Movement Model"

8 Birchall, "Co-operative Values and Principles: A Commentary"

9 Delvetere, *Co-operatives and Development*

‘reductionist’ market-oriented view of co-operatives is taken, or a broader view keeping alive the ideal of a co-operative commonwealth, with recognition that this shift can happen over time. If it is a movement, what is its collective aim?<sup>10</sup> This is explored.

## Ideology

Co-operation, or the wider co-operative movement, is said to *have* an ideology.<sup>11</sup> At a high level, Rita Rhodes – drawing from earlier theorists summarises it as: ‘fraternity, mutuality, equality, democracy, and accountability’.<sup>12</sup>

This is distinct from co-operation itself *being* an ideology. Reflecting on the work of George Jacob Holyoake,<sup>13</sup> Stephen Yeo puts this best:

Co-operation is not an ideology, it’s a set of practices. Because what we’re actually committed to is a set of values and principles in practice. What we are trying to do is prefigure a different way of producing ideas and goods, bread and knowledge.<sup>14</sup>

In a wide-ranging and significant work, Andrew Laidlaw wrote:

There is a strong tendency among co-operators nowadays to avoid theory and ideology and instead “get on with the business”. This is a mistaken attitude because every organization or institution is built, first of all, on ideas and concepts of what people believe and are willing to stand for.<sup>15</sup>

Co-operative ideology has been defined as a:

Doctrine based on the assumption that an improvement of the

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10 Diamantopoulos, “The Developmental Movement Model”

11 Rhodes, *Cooperative Ideology*, 19

12 Rhodes, *Cooperative Ideology*, 19

13 Yeo, *A Useable Past. Volume 1: Victorian Agitator*

14 Voinea, “How has religious faith”

15 Laidlaw, *Co-operatives in the Year 2000*, 32

economic and social position in particular of the weaker and disadvantaged strata of society can not only be improved by organised co-operation in self-help organisations and by living according to certain principles but that in addition a general improvement of the economic, societal, political and ecological conditions can be achieved by working and living the co-operative way.<sup>16</sup>

While there are many points of agreement on ‘what’ the co-operative ideology is, there are many points of difference. These tend to rest on where the individuals sit on the spectrum of any of the following:

- The emphasis placed on economic benefit and social benefit.
- The centrality of member-focused benefit, contrasted with wider general interest or public good. This includes the extent to which co-operatives are an intergenerational asset, versus something divisible to present members.
- Co-operatives as the end goal in themselves, or a step toward some greater goal. And within that, the extent to which any goal is overtly political, or economic.
- Whether co-operatives are part of a wider economic system or seeking to create their own alternative economic system, including the relationship with the state.<sup>17</sup>

Unsurprisingly, many of these differences fall along political lines – whether liberal, socialist, or something else. This is especially true when considering views on the ultimate end goal of co-operatives. Birchall summarises these viewpoints as:

a liberal view in which co-operatives are one sector among others, a co-operative socialist view which makes co-operatives the

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16 Münker, “Annotated Co-operative Glossary”, 105: from the German word ‘Genossenschaftsideologie’

17 Laidlaw, *Co-operatives in the Year 2000*, 39: a ‘major area of ideological difference and dispute within the co-operative movement as a whole’

governing factor in a socialist economy, and a wider socialist view in which they are one type of common ownership among others.<sup>18</sup>

These differences are not just conceptual either. They play out in practice. Galera characterises the evolution of co-operative form into four different models:

- Mutualistic model – focusing mainly on economic benefit, prevalent in German-speaking systems and the USA.
- Sociological model – promoting general or community interest, with ‘weak mutuality’. See for instance the ‘general interest co-operative’, or social co-operatives in Italy.
- In-between model – prevalent in Europe, with mutuality and social functions, to competing degrees.
- Quasi-public model – with co-operatives seen as public enterprises. This model is most closely linked to socialist thinking and is more prevalent in formerly communist countries.<sup>19</sup>

As is apparent, the historical development, and thinking underpinning that development, has an impact.

## Thinkers through history and key concepts<sup>20</sup>

It helps to start chronologically in the formative days of the co-operative movement(s). As will become apparent, this does not necessarily aid comparison of alternative views on specific concepts or thoughts. Where possible, they have been grouped together thematically, but there is an inevitable overlap.

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18 Birchall, “Co-operation Between Co-operatives”

19 Galera, “The evolution of the co-operative form”

20 This section provides a brief overview and selected quotations from those who helped shape co-operative ideology or thought. This is by no means comprehensive. Biographical information is omitted where readily available. A limitation of this section is reliance on English-language text.

## **Communities to Commonwealth<sup>21</sup>**

No historical assessment of co-operative ideology and thought is complete without considering the significant impact of Robert Owen,<sup>22</sup> often seen as the 'father' of the British co-operative movement.<sup>23</sup> Owen's views went broader too, focusing on a strand of Socialism<sup>24</sup> based on associationism, and often considered Utopian.<sup>25</sup>

Here, 'socialism' needs to be seen in the context of its time. Yeo explains 'the antagonist of socialism for early co-operators was individualism'.<sup>26</sup> Birchall cites Owen as making the 'first great breach in the walls' of individualist philosophy that had preceded.<sup>27</sup>

He 'preached a gospel of Social Co-operation and of society organised as a Co-operative Commonwealth of producers'.<sup>28</sup> One important idea was that of the co-operative community – often known under various names. In France, similar ideas were advocated by Charles Fourier.<sup>29</sup> Fourier, along

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21 UK readers may be defaulted to thinking about the 'Commonwealth' from the perspective of the British Empire. The concept is however distinct and the term broader. For example, four states in the USA include 'commonwealth' in their name (e.g. the Commonwealth of Pennsylvania).

22 Holyoake, *The History of Co-operation*, 43: "There cannot be an adequate record of the co-operative movement without taking into account the influence of Mr. Owen's proceedings upon its fortunes"

23 Birchall, *Co-op: the people's business*; Williams, "Guest Editorial"

24 Potter, *Co-operative Movement in Great Britain*, 16: describes him as the "Father of English Socialism"

25 Cole, *Robert Owen*, 28; Bonner, *British Co-operation*, 26. See too Charles Fourier as another key influence

26 Yeo, "Towards Co-operative Politics"

27 Birchall, *Co-op: the people's business*, 18

28 Cole, *Robert Owen*, 21

29 Rhodes, *The International Co-operative Alliance*, 14: self-supporting communities under the name 'phalanxes'. Watkins, *Co-operative Principles*, 83: Fourier also pioneered thought on surplus distribution, suggesting a ratio between 'labour, capital, and a third factor which he called 'talent' or management in the ratio of 5:4:3'

with Owen, were early advocates of democracy and voluntary association within the ideas they proposed.<sup>30</sup>

Owen trialled his ideas around humanity in New Lanark' as a 'large and well-developed cotton mill and company town'<sup>31</sup> in what has been described as 'benevolent autocracy' rather than 'industrial democracy'.<sup>32</sup> From here followed his ideas for 'Villages of Co-operation' as part of a 'New Moral World'.<sup>33</sup> The theory was experimented with in practice.<sup>34</sup>

Owen was more interested in wider social change than he was in individual co-operatives.<sup>35</sup> The importance of Owen is perhaps most significant in the inspiration he gave to others, who took forward ideas of co-operation quite practically.

Dr William King is regarded as someone who publicised Owen's ideas, but also turned to them practically with a view that it was better to start small and build than not begin at all.<sup>36</sup> He is said to have an 'indisputable right' to be regarded as 'a father of the modern co-operative movement'.<sup>37</sup> His publication, *The Co-operator* was influential.<sup>38</sup>

King, writing between 1828-1830, distinguished his 'practical co-operation' from what he saw as the 'absurd theoretic Co-operation which has been talked of so long and to so little purpose',<sup>39</sup> and was generally dismissive of earlier attempts.<sup>40</sup>

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30 Lambert, *Studies in the Social Philosophy*, 46, 59

31 Altman, "Changing the World"

32 Cole, *A Century of Co-operation*, 17

33 Cole, *A Century of Co-operation*, 19

34 Doyle, *The Ralahine Experiment*, details an example from Ireland

35 Birchall, *Co-op: the people's business*, 22

36 Birchall, *Co-op: the people's business*, 23

37 Mercer, *Dr William King*, xi

38 Mercer, *Dr William King*; Bonner, *British Co-operation*; Birchall, *Co-op: the people's business*,

39 Mercer, *Co-operation's Prophet*, 134: The Co-operator No 21

40 Mercer, *Co-operation's Prophet*, 96: The Co-operator No 12: "the trials you have already made have been notoriously unsuccessful"

Objects for a society were set out as:

... first, the mutual protection of the members against POVERTY: secondly, the attainment of a greater share of the COMFORTS of life: thirdly, the attainment of INDEPENDENCE by means of a common capital.<sup>41</sup>

With the purpose of co-operative societies being 'avoiding some evils, which men are exposed to when they act singly, and of obtaining some advantages which they must otherwise be deprived of'.<sup>42</sup> He is credited with his emphasis on 'self-help', derived from the principle of voluntary association.<sup>43</sup>

King is described as a 'Christian socialist'.<sup>44</sup> This is more in the sense that he was a socialist who was Christian, rather than the later but influential 'Christian Socialists' who played a leading role in the development of co-operative legislation (see *Chapter 7 – Co-operative law*).

The 'Rochdale Society of Equitable Pioneers' (Rochdale Pioneers) was founded in 1844. The name itself is said to be Owenite in nature, and a 'social and even political statement'.<sup>45</sup> The co-operative was both pragmatic – in opening a store to sell goods that its members needed, and aspirational:

That as soon as practicable, this Society shall proceed to arrange the powers of production, distribution, education, and government, or in other words to establish a self-supporting home-colony of united interests, or assist other Societies in establishing such colonies.<sup>46</sup>

This supported the idea of establishing self-sustaining co-operative communities.

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41 Mercer, *Co-operation's Prophet*, 71: The Co-operator No 6

42 Mercer, *Co-operation's Prophet*, 51: The Co-operator No 1

43 Lambert, *Studies in the Social Philosophy*, 59

44 Bonner, *British Co-operation*, 26

45 Fairbairn, *The Meaning of Rochdale*, 4

46 Jones, *Co-operative Production*, 86

The Rochdale Pioneers had both the involvement of Owenites, and the ideas of Dr King and earlier congresses.<sup>47</sup> The Pioneers existed both for the economic benefit of their members, and an improved ‘social order’.<sup>48</sup>

The principles and practices established by the Rochdale Pioneers is argued to have given rise to the co-operative movement more generally.<sup>49</sup> The principles and practices of the Rochdale Pioneers were in part set out in their rules, but also in their practices as observed by writers especially George Jacob Holyoake.<sup>50</sup>

Birchall summarises the principles as:

1. Democracy
2. Open Membership
3. Fixed and limited interest on capital
4. Distribution of the surplus as dividend on purchases
5. Cash trading
6. Pure and unadulterated goods
7. Education
8. Political and religious neutrality
9. Disposal of net assets without profit to members (from 1854)<sup>51</sup>

Owenites and King had in common the creation of co-operative

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47 Bonner, *British Co-operation*, 46; Birchall, *Co-op: the people's business*, 49; Cole, *A Century of Co-operation*

48 Bonner, *British Co-operation*; Birchall, *Co-op: the people's business*; Fairbairn, *The Meaning of Rochdale*

49 Bonner, *British Co-operation*; Birchall, *Co-op: the people's business* (though Birchall refers more specifically to the ‘consumer co-operative movement’); Fairbairn, *The Meaning of Rochdale*, 17; Leikin, *The Practical Utopians*, 3: details their early influence in the USA

50 Yeo, *A Useable Past. Volume 1: Victorian Agitator* provides a thorough account

51 Birchall, *Co-op: the people's business*; but different articulations exist: International Co-operative Alliance, *Examining our Cooperative Identity*, 45

'communities'.<sup>52</sup> They differed in their starting points and scale of ambition. King advocated the starting point as an evolution from a local co-operative society.<sup>53</sup>

The idea of self-sustaining co-operative communities phased out, but the idea of a co-operative commonwealth continued long after.<sup>54</sup>

The plan for a co-operative commonwealth is described clearly by Jones as an:

... aim at making the whole world a Co-operative Commonwealth by preparing the peoples of all nations for appropriate co-operative action through the development of local and national co-operative organisations in their respective countries, and bringing these organisations together for international action through the medium of international co-operative organisations.<sup>55</sup>

What became known as the 'Rochdale Plan' developed:

Summed up, it is as follows: First, the organisation of consumers demands by local stores and the exercising of the pooled demands of local societies through national wholesale societies (supplemented ultimately by one or more international wholesale societies) in the markets of the world.

Next, as the demand in local and national organisations becomes adequate to secure success, the organisation of production, locally, nationally, and internationally. Finally, as the consumption of raw materials in productive factories and the purchase of crops by distributive organisations becomes sufficient to justify the step, the acquisition of land from which raw materials and produce can be

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52 Bonner, *British Co-operation*, 467

53 Bonner, *British Co-operation*, 467

54 Jones, *Co-operative Production*, 89; Bonner, *British Co-operation*, 468

55 Jones, *Co-operative Production*, 89

obtained. Through these three steps, the individual co-operator in association with his fellow-co-operators will secure the control of all the wealth they produce, for none but co-operators need handle it or own it from the moment it is taken from the land until it reaches the individual consumer for final consumption.

At every stage, co-operative employment is promoted, giving to co-operators an ever-increasing control over labour conditions; but cutting out unnecessary middlemen and speculators, and, therefore, making it possible for wealth to pass to the consumer at a lower cost of effort than is involved to-day in the capitalist system.<sup>56</sup>

This is the consumer view of co-operation.

As noted in *Chapter 7 – Co-operative law*, the first legislation for co-operatives in the UK followed in 1852, with the Christian Socialists<sup>57</sup> – including E.V. Neale,<sup>58</sup> and Thomas Hughes. Neale and Hughes set out their thoughts in detail, relating co-operation to religion, socialism, and the state.<sup>59</sup> Their view of co-operation saw both economic improvement and social reform. While seeing socialism as a theory, they distinguish it from co-operation as such:

But social reform, as it is presented in these pages, and is embodied in the name of co-operation, is rather a practice than a theory.<sup>60</sup>

Hughes and Neale are said to have rejected the idea of an ‘ideal system’

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56 Jones, *Co-operative Production*, 89

57 Cole, *A Century of Co-operation*, 97

58 Bonner, *British Co-operation*, 493: Edward Vansittart Neale, “Christian socialist, co-operative idealist, and General Secretary of the Co-operative Union”

59 Hughes and Neale, *Foundations*

60 Hughes and Neale, *Foundations*, 51

proposed under the 'Rochdale Plan' set out above.<sup>61</sup>

It has been argued the Industrial and Provident Society legislation they helped create constituted a form of 'metaphysical enclosure that both disciplined and depoliticised the co-operative'.<sup>62</sup> Others however celebrated the legislation as going some way in providing co-operatives with what they needed.<sup>63</sup>

These early thinkers and advocates did however have things in common. In synthesising the views of Owenites, the Rochdale Pioneers, and Christian Socialists, a commonality of desire is described:

They desired an economic system based upon common ownership and mutual aid, in which none would be in a position to exploit the rest, in which equity, individual freedom and a strong sense of fellowship would be the basis of social relations, in which sympathy with, care for and the desire for others' happiness would be promoted in each individual, i.e. a system conductive to good character and consequent happiness.<sup>64</sup>

Hall and Watkins, in producing a textbook for the Co-operative Union explain:

Most co-operative societies have been born out of the economic needs of their founders; they continue because they still cater for these needs of their present members; but if economic pressure and economic idealism have been responsible for birth, growth, and present life of co-operative societies, it must not be assumed that their objects are solely economic ones. Most of them have social objects as well, i.e. they are seeking to change the form of human

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61 Bonner, *British Co-operation*, 468

62 Mulqueen, *History, alterity and obligation*, 204

63 Cole, *A Century of Co-operation*

64 Bonner, *British Co-operation*, 292

society or alter some of the basic principles operative in that society

...<sup>65</sup>

French economist, Charles Gide refers to 'co-operatism' – in what he defines as a word 'beginning to be used by those who see in co-operation not only a means of improving social conditions, but a complete programme of social renovation'.<sup>66</sup>

Gide characterises co-operatives as working within existing economic frameworks, rather than seeking to establish some sort of Utopia. Gide characterises features which can be summarised as:

- Economic emancipation of classes of persons – in a way that creates self-sufficiency by removing the need for intermediaries. Examples given include, in the case of worker co-operatives, removing the need for an employer (i.e. they become their own employer).
- Favouring solidarity instead of competition by associating together to provide for themselves.
- Making private property available to everyone collectively through small shares in an 'impersonal fund' (i.e. indivisible) for use for the 'development of society and for works of social utility'.
- Changing the role of capital – removing it of 'its preponderant role of management in production'. Gide notes too the 'suppression of profit'.
- The educational value of co-operatives in teaching people to retain their individuality and spirit of enterprise while using their energy to help others along with themselves.<sup>67</sup>

Gide describes an important role in reconciling conflicts in:

- Consumer co-operatives – removing the conflict between buyer and seller.
- 'Building associations' (most probably today, housing co-operatives)

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65 Hall and Watkins, *Co-operation*, 15

66 Gide, *Political Economy*, 492-496

67 Gide, *Political Economy*, 493-496

between landlord and tenant.

- Worker co-operatives – between employer and employee.
- Credit co-operatives – between credit and debtor.<sup>68</sup>

Bonner, in writing a successor text to that of Hall and Watkins, explains ‘the desired economic and social order has come to be known as the “Co-operative Commonwealth”, with reference to it found in the objects of the Co-operative Union (a predecessor to Co-operatives UK), included in its objects in 1925.<sup>69</sup> Woolf explains:

The old idea of the Co-operative Commonwealth aimed at reconciling conflicting interests through the fact that every man and woman would represent both the producer and a consumer. The ideal was a state of things in which the whole industry would be carried on under the co-operative system. In such a Co-operative Commonwealth, it was argued, every one would be a co-operator, and so first the works would be employed by and would therefore by working for themselves, and secondly, as members of their co-operative society, they would share in the control of industry and in determining the conditions of their own employment.<sup>70</sup>

That there is an ideal – that of the co-operative commonwealth, helps define co-operatives as a movement.<sup>71</sup> Arizmendiarrieta<sup>72</sup> sets this in a broader context:

Cooperation summons people to a collective project, but leaves each person with their own responsibility. Cooperation is the development of the individual, not against others, but with others. The

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68 Gide, *Political Economy*, 496

69 Bonner, *British Co-operation*, 466

70 Woolf, *Co-operation*, 75

71 Bonner, *British Co-operation*, 45

72 Credited as a founder of Mondragon worker co-operatives in Spain in the 1950s.

objective is the human person, not the monstrous development of the individualist who is determined to, or at least at constant risk of, crushing others. Rather, the objective is the development of what is the best and most sacred within each human person. Cooperation is something that is close to humans.

Cooperativist philosophy rejects both the collectivist and the liberal conceptions of human nature. It recognizes instead the unique value of the human person, but insists that this person cannot be totally him or herself until entering into creative as well as spiritually and materially productive relationships with the world he or she is part of.<sup>73</sup>

By contrast, Warbasse, firmly in the 'evolutionary' school of co-operative thought, argued there is no end goal:

Because there is a lack of preliminary theory, because it feels its way as it goes, and because it is a rather simple and direct way of doing things, cooperation sets up no special goal except what might be represented by an expansion of its up-to-date accomplishments.<sup>74</sup>

This suggests the theory catches up with the practice.

The concept is not confined to history. The rules of Co-operatives UK<sup>75</sup> today state:

4. The purpose of the Society is to be a successful co-operative enterprise providing support for the creation and maintenance of businesses and enterprises which:
  - (a) reflect the aspirations of the founders of the Society to the

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73 Arizmendiarrieta, *Reflections*

74 Warbasse, "Basic Principles of Coöperation", 15

75 The successor to the Co-operative Union.

creation of a Co-operative Commonwealth; and ...<sup>76</sup>

The extent to which a co-operative vision exists has been debated.<sup>77</sup>

## ***State within a state?***

Speaking to the audience of the Co-operative Congress in the UK in 1890, Lord Rosebery, explained:

I have always wished once at any rate, to be face to face with the citizens of that State within a state, which is called the Co-operative Movement.<sup>78</sup>

Whether the co-operative movement wanted to be – within – part of the existing state structure and economic system, or go beyond that to create their own, was at times a point of difference within the movement. One can look at this question through two strands of thought. To generalise:

1. A co-operative commonwealth, as a standalone system of co-operatives operating at every level (i.e. from local to national to global), covering the means of production and distribution.
2. Operating as a sector within existing national and international economic systems or structures.

This generalisation glosses over the many nuances outlined above but helps to frame the following strands of thought.

Gronlund advocated for a ‘Co-operative Commonwealth’<sup>79</sup> as a complete system replacing the existing order, in what is largely an articulation of Marxist thought to an American audience.<sup>80</sup> Though co-operatives feature,

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76 Financial Conduct Authority, “Mutuals Public register”: Rules as registered on 1 August 2022

77 Jones, “Fantasy or Reality”

78 Yeo, *A Useable Past. Volume 1: Victorian Agitator*, 100-101

79 Gronlund, *The Co-operative Commonwealth*

80 Maher, “Laurence Gronlund: Contributions to American Socialism”

the work is largely omitted from works on co-operative thought.<sup>81</sup>

Within mainstream co-operative texts, Hall and Watkins note Lord Rosebery's comments quoted earlier, and go on to explain 'The zealous co-operator will not rest content until the inner State has expanded so far that its boundaries coincide with the larger State, and co-operative principles and methods are applied throughout its whole area'.<sup>82</sup>

Beatrice Webb articulates this 'state within a state' concept further:

For it will only be by a full acceptance on the part of all citizens of their responsibilities as consumers that we can form out of the present state of industrial war a great Republic of Industry firmly based on the Co-operative principle of "all for each and each for all"; the whole body of the people must accept with determination and intelligence their place as members of the co-operative system of industry, discovered by Robert Owen, and built up into a "State within a State" by the self-devotion, sagacity, and doggedness of Rochdale Pioneers and their democratic followers.<sup>83</sup>

Others, like Reeves, are more dismissive: 'Co-operation has been defined as "a state within a state." This of course is all nonsense.'<sup>84</sup> Instead co-operatives (in the UK) were seen to have been conditioned by capitalism, and with pleas to 'recognise right away the fundamental difference between voluntary co-operation and socialism'.<sup>85</sup> Reeves goes on to set out the role of the co-operative movement: 'Its role is not only ameliorative, but it is also revolutionary. Its task is to transform.'<sup>86</sup>

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81 For example, it doesn't feature in any of the following works which otherwise capture a broad range of views: Fay, *Co-operation at Home and Abroad*; Hall and Watkins, *Co-operation*; Bonner, *British Co-operation*

82 Hall and Watkins, *Co-operation*, 363

83 Potter, *Co-operative Movement in Great Britain*, 204

84 Reeves, *A Century of Rochdale Co-operation*, 8

85 Reeves, *A Century of Rochdale Co-operation*, 172

86 Reeves, *A Century of Rochdale Co-operation*, 189

Woolf<sup>87</sup> at the time was interpreted as arguing for State intervention to hand over services and industries to consumers through co-operative structures through political means (discarding voluntarism).<sup>88</sup> Woolf developed distinctive socialist thought on the concept of a co-operative commonwealth that came about in a more evolutionary fashion, making use of what already existed.<sup>89</sup>

Beatrice and Sidney Webb (particularly Beatrice)<sup>90</sup> explored the role of the co-operative movement in more detail as they advanced their thoughts in the development of a 'socialist commonwealth'.<sup>91</sup> Their focus was on the role of consumer co-operatives within a wider socialist system.<sup>92</sup>

These ideas existed outside of the UK. During the 19<sup>th</sup> century the Knights of Labor in the USA had advocated a series of integrated worker co-operatives.<sup>93</sup> Gourevitch argues that 'labor republicans' wanted to form smaller co-operatives to 'grow, by brute success and by example, into a kind of republican state within a state ...' quoting a paper by Henry Fecker in 1884:

If those members of the different branches of industry that believe the only solution to the labor question is co-operation, let them come to the front and organize our physical, moral and financial forces into a state within a state, that is, to produce what it becomes necessary to consume according to our natural wants; once accomplished, we would not have to depend on others for a bare living.<sup>94</sup>

They envisaged integrated networks of worker and consumer co-operatives. There was a vision to exert democratic control over the entire

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87 Woolf, *Co-operation*

88 Bonner, *British Co-operation*, 468

89 Koppen, "Participatory Democracy"

90 Potter, *Co-operative Movement in Great Britain*: as Beatrice Potter

91 Webb and Webb, *A Constitution for the Socialist Commonwealth*

92 Bonner, *British Co-operation*, 202

93 Gourevitch, *From Slavery*, 123

94 Gourevitch, *From Slavery*, 123

economic system.<sup>95</sup> This version of a co-operative commonwealth differed from the British in that it focused primarily on worker co-operatives (as a means of freeing up workers for leisure time),<sup>96</sup> rather than the British version so heavily dominated by consumer co-operatives.

In Spain, Arizmendiarrieta wrote of a new social order, and sets out:

In the mind of cooperativists is the idea that future society will be pluralistic in all aspects, including the economic one. The public and private economies, markets and planning, as well as paternalistic, capitalistic and social enterprises will unite. Every opportunity, the nature of each activity, the level of evolution and development of each community, all will require a preferential but not exclusive treatment. That is, if we truly believe and love people, their freedom, justice and democracy.<sup>97</sup>

This too was a version focusing more on workers than consumers.

The means for achieving a commonwealth continued to vary. Gide, and later Poisson through his book *Co-operative Republic*<sup>98</sup> believed the co-operative commonwealth could be achieved through 'co-operative evolution', and again focus primarily on consumer co-operatives.<sup>99</sup> Poisson, and later Lambert, considered co-operation to be socialist.<sup>100</sup>

An important contribution to co-operative ideology or theory came from Georges Fauquet in 1935. In *The Co-operative Sector*,<sup>101</sup> Fauquet positioned co-operatives as a distinct sector as part of a mixed economy, which is said to have 'cut across the wider and more generally held view that they

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95 Curl, *For All the People*, 4

96 Gourevitch, *From Slavery*, 131: in relation to the descriptive narrative of the Knights of Labor

97 Arizmendiarrieta, *Reflections*, 102-103 (No 464)

98 Poisson, *The Co-operative Republic*

99 Jones, *Co-operative Production*, 469-472

100 Lambert, *Studies in the Social Philosophy*, 41

101 Fauquet, "The Co-operative Sector"

comprised the Cooperative Commonwealth'.<sup>102</sup>

This is sometimes pitched as a battle of ideas between the complete economy advocated by Gide<sup>103</sup> and a sector within the economy as advocated by Fauquet.

It is argued that the co-operative movement has increasingly seen itself along the lines presented by Fauquet.<sup>104</sup> It is claimed that this has been accompanied by a shift toward the adoption of more 'mainstream' practices of conventional companies, particularly between World War Two and the 1980s.<sup>105</sup>

Fauquet notes co-operatives may be tempted to give support to the delegation from the State of 'functions of public interest', and warns of the dangers of this:

... co-operators may be tempted to forget that the efficaciousness of compulsion is limited, and that it is exactly where compulsion fails that Co-operation succeeds, bringing with it, in addition, human values and moral values. Because it depends more on men than on things, the progress of Co-operation is doubtless necessarily slow. It requires a patient labour of education. But in the domain of social and economic life, which is Co-operation's own domain, there is no easier nor shorter road to salvation.<sup>106</sup>

Calvert<sup>107</sup> focuses on the 'means' by which co-operatives achieve their aims, distinguishing them from political movements:

Co-operation is not a political movement; it does not seek to gain its

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102 Rhodes, *Cooperative Ideology*, 9

103 Lambert, *Studies in the Social Philosophy*, 250: first consumer co-operatives, who establish worker co-operatives, and then farming co-operatives

104 Draperi, "From Co-operative Theory", 5

105 Draperi, "From Co-operative Theory"

106 Fauquet, "The Co-operative Sector"

107 A British Registrar of co-operatives in India

ends by political means. It works by persuasion, by placing within the reach of non-members advantages which they cannot enjoy except by becoming members.<sup>108</sup>

The relationship between co-operatives and the State has been summarised more recently:

According to the perception prevailing in the industrialised countries with a market economy, co-operatives are private group enterprises formed on a voluntary basis for the purpose of promoting the interests of their members in the first place. In developing countries, co-operatives are often promoted by government but also subject to state control and used as instruments for the implementation of government's development plans. According to perceptions prevailing in socialist countries, co-operatives are seen first and foremost as instruments for the purpose of changing the ownership patterns. Private property of means of production is converted into people's (i.e. state) property through the transitory stage of co-operatisation (transformation function). Such collectivisation is carried out – where necessary – by force. Competition is replaced by central planning and co-operatives have as their task to meet plan targets. Further functions of socialist co-operatives are: education function, i.e. to promote the socialist way of thinking, the integration function, i.e. to integrate people into socialist society, the incentive function, i.e. allowing members to share the jointly achieved economic results and the co-ordination function, using co-operatives to adjust the centrally designed plans to local conditions.<sup>109</sup>

Warbasse, writing from an American perspective, suggests 'the cooperative is the antithesis of the state. Coöperation prophesies the fading of the

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108 Calvert, *The Law and Principles*, 26

109 Münker, "Annotated Co-operative Glossary", 106

state.<sup>110</sup> Rhodes captures the contemporary debate within the co-operative movement internationally,<sup>111</sup> noting rebuttals of Warbasse's arguments by Fabra-Ribas, who saw the state as more dynamic with varying degrees of engagement. Rhodes notes British co-operator R. A. Palmer (later Lord Rusholme) expressed a view whereby certain functions, such as education and national transport, were the preserve of the state, with co-operatives focusing on activities they were more suited to.

Writing later in Japan, Kagawa expressly called for a 'coöperative state', with a more detailed plan than many:

This [coöperative state] would be built upon the basis of economic coöperatives incorporated into a national federation and would consist of two houses, called the industrial congress and the social congress, and a cabinet.<sup>112</sup>

The national federations were to be organised in a planned way by sector with health and insurance first, followed by producer co-operatives, marketing and transport co-operatives, credit co-operatives, mutual aid (education and welfare), utility, and then consumer co-operatives, with all 7 federations coordinated together.

The relationship between co-operatives and the state does of course depend very much on the state in question.

In planned economies, such as that of the then Yugoslavia, the picture differed. Yugoslavia adopted worker self-management, including through 'basic organizations of associated labor' (BOAL).<sup>113</sup>

We can also see the role the co-operative movement can have on the development of new states. Doyle has detailed the work of co-operative promoters such as Plunkett, and AE (William Russell) and the wider co-operative

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110 Warbasse, "Basic Principles of Coöperation", 14

111 Rhodes, *The International Co-operative Alliance*, 259-266

112 Kagawa, *Brotherhood Economics*, 145-178

113 Comisso, *Workers' Control*, 127-128

movement in Ireland in the creation of the Irish Free State in the 1920s and 1930s.<sup>114</sup>

Sven Åke Böök, in a wide-reaching work influential in the drafting of the current ICA Statement<sup>115</sup> reflected that the basis ideas and ethics of co-operatives:

... constituted the basis of Co-operation as a special socio-economic system, as a “third way” between socialism and liberalism.<sup>116</sup>

This leads us to consider the strands of thought relating to these social and economic dimensions.

## Economic or Social?

It is widely (but not universally) accepted within the co-operative movement that co-operatives serve more than just economic need.<sup>117</sup> It is arguably central to co-operative ideology or theory that they serve both social and economic needs of members – their ‘dual nature’,<sup>118</sup> with debates focusing on the extent to which one is prioritised.<sup>119</sup> Social, in this context, is as it relates to people.

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114 Doyle, *Civilising rural Ireland*

115 Macpherson, “Background paper to the ICA Statement”: “That book, along with Co-operative Principles: Today and Tomorrow, written by W.P. Watkins, largely provided the theoretical context out of which the Statement of Co-operative Identity was derived.”

116 Böök, *Co-operative Values*, Section 2.6

117 Jones, *Co-operative Production*, 15

118 Puusa and Saastamoinen, “Novel ideology”, provide a recent and comprehensive academic literature review; MacPherson, “Background Paper to the ICA Statement”, Watkins, *Co-operative Principles*; Laidlaw, *Co-operatives in the Year 2000*; Novkovic, Puusa and Miner, “Co-operative Identity”; Faquet “The Co-operative Sector”, provides an early articulation; Draheim, “Die Genossenschaft” provides an economic articulation

119 Adderley, “Don’t forget the definition”

Watkins articulated:

The underlying concept of co-operation being solidarity, however, its tendency, when it is true to itself, is towards the resolution of conflict through the reconciliation of interests and social integration. Every genuine co-operative is a community organising some part of its members' economic life.<sup>120</sup>

MacPherson set out:

Most of them [co-operatives] exist primarily to meet economic purposes, but they have social and cultural goals as well. By 'social' is meant the meeting of social goals such as the provision of health services or child care. Such activities must be conducted in an economic way so that they provide the kinds of services that benefit members. Co-operatives may also embrace cultural goals in keeping with member concerns and wishes: for example, assisting in the promotion of a national culture, promoting peace, sponsoring sports and cultural activities, and improving relations within the community. Indeed, in the future helping to provide a better way of life — cultural, intellectual and spiritual — may become one of the most important ways in which the co-operatives can benefit their members and contribute to their communities.

Member needs may be singular and limited, they may be diverse, they may be social and cultural as well as purely economic, but, whatever the needs, they are the central purpose for which the co-operative exists.<sup>121</sup>

Laidlaw emphasises this point too:

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120 Watkins, "Workers' Participation"

121 MacPherson, "Background Paper to the ICA Statement", 5-6

... though they are both economic and social in their aims, co-operatives are primarily economic and must succeed in business in order to continue at all. A co-operative that fails in a commercial sense can hardly be a positive influence in a social way ... Thus while economic and social are two sides of a coin, viability as a sound business must enjoy prior claim ...<sup>122</sup>

Watkins was clear on priority:

The primary objective of Co-operative associations, whether their founders or members do or do not dream of far-reaching social consequences, is normally to obtain power over the nearest part of the economic mechanism on which their livelihood or standards of living depends.<sup>123</sup>

Digby contrasted two definitions.<sup>124</sup> The first from C. R. Fay<sup>125</sup> who saw co-operatives as:

... an association for the purpose of joint trading, originating among the weak and conducted always in an unselfish spirit on such terms that all who are prepared to assume the duties of membership share in its rewards in proportion to the degree in which they make use of their association

The term 'trading' was found to be 'too narrow to cover all the activities which can be carried on co-operatively', and urges 'contextualisation' of the term 'weak' in contrast to larger commercial enterprises. This definition is contrasted with that provided by Mladenatz:

they are associations of persons, small producers or consumers,

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122 Laidlaw, *Co-operatives in the Year 2000*, 38

123 Watkins, *Co-operative Principles*, 21-22

124 Digby, *The World Co-operative Movement*, 7-8

125 Fay, *Co-operation*

who have come together voluntarily to achieve some common purpose by a reciprocal exchange of services through a collective economic enterprise working at their common risk and with resources to which all contribute.<sup>126</sup>

Digby synthesises from these definitions the ‘ideas of freedom, of democracy, of mutual responsibility in economic life, the idea of an ethical approach to that life’.<sup>127</sup> Others have noted how this definition ‘seems to sum up their combination of social and economic objectives’.<sup>128</sup>

From the perspective of agricultural co-operatives, describing the work of Sir Horace Plunkett, the following definition was given:

A co-operative society may be defined as a voluntary association of individuals, combining to achieve an improvement in their social and economic conditions, through the common ownership and democratic management of the instruments of wealth.<sup>129</sup>

Others have taken narrower views. Kaufmann<sup>130</sup> is quoted as setting out a general definition of a co-operative:

The co-operative society is an association of a variable number of individuals, or of individuals’ associations who, united of their own free will and on the basis of equality of rights and responsibilities, transfer some of their economic functions to a common enterprise in order to gain an economic profit.<sup>131</sup>

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126 Mladenatz, *Histoire des Doctrines Cooperatives*

127 Digby, *The World Co-operative Movement*, 8

128 Arthur, et al., “Developing an Operational Definition”, 172

129 Smith-Gordon, Staples and Russell, *Rural Reconstruction in Ireland*, 69

130 Lambert, *Studies in the Social Philosophy*, 107: Heinrich Kaufmann, leader of the Central Union of German Consumers’ Co-operatives

131 Lambert, *Studies in the Social Philosophy*, 109

Swedish co-operator, Anders Örne saw economic interest as the main driving force:

Co-operation is an economic system arising out of the direct interests, on the part of those participating, in goods and services as such. It assumes the form of free undertakings established by those who desire to make use of the operations and activities themselves that are carried on by these undertakings for the purpose of promoting their democratic economy or the purist of their occupation.<sup>132</sup>

Though Örne still saw co-operatives as the antithesis to the traditional 'profit-seeking enterprise'.<sup>133</sup> These tensions play out in approaches to financial co-operatives, such as credit unions, too – contrasting an 'instrumental' approach focusing on 'structures, organisations and growth', against an 'idealistic' approach, 'focusing on community development, self-help and small units'.<sup>134</sup>

Birchall argues the dual nature argument is 'well-meaning but inadequate', burdening co-operatives comparative to other economic actors.<sup>135</sup> Birchall argues there is 'one clear aim of a co-operative – to meet the economic needs of its members'.<sup>136</sup>

Calvert has been influential and is often quoted.<sup>137</sup> Calvert, having surveyed other available definitions, explains:

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132 Bonner, *British Co-operation*, 293; Örne, *Co-operative Ideals*, 2; Hilson, "A Consumers' International?", 221-222

133 Örne, *Co-operative Ideals*, 2

134 Berthoud, *Credit Unions*, 21

135 Birchall, *The Governance of Large Co-operative Businesses* (2017), 27

136 Birchall, *The Governance of Large Co-operative Businesses* (2017), 28

137 Rhodes, *Cooperative Insights*, 37: considered his work a 'co-operative classic'

Co-operation, then, is a form of organisation, wherein persons voluntarily associate together as human beings, on a basis of equality, for the promotion of the economic interests of themselves.<sup>138</sup>

Münkner does however take a broader view:

The object of co-operative societies is pursuing a long-term, mainly economic purpose, combined with additional social and/or cultural objectives.<sup>139</sup>

The same is true of Strickland, Calvert's contemporary and fellow registrar in India (and elsewhere). Of Calvert's definition, he says:

... if the word 'economic' may be interpreted in a wide sense to include moral and social interests which conduce to well-being and prosperity and are thus indirectly economic, I subscribe to this belief and intelligible definition.<sup>140</sup>

This broader view can be seen too in Strickland's favouring of 'Better Living Societies'.<sup>141</sup> It should be added that Rhodes notes Calvert himself was 'contradictory' on his definition of a co-operative, often emphasising the 'moral uplift' of co-operatives, differing from capitalist rivals.<sup>142</sup>

Shah articulates co-operative purpose through the lens of 'salience':

... salient co-operatives are those that are central to the lives of their members, to the business in which they compete, and to the economy of their domain. Seeking salience thus implies the process through which co-operatives transform themselves from being peripheral and inconsequential to their members, their business

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138 Calvert, *The Law and Principles of Co-operation*, 14

139 Münkner, "How co-operative", 62

140 Strickland, *Co-operation for Africa*, 3

141 Campbell, *Practical Co-operation in Asia and Africa*, xxi, in the foreword to the work of his contemporary and fellow registrar

142 Rhodes, *Empire and Co-operation*, 206

and the economy of their domain to becoming central and consequential to them.<sup>143</sup>

Lambert provides us with a definitively broader definition:

A co-operative society is an enterprise formed and directed by an association of users, applying within itself the rules of democracy, and directly intended to serve both its own members and the community as a whole.<sup>144</sup>

Fauquet contextualised the social/economic dimension differently:

... we should distinguish in the co-operative institution two conjoined elements, one social and the other economic: 1) *an association of individuals* who have recognised, and who continue to recognise, on the one hand the similarity of certain of their needs, and on the other, the possibility of better satisfaction of such needs by a common undertaking than by individual means; 2) a *common undertaking* whose special object it is to respond exactly to the needs to be satisfied.<sup>145</sup>

This distinguishes the social relationships among members, and the economic relationship members have with the co-operative enterprise or 'undertaking'. This places members as an 'association of individuals', and the 'co-operative undertaking' in meeting their needs. This reflects earlier writing of Mariano Mariani.<sup>146</sup>

Lambert challenges this articulation, questioning whether one can conceive an enterprise 'outside its social object and management boards' and suggests 'it is the association that determines the social object of the

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143 Shah, *Making Farmers' Co-operatives*, 47

144 Lambert, *Studies in the Social Philosophy*, 231-232

145 Fauquet, "The Co-operative Sector"

146 Mariani, *Il fatto cooperativo*; Lambert, *Studies in the Social Philosophy*, 108

enterprise and governs it'.<sup>147</sup> Instead he articulates that 'it is the association that is an enterprise'.<sup>148</sup>

Watkins refers to the association of individuals in here as 'the entrepreneur'.<sup>149</sup> Members retain their individual autonomy, but also have a collective identity. Similarly, the individuals have been described as an 'association of entrepreneurs'.<sup>150</sup> This is perhaps a subtle but important difference – between a collective 'entrepreneur' and a collection of individual 'entrepreneurs'.

The splitting out of the economic and democratic has been challenged.<sup>151</sup> Mooney and Gray make several important observations. They challenge the 'economic-only' view of co-operatives, taking the view that the democratic control of co-operatives is a 'political' element, that would be unnecessary if co-operatives were purely economic entities. They suggest it is the democratic aspect that allows for other values and interests from members, that see co-operatives fitting into a new social movement. They emphasise the dual objectives are intrinsic to co-operatives, and that a tension between these is necessary to be considered a co-operative, and are maintained by democratic principles.

Bajo and Roelants instead note the current ICA definition refers to people uniting and meeting their needs 'through' an enterprise. They explain:

The word "through" indicates that the "enterprise" character of the cooperative, though fully-fledged, is subordinated to its character of "association of persons".<sup>152</sup>

Outside of the movement different, and often narrower, interpretations have been taken. This is particularly true with late 19<sup>th</sup>, early 20<sup>th</sup> century

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147 Lambert, *Studies in the Social Philosophy*, 108

148 Lambert, *Studies in the Social Philosophy*, 234

149 Watkins, *Co-operative Principles*, 111

150 van Dijk, Sergaki and Baourakis, *The Cooperative Enterprise*, vii

151 Mooney and Gray, *Cooperative Conversion*

152 Bajo and Roelants, *Capital and the Debt Trap*, 116

economists. Pantaleoni is quoted as saying in 1898:

Cooperators are not motivated by aspirations to higher purpose but by the same seeking after economic self-interest to which co-operatives were generally considered alternatives.<sup>153</sup>

The line of argument was rebutted by Gide.<sup>154</sup> Economists such as Mariani were early critics focusing on narrow economic interest.<sup>155</sup>

From North America, particularly in relation to agricultural co-operatives, different schools of thought emerged. These have been characterised as the 'The California School' under the leadership of Aaron Sapiro;<sup>156</sup> and the 'Competitive Yardstick School', influenced by Nourse<sup>157</sup> (see *Chapter 9 – Co-operative economics*).<sup>158</sup>

Emelianoff provides a run through of the challenges he perceives with the theoretical underpinning of co-operatives, with a clear preference for those writers focusing on the narrower economic interest.<sup>159</sup>

The United States Department of Agriculture (USDA) have set out what is considered by some as 'another widely accepted cooperative definition', capturing principles of 'user ownership, user control and proportional distribution of benefits':

A cooperative is a user-owned, user-controlled business that distributes benefits on the basis of use.<sup>160</sup>

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153 Vitaliano, "The Theory of Cooperative Enterprise"

154 Gide, "Has Co-operation Introduced"

155 Mariani, *Il fatto cooperativo*, as articulated in Emelianoff, *Economic Theory of Cooperation*

156 Fairbairn, *The Meaning of Rochdale*, 42-48 provides commentary on the failings of plans under Sapiro

157 Nourse, "The Economic Philosophy of Co-operation"

158 Torgerson, Reynolds and Gray, "Evolution of Cooperative Thought" provide a useful overview

159 Emelianoff, *Economic Theory of Cooperation*

160 Zeuli and Cropp, *Cooperatives*, 1

This forms part of a discrete but consistent train of thought or ideology found predominantly in relation to US agricultural co-operatives. This is distinct from early US ideology in relation to worker co-operatives.

Robotka<sup>161</sup> provides another example, and is quoted as articulating the following definition:

It is an association of autonomous units (farm or other business units, or households) whose purpose it is to conduct jointly some activity which is an integral part of the operations of the participating units, as a means of increasing incomes, reducing costs or otherwise enhancing the economic interest of the participating units.<sup>162</sup>

Lambert has however considered this to simply be a 'capitalist cartel' where non-co-operators sell produce through a co-operative to other non-co-operators.<sup>163</sup>

These theories can be seen to focus mainly on economic benefit, pitching the intersection between 'social service' and 'economic philosophy' as a dilemma.<sup>164</sup> That economists have struggled to reconcile the economic and social dimensions is not a new observation.<sup>165</sup>

Hansmann, in his work exploring the ownership of enterprise, pays no regard to social objects in exploring the definition of a co-operative.<sup>166</sup> Those approaches focusing narrowly on ownership and control continue.<sup>167</sup>

Novkovic brings in a classification of co-operatives suggesting a

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161 Robotka, "A Theory of Cooperation"

162 Lambert, *Studies in the Social Philosophy*, 233

163 Lambert, *Studies in the Social Philosophy*, 233

164 Torgerson, Reynolds and Gray, "Evolution of Cooperative Thought"

165 Levi and Davis, "Cooperatives as the "enfants terribles" of economics"

166 Hansmann, *The Ownership of Enterprise*, 13-14

167 Camargo Benavides and Ehrenhard, "Rediscovering the Cooperative" for a recent literature review

distinction between two types.<sup>168</sup> A ‘Type 1’ co-operative has as its reason for formation the addressing of market failure or economic injustice. By contrast, Type 2 co-operatives have social and/or environmental justice as their reason for establishment. The definitions above from economists and lawyers fall more closely into the Type 1 categorisation, with the Type 2 category being more closely aligned with the definition in the ICA Statement.<sup>169</sup>

On the other end of the spectrum, a trend has developed since the 1980s to look to ‘social co-operatives’, and more recently, ‘general interest co-operatives’.<sup>170</sup> There are a range of views, from those who recognise them as being firmly part of the co-operative movement,<sup>171</sup> those who recognise the challenges and seek to provide an inclusive definition,<sup>172</sup> and those who question whether they are in fact co-operatives.<sup>173</sup> Others have put social co-operatives into the category of a ‘hybrid’ co-operative’.<sup>174</sup>

The ‘social’ aspect of co-operatives has been contextualised:

Social responsibility is basically built into the co-operative way. That is why co-operative organizations were and are started: groups of people wanted to participate in the shaping of their living conditions and to influence the social and economic conditions for society at large. This is social responsibility. It is also the way in which co-operative organizations are established as people-based, democratic organizations formed to promote the needs of their members, with a fair distribution of benefits and with an open membership (as far as possible). Social responsibility is a basic constituent

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168 Novkovic, “The impact of co-operatives”; Novkovic, Puusa and Miner, “Co-operative identity”; Miner and Novkovic, “Diversity in Governance”, providing a visual explanation

169 Miner and Novkovic, “Diversity in Governance”, 6

170 Münkner, “How co-operative”,

171 Fici, “Cooperative Identity”

172 Hiez, “The General Interest Cooperatives”

173 Münkner, *Co-operative Principles and Co-operative Law*

174 Spear, “Formes coopératives hybrides”

in co-operative contexts; in the motives, purposes, relationships between members and their societies, and in the relations between the societies and the community at large. Co-operatives are not charity organizations, but are, indeed, organizations consciously designed to give the people a voice in the shaping of their living conditions.

We must never forget these basics when we approach the issue of social responsibility. To express the situation as some kind of inherent conflict between economy and social responsibility in the co-operative system belongs to the same false view as that which sees a conflict between economy and democracy ...<sup>175</sup>

This has been echoed recently by the ICA:

It must be underlined that, notwithstanding its social purpose, a cooperative is an economic enterprise. It must make its way in the marketplace and so must be fully competitive. Its essential cooperative character need not stand in the way of commercial success. In fact, the cooperative identity contains many components that, if emphasized, can constitute a substantial competitive advantage.<sup>176</sup>

Kagawa, in what he described as 'Brotherhood Economics', articulates the importance of the social principle:

... we learn that the economics of co-operatives is founded on the consciousness of social solidarity. And co-operative types of production, distribution, and consumption grow out of this fundamental

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175 Böök, *Co-operative Values*, section 3.6

176 International Co-operative Alliance, *Examining our Cooperative Identity*, 10

social principle.<sup>177</sup>

This opens a question of whether co-operatives address market failure, or societal/social failure. Böök explains:

It should not be thought, however, that co-operative organizations have their only justifications as correctives of “market failures”. Co-operative social responsibility implies more, co-operatives are basically correctives of “society’s failures”. As a consequence of that, co-operatives should develop their democratic and social character in order to demonstrate the co-operative way in practice, and should provide the necessary conditions to encourage the wider use of co-operative methods in society at large.<sup>178</sup>

Arizmendiarrieta sets out:

We have accepted the cooperative considering it as suitable for resolving urgent development and social promotion problems, and for effectively contributing to the impulse of another social and economic order with the resulting consequences. We have not presented the cooperative as a path for simply personal, or even less, individual promotion but as suitable to resolve the distancing from and lack of concern for the community.<sup>179</sup>

This topic can be looked at practically at the level of an individual co-operative. In looking at membership strategies for consumer co-operatives, Spear articulates that there should be as much ‘congruence’ between the community/social relations of a co-operative and its customer/member

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177 Kagawa, *Brotherhood Economics*, 69 (this work is set in the wider context of strong Christian faith articulated throughout the book (see Chapter 11 – Co-operative politics and religion))

178 Böök, *Co-operative Values*, section 6.2

179 Arizmendiarrieta, *Reflections*, 95-96 (No 431)

relationships as possible, as part of a 'co-operative advantage'.<sup>180</sup>

Away from definitional approaches, others have sought to articulate what makes up the 'formula for co-operation', focusing on: shared commitment, community interest, and mutual trust.<sup>181</sup>

## **And cultural?**

It is clear much of the debate and writing on this topic sits between 'economic' and 'social'. The ICA Statement does however refer to co-operatives meeting the 'economic, social, and cultural' needs of their members.

In writing the background paper to the ICA Statement, MacPherson articulated the meaning of 'cultural':

Co-operatives may also embrace cultural goals in keeping with member concerns and wishes: for example, assisting in the promotion of a national culture, promoting peace, sponsoring sports and cultural activities, and improving relations within the community. Indeed, in the future helping to provide a better way of life – cultural, intellectual and spiritual – may become one of the most important ways in which the co-operatives can benefit their members and contribute to their communities.<sup>182</sup>

But, 'cultural' very nearly missed inclusion in the definition. In the lead-up to the vote at the ICA General Assembly, the ICA Board accepted a resolution from the German delegation to remove cultural. MacPherson explained that neither he nor the ICA's Board saw 'any difficulty in accepting this change especially in light of the entire document'.<sup>183</sup> The General Assembly put it back in again.

More recently, the ICA explain that the component parts of 'economic,

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180 Spear, "Membership Strategy"

181 McDermott, Miller and Mayo, *The Formula for Co-operation*

182 MacPherson, "Background paper to the ICA Statement"

183 MacPherson, "Co-operative Principles [Keynote Presentation]", 18

social, and cultural' within the definition are to be pursued 'simultaneously', albeit to varying degrees, noting:

The cultural element is as fundamental as the other two, since co-operatives develop and depend upon a culture of cooperation.<sup>184</sup>

This is the most natural reading of the definition.<sup>185</sup>

Much of the earlier quoted work focuses on the 'dual' nature of co-operatives, in support of co-operatives having economic and social purposes. The word 'cultural' rarely appears. It may well be the case that 'cultural' is assumed to fall within a broader definition of 'social'.

The role played by consumer co-operatives in the cultural life of their members in Britain has been well explored, including details of a 'sub-culture', or 'co-operative culture' created by them.<sup>186</sup> Following a submission by co-operators in Germany, UNESCO added the 'idea and practice of organizing shared interests in cooperatives' onto their register of Intangible Cultural Heritage in 2016.<sup>187</sup>

There are different interpretations of 'cultural'. Some talk of 'co-operative culture', and have sought to explore what that means for members.<sup>188</sup> The earlier definition offered by MacPherson, at least in part, focused on cultural activities. More recently, as with the quote above from the ICA, we see use of the phrase 'culture of cooperation', which is open to interpretation and is less well defined.

But to answer the question posed in the title 'economic or social', most views point to the answer being: both. Co-operatives are enterprises, so operate economically, but their purposes go beyond just economic interest.

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184 International Co-operative Alliance, *Examining our Cooperative Identity*, 9

185 Adderley, "Don't Forget the Definition"

186 Robertson, *The Co-operative Movement and Communities*, 94; Gurney, *Co-operative Culture*

187 UNESCO, "Decision of the Intergovernmental Committee"

188 Hogeland, "How Culture Drives Economic"

This leads to a discussion as to for whose benefit co-operatives exist.

## **For whose benefit?**

This can be looked at through three lenses:

- Member benefit contrasted with (or related to) wider community or general benefit.
- The relationship between the individual and the co-operative (i.e. worker, producer, consumer, supporter, investor).
- Immediate vs future – considering co-operatives as intergenerational.

## **For member or wider benefit**

The centrality of members in co-operatives, as self-help enterprises,<sup>189</sup> is set out clearly in the ICA Statement. It is considered to be one of the most important characteristics of a co-operative<sup>190</sup> that individuals have a dual capacity ('double quality' or 'identity principle')<sup>191</sup> as both:

- owners and decision-makers in a co-operative,<sup>192</sup> and
- the participants in its business whether through purchasing goods or services (consumer), supplying goods (producer), or providing labour (worker).<sup>193</sup>

Drawing on the foundational work of Raiffeisen and Schultze-Delitzsch in Germany, the 'three S principles' are suggested to be central to co-operative

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189 Parnell, *Enterprises that Change Lives*; Holyoake, *The History of Co-operation*; Lambert, *Studies in the Social Philosophy*

190 Münker, "Annotated Co-operative Glossary", 143

191 Fici, "The Essential Role", 9 (Distinct from the 'dual purpose' of economic and social referred to earlier)

192 Fici, "The Essential Role" references the 'organisational relationship'; Bajo and Roelants, *Capital and the Debt Trap*, refer to the 'associative role'

193 Fici, "The Essential Role" references the 'exchange relationship'; Bajo and Roelants, *Capital and the Debt Trap*, refer to the 'entrepreneurial role'

identity:<sup>194</sup>

- Self-help
- Self-administration
- Self-responsibility

It has been argued that ‘member-promotion’ is ‘the leading co-operative principle and maxim’<sup>195</sup>

Over time, classifications such as ‘social co-operative’,<sup>196</sup> ‘general interest co-operative’,<sup>197</sup> ‘alternative co-operative’,<sup>198</sup> and ‘community co-operative’<sup>199</sup> have emerged.

Co-operatives with an external focus have been characterised as ‘third-party-focused’ co-operatives, a form of hybrid organisation.<sup>200</sup> While the market-focus may risk degenerating a co-operative toward that of a traditional investor-owned company, there is also a risk that a focus outside of members re-orientates co-operatives toward the traditional non-profit sector (see *Chapter 5 – Co-operative governance and structures*).<sup>201</sup>

Social co-operatives, as a defined concept, were first legally recognised in Italy in 1991 to ‘pursue the common good’.<sup>202</sup> Fici argues:

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194 Grosskopf, Münkner and Ringle, *Our Co-operative*, 13

195 Grosskopf, Münkner and Ringle, *Our Co-operative*, 8

196 Fici, “The Social Enterprise in the Cooperative Form”; International Co-operative Alliance, *Examining our Cooperative Identity*, 12: early thought on the development of this concept from Gino Mattarelli

197 Hiez, “The General Interest Co-operatives”

198 Münkner, “Annotated Co-operative Glossary”, 115

199 Somerville, “Co-operative Identity”: is sometimes credited with coining the phrase, but it was used earlier. Snaith, *The Law of Co-operatives*, 188, cites a 1981 publication from the Plunkett Foundation: *Stettner Community Co-operatives; Their Potential for Rural and Urban Development*

200 Hatak, Lang and Roessl, “Trust, Social Capital, and the Coordination of Relationships”

201 Hatak, Lang and Roessl, “Trust, Social Capital, and the Coordination of Relationships”

202 Thomas, “The Rise of Social Cooperatives”, 248

... notwithstanding its particular purpose, the SC [social co-operative] remains, at its core, a cooperative, from which it borrows the general structure of internal governance and other peculiar attributes that are consistent with an SE's [social enterprise's] nature and objectives.<sup>203</sup>

Fici goes on to articulate that a social co-operative is a co-operative 'with a non-mutual purpose' because its aim is legally defined as being 'to pursue the general interest of the community in the human promotion and social integration of citizens'.<sup>204</sup> In seeking to reconcile the two positions, it has been argued the 'soul' of the social co-operative is that of a typical social enterprise, but its 'body' is that of a co-operative. This would suggest an application of co-operative governance features (rather than identity)<sup>205</sup> to an organisation existing for benefit not contingent on membership.

The concept of social co-operatives and general-interest-co-operatives has been critiqued:

By broadening the object of co-operative societies from promotion of mainly economic interests of their members to the promotion also or even mainly of social or cultural interests, it has become more difficult to distinguish between objectives of the co-operative society and positive external effects of co-operative operations. Where co-operatives work successfully, they usually have positive external effects on fellow citizens, the community and the region: The basic difference between co-operatives and general interest organizations is that co-operatives are working according to the motto "we for us" and general interest organizations are working according to the motto "we for you".<sup>206</sup>

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203 Fici, "The Social Enterprise in the Cooperative Form"

204 Fici, "The Social Enterprise in the Cooperative Form"

205 Fici, "The Essential Role", 9

206 Münkner, "How co-operative", 54

A distinction can be drawn between organisations set up by members for self-help but also in the interests of others, and an organisation set up for wider general benefit.<sup>207</sup> Other aspects of co-operative identity or theory are brought into play here too – specifically that of voluntary association. It is for individuals to voluntarily agree to participate in a co-operative, to meet the obligations of membership (what Watkins calls ‘responsibility or function’).<sup>208</sup> It becomes less clear how this is met were a co-operative to exist for the general interest of persons irrespective of their membership status. People must be free to leave a co-operative.

Departing from the value of self-help, and the principle of voluntary membership could lead to a kind of isomorphism toward an organisation more akin to a charity or voluntary organisation.<sup>209</sup>

There is a relevance here to the religious outlook of some of the founding thinkers of the co-operative movement. The role of Christian Socialists has been noted earlier. Raiffeisen, with Christian influence was at times operating charitably in nature.<sup>210</sup> Du Bois maps out the role of the church in co-operative development among African Americans (see *Chapter 11 – Co-operative politics and religion*).<sup>211</sup> In relation to the early 20th century, Nembhard explains:

African American cooperatives grew out of the mutual-aid tradition, particularly of religious and fraternal organizations of Black independent educational institutions. Values such as solidarity, concern for community, helping they neighbor, and lifting as you climb were commonly espoused and practised...<sup>212</sup>

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207 Münker, “How co-operative”, 63, in support of comments in correspondence from this author

208 Watkins, *Co-operative Principles*, 109

209 Spear, “Formes coopératives hybrides”

210 Lambert, *Studies in the Social Philosophy*, 99-100

211 Du Bois, *Economic Co-operation*, 25-25

212 Gordon Nembhard, *Collective Courage*, 82

The co-operatives forming Mondragon were formed under the influence of José María Arizmendiarrieta, a 'determined proponent of Catholic Social Doctrine'.<sup>213</sup> This brings us to the idea of the common good.

It has is argued that co-operatives exist for the common good.<sup>214</sup> The term in a co-operative context is rarely defined, despite being subject to varying interpretations.<sup>215</sup> On some definitions, this challenges the concept of existing for member benefit. Bajo and Roelants helpfully distinguish between 'common' and 'public':

Considering a cooperative as a para-public type of business is often the result of confusion between the concepts of 'public' and 'common' In spite of their 'joint characteristics' (joint control, joint ownership, joint stakeholder approach etc) cooperatives are fully-fledged private enterprises enjoying complete autonomy and independence from the state and any other third party. They develop what one could call 'common-private' economy...<sup>216</sup>

The use of 'common' here is to directly contrast 'individual'. As to whether 'common good' means looking at the collective good of members, or the community beyond members, depends entirely on how you define those terms. It has been considered in the context of Mondragon.<sup>217</sup>

More generally, in exploring the common good and co-operatives, Novkovic sets out:

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- 213 Novkovic, Miner and McMahon, *Humanistic Governance*, 289; Pezzini, 'Bien commun'
- 214 Lambert, *Studies in the Social Philosophy*; Bajo and Roelants, *Capital and the Debt Trap*; Mayo, *The Co-operative Advantage*; Alcock and Mills, *Co-operation for the common good*
- 215 Jaede, *The Concept of the Common Good*, sets out the political and philosophical perspective; Argandoña, "The Stakeholder Theory", covers stakeholder theory and the common good
- 216 Bajo and Roelants, *Capital and the Debt Trap*, 117-119
- 217 Stikkers, "Institutionalizing the Common Good"

Cooperatives have had a different purpose throughout their history, namely to meet their members' needs. However, transformations required in modern society also challenge cooperatives to lead the way towards satisfying the future needs of their members, embedded in society and the environment. They can do that by applying the principles of cooperation to build circular networks, support the emerging cooperatives and ethical investments, and lobby for policies promoting human dignity, social justice, sustainability and economic democracy.<sup>218</sup>

This puts the wider benefit back through the lens of member benefit, in a way that is similar to the concept of 'salience' in relation to co-operatives articulated by Shah.<sup>219</sup>

Nembhard emphasises the importance of solidarity as a long-standing feature of the co-operative movement among African Americans.<sup>220</sup> Nembhard notes how solidarity extends beyond one's own community, in what is described as 'external solidarity', based on principles of 'intercooperation and concern for community'.<sup>221</sup>

The concept of the common good and co-operatives, brings 'open co-operatives' (or open co-operativism)<sup>222</sup> into discussion. Open co-operatives are a form of multi-stakeholder co-operative, with an intention that they 'produce Commons and are statutorily oriented towards the creation of the common good'.<sup>223</sup>

Commons in this context can be defined as: 'common goods benefiting broader society which do not fall under the market exchange'.<sup>224</sup> An example used is that of Linux – an open-source operating system used in

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218 Novkovic, "The impact of co-operatives"

219 Shah, *Making Farmers' Co-operatives*

220 Gordon Nembhard, *Collective Courage*, 217

221 Gordon Nembhard, *Collective Courage*, 220

222 Bauwens and Kostakis, "From the Communism of Capital"

223 Bauwens and Kostakis, "From the Communism of Capital", 358

224 Lund and Novkovic, "Multi-stakeholder cooperatives", 545

computing, developed by thousands of people working independently. That open-source code can be considered a 'digital commons'.

Open co-operativism would see 'co-operative accumulation, on behalf of the Commons and its contributors'.<sup>225</sup> These developments open questions on the nature of the relationship between members and their co-operative – including the extent to which they are traditionally transactional.

Lambert expresses a strong view:

... in a co-operative society the member and the user are one and the same person. ... the user in a consumer co-operative is the consumer or the buyer, but the user in a producer co-operative is the person who uses it most by virtue of the fact he works in it and earns his livelihood there, i.e. the worker-member.

... as a rule all the members must be users and all the users of a co-operative must become members. Exception can be allowed to this principle on condition that they are never more than temporary.<sup>226</sup>

Gide and Poisson took a broader view, with Gide pointing out trade with non-members (in a consumer society) is a useful way of recruiting new members.<sup>227</sup>

But, Lambert, in his definition, also sees co-operatives serving both members and the community. He argues a co-operative does aim at furthering member interests:

... but only in so far as it may legitimately do so and only in so far as this is compatible with the general interest.<sup>228</sup>

Lambert makes the point that an aim of 'transforming the word economic

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225 Bauwens and Kostakis, "From the Communism of Capital", 359

226 Lambert, *Studies in the Social Philosophy*, 65-66

227 Lambert, *Studies in the Social Philosophy*, 66

228 Lambert, *Studies in the Social Philosophy*, 236

and social system' requires co-operative to 'serve its members and the community as a whole'.<sup>229</sup>

It is perhaps easier to conceptualise a direct economic relationship where a member purchases from, works for, or supplies directly to the co-operative. The more tangible the product, the easier the understanding. The challenge is how well this traditional conceptualisation fits increasingly divergent and physically intangible forms of exchange.

There are of course dangers in taking a reductionist view of traditional co-operation. That co-operatives have been considered intergenerational suggests it has not been the case that all benefits must be readily realisable by current members.

## Current or future members?

The question here is to what extent do co-operatives serve current or future members?

The concept of the 'indivisible reserve' (see *Chapter 8 – Co-operative finance*) is partially relevant here.

Indivisible reserves represent a fund established by the co-operative, usually from retained earnings, which cannot be 'divided' or distributed to its members. In some cases, this applies on solvent dissolution – with funds instead going to another organisation. This is *partially* relevant to this question because there are multiple purposes for the reserve:<sup>230</sup>

1. Economic<sup>231</sup> – in that it can help the co-operative in more difficult trading times.<sup>232</sup>

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229 Lambert, *Studies in the Social Philosophy*, 241

230 Reynolds, "Indivisible Reserves"; Mills, "A study of indivisible reserves"

231 Tortia, "A comparative institutional approach"

232 Hall, *Handbook for Members*, 228: UK consumer co-operatives were earlier encouraged to put 20% of surplus into this kind of general reserve for this purpose

2. Protective – as a means of avoiding demutualisation.<sup>233</sup>
3. Ideological – with ‘commonly-owned capital’ being a ‘symbol of a co-operative’s distinctiveness’<sup>234</sup> and in supporting a connection to community.<sup>235</sup>

It has been argued:

Indivisible reserves provide us with another fundamental clue in the underlying rationality of cooperatives, which are seen as belonging not only to their present members, but also to their future ones. Indeed, since a cooperative is a long-term economic entity whereby actual and potential members straddle generations, its membership should be seen as spanning generations as well.<sup>236</sup>

The ICA explain:

Current members have a legacy responsibility to ensure that the co-operative survives, as a strong and vibrant business enterprise, for the benefit of future generations of members and the wider community the co-operative serves.<sup>237</sup>

They draw on the Roman law principle of *usufruct*, and set out:

This legal principle of “usufruct” is derived from two Latin words:

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233 International Co-operative Alliance, *Guidance Notes to the Co-operative Principles*; International Co-operative Alliance, *Examining our Cooperative Identity*

234 MacPherson, “Co-operative Principles [Keynote Presentation]”; International Co-operative Alliance, *Guidance Notes to the Co-operative Principles*

235 Reynolds, “The benefits of indivisible reserves”

236 International Co-operative Alliance, *Examining our Cooperative Identity*, 25

237 International Co-operative Alliance, *Guidance Notes to the Co-operative Principles*, 37

“usus” and “fructus”. “Usus” is “the right to use and enjoy a thing possessed”; “fructus” is “the fruit of”. Members have the common ownership right to ‘use’ and enjoy the ‘fruitfulness’ of the co-operative’s non-withdrawable share capital and indivisible reserves through the benefits a co-operative business creates, but a co-operative’s non-withdrawable share capital and indivisible reserves cannot be divided among members because they do not own this common-wealth individually. The current generation of members cannot appropriate non-withdrawable share capital and indivisible reserves for their own personal self-interested benefit through the demutualisation or dissolution of a co-operative.<sup>238</sup>

The feature is longstanding. Drawing on Buchez,<sup>239</sup> Lambert articulates a principle of ‘disinterested transmission on the net assets’ of a co-operative, with funds going to either the reserves of another co-operative, for philanthropic use, or to the state.<sup>240</sup> Lambert quotes Poisson, Fauquet, and Hirschfeld in support.<sup>241</sup> The Rochdale Pioneers added the principle of disinterested distribution in 1854.<sup>242</sup>

Different models have been applied. Lambert notes the contrast between Schultze-Delitzsch who advocated for distribution, and Raiffeisen for whom funds were to be used for charitable activity.<sup>243</sup>

This feature is more commonly found, as a legislative requirement, in continental Europe in countries with civil law traditions. It is a less common

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238 International Co-operative Alliance, *Guidance Notes to the Co-operative Principles*, 35

239 Who put forward that property should be ‘untransferable’ or ‘indissoluble’.

240 Lambert, *Studies in the Social Philosophy*, 54

241 Lambert, *Studies in the Social Philosophy*, 82

242 Lambert, *Studies in the Social Philosophy*, 81; Birchall, *Co-op: the people’s business*

243 Lambert, *Studies in the Social Philosophy*, 97-98 (Lambert argues Raiffeisen was more reliant on the good will of the rich and in favour of charity, than sits comfortably with the principles of self-help and democracy)

feature in Anglo-Saxon countries.<sup>244</sup>

Birchall has however challenged the concept of co-operatives as an 'inter-generational endowment':

Their current members are expected to use the endowment to meet their needs, but to continue to accumulate it and pass it on to the next generation. We would not want to argue too forcefully against this view.

... However, if taken too far it undermines the idea that a co-operative has any current owners at all, and it makes the board members more like trustees in a non-profit business.

... We can agree that the current member-owners have obligations towards future members, without undermining their claim to be the rightful owners.<sup>245</sup>

This brings some nuance to the topic. Birchall quotes Fonteyne, who argues:

The existence of such an ownerless endowment constitutes a major challenge to the governance systems of a co-operative. It reduces members' incentives to exert effective oversight over management, while at the same time increasing the need for such oversight.<sup>246</sup>

The debate on the use of reserves is not recent. Karve,<sup>247</sup> in noting a divergence of views set out his view:

My own view which I stated in Vienna, is not so absolute.

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244 International Co-operative Alliance, *Examining our Cooperative Identity*; Tortia, "The Firm as a Common"

245 Birchall, *The Governance of Large Co-operative Businesses* (2017), 27-28

246 Fonteyne, *Cooperative Banks in Europe*

247 Shaffer, *Historical Dictionary*, 277: Professor of Economics from India, and Chair of the ICA's 1966 review of the co-operative principles

Co-operative business is becoming so complicated and massive that both for financial and tax reasons all kinds of ear-marked, general and contingent funds and reserves have to be created. There is no general principle involved in debarring members for all time from having a share of these reserves. Even in the exceptional event of a dissolution, it would hardly be tenable to urge that reserves do not belong to the corporate body of members – past and present. It is not difficult to devise a scheme of distribution by which no member benefits at the cost of another.<sup>248</sup>

More recent research has also gone to suggest that in some cases, the existence of reserves can reduce the quality of service to members.<sup>249</sup>

By contrast, Tortia points to increased instances of demutualisation in Anglo-Saxon countries without the indivisible reserve, compared to civil law countries with it.<sup>250</sup> And others, such as Restakis, point the existence of indivisible reserves as an important enabler of growth.<sup>251</sup>

These considerations bring with them the idea of the ‘commons’ and management of common pooled resources, leaning extensively on the work of Elinor Ostrom (see *Chapter 9 – Co-operative economics*).<sup>252</sup>

That the feature has appeared consistently, and in many cases voluntarily, evidences that it is part of co-operative ideology. There are differences in approach, and in the significance of this concept, by type of co-operative. It has been argued this feature is less necessary in consumer co-operatives (though this is not a widely accepted position), with more focus in producer co-operatives, worker co-operatives, and multi-stakeholder

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248 Karve, *Co-operation: Principles and Substance*, 53

249 Galor and Sofer, “The reserve fund”

250 Tortia, “The Firm as a Common”

251 Restakis, *Humanizing the Economy*, 68

252 Ostrom, *Governing the Commons*; Restakis, *Humanizing the Economy*, 255; Tortia, “The Firm as a Common”; Lund and Novkovic, “Multi-stakeholder cooperatives”

co-operatives.<sup>253</sup>

Co-operatives are not unique in this consideration on current versus future members. UK company law has recognised that having regard to members means a regard to members as a whole, including future members.<sup>254</sup>

## Relationship with the co-operative (consumer, worker, producer etc.)

In seeing a move from the earlier Owenite communities to the establishment of consumer co-operatives, a 'consumer theory of co-operation' emerged.<sup>255</sup>

Woolf, Webb(s), Gide, Poisson, focused on consumer co-operatives as the central part of their view on co-operation. Gide specifically assumes that the 'essential organ' of the co-operative commonwealth will be 'the society for co-operative distribution'.<sup>256</sup> The consumer focus was apparent too in the work of Franz Staudinger and the wider 'Hamburg tendency'<sup>257</sup>.

J.T.W. Mitchell must get mention here. Mitchell became the Chair of the Co-operative Wholesale Society, so unsurprisingly fell very much within then 'consumer co-operative' side of the debate, and is described as an antagonist of Christian Socialist, E.V. Neale.<sup>258</sup>

Christian Socialists spent time promoting 'working men's associations' - creating producer<sup>259</sup> (worker) co-operatives. They experienced issues, see-

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253 Fay, *Co-operation*, 372-372, specifically in relation to the UK

254 *Gaiman v National Association for Mental Health* [1971] Ch 317.

255 Rhodes, *The International Co-operative Alliance*, 11

256 Gide, "Has Co-operation Introduced", 499 fn1

257 Lambert, *Studies in the Social Philosophy*, 109

258 Gilchrist, "Different Visions of English Co-operation"

259 Earlier writers (particularly in England) referred to worker co-operatives as 'producer' co-operatives. Though writers from countries such as the USA, where agricultural co-operatives were more common, used the term to cover those too. For ease for the reader, distinction is drawn between 'producer' (members providing goods) and 'worker' (members as 'employees') along the lines of current classifications: International Labour Organization, *Statistics of Cooperatives*

ing the decline of those they established.<sup>260</sup>

The Webbs were particularly critical of 'producer' (worker) co-operatives: 'All such democracies of producers – either fail or cease to be democracies of producers'.<sup>261</sup> They are regarded as having driven a wedge between elements of the broader associational movement – with producer and consumers split into different wings,<sup>262</sup> with Beatrice having 'hammered home the coffin nails of cooperative production'.<sup>263</sup>

This is despite, as articulated by Warbasse, the development of a consumer co-operative movement was 'unconscious' given a conception by the Rochdale Pioneers of a 'worker's commonwealth'.<sup>264</sup>

While some challenged the concept of worker co-operatives, others challenged the sequencing – arguing consumer co-operation had to become successful first, before worker co-operation could succeed:

The starting-point of the co-operative system is the consumer and consumers' wants, not the producer and their desire for gain.<sup>265</sup>

An articulation by Jones is perhaps telling of wider thought:

The Christian Socialists later came to hold a view of Co-operation very like Dr. King's, but it was their own unfortunate experience [in seeking to establish producer co-operatives] that brought them to it. Had they been able at the beginning to learn from Dr. King that co-operative production is best attempted after co-operative distribution has been mastered, their experiments would probably

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260 Jones, *Co-operative Production*, 98-101

261 Webb and Webb, *A Constitution for the Socialist*

262 Yeo, *Co-operative and Mutual Enterprises in Britain*; Ridley-Duff and Bull, "Solidarity cooperatives"

263 Mellor, Hannah and Stirling, *Worker Cooperatives in Theory and Practice*, 20

264 Warbasse, "Basic Principles of Coöperation"

265 Carr-Saunders, Sargent Florence and Peers, *Consumers' Co-operation*, 518-519

have been made in different and more fruitful directions.<sup>266</sup>

This did not deter Christian Socialist, E.V Neale, who continued to promote worker co-operatives up to his death in the lead-up to the formation of the ICA, with work being continued in his honour.<sup>267</sup>

Philippe Buchez<sup>268</sup> is credited with inspiring worker co-operatives in France,<sup>269</sup> with the development of worker co-operatives characterised as appearing through numerous phases.<sup>270</sup> Buchez's ideas were trialled in France in the 1830s, and is quoted by Buber as having explained:

The workers of a particular trade unite, put their savings together, raise a loan, produce as they think best, repay the borrowed capital despite great privations, ensure that each man gets equal pay, and leave the profits in the common funds, with the result that the co-operative work-shop becomes a little industrial community.<sup>271</sup>

In his ideas, he articulated the need for indivisible reserves, with one-fifth of the capital added to it. Lambert argues there is a close synergy between the principles Buchez espoused, and those of the Rochdale Pioneers.<sup>272</sup>

The role of workers in co-operatives found favour with Holyoake too:

The main principle of co-operation is that in all new enterprises, whether of trades or manufacture, the profits shall be distributed in equitable proportions among all engaged in creating it.

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266 Jones, *Co-operative Production*, 103

267 Rhodes, *The International Co-operative Alliance*, ch1

268 Lambert, *Studies in the Social Philosophy*, 52: part of the 'Saint-Simonist' school of thought (Doctrine de Saint-Simon, 1830)

269 Digby, *The World Co-operative Movement*, 19: with ideas spread through politician Louis Blanc; Watkins, "Workers' Participation"

270 Watkins, "Workers' Participation"

271 Buber, *Paths in Utopia*, 56

272 Lambert, *Studies in the Social Philosophy*, 53, uses the phrase 'a narrow relationship'

... The definite co-operative principle ... is that which places productive co-operation on the same plane as distributive, and which treats capital simply as an agent, and not as a principal ... Capital, a neutral agent, is paid a fixed interest and no more.<sup>273</sup>

The work of Buchez also directly influenced worker co-operative support by Christian Socialists, who were pivotal in the creation of co-operative legislation in the UK (see *Chapter 7 – Co-operative law*).<sup>274</sup>

Lambert is credited with drawing a clear distinction between the dividend (as a patronage refund) and a broader practice of 'distributing surplus to members',<sup>275</sup> which can more readily accommodate all those involved in creating the profits.<sup>276</sup>

Consumer co-operation is not free from detractors:

Common consumption as such has a great power to unite people; and, as we know from ancient times, there is no better symbol of communal life than the banquet. But the Consumer Co-operative is concerned not with consumption proper but with purchases for consumption. Common purchasing as such lays no very significant demands on the individuals participating in it, unless it be in exceptional times when it is a question of common care and responsibility for a common task, as in the "heroic" age of the Co-operative Movement or in the crises since then, when private persons came forward in a spirit of sacrifice to alleviate the distress of the many. Similarly, as soon as common purchasing becomes a business, responsibility for which passes to the employees, it ceases to unite people in any significant sense.<sup>277</sup>

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273 Fairbairn, *The Meaning of Rochdale*, 21

274 Mellor, Hannah and Stirling, *Worker Cooperatives in Theory and Practice*, 13

275 Fairbairn, *The Meaning of Rochdale*, 29

276 Lambert, *Studies in the Social Philosophy*

277 Buber, *Paths in Utopia*, 62; Shaviro, "A Critique of Consumer Cooperation"

This is regarded as a limiting factor in pursuing broader social (societal) change. Buber instead supports the creation of 'Full Co-operatives' ('Vollgenossenschaft') bringing together consumers and producers, more along the lines of the 'village commune' idea.

The idea of this type of village commune can in part be seen in the Kibbutzim. Franz Oppenheimer focused on agricultural co-operatives and communal settlements, helping with the development<sup>278</sup> of Kibbutzim<sup>279</sup>. Oppenheimer in the 'Law of Transformation' ('transformation theory')<sup>280</sup> postulated a theory of degeneration, being that:

the beginning of a cooperative group endeavor will end up in a capitalist calculation enterprise or cease to exist as long as the macro-social conditions are based on capitalist monetization and accounting.<sup>281</sup>

Many Kibbutz still exist.<sup>282</sup> Though like the Webbs, Oppenheimer attributes the addition of paid workers as a source of the risk of degeneration.<sup>283</sup> This theory has been countered by numerous studies, and it has been suggested that the closer the integration of the economic and social aspects of a co-operative, the greater the difference between them and traditional investor-owned firms.<sup>284</sup> See *Chapter 6 – Co-operative governance and structures*, for more details on degeneration theory.

The differences between 'worker' and 'consumer' wings of the movement were not isolated. Similar debates, existed in relation to the role of producers (in the agricultural sense) and the consumer movements too, compounded

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278 Backhaus, "Franz Oppenheimer's (1864-1943) Social Economic"

279 Altman, "History and Theory of Cooperatives"

280 Münkner, "Annotated Co-operative Glossary", 244

281 Ternyik, "Franz Oppenheimer — The Law of Transformation"

282 Russell, Hanneman and Getz, "The Transformation of the Kibbutzim"

283 Rosner, "Theories of Cooperative Degeneration"

284 Levi, "The Ambiguous Position of Cooperatives"

by the roles of the consumer retail and wholesale societies within the UK.<sup>285</sup>

Böök considered the interests of workers and consumers to be conflicted, but supported 'mutual supporting methods':

In this the co-operative organizations cannot let historical hostilities and different material interests prevent their collaborative and co-operative ambitions, nationally and internationally. There are conflicts, undoubtably, producer and consumer co-operative organizations serve opposite material interests. As producers, the members want to get good payment for their investment and work and, as consumers, the members want to buy goods and services as inexpensively as possible. These basic interests can never be combined in complete harmony. We should, however, improve our ambitions to identify common perspectives from a co-operative (value) point of view and the many opportunities to develop mutual supporting methods in spite of those conflicting material needs.<sup>286</sup>

We can also see that the co-operative principles have seen evolution over time, particularly towards the inclusion of workers, with Mondragon cited as an example.<sup>287</sup>

The debates or differences of thought on the role of workers appear to fall into three categories:

- Whether producer or worker co-operatives of themselves can ever be successful.
- For those who believed worker or producer co-operatives could work, the right sequencing – whether worker co-operatives come before or after the creation of consumer co-operatives.
- The participation by workers as members (and sharers of profit) within individual co-operatives – as seen in the earlier 'village co-operative'

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285 Digby, *Producers and Consumers*; Doyle, *Civilising rural Ireland*

286 Böök, *Co-operative Values*, section 7.1

287 Waring, Lange and Chakraborty, "Institutional adaptation"

type models, and in later models that could today be described as 'multi-stakeholder'.

Clearly, worker co-operatives can and do exist successfully. The debate as to sequencing has been somewhat overtaken by the passage of time. The theories underpinning multi-stakeholder co-operatives are explored in more detail.

## **Multi-purpose and Multi-stakeholder co-operatives<sup>288</sup>**

Multi-purpose co-operatives are those combining more than one distinct type of business activity and may have a single homogenous group of members.<sup>289</sup> This could see a co-operative marketing the goods of their farmer members also providing them with financial services. The multi-purpose co-operative has been more closely associated with producer co-operatives, mainly in rural areas<sup>290</sup> and especially in Asia.<sup>291</sup> Some countries specifically

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288 See Chapter 5 – *Co-operative governance and structures* for details on governance.

289 This goes beyond a consumer co-operative supplying multiple types of products or service, and instead looks at more distinct types of business activity, such as agriculture/financial services, housing/production (e.g. Kibbutz).

290 International Labour Organization, *Statistics on Cooperatives*, 18 fn19

291 Madane, "Co-operatives and Community", 16; Kurimoto, "Agricultural cooperatives in Japan"

legislate for multi-purpose co-operatives.<sup>292</sup>

The merits of combining distinct types of business activity have been debated, focusing on the downsides of complexity and the risks associated with one area underperforming (and its impact on different subsets of members), and the upside of the efficiency of avoiding duplicating staff and committees.<sup>293</sup>

The idea is not new and can be seen in the principles codified by Raiffeisen in 1866.<sup>294</sup> It is often argued that co-operatives moved away from a multi-purpose starting position, in England under the Rochdale model, and Germany under the Raiffeisen model, to a more specialised single-purpose (and single stakeholder) model.<sup>295</sup>

Debates on single versus multi-purpose often go hand-in-hand with debates over single versus multi-stakeholder approaches. Multi-stakeholder co-operatives can be defined as co-operatives:

which have more than one type of member with significant involvement in the activity of the cooperative, and in which: more than

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292 Meira, "Portugal": the law distinguishes a 'multi-purpose co-operative', being a co-operative covering more than one type of activity, from a 'multi-sector co-operative', being a co-operative 'carrying out activities that are a feature of various types of co-operative in their sector'. This 'multi-sector co-operative' most closely aligns with the multi-purpose co-operative. These co-operatives are often referred to as 'integral co-operatives', though this term is also used to describe multi-stakeholder co-operatives elsewhere, such as Spain: Garcia, "National Report: Spain", 9: in Spanish, "cooperativa integral".

293 Surridge and Digby, *A Manual of Co-operative Law*, 26-27

294 Henry, "Friedrich Wilhelm Raiffeisen", 150: Raiffeisen gives the following 7 principles (in *Prinzipien für die Führung von Genossenschaften*) Self-help, self-responsibility, self-administration, local bond, multi-purpose co-operative, co-operation among co-operatives, and voluntariness.

295 Henry, "Friedrich Wilhelm Raiffeisen", 150; Novkovic, "Multi-stakeholder cooperatives as a means", 221; Münker, "Multi-stakeholder co-operatives", 49-50

one type of member is represented in the governance structure of the cooperative; and no type of member has a dominant position through a majority of votes in the governing body or an exclusive veto over decisions.<sup>296</sup>

There were early examples of multi-stakeholder co-operatives in 19<sup>th</sup> century Britain.<sup>297</sup>

Despite that, the co-operative movement has largely evolved based on co-operatives with just one type of member within each – i.e. homogenous membership<sup>298</sup> with broadly the same needs.<sup>299</sup> For instance, in a consumer co-operative, only allowing consumers into membership (with governance rights), rather than workers too.

Fauquet considers a homogeneity of membership to be important, noting it:

Appears that one of the conditions for the normal and healthy advance of the co-operative institution is for it to be based on groupings whose composition is homogenous, not absolutely, but relatively to the function or functions assumed by the common undertaking.<sup>300</sup>

Watkins suggests:

... organisations of producers or consumers offer fewer difficulties than organisations of producers and consumers.<sup>301</sup>

Though Watkins did favour bringing these co-operatives together through federations and trade.

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296 International Labour Organization, *Statistics on Cooperatives*, 19

297 Bibby, "Cooperatives with multi-stakeholder membership"

298 Sacchetti and Birchall, "The Comparative Advantages"

299 Henry, "Friedrich Wilhelm Raiffeisen", 152

300 Fauquet, "The Co-operative Sector"

301 Watkins, *Co-operative Principles*, 29

This does however reflect the post-1844 co-operative movement. Earlier quoted examples of ‘co-operative villages’ were intended to be inclusive of all. Ridley-Duff and Bull, referencing work by Yeo,<sup>302</sup> argue the ‘single-stakeholder’ common bond conceptualisation of co-operatives became the more common form after the work of the Webbs<sup>303</sup> theorising industrial democracy in the UK.<sup>304</sup> The concept of a ‘common bond’ among members has received positive consideration, and has been seen as a form of ‘social psychological construct’.<sup>305</sup>

An alternative approach to this single-stakeholder homogeneity is multi-stakeholder co-operatives. Broadly, this involves bringing multiple groups of individuals (e.g. workers and consumers) into formal membership – including the governance and use. The membership of these co-operatives is therefore heterogenous.

Despite some longstanding scepticism within the movement, and arguments that multi-stakeholder co-operatives must be less economically efficient,<sup>306</sup> they exist. The concept of multi-stakeholder co-operatives also not new.<sup>307</sup> They are often referred to as ‘solidarity co-operatives’.<sup>308</sup>

Girard suggests:

Joining workers and users in the same organization allows mutual balance of supply and demand. This structure is also a new way to

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302 Yeo, *Co-operative and Mutual Enterprises in Britain*

303 Webb and Webb, *Industrial Democracy*; Webb and Webb, *The Consumer’s Co-operative Movement*

304 Ridley-Duff and Bull, “Solidarity cooperatives”

305 Cook, Deaking and Hughes, “Mutuality and Corporate Governance”

306 Leviten-Reid and Fairbarin, “Multi-stakeholder Governance”; Sacchetti and Birchall, “The Comparative Advantages”; Hansmann, *The Ownership of Enterprise*

307 Sacchetti and Birchall, “The Comparative Advantages”; Münker, “Multi-stakeholder co-operatives”

308 Vézina and Girard, “Multi-stakeholder Co-operative Model”, 144; particularly in Canada; Lund, *Solidarity as a Business Model*, 3

use volunteer and activist resources, which reinforce the values of altruism and reciprocity ... solidarity cooperatives are an original means of reconstructing the link between the economic and the social spheres.<sup>309</sup>

There are different starting points driving the desire to bring into membership one than one category of person. These could include:

- As a new enterprise, bringing together service-users (e.g. recipients of care services) with workers, and potentially 'supporters' – such as in Canada,<sup>310</sup> as a type of 'social inclusion'.<sup>311</sup>
- Worker co-operatives looking to bring in service-users – such as in the earlier Italian social co-operatives.<sup>312</sup>
- Existing co-operatives looking to bring in 'supporter' members.
- Existing co-operatives looking to bring in worker members (e.g. Eroski, as part of Mondragon).<sup>313</sup>
- Co-operatives wanting to recognise a distinct role for founder members, along with workers, and/or user and supporter members (e.g. the FairShares model).<sup>314</sup>

These are distinct from co-operatives admitting non-user investor members into membership or governance for the purposes of raising additional capital.<sup>315</sup>

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309 Lund, *Solidarity as a Business Model*, 9

310 Vézina and Girard, "Multi-stakeholder Co-operative Model"

311 Lund and Novkovic, "Multi-stakeholder cooperatives", 542

312 Zamagni, "A World of Variations", 75

313 Lund and Novkovic, "Multi-stakeholder cooperatives", 542

314 Ridley-Duff, *The case for FairShares*

315 Co-operatives with non-user investor members who have only a minor role in governance are unlikely to fall within the definition of 'multi-stakeholder co-operative' used in International Labour Organization, *Statistics on Cooperatives*. Levi, "Beyond Traditional Models": there's a theoretical distinction between 'hybrid' and 'community' multi-stakeholder co-operatives

The earlier referenced social co-operatives have tended to structure as multi-stakeholder (solidarity) co-operatives<sup>316</sup>, with workers and service users as part of the governance, with numerous examples seen in other countries, such as Canada and Japan.<sup>317</sup> Multi-stakeholder co-operatives are said to be the governance form within ‘new co-operativism’ co-operatives.<sup>318</sup>

MacPherson notes how ‘new cooperatives were much more sympathetic to the idea of involving employees in the administration of the cooperative’, with multi-stakeholder co-operatives being the model to achieve this in some countries.<sup>319</sup> Around 25% of the co-operatives in the Mondragon group are structured as multi-stakeholder co-operatives.<sup>320</sup> It has been argued that the Yugoslavian system of worker self-management created a legacy for multi-stakeholder co-operatives.<sup>321</sup>

Münker also highlights how in financial co-operatives (including credit unions):

there are also two groups of members with opposing interests: the savers/depositors, who expect high return on their savings and the borrowers, who are interested to pay the lowest possible interest on their loans. The same applies to building societies.<sup>322</sup>

He notes that these interests often harmonise over time as members switch between saving and borrowing (though this won’t necessarily always be the case). Within some co-operatives – like larger consumer co-operatives, some people have multiple roles: e.g. employee and consumer,

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316 Vézina and Girard, “Multi-stakeholder Co-operative Model”, 113: optional

317 Conaty, *Social Co-operatives*

318 Dolley, “The Hansalim Life Movement”

319 MacPherson, “What Is the End Purpose of It All?”, 122

320 Imaz, Freundlich and Kanpandegi, “The Governance of Multistakeholder Cooperatives”, 302

321 Lund and Novkovic, “Multi-stakeholder cooperatives”, 532

322 Münker, “Multi-stakeholder co-operatives”

resulting in 'double representation'.<sup>323</sup>

As with all co-operatives, the extent to which economic and social objects are pursued, and how clearly defined they are, will vary. An added dimension for multi-stakeholder co-operatives is said to be the need for an effective mechanism for 'internal harmonisation' of member need.<sup>324</sup>

It is however argued that there is already a commonality of interest:

Such cooperatives represent a diversity of interests, but a commonality of need or aspiration on the part of the stakeholders, capturing a range of types of interests and impacts that an organization has, while recognizing the interdependency between them.<sup>325</sup>

It has been argued that the theoretical concerns have not materialised in practice; and that earlier economic models failed to account for social costs,<sup>326</sup> which are better met in multi-stakeholder co-operatives.<sup>327</sup> Spear suggests 'multi-stakeholder co-operatives have the potential to develop a greater unity of interest, and thereby benefit from a synergy between more involved and committed stakeholders'.<sup>328</sup> Positive societal benefits from multi-stakeholder co-operatives have been theorised.<sup>329</sup>

Arguments have also been made against single-member (homogenous) ownership.<sup>330</sup> These include arguments around (de)prioritisation of non-member stakeholders, such as workers in a consumer co-operative. This also sits in the broader context of thought in corporate governance for

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323 Münker, "Multi-stakeholder co-operatives"

324 Münker, "Multi-stakeholder co-operatives"

325 Lund, *Solidarity as a Business Model*

326 Borzaga and Sacchetti, *Why Social Enterprises*

327 Lund and Novkovic, "Multi-stakeholder cooperatives"; Borzaga and Depedri, "Co-operatives Providing Welfare Services"

328 Spear, "Globalization and Co-operative Strategies", 42

329 Pestoff, *Multi-stakeholding*

330 Ridley-Duff, *The case for FairShares*, 21; Turnbull, "Stakeholder Cooperation"; Sacchetti and Birchall, "The Comparative Advantages"

businesses more generally in terms of including and considering views of wider groups of stakeholders.

Much may however depend on who the categories of members are. It is argued that the admission of 'supporter' members as an additional category of member creates challenges in impacting the three 'core features' of co-operatives as being: 'user-owned, user-controlled and user-benefitting'.<sup>331</sup>

## Conclusion

There are clearly differing views within the co-operative movement as to what it exists for, and how it should operate. Given it is a movement of more than 2 billion people across the globe, in existence for several centuries, this is unsurprising. This is especially so given much of the growth of the co-operative movement came in what has been described as an 'Age of Ideology',<sup>332</sup> with vastly diverging political ideologies as to how the world is to be run. The co-operative movement is said to have 'ideological flexibility'.<sup>333</sup> This must be the case given the range of views and approaches it can accommodate, and the divergent local and national contexts in which it operates. At its core, it is people-centred, and based on a set of values. While the exact wording of the values may differ depending on who you ask, they tend to do so in way that is complimentary rather than contradictory.

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331 Michaed and Audebrand, "Inside out, outside in"

332 Schwarzmantel, *The Age of Ideology*, broadly, the 19<sup>th</sup> century

333 Furlough and Strikwerda, *Consumers against Capitalism*, 3: though this quote was specifically in relation to the consumer co-operative movement, it can be applied more generally.



## CO-OPERATIVE POLITICS AND RELIGION

Building on the previous chapter on ideology, this chapter explores co-operation and politics, looking first at the attitude of co-operators to politics, and its interaction with the political system. In exploring the attitude of co-operators to politics, we also explore the connection with religion. Political and religious neutrality are often spoke of in the same breath, having appeared under a principle of 'religious and political neutrality'.

We look briefly at the international movement and its political positioning, before looking in more detail at the unique position of co-operative politics in the UK, including the role of the Co-operative Party.

### Neutrality

The Rochdale Pioneers, and co-operatives before them, are said to have operated on the principle of 'political and religious neutrality'.<sup>1</sup> Though it has been argued that it was not in fact ever expressed in these terms, and instead referred to not intending to 'meddle with the various religious or political differences which now exist in society'.<sup>2</sup>

The express wording of 'neutrality' in politics was inserted in the 1937 version of the ICA Statement and removed again in 1966.<sup>3</sup> The dropping of this principle reflected several factors, including i) that in many countries, the state was no longer hostile to co-operatives; and ii) economic power can lead to political power.<sup>4</sup>

1 Birchall, *Co-op: the people's business*, 63; Lonergan, "Neutrality in politics and religion"

2 Fairbairn, *The Meaning of Rochdale*, 27

3 Fairbairn, *The Meaning of Rochdale*

4 Münkner, *Co-operative Principles*, 175

Principle 1 of the current ICA Statement includes ‘voluntary and open membership’ without discrimination based on political grounds.<sup>5</sup> This principle has featured in every iteration of the Principles.<sup>6</sup>

Some have interpreted this principle as meaning co-operatives are not, or should not, be involved in politics.<sup>7</sup> Others recognise that there is something political inherent in the structure of co-operatives.<sup>8</sup> Some go further and suggest ‘the ideology of political neutrality’ is a ‘major cause of co-ops’ failure to implement cooperation’.<sup>9</sup>

The aims of the Rochdale Pioneers were undoubtedly, at least in part, political. As were the actions of those who went before them, advocating the ‘radical’ idea of democracy, and ‘inclusiveness over class warfare’.<sup>10</sup> Associationism, a precursor of the co-operative movement, is said to have combined the political with the economic<sup>11</sup> evident in the fact aspects of it were quickly outlawed in France and England.<sup>12</sup>

It is helpful to draw a distinction between i) the interference of politics on the operation of the co-operative; and ii) the engagement by a co-operative in external political affairs. For example: deciding who can join a consumer co-operative for the purchasing of goods based on their political views, is contrary to the principle of ‘open membership’. Whereas members in a co-operative deciding it should engage in some kind of political activity – such as advocating or campaigning in relation to a particular law, is different.

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5 International Co-operative Alliance, “Co-operative identity”

6 International Co-operative Alliance, *Guidance Notes to the Principles*, 12; Hiez, “Voluntary membership”

7 Rhodes, *The International Co-operative Alliance*, 52, attributes this line of thought to Scandinavian co-operators

8 Baviskar, “Co-operatives and Politics”

9 Ratner, *Cooperation*, 166, and at 181 provides a polemic analysis of co-operation and politics, favouring “communal, collective, Marxist-socialist cooperation”

10 MacPherson, *Co-operatives and the Pursuit of Peace*, 39

11 Laville, *The Solidarity Economy*, 43

12 See for instance the Combination Acts (see Chapter 7 – Co-operative law)

Given it is common for businesses more generally to engage in political lobbying, it would be odd if a co-operative business were forced to refrain from doing so.

To quote the ICA: 'political neutrality is not the same as political indifference'.<sup>13</sup> This view represents a consistent thread in co-operative thought. George Jacob Holyoake, throughout the mid-late 19<sup>th</sup> century, saw political and religious neutrality 'as a commitment rather than an abstention'<sup>14</sup> – desiring unity, and with a practical view that seeking to convert every member to a particular political or religious viewpoint would delay the advance of co-operation.

## International co-operation and politics

It is important to emphasise the international nature of the co-operative movement, reflected through the long existence of the ICA.<sup>15</sup> Rhodes articulates its significance:

... it is one of the oldest international non-governmental organizations. A second is that it survived the two World Wars and the Cold War when similar international working class movements espousing peace and the brotherhood of man split under the pressures of total war and divisions of doctrine. A third reason is that throughout its long history the ICA has consistently campaigned for world peace.<sup>16</sup>

The ICA has in its rules a commitment to international peace, the origins of which are said to be a resolution from the ICA Congress in 1913.<sup>17</sup> Barberini is quoted: 'Competition is married to conflict, co-operation is married

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13 International Co-operative Alliance, *Guidance Notes*, 12

14 Yeo, *A Useable Past. Volume 1*, 172

15 Founded in 1895

16 Rhodes, *The International Co-operative Alliance*, 53

17 Macdonald, "Co-operative Communities"

to peace'.<sup>18</sup>

While the ICA sought political neutrality, the word 'neutral' was again problematic:

Neutrality was often held to mean that the I.C.A. should express no opinions on political questions, an extreme position which seemed to be quite out of touch with reality.<sup>19</sup>

A pursuit of peace brings with it interaction in politics. The ICA had an ideology that favoured peace and engagement in organisations post-World War One, such as the League of Nations.<sup>20</sup> The ICA's ideology was 'active', with examples such as the adoption of the rainbow flag as its symbol in 1922, and the organisation of an 'International Day of Co-operatives' as physical emanations of it.<sup>21</sup>

The ICA's ideology, politics, and neutrality faced many tests during the 20<sup>th</sup> century:

Despite all its attempts to be politically neutral, the Alliance was consistently anti-Fascist or anti-Nazi. Its views on Communism were more ambiguous, but hardened as Communism became more Stalinist.<sup>22</sup>

In 1937, the ICA opposed Japanese militarisms in China, and considered a boycott of Japanese goods, but decided this would 'go further than their political neutrality would allow'.<sup>23</sup>

It is suggested there was a split between 'social democratic' countries in membership of the ICA favouring political intervention, and the Nordic

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18 Macdonald, "Co-operative Communities", 30. Barberini was an ICA President between 2001 and 2009

19 Watkins, *The International Co-operative Movement*, 56

20 Rhodes, *The International Co-operative Alliance*, 51

21 Rhodes, *The International Co-operative Alliance*, 67

22 Rhodes, *The International Co-operative Alliance*, 379

23 Birchall, *The International Co-operative Movement*, 51

countries and Switzerland favouring neutrality, with Britain pragmatically moving between the two camps depending on the issue.<sup>24</sup>

It is argued that the movement, 'as a propagator of a new economic system' could not adopt neutral positions altogether.<sup>25</sup> Instead:

The important consideration was that they did not take sides in party political conflicts but expressed opinions, based on Co-operative principles and experience to which the great mass of Co-operators could subscribe.<sup>26</sup>

Some have suggested co-operative values should 'inevitably ... contribute toward building peace' and that the 'connection between co-operative thought and the struggle to achieve peace is undeniable'.<sup>27</sup>

## Co-operation and religion

Much that has just been said about political neutrality applies to religion.<sup>28</sup> It is however worth pausing to consider the interaction between co-operation and religion.<sup>29</sup>

One of the fathers and great propagandists of co-operation in the 19<sup>th</sup> century was George Jacob Holyoake. Holyoake was a known secularist, a term he is said to have invented, and spent time in prison for blasphemy.<sup>30</sup> Similarly, a key catalyst for the co-operative movement, Robert Owen, was associated with secularism, or 'rational religion'.

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24 Hilson, "A Consumers' International?", 208

25 Rhodes, *The International Co-operative Alliance*, 56

26 Rhodes, *The International Co-operative Alliance*, 56

27 MacPherson, Paz and Emmanuel, *Concern for Community*", 27

28 'Religion' may be a contested term, which is not explored here – others have done so in some detail in this context, especially: Yeo, *A Useable Past, Volume 1*

29 There is a risk of (un)conscious bias on the part of any author. For transparency, this author is atheist

30 Yeo, *A Useable Past, Volume 1*, 26

Many of those involved in the founding of the Rochdale Pioneers were however religious – including Unitarian lay preachers.<sup>31</sup> It is argued that the Rochdale Pioneers adopted an 8<sup>th</sup> principle, of ‘religious and political neutrality’, in part to avoid association with the religious views of Owen and Holyoake.<sup>32</sup> This move was one favoured by both by Owen<sup>33</sup> himself, and Holyoake.<sup>34</sup>

Despite this, we see active involvement from those who profess a strong religious faith, throughout the history of co-operative development.<sup>35</sup>

The Christian Socialists in England were pivotal in bringing about legislative reform in the shape of the Industrial and Provident Societies Acts during the 1850s onwards (see *Chapter 7 – Co-operative law*). Around a similar time in Germany, Friedrich Wilhelm Raiffeisen, a founding father of the credit union movement in Germany in the 1860s, was in part motivated by his Christian beliefs.<sup>36</sup> Meanwhile in post-revolution 1860s France, religion and politics were mixed in with co-operatives. Consumer co-operatives were seen as a political strategy, with politics seen (by men) as the preserve of men, and women feared (by men) to be allies of Catholicism. This saw some men oppose women taking up positions of power within co-operatives.<sup>37</sup>

Perhaps the strongest continued link stems from the Catholic Church. In 1891, Pope Leo XIII issued *Rerum Novarum* (Rights and Duties of Capital and Labor), as the first doctrine relating to economic and social teaching, acting as a catalyst for interest in co-operative development among Catholic

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31 Lonergan, “Neutrality”

32 Cole, *A Century of Co-operation*, 72

33 Lonergan, “Neutrality”

34 Yeo, *A Useable Past*, Volume 1, 172

35 Defourny and Develtere, “The Social Economy”, 7-8

36 Lambert, *Studies in the Social Philosophy*, 99-100; Moody and Fite, *The Credit Union Movement*, 11: with an insistence on ‘brotherly love and Christian principles’

37 Furlough, *Consumer Co-operation in France*, 57

clergy, including in Ireland<sup>38</sup> and Italy.<sup>39</sup>

We see further examples drawing on the Catholic social doctrine having an impact in Italy, Spain, Switzerland, Canada, and Jesuits in South America.<sup>40</sup> Some specific examples include:

- In the Netherlands, in late 19<sup>th</sup> – early 20<sup>th</sup> century, the Catholic Church is cited as one of the factors (socially) in providing the catalyst for the creation of co-operative banks based on the Raiffeisen model.<sup>41</sup>
- Similarly, in Nova Scotia in Canada, the Antigonish movement, with a focus on adult education,<sup>42</sup> drawing on ideas of 'distributism',<sup>43</sup> took forward co-operatives in the Rochdale model in the early 20<sup>th</sup> century.<sup>44</sup>
- The role played by José María Arizmendiarrieta in the creation of the Mondragon network of co-operatives in the Basque region of Spain from the 1950s,<sup>45</sup> a 'determined proponent of Catholic Social Doctrine'.<sup>46</sup>

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38 Doyle, "The clergy, economic democracy"

39 Bianchi, "The Social Composition"

40 Neunsinger and Patmore, "Conclusion: Consumer Co-operatives", 743; Pezzini, "The Good Company"

41 Colvin, Henderson, Turner, "The origins of the (cooperative) species"

42 Matthews, *Jobs of Our Own*, 160-161: The movement codified a set of 6 principles: i) the primacy of the individual; ii) social reform must come through education; iii) education must begin with economic; iv) education must be through group action; v) effective social reform involve fundamental changes in social and economic institutions; and vi) the ultimate objective of the movement is a full and abundant life for everyone in the community.

43 Economic theory linked to the Catholic Social Doctrine that assets should be widely owned instead of being concentrated among a few.

44 Matthews, *Jobs of Our Own*

45 Matthews, *Jobs of Our Own*, ch9

46 Novkovic, Miner, McMahon, *Humanistic Governance*, 289; see too (in French) more generally on Catholic Social Doctrine and co-operatives: Pezzini, "Bien commun"

- The Antigonish movement was the model used in the Caribbean after 1945, sponsored by the Catholic Church.<sup>47</sup>
- The role of the Catholic Church in Ireland, supporting the development of the credit union movement in the 1950s and 60s, and its lack of support as a contributory factor to the failure of earlier attempts.<sup>48</sup>
- In the Republic of Korea, credit unions developed in the 1960s with direct inspiration from the Antigonish movement, through the Catholic Relief Service.<sup>49</sup>
- Zimbabwe, in 1962, again saw inspiration from the Antigonish movement and the involvement of a local priest, for the development of the first credit unions there.<sup>50</sup>
- Ecclesiastical communities in South America in the 1970s creating a range of co-operatives and other organisations.<sup>51</sup>

It has been argued that within Europe in particular, there was a strong link between the worker movements, and the Catholic church,<sup>52</sup> in a way not seen in North America, save for the Nova Scotia example above, and the role of the church in co-operative development among African Americans in the USA.<sup>53</sup> Though other examples, such as the communities and co-operative working by the Protestant Hutterites can also be found.<sup>54</sup>

Within Great Britain, Christianity is at least partly credited as the inspiration for post-World War Two development of worker co-operatives, in the form of the Quaker, Ernest Bader, and the conversion of his company

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47 Birchall, *The International Co-operative Movement*, 211

48 O'Connor, McCarthy and Ward, *Innovation and Change*; Guinnane, "A Failed Institutional Transplant", 55; Bolger, *The Irish co-operative movement*, 93-96

49 Jung and Rösner, "Cooperative Movements", 93-94

50 Birchall, *The International Co-operative Movement*, 54

51 Defourny and Develtere, "The Social Economy", 7

52 Hoyt and Menzani, "The International Cooperative Movement", 7 and 35

53 Du Bois, *Economic Co-operation*, 24-25

54 Defourny and Develtere, "The Social Economy", 7

into worker ownership and (indirect) control as the Scott-Bader Commonwealth.<sup>55</sup> Most significantly, the company helped finance two organisations that went on to help support significant numbers of co-operatives: the Industrial Common Ownership Movement (ICOM) and the later Industrial Common Ownership Finance (ICOF).<sup>56</sup>

A clear articulation of co-operatives and religion comes from Kagawa. Considered a father of the Japanese co-operative movement (and influential elsewhere, including the USA),<sup>57</sup> he wrote *Brotherhood Economics*.<sup>58</sup> Kagawa saw 'Christian consciousness' as being 'intimately connected with this new co-operative system'.<sup>59</sup> Coady, the leading priest from the Antigonish movement in Canada, sees the role of religion as being one in which helps individual members act in the right way, and in turn sees co-operation helping religion - as the 'expression of religion in the economic order'.<sup>60</sup> He explains:

We cannot speak of Catholic cooperation or Protestant cooperation, of Buddhist, Mohammedan, Shinto, or Hebrew economics any more than we can speak of Quaker chemistry or Mormon mathematics. Truth is non-denominational and at the disposal of all. Cooperation in itself is a good thing. It is a body of natural truths acquired by the light of reason. Applied from any motive whatever, even by people without any religion, it would produce good results in the present economic and social setup which is intrinsically bad,

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55 Mellor, Hannah, and Stirling, *Worker Cooperatives in Theory and Practice*, 38-39

56 Mellor, Hannah, and Stirling, *Worker Cooperatives in Theory and Practice*, 39

57 Dawber, "The Coöperative Movement and the Church"

58 Kagawa, *Brotherhood Economics*; separately, the opening chapter of the following text also featured an articulation of co-operatives and religion: Hughes and Neale, *Foundations*

59 Kagawa, *Brotherhood Economics*, 113

60 Coady, *Masters of Their Own Destiny*, 143

which lacks the justice, charity, and faith that cooperators regard as essential.<sup>61</sup>

Co-operation is also not the only example that saw activism by Protestant Church and Catholic Church, as they were active in the labour and trade union movements too. Similarly, the charity sector has long had connections with Christianity, Buddhism, Hinduism, Islam, Judaism, to name a few examples.<sup>62</sup>

The interaction between religion and co-operatives is not confined to Christianity. There are examples of co-operatives that seek to offer products or services in a manner consistent with religious principles. This can perhaps be seen most clearly in the case of Islam, and the need for Shariah compliant finance (such as avoiding interest):

- Takaful is a form of Shariah compliant insurance – with co-operative structures being favoured over commercial structures, the first example being seen in the Kingdom of Saudi Arabia in 1986.<sup>63</sup>
- In Indonesia, since 1984, a form of credit co-operative has developed (officially known as Koperasi Simpan Pinjam Pembiayaan Syariah) but more commonly referred to as Baitul Maal Wat Tamwil.<sup>64</sup>
- From the 1990s, Islamic Co-operative Societies became established in Nigeria, with growth in the 2000s.<sup>65</sup>
- Mosque Co-operatives – being co-operatives centred within a mosque, have been established in Malaysia and Indonesia.<sup>66</sup>

These examples are illustrative rather than exhaustive. To varying degrees,

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61 Coady, *Masters of Their Own Destiny*, 141

62 Wilson, Toms, et al., "The Routledge Companion", 126

63 Alshammari, Altwijry and Abdul-Wahab, "Takaful"

64 Banerjee, Abida and Shinomura, *Case studies*; Suseno, *Baitul Maal Wat Tamwil*

65 Ajani and Ibrahim, "An examination of the sources"; Elfaki and Embi, "Islamic Cooperatives"

66 Muhardi, Nurdin and Ihwanuddin, "Social Entrepreneurship"

other examples exist. The Kibbutz were explored earlier in *Chapter 10 – Co-operative ideology*, some of which have particularly strong links to Judaism.<sup>67</sup>

There is little to suggest the co-operative movement itself was ever religious in its views or objects, and has certainly not aligned itself with any particular religion.

That those active in different religions have chosen to support the development of co-operatives is therefore of note. At least part of the explanation is that the co-operative movement is based on values, as are most religions, with many of those values shared.<sup>68</sup>

Birchall notes the pre-requisite of trust for the establishment of co-operatives.<sup>69</sup> Studies have explored the relationship between religion and co-operation. Trust and 'positive reciprocity' are two factors that make someone 'prosocial', and therefore more likely to co-operate with others. Evidence indicates those who are religious have a greater propensity to co-operate.<sup>70</sup> Importantly, the same study concludes that strong secular institutions (including the state) with the right values can produce the same prosocial propensity to co-operate.<sup>71</sup> Similarly, other research points to someone's initial motivation to join a co-operative as being a more individualistic, rather than ideological or belief driven.<sup>72</sup> This perhaps explains why co-operative formation has occurred both with and without activity from organised religion.

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67 Battilani and Schröter, *The Cooperative Business Movement*, 7, question whether the Kibbutz can be classed as co-operatives because of the extent of a religious connection, but this may conflate the minority of religious Kibbutz with the much larger majority of secular Kibbutz

68 MacPherson, "What Is the End Purpose of It All?", 111-112

69 Birchall, *The International Co-operative Movement*, 150

70 Caicedo, Dohmen and Pondorfer, "Religion and cooperation"

71 Hume, *A Treatise of Human Nature*

72 Sala-Ríos, Farré-Perdiguer and Torres-Solé, "Co-operatives' Significance". This did not expressly consider religion, but instead looked at sense of community, quality of democracy, trust in government, and economic performance

This section opened referencing Holyoake's secularism. Yeo, in noting Holyoake's description of secularism as 'a religion which gives heaven no trouble', takes a broader view of the term 'religion', and asks whether there is a 'religion of co-operation'.<sup>73</sup> Yeo notes he has seen 'many co-operators ... living out their attachment to their Societies and their Movement as if to a religion'.<sup>74</sup> While this is clearly a contested definition of religion, the sentiment may no doubt resonate with many active co-operators. This leads us to consider the co-operative member, and their views.

## Co-operators and their politics

Co-operatives, as associations of people, are undoubtedly influenced by their members, activists, and those working within them. With co-operatives operating across the globe, and throughout at least the last two centuries, it can be assumed that individuals with varying political views and beliefs have been active within them.<sup>75</sup>

Early co-operative development in the UK saw activity from Owenites, Chartist, Christian Socialists, and others concerned with social reform.

Many (though by no means all) of the key influencers of the co-operative movement internationally have been socialist,<sup>76</sup> or otherwise on the political left.<sup>77</sup>

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73 Yeo, *A Useable Past*, Vol 1, 77 and 157

74 Yeo, *A Useable Past*, Vol 1, 185

75 Hoenig, Pliskin and De Dreu, "Political ideology"; Sala-Ríos, Farré-Perdiguera and Torres-Solé, "Co-operatives' Significance", explore the impact of ideology on propensity to cooperate (behaviourally)

76 Political labels such as communist, socialist, liberal, conservative etc. can be loaded terms, and mean different things to different people, recognising there are branches within each. The same can be said for terms like 'left' and 'right'. This is especially true when looking across different countries. Where used here, this generalised and imperfect use of these labels should be recognised. For the evolution of the descriptor 'socialist' in this context, see: Yeo, "Towards Co-operative Politics"

77 Rhodes, *The International Co-operative Alliance*

Others point to a dilemma for co-operatives in seeking 'to combine collective aspirations with individualism within a democratic framework',<sup>78</sup> arguing:

the true essence of cooperatism lies at the crossroads of liberalism and socialism whose development also happens to owe much to British thinkers.<sup>79</sup>

And that the co-operative ideal is one which is:

a humanist-liberal ideal which has from time to time appealed to different branches of the socialist movement as long as it was not usurped by neoliberalism.<sup>80</sup>

This view is neither isolated nor new. Writing in 1922, Labour and Co-operative Member of Parliament, Alfred Barnes, suggested 'prior to 1906<sup>81</sup> co-operative political thought was undoubtedly mainly of Liberal colour'.<sup>82</sup> Gurney has articulated the attempts at 'middle-class' appropriation on definitions of co-operation from a largely liberal perspective.<sup>83</sup> Similarly, Mulqueen suggests the use of legal structures in the 19<sup>th</sup> century had a de-politicising effect.<sup>84</sup> Laville suggests newer associational forms risk being 'drained of their political dimension' too.<sup>85</sup> All of which goes to suggest an at least partial political dimension.

The interaction with politics wasn't confined to the UK. For example, in Belgium, the Vooruit<sup>86</sup> socialist consumer co-operatives are said to have

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78 Deblangy, "Individual, Free Association and Common Ownership", 167

79 Deblangy, "Individual, Free Association and Common Ownership", 166

80 Deblangy, "Individual, Free Association and Common Ownership", 186

81 The year in which the Labour Party was founded.

82 Barnes, *The Political Aspect*, 11

83 Gurney, *Co-operative Culture*, ch6

84 Mulqueen, "Constituting the Co-operative"

85 Laville, *The Solidarity Economy*,

86 Goethem, "The Belgian Co-operative Model"

been a 'decisive influence on the foundation of the Belgian Workers' Party' in 1885,<sup>87</sup> and was often at odds with the social Catholic movement in Belgium, who organised against them.<sup>88</sup>

It is perhaps most evident in name in the formation of the *Co-operative Republic of Guyana*, as the name chosen for that country four years after its independence from the UK. The term 'Co-operative Republic' was part of the socialist ideology of the party in power:

... the Government's socialist philosophy will be given form through the co-operative movement and will be expressed in terms of Guyana's specific needs.<sup>89</sup>

Conversely, 19<sup>th</sup> century examples exist of co-operatives specifically tied to conservative politics.<sup>90</sup> It has been suggested that it was 'quite common' for co-operatives to be formed 'exclusively for the benefit of members of either political party', noting 'even Rochdale had a competitor in the form of the Rochdale Conservative Co-operative Society'.<sup>91</sup> These examples were however more limited and chose not to affiliate to the co-operative infrastructure bodies.<sup>92</sup>

Examples have been seen more recently too, in the formation in the UK of the 'The Conservative Co-operative Movement'<sup>93</sup> in 2008:

The Conservative Co-operative Movement was set up by Jesse Norman [MP] in response to a call by [then Prime Minister] David

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87 Hilson, "Co-operative History", 19

88 Furlough and Strikwerda, *Consumers against capitalism*, 75-76

89 Lutchman, "The Co-operative Republic", quoting: "Report on The Philosophy of a Co-operative Socialist Society United the People in a Common Effort" from their Minister of Information

90 Lonergan, "Neutrality"

91 Butler, "The Origins and Development", 153

92 Lonergan, "Neutrality"

93 Norman, "Co-ops are not leftwing"

Cameron for a new centre-right organisation to promote co-ops and the co-operative ethos.<sup>94</sup>

More typically though, the debates within the co-operative movement in different countries have however tended to be between whether to associate with centre-left politics (e.g. socialist, social democrat, etc.) or to remain politically neutral.<sup>95</sup>

In talking about 'co-operatives' we need to remember that there are different types of co-operatives. Consumer, worker, producer, and multi-stakeholder co-operatives are commonly used classifications. There are, at a very broad level, some commonalities in political leanings by type of co-operative.<sup>96</sup>

Within the UK, there were tensions between consumer and worker wings of the co-operative movement. Consumer co-operatives, as large employers, did not always achieve the desired treatment of workers that those on the labour/worker movement wanted.<sup>97</sup>

Finland provides an example of political difference between two consumer co-operative groups. The E-Group, made up of more industrial workers, had a strong bond with the worker's parties and trade unions. Its rival, S-Group, with a more rural membership, had tended to stay politically neutral.<sup>98</sup> Examples could be found in 1960s-70s Italy too, with different central bodies splitting between communists (Lega), social democrats

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94 The Conservative Co-operative Movement, "About us", but since appears to have become inactive

95 Hilson, "Co-operative History", 22-23

96 As an over-simplification not considering norms within countries, but to help give a broad sense: worker co-operatives are often associated more on the left, producer (particularly agriculture) co-operatives on the centre-right, and consumer co-operatives somewhere between the two, particularly centre-left

97 Hilson, "Co-operative History", 22

98 Birchall, *The International Co-operative Movement*, 89; Komulainen and Skurnik, "The darker Finnish consumer co-operative"

(Associazione Generale delle Cooperative Italiane), and Christian Democrats (between Unione Nazionale Cooperativa Italiana, and Confcooperative).<sup>99</sup>

Worker co-operatives have often tended to be associated with politics confronting capitalism.<sup>100</sup> Within the UK, factor occupations in the 1970s resulted in some cases in a pragmatic formation of worker co-operatives.<sup>101</sup> There also exists a strand of co-operativism linked to anarchism, with Kropotkin's 'Mutual Aid' being particularly influential.<sup>102</sup>

Agricultural co-operatives (producer co-operatives) in Spain in the first half of the 20<sup>th</sup> century had been used by opposing ideologies – between the Catholic Church, on one side, and the anarchists and socialists on the other.<sup>103</sup>

In Australia, agricultural co-operatives have often had their interests represented by the centre-right National Party, rather than the Labor Party, which has had a mixed history with the consumer co-operatives.<sup>104</sup>

These examples see co-operatives engage in politics. We do also see examples of politics engaging in, or within, co-operatives. Factionalism within consumer co-operative movements based broadly on political lines<sup>105</sup> was not uncommon as political activists sought elected positions within co-operatives.<sup>106</sup>

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99 Birchall, *The International Co-operative Movement*, 93; Ammirato, *The Growth*, 189-191

100 Ranis, *Cooperatives Confront Capitalism*

101 Tuckman, "Workers' Control", 290

102 Kropotkin, *Mutual Aid*

103 Gonzalez, *Farmers' Cooperatives*

104 Balnave and Patmore, "The Labour Movement and Co-operatives"

105 Usually between different wings of the Labour Movement, but not exclusively. Similarly, in the USA, within different wings/factions of the Democratic Party: Patmore *Innovative Consumer Co-operatives*, 142

106 Huckfield, *How Blair Killed the Co-ops*; Ostergaard, "Parties in Co-operative Government"; Rhodes, *An Arsenal for Labour*; Patmore *Innovative Consumer Co-operatives*

Spear suggests the potential existence of a ‘political hybrid’ form of co-operative too, with examples in Finland (E-Movement Co-operatives), and India.<sup>107</sup> Examples exist of links to political movements, with different co-operative federations linked to parties with different ideologies within Italy too.

The co-operative movement has also provided a mechanism through which its individual members have engaged in political activity. The Co-operative Women’s Guild was a strong campaigning organisation, self-described as a ‘trade union for married women’.<sup>108</sup> It was, for a long time, led by the pioneering Margaret Llewelyn Davies.<sup>109</sup> Their involvement included the Suffragist movement,<sup>110</sup> for universal female suffrage; minimum wages; maternity benefits; and pacifist campaigns including the creation of the White Poppy.<sup>111</sup>

There are other examples of political activism by co-operative members, coordinated through their co-operatives too. Both the Co-operative Women’s Guild, and aspects of the wider co-operative movement including the London Co-operative Society’s political committee were actively involved in the anti-apartheid movement in relation to South Africa in the 1950-60s.<sup>112</sup>

## Creation of a political party in the UK

The UK is unique in having a longstanding political party for the co-operative movement, in the form of the Co-operative Party. The Co-operative

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107 Spear, “Co-operative Hybrids”

108 Scott, “A ‘Trade Union for Married Women’”

109 Cohen, Margaret Llewelyn Davies

110 Co-operative Heritage Trust, ‘The Story of the Co-operative Women’s Guild’

111 Black, “The mothers’ international”; Scott, “The Women’s Co-operative Guild”

112 Windel, *Cooperative Rule*, 161-166

Party has existed since 1917<sup>113</sup>, and stands candidates jointly with the Labour Party.<sup>114</sup> Their candidates appear on the ballot paper as 'Labour and Co-operative Party'.<sup>115</sup> This tends to be known as the 'sister party' relationship. The relationship is voluntary and remains in place while both parties support it.

The Co-operative Party is funded by the subscriptions from the voluntary subscriptions of co-operatives (mainly consumer co-operatives), and individual members.

The Co-operative Party stands candidates at all levels of government. In the UK Parliament, their record number of Members of Parliament came in the 2024 general election, where 43 were elected.<sup>116</sup> The number of Labour and Co-operative Councillors has increased significantly between 2018 and 2023.<sup>117</sup>

The Co-operative Party membership is made up of individuals, and co-operatives. Individuals can but don't have to be a member of the Labour Party as well as the Co-operative Party, but cannot be a member of the Co-operative Party and any other political party.<sup>118</sup>

The party is structured locally with branches (often on local authority

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113 Rosen, *Serving the People*, provides a short and accessible history,

114 Rosen, *Serving the People*; since the Cheltenham Agreement of 1927, before which candidates stood solely as 'Co-operative Party' candidates, including in opposition to Labour Party candidates

115 Electoral Commission, "Search"

116 Harvey, "Record Number of Co-op MPs"; surpassing the previous record of 38, at the 2017 general election: Harvey, "Co-op Party bolsters"

117 Voinea, "Local election results": in 2018, a 'record 396' were elected, of which 271 were in London. Drawing on this author's own knowledge, as Chair of the London Co-operative Party Council at that time, the number of Labour and Co-operative Councillors immediately before that election was three. Hadfield, "Co-op Party celebrates": in the 2023 local elections, the Co-operative Party 'added 680 councillors to its ranks, bringing the national total to nearly 1,600'

118 Co-operative Party, "Co-operative Party Rule Book"

boundaries) and ‘party councils’ or regional parties across broader geographical areas.

It has a ‘National Executive Committee’, the composition of which has changed over time, but has broadly had representatives from individual members, Members of Parliament, and co-operative organisations. For example, Co-operatives UK, and the Co-operative Group, have designated seats.<sup>119</sup> It is led by an appointed General Secretary.<sup>120</sup>

The Co-operative Party was originally legally part of the Co-operative Union,<sup>121</sup> and then Co-operatives UK, before becoming its own legal entity in 2005.<sup>122</sup>

The unique position of the UK co-operative movement and political engagement is best explained by looking at the foundation of the Co-operative Party and the wider context at the time.

In the aftermath of World War One, the question of political engagement for the co-operative movement was being explored in Britain and beyond.<sup>123</sup>

There are differing views<sup>124</sup> on the extent to which the creation of a Co-operative Party was a reflection or response to treatment during World War

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- 119 Financial Conduct Authority, “Mutuals Public Register” for its registered rules
- 120 As with the Labour Party, this person is appointed by the National Executive. This is distinct from the role of General Secretary in a trade union, which is elected by members of that union.
- 121 Carbery, *Consumers in Politics*, 27: as the ‘Central Parliamentary Representation Committee’, then the ‘National Co-operative Representation Committee’, and then in 1919: Co-operative Party’.
- 122 Financial Conduct Authority, “Mutuals Public Register”: registered under the then Industrial and Provident Societies Act 1965, as the Co-operative Party Limited (registration number 30027R)
- 123 Hilson, “Co-operation and Consumer Politics”, provides a comparison with Sweden; MacPherson, *Co-operatives and the Pursuit of Peace*, 49, details the Progressive Party in Canada, Farmer’s Party in Australia, and the wider progressive movement in the USA
- 124 Robertson, *The Co-operative Movement*, 217

One and immediately thereafter,<sup>125</sup> or part of a wider trend in co-operatives considering political action around that time.<sup>126</sup> Others have noted how in Britain, this may have aligned with the political affiliation of many of those shopping in consumer co-operatives in urban areas.<sup>127</sup>

It should be noted that the formation of a political party was not a sudden or spontaneous act. The Co-operative Union had a ‘political committee’ in one form or another since the 1880s, and this topic had been debated several times.<sup>128</sup>

A distinction has been drawn between party political allegiance, and independent political representation, suggesting there was support at the time for the latter but not the former.<sup>129</sup>

While many in the co-operative movement chose to support the creation and existence of the Co-operative Party, this was by no means a unanimous position. Though some societies remained unaffiliated, others instead affiliated directly to the Labour Party. The most notable case is perhaps the Royal Arsenal Co-operative Society (RACS) in South London, who affiliated directly to the Labour Party.<sup>130</sup>

The formation sits in the context of the Labour Party being in its formative years – founded in 1900 and first forming a government in 1924. Carbery cites 1921 as the turning point at which the Labour Party definitively became stronger than the Co-operative Party.<sup>131</sup>

As well as seeking to represent the views of the co-operative movement on

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125 Rosen, *Serving the People*; Robertson, *The Co-operative Movement*; Cole, *A Century of Co-operation*; Barnes, *The Political Aspect*; Rhodes, *An Arsenal for Labour*. A snub by then Prime Minister Lloyd-George, in refusing to meet a delegation of co-operators, is often quoted as a factor

126 Pollard, “The Co-operative Party – Reflections”; Allen, “A question of neutrality?”

127 Rhodes, *An Arsenal for Labour*, 2

128 Rhodes, *An Arsenal for Labour*, 20-22

129 Maguire, “Co-operation and Crisis”, 197

130 Rhodes, *An Arsenal for Labour*

131 Carbery, *Consumers in Politics*, 28

matters relating to their business (e.g. taxation, legislation etc.), the Co-operative Party emerged as a party for consumers.<sup>132</sup> This consumer focus was not explicit when it was founded, but is said to have started to materialise most strongly in the late 1930s and early 1940s,<sup>133</sup> culminating in this statement from its then Chair, Alfred Barnes MP:

The Co-operative Party is the first consumers' party to make its appearance on the floor of the House of Commons. Before the party was formed, political interests in Britain were linked mainly to production.<sup>134</sup>

The Co-operative Party has been considered one of the branches of the labour movement: political (Labour Party), trade union, and co-operative,<sup>135</sup> or as three points of a triangle.<sup>136</sup> With the co-operative movement, given the predominance of consumer co-operation in the UK, representing the consumer.<sup>137</sup> Though these relationships have often been complicated, with varying degrees of success.<sup>138</sup>

## Influence of the Co-operative Party

Like any political party, the effectiveness of the Co-operative Party has fluctuated over time. In operating under an agreement with the Labour Party, and in standing joint-candidates, the effectiveness of the Co-operative Party is largely dependent on its influence through or within the Labour Party.

There are however additional aspects to consider. The Co-operative Party

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132 Carbery, *Consumers in Politics*; Rhodes, *The International Co-operative Alliance*, 60; Robertson, *The Co-operative Movement*, 237

133 Carbery, *Consumers in Politics*, 189

134 Barnes, *Consumer Politics in Peace & War*, 3

135 Barou, "Conclusions", 136

136 Robertson, *The Co-operative Movement*, 224

137 Gurney, "The Battle of the Consumer"

138 Robertson, *The Co-operative Movement*; Vorberg-Rugh and Whitecross, "The Co-operative Party"

has, certainly in the last two decades, increasingly engaged in direct campaigning and political advocacy, whether through moving Private Member's Bills in Parliament, or through public campaigns.

The first line of thought suggests that the effectiveness of the Co-operative Party is dependent on its influence within the Labour Party, with the aim of this being translated into tangible success at times when Labour is in Government.

The influence of the Co-operative Party on/in the Labour Party has been analysed periodically. Carbery describes the period 1917-1930 as the 'formative years', and 1930-1945 as the 'wasted years'.<sup>139</sup> Manton analyses the period from 1918-1958.<sup>140</sup> The period of 1931-1951 has been subject to in-depth analysis by Whitecross.<sup>141</sup> The 1940s-1950s saw the co-operative consumer movement in the UK, and the Co-operative Party, battling to secure the abolition of the Resale Price Maintenance (RPM).<sup>142</sup> The co-operative movement was said to have an 'unhappy' relationship with the Labour Party during this time.<sup>143</sup>

There are a range of factors impacting the Co-operative Party's success in influencing the Labour Party, some of which reflect internal factors within the co-operative movement (such as trading performance, and organisation). Ideological differences with the Labour Party tended to centre on

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139 Carbery, *Consumers in Politics*

140 Manton, "The Labour Party and the Co-op"

141 Whitecross, "Co-operative Commonwealth"

142 Mercer, *Constructing a Competitive Order*, chs7-8. Broadly, agreements with producers/manufacturers to maintain a certain minimum price on goods sold through the retailer. Co-operatives faced boycotts from manufacturers as dividend payments were felt to be undercutting the prices – despite the fact the dividend was based on total economic performance of the co-operative

143 Mercer, *Constructing a Competitive Order*, 154-155. It was in 1946 that the Labour Government including the undistributed surplus of a co-operative in a profit tax

social vs state ownership,<sup>144</sup> especially within the context of co-operation being voluntary.

The 1960s and 1970s have been considered from different perspectives. One perspective is that of the consumer, and the role of the Co-operative Party and wider movement in championing them.<sup>145</sup> The other perspective, particularly in relation to the 1970s, is the focus on the development of the co-operative movement itself – including housing, worker, and agricultural co-operatives.<sup>146</sup>

Stewart provides more context on the Co-operative Party and the creation of the Social Democratic Party (SDP), covering the period off 1974-1981. Four Co-operative Party MPs (and two MPs sponsored by the Royal Arsenal Co-operative Society) defected to the SDP. This ‘threatened the stability of the alliance’ between the Co-operative Party and Labour Party.<sup>147</sup>

Huckfield provides a detailed assessment, including a first-hand account, covering the 1970s through to New Labour in the 1990s, especially in relation to the development of worker co-operatives, and a perceived marginalisation of co-operatives in favour of social enterprises under Labour Leader, Tony Blair.<sup>148</sup> The mid-1970s was, for a decade, a time where worker, rather than consumer, co-operation in the UK was seen as the main political driving force of the movement.<sup>149</sup>

Following the election of a Labour Government in 1997, the Co-operative Party published a series of pamphlets under the banner of ‘New Mutualism’. Kellner explained that New Mutualism was intended to rescue the co-operative movement ‘from the strangling embrace of ideological socialism’,<sup>150</sup> seen as a ‘radical Third Way of looking at social and economic policy

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144 Vorberg-Rugh and Whitecross, “The Co-operative Party”

145 Gurney, “A House Divided”

146 Secchi, “Affluence and Decline”

147 Stewart, “A party within a party”

148 Huckfield, *How Blair Killed the Co-ops*

149 Deblangy, “Individual, Free Association”, 166

150 Kellner, *New Mutualism: The Third Way*

issues'.<sup>151</sup> The rise of 'New Mutualism', and its meaning for the co-operative movement have been assessed.<sup>152</sup>

Activity during 2000 to 2010 has been assessed in the context of co-operative schools, and private members' bills,<sup>153</sup> and more broadly from New Labour generally. Kippin develops a strand of analysis looking at 'policy entrepreneurship', with the Co-operative Party as a policy generator – exploring the examples of the creation of Supporters Direct, and Co-operative Trust Schools. This is less about the influence of the Co-operative Party in changing the politics of the Labour Party, but instead the generation and positive exploitation of 'windows of opportunity' to achieve policy goals for the movement.

This leads to brief consideration of the second strand of the influence of the Co-operative Party: its direct advocacy and campaigning. The Co-operative Party's individual membership has grown from around 7,000 members at the start of 2010,<sup>154</sup> to around 13,000 in 2023.<sup>155</sup> From the late 2000s, there has been an increase in public facing campaigns – including 'The Feeling's Mutual' – around remutualisation of demutualised building societies, in 2009, 'The People's Rail' campaign from 2011, looking at mutualisation of the railways, to more recent campaigns calling for an end to violence against shop workers.<sup>156</sup>

This sits alongside an increased focus in local government. The Co-operative Party supported the creation of the Co-operative Council Innovation Network in 2012,<sup>157</sup> as a non-party political body enabling participation by

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151 Rodgers, *New Mutualism: The Third Estate*,

152 Huckfield, *How Blair Killed the Co-ops*; Yeo, "The new mutualism"; Kippin, "UK policy on football supporters' trusts"; Kippin, "The Co-operative Party and New Labour"

153 Kippin, "The Co-operative Party and New Labour"

154 Bowman, "1,100 new members join"

155 Hadfield, "Co-op Party grows membership"

156 Information available through party.coop and thenews.coop

157 Co-operative Councils' Innovation Network, "About Us"

local government staff. The Co-operative Party also supported 'community wealth building' (CWB), such as the Preston Model,<sup>158</sup> and produces manifestos at a local level.<sup>159</sup>

At its most reductionist, the Co-operative Party is a transparent form of business lobbying, with the affiliation of candidates to the co-operative movement stated on the ballot paper. At the other end of the spectrum, its work is political advocacy and campaigning on wider ranging societal issues, reflecting the values and beliefs of those active in their co-operatives.

## Co-operatives and trade unions

Co-operatives and trade unions share similar roots and values – being democratic organisations addressing the needs of their members.<sup>160</sup> Trade unionists formed a large part of the membership of 19<sup>th</sup> century consumer co-operatives.<sup>161</sup> Throughout the history of the co-operative movement, there are examples of co-operatives working in support of trade unions,<sup>162</sup>

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158 Manley and Whyman, *The Preston Model*; the model is an approach to local economic development based on the concept of community wealth building (CWB) and the use of local 'anchor institutions'

159 West et al., *Building Common Ground*, is an example of one produced by the London Party Council

160 Balnave and Patmore, "The Labour Movement and Co-operatives"

161 Mellor, Hannah and Stirling, *Worker Cooperatives in Theory and Practice*, 17

162 Deblangy, "Individual, Free Association", 170: see for example 19<sup>th</sup> century consumer co-operatives often requiring employees to be members of a trade union; Balnave and Patmore, "The Labour Movement and Co-operatives", 11: share examples of provision of support and assistance in the UK during the 1926 General Strike

and vice versa.<sup>163</sup> Examples of tensions or conflict also exist.<sup>164</sup>

Consumer co-operatives employ large numbers of people to work within the co-operative. In many cases, they have a single class of member – the consumer. Workers may be consumers (i.e. they shop from their co-operative). This can entitle them to membership in that capacity. Other co-operatives make all staff members, but don't afford them distinctive rights as a class of member. Some co-operatives allow staff to stand for election alongside non-staff consumer members. This right can often be curtailed to avoid staff taking over the board of a consumer co-operative.

Worker co-operatives, in being co-operatives whose membership is made up of those they employ, are not exempt from a discussion on co-operatives and trade unions. First, not all those who work in a worker co-operative become its members. Second, the fact the entity is owned by its workers does not mean there isn't a useful role for trade unions in labour/industrial matters. Worker co-operatives may be large, employing hundreds of people with elected boards.

It is suggested that where worker co-operatives consider implementing sub-optimal conditions (salary, terms of employment etc.) for their workers, they are at risk of having compromised their own autonomy and independence by instead acceding to the demands of the market or other businesses.<sup>165</sup>

Within the UK, most tension was perhaps seen in the space of 'public service mutuals', where services previously carried out by the State are

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163 Burge, "Individual Problems Have Collective Solutions": The Wales Trade Union Congress (TUC) established the Wales Co-operative Centre in 1982; Conaty, Bird and Ross, *Not Alone*; Conaty, Bird and Ross, *Working Together*; provide other examples. For an earlier example, see the Amalgamated Society of Engineers funding of producer (worker) co-operatives, Mellor, Hannah and Stirling, *Worker Cooperatives*, 17

164 Balnave and Patmore, "The Labour Movement and Co-operatives", there are inevitably numerous examples of individual disputes between individual co-operatives and trade unions

165 Jiménez, "The autonomy or heteronomy", 79

proposed to be spun out into co-operative or mutual enterprises. Reactions to these by unions have included seeing them as a 'cynical exercise in public expenditure cuts'.<sup>166</sup>

There is however plenty of scope for joint working.<sup>167</sup> This has been seen more recently in the case of precarious or self-employed workers.<sup>168</sup> The 'union co-operative' model is an example of this.<sup>169</sup>

In a union co-operative, a trade union has a formal place in the governance of the co-operative to represent its members, and the members of the co-operative have a *separate* place to manage the business of the co-operative (e.g. a general meeting).<sup>170</sup>

The model builds on the ICA Principles, and adds in 3 extra principles, drawing on influences from the Mondragon co-operatives in Spain:<sup>171</sup>

- Subsidiary of capital to labour.
- Solidarity and fairness in remuneration.
- Commitment to union co-op development (which sees at least 10% of pre-tax profits, in cash or in kind, used to finance and develop other union co-operatives).

Though examples here have focused on the UK, the co-operative/trade union dynamic can be seen elsewhere. In Japan there are longstanding examples of trade unions and co-operatives working together since the 1950s through the creation of labour banks (Rokin) and workers' insurance

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166 UNISON, *Mutual Benefit?*

167 Davis, "Co-operative Development"; Harrison, "Building Community Wealth"; and in relation to trade unions and credit unions: Mangan and French, "Small is Beautiful?"

168 Eum, "Work and employment in the informal economy"

169 Bird, Conaty, et al., *Union-Coops UK: A Manifesto for Decent Work*

170 Bird, Conaty, et al., *Union-Coops UK: A Manifesto for Decent Work*, 4; see too *Chapter 6 – Co-operative governance and structures*, and Desroche's quadrilateral

171 Bird, Conaty, et al., *Union-Coops UK: A Manifesto for Decent Work*, 4-5

companies (Rosai).<sup>172</sup> Trade unions in Italy have helped support worker-buyouts of private firms.<sup>173</sup> In the USA, the Steel Workers Union worked to develop the union co-operative model.<sup>174</sup>

We see a distinction in trade union approaches between i) trade unions working with the co-operative movement to support co-operatives instead of private-sector businesses, which get some support; and ii) co-operatives taking on services previously covered by the public sector, which are generally opposed.<sup>175</sup>

## Conclusion

The decision to set up a co-operative enterprise, operating both economically and democratically to meet economic and social need, could be considered political. Political in the sense that it may be a values-based choice, given there is an alternative that sees businesses operate an investor-ownership model with profit distribution linked to shareholding.

In their operation, co-operatives would generally look to not discriminate among the members based on the political (or religious) views held by those members. Though this is generally contextualised in the sense that co-operatives expect their members to share their values – which include ethical values such as social responsibility and caring for others.

Co-operatives operate within an economic and political system, both nationally and internationally. They rightly engage in this, as do other businesses. Legislators may pass laws unfavourable to them, or co-operatives may seek changes to support their growth.

In the UK there is often cross-party support for co-operatives and mutuals, in part evidenced through the existence of All-Party Parliamentary Groups on Mutuals, and Credit Unions, and cross-party support on

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172 Kurimoto, "Cooperatives and trade unions" 151

173 Vieta, "Saving jobs and businesses", 171

174 Bird, Conaty, et al., *Union-Coops UK: A Manifesto for Decent Work*

175 Conaty, Bird and Ross, *Organising Precarious Workers*

particular legislation.<sup>176</sup>

We see in most countries that co-operatives do however largely refrain from party-politics – in that their movement is not expressly wedded to one party or another. The UK is somewhat of an outlier, reflecting its period of formation and the wider political landscape, in having its own political party for the co-operative movement, which has formalised relationships with another party.

This could be seen as bringing the UK movement into party politics. But also puts it one step removed from it. Co-operatives have their own political party. They therefore do not need to debate or decide who to lobby or side with on specific issues in the same way movements in other countries may do so. Instead, it has its own party to do that for it. This is of course an oversimplification, but it goes to highlight that there are nuances.

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176 See most recently the debates on the Co-operatives, Mutuals and Friendly Societies Bill in 2023.



## CO-OPERATIVE EDUCATION

Education<sup>1</sup> features throughout the history of the co-operative movement, and in the present-day Principles, codified in the International Co-operative Alliance (ICA) Statement:

### 5. 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.<sup>2</sup>

Guidelines on the importance of promotion of education have existed in each iteration of the ICA principles.<sup>3</sup> Education has been described as the 'central plank of co-operative identity'.<sup>4</sup>

This short chapter explores why co-operatives place a focus on education; how the co-operative movement has, and does, provide education; and then looks more broadly at education *about* co-operatives.

### Co-operatives and education – why?

There is a very practical aspect to member education in a co-operative. It is important for their good governance.

Members have a role in monitoring and holding to account the board of the co-operative, through their participation in democratic decision

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1 Used here in a broad sense, whether formal or informal, aimed at any age

2 International Co-operative Alliance, "Co-operative identity"

3 International Co-operative Alliance, *Examining our Cooperative Identity*, 44

4 Hilson, *Co-operative History*, 48

making. Similarly, elected members need to have the knowledge and skills to perform their role. Some will come with it, others will need more. Equipping co-operative members with the knowledge they need to carry out the responsibilities of membership can help contribute to effective democratic control.<sup>5</sup>

This reason alone does not however fully explain the prevalence of the promotion of education in the co-operative movement.

The emphasis on education can be seen from Robert Owen and the Rochdale Pioneers. The Rochdale Pioneers, and others that followed, sought to contribute 2.5% of surplus funds to co-operative education. They also provided a 'newsroom' to hear and discuss the latest news that week, and libraries or reading rooms for their members. This happened at a time before state provision of libraries, and when information was less generally accessible.<sup>6</sup>

Those involved in the mid-to-late 19<sup>th</sup> century co-operative movement in the UK, such as the Christian Socialists were actively involved in the promotion of adult education more generally, including through the creation of the Mechanics' Institutes.<sup>7</sup> This theme continued, with the significant involvement of the co-operative movement in the creation of the Workers' Education Association in 1903.<sup>8</sup>

This reflected the wider social or societal goals of the co-operative movement, in the creation of the co-operative commonwealth.<sup>9</sup> This can be seen in articulations of the role of education by co-operatives:

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5 International Co-operative Alliance, *Examining our Cooperative Identity*, 30. Some have also evidenced a positive relationship between co-operative education and the performance of the co-operative: Kinyuira, "Assessing the impact"

6 Cole, *A Century of Co-operation*, 227; Attfield, *With Light of Knowledge*, ch1; Woodin, "Recovering histories"

7 Cole, *A Century of Co-operation*, 229

8 Todd, "Finding Ourselves Again?"; Woodin, "Useable pasts for a co-operative university"

9 Kumbhat, "Learning Together?"

The stability of the great Co-operative Movement depends more on the enlightened intelligence of its members than (we venture to say) on high dividends.<sup>10</sup>

Member education is not a one-way flow of information. Communication should flow from members to managers and elected representatives. This was emphasised in the working leading up to the current ICA Statement.<sup>11</sup>

The educational focus is intended to go beyond the members of a co-operative. The 5<sup>th</sup> principle (quoted above) also refers to informing the public. The rationale for this is clearly put by MacPherson:

People will not appreciate, they will not support what they do not understand.<sup>12</sup>

It is evident that education is important, and a consistent feature in co-operative thought and practice.

## Co-operative education – what?

The scope of co-operative education is said to have had two purposes: to develop 'co-operative character'; and secondly to educate the members of the co-operative to participate in 'industrial and social reforms and civic life generally'.<sup>13</sup> Others suggest the two purposes are 1) to develop 'co-operators', and 2) to provide them with knowledge.<sup>14</sup>

The concept of 'co-operative character' is said to be in line with the writing of Holyoake, who wrote of the 'spirit of association'.<sup>15</sup> These concepts tend to go toward the informal education of members, and the effect of the

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10 Attfield, *With Light of Knowledge*, 5, quoting from a half-yearly report of the Royal Arsenal Co-operative Society in 1878

11 MacPherson, "Background Paper to the ICA Statement"

12 MacPherson, "Background Paper to the ICA Statement"

13 Hall and Watkins, *Co-operation*, 168; Woodin, "Recovering histories", 24

14 Shaw, "International perspectives"

15 Woodin, "Recovering histories", 24-26

co-operative on the member. Members need to be able to work with each other for some kind of shared purpose.

Shaw<sup>16</sup> sets out four principles for co-operative education and training (CET), analysed and further articulated by Ross,<sup>17</sup> which can be summarised as:

- Underpinned by co-operative values and principles – focusing on how the values can be practically applied to governance, behaviour, and culture within a co-operative.
- Focused on the co-operative movement and its distinct identity, in a way to support successful co-operative growth through actively engaging members.
- Reflective of the dual purposes of co-operatives as both economic enterprises and associations of persons meeting social needs.
- Delivered through solidaristic non-competitive pedagogies that value active learning, and an interdisciplinary approach.

Within this, the need to avoid using co-operatives as a shorthand for the solidarity or social economy more broadly has been emphasised, instead focusing on the distinctive co-operative identity.<sup>18</sup>

Linked to the last CET principle above, MacPherson talks too of the 'associative intelligence' gained through people working together, based on a 'a conviction that people through working together could learn skills that would make collective behaviour more economically rewarding, socially beneficial and personally satisfying.'<sup>19</sup> This is echoed in the work of Wilkins, on co-operative learning in the context of the co-operative movement, with an emphasis on experiential learning.<sup>20</sup>

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16 Ross, "The nature, purpose and place", described by Ross as drawn from unpublished writing from Shaw

17 Ross, "The nature, purpose and place"

18 Noble, "Co-operation for Asset-Based Community Development"

19 MacPherson, "Encouraging Associative Intelligence"

20 Wilkins, "Co-operative Learning"

There is wider work in the field of education exploring 'Cooperative Learning' as a pedagogy, which is outside the scope of this book.<sup>21</sup> Instead, we move to focus on how co-operatives provide education and training.

## Co-operative provision of education – how?

The co-operative movement has a long history of sharing knowledge and information. Dr William King's '*The Co-operator*' is an early example of that, circulating technical details and information about the formation and running of co-operatives between 1828 and 1830.<sup>22</sup>

The methods through which co-operatives provide, and facilitate, the education of their members and others have differed over time. It is suggested there are four typologies of co-operative education providers: i) universities; ii) government; iii) co-operative movement (e.g. individual co-operatives); and iv) co-operative colleges.<sup>23</sup>

Individual co-operatives played their own role. Some established 'Education Committees', tasked with coordinating the education activities of their co-operative for their members. The work of the Royal Arsenal Co-operative Society (RACS) was particularly prolific,<sup>24</sup> and is well documented.<sup>25</sup>

Within the UK, looking over the 19<sup>th</sup> and early 20<sup>th</sup> century, you can see a change in focus in the education delivered by co-operatives. Co-operatives stepped in to provide education in a vacuum left by the absence of State provision for many. As the State started to broaden its education offering, and provision of libraries, co-operative educational focus shifted.<sup>26</sup>

Within the wider movement, organisations such as the Co-operative

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21 Noble, "Co-operation for Asset-Based Community Development"

22 Mercer, *Dr William King and The Co-operator*

23 Shaw, "International perspectives", 63

24 Carr-Saunders, Sargent Florence and Peers, *Consumers' Co-operation*, 215: in 1935, RACS was the highest spender on education, with education spending equalling 2% of their trading surplus

25 Attfield, *With Light of Knowledge*

26 Woodin, "Recovering histories", 24-26

Women's Guild provided an important educational space for their members.<sup>27</sup>

The role of the co-operative movement in the formation of the Workers' Education Association has already been referenced. It is an important avenue through which adult education was effectively delivered.

Government provision of education is more limited. The most longstanding example is perhaps the United States Department of Agriculture (US-DA),<sup>28</sup> who since 1926 have been required to disseminate knowledge about co-operatives.<sup>29</sup>

One of the most significant steps in the UK in the delivery of co-operative education came in 1919 with the creation of the Co-operative College.

## Co-operative College(s)

The Co-operative College was founded in the UK in 1919 and sat as part of the Co-operative Union. Today it is structured as an independent educational charity.<sup>30</sup> Though based in the UK, its impact is international – both in terms of its direct delivery,<sup>31</sup> and the impetus it gave for the creation of other co-operative colleges around the world.<sup>32</sup>

It was founded to provide a 'centre for higher education ... and the cultivation of the co-operative spirit'.<sup>33</sup>

Co-operative colleges developed in two waves, with the first between the first and second World Wars.<sup>34</sup> This saw the creation of colleges in Finland, Switzerland, Germany, and elsewhere. Outside of the UK, these largely did

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27 Bradbury, "Woman's Outlook 1919–39"

28 They've produced a wide body of information: <https://www.rd.usda.gov/programs-services/all-programs/cooperative-services>

29 Shaw, "International perspectives", 65

30 Charitable Incorporated Organisation: 1159105

31 Moulton, "Co-opting the cooperative movement"

32 Shaw, "The Co-operative College and co-operative education"

33 Shaw, "International perspectives", 61

34 Shaw, "The Co-operative College and co-operative education"

not survive. The second wave came in the 1960s, with colleges established throughout Asia and Africa in particular.<sup>35</sup>

The work of the UK Co-operative College has varied over time. It provided residential training to students, often on technical aspects relating to the administration of co-operatives – including law, management, economics, and accounting.<sup>36</sup> For a time these were delivered at Stanford Hall, bought by the College in 1944 to celebrate the centenary of the Rochdale Pioneers, and opened in 1945.<sup>37</sup>

Its courses were attended by students from across the world, and it produced many influential co-operators,<sup>38</sup> who reflect fondly on their education there.<sup>39</sup>

Tutors at the Co-operative College produced important study texts, many of which are still quoted today. Catherine Webb,<sup>40</sup> Fred Hall and W.P. Watkins,<sup>41</sup> and then Alfred Bonner,<sup>42</sup> wrote influential texts all running to numerous editions.

The success of the college model has varied, both over time and within countries. In terms of volume of students, colleges in Africa have provided education to the largest number of students in recent times.<sup>43</sup>

Within the UK, the College went from providing residential education in Stanford Hall, to relocating its premises to Manchester, having faced

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35 Shaw, "The Co-operative College and co-operative education", 40, provides a list

36 Shaw, "The Co-operative College and co-operative education"

37 Rhodes, *Co-operative Adventures*, 28

38 Shaw, "The Co-operative College and co-operative education"

39 Rhodes, *Co-operative Adventures*

40 Webb, *Industrial Co-operation*, it ran from 1904 until its replacement by the work of Hall and Watkins (see below). The book 'Industrial Co-operation' was informed by earlier work including: Hughes and Neale, *Foundations*; and Jones, *Co-operative Production*

41 Hall and Watkins, *Co-operation*

42 Bonner, *British Co-operation*

43 Shaw, "International perspectives"

challenges in sustaining course numbers and the building.<sup>44</sup>

The Co-operative College now is focusing on co-operative learning, thought leadership, international co-operative development, and youth empowerment.<sup>45</sup>

## Co-operative Trust Schools (UK)

In the UK during the mid 2000s significant work was undertaken by the Co-operative College under its Principal, Mervyn Wilson, with support from the Co-operative Group, to establish 'co-operative trust schools'.<sup>46</sup> These are schools providing state education at primary or secondary school age. This model received support from Government, under a Labour and Co-operative Secretary of State.<sup>47</sup>

The model sought to run schools based on co-operative values and principles, to the extent possible in the legal environment within which schools had to operate. Between 2008 and 2016, over 850 schools became 'co-operative trust schools'.<sup>48</sup> Reddish Vale Co-operative Trust became the first.<sup>49</sup>

Some of the work focused on legal structures and governance but was also broader in looking at the curriculum and pedagogy. The successes and challenges of implementing the co-operative values and principles into the running of schools have been documented.<sup>50</sup>

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44 Shaw, "International perspectives", 68

45 Co-operative College, "New Three Year Strategy"

46 Woodin, *Co-operation, Learning*; Thorpe, "Co-operative Schools"; Davies, "Growing Social Innovation"

47 Department for Children, Schools and Families, *Co-operative schools*

48 Woodin and Gristy, "Democracy and schooling"

49 Department for Children, Schools and Families, *Co-operative schools*, 11; Simpson, "Co-operation Provides Opportunities" gives a student's account

50 Woodin and Gristy, "Democracy and schooling"; Noble, "Co-operation for Asset-Based Community Development"; Noble and Ross, "From principles to participation"

One area of challenge is that of ‘member economic participation’, given that children are attending schools funded by the State and do not directly financially contribute. Noble and Ross suggest a need for nuance in the understanding of this principle, drawing on Bourdieu’s theorisation of different types of capital, to consider the intellectual (cultural) capital contributed by members.<sup>51</sup>

While many co-operative schools remain, the overall number of schools declined, in part reflective of changes in education policy and a push toward an ‘academy’ model. This saw the development of a co-operative academy model, with several academies sponsored by a co-operative society.<sup>52</sup>

Bespoke governing documents for co-operative academies, distinct from other academies, are provided by the Government,<sup>53</sup> and include reference to the ICA Statement. Their operation in practice has been analysed.<sup>54</sup>

The concept of co-operative schools is not unique to the UK, though the model reflects the legal framework of education here. In Spain, teacher-owned co-operative schools have existed since the 1930s along with a smaller number of multi-stakeholder co-operative schools.<sup>55</sup> Other examples can be found in Portugal, France, and Malaysia.<sup>56</sup>

## Laboratory Co-operatives (Philippines)

An interesting example has emerged from the Philippines, where young people are introduced to co-operation through the practical running of their own co-operative, under supervision of another co-operative. Since 2009, with further detail in 2015, there has been legal recognition of ‘Laboratory

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51 Noble and Ross, “From principles to participation”

52 Co-op Academies Trust, “Our Trust”

53 Department for Education, “Model articles of association”

54 Hetherington and Forrester, “Values-led governance”

55 Mayo, *The Co-operative Advantage*, 168

56 Mayo, *The Co-operative Advantage*, 169; Terrasi, *Global Study on Youth Cooperative*, provides a broader look at youth entrepreneurship and co-operatives

Cooperatives'.<sup>57</sup> These are co-operatives of young people.<sup>58</sup>

The laboratory co-operatives can be formed for any number of the following legally defined purposes:

- To serve as a training ground for its members to prepare them for membership in regular cooperatives.
- To teach the values of thrift and saving mobilisation among its members.
- To instil cooperative values, principles, financial discipline, business skills and leadership skills among its members.
- To promote and advocate Filipino social and cultural values, financial education, ecological awareness and sustainable development.<sup>59</sup>

They are affiliated to a 'Guardian Cooperative', which is an existing co-operative that has applied and been recognised by the state authority as such. The guardian co-operatives have a supervisory role over the laboratory co-operatives and are liable for their actions.<sup>60</sup>

## Co-operative Universities

The focus here is on universities structured as co-operatives. This is distinct from the 'university co-operatives' seen in Japan which provide services to students (other than education).<sup>61</sup>

The Mondragon Co-operative group in Spain established a co-operative university in 1997.<sup>62</sup>

Within the UK, the co-operative movement has talked spasmodically

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57 Moxom, et al., *Young People and Cooperatives*, 74 and 78

58 Cooperative Development Authority (Philippines) 2015, s4(i) '...formed and managed primarily by minors' Minors are those aged between 7 and 18 (Section 16).

59 Cooperative Development Authority (Philippines) 2015, s7

60 Cooperative Development Authority (Philippines) 2015, s14

61 Shoji, "University cooperatives"

62 Mondragon Corporation, "Mondragon University"

about an intention to establish a co-operative university for over a century.<sup>63</sup>

The purpose of universities is being questioned in the context of increasing marketisation. A co-operative university – with co-operative ownership<sup>64</sup> and control, is seen as a way to address this and ‘reclaim university for the public good’.<sup>65</sup>

During the late 2010s there was particular focus toward the goal of establishing a co-operative university.<sup>66</sup> However this work looks less likely to continue given funding challenges.<sup>67</sup>

## Co-operative study

As well as the education provided by the co-operative movement, it is important to consider the study of co-operatives more broadly. The subject ‘co-operatives’ is not a distinct academic discipline. There is generally a need for an interdisciplinary approach that involves ‘collaboration between the observers and the observed’ given co-operation is rooted in practice.<sup>68</sup>

Within academic disciplines, it is frequently evidenced that there is a lack of visibility when it comes to co-operatives. This invisibility of co-operatives in academic study has been evidence in economics,<sup>69</sup> law,<sup>70</sup> history,<sup>71</sup> business studies,<sup>72</sup> to give a few examples. The then president of the ICA, Ivano

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63 Winn, “The co-operative university now!”

64 Boden, Ciancanelli and Wright, “Trust Universities?”. Others have looked at the ownership of universities – including through a trust model

65 Noble and Ross, *Reclaiming the University*

66 Neary and Winn, “Making a Co-operative University”; Noble and Ross, *Reclaiming the University*

67 Press, “A chequered past”

68 MacPherson, “Mainstreaming some lacunae”, 191-192

69 Kamli, “The disappearance of cooperatives”; Hill, “The Case of the Missing Organizations”; Black and Robertson, *Consumerism*

70 Apps and Bennison, “The silent treatment”

71 Gurney, *Co-operative Culture*

72 Matthews, “Teaching about Co-operatives”

Barbarini attributed the invisibility to globalisation.<sup>73</sup>

This criticism is not confined to academia. Within the UK at least, this invisibility has been identified in the mainstream media too.<sup>74</sup>

However, there have been, and still are, avenues to pursue co-operative study.

The University of Marburg in Germany formed the Institute for Co-operation in Developing Countries (ICDC) in 1960, delivering courses on co-operative economics.<sup>75</sup> The University of Helsinki in Finland has included co-operative studies to a varying extent in the last few decades.<sup>76</sup> The International Centre for Co-operative Management at Saint Mary's University in Canada has been running degree courses for over 20 years, alongside the Centre of Excellence in Accounting and Reporting for Co-operatives (CEARC).<sup>77</sup> In Belgium, KE Leuven have an active 'Centre of Expertise for Cooperative Entrepreneurship'.<sup>78</sup> In Ireland, Cork University Business School hosts the Centre for Co-operative Studies since 1980, with a range of master's programmes.<sup>79</sup> Within the UK, the Co-operative Research Unit at the Open University is perhaps the longstanding university level focus.<sup>80</sup>

Researchers would benefit from the suggestions made in the following publications:

- Co-operative and Mutual Enterprises Research, by Mazzarol<sup>81</sup>
- Handbook of Resource on Co-operatives and Mutuals, by Elliot and Boland<sup>82</sup>

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73 International Co-operative Alliance, *Guidance Notes*

74 Mangan, "Hidden in plain sight"

75 Münker, *Making Co-operative Promoters*

76 Köppä, "Co-operative Studies in Finland"

77 Saint Mary's University, "CEARC"

78 KE Leuven, "Centre of Expertise for Cooperative Entrepreneurship"

79 University College Cork, "Centre for Co-operative Studies"

80 The Open University, "Co-operatives Research Unit"

81 Mazzarol, *Co-operative and Mutual Enterprises*

82 Elliott and Boland, *Handbook of Research*

## Other co-operative studies and journals

Societies for co-operative studies exist in several countries, including:

- UK Society for Co-operative Studies
- Society for Co-operative Studies in Ireland
- Canadian Association for Studies in Co-operation
- Korean Society for Co-operative Studies

Within the UK, researchers are brought together through the Co-operative Research Network (CoRNet).

There are journals focusing on co-operatives more generally.<sup>83</sup> Journals published in English include:

- Journal of Co-operative Studies
- Annals of Public and Cooperative Economics
- Journal of Co-operative Organization and Management
- Journal of Entrepreneurial and Organizational Diversity

The ICA also produce the 'Review of International Co-operation'.

Some journals exist focusing more specifically on particular areas as they relate to co-operatives:

- International Journal of Co-operative Law
- International Journal of Co-operative Accounting and Management
- Journal of Co-operatives (focusing on agricultural co-operatives)

There are a broader range of journals in languages other than English.

## Importance of heritage

With a long history, the co-operative movement has archival material to learn from. The ICA articulated the role of heritage in education:

An important theme running through co-operative education programmes is the effective use of co-operative heritage to inform

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83 Mazzarol, *Co-operative and Mutual Enterprises*, 34, provides a fuller list

and inspire today's and tomorrow's co-operators. The stories of how co-operators faced serious challenges and overcame them are one of the greatest educational resources available. It places a responsibility on all co-operatives: a responsibility to cherish and safeguard their heritage and to use it effectively in their learning programmes.<sup>84</sup>

The 'idea and practice of organising shared interests in co-operatives' is on UNESCO's list of 'Intangible Cultural Heritage'.<sup>85</sup> Within the UK, the Co-operative Heritage Trust manage the National Co-operative Archive, and the Rochdale Pioneers Museum at Toad Lane.<sup>86</sup> The National Co-operative Archive was awarded 'Designated Outstanding Collection' by Arts Council England, which reflects it is of 'national and international importance'.<sup>87</sup>

## Conclusion

The importance of education has been seen as an enduring principle of co-operation, and feeds into the realisation of values and principles. It has a practical dimension, in equipping members and elected representatives to perform the roles asked of them. It also has a broader social dimension.

Historically within the UK, Co-operatives have stepped in to plug gaps in education left by the State. This is a reminder that education by (or from) co-operatives sits within a broader context.

We see the co-operative movement in the UK directly involved in education, through co-operative trust schools and academies. While attempts to establish a co-operative university in the UK have so far not come to fruition, they have evidenced the thought and energy underpinning a commitment

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84 International Co-operative Alliance, *Guidance Notes*

85 UNESCO, "Decision of the Intergovernmental Committee"

86 McIvor, "O Pioneers" provides a history of its formation, and the significance of co-operative heritage

87 Arts Council England, "Designated Outstanding Collection"

to co-operative education.

Co-operative education is both about the transmission of information, but also about the creation of 'co-operative character'. Unsurprisingly, emphasis is placed on the 'how' in terms of teaching/learning methods, as well as the 'what'.

Co-operatives will no doubt continue to explore what education means for them and their members in an evolving world.



## CO-OPERATIVES AND SOCIAL RESPONSIBILITY

The phrase ‘concern for community’ features heavily in co-operative discourse. The chapter title ‘co-operatives and social responsibility’ was chosen to give the broadest scope to explore the relationship between co-operatives and the ideas of community, social responsibility, and sustainable development.

This chapter will look first from a design or definitional perspective at the role of co-operatives and social responsibility, before then exploring how this translates in practice. Reporting on social factors is covered more fully in *Chapter 8 Co-operative finance*.

### Co-operative identity

Though co-operatives are enterprises meeting the needs of their members, they are not designed to be self-interested at the expense of others. This is reflected in the International Co-operative Alliance (ICA) Statement in several ways.<sup>1</sup>

In the definition, co-operatives are said to meet needs that are ‘common’, and that these needs are ‘economic, social and cultural’. The values of ‘self-help’ and ‘self-responsibility’ are said to include both a reference to the individual self, and the collective self.<sup>2</sup>

Within the co-operative values, co-operatives are said to be based on a value of ‘solidarity’. Significant emphasis was placed on this value by MacPherson, explaining that it ‘ensures that co-operative action is not just a disguised form of limited self-interest’, and that ‘the general interest is

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1 International Co-operative Alliance, “Co-operative identity”

2 Pobihushchy, *The Cooperative Values*

always kept in mind'.<sup>3</sup>

The ethical values within the Statement include 'social responsibility and caring for others'. Perhaps most significant was the introduction of Principle 7, 'Concern for community':

Co-operatives work for the sustainable development of their communities through policies approved by their members.<sup>4</sup>

The democratic nature of co-operatives is important in that it should facilitate participation by co-operative members (who are part of a local community) in the decisions of the co-operative. That co-operative members cannot claim the profits of a co-operative in the way shareholders in a traditional investor-owned firm could, is also said to contribute to a more sustainable approach as longer-term perspectives can be taken.<sup>5</sup>

From the Statement we get social responsibility, sustainable development, and concern for community.

This is not intended to be something disconnected or abstracted from the co-operative. A distinction can be drawn between a business donating money to a 'good' cause, and a co-operative working within 'their community', in which they operate.<sup>6</sup>

It was clear in the work leading up to the agreement of this statement in 1995,<sup>7</sup> and its immediate interpretation thereafter,<sup>8</sup> that this Principle in-

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3 MacPherson, "Background paper to the ICA Statement"

4 Luiz Von Der Osten, et al., "What does the 7th cooperative principle", gives a systematic literature review

5 Bevilacqua, "European Cooperative Banks and Sustainability", 175

6 International Co-operative Alliance, *Guidance Notes*, 85; Robertson, *The Co-operative Movement*, 44-45, details historic examples in the UK consumer co-operative sector; Yeo and Yeo, "On the uses of 'community'" analyse different interpretations of 'community'

7 Böök, *Co-operative Values*

8 Hoyt, "And then there were seven"

cluded broader commitments to sustainable development<sup>9</sup> more generally, including environmental protection.<sup>10</sup>

Others have argued that stewardship of the environment needs to be called out more explicitly within the ICA Statement, either as an amendment to the current 7th principle (Concern for Community); as a new 8th principle; or as a preface to the Statement recognising a dependency on the environment.<sup>11</sup>

It is worth remembering that the Principles are guidelines for implementing the Values.

## Social responsibility

Social responsibility, generally termed 'corporate social responsibility', is expressly included in the list of ethical values in the Statement. To Böök, it was a value implicit in the co-operative way:

Let us make the concept clear. Social responsibility is basically built into the co-operative way. That is why co-operative organizations were and are started: groups of people wanted to participate in the shaping of their living conditions and to influence the social and economic conditions for society at large. This is social responsibility. It is also the way in which co-operative organizations are established as people-based, democratic organizations formed to promote the needs of their members, with a fair distribution of benefits and with an open membership (as far as possible). Social responsibility is a basic constituent in co-operative contexts; in the motives, purposes, relationships between members and their

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9 MacPherson, Paz and Emmanuel, *Concern for Community*, 47: the work of the ICA in creating the Statement was directly informed by: World Commission on Environment and Development, "Our Common Future" (Brundtland Report)

10 International Co-operative Alliance, *Examining our Cooperative Identity*

11 Bickford, "The Centrality of Environmental Sustainability"

societies, and in the relations between the societies and the community at large. Co-operatives are not charity organizations, but are, indeed, organizations consciously designed to give the people a voice in the shaping of their living conditions.<sup>12</sup>

It has been suggested that co-operatives are inherently socially responsible – with that responsibility embedded into their identity.<sup>13</sup> This would make them the earliest form of socially responsible business.<sup>14</sup>

This is most clearly embedded in co-operatives existing not just for economic benefit, but also in aiming to meet the social and cultural needs of their members too.

There is no universally agreed definition of ‘corporate social responsibility’, but the International Organization for Standardization (ISO) define it as:

Responsibility of an organization for the impacts of its decisions and activities on society and the environment, through transparent and ethical behaviour that

- contributes to sustainable development, including health and the welfare of society
- takes into account the expectations of stakeholders
- is in compliance with the applicable law and consistent with international norms of behaviour; and
- is integrated throughout the organization’s activities within its sphere of influence.<sup>15</sup>

In a wider business context, the concept of social responsibility has evolved over time, with its focus moving through: purely economic based theories centred on cost and risk reduction, followed by the competitive advantage it

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12 Böök, *Co-operative Values*, para 3.6

13 Pezzini, “The Good Company”

14 Kurucz, Colbert and Wheeler, “The Business Case for Social Responsibility”

15 ISO, “ISO 26000”

can bring, its impact on reputation and legitimacy, through to a more societally based approach synergising stakeholder interests.<sup>16</sup> This more recent school of thought more closely aligns to the ICA Statement.

The ICA set out dimensions of social responsibility for co-operatives: people, products, principles, environment, community, democracy, and development, which are seen to broadly align with principles of social responsibility.<sup>17</sup>

Co-operatives obviously cannot (and do not) claim a monopoly on social responsibility. There will be businesses that achieve more by various measures of social responsibility than comparative co-operatives. Clearly, the intention and reality can differ.<sup>18</sup> Conversely, there are academic studies pointing to co-operatives achieving more in terms of social responsibility than comparative investor-owned firms in the same sector.<sup>19</sup>

The type of co-operative also has a bearing on this. Multi-stakeholder co-operatives, which bring different types of stakeholders into direct membership of the co-operative, will inevitably have a different relationship with many of its stakeholders (e.g. one of membership), than a single-stakeholder co-operative whose other stakeholders remain outside of formal governance structures (e.g. a worker co-operative whose suppliers and customers are not included in membership).<sup>20</sup>

From a theoretical perspective, co-operatives *should* be more inherently socially responsible than an investor-owned firm because of features of their governance – including a purpose beyond economic need, democratic control, joint-ownership, and equitable distribution of surplus. The practice

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16 Kurucz, Colbert and Wheeler, "The Business Case for Social Responsibility"

17 Luiz Von Der Osten, et al., "What does the 7th cooperative principle", referencing Decker, "Exploring the corporate social" and the ICA Global 300 report of 2006

18 Tuominen, et al., "CSR activities in consumer co-operatives"

19 Westerholz and Höhler, "Corporate social responsibility"; Bhowmik, "SDGs, Social Responsibility"

20 Gijselinckx, *Co-operative Stakeholders*

would need to be assessed on a case-by-case basis.

## Sustainable development

Sustainable development is part of social responsibility. The definition used by the UN is:

Sustainable development is development that meets the needs of the present without compromising the ability of future generations to meet their own needs.<sup>21</sup>

It contains social, economic and environmental goals and is said to be a 'way of expressing the broader expectations of society as a whole'.<sup>22</sup> Principle 7 of the ICA Statement uses the phrase 'sustainable development' based on awareness of this definition.

The UN Sustainable Development Goals (SDGs) were agreed in 2015 as part of the '2030 Agenda for Sustainable Development', a successor to the Millennium Development Goals (MDGs).<sup>23</sup> The 17 SDGs include goals such as the elimination of poverty (SDG 1), provision of decent work (SDG 8), responsible consumption and production (SDG 12), and urgent action to combat climate change (SDG 13). They are underpinned by 169 targets and 231 unique global indicators.<sup>24</sup>

Co-operatives operate around the globe in countries with varying levels of economic development. There are plenty of examples of co-operative action which supports the MDGs<sup>25</sup> and later SDGs.<sup>26</sup> Areas of co-operative

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21 World Commission on Environment and Development, "Our Common Future" (*Brundtland Report*)

22 ISO, "ISO 26000"

23 United Nations, "Sustainable Development Goals"

24 United Nations, "SDG Indicators" the exact number of indicators referenced varies depending on whether you include duplicated indicators

25 Birchall, *Cooperatives and the Millennium Development Goals*

26 The ILO have produced reports looking at each SDG individually

sustainable development have been explored and include:<sup>27</sup>

- Poverty reduction<sup>28</sup> – by empowering people to collectivise risk and operate economically through an enterprise they democratically own: looking at the role of agricultural co-operatives, and financial co-operatives in Africa.
- Gender equality – with open and voluntary membership without discrimination: with examples given of the strong presence of women in the governance of worker co-operatives in Spain and Italy; and self-employment opportunities for women in India.
- Decent work – through democratic ownership and control in worker co-operatives around the globe.

The significance of co-operatives in helping meet sustainable development goals is recognised by the ILO in Recommendation 193,<sup>29</sup> and the role of co-operatives as private sector actors contributing to meeting the SDGs is acknowledged by the UN.<sup>30</sup>

The sort of sustainable development carried out by co-operatives, as with other businesses, will vary depending on their size and scale. Additionally, it will vary by type of co-operative.

A producer co-operative involved in production and supply of crops, will have a more immediate connection to some SDGs (such as hunger, responsible production, life on land, and climate action) than a worker co-operative providing jobs in the creative industry (which may have more of an immediate involvement with decent work, reduced inequalities, gender equality).

A housing co-operative providing accommodation to 6 members is going

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27 KOH, *Cooperative Firms*; Wanyama, *Cooperatives and the Sustainable*; Iyer, "Cooperatives and the sustainable development goals" for examples in Asia and the Pacific

28 Birchall, *Rediscovering the cooperative advantage*

29 ILO Recommendation 193, clause 14

30 United Nations, "Sustainable Development Goals"

to have a completely different scale to a consumer co-operative with global supply chains. For instance, work by numerous retail consumer co-operatives in the UK on Fairtrade involved them looking across the supply chain through to development of farming co-operatives providing produce such as cocoa.

Academic analysis looking at co-operative principles and sustainable development have been carried out,<sup>31</sup> noting stronger focus on the social dimensions of sustainability than environmental and economic aspects in terms of what co-operatives articulate in published reports. These understandably, focus on what is written and published by those co-operatives, which will miss details of any unpublished activities.

There is a broader dimension to this work – if one considers co-operatives as institutions for the managing of natural common-pool resources,<sup>32</sup> building on the work of Elinor Ostrom.<sup>33</sup> This will be particularly important as work on nature-related financial disclosures continues to develop.<sup>34</sup>

Social and sustainability reporting more generally is covered in *Chapter 8 – Co-operative finance*.

## Concern for community

The 7<sup>th</sup> Principle ‘Concern for community’ was new in 1995 in its express inclusion in the Statement but is evident throughout co-operative history.<sup>35</sup> In setting out the background to this principle, MacPherson wrote:

Co-operatives are organisations that exist primarily for the benefit of their members. Because of this strong association with members, often in a specific geographic space, co-operatives are also

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31 International Co-operative Alliance, *Co-operatives and Sustainability*

32 Gagliardi and Gindis, “Co-operatives for sustainable development”

33 Ostrom, *Governing the Commons*

34 See for instance the Taskforce on Nature Related Financial Disclosures (TNFD)

35 MacPherson, Paz and Emmanuel, *Concern for Community*, 33-35

often closely tied to their communities.<sup>36</sup>

This does not suggest benevolence in the traditional charity sense. In the French translation of the Statement, 'concern' is translated to mean 'commitment',<sup>37</sup> which is perhaps a better fit.

The principle of concern for community is broad enough to include social responsibility and sustainable development, detailed above. It is argued the concept is embedded in what co-operatives do:

A co-operative's engagement with its community is not a frill. It is part of the way it should think about its business and a significant aspect of how it relates to its members. It is an important part of co-operative distinctiveness. It means that co-ops cannot ignore the social consequences of what they do. It means they have a responsibility to care for the communities in which they exist – both in what they do and how they choose to do it.<sup>38</sup>

Shah argues that successful co-operatives need to be 'salient', with salience involving the co-operative becoming central to the lives of members.<sup>39</sup> The examples of salient actions given by Shah in agricultural co-operatives in India include activity that would readily be considered to fall within Principle 7. For instance, it includes the provision of food programmes for all those living within a community in which the co-operative operates.

This line of thought links co-operative concern for community with the success of the co-operative itself. Co-operative literature often talks of the 'virtuous circle':

The economic success and sustainability of a co-operative creates the resources to apply this 7th Principle to working for economic,

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36 MacPherson, "Background paper to the ICA Statement"

37 International Co-operative Alliance, *Examining our Cooperative Identity*, 35

38 MacPherson, Paz and Emmanuel, *Concern for Community*, 47

39 Shah, *Making Farmers' Co-operatives*, 47-48

environmental and social sustainability of the communities in which co-operatives operate. The benefits from this responsible commitment to sustainability circle back through new members, increased turnover and higher surpluses that reinforce a co-operative's economic success.<sup>40</sup>

This is not one-sided. Research suggests that co-operatives make positive contributions to their community, not simply by donating money to good causes, but because they:

stabilize communities because they are community-based business anchors that distribute, recycle, and multiply local expertise and capital within a community.<sup>41</sup>

Studies exploring the local economic impact of co-operatives have shown too that for every £10 spent in a retail consumer co-operative, an additional £4 is generated in benefits to the local economy.<sup>42</sup>

The concept of 'external mutuality' as an improvement in collective welfare has been considered by some to be within the principle of concern for community, and complimentary to the 'internal mutuality' benefitting members.<sup>43</sup>

## Role of members

Principle 7 is clear in specifying that policies related to concern for community should be 'approved by their members'. It is argued that 'engagement with community is rooted in the co-operative idea of membership'.<sup>44</sup>

There are multiple dimensions to co-operative membership – in that it

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40 International Co-operative Alliance, *Guidance Notes*, 93; Mamouni Limnios, et al., "The member wears Four Hats"

41 Nemhard, "Tools to Measure", 154

42 Sacks, *Sticky money*

43 Luiz Von Der Osten, et al., "What does the 7th cooperative principle"

44 MacPherson, Paz and Emmanuel, *Concern for Community*, 40

reflects legal ownership, the right to participate in democratic participation and control, and participation in the business with an equitable return of profits based on that participation.

The members of a co-operative can be seen as a 'community of members', which gives a co-operative its purpose. It is argued that as well as the dimensions of membership mentioned above, members also have a 'community' role.<sup>45</sup> Others have viewed this as being part of the 'co-operative spirit'<sup>46</sup> or culture.<sup>47</sup>

Co-operatives can also play a positive role in facilitating engagement of members in wider concerns such as environmental and ecological challenges.<sup>48</sup>

## Conclusion

There is evidence throughout the history of the co-operative movement of a commitment by co-operatives both to their members, and the communities in which they operate. Co-operatives are perhaps the first socially responsible businesses. Examples around the world show co-operatives contributing positively to sustainable development, which is recognised by the UN.

Co-operatives cannot claim a monopoly on social responsibility or sustainable development. Many other types of business do take strong positive action to tackle climate change, or social justice. Inevitably within most countries one will be able to find an example of an investor-owned firm doing better on some of these measures than a particular co-operative.

However there is something inherent in the design of co-operatives, based on the ICA Statement, that should facilitate social responsibility, sustainable development, and concern for community: there is plenty of evidence to show these concepts in action within co-operatives around the globe.

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45 Mamouni Limnios, et al., "The member wears Four Hats"

46 Böök, *Co-operative Values*

47 MacPherson, Paz and Emmanuel, *Concern for Community*, 42

48 Delangy, "Beyond Green-Washing"



## CONCLUSION

Co-operatives have responded to the needs of individuals whether in provision of financial services, organisation of agriculture, meeting consumer needs, or providing work. Co-operative enterprise is found across the globe and is internationally connected. While global, it is not uniform.

We find co-operatives, throughout the last two centuries, in countries with different political and economic systems – whether in capitalist countries, or planned economies under communism.

While they sit within a landscape of companies, charities, social enterprises, and other organisations, they have a distinct identity in being self-help enterprises. They are businesses operating economically, but also meet the social and cultural needs of their members.

Despite their size, scale, and history, co-operatives are often missing from academic literature within different disciplines – including law and economics. This may reflect that they may fall through the gaps in some of the more polarised political and economic discussions in the 20th century.

We see this being addressed in some countries, through an articulation of the ‘social and solidarity economy’, sitting distinct from public, private, and charitable (‘third’) sectors.

Co-operative governance reflects the distinct nature of co-operatives, with members owning and democratically controlling the enterprise. But importantly, also gaining benefit through participation in the business, either by working for it, buying from it, or supplying to it. The centrality of members cannot be overstated.

Co-operatives operate economically, to meet both the economic, social, and cultural needs of their members. Various theories of co-operative governance look to the balancing or tensions within the co-operative – such as between different purposes. Healthy and dynamic tensions can help fuel success.

How that success is measured and articulated is an important aspect of financial reporting. International accounting frameworks risk distorting co-operative identity, in converging toward an investor-owned model, if co-operatives are not adequately catered for. Work developing a Statement of Recommended Practice is one step in the right direction.

History tells us that co-operatives have often happened in the absence of enabling legislation. This perhaps reflects co-operatives as a creature of people rather than the state. Despite that, supportive legal frameworks are important to help encourage co-operative development and protect it from abuse.

Co-operative law, like company law, would benefit from specific attention. Its evolution in different countries inevitably reflects the legal traditions and practises in those countries.

Supporting legal and accounting frameworks are an important component in co-operative development and are recognised in entrepreneurial ecosystem approaches. So too is the role of networks. Co-operatives have a track record of working together – co-operating among co-operatives – to help meet member need. These networks are better developed in some sectors and countries than others.

It is not surprising to have found, across a global movement spanning more than two centuries, some divergence in co-operative thought. This too plays out in divergence of economic theory. The economic theories that incorporate human nature seem to offer a better understanding. Given the diverse nature of co-operatives, we should perhaps not try too hard for understanding uniformity of approach or understanding. There is benefit in looking at co-operatives through the lens of their associative characteristics as consumer, worker, producer, or multi-stakeholder co-operatives.

How members understand their co-operative and the world around it helps co-operative members achieve self-responsibility. Education has been a central feature of the co-operative movement. This of course covers the provision of information about the co-operative, but also the wider world too.

In talking about members, self-help, mutual needs, and similar concepts, it is important to not take a too narrow or insular approach. When people gather to meet needs that are common, and go beyond economic self-interest, it follows that co-operatives have concern for the broader community. This sees the co-operative movement taking an active role in meeting sustainable development goals. We have seen the co-operative model readily accommodate emerging societal challenges as time progresses.

As a reoccurring trend, we have seen people getting on with setting up and running co-operatives, often successfully, before the theory catches up to explain it, or the law specifically recognises it. This will inevitably continue, given co-operatives have iterated over time and adapted to their context – driven by the member needs they are seeking to address. Where theory is informed by practice, it is enhanced. Good theory can then help facilitate increased good practice. We must therefore continue linking practice and theory.



## APPENDIX 1

# REGISTRARS<sup>1</sup>

This appendix provides names of the registrars under the Industrial and Provident Societies Acts, and earlier friendly society acts (1829 onwards). The designation of the registrar has changed over time, with the title of 'Chief Registrar' introduced in 1870. Before that, registrars were in place separately for England and Wales, Scotland, and Ireland (depending on the position of Ireland's independence). From 1875, the 'Chief Registrar' was in place, with 'Assistant Registrars' appointed – including one to cover Scotland.

From 1793 to 1829 local Magistrates had the role of registering societies. From 1829 a barrister was appointed to certify that the rules of friendly societies were not contrary to the Friendly Society Legislation (at that point, Magistrates still had a role approving actuarial tables). This proved unworkable, and from 1834, the totality of the work sat with the registrar.<sup>2</sup>

Between 1829 and 1981 the registrar had to be a barrister of sufficient number of years standing (12 years, for most of this time). From 1924, it was possible for an assistant registrar with 5 years in post to go on to serve as registrar.

From 1981 until 2001 the registrars were civil servants working under HM Treasury.

From 2001 there has been no 'registrar' role for an individual to be appointed to. Instead, there has been a public authority responsible for registering societies – referred to here as the 'registering authority' (though this term itself is not used in the legislation).

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1 Information taken from Registrar Reports, and validated against Gazette notices for those periods

2 Fuller, *The Law of Friendly Societies*, 2

1829 to 1870: John Tidd Pratt<sup>3</sup>

- Friendly Societies Act 1829 – created a role for a barrister certifying rules.
- Friendly Societies Act 1846 – constituted as a registrar for friendly societies.

1870 to 1875: A.K. Stephenson

- Friendly Societies Act 1875 – creation of the ‘Central Office’ and ‘Chief Registrar’, requiring that the Chief Registrar be a barrister of at least 12 years standing.

1875 to 1891: John Malcolm Ludlow<sup>4</sup>

- First ‘Chief Registrar’.

1891 to 1904: Edward William Brabrook<sup>5</sup>

1904 to 1911: J.D. Stuart Sim

1911 to 1912: Claud Schuster

1912 to 1937: George Stuart Robertson

- Friendly Societies Act 1924 amended the eligibility requirement to enable someone who had served for at least 5 years as Assistant Registrar to be eligible for appointment as Chief Registrar.

1937 to 1947: John Fox

1947 to 1953: B.K. White

1954 to 1963: Cecil Crabbe

1963 to 1972: Sam (S.D.) Musson

1972 to 1981: Keith Brading

- Friendly Societies Act 1981 removed the requirement for the Registrar to be a barrister, in part to facilitate Keith Brading’s wish

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3 Brabrook, *The Law Relating to Friendly Societies*, xx – Pratt served until his death in 1870

4 Ludlow, *John Ludlow, Christian Socialist*; Brabrook, *The Law Relating to Friendly Societies*, xxviii

5 Ludlow, *John Ludlow, Christian Socialist*, 314: E.W. Brabrook served as an assistant registrar under Ludlow and published his own work relating to societies, including Brabrook, *Provident Societies and Industrial Welfare*

to retire having exceeded the normal retirement age.<sup>6</sup>

1982 to 1991: J. M. Bridgeman

1991 to 1994: Rosalind Gilmore<sup>7</sup>

1994 to 2001: Geoffrey Fitchew

2001 to 2013 – Financial Services Authority

- Financial Services and Markets Act 2000 (Mutual Societies) Order 2001 (SI 2617) abolished the role of 'Chief Registrar', making the Financial Services Authority the 'registering authority'.

2013 – Financial Conduct Authority

- Following the splitting of the Financial Services Authority's responsibilities into the Prudential Regulation Authority and the Financial Conduct Authority.

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6 HL, 24 July 1981, Vol. 433, col 482

7 Registry of Friendly Societies, *Report 1993-1994*, provides details on the role and office of the Chief Registrar



## APPENDIX 2

# ORIGINAL 'BONA FIDE CO-OPERATIVE' GUIDANCE

Guidance from the Registrar of Friendly Societies,<sup>1</sup> 1939 – F.617:

### **Bona fide co-operative societies**

2. There is no statutory definition of a bona fide co-operative society but such a society will normally be expected to satisfy the following conditions: -

- (a). *Conduct of business.* The business of the society will be conducted for the mutual benefit of its members in such a way that the benefit which members obtain will in the main stem from their participation in its business. Such participation may vary in accordance with the nature of the society. It may consist of purchasing from or selling to the society, of using the services or amenities provided by it or of supplying services to carry out its business.
- (b). *Control.* Control of the society will under its rules be vested in the members equally and not in accordance with their financial interest in the society. In general therefore the principle of " one man one vote " must obtain.
- (c). *Interest on share and loan capital.* Interest payable on share and loan capital will under its rules not exceed a rate necessary to obtain and retain the capital required to carry out the objects of the society. The appropriate rate may vary from time to time between societies of different classes and according to the term and security of loans. Section 1(3) of the Act provides that a society which carries on business with the object of making profits mainly for the payment of interest, dividends or bonuses on money invested with or lent to the society or

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1      Registrar of Friendly Societies, Report 1938-1952, 23-25

any other person is not a bona fide co-operative society.

- (d). *Profits.* The profits of the society's business after payment of interest on share capital, if distributable amongst the members, will under its rules be distributable amongst them in relation to the extent to which they have traded with or taken part in the business of the society. Thus in a retail trading society or an agricultural marketing society profits will be distributable amongst members as a dividend or bonus on purchases from or sales to the society. In some societies (as for example social clubs) profits will not usually be distributable amongst members but are ploughed back to cheapen and improve the amenities available to members.
- (e). *Restriction on membership.* There should be no artificial restriction of membership with the object of increasing the value of proprietary rights and interests. There may, of course, be grounds for restricting membership that do not offend the co-operative principle; for example, the membership of a club might be limited by the size of its premises and of a self-build housing society by the number of houses that could be erected on a particular site.

## APPENDIX 3

# ANNOTATED BIBLIOGRAPHY OF LAW TEXTS

This appendix provides a select summary of books covering co-operative law.

### Current

For useful reference and legal analysis on current law, see:

- For the UK: Snaith, *Handbook on Co-operative and Community Benefit Society Law*, is the main text.
- For a country-by-country overview: Cracogna, Fici and Henry, *International Handbook of Cooperative Law* (2013)
- Journal: IUS Cooperativum, *International Journal of Cooperative Law*

### Historical – UK legislation

Then registrar John Tidd Pratt published four books on *The Law Relating to Friendly Societies*, in 1829, 1834, 1838 and 1843. This work was taken over by William Tidd Pratt, the numbers restarting from a first edition in 1850 with 7 editions through to 1867. From the fourth edition, in 1855, the title was amended to: *The Law Relating to Friendly Societies and Industrial and Provident Societies*. Subsequent registrar, E.W. Brabrook continued the reference work, as the 8<sup>th</sup> edition in 1873, through to at least a 13<sup>th</sup> edition (or 17<sup>th</sup>, if counting from 1829) in 1897.

Brabrook also wrote a range of publications including *Law Relating to Industrial and Provident Societies* (1869).

There are sporadic examples of other publications from barristers, produced in relation to particular acts. For example: Fowke, *The Industrial and Provident Societies Act 1893* (1894).

Separately, F.B Fuller wrote *The Law of Friendly Societies and Industrial and Provident Societies* (1926), which ran to numerous volumes.

The Registry of Friendly Societies produced short guides to the law, providing a narrative account of the legislation including brief additional commentary. See for instance: Brading, *Guide to the Law Relating to Industrial and Provident Societies* (1978). Other commentary can also be found on aspects of the law in the annual registrar reports.

## From the co-operative movement

The co-operative movement itself published numerous works. The Co-operative Union published books following major changes to legislation, usually written by their secretary. These include:

- E.V. Neale, *The Industrial and Provident Societies Act 1876*
- J.C. Gray, *The Industrial and Provident Societies Act 1893*
- A. Whitehead, *The Industrial and Provident Societies Act 1893 and Amendment Act 1913*
- R. Southern, *Handbook to the Industrial and Provident Societies Acts 1893 to 1928* (in 1938, and reprinted in 1947)
- R. Southern and P. Rose, *Handbook to the Industrial and Provident Societies Acts 1893 to 1961*, considered to be a second edition of the text above.
- W.J. Chappenden, *Handbook to the Industrial and Provident Societies Act 1965* (1966)

## Legal scholar

Ian Snaith produced the first text from a legal academic in the UK:

- *The Law of Co-operatives* (1984)
- *Handbook of Industrial and Provident Society Law* (1993) (looseleaf)
- *Handbook of Co-operative and Community Benefit Society Law* (2014)

## Co-operative law more generally

From a British perspective, there are a range of texts from Registrars of co-operatives from different parts of the British Empire.<sup>1</sup>

Calvert's, *Law and Principles of Co-operation*, first published in 1933, ran to 5 editions, and was influential. The text formed the basis of a later work by B.J. Surridge, and Margaret Digby of the Plunkett Foundation: *A Manual of Co-operative Law and Practice* (1948 and 1958).

Texts from other registrars include:

- Strickland, *Co-operation for Africa* (1933)
- Campbell, *Practical Co-operation in Asia and Africa* (1951)

More recently, the following texts are not specific to any country, but helpful in providing an understanding of the law as it relates to co-operatives:

- Henry, *Guidelines for Co-operative Legislation* (2012)
- Münkner, *Co-operative Principles and Co-operative Law* (2015)
- Münkner, *Ten Lectures on Co-operative Law* (2016)

## International law

Three texts in particular cover a range of co-operative legislation in multiple countries, providing some country-by-country analysis:

- Margaret Digby's, *Digest of Co-operative Law at Home and Abroad* (1933) is regarded as the first international study or compilation of co-operative law.
- Valko's, *International Handbook of Co-operative Legislation* (1954) expressly built on this earlier work from Digby.
- Cracogna, Fici and Henry, *International Handbook of Cooperative Law* (2013) provides a more recent review of law and is broad in scope.

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1 Rhodes, *Empire and Co-operation*, 204-212 provides a commentary



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What are co-operatives, and why do they exist? What's the difference between a co-operative and an investor-owned firm, or between a co-operative and social enterprise?

Do co-operatives work, and are they political?

Policy makers, researchers, and practitioners looking to expand their understanding of co-operative forms and structures, and the broader co-operative movement, will find answers to these questions and more.

Linking the practice and theory of co-operatives, Adderley explores the co-operative movement from its history to present day operation. Law, economics, politics, governance, and finance are some of the topics covered in this wide-ranging account of the co-operative movement.

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**Ian Adderley is a lawyer, with extensive experience in the co-operative movement.**

