

# **Society for Co-operative Studies**

## **Journal of Co-operative Studies 90 September 1997 Vol 30 No 2**

### **Contents**

Editorial Johnston Birchall	1
<b>Short Articles</b>	
Towards a Stakeholder Economy Charlie Cattell	3
Co-operative Membership and the Stakeholder Economy Lessons from the Failed Lanica Bid Peter Couchman	10
Housing the Nation the Co-operative Way David Rodgers	15
A Housing Co-op Rescue of Public Housing in Germany Walter Pahl	28
<b>Longer, Refereed Articles</b>	
Co-operative Values and Principles: a Commentary Johnston Birchall	42
The Governance of Consumer Co-operatives: Rules and Realities Cliff Mills and Ian Snaith	70
<b>Book Reviews</b>	
Co-operatives. Markets. Co-operative Principles. (Campos, Spear, Thomas and Zevi) Peter Davis	95
<b>Annual Report</b>	
The Society for Co-operative Studies 1996-97	99

# Editorial

We are fortunate in this issue to have been able to twin short articles on the subjects of co-operative stakeholding and co-operative housing. Charlie Cattell provides a worker co-operator's view of stakeholding, introducing the idea of a 'cardinal stakeholder' group, and providing a useful review of new co-operative developments in the UK. Peter Couchman considers how members can be made into stakeholders in consumer co-ops, in the urgent context of a failed takeover bid for the UK's biggest society, the CWS. For the sake of those who do not know about it, an editorial introduction explains briefly what happened. We will, of course, be continuing to explore this topic in future issues, along with the related issue of building society demutualisation. David Rodgers provides a 'pocket history' of co-operative housing in the UK, and in the context of a new Labour government sets out what has to be done to make tenants into stakeholders of their housing. Besides being one of a series of articles which we are commissioning on co-operative housing, this is the first of a new series examining the prospects for UK co-operatives under a Labour government. Walter Pahl's detailed story of how a housing co-op took over and renovated two failing public housing estates is a familiar one of professional misjudgement, bureaucratic inertia, and a long struggle of ordinary people to preserve their housing and create a community. The use of a co-operative form to enable ethnic minorities to meet their needs is another theme we will return to.

In the longer, refereed article section, the editor provides a commentary on co-operative values and principles. The aim is to use insights from political theory and sociology to deepen our understanding of how the values and principles relate to each other. In future issues we may continue this theme with articles on how the principles relate to co-operative practice, though almost all the articles we publish do this in one way or another. Cliff Mills and Ian Snaith, in a long and thoughtful article, provide lawyers' viewpoint on co-operative governance. They concentrate on the way the powers of the Board are derived from the general membership and those of the executive are derived from the

Board. It is a complex argument which does not make for easy reading, but for those involved in the running of consumer and other large co-operative societies it is an important one. It is absolutely vital that board members and managers spell out their relationship in detail. The article does not deal with the controversial question of whether managers should be members of the board, and we will be publishing short articles on this question in the next issue.

# Towards a Stakeholder Economy

**Charlie Cattell**

Recent issues of the Journal of Co-operative Studies have contained a number of articles on the subject of stakeholding within the context of the co-operative movement, and regular readers may notice resonances between this article and some of those. The aim of this piece is to summarise the views of ICOM and ICOF,<sup>1</sup> who jointly launched a campaign entitled Towards A Stakeholder Economy in 1996. The objective of this campaign is to achieve changes in public policy which will support and encourage the growth of co-operative enterprises, especially those owned and controlled democratically by their employees.

We may start by considering what is meant by a "stakeholder economy". The economy with which we are concerned in this instance is the trading economy of the competitive market, i.e. industry and commerce. By a stakeholder we simply mean one who stands to gain or lose as a result of an organisation's actions or its inaction.

The simplest way to illustrate this is with an example. Terry Thomas, Managing Director of The Co-operative Bank, has identified seven groups of stakeholders so far as the Bank is concerned:

- shareholders;
- employees;
- customers;
- suppliers;
- the local community;
- society at large;
- past and future generations.

There are other models for defining and identifying stakeholders,<sup>2</sup> but the above approach will serve us well enough for the time being. Those who share a concern for social justice and democracy will be drawn towards forms of business which recognise and take account of the interests of all stakeholder groups. This is especially the case as we emerge from a period when industry

and commerce have been dominated by the pursuit of short-term gain for the few at the expense of the many. However, one thing which all stakeholders require in order to benefit from a business is that it is commercially successful. We may look appreciatively at such partnership models as the Japanese keiretsu,<sup>3</sup> but the experience in the UK - particularly in the case of smaller businesses - is that a key factor in success is a commonality of purpose: in other words, all those involved in managing a business should share the same set of aims and priorities and a common relationship with the business in question. While recognising that an inclusive economic system will have regard for the rightful interests of all stakeholder groups, this is not to suggest that all stakeholders will share the same aims for a particular business nor that they all have an equal right to a say in how the business is managed.

This leads us to the concept of the cardinal stakeholder group, i.e. those for whose benefit a business primarily exists. The natural synthesis of (a) stakeholder recognition and (b) achieving a commonality of purpose is to grant ultimate authority and control to the cardinal stakeholder group.<sup>4</sup>

A fundamental problem with the UK economy is that it is run almost entirely by and on behalf of the same stakeholder group - the investors. Consequently, most strategies and policies are aimed at maximising benefits to shareholders, while other stakeholders - such as employees and customers - must rely on statutory protection of their interests through employment legislation, regulatory agencies such as Ofwat and Ofgas, the Monopolies and Mergers Commission, and so on, where these are available. This situation is reflected in company law, where those who risk their capital assume control. Votes in a conventional limited company follow shares.

Investors aside, other stakeholders face very real risks in the event of non-performance by a business. Employees stand to lose their livelihoods, suppliers can face insolvency if bills are not paid on time, customers' lives may be seriously disrupted if goods or services provided are sub-standard, and whole communities can be impoverished when a major employer moves away in search of cheaper operating costs. Yet company law does not recognise the validity of any form of stakeholding other than a financial one. Conventional business accounting practices, for example, treat

employees as just another cost of production along with overheads, raw materials, waste disposal and so on. In order to achieve a more balanced economy, more businesses need to be established for the benefit of stakeholder groups other than investors. We have a perfectly good model for such enterprises in the co-operative. Co-operatives are inherently geared towards the interests of their cardinal stakeholder group: tenants in a housing co-operative, customers in a consumer co-operative, employees in a worker co-operative, savers, and borrowers in a credit union, etc.

Despite the Thatcher years and the rather grey years which followed them, in the UK the past two decades have seen a spectacular growth in innovative applications of basic co-operative principles. Many thousands of people have discovered co-operation during this period, most of these via routes which may be described as non-traditional. These developments include:

- Worker co-operatives. There are now somewhere between 1,200 and 1,500 employee-owned co-operative enterprises, up from half-a-dozen in 1973. They include some very successful ventures which serve as models for others. Greenwich Leisure, a non-profit-distributing co-operative, took over the management of the London Borough of Greenwich's seven leisure centres, simultaneously reducing costs while increasing facilities, throughput, and numbers employed. Several other local authorities have since followed the Greenwich model. Tower Colliery in South Wales, a pit judged to be "uneconomic", was re-opened by local miners as a co-operative, and is now making a profit. There are numerous other successful examples all over the country, of varying sizes, including both new-start enterprises and employee buy-outs of existing businesses.
- Care co-operatives. With the introduction of changes in community care legislation, groups of carers have created co-operatives to provide a high standard of service while maximising terms and conditions in what is generally a low-paid area.
- Co-operative consortiums. Here a group of self-employed

people or small businesses form a co-operative to provide themselves with mutually useful services. A number of actors' agencies and professional consultancies have adopted this structure, as did Heathrow Airport Licensed Taxis, the largest taxi-drivers' organisation in the UK with around 3,000 members.

- Local food distribution co-operatives. Looking much like the original consumer co-operatives of the Rochdale Pioneers era, these are being actively promoted in a number of areas as part of anti-poverty strategies. They aim to bring fresh, nutritious foods to their members at reasonable prices, often accompanied by educational activities around the subjects of health and nutrition.
- Childcare co-operatives. Hundreds of these have been registered over the past ten years or so, some owned and controlled by their employees, others by the parents and guardians of children being cared for.
- Community co-operatives. There is a wide and growing range of community-owned co-operative initiatives seeking to meet local needs, provide employment and training, and encourage economic regeneration.
- Credit unions. A fast-growing section of the wider co-operative family, credit unions offer saving and borrowing facilities to their members who are united by a "common bond", which may mean residents of a defined geographical area, or employees of a particular institution, or otherwise.
- Mutual guarantee societies. These are co-operatives made up of many businesses, large and small, designed to meet the investment needs of their members by pooling the resources available in order to borrow capital cheaply on the big markets. They also provide a business support service to minimise losses amongst the membership.

Thus, it can be seen that there are many excellent ideas emerging

for the new use of co-operative principles and practice, and a growing number of flagship projects to demonstrate their practicability. However, it cannot be denied that, outside retailing and agriculture, co-operatives remain marginal and economically insignificant. If co-operatives are such a good idea, why are there not more of them?

A number of reasons might be identified for the continuing low profile of the co-operative option, some of which include:

- A lack of public awareness. Co-operation hardly features, if at all, within the educational system. Professionals (such as accountants and solicitors) and conventional business advisers remain woefully ignorant of co-operatives and frequently express negative prejudices when the subject is raised. Trades unions in the UK do not for the most part actively support the notion of co-operatives, whereas elsewhere in the world unions have played a key role in promoting the sector.
- A lack of resources. Such growth as there has been can very largely be attributed to active support for co-operative development, much of this funded by local authorities, but the resources available for this work - already inadequate - have been reduced in recent years.
- An inhospitable legislative and fiscal environment. It is sadly often the case that choosing a co-operative structure for a new small business involves financial and tax disincentives, making it a hard option to promote to anyone who is not ideologically committed to the principle in the first place.

A major change in the political environment in the UK has of course been the election of the first Labour government for nearly 20 years. Given the historic links between the Labour and Co-operative Parties, and the election of a record number of Co-operative Party-sponsored MPs, we may anticipate a more constructive attitude from central government towards the co-operative sector, and further we may note:

- in amending Clause 4 of the Labour Party's constitution, a



- new reference to co-operatives was introduced;
- according to the Labour Manifesto: "We are keen to encourage a variety of forms of partnership and enterprise, including co-operatives";
- there are a number of positive references to co-operatives and to co-operative development in *Renewing the Regions* - Report of the Regional Policy Commission which is likely to inform the government's policies on economic development.

As noted earlier in this article, the Companies Act only recognises the validity of shareholders as cardinal stakeholders. One thing we need is a statutory basis, of equal status to the Companies Act, for championing the primacy of other stakeholder groups where appropriate. It looks like we may achieve this with a new Co-operatives Act, the draft Bill for which has been presented to the Treasury and which is now under discussion.

A new Act on its own, however, will not result in the creation of a new generation of co-operatives. Also required will be a change in public policy to facilitate and encourage the growth of the sector. ICOM and ICOF have produced an 8-point plan for such policy measures,<sup>5</sup> which includes a call for a national co-operative development strategy (but not, it should be noted, for another national co-operative development agency). Other issues covered in this plan include the availability of investment capital, taxation, and the treatment of investment incentives.

The successful promotion of this plan in the coming years will, it is hoped, bring about significant expansion of the co-operative sector and take us some way further down the road to a true stakeholder economy.

**Charlie Cattell is a freelance consultant currently engaged by ICOM and ICOF to develop and promote strategic policies for the worker co-operative sector. This article is based on a presentation given by the author to a fringe meeting of the UK Society of Co-operative Studies at the 1997 Co-operative Congress.**

## Notes

- 1 Industrial Common Ownership Movement and Industrial Common Ownership Finance. These two organisations, which share a common origin but are now autonomous, grew out of the Society for Democratic Integration in Industry (DEMINTRY) in the early 1970s. They are now recognised as the lead bodies for employee-owned co-operative enterprises - or worker co-operatives as they are commonly known - and were both founding members of the UK Co-operative Council.
- 2 See for example Shann Turnbull's article Stakeholder Co-operation in issue number 88 of the Journal.
- 3 For a description of the keiretsu model, see Turnbull, *op. cit.*
- 4 For further discussion of the cardinal stakeholder principle, see Edgar Parnell's *Reinventing the Co-operative*, Plunkett Foundation, 1995.
- 5 Entitled *Towards A Stakeholder Economy*, copies of this document are available on request from ICOM, Vassalli House, 20 Central Road, Leeds, LS1 6DE.

# **Co-operative Membership and the Stakeholder Economy:**

## **Lessons from the Failed Lanica Bid**

**Peter Couchman**

The UK consumer co-operative sector has recently been rocked by an aggressive takeover bid from a company called Lanica, which attempted to buy the Co-operative Wholesale Society. Andrew Regan, the entrepreneur behind the bid, had previously negotiated the purchase of CWS's manufacturing businesses, and thought he could persuade members to sell their shares and allow him to convert the Society into a shareholding company. CWS is vulnerable because, while it has had disappointing financial results recently and its profitability is low, it owns some highly successful businesses such as the Co-operative Bank and Co-operative Insurance Company. In the market's terms it was ripe for breaking up and selling off in more or less profitable pieces. The CWS Chief Executive earned high praise at Congress for his spirited defence of the Society, which included the use of private detectives to expose Lanka's dealings with two CWS managers who allegedly had been involved in passing on confidential information. Faced with scandal and possible criminal prosecutions, Lanka's backers withdrew their support, and so the bid was not taken further. There are important lessons for the UK consumer co-operative sector, for mutuals such as building societies and mutual insurance companies, and for similar member-owned businesses in other parts of the world.

A question of graver and universal interest is the possibility of another attack ... I do not think that nearly enough attention is being given to this aspect of the matter.

... It seems to me that they have lost a vast advantage in the failure of their first surprise. Possibly they see it in the same light.

... At any rate, whether we expect another invasion or not, our views of the ... future must be greatly modified by these events

... It may be that in the larger design ... this invasion

... is not without its ultimate benefits; ... it had robbed us of that serene confidence in the future which is the most fruitful source of decadence ... and it has done much to promote the conception of the commonwealth ...

HG Wells, War of the Worlds, final chapter

The lessons from the failed Lanica bid are so varied that it is not

possible to do justice to them in so short a space. They fall into three main areas, and it is the third of these that I will look at more closely. The first is the tactics used by CWS to defend itself in such an admirable way, albeit in a way which would not be open to a smaller society. The second is that the failed bid highlighted the continuing need to improve our business performance, a need which the Society for Co-operative Studies has frequently highlighted in its work.

The third area is that of membership, our need for members, their role as stakeholders and their impact on their Society. There will no doubt be many who will seek to see the bid as confirmation of their belief that members are a weakness in co-operative structures and that the short-term measures needed to protect ourselves during the bid should be extended long term.

Let us look more closely at this idea of pulling up the drawbridge. Whilst it is true that many seeking to join were doing so for the wrong reasons, can we be sure that all our enemies are outside the castle walls? Realism suggests that the silent majority of Co-op members pose an equal, if not greater, threat. Inactive, ageing, disenfranchised and often disillusioned, it is they not the outsiders who would be the main target for a predator to convince of the benefits of a bid. Given the choice of defending our values or taking the money and running, many would (to quote the Hitchhiker's Guide to the Galaxy) decide that they, for one, could do with the exercise.

Our failure in membership has been the fact that we have not ensured that our membership base reflects our customer base. To give an example in just one, let us look at age profile. My own Society recently conducted a survey of members giving us what many societies don't have, namely a basic idea about who our members actually are. The survey revealed that two-thirds of our members were over 65 years of age. However, the recruitment programme, which aims to recruit 5,000 members a year for five years, recruits people of whom only one-third are retired. If we take those two facts and look forward five years, a frightening scenario emerges if we pull up the drawbridge now. By continuing to recruit, not only will our membership list double, but less than 50 per cent will be over 65 and in time it will match our customer base. Without recruitment, our membership

will fall and over 75 per cent of our members will be past retirement age. The simple message is that if you pull up the drawbridge, you will starve to death in the castle.

It is not enough to have these members. We must make them genuine co-operative stakeholders. Stakeholding is such a wonderful phrase. Stakeholders are so easy to get. You can, in the space of a few minutes, fill up a flipchart with groups who are your stakeholders or, alternatively, you can pay someone to tell you who they are and maybe even talk to them for you. I believe that the concept of stakeholding does have great potential for our movement, but only if we are willing to accept that a co-operative stakeholder needs to have a fundamentally different relationship with their Co-op to that of another organisation.

It is not enough for Co-op members to have a stake in their Co-op. They must be able and willing to grasp that stake. Stake grasping means accepting the responsibilities of membership and being excited by the possibilities offered. We cannot hope that the majority of members will have this relationship, but it is up to us to ensure that a significant minority does.

For some reason, the co-operative myth has grown up that the path from customer to co-operative activist is one which can accidentally be wandered along with little help or encouragement. Our failure to realise that active members have to be developed is at the core of our failure to attract enough activists in our movement. At Oxford, Swindon & Gloucester Co-op, everything (and I would stress everything) we do for members is connected to encouraging their development as activists. From our recruitment procedures to our member's calendar, to our training seminars, the message is consistent. That message is that it is your co-op - you own it, control it and benefit from it. There is nothing more rewarding than the moment when a member, exposed to this message repeatedly, suddenly realises what this means. From that moment they are able to grasp their stake. No amount of customer loyalty, promotion or free bun fights can replace that moment, which is the very essence of co-operative education.

In the 1930s the great co-operative education secretary Joe Reeves observed that less than five per cent of societies' education funds were being spent on co-operative education. Sixty years on the picture is the same. The lesson of Lanica is clear - every

pound a member relations committee squanders on activities not connected with giving our members a genuine understanding of co-operation is as damaging to our movement as if they had made it out as a cheque to Andrew Regan. Every Board which fails to have a clearly defined and achievable strategic plan for member development has, by default, a plan for its own destruction.

This lesson is understood in the City of London. Their equivalent to member relations is shareholder relations. This industry grew up in the 80s when companies realised that by the time a bid was made it was too late to inform their shareholders about why they should be loyal to a company which they knew little about. The building of this relationship had to be built over time and long before the appearance of predators. Have we done enough to do the same?

In this stakeholder relationship, it is not enough for members to be aware of their society's direction. They must be active participants in the journey. Our future must be planned on values and visions. No change of rule or change of law will be enough to protect us if we fail to have these and to make them relevant to our members. The growing awareness of co-operative values since the International Co-operative Alliance produced the Statement on the Co-operative Identity is one of the most positive developments in recent times. Yet how many members have been asked to make the statement relevant to their own society? Without this underpinning, then the values of the carpet bagger can easily step in to take its place

The draft UK Co-operatives Bill is one source for this vision. Its focusing of co-operative identity creates a real opportunity for us to reach out with a strong and vibrant message if we have the courage to do so. My own Board of Directors have done this recently when it had the courage not to hide behind the events of this year but to seek our membership's approval that the Society should become a common ownership co-operative as soon as practicable after the Bill is passed and to act in this way until then. This bold move said to our members that we have a responsibility to pass on to future generations the assets, built up by previous generations of co-operators. It sought their agreement with this, and they received it overwhelmingly.

Sun Tzu in *The Art of War* (one of the finest books ever

written for co-operative activists) said that if you know your enemy's strengths and weaknesses then you will win many battles, but if you know your own strengths and weaknesses then you will be invincible.

Membership has the ability to be a strength or a weakness for us. If we can create co-operators who are willing to create a co-operative future then those stakeholders will make us invincible to the Lanicas of this world.

**Peter Couchman is Member and Public Relations Manager for the Oxford, Swindon, and Gloucester Co-operative Society, based in Oxford, UK.**

# Housing the Nation the Co-operative Way

**David Rodgers**

The New Labour Government in the UK has achieved a powerful mandate from the electorate to abandon the unfettered self interest which dominated the social policies of the last eighteen years and to create a nation in which every citizen has a stake and is valued, where each person has social as well as individual rights and responsibilities. The New Labour Government has, as promised, hit the ground running on key policy commitments, but there is much yet to be done to define, in practical terms how its vision for Britain is to be achieved. Those who share that vision of society and helped secure the new Government's election now have a responsibility to help to deliver Labour's manifesto by devising equitable, practical, and politically non-partisan strategies for improving the fabric of the society in which we live. In terms of housing strategy, the challenge which faces the co-operative housing movement is to show the New Labour Government the vital role we have to play in helping it to deliver its vision for Britain, its vision of a Stakeholder Society. Housing co-operatives have the unique capacity to give people a stake in their homes through the co-operative ownership and management of social housing, but we need to persuade the new Government and local politicians that this is the case.

Housing was not a major issue in the election campaign. The reason is simple. The majority of voters are reasonably housed, and for them it is not an immediate priority. The key issues for this majority are the quality and cost of the health and education services. Those who are homeless or in poor housing are often disenfranchised from the political process. Notwithstanding these political realities, housing as an issue is already beginning to move up the political agenda. One of the first bills to come before the new Parliament is the bill to release the capital receipts accumulated in council coffers from the sale of council homes under the Right to Buy. Tessa Jowell, the Minister of State for Health with special responsibility for public health matters has in public statements, in line with the refreshing cross department approach to policy, already made the connection between poor housing and poor health and unnecessary cost to the health



service.

Those of us interested in housing issues need to build on this growing awareness of the importance of decent housing as one of the key aspects of inclusive social policy. We need to persuade the Government and the electorate to accept two key propositions:

**Firstly:** that our nation needs a progressive national housing strategy which aims, ultimately, to provide a decent home for every citizen

**Secondly:** that co-operative housing has a special role to play in this strategy because it, above all other ways of providing and managing social housing, brings personal and social benefits which help to avoid social exclusion and disadvantage and create New Labour's Stakeholder vision of society.

Any debate about housing policy and the statistics to support debate centres on four key issues:

- 1) the availability of housing - the right of every citizen to a decent home;
- 2) the quality of housing - a home for every family and individual which is fit and healthy to live in;
- 3) the cost of housing - a home which each household can afford without being trapped in poverty and benefit dependency;
- 4) the control of housing - who controls housing resources and the rights of consumers to control the housing environment in which they live.

Housing is not readily available for many in need in our society. One of the trademarks of the society created by the former Conservative Government is the increase in the number of homeless people on the streets sleeping in shop doorways. But that is only the tip of the iceberg of housing need. We are simply not building enough new homes. The latest Joseph Rowntree study<sup>1</sup> on housing construction shows that at current rates of replacement of our housing stock, every house we are now

building in Britain must last as long as Stonehenge or the Pyramids before it will be replaced. To keep pace with demand and new household formation four million new homes are needed before the year 2016.

In 1996 the House of Commons Environment Select Committee concluded that a minimum of 90,000 new units of social housing needed to be built each year to meet the demand for affordable homes. Output in the last three years was below the Department of the Environment's own lowest estimates of need of 60,000 new affordable homes each year. The shortfall is in excess of 30,000 homes a year and rising.

Quality of housing in the UK is also a strategic problem. The 1991 England and Wales House Condition Survey showed that 8 per cent of all housing was unfit for human habitation because of disrepair or because it was lacking in basic amenities. This shows that nearly one in twelve households are living in housing which is unfit for human habitation. The link between bad housing, health and cost to the National Health Service is direct. Poor housing inevitably leads to poor health and higher healthcare costs.<sup>2</sup> The cost of remedying this basic unfitness was estimated at 1991 prices to be over £6 billion. The greatest area of unfitness is in the private rented sector which the previous Conservative Government sought to revive as the main source of housing for those who could not buy their own homes. 18 per cent of private rented homes are unfit. The estimated cost of disrepair and improvements needed to local authority housing to bring it up to modern standards is over £20 billion. While the release of £5 billion of capital receipts from the sale of council houses will help, it will not, on its own solve issues of quality or availability of affordable housing. We need progressive policies, a national housing strategy which aims to eradicate unfit homes and modernise those which do not provide adequate comfort or amenity. There is also a direct link between poor housing and education. Every teacher knows that a child cannot thrive at school if he or she lives in crowded, damp or insanitary conditions.

The affordability of housing is also a major issue. Under the last Government, housing associations became the main providers of new rented homes. With notable exceptions, housing associations have not actively opened the cuts in capital grant

which have led to higher rents. Opposition to grant rate cuts has been token opposition. The argument against reductions in capital grants for housing provision has consistently been undermined by housing associations competitively bidding against each other for capital allocations below the headline grant rate. Rents have risen far more rapidly in recent years than average earnings. The analysis of lettings by the National Housing Federation shows that 70 per cent of all new housing association tenants face the indignity of being dependent on housing benefit and being trapped in poverty with little incentive to work. In 1994, 61 per cent of all housing association tenants were in receipt of benefit, that is over half a million households.

When you are on benefit it is hard to escape the poverty trap. Under the benefit system devised by the last Government, housing and council tax benefit is lost at a rate of up to 95 pence for every additional pound earned. The Housing Benefit system is a system of super-tax on the earnings of the poor. The signing of the European Union's Social Chapter and the introduction of a national minimum wage will reduce the benefit bill, but radical changes are needed if those on benefit are to escape the poverty trap and have the incentive to move from welfare to work.<sup>3</sup> The appointment of Frank Field MP as Minister of State for Social Security, one of the most radical political thinkers on issues of benefit reform, creates an exciting prospect for change.

The fourth issue which a progressive national housing policy needs to address is control. Many local councillors, including local co-operative party councillors, are of the opinion that, for someone desperate for a home, who controls it is not important. While that may be true at the time of such crisis, it is not the case when it comes to the quality of the life and the community in which tenants will live once that immediate need has been met. When it comes to rights over the homes we live in, our nation is a divided nation - divided between the two thirds who own their own home or are buying it on a mortgage and who are totally responsible for its financing, repair, and maintenance and the one third who rent their homes and whose responsibility stops at the wallpaper. They are tenants, dependent for services on the paternalism of their feudal landlord over whom they exercise little influence or control, however benevolent that landlord may be. In a modern democratic society, the issue of

who controls rented housing is as central to housing policy, and the creation of Stakeholder Britain, as are the three other strategic issues of availability, quality, and cost.

### **The social housing sector and the nature and potential of housing co-operatives**

To sustain the case for the inclusion of consumer rights to control rented housing through the co-operative housing model as a central plank of New Labour's Housing Strategy it is necessary, for the benefit of those who are not directly involved in social housing, to outline the nature and scope of social housing provision and the origins and place of co-operative housing within it.

The pattern of tenure in England, Scotland, and Wales is dominated by home ownership. There are just under 24 million households. Of these, 67 per cent, just under 16 million households own their own home, 2.3 million rent in the private sector, 4.5 million rent from local authorities, and just over 1 million rent from housing associations. By comparison, a tiny proportion - the best estimates are around twenty thousand households - live in housing co-operatives, (accurate statistics on the co-operative housing sector are notoriously difficult to obtain because no government agency maintains them comprehensively). Half of these are what we call par-value housing co-operatives where the co-operative owns the property its members rent from it. The other half are tenant management co-operatives mainly in local authority housing, but some in housing association stock, in which the tenants manage the housing on behalf of their landlord under the terms of a formal management agreement.

### **A pocket history of the co-operative housing sector**

Housing co-operatives are deeply rooted in the co-operative movement both in the UK and internationally. They recognise the Rochdale Pioneers as the source of the seven co-operative principles which form the core of the co-operative social and economic philosophy. It is the same source which inspired the retail and worker co-operative movement. Provision of housing

for members has always been a concern of co-operatives. In 1861 the Rochdale Pioneers Land and Building Company provided the first co-operative housing on land in Spotland Road, Rochdale. In 1867 the Rochdale Equitable Pioneers Society was directly building and providing housing and, by the end of the century had built 300 houses for rent.<sup>4</sup> The Pioneers had also set up the Co-operative Permanent Building Society, later to change its name to Nationwide Building Society.

As the co-operative movement spread internationally, so did the application of the Co-operative Principles to housing provision for working people. The first example of a housing co-operative movement independent of retail co-operative societies was in Germany in the 1890s. It was set up by the Bismarck Government to improve living conditions of workers to help prevent revolution. Not surprisingly, the housing co-operatives in Germany, in common with the rest of the co-operative movement, were abolished by the Nazis in the 1930s. From Germany the concept moved to Scandinavia. Today in Norway, if you are not an individual home owner, you are more likely to occupy a housing co-operative home than any other form of housing. 14 per cent of their total housing stock of 1.7 million dwellings is co-operatively owned and managed under the umbrella of the Norwegian Federation of Co-operative Housing and Building Organisations (NBBL). NBBL are responsible for 15-20 per cent of total housing production in Norway each year.<sup>5</sup> Sweden has two major co-operative housing organisations. The largest, HSB Riksförbundet, manages over half a million homes.

With the persecution of the Jewish Race in Europe during the first decades of this century, housing co-operatives spread to the New World. In New York, the East River Housing Co-operative was set up by the immigrant members of the Garment Workers Union in 1927. In the late 1980s it was still going strong.

From Scandinavia and the USA co-operative housing was imported into Canada. Today housing co-operatives are the largest not-for-profit housing sector in Canada, housing over 250,000 Canadians. Housing co-operatives are truly an international phenomenon. Throughout the developed and developing world they are providing decent homes for their members. The largest co-operative housing complex in the world

is the Kent Co-op in Baitikent, Turkey where over 250,000 households live in co-operative proved and managed homes. In Kenya members of housing co-operatives build their homes in under the umbrella of the National Co-operative Housing Union of Kenya.

In the early 1970s from Scandinavia and Canada the concept of co-operative housing returned to its roots in the UK, re-imported by Harold Campbell, the then Secretary of the Co-operative Party. Harold Campbell was the Founder Chair of CDS Co-operative Housing Society Ltd, a specialist secondary co-operative service agency which now manages 3,000 units of co-operative housing in 70 housing co-operatives around London and the South of England.

If housing co-operatives are so successful in other countries, it is natural to ask why have they not been so successful here? The answer is relatively simple - it is primarily because of our feudal pattern of land tenure, which pre-dates the Norman Conquest. Since feudal times land ownership has been concentrated in the hands of a small number of mainly aristocratic private landowners who, during the Victorian era and early this century, built speculative housing for rent. Because of the appalling housing conditions which resulted, it was necessary, in post-war Britain, for municipal authorities to undertake large scale replacement of slum and war damaged housing - a process which perpetuated the feudal tenure pattern of landlord and tenant.<sup>6</sup> These accidents or realities of history suppressed the need for the self help co-operative housing movement which took root in other countries in Europe and the rest of the World. In this historical context, the provision of housing by local councils was progressive, essential, and made an enormous contribution to the quality of life of millions. Many post-war baby-boomers were born in council prefabs and lived their childhood years in council housing; but at least their working parents had the dignity of a decent home for their family which they could afford, provided by a benevolent council landlord.

Why, then, should housing co-operatives be a central plank of New Labour's National Housing Strategy? There are four main reasons: Firstly; although local authorities must be key enablers in delivering a national housing strategy because they are elected and accountable to their community, it does not make

economic sense for them to return to being the principal providers of social housing. We are now partners with other countries in Europe. The Maastricht Treaty commits us to economic convergence. Transferring capital housing investment out of the public sector will help achieve that economic convergence and maximise the investment of public funds by enabling them to be matched with private finance. The question is how best do we achieve this?

Secondly, society and the expectation of its citizens has changed. Consumers are better educated and expect greater choice and control over the services they receive. Feudal tenure in which rights are derived from a grant of rights by a superior landlord, however benevolent, is not appropriate for a mature 21st century democratic society. If we wish to preserve democracy we must promote it by giving people a stake in democratic organisations at all levels within society.

Thirdly, housing associations which were the preferred alternative social housing providers under the late Conservative Government, have two fundamental structural problems:

- 1) with notable exceptions such as community-based housing associations and some Large-Scale Voluntary Transfer Associations, they have a major accountability deficit. They are accountable only to a small number of trustees or shareholders and to an un-elected Quango, the Housing Corporation, rather than to the communities they serve;
- 2) their capacity to raise private finance to match public investment is limited. In raising finance, they are mining a finite pot of gold; using the value of assets built at times of high capital grant subsidies to secure loans for current development. In contrast, because of their unique legal status, fully mutual housing co-operatives can secure the private loans they need to match public capital grant investment on the open-market-value of the housing their members occupy. The capacity of housing co-operatives to raise private finance has been enhanced by the establishment last year of the Co-operative Housing Finance Society (CHFS) as a specialist financial intermediary for the co-operative housing sector. CHFS has already enabled private finance

to be raised more easily and cheaply for housing co-operative projects.

Fourthly, housing co-operatives are simply a better way of managing rented housing and produce the personal stakeholder benefits which were at the heart of the New Labour Government's election campaign and part of the British Co-operative Party's Agenda for Labour.

Clearly it is necessary to substantiate the claim that housing co-operatives are a better way of managing. Fortunately, that is not difficult as it has been confirmed by independent professional research. In 1991 the Department of the Environment commissioned management consultants, Price Waterhouse, to carry out a study into the management efficiency of co-operatives and other forms of tenant control. Their report "Tenants in the Lead; An Evaluation of Tenant-Led Housing Management Organisations" published in 1995 came to highly positive conclusions as the following summary of their findings shows:

#### The efficacy and cost-effectiveness of tenant involvement

"The findings of this research demonstrate that there are significant and worthwhile benefits associated with Tenant Management Organisations (TMOs) - especially those which give tenants effective control (Tenant Management Co-operatives - TMCs) or autonomy (Par Value Co-operatives - PVCs). While resources are required in the short-term for setting up TMOs, the benefits arising from this initial investment can be expected to produce longer-term savings and benefits which more than outweigh the set-up costs."

#### The Par Value Co-op housing management performance in context

"The PVC case study organisations performed as well as, or better, than their housing association comparators. In interpreting these findings, it is important to bear in mind that the PVCs have been compared with some of the best known and professionally run housing associations in the country.



The fact that the co-ops have delivered housing management as good as, or better than, those fully resourced and professionally run organisations suggests that the PVC model can be a highly effective and efficient form of managing and owning social rented housing".

#### The Par Value Co-op: value for money

"The PVCs have delivered as good as, and in one case better, housing management services than their comparators: their costs were within the same levels, or lower, than the conventional housing association comparators. There was also strong evidence of additional, non-quantifiable benefits for two of the three PVCs. Overall, the PVC case study organisations were effective, adaptable and resilient, and delivered comparable, or superior, value for money."

#### General summary of policy implications: the key lessons are:

- " • small-scale community-based TMOs are able to deliver superior value for money;
- in the housing association sector PVCs are a flexible model capable of delivering housing services which compare with the very best mainstream providers;
- where appropriate PVCs should be encouraged to buy-in services from specialist support agencies;
- the development of TMCs in the local authority sector is more likely to produce better results than forms of TMO where responsibility is diffused, and roles are circumscribed".

#### **Strategies for creating a vibrant co-operative housing sector**

As Price Waterhouse has clearly shown, housing co-operatives are an efficient and cost-effective way of enabling those in need of social housing to gain the personal and social benefits which arise from the practical application of the Co-operative Principles to the management of their homes. After 18 years of adverse

policies which have ignored the potential of housing co-operatives, these benefits will not be realised more widely unless the New Labour Government adopts positive and supportive strategies.

### **Housing co-operatives: creating the stakeholder society**

To realise the potential of housing co-operatives and to create New Labour's stakeholder vision in the social rented housing sector action is needed on six key aspects of housing policy:

- the adoption of positive supportive strategies for housing co-operatives;
- the implementation of a planned national co-operative housing programme which prioritises investment in housing co-operatives;
- positive encouragement for council tenants to form tenant management and transferred ownership co-operatives;
- enabling the formation of a network of regional service agencies to promote, develop, educate and service housing co-operatives;
- support and finance for the development of member training and the training of co-op housing service and support staff;
- the enactment of the Co-operative Housing Act 2000 to establish co-operative housing as a unique democratic form of tenure (a third estate in UK Property Law which is not a feudal grant of rights by a superior Landlord) with its own appropriate legal, administrative, and financial framework.

How can these strategies be implemented? The housing co-operative sector is so small and disadvantaged by the policies of the last eighteen years that it does not have the capacity or resources on its own to mount the political lobbying and public relations campaign needed to ensure that the supportive strategies are adopted and implemented. The best way to promote the role of housing co-operatives is to apply the sixth co-operative principle of co-operation among co-operators and enlist the help of the rest of the co-operative movement to lobby for and promote the development of housing co-operatives both locally and nationally. A proposal to set up a National

Co-operative Housing Forum to co-ordinate this activity is currently being considered by the United Kingdom Co-operative Council. The All-Party Parliamentary Group on Housing Co-operatives is also being re-established in the new Parliament under the Chair of Jenny Jones MP, the Labour Member for Wolverhampton South West. The All-Party Group will act as a focus for Parliamentary activity by supportive Members of Parliament from all parties, including the twenty-six strong group of Labour/Co-operative MPs.

The promotion of the co-operative housing sector is not only a desirable objective in its own right. It is also advantageous to the rest of the co-operative movement. A progressive and successful co-operative housing movement is also a vital source of new committed and educated members for established co-operatives. If closer links are created with other co-operatives, housing co-operatives and their members can be consumers of their services, helping to sustain and expand the third co-operative economic sector which should be the basis of greater social equity and wealth distribution.

Co-operative housing will not come of age until its unique characteristics are recognised as a third estate in law. If they are, it has the potential to be a foundation stone of democracy and social inclusion in the next century. One of the best insights into the political challenges this poses was given by Mr Billy Cobbitt, until recently the Director of the Department of National Housing for the new South African Government. In answer to a question at this year's Chartered Institute of Housing Conference, he said that the most significant lesson he had learned from looking at other national housing systems was that the most difficult challenge politicians faced was to empower ordinary people and then have the courage to stand back and let them get on with managing their own affairs. Those of us who live and work in the co-operative housing sector are confident the New Labour Government will have this courage.

**David Rodgers is Director of CDS Co-operative Housing Society Ltd. Article based on a speech given at Co-operative Congress, Cardiff, May 1997.**

## Notes

- 1 'The State of UK Housing: a Factfile on dwelling conditions' by Philip Leather and Tanya Morrison: The Policy Press.
- 2 'Setting Up; a report into the legacy of homelessness on health'. Anna Collard, London Homelessness Forum.
- 3 'Inquiry into Income and Wealth volumes 1 and 2' Joseph Rowntree Foundation, 1995.
- 4 'Co-op: the People's Business' Johnston Birchall 1994 pS0
- 5 'The Role of the State and the Private Sector (Including Housing Co-operatives) Within the Housing Sector in Norway', Roy Berg Pedersen: World Of Co-operative Enterprise, Plunkett Foundation 1997.
- 6 See Edgar Ansty's classic 1932 documentary film "Council Housing", available from the National Film Library.

# **A Housing Co-op Rescue of Public Housing in Germany**

**Walter Pahl**

Today, the built-up area of the Rhine-Neckar region has about 324,000 inhabitants; but in the Second World War it had become virtually uninhabitable, having been subjected to 151 bombing raids. Much of the population had been evacuated, scattered in every direction. In 1945, the first prisoners of war returned from the camps.

Plans for the first major new building project, the "Ludwig-Frank-Siedlung" in Neckarstadt and the Waldpark-/Landteilstraße in the very badly damaged district of Lindenhof were drawn up in 1949-1951 by the Municipal Housing Corporation (GBG). Designed by the famous architects Wilhelm Schmucker, E. Serini and Ferdinand Mündel, the "Ludwig-Frank-Siedlung" was the most sought after address at this time and many prominent citizens made it their first post-war residence. While the floor plans, materials and interiors were very good in the circumstances of the time, they proved to be unsatisfactory in the long run. Immediately after the war people wanted to put a roof over their heads. Affluence and greater pretensions only came later.

## **Fallen Into decay**

Both the "Ludwig-Frank-Siedlung" and the building in the Waldpark/Landteilstraße are on valuable land close to the city centre. We do not know whether this land was regarded as too valuable for the mostly underprivileged groups (principally social assistance recipients, unemployed, foreigners, etc) or whether it was considered simpler to replace these "old buildings" after the mortgages had been substantially repaid with publicly funded new buildings, instead of maintaining them properly and modernising them. In any event, over the last 20 years only the most urgent repairs were made to these buildings, the object being to demolish the 400 dwellings as quickly as possible and replace them.

With the agreement of the owner, the Housing and Urban Development Department's occupancy policy completed the job of spoiling the appearance of the estates. In this way the "Ludwig-Frank-Siedlung" gradually became a focus of social concern with all its negative consequences. The Lindenhof estate was less affected by these developments because the population structure of this district is completely different. Nevertheless, the visible consequences of what in our opinion was irresponsible neglect of the fabric was apparent in both estates. The miserable appearance of the houses, the depressed state of the occupants, increasing vandalism etc encouraged many occupants who valued a clean home and a decent environment to move out, with the result that the spiral accelerated downwards. Finally, the Housing Department observed that the desolate dwellings "were no longer accepted even by those who were in urgent need of housing". Thus by 1989, despite the increasing housing shortage, a hundred dwellings were already empty and rendered unusable by the removal of pipework and sanitary facilities. The situation was steadily moving towards demolition.

The total cost of modernisation was estimated at DM 85 750 per dwelling unit, which would undoubtedly have resulted in exorbitant rent increases. Modernisation to this extent was no more in the interests of the occupants than demolition. The supervisory board finally agreed to accept the proposal of the management to carry out demolition with the slogan "a new building is better than modernisation". Resistance to these proposals increased among the occupants and in the City Council. A "tenants' advisory working committee" demanded that the Society begin renovations immediately. The committee did not ask for expensive modernisation, but only the repair of the facades, guttering, downpipes, windows, entrance lobbies and letterboxes, all of which was urgently needed. A large number of occupants strongly resisted the idea of demolition. The tenants wanted to retain their inexpensive housing and stay in their homes where they were well-established.

The matter was hotly debated at several meetings of the City Council; the intention to demolish the buildings aroused much controversy. Despite criticism, the society's directors continued on the path they had chosen. Cost comparisons were drawn up. The argument was that expenditure running into millions would

be needed simply to maintain the existing unsatisfactory buildings, on top of the money already spent in the past on renovation. Modernisation would cost just as much, if not even more, than a comparable new building on the available land, and even then modernisation would not correct all the faults. The board of directors decided that this eliminated the possibility of repair or modernisation because the technical and economic results would not be justified. But despite all efforts to bring about demolition, everything was about to turn out differently.

### **Resistance leads to success**

What began harmlessly as an initiative on the part of the tenants quickly grew to be a power struggle. The tenants' advisory committee increased its work with the public. The City Council was inundated with information. Meetings were held to inform the tenants on the possibilities of the initiative. The formation of a co-operative was discussed as a promising alternative. But no progress was made beyond the discussion of many plans and proposals. In the meantime, the administration was not inactive. The members of the City Council were taken on tours of housing which had become unfit for human habitation. The number of dwellings which had become vacant in the meantime grew. Opinions in the City Council were divided. Having gained an impression of neglected run-down buildings, the number of those backing demolition increased.

In 1989, opinions clashed particularly bitterly at a City Council meeting. The intention was to come to a decision in principle. The administration had submitted the proposal for a redevelopment programme (demolition and rebuilding). The party groups had proposed several motions on this question. The then chairman of the SPD Group, Walter Pahl, expressed the following opinion: "In view of the immense housing shortage prevailing at present, which is likely to become even worse, this is the very time when we should maintain our previously expressed opinion that great care be taken in considering demolition, which means the destruction of available accommodation. Demolition and rebuilding will not create one single additional dwelling, but it will destroy inexpensive accommodation." He again raised the question of a co-operative

to which the buildings would be transferred if the responsible municipal housing organisation did not want to renovate the homes itself or was unable to do so. "I am convinced that the occupants themselves will make their contribution and become members of this co-operative. By using rent receipts, the co-operative would then gradually be able to renovate these dwellings. In addition, an attempt could be made to find any additional funds needed on the capital market." Other members of the City Council observed that the dwellings were unfit for human habitation and regretted that the occupants had been unsettled by this initiative and a few politicians. They spoke in favour of the redevelopment programme and moved that the applications be rejected. It was even suggested that repair and modernisation would be a waste of public money. However, in the ballot the motion proposed by the SPD, "That the 400 dwellings be renovated and relet, not demolished," was adopted. In December 1989, a newly elected City Council met, although Walter Pahl did not stand for re-election because of his age. As a result, the residential blocks were again inspected. The management submitted another breakdown of costs to the City Council showing that the accumulated costs for repairs alone amounted to DM 11 269 000 plus OM 2 548 000 for the replacement of pipe installations. To make the vacant dwellings habitable would cost DM 1 333 000, while it was indicated that "there would be consequences affecting costs for the whole block, since reoccupancy necessitated unlimited use of the whole building for years to come, i.e. more costs should be incurred both for the renewal of supply and waste pipes and for restoring facades, balcony accesses and roofs, including guttering and chimneys". This did not yet include other necessary measures such as entrance lobbies, letterboxes, bell systems, stairwells etc. It was still maintained that "the cost of modernisation would be approximately the same as rebuilding. In view of this, the management feels that modernisation is not acceptable". This was also the opinion expressed by the Baden-Württemberg, Ministry of the Interior.

## **Foundation of the Co-operative**

The tenants' advisory committee found it difficult to deal with



the administration without any help from outside and could find no solution to the legally and economically tangled situation; the committee therefore asked Walter Pahl for his advice, since he was well-known for his many years of service in the national and international co-operative movements. After giving the matter some consideration, he offered his assistance, well knowing that it would be an uphill task to create a functioning co-operative from the top down. Many people forecast that the idea would fail.

Regardless of this, meetings of tenants were held in the Lindenhof and Neckarstadt. Opportunities for self-help, self-responsibility and self-administration, their advantages and limits and disadvantages were thoroughly discussed, and the proposals of the administration and municipal housing organisation were compared and contrasted. The idea of the co-operative (with 150 years of history behind it) came out on top. Against the expectations of the administration, the tenants were prepared to participate in the co-operative by taking shares and providing other services. In this way they would secure their inexpensive accommodation permanently and have a right of representation by being able to cast a vote in fundamental decisions on their housing affairs.

Unfortunately, the pioneer of the co-operative in the tenants advisory committee, Wolfgang Schlechta, died unexpectedly in 1990. This was a heavy blow. The loss now had to be made good through harder work. Invitations were sent out to an initial "founders' meeting", in the knowledge that this could only be a test since the draft constitution still required various additions and amendments due to suggestions by the registry court and the responsible audit association. The supervisory board could not be elected in full at this meeting. Nevertheless, the meeting provided proof that a large number of occupants were ready to co-operate and give their own work and that the idea of a co-operative was not simply a pipedream but a realistic possibility. The initial interim constitution was signed by 53 members. The administration could no longer fall back on the argument that "a co-operative is not a workable solution".

On February 20, 1990, the decision was finally taken by the City Council. A joint application by several parties "to transfer to the co-operative at no charge the dwellings intended for

demolition and to give a grant of DM 5.5 million (half of the contribution requested by the municipal housing organisation from the city authority to restore the dwelling) for the maintenance not carried out for many years", was passed by a substantial majority. The dice had fallen in favour of the co-operative, but the battle continued.

### **Difficult contract negotiations**

Whereas the young co-operative was hoping for a rapid transfer and the start of essential work, the administration put up hurdles which were wrongly described as "more demands" by the co-operative when they were removed later. The large number of contentious issues meant that the contract negotiations lasted longer than expected. This made the tenant members more anxious and impatient; they lost faith in their "project". Every delay resulted in continual cost increases. The most controversial provisions of the contract and their compromise solutions concerned the value of the building, old debts, and ground rents. The administration originally intended to maintain complete right of allocation over all dwellings. In accordance with the principles of a self-help organisation we insisted on allocating 50% of the dwellings to members of our choice. We were able to insist on our point of view. The results of negotiations were finally approved by a majority of the City Council and ratified by the legislature in Karlsruhe. Transfer of the buildings to the co-operative took place on November 1, 1990. A long journey was complete, and a new, no less difficult, journey had begun ...

### **The beginning was made unnecessarily difficult**

By December 31, 1992, the most important repairs and modernisation work were complete. A few small jobs were left on the facades and outbuildings and modernisation of sanitary facilities in some of the occupied flats. Most of this work was finished in the first six months of 1993, because the EC Commission approved a grant to finish off the work. The Government of Baden-Württemberg helped with an interest-subsidised loan of DM 5.6 million through the Landeskreditbank.

A large part of the money needed was raised by the members themselves. The result of all this was a visible improvement to the districts where the former "slums" were located. This was noticed, not only by the occupants themselves, but also with approval by the residents of the districts. There is probably no one left in Mannheim today who will not admit that the experiment was successful and that in retrospect the City Council took the right decisions. If the total cost to our co-operative for repair and modernisation of DM 33 500 per flat on average is examined, it can easily be seen how much was saved by retaining the dwelling. But the fundamental difference is not only to be found in comparing costs, but more importantly that 400 valuable dwellings for a needy group of people has been retained and the "money saved" is still available for the creation of urgently needed new housing.

The quantity of social housing continues to fall dramatically. Where Mannheim had 32 874 publicly funded dwellings in 1987, by 1992 this number had shrunk to 18 845, and this will go down even further to 11 848 by the turn of the century. Although the 400 flats rescued by us are no longer regarded as publicly subsidised housing, they are treated by us practically as social housing. We did not increase ground rents until December 31, 1992. Only the additional charges for increased value because of modernisation was passed on. After the Second computation ordinance raised overall rates for repair and administration in social housing the supervisory board and board of management decided to raise our rents by DM 0.80/m<sup>2</sup>/month as from January 1, 1993. We held four meetings to explain the necessity for this measure to members and to ask for their understanding.

### **Occupancy structure, membership, rents**

Although we had fought to be as free as possible in allocating the dwellings, nothing much changed in the sociological distribution of our residents. Flats which were vacant when we took over or which became vacant later were chiefly allocated to persons and families who could produce a housing entitlement voucher. Because of the understandable wish of our foreign residents to improve their living conditions by dividing their extended families in overcrowded dwellings, the result has been

that there have only been insignificant changes within the various nationalities. At the end of 1992, 392 of the 400 tenants (98 per cent) were members of the co-operative. The remaining tenants persisted in refusing to join without being able to give any reason for this behaviour, since they participated just like the members themselves in the joint work, but without establishing membership. Under the co-operative agreement with the City and under the co-operative principle of equal treatment, these tenants will not suffer any disadvantage. On December 31, 1992, the membership shares were valued at DM 2 293 per member, with membership shares of approximately DM 3 202 each representing a significant group without whose selfless help we would not have been able to progress so far.

In the initial phase we had assumed that with relatively simple means repairs would take 5-6 years. At that time, we intended to keep rents at their current levels for 5 years (apart from the additional charges for modernisation), since we did not feel it fair to increase rents before all the buildings were of roughly the same standard. However, shortly before work started the questions began, "Why are you starting there?" "When is it our turn?" "How long is the last block going to take?" We therefore tried to find ways of bringing every building to the same standards as quickly as possible to avoid unfairness. This could only be done by taking out loans. Naturally, even at preferential interest rates, loans have to be repaid. The difference between current social rents and our privately financed rents is negligible. We are very grateful to our tenants and members that they have shown understanding for our financial situation and have accepted the rent increases without any particular difficulty. The average rent excluding heat and light and without the additional charge for modernisation of approx. DM 1.58 for our flats has been increased to DM 4.50/m<sup>2</sup>/month and is thus extremely favourable. (The initial rent for new social housing in Mannheim has been set at DM 8.) If this fact penetrated the consciousness of our members a little more, stimulating greater efforts in self-help, this would be extremely gratifying.

Administration was difficult and extensive and was carried out by a member of the board, working half time, and a caretaker, while a site engineer was available for technical work, assisted for one year by another employee subsidised by the employment

office. All other work was carried out on a voluntary basis. Voluntary workers, working in their spare time, achieved considerable savings, e.g. looking after the grounds, on behalf of the members. Our work was also made easier by the voluntary participation of a number of (male and female) carers. It would however be pleasant if a larger number of members would become involved in sharing work. Description of the work in the Neckarstadt-Ost Community Centre which we created also belongs undoubtedly to the social balance sheet.

### **Neckarstadt-ost Community Centre**

When the Vermietungsgenossenschaft Ludwig-Frank EG took over the dilapidated buildings, our main task was naturally to return the neglected dwellings to a habitable condition as quickly as possible. In recent years, a large number of foreign families and many underprivileged Germans had settled in the Ludwig-Frank-Siedlung, creating a ghetto which could also be described as a social focus. The other residents of the district had little regard for the inhabitants of these ugly and dilapidated buildings; there was a degree of discrimination which was also suffered by the children at school. For these reasons we began at a very early stage to consider how we could improve the living environment of the occupants - apart from improving the conditions inside their homes - and their opportunities for integration so that they would be able to participate more actively in society. This naturally meant that we had to defuse a certain amount of xenophobia. A former off-licence was converted to a Community Centre. The opening on September 14, 1991, celebrated with a little party, met with much popular approval. This party showed that the cultural diversity of the occupants (originating from 15 different countries) could only enrich us all. The work of promoting understanding, respect and co-operation between the very different national and cultural groups could begin.

The employment department generously paid the bulk of the personnel costs for three full time workers. An extensive programme directed towards our goals was worked out and implemented by as many as 12 volunteers. It was particularly important to offer the children help and improve their

opportunities in starting at school or in a job. Foreign children are often at a disadvantage when kindergarten places are allocated. Therefore, a pre-school programme was started to increase the children's language ability by play. Schoolchildren were given help with their homework to improve their chances of obtaining a job qualification. Language courses, needlework courses, silk screening courses and social events, all linked with language practice, were held to help Turkish housewives with their German and pave the way for contact with the German population.

The first successes had just become evident when, without any warning, we were dealt a heavy blow. A large proportion of the funds for job creation schemes were channelled to the new Lander which meant that the Mannheim Employment Office could not continue to subsidise our scheme. We were only informed of this a few days before so that it was impossible for us to find ways of continuing the work in the Community Centre. Despite the intense efforts of politicians and members of the board of management of the regional employment office, this decision could unfortunately not be changed. The painful consequence was that our employees had to be made redundant, and, to our great distress and the disadvantage of the tenants, the Community Centre was closed on May 31, 1992.

But we did not simply give up in the face of this setback. The greater the problems, the greater our determination to overcome them. Fortunately, we had founded a non-profit-making association, the Friends of Neckarstadt-Ost Community Centre. The intention was to pay expenses not covered by grants from the employment administration from the contributions of members and donations which could be claimed against taxes. As long as the job creation schemes were in force this was what happened. But nobody could have foreseen that the grants would be terminated after only one year, since it had been suggested to us that the period could be extended to as much as three years. For that period, the donations and contributions of the "Friends" should have been enough to cover unavoidable personnel and material costs of the Community Centre.

But when the job creation schemes were terminated, we had not yet got that far. We therefore increased our advertising for members and donations, approached foundations and the EC

Commission, unfortunately without the success which we needed and hoped for. Even large companies and banks could not see their way clear to helping us with even small contributions. This was the position when we decided on September 1, 1992, to open the Community Centre again. We increased our own private efforts, and the remaining expenses were covered by the tenants' co-operative. We began with a teacher. After she had started her work, it did in fact prove possible to obtain a 75 per cent personnel cost grant for this job, with a one-year limit, after we had undertaken to create a permanent position beyond the one year. This grant at least enabled us to employ an additional part-time worker.

To improve the Association's financial base somewhat, modest fees were introduced for the children's groups and the various courses offered; this would not even come close to covering costs but would make some contribution to the total cost. For the most part, these charges were accepted by participants. In special cases, the child-care charges, far below normal kindergarten charges, were paid by the Mannheim Social Security Department. In the meantime, our efforts to recruit members and donors continues. The more money we can raise, the more varied and interesting are our programmes. We also have a great need for voluntary practical assistance. It must be possible for mothers to help with children's games or handicrafts for an hour or two and take some of the load from the full-time personnel. Others might like to supervise the occasional outing to a museum, theatre, cinema, or park. Self-help is extremely important in the Community Centre. One should always help oneself before relying on the assistance of other people. So, we are making very high demands. We want our work to make it possible for our tenants from 15 different countries to live and work peacefully with the population of the whole city. That is why we have undertaken to support and integrate the tenants. There are no alternatives to enlightenment and integration. It must be evident to everybody that we cannot do without foreigners. The German population continues to shrink. According to the Rhine- Westphalian Institute for Economic Research, the population has only grown in recent years because of the inflow of foreign workers. Foreigners do not cost taxpayers anything; not only do they pay the cost of their integration

themselves, but they finance our pensions by paying thousands of millions of marks in taxes year after year.

Even if we can only be effective in a small local area, we want our work to contribute to the fight against xenophobia, to improve the economic, political, social, and cultural conditions for the people in our care and to help awaken understanding and tolerance in the neighbourhood. We believe that our self-help projects have already earned us an honourable position in working with foreigners in the community. The social care of certain groups in the population, the encouragement of people from different countries of origin to live together in society by offering leisure and cultural programmes is more important today than ever. For this purpose, our cities have to be designed more humanely and kept habitable. This is just as important as the nurturing of social life itself. If citizens are to identify with their locality, an attempt must be made to dovetail social and urban quality of life more closely. Prevention is always better than a cure; to embrace is better than to shut out. Encounter leads to dialogue, cultural understanding to greater tolerance. These are the directions in which we wish to work.

Besides the full-time workers and voluntary helpers, 12 persons were employed on a fee for service basis to plan and implement the varied programme of courses. The programme was supplemented from time to time by functions and lectures, e.g. a lecture and discussion by the Mannheim Building Guild, who introduced building jobs and recruited apprentices from the mostly youthful audience; there was also a talk called "Health, what is it?" by a non-medical practitioner, information on the Health Reform Act etc. We attempt to be as varied as possible and to give something to everybody. Courses are advertised in a display case and on notice boards provided in each house in the estate.

The wish was also expressed in the Lindenhof-Siedlung to have a small Community Centre. We provided this by converting a basement room. It is now very attractive, although very sparsely furnished, but it serves its purpose and has proved very useful for tenant meetings and meetings of "helpers". However, it would be even better if the tenants in the Landteil-/Waldparkstraße were to do more towards filling this Centre with life. Perhaps someone will take the initiative in offering



Programmes without full-time staff. There are innumerable possibilities, one only has to get involved . . .

## **Conclusion**

This project, originating from a citizens' initiative in the form of a registered co-operative to prevent the demolition of 400 social dwellings and to secure this valuable living space permanently by repair and modernisation, arrived at a good interim conclusion. Management under a system of self-help and self-responsibility is a permanent task which the members of the co-operative must undertake. Between 1990 and 1992 the enormous efforts of the members and the elected officials achieved a state of organisation and a standard in the building which offers good prospects of maintaining the contracts entered upon for the total period of 99 years.

The establishment of the co-operative - one of a very small number in the last 10 years in the Federal Republic - and its work and objectives can act as a successful example and a powerful stimulus to many countries in the EC. However, it must be borne in mind that conditions, circumstances, and requirements differ from case to case and therefore the experiment cannot be simply transferred or imitated. To put a dilapidated group of dwellings in order by a self-administered undertaking, and to operate it by the members jointly requires a powerful driving force, if possible by a large group with a common will. These initiators and those bearing the body of thought directed towards the purpose of the co-operative have to build trust and motivate the majority of members by constant detailed work.

It can be assumed that obtaining a dwelling was the only reason for many people to become members. The readiness to do more than pay for rent and membership shares can only be awoken and encouraged over a period of time. The ideal embodied in the fundamental co-operative idea of contributing as much as possible to one's own good and therefore to the good of the community is first of all very underdeveloped. In a socially weak population with a high proportion of foreigners, systematic social and community work with a cultural emphasis is essential. The importance of work to counteract xenophobia,

cultural development and finally work towards the integration of foreigners cannot be overemphasised. Disadvantages, particularly of children and housewives in foreign families, are removed. Understanding among the German population for other cultures and attitudes is promoted.

Social and community work is the duty of the municipality, but this will not be forthcoming since budgets are overstretched; it cannot be paid for from rent receipts. Initiative, self-help, and solidarity are necessary. For this reason, we formed a support group in the form of a non-profit-making association which collects tax-privileged donations besides membership dues so that costs can be covered. The extent of social work depends on the funds available. A minimum programme must be maintained: pre-school age child care, homework help for schoolchildren, German instruction for young people and adults, play and handicraft courses, needlework, lectures, regular discussion evenings. Close co-operation with officials, institutions and welfare bodies is of extraordinary importance. Our most essential links are with the social welfare office, municipal youth group, workers' social aid, joint public relief associations, evening school (VHS), City of Mannheim officers responsible for foreigners and the College for Social Work.

The immense task of enabling different races and ethnic minorities to live peacefully together and be integrated as far as possible without sacrificing their own identity and culture can only be successfully carried out if many of these or similar centres are created in the various districts, covering as small an area as possible, and with the participation of large numbers of citizens and all agencies concerned.

**Walter Pahl is President of GdW, the German Federation of Housing Co-operatives.**

# Co-operative values and principles: A commentary

Johnston Birchall

One of the original purposes of the International Co-operative Alliance (ICA) has been to safeguard and periodically update and interpret co-operative principles. It did this in 1937, again in 1966 and most recently in 1995. The latest revision arose out of a growing unease about the nature of co-operatives, expressed well by Alex Laidlaw in a report presented to the ICA in 1980. He identified three crises in the development of the world co-operative movement: the first was one of credibility, as co-ops became established and had to prove their viability. The second was managerial, because as they became larger, they faced the problem of how to keep an active membership and to curb the technocratic power of the managers. The third was ideological, arising from 'gnawing doubts about the true purpose of co-operatives and whether they are fulfilling a distinct role as a different kind of enterprise'<sup>1</sup>. Co-operative activists will be forgiven for thinking we are still in all three crises, but after a moment's reflection will probably have to admit that the ideological one is the most important, because it raises the fundamental question of why co-operatives are in business at all.

Figure 1 summarises the values and principles adopted by the ICA at its Centennial Congress in Manchester, 1995<sup>2</sup>.

<b>Basic values</b>	<b>Ethical values</b>	<b>Principles</b>
self-help	honesty	voluntary and open membership
self-responsibility	openness	democratic member control
democracy	social responsibility	member economic participation
equality	caring for others	autonomy and independence
equity		education, training, and information
solidarity		co-operation among co-operatives
		concern for community

Figure 1: Co-operative values and principles<sup>3</sup>

This list is the result of exhaustive study of the views of member organisations within the ICA, and a debate which began at the 1992 Tokyo Congress and culminated in the adoption of new values and principles in 1995<sup>4</sup>. It might be thought that another paper on the subject is not necessary. Yet, as in previous revisions of the principles, the current revision does not draw deeply on political or moral philosophy, but provides a practical consensus based on what the member organisations regard as important. It makes a distinction between basic values and ethical values but does not attempt to rank them in order of importance, or to link them directly with the principles. The purpose of this paper is first to draw on some finer distinctions from political philosophy in order to make the ICA's latest formulation clearer. Second, it provides a commentary which makes connections between value and principle which are more explicit than in previous studies, and which attempts to show the relevance of the new wording to contemporary co-operative issues. A more thorough treatment of the subject would connect up the values and principles with practices, evaluating the performance of co-operatives worldwide. This would make the paper impossibly long, but it has been done to some extent in the concluding chapter to this author's forthcoming book on 'the International Co-operative Movement'<sup>5</sup>.

There are three types of questions regularly being asked of co-operatives. First, there are questions such as: what is a co-operative: is there such a thing as a real or a fake co-operative, when is an organisation not a co-operative? These are questions of rules and guidelines, or what we call *co-operative principles*. Second, there are questions such as: why do we think that co-ops are different from other types of organisation; what it is about them that we value; why it is that "co-operators" often believe so intensely in what they are doing? These are questions about *co-operative values*, which lie behind the principles and show why they matter. Third, there are questions about co-operative practice, about whether co-ops actually live up to the principles and the values which underlie them.

## **Co-operative values**

It is useful to distinguish between different types of value. First,

there is a *distinction between political and ethical values*; equality is a political imperative, honesty an ethical one. It depends on whether a value can be realised by individuals or has to be realised collectively. For instance, in order to protect or extend freedom we look to the actions of governments, but caring for others can be done by individuals. In political and moral philosophy, these distinctions go together: political and collective, ethical, and individual. However, since both attempt to define the 'good life', they do overlap<sup>6</sup>. The overlap is greater still at the level of organisations such as co-ops, which consist of individuals but also to some extent stand above the individual member as a collectivity. Some values, such as honesty and openness, can be expressed by both individuals and their co-ops, but some, such as democratic working, or the equitable return of economic benefits, are a product of the organisation, and can only be expressed at that level. At the level of the organisation, values may be built into its structure and culture which individuals may or may not practice in their personal life. Again, values which are held by individual members or employees may or may not affect the structures and cultures of the organisation and affect its 'behaviour'.

Second, we can distinguish between values which are *ends in themselves* and values which are a *means to an end*. The famous trilogy, 'liberty, equality, and fraternity', are generally regarded as ends in themselves, while democracy and self-help are means to a particular constellation of these three first order values. Ethical values are usually seen as an end in themselves (caring or honesty may sometimes be a means to another end, but if they are we may feel that a person's motives are impure). They are done not for any reward but because of an 'imperative' which overrules self-seeking behaviour. Third, we have to recognise that *values may be incompatible*. They cannot all be maximised at once, and sometimes they have to be traded off against each other; for instance, in some circumstances democracy and efficiency are 'antinomic', that is, we cannot easily have more of one without having less of the other, and so co-operators have to weigh up their rival claims. Finally, there is a further complication, because there are *different types of co-op*, each one emphasising a different cluster of principles and values. The whole subject has to be considered from the perspective of each type of co-op as well as

that of the co-operative sector as a whole.

First order values	Second order values	Principles
Political:		
liberty	democracy	voluntary and open membership
equality	equity	democratic member control
solidarity	self-help	member economic participation
	self-reliance	autonomy and independence
		education, training
Ethical:		co-operation among co-ops
Honesty		concern for community
Openness		
Social responsibility		
Caring for others		

Figure 2: Co-operative values and principles reordered

### Three approaches to the study of co-operative values

Bearing in mind all these distinctions, how should we approach the study of co-operative values and principles? There are at least three alternatives. We can begin from right to left on Figure 2, studying co-operative principles as they have been handed down to us, and from them deriving some ultimate values. This - might be called an *evolutionary approach*; a deep understanding of the contribution of the founders of co-operative movements - the Rochdale Pioneers, Raiffeisen, Schulze-Delitzsch, Buchez - is combined with an appreciation of current members' needs and the constraints of the contemporary business environment, to produce a reformulation of the basic principles. This is the traditional approach taken by co-operative thinkers. For instance, T.H. Mercer talked of uncovering 'the thought that informed (the) actions' of the Pioneers<sup>7</sup>. He pointed out that they were 'too practical to be philosophers' and yet that by investigating their methods we can come up with some fresh principles. The philosophical concepts are there but are 'hidden in these methods as gold is hidden in a rock'<sup>8</sup>. The gold he mined consisted of seven principles: universality, democracy, equity, economy, publicity, unity, and liberty. G.J. Goedhart also examined the Rochdale tradition, and claimed to be able to identify a 'true basis of the Co-operative Movement' in such moral values as

solidarity, self-help, honesty and efficiency<sup>9</sup>. Will Watkins provided a list of six principles - association, economy, equity, democracy, liberty, and education - from a long and deep meditation on the Rochdale tradition and from his observation of co-operative practice. He also made clear his scepticism towards philosophers, saying 'The validity of Co-operative Principles is founded upon the experience and common sense of the many, not on a revelation made to or by a few'<sup>10</sup>.

There has been one unfortunate consequence of this emphasis on discovering and interpreting the 'true' Rochdale principles. Patrick Develtere argues that co-operative development 'experts' have tried to promote an ideal form of co-operative in Third World countries, not allowing the people of those countries to develop their own social movements in case these deform from the ideal. Co-operative laws and the oversight of powerful officials have led to the formation of a co-operative *sector* but not to a genuine co-operative *movement*, because the people have not seen the co-ops as being their own. Develtere sees the Rochdale and ICA principles as 'the result of a complex interplay of a co-operative praxis, co-operative ideology and specific organisational choice'. They arose naturally through the practice of the Pioneers, but when applied to co-operatives in a development context they become 'normative instruments' which prevent local people from becoming autonomous<sup>11</sup>. This is a serious criticism, but it points to defects in the way co-ops have been developed, ways which have violated the principle (made explicit in the 1995 formulation) of autonomy. It does not really invalidate this method of using co-operative principles to provide a deeper understanding of co-operative values.

The second approach recognises the distinctive ownership and control structure of a co-op as a *member-owned business*, and from this derives most of the same kinds of principles and values. Edgar Parnell has coined the phrase 'people centred businesses' (PCBs) to identify a crucial difference between organisations which are owned by investors and those which are owned by members<sup>12</sup>. By systematically identifying the differences between member-owned and investor-driven businesses, he is able to distil some of the key co-operative principles and apply them not only to co-ops but to similar 'PCBs' such as mutual insurance societies, friendly societies, clubs and associations and employee

partnerships. He begins by identifying the most essential feature of a PCB, which is that 'it exists to serve the needs of the people involved' rather than that of investors. This is seen as a first order value, with democratic control as a means to this end. After these values come a variety of policies, all of which are judged on their capacity to achieve the primary goal of serving the members.

Because this analysis is detached from all reference to the canon of Rochdale and ICA principles, it can be refreshingly heretical, especially over rewards to capital and the question of investor-stakes in the equity. Parnell distinguishes between control over the business - which should never be given up by the members - and investor participation in the growth of the assets - which is acceptable if the capital can be used productively. Yet in identifying essential policies that a 'genuine' PCB would have to follow, he finds a remarkable fit with the traditional co-operative principles: open and voluntary membership; detachment of profit from rewards to capital; voting based on the member as an individual; benefits shared in proportion to the use members make of the PCB's services; and the importance of providing information to members. The 'fixed and limited interest on capital' and the 'education' principles are watered down, and there is no mention of 'co-operation between co-ops', which is not surprising since a principle of solidarity between organisations can hardly be derived from analysis of the internal workings of one organisation. Otherwise the fit with the ICA principles is very close.

The third approach works from left to right on Figure 2. It begins from a particular view on ultimate political values, and works forwards through the second order values to the principles and practices. The choosing of a strong view of one of the three end-values - liberty, equality, solidarity - has impacts on the others. Traditionally those who value equality have a less powerful argument about liberty (though they can develop a strong argument about a positive kind of liberty which is only brought about through making people more equal). Those who value solidarity will also have a strong view of equality, because they recognise that deep economic inequalities will, in the long run, undermine social solidarity. Those who value liberty above all else tend to be very suspicious of projects which aim at



equalising people's property. In the end, writers choose a particular constellation of the trilogy, make connections with second level values, adding some large assumptions about how markets work, the role of the state and so on, and finally come up with a 'world view' which may contain surprisingly strong arguments for co-operatives.<sup>13</sup> J.S. Mill, famous for this work on liberty, developed a strong argument for worker co-ops. R.H. Tawney, the great British historian, argued that the third part of the liberty-equality-fraternity trilogy had hardly been considered in political philosophy, and this led him to appreciate the consumer co-operative movement's achievements.<sup>14</sup>

Occasionally, co-operative writers also use this approach. For instance, Jack Craig begins from an argument about social inequality (in class, race and gender), to evaluate the performance of co-ops worldwide.<sup>15</sup> Peter Davis begins with a strong argument for 'community as ... a human end in itself', and then identifies the role of co-ops as being to build communities, through meeting the common economic and social needs of those who are vulnerable and powerless in the market place.<sup>16</sup> There are some problems with this approach. One is that when we begin from a strong argument about values, we may never quite reach the point where this can be 'cashed' in terms of co-operative principles and practices.<sup>17</sup> However, this defect can be remedied if academics sympathetic to the co-operative movement were to work out the implications in more detail. Another disadvantage is that when we turn the searchlight of a value-laden approach on to co-operation, the subject matter may not bear the weight put on it<sup>18</sup>. We should not put more value on the practice of co-ops than they can bear.

Let us now take the more traditional approach, starting from the latest formulation of the principles, working back towards the kinds of values we find embodied in them, and then working out what this means for co-operative practices. The ICA defines a co-operative as

an autonomous association of persons united voluntarily to meet their common economic, social, and cultural needs and aspirations through a jointly-owned and democratically-controlled enterprise.<sup>19</sup>

This summarises a set of seven principles which spell this out in more detail.

## **Membership In a co-operative**

The first principle is really two quite distinct principles concerning the terms under which individuals join a co-op: *voluntary and open membership*. The wording is:

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.<sup>20</sup>

The early promoters of co-ops took voluntariness so much for granted that they did not bother to write it down; it does not appear among the Rochdale principles, appears as one of two supplementary principles in the 1937 formulation, and only becomes fully recognised in 1966. It was when governments began to see co-ops as tools of national economic planning that the danger of compulsion soon became apparent. It was blatantly obvious in the Soviet Union where membership in consumer co-ops was made compulsory. Less obvious has been the pressure put on farmers at various times and places to join marketing co-ops which have functioned as quasi-marketing boards. More subtle still has been pressure put on people to join a co-op when there has been no realistic alternative, though in this case it is a deficiency in the market, rather than actual compulsion, which has been to blame. At the back of this principle is a first order value - *liberty*. This has to be valued for its own sake, as an end rather than a means, because we believe that without it, we are diminished as human beings. What kind of liberty is it? It is not freedom to choose between an endless set of possibilities - we expect to be constrained by lack of information, of resources and of time - but it is at least a negative freedom to choose not to do something if we do not want to.

Yet we have to admit that there are some circumstances when 'compulsory co-operation' is justified. Beatrice Webb, that great supporter of the co-operative movement in Britain, spelled these

out as: when there is no identifiable constituency of consumers; where a service is paid for by all but only used by a minority at any one time; where services provided are interdependent and cannot be separated; where compulsory taxation of non-users is required; where compulsory regulation is needed of anti-social conduct; and where there is a natural monopoly over a resource.<sup>21</sup> This means that there are certain services and regulatory activities which a local authority should provide, involving all of the people as citizens rather than as consumers. Street lighting, public parks, police and fire services, town planning, provision of clean water, regulation of public health, are all examples where compulsory 'membership' is justified. But using these six conditions we can soon find the limits of such compulsion, and argue that beyond these limits people should not be made to join in.<sup>22</sup>

Of course, there is a strong argument for co-operation based on a positive view of liberty. If liberty is defined as freedom from want, from insecurity, from lack of shelter or from debt to moneylenders, and so on, then providing services through co-ops enlarges rather than diminishes individuals' liberty. There is also a strong argument that, once they have joined, co-op members have to accept certain constraints on their liberty, such as a duty to join in, to help make decisions, to help provide the co-op with capital. This is expressed in the ICA statement as 'being willing to accept the responsibilities of membership'. But these arguments cannot be used to justify the taking away of that other, more basic, freedom not to join in the first place.

Open membership was one of the Rochdale principles. After a cautious start when they limited it to 250 people, they threw open membership to anyone who wanted to join, on a down-payment of a shilling.<sup>23</sup> They did expect members to build up a substantial shareholding of five pounds, but set the initial threshold low, so that by 1880 they had over 10,000 members, a substantial proportion of the local population. Paul Lambert calls this the principle of the 'open door'. It was one of the main reasons why co-operative economists such as Charles Gide believed that consumer co-operation could, on its own, transform society, overcoming class warfare by gradually 'buying out' capitalism.<sup>24</sup> It is much more difficult to apply to other forms of co-operative. Farmers usually have to find a substantially higher equity stake before joining, while workers often have to serve a

period of probation before being offered membership. In housing co-ops the expression 'open door' is hardly appropriate, since membership is limited to the number of 'front doors' available. The important point here is that the conditions for membership should express the underlying value, *equity*. Entry, though restricted, should not be barred to people because of irrelevant attributes such as gender or ethnicity.

Two difficulties then arise. First, we know that co-ops have often had an affinity with a particular religious or political movement. Membership of the Rochdale Society of Equitable Pioneers was open to all, subject only to the will of a general meeting, but three new co-ops were set up in the town to reflect other interests: the Conservative Industrial Society whose members found the Pioneers too socialist, an Irish society which obviously favoured people of one ethnic origin, and the Rochdale Provident, whose members were against links with the CWS.<sup>25</sup> The important test is not that co-ops should have no cultural identity, but that membership should not be denied to anyone unfairly. Second, we have to recognise that there are co-ops set up to meet the needs of some kinds of people. This is particularly true of housing co-ops which, in Britain and Canada at least, have deliberately set about housing women, or single parent families, or ethnic minority groups.<sup>26</sup> What do we make of a co-op which houses only elderly Chinese people, or Afro- Caribbean people or single women? Similarly, credit unions are often explicitly based on a particular religious or ethnic group; in some countries they have to be able to demonstrate a common identity before being allowed to operate.

To answer these questions we have to go deeper to analyse underlying values. Open membership points to the first order value of *equality*; that all people should have an equal chance to participate in the economic benefits of co-operation. If membership is artificially restricted on grounds which are irrelevant to people's needs and ability to take part, then this is unequal. On the other hand, co-ops which are set up explicitly to house, or find work for, or encourage saving by, people who because they have these attributes are disadvantaged in the wider society, then it could be argued that the co-op is merely redressing the balance<sup>27</sup>. The important underlying value is still equality. But what do we mean by equality? It has been argued by anti-

socialist writers that equality means putting one's faith in an enforced 'levelling down' of citizens through progressive taxation and public ownership of the means of production. Co-operators are interested in 'levelling up', by providing disadvantaged people with membership in an economic organisation that, through mutual strength, compensates for their individual lack of power in the market. As Proudhon put it, 'Property is theft'; that is, the amassing of capital by a minority of people makes the rest of the people dependent on selling their labour in the market place in order to survive. But, as he went on to say, 'property is freedom'; by providing property-less people with commonly held assets (in his prescription, through worker co-ops), we can enable them to trade their way out of poverty<sup>28</sup>. If some people choose to do this in co-ops which encourage a particular cultural or ethnic group, then provided others have the opportunity to join similar co-ops there is no serious infringement of the open membership principle.

### **Co-operative democracy**

The second principle is *democratic member control*. The wording is:

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.

As well as being a co-operative principle, democracy is an underlying value.<sup>29</sup> To the Rochdale Pioneers, the principle of one member one vote (regardless of size of shareholding) was so taken for granted that they did not put it in their rules until 1845. Some had experience of earlier friendly societies whose traditions had always been democratic, and they borrowed the rules of one of them to set up their society. Some were members of non-conformist Christian chapels, whose congregations were

used to making their own decisions at the local level. Most of their leaders had been Chartists, part of a great social movement which had been agitating for political reform of a parliament that at the time completely excluded working class people from the vote; the Pioneers signalled their commitment to democracy when they coloured the shop door and the sleeve bands of the shopworkers 'Chartist green'.<sup>30</sup>

The arguments for democracy are well known. They rest on the right of individuals to be involved in decisions which affect them substantially. Behind democracy is a particular trade off between the first order values of *equality and liberty*; people who are giving up personal freedom in order to make joint decisions which they will sometimes disagree with should have the right to an equal vote. This argument is particularly compelling at the political level because it relates to a state which claims ultimate authority over its citizens; the slogan 'no taxation without representation' expresses it well. But it also applies in any area of life in which individuals are asked to give up their freedom for the sake of a collectivity. What is remarkable about co-operative democracy is not that it is democratic but that it confers democratic rights on people in the **economic** sphere. The very same year that the Pioneers opened their shop, a joint stock companies act was passed in Britain which allowed capitalist companies to be formed, in which voting rights were calculated on the size of a person's shareholding. They could have registered their society under this act but chose not to.<sup>31</sup>

Democracy does not imply one particular method of reaching decisions. Co-ops may decide to make decisions by general meetings or by committees of elected representatives, they may stipulate in their rules that decisions need majority voting or consensus. Different types of co-op will adopt different methods: small worker and housing co-ops may operate entirely by general meeting, large consumer co-ops by elaborate tiers of regional and national-level meetings, with each tier electing higher-level representatives. When co-operatives form federal bodies at higher levels, 'co-operatives of co-ops', other methods are needed such as voting proportional to the number of members in each co-op, or to the amount of trade they do with the secondary co-op. There are good arguments for promoting participatory rather than representative democracy (and vice versa),<sup>32</sup> but these cannot

be derived from co-operative principles.

What is implied in the principle is that the quality of democracy can vary from one co-op to another, and within one co-op over time.<sup>33</sup> The ICA statement identifies two aspects to this: active participation by members and accountability to them by elected representatives. Active participation can be measured along two dimensions: the **extent** to which members take part in meetings, voluntary work and other forms of activity, and the **intensity** of their involvement in decision-making. For instance, fewer women may be taking part than men, and their views may be taken less seriously. Lay members may be attending meetings regularly, but the decision may be over-influenced by the views of managers and other 'experts'. Accountability can also be measured in two ways: by how typical the representatives are of members in general, and by whether they consult with members over major decisions. For instance, membership in a consumer co-op may consist mainly of women, while the board is composed mainly of men. Representatives may lose touch with their members and prefer to listen to the advice of their managers when making key business decisions. These issues are further complicated by the tendency of the quality of democracy to decline over time. In smaller co-ops, there may be problems of succession from a group of founder members to younger ones, or problems of 'burn out' when active members become tired. In larger co-ops, there may be problems of adjustment to rapid growth, business expansion and consequent remoteness from the members. There is a well known tendency to oligarchy - rule by the few - in democratic organisations as they grow older". These practical problems have to be understood and admitted if we are to apply the co-operative principle of democratic member control.

### **The economic results of co-operation**

The third principle is *member economic participation*. The wording is:

Members contribute equally 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.

This complex principle started life as the third and fourth of the Rochdale principles: fixed and limited interest on capital, and distribution of the surplus as dividend on purchases. 'Fixed' interest means that, in contrast to the joint stock company, capital is not rewarded with a dividend which rises and falls with profits. 'Limited' interest means that a co-op will pay only what it has to in order to obtain the use of capital; it was one of Robert Owen's principles that, while capital has to be paid for, it should not enable the capitalist to cream off the surpluses made by the labour (or consumption) of others. The distribution of surpluses in proportion to purchases was, of course, the famous 'dividend principle', which enabled the consumer co-operatives to grow so rapidly, and which until recently gave them a built-in advantage over their competitors.

In the reformulation of 1937, these principles remained intact, though the wording of the dividend principle was broadened so that it applied to 'transactions' rather than purchases. This was a recognition that in worker co-ops it is the amount of labour, not of purchases, which is rewarded. By 1966 the dividend principle had become a more general statement about the use of surpluses: they could be retained for development of the business; used to provide common services; or distributed as a dividend to members in proportion to their transactions. This statement also had the advantage that it pointed beyond the old dividend principle to the underlying values, *equality and solidarity*: 'surplus ... should be distributed in such a manner as would avoid one member gaining at the expense of others.'<sup>35</sup> It is the kind of equality that recognises one's contribution to the co-operative, while avoiding 'levelling down'. It is the kind of solidarity which values a method of distribution which will not set members against each other but



reinforce their sense of belonging.

Again, there are particular values associated with different types of co-op. In consumer co-ops, the dividend principle means that members are in effect paying cost price for their goods; though market prices are charged at the end of each trading period, any overcharge beyond the bare cost of distributing the goods is returned to the member. It is what Charles Gide called a *fair price mechanism*.<sup>36</sup> In worker co-ops, the principle means that labour is being rewarded for the value that it is adding to the production process. It is the reward to labour that the original promoters of the ICA were seeking.

The latest restatement of the member economic participation principle recognises the underlying value of democracy; 'capital is the servant, not the master of the organisation. Co-operatives exist to meet the needs of people'.<sup>37</sup> It recognises the corollary of democracy, that members have some duties as well as rights; though capital contributions such as loan stock or bonus shares attract a market rate of interest, shares subscribed as a condition of membership should usually receive little or no reward. It recognises the value of solidarity in the principle of collective capital; a co-operative's reserves are not all the property of individual members but some part of them is held in common. This is particularly important in some worker co-operative movements where there is a strong tradition of common ownership.<sup>38</sup> It is based on the argument that capital is created not just by individuals but by collective effort; co-operation itself adds value, and its results cannot all be divided up. Furthermore, in longstanding co-ops current members benefit from the efforts of past generations and so ought to hold that collective capital in trust for the future. This justifies the associated principle that if a co-op is wound up the members should not be able to share out the assets but should give them to a similar organisation.

### **The autonomous organisation**

The fourth principle is *autonomy and independence*. The wording is:

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 the members and maintain their co-operative autonomy

Like the principle of voluntary membership, this is one which did not, at first, need to be made explicit. But as soon as state aid began to be provided - for instance to worker co-ops in France and agricultural co-ops in Germany - co-operators began to face the possibility of having to compromise their autonomy. A similar dilemma faces co-operatives which, under the fiercely competitive trading conditions of a global economy, now have to raise large amounts of capital from outside their own resources. We will see in the next few chapters how these two problems have affected co-ops in each region, and how they have struggled to become independent of governments, and to maintain their autonomy while raising capital from the money markets. We will see, also, how the gaining of independence itself brings new challenges and dangers to co-operatives, especially in the agricultural sector, which has almost universally been accustomed to highly protected markets.

## **Co-operative education**

The fifth principle is *education, training, and information*. The wording is:

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.

There have been three distinct phases in the history of co-operative education. The first is illustrated by the Rochdale Pioneers, who were interested in providing basic literacy and technical education to a largely uneducated membership. Soon after they began trading, they set up a substantial library and

newsroom, and by 1850 they were running their own school and adult education classes. By 1854 they had written the promotion of education into their statutes and set up a separate education committee with a levy of 2.5 per cent of their surpluses to finance it. This became the norm everywhere in Europe that consumer co-ops followed the Rochdale model, though not all managed to allocate as much as 2.5 per cent<sup>39</sup>. By the 1890s, in Britain this phase of co-operative education was over;<sup>40</sup> local authorities were building libraries, primary education had been made compulsory, and the co-op was in search of a new role. In other countries where state education had been available earlier, this first phase came to an end much sooner.<sup>41</sup>

The second phase was a narrower commitment to co-operative education, with a special emphasis on the understanding of the economics of co-operation, and in particular of the co-operative principles. As the Japanese co-operator Kagawa put it

Unless the principles of Co-operative economics are well understood by every member, the Co-operative will ultimately collapse ... Accordingly the Co-operative movement must begin with a thorough-going educational movement.<sup>42</sup>

This phase, which most co-operative sectors are still in, is marked by the founding of co-operative colleges. It involves the offering of formal courses to active members, employees and managers, and government officers in their roles as advisors and regulators of the sector, either by attendance at the college or by correspondence courses. In developing countries the teaching staff and the majority of students are government officers, which raises the question of whether the education principle and the autonomy principle are at odds, and whether a better service could be provided if the colleges themselves were independent. This phase also includes the development and updating of a distinctive co-operative curriculum: technical subjects such as accountancy and marketing are combined with specialist subjects such as co-operative law and co-operative principles.<sup>43</sup>

We may now be entering a third phase, in which formal education through specialist co-operative colleges gives way to a variety of new approaches. Promoters of co-operative sectors

in third world countries are beginning to question whether it is cost-effective to send students to co-operative colleges in first world countries when there is little evidence that the training they receive has an impact on co-operative performance back home. The danger of transplanting inappropriate models has been noted more generally in relation to co-operative development, but it applies acutely to education and training. The new approach includes: making sure the right people are trained; making it more cost-effective by training people in their own country; making courses relevant to the problems of the local co-operatives; linking training to the work situation; active participation by students; networking with participants after training has ended; and promoting sustainability, by building the capacity of local training agencies, which do not any longer have to be situated on costly campuses.<sup>44</sup> Of course, our three-stage model is a simplification; some trainers have always used this approach, rooting co-operative development within an effective system of informal adult education.<sup>45</sup>

It might be thought that there is no need to add 'information' to the education and training principle, but this signals another characteristic of this third phase, the provision of basic information to co-op members and to the general public. There is beginning to be a new attention to the public image of the co-operative sector. MacPherson says:

In recent decades, too many co-operatives in too many countries have ignored this responsibility. People will not appreciate, they will not support, what they do not understand.<sup>46</sup>

In large, regionally based co-ops, it cannot be taken for granted that people will understand their difference from conventional businesses. Nor, in old-established co-ops, can it be taken for granted that a formerly loyal membership will continue to have positive feelings about the business, even if it is run badly. Especially it cannot be assumed that young people will know anything about co-operation, or respond positively to co-operative values<sup>47</sup>.

Are there distinctive values underlying this commitment to education, or is it purely pragmatic? There are obvious economic

benefits to be gained from effective training for members and employees, and the provision of information to the public - investor-owned businesses do no less. What makes co-operative education and training distinctive is that it carries a different message that a people-centred business is a viable alternative and is rooted in different values and principles. But behind this is an even larger conception of co-operative education.<sup>48</sup> Many of the early co-operative promoters were also keen on adult education, seeing each as a condition for the other, and both as a precondition for one of the classic liberal values - individual *liberty as self-development*.

### **Co-operation between co-operatives**

The sixth principle is co-operation among co-operatives. The wording is:

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

This is not one of the original Rochdale principles, though the Pioneers were clearly expressing it when, despite all sorts of legal impediments, they began wholesaling for other local societies and then set up the first co-operative wholesale society.<sup>49</sup> The extent to which co-operative sectors have practised it has depended partly on the perceived economic advantages, but more on whether they have seen themselves as part of a wider movement. We can identify three approaches to this question in the development of co-operative thought. First, there is the view of writers such as Charles Gide in France and J.P. Warbasse in the USA who argued that the co-operative sector had the capacity to become dominant within western economies, and who put the utmost stress on co-operation between co-ops in order to realise this vision.<sup>50</sup> Second, there was the view of socialist writers such as Beatrice Webb and Ernest Poisson that the co-operative sector should be seen as part of a larger project to transform society; here the stress was on co-operation between co-ops and other socialist movements.<sup>51</sup> Finally, Georges Fauquet brought a dose of realism to the

debate, arguing that the co-operative sector would never be more than one among others, bringing specific benefits to its members and finding a niche in the marketplace alongside other sectors; here co-operation between co-ops is just a good business strategy.<sup>52</sup>

The official commentary on the ICA's latest reformulation of the principles emphasises that 'there is a general co-operative interest, based on the value of solidarity', but it emphasises more the practical need to co-operate in order to survive and meet the needs of members in an ever more competitive global economy.<sup>53</sup> The traditional way to do this is by federations, but this model of organisation may now be too slow and inflexible to cope with a rapidly changing business environment, and new, looser ways are being found by which co-ops can co-operate; hence the recent interest among academics in networking.<sup>54</sup>

## **The wider obligations of a co-operative**

The seventh principle is *concern for community*. The wording is:

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

What do we mean by community? The simplest distinction is between geographical communities and communities of interest. The Rochdale Pioneers limited their society to one town and encouraged others to set up their own societies within their own localities,<sup>55</sup> while Raiffeisen based his credit societies on the village community. As co-operatives expanded, and the different types of co-op were developed, they began to represent interest communities such as workers or farmers, or consumers in general, and lost some of that association with a locality. To understand the implications of this, we have to turn not to the philosophers - they have very little to say about the value of *solidarity* - but to the sociologists. Right from the beginning of the development of their discipline, sociologists have been concerned with the problem of social order. They have been aware that social solidarity may just as easily promote conflict as consensus, because strong group identities lead to others being classed as outsiders. This raises

the possibility that, in including people who have a common interest, co-ops might exclude other 'stakeholders'. We have noted how, towards the end of the last century, promoters were campaigning for consumer co-ops to take account of the workers, and their failure to do so shows that co-operation may not automatically benefit everyone.

The sociologists have also had to grapple with the problem that in modern societies older forms of solidarity have declined and new ones have not necessarily taken their place: in developed, urbanised societies the sense of community may be weak and partial, and co-ops may have difficulty in identifying a community to which they can relate. The relationship between co-operatives and communities is therefore a complex one. If the co-operative sector is well developed, it may be able to sustain a wider sense of community: the Mondragon worker co-ops in the Basque region of Spain, and village-based co-operative economies such as Evangeline, Canada and Maleny, Australia come to mind<sup>56</sup>. It is more likely that the sector will itself be influenced by the wider culture in which it is embedded; American co-ops have a very different cultural environment than Japanese ones, and this affects the way their members identify, and identify with, the wider community. Yet this principle challenges members of co-operatives everywhere to make this identification, and to accept the obligations which follow.

It means identifying different stakeholders: in a worker co-op the consumers, in an agricultural co-op the future users of the land, in a consumer co-op the producers in developing countries, and so on. It means making sure that women are able to participate as fully as men. Probably the hardest challenge which follows from acceptance of this wider sense of community is - for the sake of that elusive stakeholder the future generation - to commit one's co-operative to environmental protection and sustainable economic development.

## **Conclusion**

Taken together, these principles are more than just the sum of their parts. Professor Ian MacPherson, who drew up the latest set of principles, says:

They are subtly linked; when one is ignored, all are diminished. Co-operatives should not be judged exclusively on the basis of any one principle; rather, they should be evaluated on how well they adhere to the principles as an entirety.<sup>57</sup>

This author has said something similar of the Rochdale principles:

The Pioneers' achievement was not to invent new principles but to bring them all into a right relation with each other. They must be understood in their totality; they are like a jigsaw puzzle, in which each part is essential if the whole picture is to emerge.<sup>58</sup>

For instance, the principle of *voluntariness* is a precondition for democratic member control, because people who have not joined freely are unlikely to take as much interest in the organisation. Where, owing to lack of choice in the market, membership is involuntary, education and training comes in as a way of convincing members that the co-op is worth supporting. The principle of *open membership* does not impinge directly on the others, but it can be seen as a precondition for fairness in the third principle, member economic participation; if entry to a co-op is discriminatory, the sharing out of the benefits is not as equitable as it seems. The principle of *democracy* is also tied into member economic benefit, because without democratic decision-making the benefits may not be distributed equitably, or even go to members at all. The *economic benefits*, if allocated to reserves enable the organisation to be independent, and they may be allocated via a social dividend to the community. The principle of *autonomy and independence* has an obvious tie in with voluntariness; there is no point in individual membership being voluntary if the organisation we join is not independent. Nor is there any point in being democratic if the important decisions are made elsewhere.

*Education* is both a principle and a precondition for the rest of the principles: its most basic purpose is to inform people that the principles exist. *Training* is needed for the exercise of democracy and the effective running of a co-operative so as to ensure its independence and member economic benefits.



*Co-operation between co-ops* ensures that they become strong enough politically to counter state interference and economically to compete effectively in the market.

Taken together, these principles and the underlying values to which they give expression should enable us to evaluate the performance of different types of co-operative in the varied settings in which they operate in different regions of the world. The next task which the ICA has set itself is to work out the implications for co-operative practices. The values and principles, if understood in all their richness of meaning, should be a firm foundation on which to build.

**Dr Johnston Birchall is Editor of the Journal of Co-operative Studies.**

## **Notes**

- 1 Laidlaw (1987) p9
- 2 See MacPherson (1996)
- 3 Agreed at the ICA Congress, Manchester, 1995
- 4 Böök (1992). The debate is continuing, because the next stage is, of course, a consideration of how these can effectively be put into practice.
- 5 See Birchall (1997)
- 6 See Goodwin (1987) Ch.1
- 7 Mercer (1995)
- 8 Mercer, (1995) p11
- 9 Goedhart (1995)
- 10 Watkins (1986), p14
- 11 Develtere (1994) p18
- 12 See Parnell (1995)
- 13 See Birchall (1988) Chs.2-3.
- 14 Tawney (1964) Ch.5. Similarly, another English 'ethical socialist', A.H. Halsey, connected up fraternity, social order, and economic democracy to provide a strong argument for producer co-ops.
- 15 Craig (1993) Ch.7. He is working as a sociologist, though, rather than a political theorist.

- 16 This is similar to the 'people-centred business' approach, but with a stronger imperative derived from the first-order value of solidarity, which then implies a second-order value of empowerment of the economically disadvantaged.
- 17 For instance, Jonathan Boswell (1990) provides a strong and well worked out argument for 'democratic communitarianism' which amounts to a virtual philosophy of co-operation, but then in his prescription for what follows from it advocates tripartite corporate arrangements for 'public co-operation' which does not acknowledge the co-operative sector at all.
- 18 For instance, Morrison, in his book on Mondragon (1991), is looking for a living example of 'ecological postmodernism'. He claims to have found it in the Mondragon co-ops but has to admit that the role and status given to women has not lived up to the model, and that the producer co-ops have not always taken an ecologically sound attitude to the type of product.
- 19 MacPherson (1996)
- 20 MacPherson (1996) p15
- 21 Webb and Webb (1921)
- 22 This argument has been developed for housing co-ops over against local authority 'council housing' - see Birchall (1992)
- 23 Legal status was not granted until 1852, limited liability until 1862. A shilling is equivalent to five new pence, but in 1844 was, of course, worth much more.
- 24 See Lambert (1963)
- 25 See Thompson (1994) pp49-50.
- 26 See Novac and Wekerle (1995) for an account of women's housing co-ops.
- 27 The argument then stands or falls on the wider arguments for and against positive discrimination.
- 28 See Birchall (1988) Chs.2-3.
- 29 In fact, we should perhaps see the principle as being member control, and democracy as the value which justifies it, though this is a fine point.
- 30 Thompson (1994) p39
- 31 Even when they did use the joint stock company model in setting up the Rochdale Co-operative Land and Building Company, they insisted on one person one vote being in

- the rule book - see Birchall (1995)
- 32 See Pateman (1970) for the participatory argument. See  
Dahl and Tufte (1973) for the limits to participatory forms.
- 33 MacPherson, in his commentary, refers to this as the 'spirit  
of democracy' (1996) p17.
- 34 See Michels (1949)
- 35 Watkins (1970) p328
- 36 See Lambert (1963) ch.4
- 37 MacPherson (1996) p19
- 38 This is especially true of co-ops sponsored by the Industrial  
Common Ownership movement in Britain.
- 39 They wanted to give 10 per cent but were not allowed by  
the Registrar of Friendly Societies to give more than the  
2.5 per cent
- 40 1894 is a good cut-off date for this first phase, the year the  
Pioneers decided to discontinue their technical education  
classes.
- 41 In Denmark, primary education had been available from  
the 1840s, and so co-operative education may have gone  
straight into the second phase, underpinned by the Folk  
High School movement.
- 42 Quoted by Thompson (1994) pp107.
- 43 See Wijayaratra (1995)
- 44 Briscoe (1996)
- 45 Notably the Co-operative Extension Department of the St.  
Francis Xavier University in Nova Scotia, known also as  
the Antigonish Movement
- 46 MacPherson (1996) p23
- 47 See Okamoto (1997) for an interesting study of Japanese  
young people's perceptions of co-ops.
- 48 See Nakagawa (1990)
- 49 It was not written into the principles until the 1966 revision
- 50 See Warbasse (1936)
- 51 See Webb, S., and B. (1975)
- 52 Fauquet (1951)
- 53 MacPherson (1996) p25
- 54 See Johnstad (1997)
- 55 So concerned were they with local community that they  
assumed at first that each shop would have its own society
- 56 See Wilkinson and Quarter (1996)

- 57 MacPherson (1996) p13  
58 Birchall (1994) p64

## References

- Birchall, J. (1988) *Building Communities: The Co-operative Way* London: Routledge
- Birchall, J. (1994) *Co-op: the People's Business* Manchester: Manchester University Press
- Birchall, J. (1995) 'The hidden history of housing co-operatives in Britain' in Heskin, A and Leavitt, J *The Hidden History of Housing Co-operatives* Davis: University of California Centre for Co-operatives
- Birchall, J. (1997) *The International Co-operative Movement* Manchester: Manchester University Press
- Book S.A. (1992) *Co-operative Values in a Changing World* Geneva: International Co-operative Alliance
- Boswell, J. (1990) *Community and the Economy: The Theory of Public Co-operation* London: Routledge
- Briscoe, R. (1996) 'Co-operative education: a view from the South Pacific' *Journal of Co-operative Studies* No.85 57-61
- Craig, J.G (1993) *The Nature of Co-operation* Montreal: Black Rose Books
- Dahl, R.A and Tufte, E.R (1973) *Size and Democracy* Stanford: University Press
- Develtere, P. (1994) *Co-operation and Development* Leuven: Acco
- Fauquet, G. (1951) *The Co-operative Sector* Manchester: Co-operative Union

Goedhart, G.J. (1995) 'The moral aspects of Co-operation' *Review of International Co-operation* 88.2 reprinted from original article in 1928.

Goodwin, B. (1987) *Using Political Ideas* Chichester: John Wiley

Johnstad, T. (1997) 'Co-operatives and Federations' in *Journal of Co-operative Studies* 30.1

Laidlaw, A. (1987 2nd ed) *Co-operatives in the Year 2000* Geneva: International Co-operative Alliance (2nd edition)

Lambert, P. (1963) *Studies in the Social Philosophy of Co-operation* Manchester: Co-operative Union

MacPherson, I. (1996) *Co-operative Principles for the Twenty First Century* Geneva: International Co-operative Alliance

Mercer, T.W. (1995) 'Foundations of Co-operation' *Review of International Co-operation* 88.2 reprinted from original article.

Michels, R. (1949) *Political Parties* Chicago: Free Press

Morrison, R. (1991) *We Build the Road as we Travel* Philadelphia: New Society Publishers

Nakagawa, Y. (1990) 'Co-operation and education: the search for identity - an historical consideration' in *Bulletin of the Institute of Social Sciences* Vol.13.2, offprint pp.1-27

Novac, S., and G. Wekerle (1995) 'Women, community and housing policy' in Heskin, A., and J. Leavitt *The Hidden History of Housing Co-operatives* Davis: University of California Centre for Co-operatives

Okamoto, Y. (1997) 'Young people's image of co-operation and co-operatives in Japan' in Plunkett Foundation *The World of Co-operative Enterprise, 1997* Oxford

Parnell, E. (1995) *Reinventing the Co-operative: Enterprises for the Twenty First Century* Oxford: Plunkett Foundation

Pateman, C. (1970) *Participation and Democratic Theory* Cambridge: Cambridge University Press

Tawney, R. H. (1964) *Equality* London: George Allen and Unwin

Thompson, D.J. (1994) *Weavers of Dreams: Founders of the Modern Co-operative Movement* Davis: University of California Centre for Co-operatives

Warbasse, J.P. (1936) *Co-operative Democracy* New York: Harper

Watkins, W. (1970) *The International Co-operative Alliance 1895-1970* London: International Co-operative Alliance

Watkins, W. (1986) *Co-operative Principles: Today and Tomorrow* Manchester: Holyoake Books

Webb, S., and B. (1921) *The Co-operative Movement* London: Longman

Wijayaratna, N. (1996) 'Co-operative colleges in developing countries' in *Journal of Co-operative Studies* No.85 57-61

Wilkinson, P., and J. Quarter (1996) *Building a Community-controlled Economy: the Evangeline Co-operative Experience* Toronto: University Press

# **The Governance of Consumer Co-operatives: Rules and Realities**

**Cliff Mills and Ian Snaith**

The governance of both companies and co-operatives has been the subject of considerable debate in recent years.<sup>1</sup> Both sectors have experienced some high-profile problems with unwelcome press and public interest, and comparisons between the two have been and will continue to be made. The survival of the consumer co-operative movement may turn on its ability to persuade relevant parties - be they consumers, traders, bankers, or law makers - that the co-operative model is a real alternative to the limited company. This paper looks at the way forward for consumer co-operatives, the role of the board of directors and of dealing with the distribution of day-to-day management control between the board and society executives. The role of the board of directors - particularly its powers, responsibilities and relationship with shareholders, auditors, and outside investors - has been at the heart of the corporate governance debate in both sectors. In the company sector, the Cadbury Report on the Financial Aspects of Corporate Governance placed great emphasis on the role of non-executive directors in the governance of large companies which, in the UK, have traditionally been dominated by executives. Both the Cadbury Report and the Co-operative Union Corporate Governance Working Group Report highlighted the role of the company or society chairman and secretary, the importance of board level participation in key decisions and the use of Audit Committees and Remuneration Committees as key elements of recommended practice.<sup>2</sup> Less attention has been paid to the legal framework surrounding these practices and to the role of the articles of association of a company or the rules of an industrial and provident society in defining the roles of directors, executives and others within the organization.<sup>3</sup> This may be healthy as an obsession with legal structures may distract attention from the commercial realities and the importance of running an effective business. However, the dangers of adopting a constitution which then languishes in the top drawer of the secretary's desk until

a crisis emerges should be noted. If the management of the society has developed in a way not permitted by the rules, those involved may find themselves with legal responsibilities they had not anticipated. In addition, the society (and ultimately its members) may have to face bills for litigation as matters which could have been clarified in the rules have to be decided in the courts.

This paper explores some of the legal issues that arise. It has been written following a concern by one of the authors about the efficacy of society rules in dealing with the reality of the organisational structure of large scale modern consumer co-operatives.<sup>4</sup> It is also written shortly after a hostile take-over attempt from the company sector that has highlighted the long term interests of the movement in ensuring that the legal framework within which its societies operate is clear and robust, and will stand comparison with the limited company model. The paper considers the legally available methods for distributing power within UK consumer co-operatives and the choices that might be made by any particular society.

Three key features of consumer co-operatives must be borne in mind when considering these issues: they usually register as industrial and provident societies rather than companies; their origins lie in a large number of small co-operative societies which transferred assets to form the large national and regional businesses that dominate the UK consumer co-operative scene today;<sup>5</sup> and their boards of directors are wholly made up of elected representatives of the members who act as part time directors and are not required to have any business experience or training before joining the board. The society's executive managers are not usually directors.

The Industrial and Provident Societies Acts (IPSAs) 1965 to 1978 are essentially permissive on corporate governance issues, subject to the overriding requirement that the society is and remains a bona fide co-operative; that its rules address the issues listed in Schedule 1 of IPSA 1965 and the provisions in the legislation about the role of members in the general meeting.<sup>6</sup> The effects of any particular allocation of powers between different organs of the society are determined by the common law rules developed by the courts<sup>7</sup>. It is important at this point to note the distinction between the term "non-executive director" as used in relation to UK consumer co-operatives and in relation



to most companies. When used of companies, the term is used to describe an individual appointed to the board who is not an executive of the company and is therefore, in that sense at least, independent. However, such a director will often have considerable business and board experience. The intention is that he or she should have sufficient business experience or training and intellectual ability to be on the same level as the executives and thus realistically capable of acting as a check on their activities where necessary. The directors of a UK consumer co-operative, on the other hand, are non-executive; they are lay directors who depend on the expertise of the executives to run the business. This distinction will be relevant to a court assessment of the level of care and skill expected in the event of a negligence claim.

### **The corporate governance debate**

In the early 1990s issues of corporate governance came to prominence in both the company and the co-operative sectors. The Cadbury Report was a response to the company sector's "continuing concern about standards of financial reporting and accountability, heightened by BCCI, Maxwell and the controversy over directors' pay." The consumer co-operative movement established its own Working Group under the chairmanship of Professor Brian Harvey in response to Cadbury and also in response to problems of accountability in parts of the co-operative movement which had resulted in allegations of lack of competence and probity<sup>8</sup>. Neither report proposed legislative change, but both had observations to make about the nature and role of the board of directors and its relationships with executive managers. It is important to bear in mind when comparing the two Codes of Best Practice on Corporate Governance that the Cadbury Report was addressing the needs of listed public companies against the background of existing provisions (the Companies Act 1985, the Financial Services Act 1986, the Insolvency Act 1986, standards agreed and applied by the accounting profession, the City Code on Take-overs and Mergers, and the Stock Exchange's "Yellow Book" on The Admission of Securities to Listing). The Co-operative Union Working Group, on the other hand, was devising

A system to operate in the absence of many of those regulatory structures. Despite this, there are many similarities between the two reports.

Both reports emphasise the duty of the board to "meet regularly, retain full and effective control over the company/ society and monitor the executive management". Both recommend the adoption of a formal schedule of matters specifically reserved to the board for decision, to ensure that the direction and control of the society or company is firmly in its hands. Both stress the importance of training for directors and the availability of independent advice. The role of the Chairman of the board is emphasised: standing back from day to day matters and ensuring that the board is in full control of the society or company's affairs, as well as providing a countervailing force to the Chief Executive. Another feature is the use of audit and remuneration committees to ensure that directors play a leading role in the process of preparing financial statements, discussing them with auditors and determining the remuneration of the executives. Both recommend a need for transparency on the question of the total remuneration package of executives and for a limit on the length of executives' rolling contracts.

The main divergence between the reports arises from the difference in structure between consumer co-operatives and companies. Boards of large, listed companies have traditionally been dominated by executive directors. The traditional board structure, and the difficulty of shareholders not having a voice at board level, resulted in the growth of boards made up mainly of executives. Thus, a central issue is how the board can effectively control and monitor executive management when that group is dominant at board level. Consumer co-operatives, on the other hand, have developed from relatively small-scale businesses operating at a local level, and controlled by an elected committee of members which would appoint employee managers to run the business. This structure was adapted to federal systems of delegate meetings and indirect election, but the election of part time "lay" directors who then appointed executives continued. As a result, the executives are not members of the board. Although the 1994 Report recommended that the Chief Executive and the Financial Controller should be made full board members, this proved unacceptable to the Co-operative Movement and

was removed from the 1995 Co-operative Code.

Thus, in the co-operative the problem at board level is not the domination of the board by executives but rather their absence. There are contrasting approaches by the two committees. Cadbury emphasises the vital role of non-executive directors in contributing independent judgement on issues such as "strategy, performance, resources, including key appointments and standards of conduct", their independence from management and the process of their appointment. The Co-operative Code, while emphasising the independence of the elected directors (with limits on the number of employees and others with business links, and a non-employee chairman), also emphasises the importance of training, independent advice, and the possibility of co-opting outside non-executive directors for their business experience. However, whether on the board or not the influence of the executives (especially the Chief Executive) on a consumer co-operative is evident. Indeed, as the management expert at the apex of the hierarchy of employees, and the person with access to full information, one would expect no less. The advice put forward by this official and the views he or she expresses are bound to carry weight. If they did not do so, or if the board were regularly to ignore such advice and views, the board might have to consider how it could justify to the members the continuing cost of paying for such services. The question is whether the society's rules reflect this reality. Does the board devolve the management and conduct of the business to the executives? Should the rules acknowledge such a role for them? Can the executives be made legally liable on the basis of this role? What do the members want to happen? These questions are addressed below, but first we turn to the legislative framework within which societies operate.

## **The Act and the rules**

UK consumer co-operatives generally register under the IPSAs 1965 to 1978. This legislation provides a registered society with corporate personality and thus the capacity to hold property, sue and be sued, make contracts, and generally operate as a separate legal entity in much the same way as a registered company.

It also limits the liability of the members to contribute in the event of the insolvency of the society to any amount not paid up on their shares<sup>9</sup>. The legislation is flexible on the question of governance. Registration under the IPSA 1965 is on the basis that the society complies with the requirement in section 1(2) of that Act that it be a "bona fide co-operative". The legislation provides no definition of that concept. However, one co-operative principle that is particularly relevant is the democratic control of the society by its members. The Registry of Friendly Societies, which is responsible for the registration process and has to be satisfied on this point, lays down that:

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.<sup>10</sup>

Similarly, the 1995 version of the International Co-operative Alliance co-operative principles provides that:

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.<sup>11</sup>

This gives the Registry power to question the degree of member control in a society and indirectly affects the role of the board. The process for electing board members, qualifications for election and the proportion of the board not representing members raise the democratic control principle. The principle also implies that certain functions (such as the amendment of rules and the receipt of financial statements) should remain with the general meeting<sup>12</sup> in addition to those conferred on the general meeting by statute - such as appointing and removing auditors, approving transfers of engagements, amalgamations or conversions, and changing the name of the society<sup>13</sup>. The Registry Guidelines and the ICA principle both accept that democracy can be served by the current

system whereby the board is discouraged from becoming involved in day-to-day management but sets strategy and monitors performance.

The Act requires that the rules of all societies must deal with "the appointment and removal of a committee, by whatever name, and of managers or other officers and their respective powers and remuneration."<sup>14</sup> The combination of this requirement and the "bona fide co-operative" criterion allows the registry to test the rules against the central principle of democratic control by the members. However, subject to this broad limit, the question of the powers and responsibilities of elected directors, full time executives and the members in general meeting is a matter for the rules of each society. Once those rules have been registered they operate as a contract between the society and the members<sup>15</sup> and, so far as the powers of the board, the executives and the members in general meeting are concerned, they create organs of the society with mutually exclusive powers.

### **Rules and organs**

When considering this division of powers, it is useful to start with the Co-operative Union's Model Rules. Technically these rules are designed for use in registering new consumer co-operatives, but they also operate as a benchmark for societies in revising their own rules. The current version (10th Edition of 1986, currently being revised) deals with these questions as follows:

The directors shall have full power to conduct the business of the society and to exercise on behalf of the society all the powers of the society not specifically required by these rules or otherwise to be exercised by the society in meeting. Without prejudice to the generality of the foregoing the directors shall have power in particular from time to time to engage, remove, or discharge the chief executive, the secretary of the society, managers, and other employees and to fix their duties, salaries, or other remuneration and to require them to give security.

The secretary and the chief executive shall in all things act

under the direction and control of the directors. Without prejudice to the generality of the foregoing, the secretary shall prepare and send all returns to be made to the Registrar and cause to be made all the necessary entries in all registers required, by these rules or by the Act, to be kept by the society.

The directors may delegate any of the powers hereby given to them to committees consisting of such of their own number as they think fit who shall, in the functions entrusted to them, conform in all respects to the instructions given to them by the directors.

The equivalent in the companies acts says<sup>16</sup>:

The business of the company shall be managed by the directors who may exercise all the powers of the company. No alteration of the memorandum or articles and no such direction shall invalidate any prior act of the directors which would have been valid if that alteration had not been made or that direction had not been given. The powers given by this regulation shall not be limited by any special power given to the directors by the articles, and a meeting of directors at which a quorum is present may exercise all powers exercisable by the directors.

The directors may delegate any of their powers to any committee consisting of one or more directors. They may also delegate to any managing director or any director holding any other executive office such of their powers as they consider desirable to be exercised by him. Any such delegation may be made subject to any conditions the directors may impose, and either collaterally with or to the exclusion of their own powers and may be revoked or altered. Subject to any such conditions, the proceedings of a committee with two or more members shall be governed by the articles regulating the proceedings of directors so far as they are capable of applying.

The secretary shall be appointed by the directors for such

term, at such remuneration and upon such conditions as they may think fit; and any secretary so appointed may be removed by them.

After debate on the Report of the Corporate Governance Working Group, the 1995 Co-operative Congress agreed a Code of Best Practice. This commits the Co-operative Union to review the model rules so that they correctly reflect how societies are run, with:<sup>17</sup>

the clear specification of the particular duties and responsibilities of the directors and of the Chief Executive and the senior managers appointed under him/her; authorising directors to delegate the executive management of the society to the Chief Executive and the senior managers appointed under him/her; and making the Chief Executive and his/her senior managers responsible for the executive management of the society.

There is a debate as to whether the current Model Rules permit the extent of delegation practiced in consumer co-operatives today. What is beyond debate is that the rules should deal expressly with this issue of delegation, to make the members' decision-making powers and the responsibilities of directors and executives under the constitution clear beyond doubt.

The legislation and Common Law rules developed by the courts leave great discretion to those framing the rules of a society or the articles of a company as to the powers to be conferred on the board, the executives, or the general meeting. However, the courts are clear about the effect of a division of powers along the lines of Table A or the Co-operative Union Model Rules.

After some dalliance in the last century with the idea that the general meeting of a company could overrule a board decision (as the members' meeting had supreme power which was merely delegated to the board or executives),<sup>18</sup> the courts developed the organic theory of power distribution currently applied to companies:<sup>19</sup>

A company is an entity distinct alike from its shareholders and its directors. Some of its powers may, according to its

articles, be exercised by directors, certain other powers may be reserved for the shareholders in general meetings. If powers of management are vested in the directors, they and they alone can exercise these powers. The only way in which the general body of the shareholders can control the exercise of the powers vested by the articles in the directors is by altering their articles, or, if opportunity arises under the articles, by refusing to re-elect the directors of whose actions they disapprove. They cannot themselves usurp the powers which by the articles are vested in the directors any more than the directors can usurp the powers vested by the articles in the general body of shareholders<sup>20</sup>.

This indicates that any body or person in whom powers are vested by the articles of a company has an autonomous right to exercise those powers without interference by other "organs". Thus, if the articles confer power on the executives directly rather than providing for the delegation to the executives of the directors' powers, the executives will have the status of a separate organ and, within the scope of the powers defined in the rules subject only to the power of those authorised to remove them, will be free from intervention by either the general meeting or the board.

That this organic theory of power distribution also applies to industrial and provident societies has been confirmed by one Scottish court decision and two arbitration decisions of the Registrar of Friendly Societies from the 1950s.<sup>21</sup> The latter relied on the company law cases referred to above.

This legal position allows societies two options: direct allocation of power to the executives by the members via the rules; and delegation of power by the board in accordance with the rules (with, in each case, inclusion of appropriate powers in the contracts of senior executives). These two routes are both intended to reflect the way in which societies operate today and, in particular, the division between strategic decision making and day to day management. Under the first option, the rules would provide for the allocation of certain powers to the executive, thereby creating a separate "executive" organ within the constitution. The executive's role would be to conduct the business in accordance with the strategies and policies fixed by



the board, and subject to the supervision of the board. At present this method is used to allocate power to the board, but the rules could be amended to provide specifically for the direct allocation of certain powers to the executive. The role of the board could (and in the view of one of the authors should) include the duty to ensure that the business of the society is run in accordance with co-operative principles. That important duty seems to be conspicuously absent from the constitution at present. More important, the role of the board would be to set the policies and strategies and then to fix targets against which to monitor the performance of the executive. The board would be responsible for appointing and removing the executives, thereby being ultimately accountable to the members for control of the executive. Alternatively, the power to appoint other executives might be given to the chief executive.

The second option is confer full power on the board with authority to delegate. Delegation in line with the rules is arguably used by most societies at present. It involves conferring extensive powers on the board, which is then empowered to delegate to management. This system operates in most companies. It seems likely that it has operated within co-operative societies in the past by a relatively informal delegation to executives through provisions in their service contracts describing their responsibilities, board resolutions, and custom and practice over time. The importance of ensuring that any delegation is permitted by the rules arises from the application in this area of law of the maxim "delegatus non potest delegare". Powers already delegated by one body to another cannot be further delegated by the second body without authority from the first. Although the board is now generally regarded as an organ of the society rather than itself having powers delegated by the general meeting, it seems that the rules must permit the delegation of powers by the board. However, the power to conduct the society's business may well imply a power to delegate; power to appoint a Chief Executive and to define his or her duties may achieve this expressly.<sup>21</sup>

### **Drafting the rules**

If powers are allocated by the rules, the board will have no legal right to deal with matters allocated to the executive organ or

vice versa. The board's lack of power itself to perform the full executive function is unlikely to be a problem in practice. As long as the directors lack business expertise, they are unlikely to take on the executive function even in a crisis involving the sudden resignation or removal of senior executives. If certain defined functions are purely the responsibility of executives and will never be carried out by the board in any remotely probable situation it may be sensible for the rules to acknowledge this. It certainly avoids any argument that the board, having had certain functions conferred on it by rule, have wrongly delegated that function to the executives. Allocation of powers in the rules may also reduce the risk of "slippage" of power from the elected board to the executives. This might arise with either model if certain divisions of function were left to evolve by "custom and practice". This can lead to fuzziness and uncertainty about the roles of the board and the executives, a loss of direction and control of the society by the board and what Cadbury refers to as "misjudgements and possible illegal practices".

On the other hand, the second system of delegation of powers by the board to the executives allows considerable flexibility in varying the scope of the executives' responsibilities. There is no need for a rule amendment to change their powers, as members have already been excluded from decisions about power allocation from the board. Under either system it is important that the ultimate control and direction of the society remains with the board and that the executives are effectively monitored and supervised. This places a premium on the definition of the powers of the board and the executives to ensure that there will be no unforeseen situation in which a power which the board believed that it retained had in fact been ceded by rule to the executives. It is also vital that there be clarity about the role of each group to avoid disputes about who performs which function. If a system of delegation by the board under the rules is used but the rules do not adequately permit the delegation there will be a need for a rule amendment to deal with that problem.

Change will be difficult under either system. An executive's contract of service may so state his or her duties that certain changes in the allocation of functions between board and executives would amount to a breach of contract unless it was

first agreed by the individual involved. This would presumably only arise in a situation in which radical change was proposed and would depend on interpreting the functions allocated by the contract in the light of the executive's specific circumstances. However, if a Chief Executive's contract is expressly made subject to the society's rules, this problem may be overcome.

It is important that the wording used in drafting the rules and any other documents is precise and reflects the practice of the society. The use of wide language might lead to conflict about the demarcation of the functions of each organ. What is the difference between "supervision" or "monitoring" or "target setting" and "day to day management" or "conduct of the business"? Does the board retain "full and effective control" over the society (as the Corporate Governance Code of Practice requires) if "day to day management" is a function of the executive organ? These problems could be overcome by the use of a clear statement that executive functions are to be carried out subject to the policy and direction formulated by the board, and by a clear reservation of certain large-scale decisions to the board. It is important that the danger of unintended "slippage" of powers to executives from the board is borne in mind. If full power is to be conferred on the board by the rules but some functions are to be delegated to executives, it is vital that the rules permit any delegation likely to be required.

The direct allocation of powers by the rules increases democratic control by the members, in that the original allocation of power and any later variation must have their approval. However, between rule changes there could be no variation by the elected directors of the powers conferred by rule on the appointed executives. Perhaps, when power is being allocated between two organs both ultimately answerable to the members, it is important that the members have a role. This favours the definition of the powers in the rules. Under both systems the board would appoint the executive.

The rules may be important for the perception of those dealing with the society. If the rules appear to give executive power to the board but the internal delegation in fact confers most such functions on the executives, there is a possibility that direct dealing with outsiders by the board could bind the society against the wishes of executives, and contrary to the internal delegation

system. However, if the powers are allocated by rule, outsiders might be more likely to ensure that they are dealing with the correct organ. This will not be a major issue if few outsiders read the rules before dealing with the society. It might, however, be important if the courts decided that the rules of constructive notice applied to societies. This could result in parties being deemed to know the contents of the rules and unable to deny them even if they were not in fact aware of them. In that case, the closer the allocation of functions described in the rules is to reality, the better for all concerned.

In drafting rules, it is important to define correctly the role of each organ and to deal with unallocated or "residual powers". Thus, the target setting, monitoring, co-operative and strategic roles of the board and executives should be clear, and there should be little overlap. If powers were all given to the board and then delegated to the executives, it would be clear that unallocated powers could be claimed by the board unless they had actually been delegated. However, in the past the "slippage of powers" by "custom and practice" without a clear decision has resulted in both Cadbury and the Co-operative Union reports recommending that a document should set out clearly the powers reserved to the board for decision. By implication this delegates all other powers to the executives. For the board to be protected from negligence liability for the delegation of powers to the executives or others, that delegation must be reasonable and in accordance with the rules.

The choice to use the society's rules, to allow delegation by the board of their powers under the rules or to draft executives' service contracts to allocate powers and duties should be based on the needs of a society for clarity, flexibility, and transparency. As management techniques and systems change and societies grow and develop their businesses, these questions should be kept under constant review to ensure that the legal structures reflect the current needs of the organisation. It should be sufficiently easy to make changes to prevent the system on paper being overtaken by the system on the ground, but the rules should be used to protect the interests of the members from arbitrary change and to avoid the undue accretion of power in particular hands. In striking this balance, judicious use can be made of the full range of techniques.

## **Possible liabilities of directors and executives**

We now turn to the legal consequences that might flow from "getting it wrong". How do society rules affect the liability of directors and executives? There are four aspects to this question: society contracts, negligence liability, fiduciary duties, and statutory liability.<sup>22</sup> Perhaps the most obvious potential problem is whether contracts made by those purporting to act for the society are valid. If certain powers were vested in the board and no authority were delegated by them to executives or other employees to exercise those powers, any contract that the employee or executive made might be unenforceable by the society and the other party. The analysis used by the courts to determine this would involve a search for express actual authority, implied actual authority, or apparent authority on the part of the society's agent. Express authority would exist if the rules conferred the necessary power on the board or another organ, and there was an unbroken chain of statements to an employee conferring the necessary authority. For example, suppose the board was given power in the rules to "conduct the business of the society" and to delegate its powers. If it stated (in writing or orally) that elements of that function were delegated to the Chief Executive with power for him or her to further delegate, then an employee charged with certain functions through that system would have express actual authority to make a contract to bind the society. Implied authority works similarly but, as the phrase suggests, would implicitly be passed down the chain from board level to the appropriate employee. It would usually be conferred by giving an employee certain functions to perform. Thus, appointing a buyer or a sales assistant would confer necessary powers on them. The scope of those powers would be defined by the needs of their job.<sup>23</sup>

In a case in which the express authority of an employee was limited, for example to a maximum figure, but outsiders were not aware of that, the court would still hold the society bound by a contract beyond the limit, if it were shown that someone with actual authority "represented" to the other party that the employee had the necessary authority<sup>24</sup>. The policy of the courts is to further commercial certainty and the security of transactions by upholding contracts where the outsider could

reasonably suppose that the "agent" had authority<sup>25</sup>. As a result of this approach societies are unlikely to face problems about the validity of contracts as a result of using one method rather than another to allocate powers between the board and the executives - so long as the rules in question are properly worded.

A second legal problem is possible negligence liability on the part of the board or senior executives. In the case of the board, questions of delegation are particularly important where an attempt is made to hold the directors liable in negligence for the fraud or other failings of senior executives. First, it is accepted that the scale of the business is relevant to the level of delegation to be expected and that the question is one for those running the business:

In one company, for instance, matters may normally be attended to by the manager or other members of the staff that in another company are attended to by the directors themselves. The larger the business carried on by the company the more numerous, and the more important, the matters that must of necessity be left to the managers, the accountants, and the rest of the staff. The manner in which the work of the company is to be distributed between the board of directors and the staff is in truth a business matter to be decided on business lines.<sup>26</sup>

If, having regard to the needs of the business and the rules, particular duties can properly be left to the official, a director is, in the absence of grounds for suspicion, justified in trusting that official to perform such duties honestly. Thus so long as the established procedures within the organisation are followed, those procedures are reasonable in the circumstances, are within the rules, and there is no evidence to suggest that the executives or other employees cannot be trusted, directors are entitled to trust officials to perform their duties honestly.<sup>27</sup>

How then does this relate to the allocation of responsibility between the board and the executives? Rules which allocate day to day management functions to the executives make a clear statement that the executives are responsible for those matters while equally imposing supervisory, monitoring and policy making responsibilities on the board. This approach makes it

clear what responsibility the directors and the executives have, and expressly authorises the directors to rely upon the executives. They still owe duties of care, however, and must show that care in monitoring the executives. But they will not find themselves liable for negligence for having delegated the conduct of the business to the executives.

The alternative model of conferring power to "conduct" or "manage" the business on the board could be argued to misstate the role of the board if this is interpreted as involving detailed day to day executive control. However, so long as the rules permit delegation of the directors' functions to executives and so long as the board does retain and exercise a controlling and supervisory role - receiving the information it needs, retaining the right to decide on major transactions, to hire and fire the Chief Executive and to set targets and policy and monitor executive performance, this model will achieve the same result. The case law suggests that those terms allow extensive delegation so long as the board does not abdicate a supervisory and "directing" role.

Modern case law suggests that the test for the negligence liability of directors is based on the behaviour expected of a reasonably diligent person with both that director's own personal level of skill, experience and knowledge and the level required of someone carrying out the function that he or she performs. Thus, the level will be the higher of the two in any particular case.<sup>28</sup> This formulation allows the court to take account of the scale of the society's business and the non-executive and part time nature of the lay directors' role. In addition, the level of education and professional skill of individuals may add to the "baseline". Hence the distinction between the skills, knowledge, and experience of a non-executive director of a large company and those of the lay director of a large consumer co-operative may affect the level of expertise expected by the courts.

The executives are also subject to legal liability for negligence. In their case this arises on the basis of the reliance placed upon them by the society and the implied term in their service contracts that they will perform to the level of a reasonably competent person fulfilling their role. Thus, their liability will take account of their level of business experience and the full time and expert function that they are called upon to perform within the society.<sup>29</sup>

Unlike the Companies Acts, the IPSAs do not prohibit the insertion of a clause in the rules to limit the liability of directors. Such provisions might also be used to protect the Chief Executive or other executives from such liability, but whether such provisions are in the interests of the members of the society can be debated. On the one hand, the members are denied the right of redress against directors or executives, on the other, the possibility of such clauses may assist recruitment to those positions. However, in practice insurance to cover the liability of directors and officers is in the interests of the society as well as its directors and officers, and the insertion of such a clause should reduce the premium level.

The directors owe duties to the society of honesty and good faith. They must act in what they believe to be the society's best interests and not for any collateral purpose. They must avoid any conflict between their personal interest and their duty to the society and must refrain from making secret profits or exploiting for their own gain property or other assets of the society. It is also a breach of duty to use, for their own benefit, business opportunities of which they learn as directors. These obligations come with the office and are well established in the case law applicable to companies, which by analogy would apply to societies. The position of the senior executives of a society is more interesting. Under the present system the Chief Executive is not a director. However, his or her advice is influential in the board room. S/he will be present at all board meetings and will be responsible for presenting information, reports and proposals to the board as well as being at the apex of the society's management structure. How does this affect the duties of such officials towards the society? First, it is noteworthy that the concept of "fiduciary" duties which are owed by directors to the society originated from the relationship between the directors and the society; the courts are willing to impose such obligations in any situation in which a relationship of reliance and trust is actually to be found.<sup>30</sup>

Thus, the fact that the society's board depends on its Chief Executive for information, advice and guidance may in itself give rise to fiduciary duties to act in good faith, avoid secret profits and ensure that there is no conflict between the duty of the executive to the society and his or her personal interests.



This can be deduced from the facts of the relationship. In addition, as an employee, duties of loyalty and honesty are implicit in the service contract.<sup>31</sup> When acting as agent, fiduciary duties will once again be owed by the executives to the society.<sup>32</sup> Thus, the absence of formal appointment to the board should not free the executives from duties similar to those of directors but such duties ought to reflect the level of skill, time and information available to full time and highly paid executives in attending to the society's business. The resulting obligation will only be fulfilled by honest conduct and the disclosure of full information to the board before it agrees to any step in which the interests of the executive and those of the society may conflict.<sup>33</sup>

In addition to the obligations of executives under employment law, agency, and the law of fiduciaries, it is noteworthy that for the purpose of the Company Directors' Disqualification Act 1986 (CDDA), the courts have been willing to hold to account *de facto* directors who have not formally been appointed to the board. The statute also imposes liability on "shadow directors". A *de facto* director, while not properly appointed or formally registered as a director with the Registrar of Companies, acts as one and so is treated by the courts as having the duties and responsibilities of a director. A shadow director is defined as "a person in accordance with whose directions or instructions the directors of the company are accustomed to act".<sup>34</sup>

While there is some dispute about whether CDDA can apply to industrial and provident societies, the concept of the *de facto* director could be applied. Thus, a senior executive (particularly a chief executive) who claims or purports to act as a director may be treated as if/he were a director despite the absence of formal board membership. Similarly, a Chief Executive whose "advice" is followed by the board so constantly and automatically as to become "directions" which they are accustomed to follow will be a shadow director and, as such, could be held liable for wrongful trading and, if CDDA were held to apply to societies, disqualified from acting as a director in the future.

## **Conclusion**

The corporate governance recommendations of the early 1990s emphasised the importance of the role of the board of directors

of both companies and consumer co-operative societies in retaining full control and direction of the organisation. This role differs from the function of executive management both in a company in which most directors are executives and in a society in which executives are not board members. The board should be in a position to control the organisation on behalf of the membership, and the composition of the board should reflect its control by members of the society. Having conformed to the requirements of the IPSAs in this respect, a society has great freedom to allocate functions in its rules or by delegation in line with the rules. The democratic principle suggests that members should be involved in the allocation of functions. However, the courts have established that, if an organ of the society is created by the rules, its powers can only be changed by rule amendment and decisions within its sphere cannot be made by any other organ. Thus, to confer powers on executives by rule gives them the status of an organ of the society. That may be a safeguard, because the need for rule amendment to change the position ensures that members are involved in any reallocation of powers, though it slows down the process of adaptation. On the other hand, a delegation of powers to executives by the board can be changed by board decision (subject to any possible breach of an executive's contract with the society).

An examination of the possible liability of directors and executives for negligence, breach of fiduciary duty or under legislation applying on insolvency, indicates that a failure to allocate powers in reality in accordance with the rules may cause problems for directors, if they wish to rely on a lawful and reasonable delegation as a defence in a negligence claim. The liability of executives is subject to the tendency of the courts to look to the reality of the situation and impose fiduciary liability on the basis of the executive's employment status, or the actual relationship of reliance by the board on the executive's advice. The statutory liability of an executive will be based on his or her status as a de facto or shadow director if this flows from the reality of the operation of the society at the highest level. Finally, it is important that the rules (or a system combining rule provisions with internal delegation and executive contracts) provide clarity about functions and is in line with the realities. This will ensure that no-one is held liable on the basis of functions that they did not know they were

intended to perform. It is important that the consistency of practice with the rules is kept constantly under review. To adopt a constitution and leave it in the top drawer until a crisis arises will benefit no-one - least of all the society's members.

**Cliff Mills is a partner with Slater Heelis, Solicitors, in Manchester, UK. Ian Snaith is a Senior Lecturer in Law at the University of Leicester, UK.**

## Notes

- 1 See Cadbury, Report of the Committee on the Financial Aspects of Corporate Governance, 1992 ("Cadbury Report"); Co-operative Union Ltd., Report of the Corporate Governance Working Group, April 1994 ("1994 Co-operative Report") and Co-operative Union Ltd., Corporate Governance Code of Best Practice, July 1995 ("1995 Co-operative Code of Practice").
- 2 See Cadbury Code paras 1.1; 1.2; 1.4; 1.6; 3.3; & 4.3. and 1995 Co-operative Code of Practice paras 1, 3, 22, 23, 24 & 26.
- 3 This is particularly true of co-operatives although the passage of the Companies Act 1985 did give rise to a revised version of tables A to F (see Companies (Tables A to F) Regulations 1985 SI 1985 No 805) and many larger companies tend to adapt Table A provisions rather than using them as they stand as their own articles.
- 4 See: C. Mills, "Keeping the Executive in Check - Why Co-op Directors may be Acting Illegally" Co-operative News, 22nd October 1996, p4; and T. Knowles, "Controlling the Executive - Directors Must Look Beyond Rules" Co-operative News, 7th January 1997, p4.
- 5 See, for example, the historical accounts in: J. Birchall, Co-op: The Peoples' Business, Manchester University Press,

1994; and A. Bonner, *British Co-operation, Co-operative Union*, 1960.

- 6 Industrial and Provident Societies Act ("IPSA") 1965 section 1(1) & (2) and, for matters reserved to members e.g. sections 50 to 53 on transfers of engagements, amalgamations, and conversions
- 7 See sections 4 and 5(b) *infra*.
- 8 For fuller details see Harvey B, "The Governance of Co-operative Societies" in Sheikh S. and Rees W. (eds.) *Corporate Governance and Corporate Control* pub. 1995 Cavendish Publications Ltd.
- 9 IPSA 1965 section 3. The application of the ultra vires doctrine to acts outside the stated objects of the society and the absence of reform to other aspects of the legislation creates differences of detail between societies and companies in respect of e.g. executing contracts and the use of a seal. However, the key features of corporate personality and limited liability are shared by companies and societies.
- 10 See Form 619 published by the Registry of Friendly Societies, London.
- 11 International Co-operative Alliance, *Statement on the Co-operative Identity*, Manchester, September 1995.
- 12 Which may be a delegate meeting if the society's rules so allow - section 74 IPSA 1965
- 13 See IPSA 1965 Sections 5(3) (name of society); 50 to 53 (on transfers amalgamations and conversions); Schedule 1 paragraph 5 on ("the mode of...altering...rules") and FIPSA 1968 sections 4 to 6 (appointment and removal of auditors).
- 14 IPSA 1965 Schedule 1 para 6

- 15    IPSA 1965 section 14(1) and see *Re Compania de Electricidad de la Provincia de Buenos Aires Ltd* [1980] Ch 146 on the meaning of the similar provision in section 14 of Companies Act 1985 and earlier Companies Acts.
  
- 16    Section 8(1) Companies Act 1985 and Schedule to The Companies (Tables A to F) Regulations 1985 SI 1985 No. 805
  
- 17    Co-operative Union Ltd, Corporate Governance Code of Best Practice, First Edition, Manchester, July 1995, page 5 para 19.
  
- 18    See e.g. *Isle of Wight Railway v Tahourdin* (1883) 25 Ch D 320 and *Marshall's Valve Gear Co. v Manning Wardle & Co* [1909] 1 Ch 267
  
- 19    See *Quin & Axtens v Salmon* [1909] 1 Ch 311 and [1909] AC. 442; *Shaw & Sons (Salford) Ltd v Shaw* [1935] 2 KB 113 and *Breckland Group Holdings v London & Suffolk Properties* [1989] BCLC 100.
  
- 20    [1935] 2 K3 113 at 134 as quoted at page 149 of L.C.B. Gower, *Gower's Principles of Modern Company Law*, London, Sweet & Maxwell, 1992.
  
- 21    See: *Roper v Long Eaton Co-operative Society Ltd* (1952) Chief Registrar's Report Part 3 page 3; *Alexander v Duddy* (1956) S.C. 24 and *Ruddock v Watford Co-operative Society Ltd* (1956) Chief Registrar's Report Part 3 page 3.
  
- 22    See *Re County Palatine Loan and Discount Co*, *Cartmell's Case* (1874) 9 Ch App 691 as to the absence of inherent power to delegate and *Freeman and Lockyer v Buckhurst Park Properties (Mangal) Ltd* [1964] 2 QB 480 and *Hely-Hutchinson v Brayhead Ltd* [1968] 1 QB 549 on the power to delegate implied by the Table A power to "manage" a company's business.
  
- 23    *Freeman & Lockyer v Buckhurst Park Properties (Mangal)*

- Ltd and Hely Hutchinson v Brayhead (above note 22).
- 24 Freeman & Lockyer (above)
- 25 See Rolled Steel Products (Holdings) Ltd v British Steel Corporation [1985] 3 All ER 52 and Halifax Building Society v Chamberlain Martin Spurgeon [1994] EGCS 41, Construction Law Digest 1994 11(4) at 21-23.
- 26 Re City Equitable Fire Assurance Co [1925] Ch 407.
- 27 Re City Equitable Fire Assurance Co [1925] Ch 407 and, as to a deception by executives who conceal matters from directors that are within the executive's sphere of activity, "Business cannot be carried on upon principles of distrust. Men in responsible positions must be trusted by those above them as well as those below them, until there is reason to distrust them. We agree that care and prudence do not involve distrust; but for a director acting honestly himself to be held legally liable for negligence in trusting officers under him not to conceal from him what they ought to report to him, appears to us to be laying too heavy a burden on honest businessmen." Re National Bank of Wales Ltd (1899) 2 Ch 629 at 673.
- 28 Norman v Theodore Goddard [1992] BCC 15 and Re D'Jan of London Ltd [1993] BCC 646
- 29 Lister v Romford Ice Cold Storage Co. Ltd. [1957] AC 555
- 30 "A person will be a fiduciary in his relationship with another when and in so far as that other is entitled to expect that he will act in that other's interests or (as in a partnership) in their joint interests, to the exclusion of his own several interest" P. Finn, "Fiduciary Law and the Modern Commercial World" in McKendrick (ed) Commercial Aspects of Trusts and Fiduciary Obligations, Clarendon Press, Oxford 1992.
- 31 See Adamson v B & L Cleaning Services Ltd [1995] IRLR

193; *Faccenda Chicken Ltd v Fowler* [1987] Ch. 117; and *Boston Deep Sea Fishing and Ice Co. v Ansell* (1888) 39 Ch D 339.

- 32 See *Bank of Upper Canada v Bradshaw* (1897) LR 1 PC 479; *Lamb v Evans* [1893] 1 Ch 218; and *Robb v Green* [1895] 2 QB 315.(33) See: *Fullwood v Hurley* [1928] 1 KB 498; *Boardman v Phipps* [1967] 2 AC 46; and *Regal (Hastings) Ltd v Gulliver* [1967] 2 AC 46
- 34 Section 741(2) of the Companies Act 1985 defines a shadow director. According to Millet J in *Re Hydrodam (Corby) Ltd* [1994] 2 BCLC 180 at 182:

"A de facto director is a person who assumes to act as a director. He is held out as a director by the company, and claims and purports to be a director, although never actually or validly appointed as such. To establish that a person was a de facto director of a company it is necessary to plead and prove that he undertook functions in relation to the company which could properly be discharged only by a director. It is not sufficient to show that he was concerned only in the management of the company's affairs or undertook tasks in relation to its business which can properly be performed by a manager below board level ... A shadow director, by contrast, does not claim or purport to act as a director. On the contrary he claims not to be a director. He lurks in the shadows sheltering behind others who, he claims, are the only directors of the company to the exclusion of himself." See also: *Re Moorgate Metals Ltd* [1995] BCC 143; *Re Richborough Furniture Ltd* [1996] 1 BCLC 507 and *Secretary of State for Trade and Industry v Laing and Others* [1996] 2 BCLC 324.

## Book Reviews

**Co-operatives. Markets. Co-operative Principles.** edited by Jose Luis Monzon Campos, Roger Spear, Alan Thomas, and Alberto Zevi. CIRIEC International, Liège, 1996. ISBN 2-9600129-0-9

This set of readings provides a valuable postscript critique of the work on co-operative values and identity that produced the new Statement of Co-operative Identity in 1995. What is the basis for an analysis of the reform of co-operative legislation? How are the law and the states that enact the laws to be related to forming and reforming or even transforming the co-operative project? Here the editors identify a polarity of positions based on approaches ranging from minimalist (the law provides only a framework where a recognised NGOs - like the National Council for Co-operation in Belgium - determines the rules of what constitutes a co-operative) to the maximalist extreme (that sees co-operative values determining positive co-operative law). Across this polarity the contributions are categorised by the editors into basically three approaches, although, as is recognised by them, some of the contributions mix approaches or use different components of the separate approaches for different stages in their analysis.

The three approaches represented are:

1. the Deontological approach - based on an idealist philosophic conception that derives practice from universal first principles that arose in the works of Plato utilising the ideal-deductive method. The deontological approach has been important in debates about ethics as it holds that some actions are morally obligatory regardless of consequences;
2. the Utilitarian or consequentialist approach which arises from utilitarian and pragmatic philosophies utilising the pragmatic inductive method. In this methodology which has its origins in Aristotle, a form of reasoning is followed that allows general conclusions to follow from specific single facts and has been very important for the rise of western empiricism. It has been fundamental to the mainstream writers' approaches to organisation and management in the West;



3. the third approach favoured by the editors, namely the Systematic approach accepts that co-operatives can be analysed best from the standpoint of a system in equilibrium "... inasmuch as a challenge to one rule affects all the others." Rules are derived that support the combination of relationships that exist between those component parts of the co-operative system that make it truly co-operative.

There are important insights and issues raised by these approaches that all serious students of co-operation and co-operative organisation and values need to seriously reflect upon. This is a book to be read and re-read with reflection and care. I have only limited space here, so I have concentrated on the British chapter 8.

The recognition of the different emphasis in Roman and Anglo Saxon Law - association in the former and purpose or objects and the trust placed in persons to carry out those objects in the latter is an interesting one. As Spear and Thomas say both trust and association are important values. They do not develop the question unfortunately to develop whether the question of trust as an important value for co-operatives is adequately presented in the current ICA Statement of Co-operative Identity. In fact, they actually make no reference to it at all. The role of management and elite culture in carrying out or subverting co-operative objectives is not addressed. The implication that small is beautiful is hard to avoid from their review of the British scene. Here, however, as they are obliged to acknowledge, The Co-operative Bank's Business Policy creates a challenge to that thinking.

One wonders whether the distinctions made by Spear and Thomas of new and old have as much validity as the distinction between large- and small-scale business in understanding the various structures and values that inform the different sectors of the British Co-operative Movement. A life cycle view of co-operatives as forming a spectrum of old and bureaucratised structures absorbing the values of their environment and young and radical challenging the environment is seductive but needs treating with caution. There is much of libertarianism and individualism informing some strands of co-operative formed or informed by the "radical values" of the 1960s which some

may argue have little to do with co-operative values at all.

Spear and Thomas consider the pressure in the market making increasing size a significant factor in ensuring survival as an economic unit. This begs the question strongly implied in this chapter concerning the possibility or impossibility of the survival of the co-operative element. If size is a real issue and market forces increasing business size really is inevitable then value-based analysis may be more important than the editors appear to recognise. Deontology is not the only justification for starting with values. Values do not have to be seen as immortal principles beyond time and space they can also be seen as important expressions of a concrete humanity and human society with relationships and goals based on an understanding of humanity. This understanding may be the result of an empirically sustained analysis of the human condition although I doubt that any fact arising from the practice of social science is really value free. Values are important linkages between a mass culture and an elite culture. The questions remain. Does the elite manipulate or serve the mass interests. Can it be made more accountable? Can it be made to serve better the broader social needs of the various classes or interest groups that have claims on the resources it manages and to some extent distributes? To this end co-operative values and the ownership structures and principles of distribution that flow from them may have a critical role to play. Particularly so if those values can lead to retaining an identifiable co-operative that is also economically successful and even dominant in the marketplace.

Trust based on law tries to ensure the ultimate accountability of the elite. Trust based on shared purpose and values ensures relevance, connectedness, and legitimisation through the pursuit of shared and complimentary goals. It ensures the organisational dynamism that has been lacking for many years but has shown signs of rebirth in some quarters of the British movement. The challenge to co-operative development is the problem posed for defining the objectives of co-operative management development. Co-operatives must continue to respond to a marketplace in which their continued relevance will be tested. This is not necessarily to adopt the contingency or consequentialist approach but rather to understand the changes required in terms of the continued relevance of the co-operative project. How we

understand that project will determine the values we emphasise and the way we see such values determining the rules governing co-operative structures of ownership and management. The market determines that we must react but how we react is determined by our goals. Only if we make the project and its associated values work for us in the marketplace will the question of the survival of a co-operative identity be assured. That co-operative structures and relationships show such a wide variation may give us cause to pause before accepting the validity of the Systematic approach, but it should equally give grounds for optimism concerning the adaptability of co-operative responses supporting the underlying co-operative project under a wide variety of market conditions in time and location.

**Dr Peter Davis**

## **The Society for Co-operative Studies 1996/97**

### **Report by the Secretary**

Professor Tom Carbery, Professor Tony Eccles, Dr Robert Marshall, Lord Young of Dartington, Dr Alex Wilson, and Graham Melmoth continued to serve as Presidents.

Sadly, during the year one of our Presidents - John Morley OBE died. He was a man who gave outstanding service to agricultural co-operatives over many years, and he will be sadly missed by his many friends throughout the Co-operative Movement.

The Chair has been occupied this year by Len Burch with Peter Davis and Rowland Dale as Vice-Chairs. John Butler has been Secretary, Frank Dent, Treasurer and Membership Secretary and Johnston Birchall, Journal Editor. Peter Clarke serves on the Committee as immediate past chair, additional committee members are James Bell, Rita Rhodes, Jim Craigen and Martin Stears. Alan Wilkins and Roger Spear have served as co-opted members.

### **Committee Meetings**

The Committee met in September, November, February, and June and will have a further meeting before the Annual Meeting in September. At the four meetings, members' attendance has been as follows -

Len Burch	4
Peter Davis	3
Rowland Dale	2
John Butler	4
Johnston Birchall	3
Frank Dent	3
James Bell	3
Rita Rhodes	4
Jim Craigen	4
Martin Stears	4
Peter Clarke	1

Alan Wilkins	4
Roger Spear	3
Gillian Lonergan	3

(Gillian Lonergan attends meetings in her capacity as Deputy Editor of the Journal).

## Membership

Paid up members for the year ended March 31, 1997, with 1996 figures in brackets are set out below.

<b>Region</b>	<b>Individuals</b>	<b>Organisations</b>	<b>Academic</b>	<b>Totals</b>
North	65 (57)	21 (20)	31 (23)	117 (100)
South	79 (69)	18 (14)	37 (18)	134 (101)
Midlands	26 (25)	6 (6)	14 (7)	46 (38)
Overseas	12 (8)	14 (4)	0 (0)	26 (12)
<b>TOTALS</b>	182 (159)	59 (44)	82 (48)	323 (251)

The total number of Journals distributed is 907 per issue. There has been a pleasing increase in the number of members in all areas.

## Society Logo

After much deliberation, the Society has a new logo. The process of evolution saw the age-old logo changing from what looked like a coffin becoming more like an embryonic egg and then ending up like a globe and similar to the ICA format. The new logo has received a favourable response, and the assistance furnished by Paul Schofield, the Co-operative Union's Graphic Designer has been greatly appreciated.

## Journal Editor

Johnston Birchall continues to set about his responsibilities with great enthusiasm and the excellent range of articles in each issue of the Journal has ensured that our key publication is eagerly awaited both within the UK and abroad. Our thanks to Johnston for his efforts on behalf of the Society are recorded and our appreciation is also extended to Gillian Lonergan the Deputy

Editor who has greatly assisted the Editor over the past 12 months and also her work as Newsletter Editor - a publication that is full of news of new publications, forthcoming events, and short articles.

## **The Journal**

The Journal has been published three times during the year. The special features have been as follows -

No 88 (January 1997): The Water Industry: Why it should adopt the mutual society model; Co-operation in Mongolia: a tale of one city and two visits; John Morley, OBE: an appreciation; Stakeholder Co-operation: Content and form in management development for Co-operatives: a review; Proceedings of the UK Society for Co-operative Studies Annual Conference 1996.

No 89 (May 1997): Review of the Co-operative Union; Inclusive Partnership: the key to business success in the 21st century; Women's Participation in Co-operatives: evidence from the British Canadian Co-operative Society; Co-operatives and Federations; International Organisations and Structures in the Service of Co-operatives; Book Reviews.

No 90 (September 1996): Towards a Stakeholder Economy; Co-operative Membership and the Stakeholder Economy: lessons from the failed Lanica bid; Housing the Nation the Co-operative Way; A Housing Co-op Rescue of Public Housing in Germany; Co-operative Values and Principles: a commentary; The Governance of Consumer Co-operatives: rules and realities; Book Review; Annual Report.

## **Financial Position**

The Income and Expenditure Account and Balance Sheet are appended to this report together with the Auditor's Report.

The financial position of the society remains strong. Although there is an excess of expenditure over income this was expected in view of the policy to upgrade the Journal which involved higher production and distribution costs. Next year this should be compensated for by the increase in subscription levels which was agreed at the last Annual Meeting. In the current year

subscription income has increased as a result of a membership drive and improved Journal and we are confident that this trend will continue.

### **Co-opted Members**

At the meeting of the Executive Committee held immediately at the conclusion of the 1996 AGM it was agreed to co-opt Alan Wilkins and Roger Spear to serve on the committee for the coming year. Both members have made an excellent contribution to our deliberations and their involvement has helped to further develop closer links with The Co-operative College and the Co-operative Research Unit of the Open University.

### **United Kingdom Co-operative Council**

The Society continues to strongly support the work of the United Kingdom Co-operative Council. The two organisations exchange minutes and liaise closely on matters of mutual interest.

### **Plunkett Foundation**

The Society has a reciprocal membership arrangement with the Plunkett Foundation. During the year under review our relationship with the Plunkett Foundation has developed further with Johnston Birchall now serving on the "World of Co-operative Enterprise" Editorial Advisory Board and James Bell attended their Annual General Meeting held in London in March.

### **Research Sub-Group**

In mid-June 1996, the Executive Committee acknowledged the need for the Society to initiate research and establish a sub-group to look at appropriate research topics. This viewpoint was formally agreed at the first meeting of the year and a Research Sub-Group established comprising Roger Spear, Alan Wilkins, Johnston Birchall and Peter Davis. A number of important subjects have already been considered and will be highlighted at the Annual General Meeting and include - A

Bursary for cataloguing the Co-operative College Archives; A paper on Mutuality; Sources of Funding for Research.

### **Internet Developments**

Peter Davis continues his crucial work in developing the Society's entry. He is liaising closely with the CWS and ICA on this project which is nearing completion.

### **Promotional Work**

During the year greater efforts have been made to promote the Society. A new membership leaflet, drafted by James Bell has now been produced and will be used to encourage higher levels of membership. In addition, the Society participated in the Cardiff Co-operative Congress Exhibition with a very professional display panel. Work continues on developing a mobile display that can be used at conferences, exhibitions, and gatherings where the society hopes to articulate its aims and objectives and bring into membership like minded people.

### **Fringe Meeting**

Another successful Fringe Meeting was held at the Cardiff Co-operative Congress. Nearly 100 co-operators attended this year's meeting at which Charlie Cattell, a Freelance Consultant currently engaged by the Industrial Common Ownership Movement and Industrial Common Ownership Finance and Peter Couchman, Member and Public Relations Manager, Oxford, Swindon & Gloucester Co-operative Society spoke on, "Towards a Stakeholder Economy - Lessons to be learnt from the failed Lanica Bid". The thanks of the Society have been forwarded to CRS who provided generous financial support for the meeting.

### **A Year of Consolidation**

1996/97 has been a year of consolidation for the Society. The committee continue to work well as a team and our special thanks are extended to Len Burch our Chairman who completes his second year in this important position. Len has had a difficult



task dealing with Executive Committee Members who all have strong opinions on the way the Society should develop. However, he has directed our deliberations with good humour and fairness and the Society is well placed to pursue its objectives in the future.

# The Society for Co-operative Studies 1996-97

## Accounts

### 1. Income & Expenditure Account for year to 31 March 1997

<b>Income</b>	Note	<b>1997</b>	<b>1996</b>
Subscriptions	1	5321	4544
Academic sponsorships		656	589
Sale of journals		628	1168
Annual conference	2	0	399
Interest received	3	687	1035
Grants and donations		0	0
		<hr/>	<hr/>
		7292	7735
 <b>Expenditure</b>			
Journal	4	6474	4663
Annual conference	2	229	0
Congress fringe meeting		200	413
Regional activity		0	0
National officers' travel		984	700
Secretarial		30	0
Advertising & publicity		277	0
ICA Congress reception		0	119
Other		33	10
		<hr/>	<hr/>
		8227	5905
Excess of income over expenditure		(935)	1830
 Add provision for tax written back			
		0	2841
Deduct legal expenses for registering as a charity		0	940
		<hr/>	<hr/>
Excess after tax to accumulated fund		(935)	3731

## 2. Balance Sheet at 31 March 1997

	Note	1997		1996	
<b>FIXED ASSETS</b>		£	£	£	£
Co-op Bank deposit account			5520		5989
Other investments	5		10000		15000
			15520		20989
<b>CURRENT ASSETS</b>					
Co-op Bank current account		4249		1178	
Secretary's cash float		0		30	
Debtors	6	1589		0	
			5838		1208
<b>TOTAL CURRENT ASSETS</b>			5838		1208
<b>CURRENT LIABILITIES</b>					
Subscriptions received in advance		214		706	
Journal - secretarial		0		104	
Journal - printing		1600		900	
Other		0		8	
			1814		1718
<b>TOTAL CURRENT LIABILITIES</b>			1814		1718
<b>NET CURRENT LIABILITIES</b>			4024		(510)
Total assets less current liabilities			19544		20479
<b>NET ASSETS</b>			19544		20479
<b>FINANCED BY:</b>					
Accumulated fund			20479		16748
Addition to accumulated fund from 1996/7 revenue account			(935)		3731
			19544		20479

### 3. Auditor's Report

I have audited the Financial Statements set out above and in my opinion these are in accord with the books of account. In my opinion the income and expenditure account and the balance sheet give a true and fair view of the financial position as at 31 March 1997.

31 July 1997

Peter Roscoe

#### Notes to the Accounts

	1997		1996	
	£	£	£	£
Note 1 Members' subscriptions				
individuals	2149		1913	
organisations	3172		2631	
		<u>5321</u>		<u>4544</u>
Note 2 Annual Conference				
income		3579		2226
less				
expenditure				
accommodation	3622		1701	
refunds	186		126	
		3808		1827
		<u>(229)</u>		<u>399</u>
Note 3 Interest received				
Co-op Bank deposit a/c		12		9
other investments		675		1026
		<u>687</u>		<u>1035</u>

Note 4 Journal		
printing	<b>4812</b>	2881
distribution	<b>1084</b>	597
editorial & secretarial expenses	<b>578</b>	1185
	<hr/>	
	<b>6474</b>	4663
	<hr/>	

Note 5 Investments comprise the following		
CRS Ltd	<b>4000</b>	4000
United Norwest Co-operatives Ltd	<b>6000</b>	6000
CWS Ltd	<b>0</b>	5000
	<hr/>	
	<b>10000</b>	15000
	<hr/>	

Note 6 Debtors are made up as follows		
Individual Subscriptions	<b>5</b>	0
Organisation Subscriptions	<b>304</b>	0
Academic Subscriptions	<b>656</b>	0
Journal Sales	<b>624</b>	0
	<hr/>	
	<b>1589</b>	0
	<hr/>	

No provision is required against these debts as they have all been agreed.