Society for Co-operative Studies

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Editorial

The last issue of the Journal focused on the future of the UK Co-operative College at Stanford Hall, and in this issue, we publish three articles which were squeezed out of that issue through lack of space. Mervyn Wilson provides an honest and thought-provoking study of the future of Co-operative education from the perspective of the UK consumer co-operative sector. John Corina links the Loughborough-based Co-operative College with much earlier ventures in Co-operative education, via a letter from a Loughborough Co-operative Society written in 1832. It may be the oldest-known official letter written by a Co-operative society anywhere in the world, and so we are delighted to have the chance to reproduce it. Peter Davis is currently developing an international distance-learning centre for co-operative management at Leicester University, and he has been persuaded to extend his article on co-operative management culture; it is published here in the new 'longer refereed article' section.

Co-operative housing is in difficulties in many parts of the developed world; falling state support for social housing and competition from other tenures make it harder to provide residents with a genuinely co-operative alternative. This is a theme we shall be exploring over the next few issues, and Allan Heskin and Neal Richman begin the series with the inspiring story of a new state-wide mutual housing association they have set up in California. In the next issue we hope to get the UK's leading co-operative housing expert, David Rodgers, to tell a similar story of a new co-operative housing finance society, and then we will be looking at Canadian and Scandinavian models to help provide other possible solutions.

This is the time of year when the Co-operative Union publishes some early statistics on the performance of the consumer co-operative sector in the UK, and as usual we provide some commentary from both inside the Movement and from academic commentators. Next year we may delay these commentaries until the September issue by which time much fuller statistics are available (I would like to hear whether our readers prefer the timeliness of the May commentary, or the greater depth we would get from delaying until September). Two presidents of our Society - Lord Jacques and Keith Brading - have died recently, and Bob Marshall and Ian Peddie pay tribute to them and put on record our appreciation of their unique contribution to the Co-operative Movement.

In this issue we begin a series on that vital underpinning for co-operative development - co-operative law with an article by Ian Snaith. Ian is a leading authority on both UK and European Co-operative Law. We will follow up in later issues with a general article by Hans-H. Munkner, and contributions from other countries where co-operative laws are being redrafted; we have much to learn from each other. With the current fascination for 'stakeholder capitalism' in the British political scene, the article by George Tseo is particularly timely. On behalf of the Society for Co-operative Studies, I recently attended a conference on 'Stakeholder Capitalism', at which one participant repeatedly asked what was the significance of the Mondragon co-ops for stakeholding. He never received a proper reply, but Tseo begins to provide one, describing how employee ownership schemes have taken off in many parts of the world and then asking the all-important question for co-operators of how these compare with worker co-operative ownership, and in particular with the 'jewel in the crown' of worker ownership, Mondragon. We will be continuing with this theme of what we might call 'stakeholder co-operation' as part of our contribution to the broader debate on stakeholder capitalism.

Finally, we intend to review all the important books on Co-operation and related subjects as they come out. John Corina makes an excellent beginning with a review of a monumental work on producer co-ops.

The Future of Co-operative Education

Mervyn Wilson

Several years of debate and discussion recently culminated in the adoption of the revised Co-operative Principles at the ICA Congress in Manchester. It appeared at the same time to mark a growing confidence and resurgence of interest in the core values and principles of co-operation, which can only give rise to greater optimism for the future of co-operative education. This article seeks to chart some of the reasons for the changes that have led to such optimism and explores the implications in terms of the programmes that have been traditionally run by Societies, the ways in which they are likely to change, and the support structures and services for co-operative education that the Co- operative College and others will need to provide.

The changing environment

Sven Ake Böök's seminal work "Co-operative Values in a Changing World" did much to define the core problems facing the Movement as a result of the vast social, cultural, and political changes that had impacted on the world's Co-operative Movement since the principles were last revised in 1966. Book reflected on the way that short-term reactions to change had often resulted in profound long-term difficulties for Co-operative Societies. Book was particularly sharp in focusing on how Societies had responded to growing competitive pressures by creating larger Societies through mergers. He further reflected on how this process had alienated traditional member loyalty and made the task of involving members even more difficult.

The major effect, in the context of democracy, is to widen the gap between members and management; to remove decision-making from the local base which has long been considered the foundation of democratic control.

Böök continued

> the emasculation of democracy can and does manifest itself diverse ways: in members apathy, low attendance at meetings, weakening of traditional co-operative loyalty, inability to attract young people, difficulties in recruiting · staff, loss of the sense of belonging and of exerting influence, encroaching bureaucracy, and rigidity, even sometimes in a blurring of the end purpose of. co-operation, namely, to serve the interest of the members (Co-operative Values in a Changing World - Sven Ake Böök)

Böök's documentation, although written for the ICA and the worldwide Movement, appears as if written exclusively on the problems facing the UK Co-operative Movement. Here, the process of reduction in the number of Societies to meet economic pressures, had certainly resulted in compromising the core co-operative purpose of serving the needs of the members.

This "blurring" of the end purpose of co-operation can, with the benefit of hindsight, be accurately tracked. The loss of dividend and with it the removal of the distinctive advantages of membership caused a collapse in the rate of member recruitment. As Societies promoted the culture of "we need customers - not members", the specific role and purpose of co- operative education equally became difficult to define. Increasingly, the co-operative education function became low- key public relations rather than its traditional role in developing new generations of co-operative members capable of providing active leadership for the Movement. The educational programmes of Societies frequently bore little relationship to the ICA principle on education which stated: -

> All Co-operative Societies should make a provision for the education of their members, officers, and employees and of the general public in the principles and techniques of co-operation, both economic and democratic.

That equally should hardly surprise us. Just remind yourself of how opportunities for democratic involvement in the Movement in terms of places on committees disappeared along with the hundreds of Boards of Directors and Education Committees that ceased to exist as Societies merged with others.

That same period, from the 70s onwards, produced a second debilitating effect alongside the process of weakening of the traditional co-operative content of many Societies' educational programmes. As Societies become larger, the degree of independence became much stronger.

> Sadly, however, these mergers have not always worked to the broader advantage of the Co-operative Ideal. Quite the contrary in fact. As small Societies have become larger and, therefore, more powerful, this in turn has made them more independent-minded and, sad to say, in many cases less willing to co-operate with each other. (CWS Ltd South East London Branch Committee Members' Meeting Saturday 8 April 1995. Mr H Todner, Congress President 1994 and former Chairman - Co-operative Union Ltd).

The role of central providers of services, in particular the Co-operative College, became increasingly questioned, not just in terms of its role as a supplier of management and staff training but also in terms of services for member education. In many larger Societies, the culture "if it doesn't happen here, it doesn't happen anywhere" was far easier to identify than the application of the principle of co-operation between co-operatives!

Perhaps it is hardly surprising that this same period saw the deterioration in standards of governance in some Societies, leading to the scandals of the early 90s, and the subsequent responses to those scandals. It can be argued that those failings in corporate governance were a direct result of the policies some Societies introduced that had reduced to virtual ineffectiveness the traditional links with and loyalties of their membership. If Societies failed to cultivate and develop membership over a protracted period, then effective control of the Society could quickly slip into the hands of small cliques with the obvious dangers if such groups were also blinkered and uncritical of the performance of the Society.

Whilst it is perhaps ironic, it is surely not surprising to co-operators that it was largely those Societies that seemed anxious to deny their specific and unique features as· co-operatives that created the need for the Movement to review its standards of governance - and in particular to recommend steps that would rebuild effective accountability of Societies to the owners of the business - the members.

Rebuilding Co-operatives as Co-operatives

The core thrust of the Corporate Governance Report is summed up in this simple statement: -

> we must emphasise that we consider that active and involved membership that has available to it open and fair information is an absolutely essential ingredient of good co-operative governance. (Corporate Governance Working Group Report - Co-operative Union Ltd 1994)

Whilst the Co-operative Union's Working Party was reviewing governance, more and more Societies were realising that a business strategy that focused purely on the needs of the business as a retailer was unlikely to bring long term success. The Co-operative Bank was demonstrating that prominent promotion of ethics, values and principles could not only produce good commercial results but were a prerequisite to defining a clear market niche in which the Movement could operate successfully and profitably.

Change continued within major co-operative retailers. The CWS was one of the first to embark on a strategy of rejuvenating its membership base combined with promoting itself in terms of "responsible retailing". Major independent Societies sought to reintroduce member benefit schemes, and in 1994 CRS introduced- its "You Make the Difference" member recruitment strategy. The common denominator in all of these is the clear recognition of the need for co-operatives to assert their distinctive features as co-operatives, and to re-establish their membership base.

The implications for Co-operative education

The combination of these changes has meant that co-operative educationalists, so often in the 70s and 80s the last defender of the Movement's distinctive values and features, have been required to reappraise their work and functions. Central to this review are the needs of Societies for education that will assist in strengthening membership and the Societies' democratic base. For many years, these functions had been largely ignored in Societies. Recent changes in the Movement's culture have left many Societies' Education and Member Relations Committees and Officers ill equipped for the new challenges.

Co-operative Education and Member Relations Committees have traditionally provided a diverse range of educational, social, and recreational events in line with the old model rules which stated that: -

> in setting aside, to an education fund, such amount if any as an ordinary meeting may determine for the purpose of promoting education, culture, or recreation" (1986 (10th Edition) of Model Rules of the Co-operative Union Ltd)

The problem of this rule was that it gave little direction, simply legitimising virtually any activity that took place. It is hardly surprising that at a time when Societies were not promot1ng membership and co-operative values, many Societies' educational provision embraced an ever-widening range of sponsorship of community, social and cultural activities, many of which bore little relationship to developing member involvement.

Too often, though, such sponsorship arrangements have continued more because Committees fear adverse publicity if sponsorship ceases rather than because of an assessment of the effectiveness of groups' contribution to the Society and its educational work.

A prime need in the coming period will be to extend education and training programmes for Co-operative Education and Member Relations Committees that assist Committees to:

- identify priorities in terms of Member Education
- identify strategies for the allocation of financial resources to support those priorities
- negotiate their way out of historic commitments that no longer fulfil today's needs or priorities.

The background paper to the ICA's Revised Principles stated:-

> Co-operative Education is not just about the distribution of information by co-operatives to their members, though it certainly includes that. It is essentially about the exchange of understandings: that co-operatives show members why the co-operative approach is a better way. (Review of International Co-operation Vol 8 No 3. 1995)

That gives a clear indication of the importance of promoting member training programmes, a point emphasised in the revised Principle which states: -

> Co-operatives provide education and training for their members, elected representatives, managers, and employees so that 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. (Revised Principles - ICA Congress Manchester September 1995)

From this, and the preceding description it seems likely that a core element of co-operative education in the corning years will comprise work to promote co-operation, its values, ideals, principles and structures to members and potential members. The revised principle is also a useful guide in that it links two vital priorities: educating today's members and educating tomorrow's members.

Educating today's members

Clearly a major priority for co-operative education in the corning period is to develop programmes to equip members to exercise effective control in Societies. The Corporate Governance Code of Best Practice recommendations on Director training are increasingly being taken up by Co-operative Societies, not just in terms of the programmes provided at the Co-operative College, but by more flexible approaches, including in-house provision, and regional seminars. The next stage is to work with Societies in promoting a more all-embracing member training culture that provides opportunities for potential active members, the Committee members, and Directors of the future, to be identified and supported through training programmes that enable them to play an effective role in the democratic life of their Society. This should include a clear framework of progression, from training provision for new members delivered by Societies at a local level, to strategies that identify activists, and support them through training delivered in partnership with major providers such as the Co-operative College.

Such training will enable members to move from a better understanding of their own Society, and the opportunities for participation, to understanding how their own Society fits within the wider Consumer Co-operative Movement and its representative structures. The next stage will be for them to explore how their own Society fits into the UK Consumer Co-operative Movement and the application of Co-operative ideals and principles to other sectors of the UK Co-operative Movement. This in turn will be followed by an examination of the UK Movement's links with the wider international Co-operative Movement.

Member training programmes must involve opportunities for co-operators to meet with and exchange ideas with co-operators not just from other Societies, but other sectors and other nations. Here the creation of dynamic learning environments for co-operators within programmes at the College offer major opportunities. In addition to developing programmes for today's members, co-operative education must give attention to the need to help develop tomorrow's co-operative leaders.

Educating tomorrow's members

Member Relations Committees and Officers can be proud of their pioneering work from the late 1980s in developing strategies to teach co-operative values and ideals, as well as forms of co-operative enterprise through the formal education system. The response to individualistic ethics promoted in the Thatcher years received a ready response from teachers, and there is growing confidence in the quality and volume of this work. Co-operative education in the future needs to consolidate this work and to provide a framework of support for teachers and educationalists. This will involve providing: -

- resources for teachers, educationalists and Societies wishing to promote co-operation in schools and, in particular, materials that actively promote co-operative values and ideals.

- opportunities for personal development at a local and national level that will give teachers the confidence in experiential learning techniques and opportunities to learn from best practice.

- accredited qualifications to teachers including the introduction of a Diploma in Co-operative Learning so that the skills, knowledge and understanding gained by teachers can receive recognised qualifications.

In addition to work with the education system, greater attention will need to be paid to the development of younger co-operators, those young employees, young activists in their late teens and early twenties involved in organisations such as the Co-operative Party, the Woodcraft Folk, and in the other co-operative sectors. The success of the recent ICA Youth Seminar illustrated the need for opportunities for young co-operators to meet and create their own networks. The potential for such networks, and the attraction of co-operative values to young co-operators is illustrated by this extract -from their contribution to the ICA Principles Debate: -

> In order to motivate more young people to join co-operatives it is necessary to make these more relevant to the needs and interests of young people.
>
> We propose to create an international network of young co-operators that will support the education and involvement of young people in co-operatives through communication and sharing of ideas.
>
> We believe that through education and global communication young people can become more than co-

> operators of the future, they can be proud to be co-operators of the present.

The future of co-operative education will pose sharp challenges to both committees and officers. It will also demand a greater clarity of purpose to meet the changing needs of Societies that now are adopting core business strategies based on the promotion of co-operative principles, values, and ethics. The core role of co-operative education in developing co-operators is clearer now than at any time in recent years. The role is clear. The need is clear. The support frameworks are largely in place. It is now up to Co-operative Education/Member Relations Committees and Officers to respond to the new environment with the vision and confidence of the pioneers of co-operative education.

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"In the beginning was the word . . ."

Loughborough and Lady Byron
A co-operative Society Letter: 1832

John Corina

Heritage-by-association is a strange phenomenon. Stanford Hall, the heart of the International Co-operative College overlooking Loughborough was formerly the seat of Sir Julien Cahn, a millionaire renowned throughout the Nottingham area as a philanthropic if partisan conservator of the Byronic heritage and its memorabilia, second only to Byron's publisher, John Murray. Among the collection of *Byronia* at Newstead Abbey, however, are very few items relating to Byron's wife **Lady Byron;** the most significant document on display being the bulky 1815 marriage settlement.

Split apart in life, the Radical poet and exiled lover, the late **Lord Byron** (1788-1824), 6th Baron of Rochdale, and his Co-operator-daughter **Ada Lovelace** (1815-52) now rest together at Hucknall Torkhard church, not too distant from Stanford Hall. **Lady Annabella Noel Byron** (1792-1860), unique as the leading Regency Co-operator immortalised in *Don Juan* rests in peace elsewhere, alone, at Kensal Green Cemetery, London. Her name, chiselled among the honoured ranks of once-famous Co-op pioneers, is inscribed upon Joseph Corfield's striking Victorian 'Co-operators and Reformers' Monument', still standing near the neglected Robert Owen memorial inside the cemetery. Lord Byron's monument lay in his splendid legacy to Romantic poetry and Greece. Lady Byron's magnificent historical legacy lay in the creation, collectively with Georgian working-class men and women, of the working concept of the Co-operative Store as the gateway to an entirely new form of industrial and political civilisation. The swift progress of practical-yet-visionary store-based trading societies, it was then believed, would quickly transform the cruel 'old immoral world' of industrial *laissez-faire* through collective self-help, ultimately elevating society into the noble moral character, economic harmony, and happiness of a 'Co-operative Community'.

A Historically Significant Letter

The historically significant document reproduced here for the *Journal of Co-operative Studies* originally accompanied a (costly) despatch to Lady Noel Byron, Acton; addressed from the Co-operative Stores, Top of the Market Place, Loughborough, September 14, 1832. Neither the protocols, nor the phraseology nor the calligraphy imitate the more hackneyed styles commonly utilised by the late-Georgian commercial clerk. Quill-penned in an unusually neat hand, it records a Co-operative gift piquantly expressing the gratitude of Loughborough's working class Co-operators to their economic champion, Lady Byron. It was sent just after suppression of the unruly Midland demands for working-class male suffrage and the final enactment of the class-biased 1832 Reform Act.

This is the earliest-known manuscript and surviving communication of the Loughborough Co-operative Society. It is also apparently the oldest-known surviving corporate manuscript letter written *officially* by a Co-operative Society, in the form of a Store-headed document, anywhere in the history of Great Britain and Ireland, perhaps so in Europe. Although the provenance remains beyond dispute, the alleged precedence may be open to challenge, since a number of older (but more personal) manuscript letters of Georgian Co-operators have been conserved. Pre-Rochdale Co-operative history is full of archival surprises. Hopefully, some earlier document of this specific genus, signed on behalf of a Society by a Secretary, may yet emerge to see the light of day.

Who were the senders? Formed in January 1829 and inspired by Dr. William King's journal, *The Co-operator*, the Loughborough Co-operative Society led by John Skevington (Secretary and then 'Chair') had accumulated £400 capital with 54 members by 1832; operating a retail store and also co-operatively manufacturing lace and hosiery products. Poor rate single 'wages' in Loughborough were then effectively around 4/- a week. John Skevington, a leading regional figure, energetically promoted a number of co-operative-producer ventures to sustain poverty- stricken Leicester stockingers and was particularly proud of the 'satellite' Leicester 3rd Co-operative Society launched in late 1829. Six months before he wrote the missive to Lady Byron, John Skevington had served as a Midlands delegate to the week-long 'Great' London Co-operative Congress of 1832. There he saw 'Orator' John Watson, the London Co-operator most feared by the die-hard aristocracy as a dangerous 'Agitator', quote the fiery poetry of Lord Byron to the cheering ranks of humble and voteless workingmen Co-operators. Eight years after his death at Missolonghi (1824), Byron, the liberator, was warmly remembered among the Loughborough and Leicester framework- knitters of 1832. Byron had been the sole peer to politically assist the Leicester and Nottingham stockingers, harshly crushed and castigated as 'Luddites' in their years of economic distress. He had handsomely subscribed to their Bill Committee in 1812. With the Co-operators' 1832 message a gift was enclosed of two pairs of very fine, lacework fancy-stockings: - "One pair for yourself. Another for your Ladyship's daughter."

Ada, Countess Lovelace, née Byron

Who were the recipients? Lady Byron's daughter was, in fact, Ada Byron, the sole legitimate child of the late Lord Byron; perhaps the first English noblewoman to receive a Co-operative moral education and intellectual upbringing. Within the family circle, she had been called "Our Young Co-operator" since the age of 14; developing into a serious young lady who, on her own testimony, read every issue of *The Co-operator* "with great delight". Fully committed to Co-operation, at the age of 19, in 1832 she proudly dressed in London-made Co-operative silks and slept beneath fine blankets supplied by the Huddersfield Society. At 21, she would encourage her former tutor, Arabella Lawrence, who left Middlesex to found the Gatacre Co-operative Society (near Liverpool), to write the first-ever *History of the Rise and Progress of a Co-operative Society* in 1834. Dr. William King, almost her surrogate father, introduced her to the Cambridge University mathematics Tripos syllabus; while her mother taught her bookkeeping and the abstract principles of Co-operation, and introduced her to the leading Co-operative figures. Ada was presented at Brighton to King William IV and Queen Adelaide (the latter very warmly disposed towards the Co-operative Movement) in 1833, seven years before Robert Owen's controversial Court presentation to Queen Victoria. Married to

Lord King in 1835, Ada Byron has been rediscovered in the twentieth century as the famous Countess Lovelace, popularly associated with the birth of computer programming.

Annabella, Lady Noel Byron, née Milbanke

Her celebrated mother Annabella Byron was only 40 in 1832. A 'single parent' since early 1816, she had remained eminently self-contained, practical, and energetic; highly privileged yet driven by a religiously inspired social conscience towards radically changing the world through Co-operation and educational enlightenment. A Leicester County heiress, intellectually gifted beyond the dreams of any Jane Austen heroine, Annabella had finally inherited (from her mother) the imposing Kirkby Mallory estates near Leicester in 1822. By 1832, locally established as a philanthropist, she would have been long known to grateful Loughborough artisans as a 'respectable' Byron by marriage (1815) and as a Noel-Wentworth Chatelaine by birth. Descended from noted Whig families - the Milbankes and the Noels - Lady Byron was first cousin to the worldly Lord Melbourne, soon to become Whig Prime Minister in 1834; and, after 1837, the mentor of Queen Victoria. His indiscreet wife lady Caroline Lamb, once the illicit lover of Byron, had died in 1828.

The 7th Lord Byron, George Anson, a naval officer, was persuaded by Annabella to champion the Co-operative cause for the· social improvement of dockworkers and sailors in Liverpool. Annabella, later Baroness Wentworth in her own right, remained the 'Dowager Baroness' of Rochdale from 1824-58. All Lady Byron's family wards, the four illegitimately descended Noel brothers, recognised but unjustly barred by law from Lord Wentworth's wealth, had become Co-operative enthusiasts by 1830. The eldest contributed as a Radical poet voicing Co-operative moral protest. His brother, Charles Noel, unselfishly taught the children of illiterate Leicestershire labourers and advised on Co-op projects while working as the Kirkby Mallory estate agent. Robert Noel, eventually rising to major in the Leicester militia, enthusiastically visited Societies and ventures across the country including the Ralahine Co-operative Community in Ireland. A protege of John Finch, he was a prominent enthusiast at Co-operative Congresses. Edward Noel, the last sibling, finally departed damp Leicester climes in 1831 to launch a Co-operative-style rural development scheme on the Greek island of Euboea - a truly Byronic gesture generously funded by Lady Byron herself.

Sponsor of the Original North West CWS

Actively involved for some 20 years with Co-operative Societies, and constantly sharing their social ideals, Lady Byron was at the heart of the Georgian Movement. Her close circle included not only Dr. William King but also the cultivated linguist Philip Skene (secretly 30th Laird, Skene of Skene), a great Co-operative enthusiast and gifted friend of Robert Owen. Between 1829-32, Philip Skene introduced William King's conception of retail co-operatives into France (Marseilles), Italy (Florence), Germany (Saxony), and probably Austria-Hungary. Of the 500 British and Irish Societies promoted between 1828-34, covering perhaps up to 200,000 household individuals, a significant proportion were located within a 25-mile radius of Loughborough. In the industrial heartland of North West England, then distant by stagecoach from Loughborough, Lady Byron had been nominally Lady of the Manor of Rochdale (from 1815-23, before the family estate had been sold for £23,000 by the exiled Byron). Once a remote patrician figure, she became a vital source of encouragement and financial support during the 1830s to struggling Co-operators throughout the Manchester-Salford-Rochdale localities. The legendary Rochdale Equitable Pioneers Society of 1844 was, in many indirect ways, a variant offspring of Georgian early experiments such as the lively Rochdale Co-operative Society (1830-2). In 1832 Lady Byron encouraged the Rochdale society to try and co-ordinate the manufacture and distribution of the varied wool products emanating from the pioneering societies in Rochdale, Huddersfield, Halifax and Bradford, Leicester, and Loughborough. The Birkacre Society, mustering some 3,000 members (1832), was affiliated to a unique self-governed Manchester cotton enterprise in calico printing chronicled by the persecuted William Carson (Trustee of the Georgian North West CWS) in intelligence reports to his rescuer and patroness. At national level, Lady Byron and Dr. King were influential behind the scenes of the seven Co-operative Congresses of retail and producer societies convened between 1831-5; six of them staged charismatically with Robert Owen as an honorary chairman. Ahead of her time as a Christian Socialist, Lady Byron discreetly met the great secular Co-operator, Robert Owen, three times over 1829-30 to bridge their religious gulfs, policy gaps, and ideological differences. She was successful, with Owen's own noble assent, in persuading the Co-operative Congress to dissociate Co-operation from any sectarian religious attachments or millenialist political cults; and in particular to detach Georgian Societies publicly from the controversial para-theological beliefs and impolitic large-scale ambitions of Robert Owen. Assured at the April 1832 London Congress that the fledgling CWS (launched in 1831) would remain a marketing investment well outside the immediate orbit of Robert Owen's influence, Lady Byron promised delegates the indispensable loan for Wholesale-trade expansion. Voluntarily shouldered by the courageous and loyal Huddersfield Society after the trading wind-down of the infant CWS ('North West of England Co-operative Company') in 1835, the debt was repaid to her (with interest) by 1838.

A Co-operative Banker

Secretive and altruistic, it is far from easy to summarise the full banking transactions of Lady Byron. At one point, Dr. William King was offered "several hundreds" a year to distribute to Societies carte blanche through a special Drummonds 'Co-operative account'. William Thompson (who bequeathed his own landed fortune to communitarian Co-operation), privately testified that the self-effacing widow and Co-operative philanthropist, by encouraging ever-growing numbers of retail societies, had placed herself by 1831, "in the habit of distributing yearly large sums of money - thousands - to relieve the ever- rising distress". Wisely, however, Lady Byron had withheld granting weighty support towards any projected high-risk agricultural 'incipient community' until the expanding network of retail societies achieved maturity. In effect, Lady Byron was not just a discriminating venture analyst but also a shrewd development banker to the Movement. Lady Byron consulted Dr. King at every point upon Co-operative ventures, donations, seed investments and loans: with significantly timed and sizeable financial assistance provided for at least 43 documented Co- operative Society projects extending (in England) from Brighton to Carlisle and Durham. As the Loughborough letter in part affirms, Lady Annabella Byron, once known as the estranged widow of the 6th baron Byron of Rochdale, had become popularly acclaimed nationwide as the 'Godmother of the Co-operative Movement'. Understandably, at the Liverpool Co-operative Congress (1832) the delegates endlessly cheered a special resolution recording for posterity the formal gratitude of all Co- operators to Lady Byron and Dr. King, for their unparalleled encouragement and personal contributions to the young Movement.

A College Foreseen: 1832

Kirkby Mallory was graced with a thriving Co-operative society founded in 1830. Lady Byron simultaneously founded (1830) a progressive village school, eventually employing as the incumbent master Matthew Hirst (son of the 1832 Co-operative Congress President), a Co-operative School product and trained-teacher, later renowned as a model Welsh Headmaster. Local artisans and labourers were to be offered an alternative to the negativity and despair expressed in the firing of Nottingham Castle; some immediate self-improvement, and with education, hopefully ventures which would provide a staircase towards 'incipient' Community. Mallory Hall, however, was never destined to be the forerunner to Stanford Hall, the post-1945 jewel in the educational crown of the Movement.

Lady Byron, like Robert Owen, increasingly believed in the necessity for an academy to provide thinkers and leaders for the new Co-operative Movement. The Pathbreaking Hofwyl School, founded in democratic Switzerland by Phillipe de Fellenberg (1771-1844), was taken as the educational ideal. This renowned non-sectarian boys 'School of Industry', spanning social classes and countries, nurtured Co-operative ideals and practices. A cradle of international Co-operation, Robert Owen's sons, Lady Byron's wards and William Channing's American offspring were educated there, acquiring intellectual and manual skills alongside the offspring of European Royalty and children of very modest origins. The intellectual promoter of German Co-operation, Professor Victor Huber (1800-69), was an early pupil. But in the short run the huge endowment necessary for a British Co-operative Academy could not be raised from the existing structures of unstable retail societies. The likely intellectual nucleus, the British Association for Promoting Co-operative Knowledge (1829-33) with a peak membership of 750, splintered and evolved into the vanguard of the Chartist movement.

Lady Byron, Middlesex-seated but seasonally resident in Brighton, first conceived the project of a £2,000-endowed "Co-operative College" (so-phrased) to promote the Co-operative Cause in 1831; to be located not in badly connected Leicestershire but in the Great West Road vicinity of London. Dr. William King was invited to become the inaugural College principal; a Co-operator with high qualifications as Brighton Mechanics Institute and school promoter, as a founder of *The Co-operator* and the Pathbreaking 1828 Brighton Society, and as an accomplished mathematician (Twelfth Wrangler) and social philosopher; with over ten years College experience as a Fellow of Peterhouse, Cambridge. King, however, justly proud of his rare repute as a practising Cambridge Doctor of medicine (Edinburgh doctorates were then commonplace), ultimately preferred to combine Co-operative endeavours with a Sussex general practice and family harmony. By 1832, the year of the Reform Act, both King and Lady Byron had fastened securely upon basic full-childhood education as the *sine qua non* of future economic self-help advances and the eventual democratisation of the surrounding polity. The famous Salford Co-operative School model promised more for Co-operation, so it seemed, than the Manchester College/Dissenting Academy model, although perhaps both were needed. In 1834, Lady Byron indefinitely deferred the Collegiate ambition, founding instead a more modest progressive 'Co-operative School', near the East India Company Asylum in Ealing, genteelly aired as the Grove School to thwart establishment suspicion. E.T. Craig, organiser of the famed Ralahine Co-operative Community in Ireland, was recruited to become the opening headmaster. At least two sons of (Yorkshire) Co-operators became boarders. An evening school (recruiting Acton Co-operators) was opened for adults in 1835.

The Loughborough Letter: 1832

The Loughborough letter to Lady Byron was written in September 1832 at the peak of her popularity and influence. Her major victories, including the proto-CWS reform, had been won at the third Congress, the epochal April 1832 London Congress, where the 'pro-Christian' cabal moved discreetly for six days between the assembly hall at Robert Owen's Gray's Inn Road Institution and the headquarters Lady Byron shared with Dr. King at the 'Co-operative suite' in Brown's Hotel, owned by a former servant of Lady Byron. (Brown's still boasts a fine table belonging to Lord Byron.) A greater election victory, however, would soon follow with the Presidency of the Liverpool Co-operative Congress (October 1832), awarded to a remarkable workingman, a leader representing the non-Owenite camp; Thomas Hirst of Huddersfield, publicly committed as a Christian- Co-operator, an open protégé of Lady Byron and a close friend of John Skevington.

At the successful Liverpool Congress Bazaar attracting hundreds, a marketing event sponsored by Lady Byron herself, fine-quality hosiery from the Loughborough Society was freely displayed and quickly sold. A Business cynic might therefore be tempted to view the Loughborough gift and letter as perhaps the commercial foreshadow of a special sales strategy. 'As Worn by the Byrons' would indeed have made a wonderful recommendation to any Co-operative buyer! But, to the detached social historian, the short and inarticulate letter is far more profound. It aptly expresses the deep emotions and noble ideals of selfless men and women engaged in the greatest social experiment of their era.

The transcribed document is delightfully evocative:-

Co-operative Stores,
Top of the Market Place,
Loughborough,
September 14th, 1832

To the Honourable Lady Noel Byron

Madam

I hope you will excuse the liberty I take in addressing you which I do at the request of the Loughborough Co-operative Society who having hared of your kindness to their brethren of the working class in different parts venture to request you to accept the inclosed trifle as a testimony of their admiration of your virtues and as a proof that there is a feeling of simply for each other among the working classes & that they are not destitute of gratitude towards those that come forward to assist them in their distress. They could have sent articles of greater value but thought that something that was the production of one of their own. body would be more acceptable.

Hoping you will excuse any imperfection in the style etc. of these lines.

I remain in behalf of the above Society your Ladyship's obedient servant.

John Skevington

NB One pair for yourself. Another for your Ladyship's daughter.

John Corina is currently a Research Professor, engaged in writing up the life of Robert Owen.

Co-operative Stores
Top of the Market Place.
Loughborough Sept 14th
1832

To the Honourable Lady Noel Byron

Madam I hope you will excuse the Liberty I take in addressing you which I do at the request of the Loughborough Co-operative Society who having heard of your kindness to their brethern of the working class in different parts venture to request you to accept the inclosed trifle as a testimony of their admiration of your virtues and as a proof that there is a feeling of simpathy for each other among the working classes & that they are not destitute of gratitude towards those that come forward to assist them in their distress They could have sent articles of greater value but thought that something that was the production of one of their own body would be more acceptable hoping you will excuse any imperfection in the Style &c of these lines

N.B. one here for yourself another for your Ladyships Daughter

I remain in behalf of the above Society your Ladyships Obt Servant
John Skevington

LOUGHBOROUGH AND LADY BYRON
AN 1832 LETTER
Reproduced by courtesy of the Earl of Lytton

The California Mutual Housing Association:

Organisational Innovation for Resident controlled Affordable Housing

Allan Heskin and Neal Richman

The California Mutual Housing Association (CMHA) is a statewide, resident controlled, non-profit organisation that assists in the development and preservation of resident controlled affordable housing. Resident controlled housing, in CMHA's definition, ranges from housing co-operatives to mutual housing associations to resident associations with meaningful roles in the operation of rental housing. The three-year-old organisation combines both the inherent strengths of large scale with the local legitimacy and the accountability of resident control. This article examines CMHA's experience in Los Angeles and looks at its importance and potential as an agent for the provision of affordable housing.

The CMHA is governed by a statewide board of directors. Board seats are divided equally among northern and southern regions of the state. To guarantee that majority power remains with representatives of resident-controlled housing organisations, seventy percent of the seats on the board must be held by representatives of resident controlled or want-to-be-resident-controlled resident organisations. These organisations include limited equity housing co-operatives; local mutual housing associations; and residents organising to obtain control. The remainder of the seats are available to advocacy groups, local non-profit housing development corporations that actively support resident controlled housing, and service providers - housing packagers, housing manager, and technical assistance people. The statewide board meets four times a year to set policy. In between the statewide meetings, regional councils meet. These are made up of people elected from each region and additional local representatives. The day-to-day operational decisions of the organisation are left to the regional councils.

The CMHA represents a notable innovation in that it has been structured as a secondary co-operative, accountable directly to its membership organisations.

Yet, in contrast to England's locally based secondaries, it has the scale more typical of a statewide or national co-operative housing association. Combining technical assistance and an association creates the potential for the organisation being stronger than the two in separated form. The statewide form also allows for the potential of co-operative development throughout the state in areas without previous concentrations of development.

Employing a broad definition of resident control, CMHA has been able to link the tenants' movement in both public and private housing with the supportive community development corporations (housing associations) and co-operatives in a fashion that can broaden the collective power of all the sectors. It is important to observe that CMHA is also different in potential from the great mutual housing associations in Europe. CMHA is an association of autonomous groups rather than a large holder of property. This should avoid the inevitable rigidity of such large organisations, although it will clearly make the organisation less economically powerful than these large organisations. CMHA's power will have to come from its ability to build upon and maintain its considerable coalition potential.

Activity has been increasing at a rapid rate and the organisation will operate in 1995 with a budget of approximately $500,000 per year, although its income potential is substantially greater. The Southern California office is located in Los Angeles. In the first three years of CMHA, more than twenty developments in southern California have received service from CMHA. These developments consist of more than four thousand units and have a combined gross annual income of more than 24 million dollars.

The CMHA has completed or has underway:

- Project management for tenant associations purchasing four HUD prepayment development and residents of one abandoned slum building in Los Angeles.
- Technical Assistance to seven Community development corporations throughout southern California.
- Creation of four local mutual housing associations.

- Acting as corporate secretary for three co-operatives.
- Leadership training for three public housing developments.
- Training for staffs of two Cities.
- Advocacy for a number of resident organisations fighting their landlords and seeking to purchase.

The CMHA Development Strategies

The CMHA has developed an approach to development, a series of principles that inform CMHA's actions and differentiate it from the more "mainstream" non-profit development organisations:

CMHA Strategy 1: Don't Own, Organise:

CMHA does not seek to own any development. Rather, the objective is to work with residents of individual buildings, existing supportive community development corporations, (where they exist) or help create a local mutual housing association. This last approach has become increasingly important to the organisation. CMHA staff act as staff to the mutual housing associations, creating increased local legitimacy and the efficiency of a single staff, which is particularly important in this period of declining resources.

CMHA ·Strategy 2: Begin with the People, not the Building:

CMHA seeks out resident associations looking to buy the building in which they live, Therefore, CMHA can work with legitimacy wherever an existing tenant group, interested in controlling their housing, requests assistance. Bringing housing residents directly into development decision-making has already yielded powerful results. For instance, when the city of Los Angeles Housing Department began to require the addition of certain costly design features during the rehabilitation of a slum-building, instead of CMHA staff arguing endlessly about the wisdom of the requirements, the residents quickly ended the debate by making it clear that they did not share the city's architectural vision. Public presentations about the CMHA are almost always made by residents, with CMHA staff in a background role. These presentations highlight the residents as the chief resource of CMHA, with much of technical assistance being provided "people to people." This resident-centred development programme has also meant that CMHA staff have not had to aggressively market their services. As the word spreads about CMHA-supported tenant victories, many potential referees are created in the network of tenant organisations, advocacy groups and co-operatives.

CMHA Strategy 3: Let the People Decide:

CMHA emphasises social development over physical development. To approach development from this resident-based perspective requires that the CMHA have very special development staff, skilled on multiple levels, organisational as well as technical. Rather than simply get through development checklists, CMHA staff must be skilled at framing development problems as opportunities for organisational capacity-building, repeatedly asking the question: "How can decisions be made in ways that enhance an organisation's long-term strength?" A major development challenge is that residents may seek to draw CMHA staff into internal conflicts as adjudicator or ally. CMHA staff must be very adept at maintaining an appropriate role in a highly charged political environment. The CMHA must be careful in supporting the democratic process rather than stepping in with the "answer" or becoming too aligned with one faction or another. Structuring real estate decisions can enable resident groups to go through a learning process aimed at increased control over their living environment. A process can be undertaken in which the residents come up with an internal relocation plan and divide up vacated space to accommodate those with the greatest need. The design work can involve collectively resolving issues of equity - who has priority for living space, on which floor, near which household. Perhaps as importantly, residents begin to see the building, which may have both sheltered and victimised them as theirs, as malleable, as reparable, as something which the residents can collectively shape and improve.

CMHA Strategy 4: Emphasising Long Term Housing Management:

CMHA sees housing management as the opportunity for residents to develop their own style of· democracy. The development is viewed like an endowment which generates resources to support this democracy. The emerging democracy provides an excellent long-term framework for community development. The opportunity presented by property management, broadly defined, is that residents can apply their own experience-based understanding of the property and the neighbourhood, design solutions to problems and then because they are on site, monitor the results. Development consultants typically swarm around a project when it is in the planning and construction phases and then abandon the residents when the resources have been raised and expended. In co-op training, residents are reminded that all of these development activities are just like preparing for a wedding ceremony and reception. The residents must direct the florist and the caterer not vice versa. But most importantly, they must remember not to mix up the "wedding event" with the importance of building a strong relationship for the many years of "marriage". Just as couples can best live together with each other over the years if they have open and respectful ways of communicating, so too co-operatives. Marriages are also better able to survive if income is sufficient to cover bills, hence the importance of housing management to a co-op. CMHA does not abandon its projects when they are completed. Rather the organisation intends to have a continuing role as corporate secretary to the board. The services covered will include assistance keeping the minutes and conducting and overseeing elections, making sure that procedures follow the bylaws, and other organisation development functions not provided by private property management companies.

CMHA Strategy 5: Peer based Technical Assistance:

The CMHA continually seeks to break down the division between technical staff and resident leadership. The greatest knowledge of running resident-controlled housing comes from having done it. This is not textbook knowledge, this is not computer knowledge, this is not something one learns in graduate school. Rather, operating co-operative housing skills requires very specific and context-based understanding, drawing upon knowledge of a community and of particular buildings and properties. Beyond the ability to read management financial reports or interpret by-law provisions, comes the requirement that people have the democratic process skills to resolve thorny value-based problems in ways which build group cohesion and fairness. Many decision-making issues have important moral components that cannot be simplified into formulaic technical problem solving. These decisions involve the creation of policies and procedures for admitting new members, revoking membership rights, establishing priorities for repairs and so forth. Interpreting policies and procedures is even more challenging. Often there are no clear-cut answers; reliance is needed on the judgement of those most involved and most knowledgeable.

Sometimes those with the most knowledge can be found within the resident association, but often much can be learned from the experience of those who have struggled through similar issues in other circumstance. In co-operative development training, it is very important to teach the residents how to become their own "researchers." in other words, if they have questions, who can they identify within and outside their group as resource people. The CMHA staff and board representatives help in this networking function. Additionally, in the training process, residents meet an array of CMHA co-op leadership who can. be contacted for follow-up. The CMHA's real strength lies in these direct people to people exchanges. There are already signs that this approach may be able to contribute community-based job development.

The central mechanism for strengthening the inter-organisational CMHA community is through the week-long Twin Pines Summer Housing Institute at Co-op Camp Sierra, a 50 plus year old tradition in California that has been the birthing place of many co-op institutions. The CMHA is the only development organisation in the State with its own folk school for continuing education. Co-op Camp serves to break down divisions between technical staff and residents in a retreat setting, Participants bring their entire families and begin to establish long term friendships as well as co-op "networks". Although there are formal training sessions, mostly in the mornings when the childcare programme operates, much of the most valuable information is transmitted in one-to-one discussions in front of the general store or along a walking trail. The camp's programme is dependent upon the contribution of the residents, so individuals from around the state create "a co-op for a week" in this beautiful setting. Co-op Camp serves as an incentive for year long participation in the co-ops and resident associations; these groups can reward those most active through sponsoring a week of training/vacation in the Sierras.

The CMHA is emerging just as federal housing programmes are being severely trimmed. A great deal of the CMHA's funds come directly or indirectly from the federal government. These cuts could shrink the organisation as quickly as they have helped its expansion. The long-term growth pattern of CMHA will depend on how it manages changes which take place in what is likely to be a very critical period.

Allan Heskin is a professor and Neal Richman a lecturer in the Dept of Urban Planning at the University of California Los Angeles (UCLA) School of Public Policy and Social Research.

Co-operative Trade 1995 - Reflections and Projections

Gary Davies

Market share and profitability are intertwined in business. The loss in share of food retailing by the Co-operative movement over the years has inevitably coincided with a loss of ability to pay dividend, to indulge in the promotional tactics of rivals and in an inability to re-invest in the business. 1995 saw something of a recovery in market share for Co-operatives. Like for like sales in food were flat but sales volume grew. Over the year Co-operatives held their own against the market, if still falling short of the achievements of the leading multiples. As with all statistics those from the Co-operative Union for 1995 merely whet the appetite for the next set of data to see whether such a result can be sustained or even improved upon. Without significant improvement the movement will not be able to match its rivals in their ability to create the retail environment demanded by today's shopper, let alone produce the surplus that members might wish to see.

Some Mixed Results in 1995

Top line statistics inevitably conceal a plethora of detail that can either please or provide cause for concern. Travel had a bad year in terms of surpluses. The market itself is buoyant enough but overcapacity and the need to offer substantial incentives amidst ever greater price sensitivity produced few opportunities for profit. The holiday business has lost its glamour for the customer. Holidays are purchased increasingly as commodities, two weeks here or two weeks there, operator this or operator that, travel agent one or travel agent two, makes little difference. In a less differentiated market, price is always more important. Unfortunately, the independent travel agent is caught in between a limited number of strong providers and a more confident purchaser.

More of a surprise were the often-substantial falls in sales in non-food areas, reflecting a tight market generally but one where

Co-operatives underperformed the market by some seven or eight percentage points. Like for like sales were down 3.6 per cent on the year. December is traditionally a make-or-break month in retailing and the end of the best quarter of the year for sales. Like for like sales in this key month were particularly disappointing.

Motor Trades and Funerals

Better news came from the motor trade and from the funeral businesses. Nationally the Co-operatives are now a major player in car retailing. However, the outlook for car dealerships is somewhat mixed,. Resale price maintenance is not a term used in car retailing, but prices are controlled on new vehicles to a great extent. At the same time franchise agreements limit the ability of the dealer to offer the shopper a choice of similar models on the same site. Any comparison shopping involves an arduous trek around a number of separate businesses. The manufacturers' ability to control the market is inherent in the block exemption given to car franchise agreements under EC law. However, block exemption is unlikely to be renewed in the future, creating the potential for what could be a dramatic change in new car retailing leading to far fewer multi-franchise dealerships, each supporting a larger number of satellite service points needed to provide for local servicing. There are other possible models for car distribution, including direct selling by manufacturers, but the fundamental issue here is that any significant change in legislation is bound to create a change in the way cars are sold. Car distributorships are already a poor investment compared with most other retail sectors, but if the Co-operative owned dealership network can respond to the going of block exemption, there could be significant benefits to the first to establish a lower cost system of car retailing and one which is more customer orientated. Multi-franchised dealerships will need investment. Few existing sites are large enough to display a range of, say, family comports.

The funeral business showed growth in 1995. Gross margins fell slightly but income rose substantially. At first sight the funeral business looks vulnerable to aggressive action by competitors, whether it is the DIY offer from one French-owned company or the selling tactics of the Americans. That said, it is also a traditional business and one where the market position of the Co-operatives can be a real benefit in assuring the customer. As a nation we are willing to trust but only so far. That the Co-operatives are trusted for purchases such as holidays and burial services says much for the trust that the movement enjoys.

Election Boom

Having delved into the entrails of last year's figures, what are some of the current issues and trends that might shape the 1996 results? It will be obvious by now that there is an election due. (It is always possible that by the time this is read, some unforeseen circumstance will have already led John Major to go to the country.) There has been a consumer boom in the run up to a general election in the vast majority of instances since the war. The manipulation of the economy was at one time quite blatant, a cut in direct and indirect taxes. These days that is an all too obvious tactic and Conservative chancellors have presided over fortuitous cuts in interest rates some eighteen months before the polls. Interest rates have been too low to allow a substantial cut this time but the mysterious shortfall in government tax income discovered in April this year indicates that the budget adjustments could have had a greater impact on income than was expected at the time. the relevance to retailers is that a consumer-led boom is manifest in higher sales, people will spend their extra income in shops. All too often retailers and their suppliers appear to de-stock in the run-up to an election, influenced perhaps by the squeeze a government exerts prior to loosening the reins with a year or so before the electorate stand in judgement. 1996 promises to be a good year for the retail sector generally.

A Polarised Society

While the mythical average household may yet become infected with the illusive "feel good factor", not all in our society are likely to believe that they are sharing in the spoils of political ambition and economic recovery. Society has become polarised, not as in Victorian times into the haves and have nots, but into the haves and those who get by. At one end of the earnings spectrum are households with two incomes, at the other households with none. Such a polarisation is unlikely to disappear whatever the colour of the next government. Retailing is an integral part of society. Our shops reflect our needs and our aspirations. Retail managers interpret social as well as economic trends in their decision making. The issue I am leading to is that of discounting, particularly food discounting. The market growth of the so-called hard discounters has apparently been checked by the actions of established players. The superstores have introduced value lines matching the prices of the unbranded products on the shelves of Aldi, Netto, and Lidl. Kwik Save has introduced an own-brand range with the same objective. The reality remains that such a response can only be tactical. High-cost retailers cannot make profit on their value lines while hard discounters can offer similar products at lower-than-average prices and return a profit. The cost structures of discounter, superstore and convenience store are radically different, allowing the limited range retailer a significant competitive advantage on price. Co-operatives are particularly vulnerable to discount operations because their core customers are more likely to visit a discounter than, say, the Sainsbury shopper. In a recent survey 40 per cent of shoppers had yet to enter a hard discounter. Whether Co-op Societies should, or even could, introduce their own discounters has been a source of debate.. A number of societies have tried various formats, but few can claim success - that is in Britain. Elsewhere in Europe Co-operatives have learnt how to operate discount formats successfully. The debate should not be curtailed on the relevance of discounting to the British Co-op.

Customer Loyalty

The last trend that could have a significant impact on relative sales in 1996 is loyalty. Tesco's club card is credited for much of their recent gain in market share, apparently at the expense of Sainsbury. The shopper receives a one per cent discount and Tesco an extra one per cent market share. Not a bad trade off. Sainsbury's marketing team has been changed and their shareholders expect a response from the one-time market leader.

One cannot help but feel that Tesco, particularly by using the term Club Card (implying membership), have stolen some of the Co-op's clothes. Membership and reward for such in proportion to purchases is a recognisable Co-operative concept. Holding on to one's core customers is an idea all businesses must adopt. This year's results will reflect on the relative ability of each competitor to hold the loyalty of its customers.

Professor Gary Davies is Head of Marketing and Strategy at Manchester Business School where he is also Director of the Doctoral Programme and Co-Director of the International Centre for Retail Studies.

Noel Branton

The year 1995 saw a slow and somewhat hesitant economic recovery in the UK. Whilst unemployment continued to fall, businesses also went on reducing their labour force including that at management level. This was offset by new job creation though, as critics pointed out, the new jobs tended to be part- time rather than full-time and benefited women rather than men. The feeling of uncertainty which was engendered inhibited spending even by those who had the resources. The passage of time was reducing the "negative equity" among house owners but the number of house repossessions which had been falling started to rise again. It is sad to have to record that the most conspicuous successful activity appears to have been the national lottery.

There were three cuts in interest rates each limited to one half per cent made apparently at the instigation of the Chancellor with the doubtful consent of the Governor of the Bank of England. Industry claimed that these cuts were too small to achieve anything worthwhile but although this may be true they do not appear to have done any damage either. Business has continued to operate in the unusual condition of a relatively low level of inflation and a fairly stable level of prices. Low inflation also means that retailers no longer gain much from the lag between receiving payment from their customers and settling the accounts of their suppliers. Again, it has made the man and woman in the street more conscious of the value of money- a trend which has outlasted business recession. Customers have started to second guess retailers, for example, by delaying purchases of Christmas presents thereby forcing weaker retailers into making early markdowns.

Co-operative experience in 1995

When the commentary on co-operative trade for 1994 was published, the final official statistics were not available though there was sufficient evidence to indicate that they would provide little cause for satisfaction. They recorded an increase in the value of national turnover of 4.6 per cent which was smaller than that of 1993 but because of falling inflation represented an increase in volume of 3.7 per cent. The growth of turnover had not faltered in 1994, but it was below what could have been expected in a recovery phase of the business cycle. In contrast the major multiple retailers achieved an aggregate value increase of 7 per cent during 1994.

The interpretation of the turnover statistics for 1995 is complicated because of the acquisition of a chain of food stores by CRS. There was an overall increase in the value of turnover by 5.8 per cent giving a volume increase of about 2 per cent but on a like-for-like basis it is 1.9 per cent. The benefit of the acquisition has now passed from the monthly statistics so that November shows a contraction of over 2 per cent. In the food section, after adjustment for the same reason, there is a slippage of between 2 and 3 per cent. The pressure on the traditional activities of the movement has increased the importance of Motors & Petrol and Travel. There was a cumulative increase in November of 17 per cent in value in Motors & Petrol and of 7.1 per cent in Travel. The results of the core activities once again give little cause for satisfaction.

Noel Branton is Emeritus Professor of Commerce at the University of Strathclyde.

John Anderson

The year 1995 could mark a turning point for the Co-operative Retail Movement. Overall turnover increased in value by 5.1%, which is a volume increase of well over 1%. Modest compared to major retailers like Tesco and Sainsbury and when like-with-like turnover is considered a value increase of 1.3% and volume decrease of 2% reinforce our relatively poor turnover performance. However, for the first time in many years we have been on the acquisition trail with CRS's purchase of "Lo-Cost" Food shops, and significant purchases of other chains by Scotmid, Plymouth, and other societies. CWS retail continue to advance forward profitably with new superstores and supermarkets while efficiently upgrading smaller units and disposing of units never likely to make a profitable contribution. Food turnover continues to dominate Co-operative retailing with 66% of total trade. However, as more and more societies continue to diversify into perhaps less competitive trading areas, funeral furnishing, motors and petrol, and travel, now form almost 20% of total Co-operative retail.

Trade	Share of Co-operative Trade	
	1989	1995
	%	%
Funeral Furnishing	2.0	2.5
Motors and Petrol	7.6	8.8
Travel	4.3	7.7

The Movement's involvement in the travel industry continues to grow, and even allowing for the great advance of Ilkeston Society's travel trade it can be readily seen that other societies also continue to successfully increase their travel trade. Non-food trade continues to decline sharply with non food share of total co-operative trade dropping from 13.6% in 1990 to 11.7% in 1995. Turnover then, despite the like for like volume decrease, shows at last signs of revival due mainly to recent acquisitions. The trend away from non food and food to travel especially continues. Although faring less well than Tesco, compared to our other rivals we performed moderately well, as the chart below of retailers' turnover figures with later 1995 year ends shows.

Comparison with Other Major Retailers

1995

	Turnover Increase %	Operating Margins %
Tesco	25.6	5.3
Sainsbury	11.1	6.7
Argyle	0.9	6.9
Asda	14.5	4.6
Sommerfield	0.8	2.7
Kwik Save	4.2	3.1
M&S	5.7	11.2
Morrisons	16.0	5.0
J. Lewis	8.3	5.2
Iceland	5.2	5.5
U.K. Co-ops	5.1	2.5

Note - Turnover figures are latest half year results.

The Trading profit of UK Co-operatives continues to hover at around 2.5%, scarcely moving throughout the nineteen nineties. This, of course, is unsatisfactory if we are to make any significant move to increase our market share. Of our competitors, only Sommerfield and Kwik Save have similarly low operating margins. Underneath the overall Co-operative picture of relatively poor turnover figures and low but stable operating margins, some societies continue to show strong growth in both turnover and profitability. West Midland, Lincoln, Ilkeston, Portsea Island, Oxford, Ipswich, and Scottish Midland all had significant turnover increases. Excellent operating margin increases were obtained by Lincoln, Scottish Midland, and several other societies large and small. Once the giant Midlands merger has bedded down strong growth performances in both turnover and operating margins seem almost inevitable.

Turning to the Co-operative Union's issue No. 2 of Current Indicators, significant growth in gross margins has been achieved in the food and superstore divisions within societies. I suspect this is almost entirely due to the success of the two major buying groups C.R.T.G. and C.I.C. The formation of both groups has not only resulted in better buying prices but has instilled greater discipline on shelf layout than ever before. This is particularly true of C.R.T.G. societies which have now two to three years of such discipline behind them. In Scotland alone, spectacular increases in food gross margins have been achieved by both Lothian and Borders, and East Angus Societies. More and more societies have been tempted to apply for membership of on of the groups and hopefully eventually some smaller societies will be allowed to share in the benefits from membership.

It has been a difficult year for all retailers with no sign yet of the 'feel-good' factor returning. Tesco has proven to be by far the retailer of the year following its acquisition of William Low, successful launch of Club Card, strong advertising presence, and refusal to be beaten on price, even selling tins of beans at four pence each. I personally cannot see any future for a return of dividend either through cash or vouchers for societies as very few could offer any meaningful dividend. I suspect the societies who have gone down this route, just like those who sought to emulate the foreign discounters, will soon realise costs far outweigh any benefits.

In retailing size and growth are key elements in success. This is what has allowed me in 1995, for the first time in many years, the first glimpse of a Co-operative revival. Some societies are realising that growth can be achieved more quickly and certainly more cheaply through acquisition. Acquisition of companies like 'Lo-Cost' and 'Semi-chem' increases buying power and lowers overheads, a sure recipe for increasing net margins. What can we expect in 1996? Tesco will have to come up with something new to keep its six million Club Card holders' interest as reality sets in and card holders realise the reward for loyalty is low. I suspect they intend using the card as a rival to air miles, allowing holders to gain points when they fill up at petrol stations, eat out at MacDonalds or buy insurance. Sainsbury's, having dabbled in cards without success with a management restructure now in place and following a successful saver promotion will make 1995 seem merely a blip on their successful path to remain Britain's most efficient food retailer. Asda, having completed its three-year renewal plan which saw improved productivity result in a sales surge without heavy capital expenditure, has plans to open six new stores in 1996. Argyle, flush with success with the

Safeway 2000 restructuring programme and 'Harry' marketing campaign, seems set for a good 1996. The launch of the A.B.C. Card and a successful trial run with self-scanning reinforces this prospect. Of the others, the recent price initiative by Kwik Save is sure to put even more pressure on its operating margins as it strives to keep at bay the much narrower-ranged foreign competitors. Somerfield is set for a stock exchange debut but continues to languish in the no man's land between the major players and hard discounters.

For the Co-operative Movement in the year 1996, I see signs that both turnover and operating margins can increase. Turnover increases again may well be value rather than volume with further acquisitions including the purchase of existing stores from competitors at knock down values, compared to new build. C.R.T.G., if anything, will strengthen and with it, operating margins in food will start to rise. Smaller societies which so far have weathered the nineteen nineties reasonably well will start to falter in increasing numbers being unable to share in the rewards of the Movements' new buying groups and lacking capital to build units to compete even with convenience chains like 'Alldays'. Major initiatives have been announced in the last few weeks by two of our major societies which seems bound to increase turnover and profitability prospects for the rest of 1996 and beyond. Firstly, United Norwest is to invest around £30 million in its stores this year as part of the second phase of a three-year plan to reposition the business. Around fifty shops have been earmarked for refits and the successful 'late Shop' chain is to be increased from one hundred and sixty units to over two hundred. Other United Norwest plans are to re-brand 'Shopping Giant' and open twelve Co-op Health Care pharmacies.

CRS has just announced a new promotion to run throughout 1996 called 'Low Price Zone'. Extensive use will be made of the national press and prices of at least 150 lines will be permanently reduced in its 'Leo's', 'Pioneer' and 'Lo-Cost' stores. Another CRS innovation is a new range of extra value own label products under the 'Lo-Cost' name. Another encouraging recent announcement is that discussions between CRS and CWS are taking place to combine non food retail activities. This may include other societies and if the discussions result in a stronger, more disciplined Co-operative non food approach then again we look forward to at least stemming our non food market share decline. To summarise, by the end of 1996, I expect another value increase and perhaps a small volume increase for UK Co-operative societies. I am certain both gross and net margins will increase and that we shall have in the next two years at least ten less societies as smaller societies seek refuge with larger neighbours.

John Anderson is Chief Executive of North Tayside and Strathaven Co-operative Society, Scotland.

Lord Jacques of Portsea Island - An Appreciation

Robert Marshall

JACQUES, Baron *cr* 1968 (Life Peer), of Portsea Island: John Henry Jacques; Chairman of the Co-operative Union Ltd, 1964-70; *b* 11 Jan. 1905; m 1st, 1929, Constance White *(d* 1987); two *s* one *d;* 2nd, 1989, Violet Jacques. *Educ:* Victoria Univ., Manchester: (BA(Com)); Co-operative Coll. Sec-Man., Moorsley Co-operative Society Ltd, 1925-29; Tutor, Co-operative Coll., 1929-42; Accountant, Plymouth Co-operative Soc. Ltd. 1942-45; Chief Executive, Portsea Island Co-operative Soc. Ltd, Portsmouth, 1945-65; Pres., Co-operative Congress, 1961. Pres., Retail Trades Education Council, 1971-75. A Lord in Waiting (Govt Whip), 1974-77 and 1979; a Dep. Chm. of Cttees, 1977-85. JP Portsmouth, 1951-75. *Publications:* Book-Keeping I, II and III. 1940; Management Accounting, 1966; Manual on Co-operative Management, 1969. *Recreations:* walking, snooker, gardening, West-Highland terriers. *Club:* Co-operative (Portsmouth). (Extract from 'Who's Who', 1995.)

Whatever be the nature and outcome of any final reckoning awaiting us, come the day when we have "had to go hence" (and John Jacques was a devout and tolerant agnostic about this and related matters), he would have been quietly and quizzically grateful for the obituary judgements from his contemporaries following his death on 20 December 1995. Family, friends, and associates have paid the high tribute he deserved, culminating in the relaxed and yet moving commemoration and thanksgiving within the impressively self-confident setting of the Guildhall in Portsmouth. They presented eloquently his qualities as a father, as a friend, and as a colleague in Co-operative and public service. In this brief further note in the Journal of the Society for Co-operative Studies, which he served as a President from its foundation in1967, I pursue the question of what made him such an outstanding leader in the movement - and the pursuit leads me to some unusual conjunctions of characteristics which John exhibited and in each of which either element reinforced the other.

Intellect and Action

The first conjunction is that he was a man of intellect but also of action. No one could fail to be impressed by his capacity for analysis - and he always paid ready testimony to the share of the movement and, in particular of the College in the development of this. Apparently complex problems were rendered into the significant and ordered questions they raised, and the available options precisely set out. And, of course, he went further - into recommendations on the options to be chosen and the sequence of action to put them into effect.

Practice and Principles

Secondly, he was a man of Co-operative practice but also of unswerving commitment to Co-operative principles. In this connection (and, indeed, in many other connections) read his Presidential address to the 1961 Scarborough Congress. As he says, he served a movement "which is, at one and the same time, big business and an agency of social reform". As a practising manager of "big business" one of his constant preoccupations was with the efficiency of societies and he was an outstanding exemplar. In his twenty years as, first, secretary and then chief executive officer of Portsea Island he saw or, to be more precise, was the main begetter of development which trebled the society's membership and multiplied its trade ninefold.

In conjunction with that, his belief in the principles of Co-operation, of mutuality, was firm. In a conversation not long before his death, he accepted my proposition that the objective of the movement was to show that societies in which we exhibit our principles can achieve economic and social leadership in their communities and by that effectiveness encourage the extension of the principles to other areas of community life. I regret we do not have on record more of his definition of the principles and of his prescription for extending the practice of them.

Local and National

Thirdly, his capacities were tested and proved not only on the national level but also within the rigours of demanding pressures and competition upon the local society. The experience on each level added to his competence and credibility.in the other - and what he advocated in Manchester gained in authority from the recognition of his success in Portsea. No one was less vulnerable to the old gibe that a visiting expert can be merely 'a damn fool' a long way from home!

Present and Future

Finally, he was a man of the present but also of the future - in the sense of responding not only to conditions now but also to the inevitable changes of the future. As he says in the Presidential address our future "depends upon foresight and flexibility, upon the ability to anticipate changes and to adapt our methods to the new circumstances". And he then proceeds to set out in very specific and practical terms the changes he expects and the adaptions he advocates.

These four conjunctions underlie the career which make him such a notable representative of a time when entrants to Co-operative service on completion of the minimum schooling could find within it wide opportunity for further education and when the movement would find among such recruits resources of great leadership. He recognised that such history was not repeating itself: again, from the Presidential address -

"We have lost sight of the fact that part of the (university) population comes from working class homes and their entry into the Co-operative movement is barred because of an out-of-date recruitment policy".

We may the more readily, within that perspective, give thanks for what we owe to him and to the company he so powerfully exemplifies. He enhanced the quality of the movement's operations in many areas of activity and on different levels. We should also acknowledge a particular achievement with its own distinctive importance in a people's movement: that he strengthened its morale and self-confidence, giving to many of its members, even in difficult times and even to those who could not match all his arguments, the reassurance that any organisation capable of engaging the whole-hearted commitment of such a man as John Jacques was also worthy of their support.

Dr. Robert Marshall is past editor of this Journal, and former Principal of the Co-operative College.

Keith Brading, CB, MBE - An appreciation (1917-1996)

Ian Peddie

Keith Brading was a gentleman. Gentlemen are a rare breed these days. He will be remembered for the many achievements in his professional life, but I am sure that for most, if not all of us, the fondest and most clear personal memories of Keith, will be of that gentle man who always saw the best in people, was able to get the best out of people and who could relate to one and all, young and old.

Although Keith was a gentleman who displayed all the qualities of old-world charm and courtesy, he was a man totally in touch with the realities and the challenges of life today and in the 21st century. Keith was an unusual man. He was, in a sense, a man with two careers. He was a successful career Civil Servant ending his career in 1981 as The Chief Registrar of the Friendly Societies. However, the start of his retirement was the start of another more public life in which he did more than almost any other person in recent times to encourage the ideals and principles of mutuality, particularly within the Co-operative movement. This second career lasted from the date of his retirement until his untimely death.

Keith was born in 1917 at Portsmouth, within sight of the Isle of Wight and the village of Brading, whence all Bradings are believed to have come. He was educated at Portsmouth Grammar School, a school for which he retained an abiding affection. He became a generous benefactor and was a founder member of the London Society of the Old Portmouthians. On leaving school he went into the Estate Duty Office of the Inland Revenue. The war soon interrupted his flourishing career. Though at first prevented from enlisting in the marines he was eventually called up into the Navy. He served on Atlantic convoys and in the Mediterranean. The highlight of his War service was on Russian convoys. He was also landed secretly in Norway to contact their freedom fighters, in order to arrange the means by which they could transfer vital information on German naval movements to the British Navy. For this work he was awarded the MBE, an award of which he was very proud.

I am told that whilst in the Navy Keith met an ebullient Welshman, Bill Mars-Jones, (now Mr. Justice Mar-Jones) who persuaded Keith not only to become a barrister but also to become a member of Grays Inn. After the war was over Keith had the great good fortune to meet Mary whilst both were working in Llandudno. They were married in 1949. Keith was called to the bar in 1950, the same year in which he joined the Legal Department of the Inland Revenue. After various senior appointments within the Inland Revenue he was in 1969 transferred to the Registry of Friendly Societies, where he became the Assistant Registrar. This appointment was to be a turning point in his life. He was from that time enthusiastic about the concept of mutuality.

As Chief Registrar from 1972 his reputation was formidable. he had considerable powers of regulation over the Building Societies and Co-operatives as well as Friendly Societies. As a regulator he was held in high esteem because he exercised his powers with fairness as well as firmness. He is well remembered and held in great affection by all those who worked with him at that time. It is perhaps significant that despite his role as the regulator he has been described by those in the Industry at the time as a friend and confidant. His knowledge of the law relating to Friendly Societies and Industrial and Provident Societies was second to none. For this reason, he was invited to write the Titles on Friendly Societies, Industrial and Provident Societies in the most prestigious legal practitioner's reference book namely, Halsbury's Laws.

Keith officially retired at the end of 1981 but in reality this was the start of his second career. On retirement he was able to throw himself with vigour and enthusiasm into a multitude of activities. In retirement he gave most of the energy to the development of the ideals of mutuality. Having become an expert in the subject he was in great demand both with the Building Society sector, the Housing Associations, and in particular the Co-operative movement. His achievements in retirement are impressive indeed and perhaps, because of his unassuming nature, not recognised by many of those who knew him.

It would take too long to list all his achievements since his retirement. However, it is worthy of note that he was the chairman of the Review Body which in 1985 was responsible for completely redesigning the structure of the Building Societies Association. A structure which is still in place. He was influential in the working parties which led to the revision of the law relating to Building Societies and the passing of the Building Societies Act of 1986. Keith was saddened at the recent changes in the status of Building Societies and with others was actively discussing the problems of demutualisation. He worked with a number of Housing Trusts, but he was most closely associated with the Kensington Housing Trust of which he was Chairman from 1987 to 1991. He will be remembered fondly by all there, particularly the tenants, because he was instrumental in creating real tenant participation in the Trust. (Thanks to him there are two tenants on the committee controlling the Trust). His work with the Trust laid the foundation for significant growth later. But it was mainly with the Co-operative movement that he became identified after retirement. It was his brain child and dream to create a national "umbrella" Co-operative organisation, which could bring together the various disparate Co-operative institutions. With dedication and charm, and despite innumerable odds, he ultimately achieved that ambition, and the United Kingdom Co-operative Council was born in 1991. He was the first chairman and at the conclusion of his first term in 1993 he was appointed Life President. He lived just long enough to see the historic moment last November when an agreement was reached on the desired changes in Co-operative law. It has been said that any Act that results should be known as the "Brading Act", such is the esteem with which Keith was held by the Co-operative Movement. It is not surprising that Keith has been described as one of the modern leaders of the Co-operative movement, all this since he retired!

In addition to his work on the UKCC he was also actively involved with the Co-operative College at Loughborough and had been since 1980. He spent many weekends there, helping in the assessments of the students. On the day of his death, he was due to give a talk at the college, such was his commitment to the Co-operative cause. Though not a sportsman, Keith loved swimming and sailing. He even learned to ski in Murmansk. He loved opera and ballet and the theatre, particularly performances of The

Cherry Orchard. He even sat through a performance in Russian (he did not speak Russian although he did speak Serbo-Croat, which he studied for many years). He had no time for TV and never owned a set.

Keith's remarkably full and active life in retirement was also, unfortunately, marked by frequent bouts of ill health, though often disguised from friends. He never complained and always made light of his ailments. He attended meetings and functions and delivered lectures, often when feeling unwell. He never allowed his ill health to interfere with his desire to fulfil his obligations. However ill he became he always seemed to make a good recovery. He seemed indestructible. One year ago, the last struggle began. He fought bravely what was a losing battle. He never gave in and though frequently in hospital he endeavoured to live his normal life, still travelling around the country to his professional commitments and even to please himself in order to savour a new experience by travelling on the Eurotrain to Brussels for lunch.

In the New Year Keith returned to hospital for the last time. Twice he had heart failures that the doctors never expected him to survive, but he did, before he finally passed away. Keith was a very great man, often self deprecating, always displaying humility and consideration of others. His achievements in public life were manifold but the warmth and pleasure from simply having known and loved Keith Brading stand as a tribute to him. We offer our deepest sympathy to Mary. But in the spirit of the Co-operative Movement to which he devoted a large part of his last years we give joyous thanks for his life and for his work and we celebrate the achievements of one of those whose destiny was, in the words of Robert Owen, to "promote the happiness and the welfare of the whole community".

Ian Peddie, Q.C. is the son of Lord Jim Peddie, former chairman of the Co-operative Party.

Co-operative Principles and UK Co-operative Law Reform[1]

Ian Snaith

1. Introduction

The legal framework provided for co-operatives in English Law has developed in response to the practical needs and problems of co-operatives as business enterprises. Time and again legislation has been passed to deal with the specific practical problems of co-operative societies in the context of the law governing business organisations rather than as a means of expressing, enforcing, or propagating the principles on which co-operative societies were founded. Indeed, it was not until 1939 that the law under which most societies were registered specifically imposed a requirement that only bona fide co-operatives and certain other organisations could register. This was not done to encourage co-operation but to prevent the abuse of the legal form in question for the purpose of investment fraud. The application of Co-operative Principles was left to the discretion of an administrative body (the Registry of Friendly Societies) without a right of appeal to the courts. That remains the position today and, as a result, there is no statutory or judicial statement of co-operative principles in the law of any of the three United Kingdom jurisdictions (England and Wales, Scotland and Northern Ireland)[2].

This essay deals with the legislative history of the industrial and provident society structure which is intended for use by co-operatives and compares. the current law with the 1995 ICA Statement on Co-operative Identity. This is done with reference to possible law reform and the desirability of developing an exclusive and specifically co-operative legal structure for all co-operative businesses in the UK.

2. The Historical Development of Co-operative Law in the United Kingdom[3]

The first legislation to deal specifically with the need of co-operatives in the UK for a legal structure was the Industrial and Provident Societies Act 1852. The origins of this Act are to be found in the serious legal problems which confronted those setting up co-operatives in the 1840s in the aftermath of the Industrial Revolution. If a society did not register under any legislation it was at risk from fraud because it would be difficult or impossible to pursue officers or members who took its funds. It was necessary to sue simultaneously in different courts and in the names of all members and there was doubt about the possibility of using legal processes at all. However, existing business structures all posed problems for co-operatives.

If the business operated as a partnership at Common Law (without any corporate personality) it was permitted no more than 25 members under the Joint Stock Companies Act of 1844. This was inappropriate for a consumer co-operative such as the Rochdale Pioneers' Society. There was also the problem that in a partnership each member could act as an agent to bind the whole partnership to any contract. This would result in unlimited liability on the part of all members to the full extent of their personal wealth for all resulting debts. Registration under the new Joint Stock Companies Act of 1844 was expensive and required that shares be transferable. This would have prevented any restriction on transfers to non-members. Even registration under that legislation would not have provided members with limited liability for the debts of the co-operative.

For this reason, the Rochdale Society of Equitable Pioneers was originally registered under the Friendly Societies Acts 1829 and 1834 and benefited from the amendments in the Friendly Societies Act 1846 which permitted such societies to invest the savings of members so as to provide the members with necessities. This permitted only mutual trading with members, to meet their needs, and did not permit the society to hold land or limit the liability of members for the debts of the society.

Apart from the legal benefits of registration under the Friendly Societies Act, there was a certain suitability in the use of that legislation; It was designed to deal with the predominantly working class and lower middle class friendly society movement. This means of mutual self help against the risks of death, disease and poverty was often linked to the nascent trade union movement and the radical social and political movements of the time such as Owenite socialism, Chartism and religious non- conformity. Since many of the original Rochdale Pioneers were rooted in this political culture[4], they probably found the familiar friendly society legal form more comfortable than the new Joint Stock Company or the commercially orientated partnership. For a small consumer co-operative such as the Rochdale society, the obligation to trade only with members did not create insuperable problems.

Two factors led to the early development of a business structure for use by co-operatives separate from the joint stock company or the partnership. The political influence of the Christian Socialists, who linked themselves to the consumer co-operative movement in its early years, increased the chances of obtaining appropriate legislation, and the fact that the legislature was considering the needs of co-operatives while the foundations of modern company law were first being laid prevented the early co-operatives from using a convenient company structure. This encouraged the emergence of the industrial and provident society structure from existing friendly society legislation. By the 1870s the legislation governing societies had gained most of the features needed by a trading organisation and was distinct from the Friendly Societies Acts but administered by the same registrar. The importance of the Christian Socialists lay in the political influence they exerted. In 1852 Parliament passed the first Industrial and Provident Societies Act. This permitted the registration of co-operatives with the same legal status as friendly societies but without the limitation that they trade only with members, and it allowed non-transferable shares to be issued. The Act was the result of years of lobbying by Ludlow, Hughes, and E.V. Neale and was specifically intended to meet the needs of both worker and consumer co-operatives. It was a vital foundation for the exponential growth of British Co-operation in the late nineteenth and early twentieth century. As Hall and Watkins observed:

> "How long co-operative expansion might have been delayed, and into what by-paths the Movement might have strayed but for the timely legal recognition of co-operative enterprise as something different from joint stock capitalism, the student will do well to consider."[5]

These tendencies continued in the ensuing decades. The Industrial and Provident Societies Act 1862 permitted one society to hold shares in another and thus allowed the creation of the wholesale society and other secondary co-operatives. Coming as it did after the Companies Acts of 1855 and 1856 which first established the availability of limited liability for registered companies, the 1862 Act also provided both limited liability and corporate personality for societies. The nascent consumer co-operative movement and the Christian Socialists (particularly E.V. Neale) were important in campaigning for these reforms. In 1867 the limit on the value of the shares that one society might hold in another was removed and the 1876 Act which was also promoted by Neale consolidated the earlier Acts and laid the foundations for the present legislation. A further consolidation in 1893 preceded the Industrial and Provident Societies Act 1965 (hereafter IPSA 1965) which, with later Acts of 1967, 1975 and 1978, forms the present basis for the registration of co-operatives as industrial and provident societies.

Between 1893 and 1965 a requirement that, to be registered and to remain registered, a society had to be either a bona fide co-operative or a society conducting business for the benefit of the community was introduced. The Prevention of Fraud (Investments) Act 1939 introduced the requirement which is now to be found in section 1(2) of the IPSA 1965. It was intended to prevent the registration of societies for use in share pushing schemes. This had occurred because societies, unlike companies, were not subject to an obligation to provide detailed information in a prospectus on issuing shares and abuses were facilitated by the absence, up to 1939, of any reference to Co-operative Principles in the legislation. The purposes for which societies could be registered were expressed in business terms.[6]

3. The Development of Co-operative Principles

The history of the development of co-operative principles is well known. Some principles can be deduced from the statutes of the original Rochdale Society of Equitable Pioneers of 1844 as amended in 1845 and 1854. They include democracy ("one member, one vote"); open membership and freedom to withdraw from membership; a requirement that all purchases and sales by the society be on a cash basis; a fixed rate of interest on capital; distribution of surplus only as dividend on purchases; a fund for educational purposes and a requirement that any surplus remaining after dissolution be applied for charitable or public purposes.[7]

In 1937, the Paris Congress of the International Co-operative Alliance (ICA) approved a report of a special committee set up to inquire into the application of the Rochdale principles by member movements at that time. This declared that seven features of the Rochdale system could be regarded as principles. The adoption and practice of four of them were regarded as essential to the maintenance of the Co-operative nature of an organisation. They were open and voluntary membership; democratic control (one member, one vote); limited interest on capital; and dividend on purchases. The three further principles identified by the Committee were regarded as methods of organisation and action rather than standards so that failure to observe them would not destroy the co-operative nature of an organisation. They were neutrality in politics and religion; cash payments in buying and selling; and the promotion of education[8].

In 1966 the Vienna Congress of the ICA approved a resolution setting out a new version of the Principles acceptable to both communist and non-communist member organisations. It is this version which was reconsidered at the 1995 ICA Congress in Manchester. The 1966 version dropped the concepts of neutrality in politics and religion and of cash trading. It added a principle of co-operation among co-operatives and the text of the resolution expounded each principle at some length. The separation of items into essential principles and desirable methods of organisation and action was removed from the 1966 version so that all principles had equal status.

Problems about the applicability of certain principles across all types of co-operative and in all circumstances were dealt with in the elaboration of the Principles. Like the 1937 version, the strict purpose of these principles was to test the eligibility of national co-operative bodies for admission to the International Co-operative Alliance itself. They have, however, been widely used by legislators, administrators, policy makers and co- operators as criteria for judging the co-operative nature of particular organisations at primary and secondary level.

Since 1966 the nature of co-operatives and the relevance of the Principles has been subject to further discussion. Divisions between principles, values, definitions, and practices have been explored in an attempt to clarify the nature and purpose of co-operatives of different kinds and in different parts of the world. There have also been major changes in the world in which co-operatives operate. Communism has collapsed. Many of the markets in which co-operatives compete have become global with ever fiercer competition from capitalist enterprises while the needs of communities in developing countries are as great as ever. The work of Watkins in "Co-operative Principles Today and Tomorrow" and of Book on behalf of the ICA in producing his report on Co-operative Values in a Changing World have dealt with these issues[9], These contributions resulted in the proposals considered by the Manchester ICA Congress of 1995.

4. UK Co-operative Law and Principles Old and New

In testing UK legal rules against each element of the 1995 Statement, the rules applicable to partnerships, companies and industrial and provident societies should be borne in mind. In the UK, no single business structure applies exclusively to all co-operatives. Some co-operatives operate through a company or partnership rather than the industrial and provident society structure. In some cases, this is necessary because, for example, the minimum requirement of seven members to form an industrial and provident society and the higher initial registration cost of a society forces the registration of a company. In others, the co-operators prefer the flexibility of the capital and voting structures available in the company form. In late 1996 the minimum figure of seven members will be reduced to three as a result of Deregulation regulations expected to come into force then, but the other factors will remain.

The law governing industrial and provident societies requires proof that a society is a bona fide co-operative unless it registers as a community benefit society. This is tested by the Registry of Friendly Societies by reference to criteria reflecting co-operative principles (IPSA 1965 section 1(2) and Registry Guidelines). The Industrial and Provident Societies Acts 1965 to 1978 lay down requirements about the content of the rules which influence that process (IPSA 1965 Schedule 1), and, on occasion, the substantive provisions of the Acts are relevant to the application of the Principles (for example, IPSA 1965 section 1(3)). The key feature of the legislation is the fact that adherence to co-operative principles is policed by the Registry. Co-operatives using a company or a partnership structure are not subject to any regulation to ensure that they are and remain co-operatives. This problem makes law reform desirable in the UK In the ensuing discussion. only the law governing industrial and provident societies is considered because of the limited space available. If a co-operative uses a company or partnership structure, the documents establishing the business must lay down rules that conform with Co-operative Principles. That is possible in the case of each structure[10].

4.1. Definition of a Co-operative

The IPSA 1965, apart from the requirement that a society be either a bona fide co-operative or a community benefit organisation, lays down only business objectives for societies (section 1). There is no definition of a co-operative. In its current law reform proposal, the Legal Working Group of the United Kingdom Co-operative Council[11] (which the author chairs) recommends the retention of the phrase "bona fide co-operative" in a new statute but would include the full ICA Statement of Co-operative Identity in a Schedule to the Act for use as guidance by the officials applying the "bona fide co-operative" test.

The 1995 ICA definition is:

"A co-operative is an autonomous association of persons united voluntarily to meet their common economic, social and cultural needs and aspirations through a jointly owned and democratically controlled enterprise."[12]

Elements of this definition are compared separately with the UK legal regime below. Autonomy is guaranteed by the corporate personality enjoyed by societies registered under the 1965 Act (section 3) although since one society can be a member of another and a company can be a member of a society, control of a society by other societies or companies is possible (section 2(2)). The society is an association of its members who are bound to it and to each other through the rules (IPSA 1965 section 14). Its aspiration to meet their needs will be expressed in the objects set out in the rules (Schedule 1 paragraph 2). Ideally the rules should emphasise that purpose.as the prime object of the society rather than focusing exclusively on business activities in the statement of objects and powers as many rules, like section 1(1) of IPSA 1965, do. Law reform to provide an exclusive legal regime for all businesses using the name co-operative and to clarify the nature and purpose of a co-operative would greatly assist the co-operative movement. The requirements of the 1995 definition can be met by societies registered under present UK law but reform of the law is desirable to preserve the nature and identity of British co-operatives and to promote the idea of co-operation.

4.2. Values

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

This statement of values precedes the list of principles in the 1995 formulation. It indicates the fundamental purpose of co-operative societies and requires of the legal rules only that nothing obstructs the expression of those values. Under the Industrial and Provident Societies Acts 1965 to 1978 there is nothing to prevent a society from adhering to such values. However, in certain respects, such as the information required by law to be made available to members, the rules under those Acts are less demanding than those applicable to companies with shares listed in the Stock Market. On such issues as the accounting rules, the requirements to disclose the remuneration of senior managers, the right of members to information on mergers of societies or major transactions involving the disposal or acquisition of assets, the rules imposed on co-operatives are less demanding. This also applies to the statutory provisions applying to transactions between directors and their own society. This led the UK consumer co-operative movement to set up a

Working Party on Corporate Governance to report to its 1994 Congress. A forty-two-point Code of Best Practice was recommended by the Working Party and its aim is to ensure that the standards of transparency, openness and honesty applied by societies are, at the minimum, no lower than those adhered to by other forms of business enterprise[13], The present law does not prevent societies from operating in accordance with the 1995 statement on values. The UKCC proposal envisages the creation of a statutory Co-operatives Commissioner to oversee the registration of co-operatives and the registration of rule amendments as well as scrutinising certain moves to convert co-operatives into other forms of business. However, it leaves the application of the broad values referred to in the ICA Statement to self regulation by bodies such as the Co-operative Union[14].

4.3. The Principles

While the new definition and values set out in the 1995 statement describe the fundamental objectives and functions of co-operatives, the "principles", as in the 1966 formulation, indicate how the values are to be reflected in practice. They are described as "general guidelines" for the activities of co-operatives. They are relevant to the legal structures used by co-operatives and are likely to be applied by the relevant regulator in the UK under the Industrial and Provident Societies Act 1965 or any new Co-operatives Act as the principal criteria in deciding whether a society is and remains a co-operative.

4.3.1. Voluntary and Open Membership

"Co-operatives are voluntary organisations, open to all persons able to use their services and willing to accept the responsibilities of membership, without gender, social, racial, political or religious discrimination."

In the case of a co-operative using the industrial and provident society structure, this principle will be dealt with in the same way as the other principles. The requirement in section 1(2) of the Act that the society be a "bona fide co-operative" empowers the Registrar of Friendly Societies to ensure that the principle is expressed in the rules and applied in practice. In addition, Schedule 1 of the Act requires that the rules of a society lay down the terms of admission and withdrawal of its members (paras 4 and 11).

This means that the registry will reject any "artificial restriction on membership with the objects of increasing the value of proprietary rights and interests" (HMSO Guide to the Law relating to Industrial and Provident Societies paragraph 6(e)). This would deal with a failure to be open to members in the relevant economic category and rules or practices which discriminate on grounds of politics, religion, race, gender, or class. A society may provide for the decision to admit new members to be taken by the board or the general meeting and may impose criteria such as a probationary period for new members of a workers' co-operative or geographical limit for membership of an agricultural or consumer co-operative but they cannot allow for the exclusion from membership of members of the group which the society is to serve if they wish to join and it is possible for them to do so. The requirement that rules deal with the withdrawal of members also enshrines the voluntary nature ·of continued membership.

The principle that the society have for its purpose the service of members has always been regarded as important by the Registry. In the 1965 Act it is reflected, for example, in section 1(3) which excludes from the definition of a co-operative society a body with the purpose of "making profits mainly for the payment of interest, dividends or bonuses on money invested or deposited with, or lent to, the society or any other person". This emphasises that it is not financial benefit to members which should be the main objective of a co-operative but service to them. The prudence and effectiveness with which that service is delivered is regulated predominantly by the market and the power of members to control their society by electing the board and discussing the business at general meetings. The legal obligation to disclose financial and other information to members' meetings and in returns held Qn the Registry's public files assists the members in exercising those powers.

4.3.2. Democratic Member Control

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

In the case of industrial and provident societies, democratic control is part of the definition of a co-operative applied by the Registrar to decide whether a society should be or remain registered under section 1(2) of the Act. Schedule 1 of the Act requires the rules of a society to deal with voting rights, the holding of meetings, the amendment of the rules and the appointment, removal, powers and remuneration of the board and any full-time officers (paras 5 and 6). The Act also lays down its own rules about meetings in particular circumstances such as the conversion, amalgamation or dissolution of the society or a transfer of its engagements. It also gives power to the Registrar to call meetings in certain circumstances and provides for meetings at which audited accounts are to be presented (IPSA 1965 sections 49 to 52 and 55 and Friendly and Industrial and Provident Societies Act 1968).

The registrar will be concerned that voting rights and the rules about the election and removal of directors maintain the democratic control of the society by its members. Section 74 of the 1965 Act allows for delegate meetings to fulfil any of the functions required by the Act to be carried out by general meetings of the society. This will be particularly relevant in the case of co-operatives other than primary societies. The Act makes no reference to either optional or mandatory postal ballots of members and assumes that democratic control will operate wholly through meetings. However, a society may provide for postal ballots for the election of officers or as referenda on policy issues in its own rules.

The participation of members cannot easily be enforced by legislation. The Act and the objects and powers rule of societies (if well drafted) will probably place no obstacles in the way of considering employee interests. However, in contrast with the UK Companies Act 1985 (section 309), there is no provision in the Industrial and Provident Societies Acts allowing or requiring society directors to have regard to the interests of employees.

This could mean that a society other than a workers' co-operative which was unable to justify benefits to employees as coinciding with the interests of members would be prevented from acting in the employees' interests. The principle finally adopted by the ICA refers to the interests of employees and managers only in connection with education and training.

The Co-operative Union Working Group Report on Corporate Governance[13] deals with the role of senior managers and the importance of clarifying their powers and responsibilities vis a vis those of the board of directors. The provision of information to members about the remuneration package of senior managers and about the business circumstances of the society between annual meetings are important recommendations of that report and are designed to reinforce democratic control and to define the role and position of powerful unelected senior figures within societies.

The present Acts do not specify many matters which have to be the subject matter of decision by the society's general meeting and society rules usually restrict the powers of that body. It may be that law reform should introduce statutory provisions to bolster democratic control by members. A wider range of matters, such as large-scale transactions between directors or senior managers and their own society or major acquisitions or disposals of society assets, could be made subject to disclosure to, or approval by, the membership. The UKCC Proposal includes some suggestions for such provisions.

4.3.3. Financial Structure

"Members contribute equitably to, and democratically control, the capital of their co-operative. At least a 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 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."

In the case of a co-operative registered as an industrial and provident society, the 1966 requirements of limited interest on capital and about surplus distribution form part of the basis on which the registrar decides whether the society is a bona fide co-operative. The approach of the registry is to require that share and loan capital receive no more interest than is required to obtain and retain the capital required. In addition, the Act lays down that a society which carries on business with the object of making profits mainly for the payment of interest, dividends or bonuses on money invested, deposited with, or lent to it or any me else is not within the definition of a co-operative society (IPSA 1965 section 1(3)). This leads to the practice whereby the return on share capital is usually set at a fixed low rate or a variable rate related to the base rate of a bank. The registry accepts systems whereby the amount held by an investor in loan or share capital receives a differential rate of interest that increases with the size of the holding.

The 1995 principle uses the word "usually" and modifies "a strictly limited rate of interest, if any"(l966 version) to "limited compensation, if any". "Compensation" would seem to include capital gains as well as interest. However, the 1995 version makes it clear that the limitation applies only to "capital subscribed as a condition of membership". It need not apply to other capital subscribed by members or to capital provided by others. The 1995 principle also recognises the practice of holding indivisible reserves (part of the capital that is "the common property of the co-operative"). The existing criterion applied by-the Registry in the UK relates the level of return to the need to attract and retain capital and is consistent with the 1995 formulation. The use of new forms of capital instrument (including some listed on the Stock Market) and even of non-user investor members with voting rights has developed in some European countries in response to the problems experienced by co-operatives in raising capital[16]. The new formulation makes limited concessions to such developments but the principle of autonomy and independence (see heading 4.3.4.) underlines the importance of maintaining "co-operative autonomy" and democratic control by the members when raising capital from external sources.

Any distribution of surplus must be made on the basis of the transactions between a member and the co-operative (IPSA 1965 Section 1(2) and Schedule 1 para 12). A different method of distribution would not be accepted in a set of rules for approval by the Registry on registration of an industrial and provident society. The continued application of each of these requirements will satisfy the new formulation of this principle.

It is interesting that the acknowledgement in the case of most co-operatives of an indivisible reserve appears in the 1995 formulation. This is not given any formal recognition for societies other than credit unions in the UK In the case of credit unions the existence of such reserves is obligatory, and the legislation regulates the size of the reserve. Some would argue that in any proposed Law reform, provision should be made for the recognition of indivisible reserves on a wider scale so as to facilitate favourable tax treatment for societies with such reserves. It may be more effective to allow for the registration of societies which, on dissolution, cannot pass any residue to members at all. By definition such a society would have an indivisible surplus and might qualify for tax benefits accordingly[17].

4.3.4. Autonomy; Education; Co-operation Among Co-operatives; and Concern for the Community

"Autonomy and Independence

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

Education. Training: and Information

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

Co-operation among Co-operatives

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

Concern for the Community

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

These principles are grouped together because, while they are of central importance to the definition and operation of co-operatives, they only require the law to facilitate their implementation. As we have noted, "autonomy" is recognised by the existence of the co-operative society as a separate legal person and reflects the principle of freedom of contract which is well established in the Common Law. It may be that each of these principles should appear in the objects rule of every co-operative. However, the key legal issue is that every co-operative should have the legal powers to apply each of these principles. The rules must permit education, co-operation with other co- operatives and the concrete expression of concern for the community in which the co-operative operates.

This suggests that, at a minimum any law reform should make absolutely clear the power of every co-operative to act in ways consistent with these principles. Thus, a co-operative might provide financial or other assistance in the interests of education, the wider co-operative movement, or the community. The law must ensure that this cannot be challenged by members who argue that it is beyond the powers of the society. At present, so long as the rules directly allow actions for such purposes or permit them to be justified indirectly as being for the benefit of members there will be no problem. However, statutory acknowledgement of these aims might assist in this respect.

5. Conclusion

The 1995 revision of Co-operative Principles coincided with discussion of law reform in the UK. It is important that the particular problem of differences between industrial and provident societies and companies should be eliminated so that, on issues such as accounting requirements, the legal capacity of the co-operative, the cost of formation and of continuing compliance with regulatory requirements, the legal structure intended for co-operatives is at no disadvantage compared to a company structure. However, the revised ICA principles reinforce the more fundamental need for a special legislative structure which upholds and clarifies the special identity of co-operatives and refers to the definition, values and principles enunciated by the ICA in 1995 to achieve this aim. The existence of a specialised and sympathetic regulatory and registration body to assist in ensuring that those organisations which call themselves co-operatives and register under the new legislation live up to the high standards set out in the definition, values and principles promulgated by the ICA would assist in that process.

Such a legal framework would provide a firm base from which the Co-operative Movement in the United Kingdom could develop and expand the important economic and social contribution of the co-operative form of business to solving the problems of communities and individuals in the Twenty First Century and beyond.

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Footnotes

(1) This paper first appeared in the Boletin de la Asociation Internacional de Derecho Co-operativo vol 23-24 (1995) pp. 47-63. It has been revised and updated to take account of subsequent developments.

(2) The Industrial and Provident Societies Acts 1965 to 1978 apply to Northern Ireland. For the sake of brevity only the provisions applicable in England and Wales and Scotland are mentioned. For a full discussion of the Acts applicable in England and Wales and Scotland their text see: I. Snaith, Handbook of Industrial and Provident Society Law, Holyoake Books, 1993 & 1995.

(3) See generally: D.J. Thompson, Weavers of Dreams, Center for Cooperatives, University of California 1994 at pages 55 and 76 to 79; L.C.B. Gower, Principles of Company Law, 5th Edition, Sweet and Maxwell, London, 1992, chapter 3; F. Hall and W.P. Watkins, Co-operation, Co-operative Union Ltd, Manchester, i937, chapters VIII and IX and pages 116 to 121; G.J. Holyoake, The History of Co-operation, T. Fisher Unwin 1906, Chapter XVIII; E.W. Brabrook, Provident Societies and Industrial Welfare, Blackie and Son, London, 1898 Chapter X.

(4) D.J. Thompson op.cit Appendix A.

(5) Hall and Watkins op. cit. pages 102 to 103.

(6) For example, the 1893 Act, following similar provisions in earlier statutes, provided that a society could be registered for the purpose of operating "any industry, trade or business, including dealings of any description with land" and even the current 1965 Act contains a similar provision in

addition to the requirement that society be and continue to be either a bona fide co-operative or a community benefit organisation.

(7) See P. Lambert, Studies in the Social Philosophy of Co-operation, Co-operative Union Ltd, Manchester, 1963 at Appendix II.

(8) See W.P. Watkins, Co-operative Principles Today and Tomorrow, Holyoake Books, 1986, Chapter 1 for an excellent account of the development of Co-operative Principles in this century.

(9) Watkins op. cit. in (8) above and S.A. Book, Co-operative Values in a Changing World, Report to the ICA Congress Tokyo October 1992.

(10) See I. Snaith, The Law of Co-operatives, Waterlow, London, 1984, Chapter 1 for a discussion of this process and also the model memorandum and articles of association and Partnership Agreement available from the Industrial Common Ownership Movement for examples of the technique.

(11) UKCC Legal Working Group, Proposal for a Co-operatives Act for the United Kingdom: Final Report, United Kingdom Co-operative Council, Manchester, November 1995.

{12) Statement on the Co-operative Identity, ICA 1995. See also Prof. I. MacPherson, The Co-operative Identity in the Twenty First Century: a background Paper, ICA Review, October 1994, pages 8 to 26 for an earlier version of the text adopted by the ICA in Manchester in 1995 and an excellent discussion of the basis of the definition, values, and principles.

(13) See Co-operative Union Ltd, Report of the Corporate Governance Working Group, April 1994.

(14) See UKCC Legal Working Group, Op. Cit. at footnote (11).

(15) See Co-operative Union Ltd, Op. Cit. at footnote (13).

(16) See M. Lynch and I. Snaith, the Scope of Non-user Investor Members of ∂European Co-operative Society, DGXXIII of the European Commission and the United Kingdom Co-operative Council, 1995.

(17) See UKCC Legal Working Group Op, Cit. Footnote (11).

Employee stock ownership firms, producer co-operatives and the forgotten model of Mondragon

George Tseo

Favorable legislation has caused employee buy-outs of enterprises through stock acquisition to become a major means of privatizing enterprises both in the U.S. and the reforming command economies of Eastern Europe and the former Soviet Union. However, in areas where community solidarity is high, such as China, employee stock ownership with its well-defined property rights may undermine group cohesion and hence enterprise performance. In rural China, different types of cooperatives have proved relatively extremely, efficient. Moreover, from the employee's perspective stock-based ownership is financially less stable than cooperative-share ownership. Hence, the producer cooperative remains a relevant model for industrial organization. As for the limited capitalization of traditional cooperatives, this limitation can be addressed through strategies ranging from partial stock capitalization to bank capitalization. The latter happens to be a foundational aspect of the most advanced cooperative superstructure model-the Mondragon corporate group of northern Spain-which is reviewed. Critical discreditation of this model due to its singularity is analyzed, and likely impediments to the emulation are discussed. Both Mondragon's lasting significance and the future of cooperative superstructure development are considered.

The rising tide of worldwide employee stock ownership

In the corporate world, employee ownership of equity and participation in management have grown greatly in stature as the business advantages of these organizational principles have become ever increasingly evident. While econometric studies offer only weak positive correlation between enterprise productivity and employee ownership (Jensen and Meckling, 1979; Conte and Svejnar, 1988; Estrin, Jones and Svejnar, 1987), empirical statistical studies, including econometric analyses, indicate that enterprise productivity and growth are both substantially positively correlated to equity sharing combined with worker participation in management even while taking into account other production-related factors (Cable and Fitzroy, 1980; Defourney, Estrin and Jones, 1985; Conte and Svejnar, 1988; Cable, 1988; NCEO, 1993a). Consider the recent U.S. comparative study of 45 employee-owned companies and 238 conventional firms (Rosen and Quarrey, 1987). Five years after the implementation of employee stock ownership plans, the subject firms had experienced cumulative increases of employment and sales that were on average 5.05% and 5.4% greater than in the control firms. Employee stock ownership companies that also instituted employee participation in management realized 3 to 4 times faster growth than those that did not.

Of the approximately 7,000 companies listed on American stock exchanges, about 1,000 firms are at least 10% employee held. Performance indices for these publically-traded employee ownership firms consistently indicate superior growth in stock value relative to non-employee ownership firms. For example, in 1992 the Employee Ownership Index showed an average jump of 22.9% while the Dow Jones Industrial Average for 30 of the most heavily traded firms on the New York Stock Exchange showed an average stock appreciation of only 4.17% (American Capital Strategies, pers. comm., 1995). The following year these two indices stood at 20.1% and 13.72%, respectively. Strictly speaking, the Employee Ownership Index and the Dow Jones Industrial Average are not comparable since the former is equal weighted while the latter weighted according to firm size in terms of capitalization. However, indices similarly weighted according to firm size exhibited similar tendency. For example, the capitalization weighted Employee Ownership Index for 1992 showed a 15.2% average growth in stock value while the leading Standard & Poors 500 index showed a 4.46% average growth. For 1993 these two index averages stood at 14.0% and 7.06%, respectively.

The anecdotal evidence can be compelling. Consider that for Springfield Remanufacturing Corp (SRC), an engineering remanufacturing firm, its stock share price rose from $0.10 in 1983 when the foundering company became an employee ownership enterprise[1] to $18 only seven years later. At Science Applications International Corp (SAIC), a scientific research firm, an initial employee stock investment of $500 in 1969 when the company opened was by 1990 worth $932,000 (Simmons, pers. comm., 1993). In 1992, Ralph Parsons Corp, a civil engineering and construction firm, paid out $44 million in retirement holdings; last year, Parsons paid out $85 million (Veje, pers. comm., 1994). It is a company of many millionaires, not just a few. Charles Valentine, whose weekly salary as a warehouse laborer at the home building supply chain Lowe's Company never rose above $125, retired with company stock holdings of $660,000 (Simmons and Mares, in press).

The credit high-tide of the 1980s spawned the "taking private movement" through leveraged buy-outs, and ironically, from this emerged the closely-related yet divergent development of leveraged buy-outs by managers and, increasingly, non-managerial employees (Jensen, 1989; Wright, Thompson and Robbie, 1989). Consequently, when in 1974 the U.S. Congress enacted the first of a series of tax incentives for employee stock ownership programs (ESOPs) (Rosen and Quarry, 1987), management and employee buy-outs received the legal catalysts necessary for rapid spread. American companies with ESOPs increased from 1,600 in 1975, covering just under 1/4 million workers, to nearly 10,000 in 1991, covering well over 11 million workers (ibid). Through the end of the 1980s, this subsector grew at annual rates of 400 to 800 fresh plans and 400,000 to 1,000,000 new participants. However during the 1990s the total numbers of U.S. ESOPs and workers covered have not changed significantly (NCEO, 1994). Among the several reasons for this are the conversion of successful ESOP companies back to conventional capitalist firms as employees sell off their shares at substantial profits, new tax incentives that have encouraged some publicly-traded employee ownership companies to terminate their ESOPs and the general reduction of credit offered by banks for corporate buyouts in the more austere financial climate of the early 1990s. American ESOPs currently control about $150 billion in corporate stock (out of a total approximate U.S. corporate equity of $6 trillion), and employees own another $100 billion in stock through other types of equity-ownership plans (NCEO, 1995a). U.S. companies with majority interests held by their employees include Publix Supermarket with a work force of 65,000, Avis with 13,500, SAIC with 13,000, Parsons Corp with 8,000, Avondale Shipyards with 7,500, and America's most efficient steel maker Wierton Steel with 6,900 (NCEO, 1993b).

Management and employee buy-outs put the potential gains and risks of a business squarely in the hands of those who produce goods and services, of those upon whom a business ultimately depends for its survival and growth. Employee participation in management provides a business with access to the energy and talent of its entire work force, and maximum realization of this energy and talent depends upon the trust that can be nurtured between management and labor and effective participatory schemes. Corporate gains translate into the personal individual gains of employees and indeed also potential additional corporate and even macroeconomic benefits; possible employee compensation far exceeds what is conventionally feasible, thereby offering at least the prospect of corporate and state reductions in retirement and other entitlements. Additionally, there is the theoretical macroeconomic benefit of expanded consumerism since widespread employee ownership may stimulate growth due to heightened demand (Kelso and Hetter, 1967; Kelso and Mortimer, 1960). Not surprisingly, therefore, the predominantly American and British ESOP model has gained ascendency in the world as a likely development strategy. Currently, 35 developing countries and formerly socialist countries implementing free market reforms have created legislation governing employee stock ownership, most of which promotes its role in the privatization process (NCEO, 1992b).

Typically, 10-20% discount is offered employees of state enterprises on the price of shares in their firms with a limit of 10-30% on the proportion of stocks permissible for acquisition by the work force. In Bulgaria, workers have the potentially frustrating option of up to 49% of their firms at up to 50% discount. In Khazakstan workers may buy 100% of their companies with a 30-50% discount, and similarly favorable terms are available to workers in Chile and Poland. So far, of Poland's 6,200 state enterprises about 800 have been sold and approximately 40% of these have gone to their employees (NCEO, 1993c). In Slovenia, where workers may also acquire 100% of their firms, the majority of the 20-30% of state firms sold to date have been bought by their employees. In the Czech Republic workers are restricted to quarter ownership of their firms, and about 25% of privatized enterprises subscribe to this limited form of employee ownership. As of May 1992, 350 out of 590 privatized eastern German firms had broad employee equity programs, mainly through options for share purchase. Hungary has highly pro-ownership legislation in place, but so far only 20-40 of the 400 firms privatized are ESOPs (ibid). About 100 more Hungarian firms are investigating this option.

In Russia, employee ownership has become a major engine of privatization. Workers may acquire 51% of voting shares in their firms provided that private financing can be arranged, and the remaining 49% is publicly auctioned off through the vouchers system[2]. It has been estimated that about 70% of Russian firms are now employee ownership enterprises (Simmons, pers. comm., 1993), and by March of last year the 51% option had been adopted by about half of the companies privatized through employee acquisition (Blasi, 1993). China's booming economy, perpetually hungry for investment funds, is a land ripe with opportunity for ownership diversification, and the country's fascination with stocks has more or less naturally channelled attention in urban areas to different and often unique types of employee stock ownership. Already 47% of Chinese workers own shares in their companies, and employee ownership firms include some of the largest and fastest growing concerns in the country. The powerful State Commission for Restructuring Economic Systems is currently debating the exact regulatory form of employee stock ownership, which it wishes to promote as a primary means of reforming small and medium-sized state-owned and collective enterprises (Jia Heting, 1994).

Despite this cascade of activity, this seeming snowball effect of employee stock ownership as an expanding world movement, stock acquisition schemes may not offer the best alternatives for enterprise development in all situations. In Russia, for example, stock acquisition through use of a vouchers program has, under the unstable conditions wrought by economic shock therapy and internecine political strife, opened an opportunity for organized crime. It was recently reported that the Russian mafia has been buying controlling shares of auctioned state-owned enterprises using counterfeit privatization vouchers (Hersh, 1994). Perhaps 30 to 50% of U.S. Agency for International Development funds budgeted for Russia's privatization program ultimately benefits criminal interests.

Also, Russian policy makers seem actually to prefer that majority ownership in firms transfer over time from workers to managers. A recent study involving about 160 Russian firms indicates that this is precisely the direction in which reform is spontaneously moving (Blasi, 1994). In 1993, Russian workers owned on average 56.4% of 141 firms surveyed, managers 8.6%, outsiders 21.5% and the state 12.9%. The following year, these shares of ownership had changed to 42%, 17%, 29% and 10%, respectively. Not only did employees lose substantial ownership share to managers and outsiders but so too did the state. Other evidence from the same study indicates that boards of directors are already dominated by managers. In 1994, the boards of 61 subject firms were on average composed of 3 managers, 1.2 non-state outsiders, 1 state representative and 0.2 non-management employees. Apparently, the manager domination characteristic of the old Soviet enterprise system has not changed. It should be noted, however, that some Russian firms are exceptional in that majority employee ownership has been maintained and genuine employee participation in management implemented (e.g., Krasney Proletary, Veshky, Moven, Saratov Aviation, etc.). It remains to be seen if the performance advantages of empowerment are widely realized within Russia.

Russia as well as the other reforming nations of the former Soviet Union and Eastern Europe are hampered by another fundamental obstacle to the adoption of Western-style employee stock ownership, namely an extremely high level of bad bank loans. Years and decades of obligatory bank credit for state-owned enterprises, which are more often than not incapable of debt service, have depleted capital resources and made bankers wary, to say the least, of financing leveraged buy-outs by employees.

In China, where stability has been maintained and criminality is not a serious widespread problem, enterprise managers attest to the fact that bank loans for ESOPs are virtually impossible to obtain, precisely due to the long-standing crisis of bad credit. Here, however, at least a temporary solution has been found in the direct purchase of stocks by employees, by far the most prevalent acquisition scheme although other methods are being tried. Consider Beijing Orient Electronics (Group) Co. Ltd. where the sales of just 3% of total shares to the work force coincide with a turnaround from chronic annual losses into 60% annual gains in gross income in each of the first two years of the employee stock acquisition program (Chen Yan-shun, pers. comm., 1994). More information is needed in order to establish a clear causal relationship; for example, a possible change in top management is another potential determinant. In any case, Beijing Orient's board of directors intends to allow its roughly 10,000 employees to purchase 49% of total shares, purportedly the maximum proportion allowable by the state for defense-related firms of its type. At Bohai Steel Construction Materials, a Shandong province corporate group of 30 enterprises, the sale of just over 20% of shares to employees in 1993 coincided with a boost in gross profits of 83.4% over the previous year (Bohai Steel Construction Materials Corp Group, 1994).

In the small city of Zhu Chen in Shandong, a survey study of local state-owned enterprises revealed the extent of money loss and prompted the local government to investigate reform through employee buyouts or adoption of a "stock-cooperative system" (China Market Economy Research Centre, 1995). Zhu Chen Electrical Equipment, a small producer of generators with 277 workers, was selected for a trial. After discussions were held with the employees regarding two proposed plans, one allowing employees to purchase up to 20% of the firm's shares while the state retained managerial control and the other allowing purchase of 100% of shares while the state retained only ownership of the land, the work force elected in 1993 to buy out the state with a bid of 2.7 million RMB. Within four months, profits had jumped more than 100%. In 1994 output value and gross sales rose by 51% and 80%, respectively (Sun Hua Chu, 1994). Encouraged by their initial success the Zhu Chen city government formed a committee to organize cadre training (China Market Economy Research Centre, 1995). The informed cadres then dispersed to local firms to educate managers. Each firm, in turn, formed committees to discuss the details of employee buyouts, such as the funding constraints of employees, documentation, etc. By July of 1994, 248 local firms had undertaken total employee buyouts and 2 more firms partial buyouts.

In China, direct employee purchase of shares is viable due to public fascination with stocks. High inflation and low-interest returns on bank savings and special medium- and long-term interest-bearing accounts make stocks an attractive investment alternative. By the same token, however, the public's fascination with stocks may be fragile, possibly dependent upon a rising index. Recent downward adjustments in the Shanghai and Shenzhen stock exchanges have piqued speculation that the interest of employees in shares purchases may be waning. More importantly perhaps, past Chinese experiences have shown that the public trading of enterprise shares can defeat the purpose of employee ownership (Cao Feng Ci, 1994) since stock is no longer perceived as an instrument that enables employees to reap the benefits of long-term equity growth, upon which they can personally impact, but rather a purely speculative instrument for short-term gains. The employee shareholder assumes the psyche of a gambler rather than an owner. The correction for this defect is, of course, non-tradeable employee stock offerings redeemable only at retirement or departure from the firm (Jia Heting, 1994), for certain sanctioned high-expense purposes (such as apartment purchase) or periodically at preset intervals (Ellerman, 1994).

Employee stock ownership versus cooperativism

Within the market lies a fundamental disadvantage of employee stock ownership as compared to the collective ownership of cooperatives. A publically-traded company's stock is determined only in part by its own assets and activities; to large measure external market forces, over which a company can have little or no influence, determines stock and, thereby, equity value. These external factors can be regulatory in nature or systemic to the stock markets, due to gross imbalances in the demand for stocks and their supply and quality or to political events, as has been shown to be of paramount importance in China (Mok and Yao, 1993). They can be linked to natural occurrences, such as climatically benevolent growing seasons and prolonged droughts, or to events far beyond the boundaries of a country. In short, **the** employee owner's share is susceptible to market fluctuations; the value of his equity holding is inherently unstable. While ESOPs can help protect against hostile takeover, they cannot remove this danger entirely. For non-traded employee stock ownership firms, external buy-out is not a possibility, but equity value is determined by periodic business appraisals, so market changes may still have an effect through the valuation process although instabilities are probably dampened. Additionally, the expense and sometimes disruption of the appraisal process must detract at least to a minor extent from total equity value. U.S. and U.S.-style ESOP firms bear the additional substantial legal and banking costs of maintaining external trusts for holding shares as employees pay off the bank loans originally used to leverage buy-out.

ESOP companies must not only contend with potential external threats of buy-out but also above-average internal capitalization pressures, which if unsuccessfully dealt with can lead to the former. Upon retirement or departure, employees seek to sell their stock holdings. If their firms wish to maintain a substantial employee share of equity, then they must raise funds to repurchase these shares. Hence, firms must maintain funds for this purpose. Methods range for doing so from additional leveraging to company-owned life insurance (NCEO, 1995b). Needless to say, this problem can present a considerable strain, especially when large numbers of employees depart within a short space of time. As alluded to earlier, the lack of growth in the total numbers of U.S. ESOPs in the 1990s is partially due to the selling of stock holdings by employees.

In contrast, employee holdings in producer cooperatives typically accrue through annual profit distributions. Thus, personal equity holdings are not directly assailable by market instabilities, except through variations in currency exchange rate. While in some cooperatives annual losses are also absorbed by capital holdings, the value of the employee member's equity holding, whether it rises or falls, is nevertheless dependent on his firm's own assets and activities rather than on external factors. Moreover, employees' capital accounts obviate the need to maintain funds for shares repurchase, and they also function much as an informal internal trust of sorts as opposed to the formal external trust utilized by U.S. ESOP companies. This is a distinct advantage since the legal and accountancy services needed to maintain an external trust are costly. The external trust of U.S. ESOPs is non-essential, arising as it does from circumstances peculiar to American industrial and finandal history (Ellerman, 1990). Indeed there is some evidence that the internal trusts of the emerging Russian employee ownership firms are based on the capital accounts of the Mondragon group of cooperatives in northern Spain (ibid).

It should be noted that a potential problem shared by ESOPs and cooperatives alike is the possible overconcentration of employees' equity in single investments. It is one thing to motivate employees by tying their personal financial interests to the performance and growth of their companies and quite another to expose their assets to the inherent risk of single investments. U.S. ESOPs diversify their employees' investments through 401(k) plans. Similarly in Chile, state provisions require the sales of at least 12.5% of a privatizing firm to its employees (with no practical maximum limitation) while at the same time 12% of each employee's salary must go into one of 24 Chilean stock funds[3].

Returning to the rich national case of China, given the volatility of its stock market and the relative simplicity, stability and autonomy of cooperatives, it is little wonder that cooperatives of different types rather than joint-stock companies account for 74% of total industrial output in rural areas and comprise approximately 92% of rural township and village enterprises (TVEs). As perhaps the major driving force of Chinese industrial reform TVEs have caused state-owned enterprises to decrease their share of total industrial output from 78% in 1978 to 53% in 1991 (Weitzman and Xu, 1994). A recent lower limit estimate of TVEs total factor productivity (TFP), which is calculated as a residual after subtracting the growth rates of labor and capital inputs from output growth, reveals an average annual TFP growth rate of 12%, which is three times higher than that for state-owned enterprises (SOEs) (ibid). This finding is corroborated by similar analyses, some drawn from quite different data sources (Chen et al. 1988; Lau and Brada, 1990; Svejnar, 1990; Jeffereson et al. 1992; Woo et al. 1993 & 1994). Relative to rural private firms, TVEs enjoy a comparable level of performance (Svejnar, 1990; Pitt and Putterman, 1992). Small wonder, therefore, that by 1991, TVEs already accounted for $18 billion in exports or 25% of the national total (Zweig, 1992), and by 1993, these figures had jumped to $27 billion or 45% of the national total (Xi Mi, 1993).

TVEs are "collectively" owned by communities, and management is heavily influenced by local governments, although major enterprise decisions are often made by assemblies of community residents. Unlike the standard Western development model, ownership is usually and often intentionally left undefined since the actual basis of this enterprise form is not property rights but the interpersonal trust between labor and management (Weitzman and Xu, 1994). Given the high degree of solidarity of Chinese rural communities, property delineation would be an unnecessary inconvenience more likely to foster alienation and undermine performance than to promote efficiency. Community benefits, individual bonuses, and secure employment offer work incentives.

Despite their efficiency and dominance, TVEs have not realized maximal growth either in terms of capitalization or employment. Indeed, the limitation of capitalization is precisely the major disadvantage of traditional producer cooperatives. While undoubtedly a special and unique case, the Chinese example nonetheless offers insights into the general phenomenon. Between 1978 and 1992, total peasant household deposits rose from 5.57 billion yuan to 286.73 billion yuan (China Statistical Yearbook 1990, 1990; China Statistical Yearbook 1993, 1993), but deposits of both TVEs and agricultural cooperatives remained at low levels throughout the reform era, reaching only 30.18 billion yuan by 1992 (China Statistical Yearbook 1993, 1993). Managers withheld enterprise earnings from banks for fear of policy shifts that might freeze their accounts, in anticipation of auditing and from frustration with slow and poor service (Bowles, and White, 1989). Of the funds accrued by rural credit cooperatives, at least 30% must, in turn, be deposited in their parent institution the Agricultural Bank of China, which has a dismal investment record (Tam, 1988). As a result, only a small portion of available regional funds are fruitfully invested.

While clearly not disadvantageous, the ownership structure of TVEs may nonetheless be adjusted to boost performance beyond its current high levels. Presently, 60% or more of a TVE's after-tax profits must be retained by ·the firm for reinvestment and distribution into a collective welfare fund and a bonus fund (The PRC Regulations of Rural Collectively owned Enterprises, 1990). Even the 40% or less of remaining after-tax profits, which may be 'distributed' among community residents, are for the most part spent at the discretion of local authorities for projects with collective benefits, such as agricultural infrastructure construction and the start-up of new enterprises (ibid). Hence, the relationship between an employee's individual efforts and the benefits he obtains due to the growth of his share of equity is often too vague to provide added incentive.

The dual needs to promote the mobilization of regional funds for investment and to boost labor motivation (but without the sacrifice of collectivity) have prompted experiments in limited stock capitalization. Typically for joint-stock TVEs, about 80% of shares are retained by the company or local government while 20% is sold to employees (Weitzman and Xu, 1994). In Jiangsu's highly industrialized rural district Wu Xi County, for example, TVE stock shares are allocated to community residents, employees, and cadres in a 50:30:20 split (Yuan, pers. comm., 1994). This scheme is designed to provide equity-based compensation (the better for focusing shareholders upon the needs for long-term enterprise growth) while at the same time accommodating both community devotion to collective ownership and local bureaucratic realities.

In one comparative study of TVEs and world enterprises, it was concluded that TVEs most resembled producer cooperatives, including those in Eastern Europe, the former Yugoslavia and Mondragon, Spain (Weitzman and Xu, 1994). In a similar vein, the Russian privatization program using vouchers is an attempt to address the unwritten but palpable public mandate for collective entitlement (Kotova, Vasiliev and Abramove, 1993). Employee stock ownership, based as it is upon well-defined property rights, is a viable strategy for enterprise reform in areas characterized by a low degree of community solidarity, such as perhaps Eastern Europe (Weitzman and Xu, 1994). On the other hand, cooperativism, with its relatively vague ownership distinction, may offer a more effective strategy in areas where communities are highly cohesive, such as China, Vietnam, North Korea and, to a lesser extent, Russia (ibid). In this context, the Russian mixture of stock capitalization and initially uniform public ownership through the distribution of vouchers is sensible. It is possible that different sectors of a single country may be better suited to one strategy or the other or to hybridized systems incorporating aspects of both strategies. Summarizing the Chinese experience, enterprise reform in urban and rural sectors are progressing along different lines more or less in keeping with the natural societal constraints of the two settings, and TVEs do indeed seem to be developing hybridized systems. Accordingly, the All-China Federation of Trade Unions, which is affiliated with approximately 800,000 urban state-owned and collective enterprises, is debating employee stock ownership as a major strategy for enterprise development, especially for the 100,000 collectives under its direct jurisdiction (Sun Hua Chu, pers. comm., 1994), and as mentioned earlier the State Commission for Restructuring Economic Systems wishes to promote employee stock ownership for the reform of small and medium firms Gia Heting, pers. comm., 1994). With regards to TVEs, however, the Ministry of Agriculture in 1988 considered the adoption of the Spanish Mondragon cooperative model, which is predicated on bank capitalization, as well as limited joint-stock reforms. Were it not for the insurrection of spring 1989, which prompted four of five Ministry of Agriculture officials visiting Mondragon to defect, this system might well have been applied in rural China as a regional trial. Despite the derailment, the Ministry of Agriculture's Executing Office for Rural Reform Experimental Areas continued to consider the Spanish model until 1993 when the momentum of the joint-stock trend became overwhelming. One underlying rationale for the Ministry of Agriculture's initial interest in Mondragon was the view that bank capitalization could address the credit constraints of traditional cooperatives. It was perhaps less well appreciated but no less valid that bank capitalization could also help avoid the potential problems of employee stock ownership. Another facet that clearly attracted the attention of Chinese officials was Mondragon's demonstration of how a poor and isolated rural town (albeit in a traditionally relatively industrialized region of the country) can transform itself into the commercial heart of an affluent and modern region. In China and countries like it, where massive peasant unemployment in an underdeveloped rural hinterland threatens to inundate the industrialized cities with a flood of migrant laborers, the expansion of rural industry is of paramount importance. In actuality, the lessons of Mondragon are just as cogent to industrialized countries, which makes it a double misfortune that this model seems to have been largely dismissed by economists as a regional anomaly with no wider utility.

The corporate superstructure model of Mondragon

One might argue that the dilution of authority in an employee participation firm and the endless debate of group leadership would make it difficult if not impossible to establish complex organizational structures. Doubt is suspended by Mondragon, a once tiny village in the mountainous Basque region of northern Spain. In 1956, a small factory manufacturing portable paraffin heaters was started by 24 workers and 96 other local people, who provided funds (Thomas and Logan, 1982). By 1985, this modest venture had grown into an integrated consortium of 111 major producer cooperatives distributed across the Basque region and comprised of nearly 20,000 employee-owners (Weiner and Oakeshott, 1987). Total sales in 1990 reached $2.9 billion, which was over 15% of the Gross Domestic Product of the entire Basque region (Turpin-Forster, 1992). Products ranged from furniture to machine tools, plastic forms to agricultural chemicals, nuts, and bolts to earth excavators (Flessati, 1980). In addition to manufacturing, there are nine agricultural cooperatives (Cornforth, 1988) producing dairy products, livestock, fodder, vegetables, fruits, wine, timber and fertilizer, 17 construction cooperatives providing housing mainly in the form of high-rise apartments and a consumer cooperative with 225 outlets and over 130,000 consumer-members (Whyte and Whyte, 1991).

At the core of this remarkable corporate group is Mondragon's employee-owned bank, Caja Laboral, which mobilizes regional small savings so effectively that the need for stock capitalization is completely eliminated (Thomas and Logan, 1982; Whyte and Whyte, 1991). Just as with the Japanese kereitsu corporate groups, Caja Laboral offers the advantage of "patient capital" (permitting the development of products and markets over periods of years) and removes any threat of external financial control. In addition to the central bank, the Mondragon firms are bolstered by a comprehensive host of other support institutions. Cooperative schools educate children from the preschool level up and provide programs in language training and continuing adult education (Flessati, 1980). A technical university, Escuela Politechnica Professional, trains engineers (Thomas and Logan, 1982). A business college, Escuela Tecnica Empresarial de Onate, educates managers (Whyte and Whyte, 1991), and a management research and advanced training center, Otalora, offers executive seminar courses. Alecoop, a fully functional producer cooperative, offers university students practical experience as well as the opportunity to pay for their own education (Flessati, 1980; Meek and Woodsworth, 1990). Ikerlan, a cooperative research institute, is highly regarded in the European Community and provides a degree of technological independence (Whyte and Whyte, 1991). Finally, Lagun-Aro, a social security cooperative, provides insurance, pension plans and direct health care services (Thomas and Logan, 1982; Whyte and Whyte, 1991).

Like the giant state-owned firms of the past in the former Soviet Bloc and yet of the present in China, Mondragon is not merely a business concern but a socio-economic community. Moreover and as alluded to above, its implications may be profound for China where the need for rural industrialization and urbanization is acute since Mondragon evolved in a situation almost wholly deprived of public education and infrastructure. The area's modern school system grew out of the cooperatives, and even today, not a single rail line reaches into the highly developed valley. Much of the surrounding region remains heavily wooded; many of the outside towns and villages are still small collections of centuries-old buildings clustered around the community church.

With respect to equity ownership and profit sharing, workers pay into individual capital accounts upon entry into a Mondragon firm, and up to 70% of each firm's surplus net annual profits is paid into these capital accounts (Thomas and Logan, 1982), although today the share is typically 45% (Moye, 1992). During years of budgetary deficit, up to 70% of enterprise losses can be absorbed by employees' capital accounts (ibid). This reciprocal share in risk may serve to affirm the linkage between productivity and compensation. With respect to managerial participation, all Mondragon firms are ultimately governed by General Assemblies, comprised of all employee-owners (Thomas and Logan, 1982). The General Assemblies convene once a year to approve financial accounts, deliberate internal financial policies, especially those pertaining to capital accounts, to deal with administrative matters and to elect members to the Supervisory

Boards (Thomas and Logan, 1982). While the maximum pay grade ratio between the salaries of the lowest paid workers and the highest paid managers in Mondragon firms is 1:6, the votes of all employee-owners are equally weighted (Whyte and Whyte, 1991). Operational policy for a firm is determined by the Supervisory Board, and implementation of policy is the responsibility of the director, who advises the Board but cannot vote on decisions (Thomas and Logan, 1982). A Management Council monitors the Supervisory Board (ibid), and a Social Council acts much as a union in advocating workers' rights (Whyte and Whyte, 1991).

Unification of ownership and control in a context of advanced corporate superstructure has created an extraordinarily efficient and stable system. In 1972, the Mondragon industrial firms boasted 40% higher production efficiency than small and medium conventionally capitalist Spanish firms and 7.5% greater efficiency than large ones (Thomas and Logan, 1982). Job creation within the group continued through the Spanish recession of the late 1970s (Thomas and Logan, 1982), and during the more severe national recession of the early 1980s, the group increased exports from about 20% to 30% of output (Whyte and Whyte, 1991). In 1985, only 104 Mondragon workers or 0.6% of the total labor force was unoccupied and drawing welfare benefits from Lagun-Aro (Whyte and Whyte, 1991) as compared to approximately 22% unemployment throughout Spain and a slightly higher level in the Basque region (The Economist, 1989). Of 103 Mondragon producer cooperatives formed between 1956 and 1986 only five "failed" within that period (Whyte and Whyte, 1991). Of these, two elected to convert to conventional capitalist firms and one disbanded voluntarily. In other words, only two were driven to bankruptcy. This amazing run was due in part to financial crisis intervention by Caja Laboral and the careful product and market research of the bank's Entrepreneurial Division prior to the start up of new firms. Finally, the history of the Mondragon cooperative group has known but a single labor dispute occurred when the original and largest firm with 3,240 members at the time could not assimilate a large number of new workers smoothly enough to avoid conflicts over wage grade determination (Whyte and Whyte, 1991). After this incident, a previous ban on unions, which may have aggravated the labor dispute, was lifted, but the presence of unions in the cooperatives has since remained insignificant. Also, firms have since been limited to about 500 members, perceived to be a rough maximum for effective intra-firm communication and solidarity.

It should be noted that another perhaps even more important advantage of the size restriction is the enhanced identification of employees with their firms in a financial sense. The larger an employee ownership company, whether stock-based or cooperative, the smaller the impact by individuals upon corporate performance and thereby also personal equity holdings and profit distributions. As a motivational force, employee ownership dwindles and can become trivial. Conversely, in small employee ownership companies individual influence upon corporate performance and hence personal wealth remains meaningful.

The singularity of Mondragon

The Mondragon experiment is a rare achievement in the realm of corporate organization and performance. Yet despite its humble beginnings with minimal capital requirements and its obvious benefits for the local community, the Mondragon system has not been duplicated. In fact, very few if any well-conceived attempts have ever been made. Mondragon's singularity has somewhat discredited it among development experts. But those who dismiss Mondragon as an interesting but irrelevant anomaly might do well to consider socialist central planning, which was a scheme adopted by many countries around the world but essentially failed everywhere. Broad application is in itself hardly grounds for legitimacy. Conversely, the Mondragon system is not illegitimate simply by virtue of its isolation and uniqueness. It must be borne in mind that the Mondragon experiment has been successful and quite spectacularly so at that! Here is a system that works. That it has not spread should not be attributed to intrinsic flaw.

Some would claim that while full of promise in its early stages the Mondragon experiment is beginning to falter. They point to the pay grade ratio which has increased from 1:3 in the original firms to a maximum of 1:6 today. However, as mentioned above, the Mondragon pay grade ratio compares the wages of the lowest paid member workers rather than average workers with those of top executives, and the typical such pay grade ratio among Mondragon firms is only 1:4.5. In contrast, average Japanese and German pay grade ratios for average workers and chief executives for 1991 were 1:17 and 1:23 respectively (Rankin, 1991). In the U.S., mean pay grade ratios rose from 1:12 in 1960 to 1:93 in 1988 (Cooper and Friedman, 1991). By 1990 they had shot as high as 1:150 (Rankin, 1991). Even with the need to attract top management talent and engage medical professionals for its health care facilities, Mondragon has been able to keep its pay grade ratios remarkably low.

Other critics point to the fact that growth in terms of employment creation has largely plateaued in Mondragon since the mid-1980s. Over the past eight years or so the corporate group has only been able to add about three thousand new employees to its work force (Goitia Zubia, pers. comm., 1993). In Spain, cooperative banks are rather seriously restricted in the types of investments they can make. The investment horizon of Mondragon's central bank is essentially limited to enterprises within the group. This alone would seem to impose a potentially insurmountable drag upon growth. Be that as it may, Mondragon has sustained a modest expansion despite Spain's prolonged severe recession with over 20% unemployment. Compared to Spain's conventional firms and corporate groups Mondragon's growth rate is probably quite high. When all other vehicles are sliding downhill that which continues slowly to climb is exceptional. Moreover, at Mondragon labor and management seem to share a common anxiety over the uncertainty during Spain's assimilation into the European Union and the Union's transformation into one large giant market free of internal boundaries. This anxiety is the basis of the group's current strategy to freeze growth (Goitia Zubia, pers. comm., 1993). In other words, the plateau is in part intentional.

In order to better position itself for the heightened competitiveness of Spain's new business environment, the Mondragon group recently reorganized itself into product- and service-related divisions, dissolving the old geographically based configuration (Goitia Zubia, pers. comm., 1993; Moye, 1992). The bank now is also permitted to invest in outside firms. As part of retooling, 12 financially precarious enterprises have been allowed to close or merge with other, more robust firms. Still, Mondragon's business failure rate remains exceptionally low (less than 10%), and since no jobs have been sacrificed, the decrease in total number of firms is not an indicator of economic decline. On the contrary, it may serve as a possible indicator of future potential since this reduction could well make the group as a whole leaner and thereby more competitive.

From a somewhat different perspective, despite the restrictions of both Spanish law and Mondragon's own constitution limiting non-member employees to 10% of the work force (Whyte and Whyte, 1991), the proportion of non-member employees has grown to about 14% through use of the loophole of short-term contracts (Moye, 1992). Clearly, the recourse to temporary labor is another coping strategy for the uncertain transition period. Also, the Mondragon group is seeking to purchase portions of non-employee ownership Spanish businesses (Martin, pers. comm., 1993), possibly in an attempt to circumvent the investment disadvantages of its bank. Both instances point to a weakening of the group's dedication to the principles of cooperativism, and this "spiritual" erosion may offer deeper insight into the nature of long-term threats to competitiveness than negative business indicators (ibid). Consider a survey study undertaken in the early 1980s, which tested the proposition that Mondragon's solidarity is due to ethnic uniformity (Bradley and Gelb, 1982). About one fifth of the cooperators described themselves as non-Basque, and for most members the initial draw to the Mondragon cooperatives was the job security rather than ethnic uniformity. This is hardly surprising given the rather bleak regional economic landscape and sparse local employment opportunities. However, once employed for some time Mondragon employee-owners tended to change in their personal outlook: cooperativism itself became the most attractive feature of their jobs. This unifying value may be the basis of solidarity, so to adulterate it could conceivably be damaging in a fundamental way.

A cooperative community ethos may be foundational to the Mondragon experiment. The only two cases in which cooperators voted to convert their enterprises into conventional capitalist firms both occurred in areas without a strong cooperative tradition (Whyte and Whyte, 1991). In contrast, the main group of Mondragon cooperatives lies in the heart of the Basque country, where cooperatives have been in operation since at least 1870 (ibid). Indeed, the Mondragon experiment has an indirect regional predecessor of sorts in Sociedad Anonima Cooperativa Mercantil y de Produccion de Armas de Fuego, a large cooperative firearms manufacturer and distributor that thrived until the beginning of the civil war in 1936 (ibid). Therefore, regional predisposition may be critical to the emulation of the Mondragon model. With regards to this aspect at least, venues such as rural China with its strong and ongoing tradition in cooperativism would seem to offer fertile grounds for Mondragon-style initiatives.

It may also be that barriers to the spread of the Mondragon model may be found in impediments of a legal nature. The initial rapid growth of Caja Laboral was almost certainly due in large part to an unusual law allowing workers' banks to offer half a percent higher interest than conventional banks (Whyte and Whyte, 1991). This or similar financial advantage would clearly be important to Mondragon-style initiatives in other areas. In China, the credit crisis makes official approval for new banks extremely difficult to obtain, but precisely because of the uncompetitiveness of state-affiliated banks, independent banks that can be chartered do enjoy a business advantage. One case in point is Hui Tong Urban Cooperative Bank of Chengdu, Sichuan, which increased its deposits and lending volume by over 100% every year for its first three years (Tam, 1992).[4] In Russia, the relative void of credit regulations has prompted a plethora of bank start-ups (Ickes, 1993), and the predisposition of Russian enterprises to inter-firm ties and dependencies[5] has caused some economic reformers to look to the Japanese kereitsu as a model corporate superstructure (Galuszka, Kranz and Rossant, 1993). One consortium of enterprises, Rosshelf, has coalesced to develop Barents Sea gas fields (ibid), but whether Rosshelf forms a core of support institutions to become something akin to a Mondragon-style corporate group remains to be seen. Simple intimidation may be a psychological impediment to the spread of the Spanish system. People seeking a model to emulate look to Mondragon and find a large, highly successful and extremely intricate corporate group. The simplicity of the original initiative and indeed of the concept at the heart of the present complex are buried in history, intangible and therefore invisible. Far less daunting to look to more modest but still advanced models, such as many of the American ESOPs. This seems to be what is happening around the world.

But even as this trend begins to gather momentum, the universal need to overcome growth constraints is giving rise to new types of elaborate superstructure. As powerful as they have proven in the past, highly structured corporate groups may soon be antiquated by the increasing fluidity of the world market. Loosely bound networks of allied firms are much smaller, more narrowly focused in competence and able to adapt quickly to changing circumstances within their market niches (Quinn, 1992). Ultimate flexibility in this respect may be found in the "virtual" corporate groups of the West, which rely on electronic linkages for their temporary cohesion (Davidow and Malone, 1993), and the culturally unified ad hoe corporate consortia of the greater China region (Barnathan, Hsinchu, Einhorn, and Nakarmi, 1992), which encompasses mainland China, Taiwan, Hong Kong, Macau and Singapore. In both instances, firms collaborate to exploit specific market opportunities but form no rigid or permanent ties. Someday, Chinese firms, which are given to inter-firm dependencies in a similar way as their Russian counterparts (Walder, 1989), may become masters at ephemeral organization. Should amorphism become the dominant "superstructure" model for employee ownership corporate groups then Mondragon will likely remain a singularity until at least the next metamorphoses of the world market.

The lasting significance of Mondragon

Any successful enterprise, regardless of whether it is based on employee ownership or conventional capitalism, eventually reaches its natural financial limits to expansion. If an enterprise wishes to overcome these limits in order to realize greater growth in terms of job creation and then to sustain these positions over the long term, it must identify its major constraints, analyze the nature of these contraints and devise effective strategies for eliminating them. A winning strategy may take the form of a central bank, or it can be something else entirely, such as a temporary corporate alliance. Mondragon's greatest significance lies in the fact that with each new constraint, different and novel strategies were devised by individual members to cope with it. The evolution of Mondragon's impressive corporate superstructure offers a saga of personal initiative.

When in the late 1950s the original few cooperatives ran up against the barrier of insufficient investment capital, the parish priest and local high school curate, who had tutored Mondragon's five founders as adolescents on the principles of cooperativism, persistently pursued the idea of a bank with his reluctant former pupils (Whyte and Whyte, 1991). At last, they agreed to charter one (headquartered in a single small office and staffed by two clerks) more to humor their eccentric old mentor than out of personal conviction or vision. As it turned out, the bank grew by leaps and bounds[6], and the capital amassed solved Mondragon's growth problems for the next two decades.

In 1965, a shop operations instructor of Escuela Politecnica Profesional began to discuss with his peers possibilities for industrial research (Whyte and Whyte, 1991). Production improvement projects commenced in 1966, and two years later the former shop instructor led a team to Paris to learn the organization and management of major research institutes (ibid). In 1972 he opened an automation research laboratory in Escuela Politecnica, and in 1974, a full research institute was proposed. Don Jose Maria advocated this idea, also against the opposition of Mondragon's leadership, but this same time, the parish priest made no direct personal contribution to the effort, obviously because the need for such intervention had already begun to diminish as the vision of others intensified. The shop instructor's laboratory grew into Ikerlan, which gained for the cooperative group a measure of technological autonomy (Whyte and Whyte, 1991).

While genius is a factor that cannot be accounted for, works of genius may be somewhat "tangible". The Westward voyage of Columbus was unthinkable before he did it; then it became daunting but repeatable. So too with producer cooperatives and central workers' banks, research institutes and other innovative initiatives. Don Jose Maria had his original vision, and the later Mondragon cooperators had the example of Don Jose Maria. Since the formation of Ikerlan, new pioneers have stepped forward to instigate limited trials in Volvo-style work teams (Whyte and Whyte, 1991) and the current reorganization of the entire corporate group into product- and service-related divisions (Moye, 1992), the better to facilitate ad hoc inter-firm collaborations for the exploitation of ephemeral market opportunities. While the former experiment has proved somewhat bankrupt (even though there is no apparent reason why the unified small- and medium- firms of Mondragon should not be well suited to team production systems) and the latter is still too fresh to critique, they do demonstrate that despite its success and power the corporate group continues to anticipate future demands and implement fundamental adjustments. Problems are dealt with before they arise. As Americans are fond of noting with respect to their society, Mondragon exhibits the capacity to "reinvent" itself. Moreover, this institutional foresight is possible because the Mondragon system permits exceptional individuals, regardless of formal rank, to exercise leadership. This Spanish phenomenon deserves close attention not necessarily for the details of its historical growth advantages or original corporate superstructure, but for its underlying principles of democratic management, which allows the group to derive foresight, creativity, and courage from the pool of its entire membership. It is in the realization of individual potential that Mondragon enjoys an advantage in fostering change at the corporate superstructure level.

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Footnotes

1. SRC was initially bought out by 13 of its managers. Stock shares were subsequently sold to employees (Stack, 1992).

2. When outside investors gain controlling interests in a firm, 25% of non-voting shares are required to go to workers, and they are given the option of purchasing an additional 10% at 30% discount from the nominal value and with payment spread over three years (Blasi, 1993). Managers alone may buy 5% at the nominal value (ibid). A third option allows workers of firms close to bankruptcy to acquire 20% of voting shares at substantial discount if they can take responsibility for restructuring to avert closure (ibid).

3. As a result the average Chilean worker has retirement holdings with 40% higher value than before and total assets of four times greater value

than his annual wages (Ratan, 1995). By comparison, the average American worker has assets of approximately equivalent value as his annual salary. The broad-based employee equity ownership program has solved, for the time being at least, the national social benefits problem. It has also provided Chile with investment capital to fuel its economic growth, which is currently about 8% per anum. Argentina and five other Latin American countries as well as Australia and Sweden are investigating the feasibility of adopting the Chilean system.

4. Started in 1985 by a group of academics who hoped to learn about finance through practice, Hui Tong's deposits and loans grew from 2.17 and 2.33 million yuan in 1985 respectively to 31.9 and 30.8 million yuan in 1988 (Tam, 1992). In terms of efficiency, Hui Tong's rate of return to equity ratio of 1.67 is clearly superior to the average values of 1.03 and 0.22 attained by the urban credit coops set up by the Industrial and Commercial Bank of China in Beijing and Sichuan respectively (ibid).

5. Before the Soviet collapse, state enterprises nurtured mutually obligatory relationships in order to secure production commodities and investment funds during times that the command economy caused artificial shortages (Berliner, 1957).

6. Caja Laboral Popular opened in 1959 with a pair of workers (Whyte and Whyte, 1991), but by 1980 operated a branch in every Basque town with a cumulative total of 300,000 deposit accounts (Flessati, 1980). Revenues of 103 million pesetas in 1968 (approximately 1.5 million dollars) multiplied nearly forty-nine fold to 5,038 million pesetas (approximately 72 million dollars) within eleven years (Thomas and Logan, 1982).

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Towards a Value-Based Management Culture for Membership-Based Organisations

Dr Peter Davis

Introduction

The real problems are often such that we either don't see them at all or if we are aware they are the problems we do least about. The Co-operative Difference has been the subject of research and analysis over the last few years as we try to develop our understanding of what it means for the re-positioning of our co-operatives in both the market place and in society. In all of this there has been remarkably little attention given to the real problem that faces our movement. That problem concerns the role of a modern management in the co-operative context. How do we translate the co-operative difference into a management and organisational culture that both reflects that difference and can successfully promote it in the competitive conditions of the modern world?

This paper aims to be a modest contribution to the debate concerning this question and to take forward the analysis of my previous two papers addressing this issue.[1] It will be structured in two parts. Part 1. "The Purposes and Practices of Management" will briefly explore the roots of mainstream management thinking and philosophy and consider both those elements that co-operative management needs to retain from these alternative mainstream management approaches and what it may need to reject or at least qualify. Part 2. " Reviewing the Co-operative Management and Organisational Development Literature" will consider some of the important management - oriented books, papers and research that have recently been published. I argue that the literature can be divided into two broad approaches. The dominant approach in the literature being functional and legally oriented, I call this the Civil Service concept of Co- operative Management. This approach stresses process, division of responsibilities, and immediate tasks and membership benefits. Its approach to business strategy for co-operatives is formalistic. Democratic and commercial processes are generally seen as distinct. Whilst many of its ideas are rooted in a mix of mainstream management approaches this concept of co-operative management lacks the one most powerful element of modern management. That is entrepreneurial leadership and flexibility in decision making. The other approach is culture-based. I call this Value Based Management. It stresses management in a new (for co-operatives) role of leadership. It emphasises the need for a strongly defined co-operative purpose or mission leading to the determination of a set of values which can form the basis for a unified organisational culture that is shared by management and membership. Organisational culture, membership involvement and development, and positioning in the marketplace are seen as integral to the processes of co-operative management. They arise from the pursuit of the co-operative purpose in the context of the specific needs of the co-operative business in its contemporary social and business environment. The needs of contemporary society are not viewed as separate or distinct from the realities of the business environment but rather as part of that environment and in many fundamental ways shaped by the direction, process, and structure of modern business. The one primary role of co-operative management is to use the co-operative difference and purpose to determine the strategic response to this environmental reality. The issue of democracy and membership control are formally more problematic than in the Civil Service concept. It will be suggested, however, that in this matter the reality could be quite opposite from appearances.

Part 1. The Purposes and Practices of Management.

For managers, many features that are seen to be basic to their day-to-day work are assumed to be unproblematic. In fact, it is important to recognise how new the idea and practice of 'management' is. In the pre-industrial age, production of goods took place in domestic settings and small workshops. The controls which 'masters' exercised over those who worked for them were either direct and personal (in the workshops) or indirect and distant (where production was carried out in the worker's home). While such patterns of work have by no means completely disappeared today - consider the small workshops and out-working so characteristic of many areas of the textiles industry - the large organisation with its extensive division of labour involves fundamentally different tasks of control. Those who led the way in creating modern systems of industrial production had also to evolve modern systems of management to replace the highly personalised patterns of the pre and early industrial age. The personal relation of 'master' and 'servant' was superseded by the more impersonal relation of 'employer' and 'employee'. As relations of personal obligation and loyalty - not to mention exploitation and 'sweating' - were replaced by relations of 'contract', so 'management' emerged as a set of ideas and practices for handling the new social and legal category of 'employees'. In particular, new forms of surveillance and discipline were required to 'manage' the workers who were more used to the less formal work patterns of an agricultural economy. The various forms and approaches of management are, therefore, the products of specific historical problems.

During the development of managerial practices many of these assumptions concerning managerial prerogative, the legitimacy of business objectives and the efficiency of the unregulated market have been questioned by co-operators (particularly Robert Owen in New Lanark with his early model of managerial paternalism), trade unionists, politicians, environmentalists, academics, and some business leaders themselves. Echoes and rehearsals of these earlier discourses are to be found today in the discussions on professionalism within Personnel, the Personnel v HRM debate, concern over Corporate Social Responsibility, Business Ethics, Employee Participation, and Employee Share Ownership.

Today, largely as a result of growing public concern over health and the environment; the controversy over "technological unemployment"; and the growth in size and power of the transnational corporation, the values behind the practices of management have begun to be of more general concern. From outside the organisation the importance of values has been taken up by academics under the heading of Business Ethics, but from within management itself the Human Resource Management approach has emphasised the importance of organisational culture for managerial control. The rise of marketing and the global organisation has also led corporate managers to become more sensitive to image which always carries value messages to either a stronger or weaker degree. Underlying the alternative philosophies, models and strategies of management lies the problem of how to maximise the productivity of employees at the required level of quality?

It is interesting to note the changing emphasis in the debate on the impact of science and technology on both management and employment. For some of the participants in this debate science cannot be seen in terms of a neutral imperative but more as the facilitator of moral choices.[2] This challenges the view that management can be depicted as a purely rational practise of optimising wealth creation in response to technological and market-based imperatives.

1.1 Scientific Management and Human Relations theories.

The Scientific Management School was immensely influential with Taylor's Principles of Scientific Management (1911) being translated into a dozen languages covering as diverse a set of cultures as Soviet Russia, Industrialising Japan, Maoist China and of course the United States of America.[3] The socio-economic context for the rise of scientific management can be summed up in terms of four key factors; the closure of the American frontier; the growth of industrialisation and with it the emergence to prominence of a middle class of technocrats and engineers; the growth of Trade Unionism and industrial unrest; the continued development and application of technology to increase specialisation, the division of labour and mass production systems.[4] Taylor's approach had three components to it. Firstly, functional specialisation based on separate foremen to control gang work, speed, repairs and what Taylor called a "thinking department". The second component is work study. This was based on observation of the best workers from which an analysis and break-down of the elements involved in the task could be made. This was followed by the elimination of those elements that were unnecessary and the selection of the quickest elements which were themselves constructed into the most effective sequence. The third component was that of selecting and motivating the worker. Physical and psychological profiling was seen as the means to get the best fit between the job and the worker. This was then supported by training in the one best method for the job in question. Payment was to be by piece rates to ensure maximum productivity as income was clearly related to effort.[5] Littler (1982) has summarised the Taylorite operating principles into the following:

1. A general principle of maximum fragmentation which decomposes work into its simplest constituent elements or tasks.
2. The divorce of direct planning and the doing of the work, thus removing as far as possible any discretion in how the work is to be performed.
3. The divorce of direct and indirect labour which embodies the principle of task control. Here a planning department was envisaged to plan and co-ordinate the manufacturing process.
4. Minimising skill requirements and job learning time.
5. Reduction in the material handling to a minimum through mechanisation, finding the single best way to do the job and by close supervision and work study.[6]

Taylor saw the exercise of management as a positivistic science. As such there was ironically a strongly ideological element to Taylorism. To be "scientific" is to be progressive, true, and ultimately "legitimate". Management and labour should be in partnership where labour could rely on management's superior knowledge to support the workers' need to increase earnings. Thus, industrial conflict would be eliminated by the increased wealth that greater efficiency would bring. Taylor saw humanity's involvement in work to be purely economistic and instrumental. The essence of Scientific Management is standardisation through achieving best practice through careful selection, rigorous training and close supervision based on a division of labour in which decision taking is separated from the execution of tasks as far as possible. The objective is to increase the productivity of labour through control of the worker in terms of their time and motion by a mix of close supervision and financial incentives and the destruction of all craft-based discretion on the part of the worker.[7]

This approach was challenged by a number of writers who began to draw upon older ideas of 'welfare' and allied them with new discoveries in psychology and social psychology. The psychological emptiness of Taylor's approach with its instrumental and one-dimensional model of the worker and the worker's relation to work was an obvious area for attack. Nevertheless, much of modern work study, ergonomics and job design owes a great deal to Taylorism. Some American union leaders embraced Taylorite philosophy whilst simply wanting the right to negotiate the rate for the job. The crudity of Taylor's economism and the barrenness of the social content in his approach, however, was rejected by many academics and some branches of management more strongly influenced by an older paternalistic welfare model of management.

The 'Human Relations' approach to management argued that social dimension in organisation was the key to motivating workers, and that management based on formal bureaucratic and market constraints was inadequate. The advent of research into fatigue, the discovery of problems of monotony and the recognition that sociological and psychological factors were leading to continued alienation of the worker lent support to this position. Human Relations theorists were trying to respond to the rootlessness, materialism and individualism of urban American life and the continued industrial conflict that it had created.[8] They accepted the Taylorite view that rule by a technical elite was inevitable but saw industrial conflict as a symptom of a maladjustment in industry that was required to be corrected by a socially skilled management and working arrangements that reflected human beings' social needs. If the worker for Taylor was a brute only obsessed with making money, in the work of Elton Mayo, the promoter of research into the Human Relations approach, the worker now becomes somebody obsessed with belonging and togetherness. Since Mayo social psychology has played an important role in developing theories of management practice. Group dynamics, motivation studies, counselling/ mentoring, team building and leadership, welfare, and employee communications, all have developed within the Human Relations school tradition.[9]

On this basis, two rival 'schools' of management - two different answers to the question 'what is management?' - emerged in the twentieth century: 'scientific management', with its stress on 'economic man' and the 'human relations' approach, with its stress on 'social man'.[10]

1.2 Structural Analysis and Contingency Theory of Management

It was Joan Woodward in Management and Technology (1958) who is purported to have made the first concise statement of contingency theory in management. Her studies indicated that there was no one best way to manage but that it depended very much on the type of productive context (unit, mass, or process production) coupled to the type of technology available that determined how management would be structured and the methods it would adopt. Whilst both Taylor's and Mayo's work focuses upon the relationship of the individual and their task or the individual in the task or work group, the Aston studies led by Prof. Derek Pugh considered the larger setting of the organisation as a whole for developing a theory of Management. Like Woodward the Aston studies indicated that management could not be abstracted from its context. The structural analysis approach recognises that management is contingent upon the constraints it has to operate under. Its model of the organisation is a Functionalist one in which the organisation is depicted as a complex amalgam of departments and divisions. The functions are mutually interdependent and contributing to the maintenance of the whole.

The constraints which determine management structure and behaviour can be characterised as being under seven broad headings:

1. Competitive environment
2. Legal regulative environment
3. Level and type of Trade Union organisation
4. Prevailing Culture and Social Structure
5. International hegemony of a particular State or group of States.
6. Technology.
7. The prevailing rate of profit.
8. Availability of capital, labour, and other material resources. *

* The eighth is an addition of the author's.

The aim of the Aston studies was to achieve:
a) a precise definition of organisational variables,
b) a taxonomy of organisational structures, and
c) an understanding of the relationship between management strategy and organisational structure

None of these objectives has been definitively achieved but this does not detract from the great improvement in the level of sophistication in "management science" that this approach represents ·over the Scientific and Human Relations Schools. The behaviour of and control over labour is, let it be noted, no longer a central issue in the Structural Management approach. With the further development of technology and the opportunities for global sourcing, labour has become more expendable and readily available. In the nineteenth and early twentieth centuries business was driven by production but today it is driven by marketing. This has not stopped the continued growth in size and complexity of modern organisations as any examination of the league table of the top 500 firms will confirm. Globalisation and the realities of oligopolistic competition by organisations that are marketing led has created further pressures for:

a) costs to be held down across the whole logistics chain,
b) the need for increased responsiveness (flexibility) to change in the marketplace, and,
c) strategic positioning of the organisation through Market Research, R&D, Mergers and Acquisitions.

In order to respond to these pressures there is the need for ever-increasing levels of intelligence of the business environment, and for rates of capital growth that can enable the organisation to keep pace with its rivals rather than be swallowed up by them. Under the constraints identified by the Structural Analysis approach managerial co-ordination and control becomes more complex. The boundaries between market mechanisms for co- ordination, traditional models of bureaucratic control, new models of governmental and supra governmental regulation have become blurred. This has created a need to mesh various modes of co-ordination into a networking-based system of information exchange and co-ordination.[11] Clarity about where the market is moving; how to position the organisation to take best advantage of these movements; and a recognition of the constraints affecting the organisation's ability to respond are the central managerial problems that Structural Analysis attempts to address.

This analysis leaves us with the problem that in developing a theoretical concept of management we seem to conclude with either some crude formulation of human nature or some variation of contingency "theory". Certainly, management writing today is more a question of emphasis on problems and how best to resolve them, with the particular authors drawing fairly freely on all three traditions or approaches to management as they feel most fits the needs or possibly fashions of the hour. Such an ungrounded approach cannot be a satisfactory position in which to leave such a significant process (group of people) for decision making about resource allocation.

All three mainstream approaches have a number of crucial elements in common, one of which I believe helps explain the ungrounded nature of all their "solutions" or approaches to management. All are concerned with increased productivity, the reduction of conflict, (two out of three have this at centre stage) the legitimation and maintenance of managerial control over the execution of work, and finally they all ignore or abstract the wider social and economic structure, focusing instead on the micro setting of the task in the labour process (Scientific Management), relationships within the workplace (Human Relations), or the co-ordination of organisational responses to business needs (Structural Analysis). The legitimacy of the ends being pursued and the means by which they are pursued is assumed. Values and culture are also either assumed in the case of Scientific Management or in the other two approaches brought into the concept of management as simply one more amongst many others which have been selected to legitimise and support managerial ends rather than as a means to question and define the ends themselves.

1.3 Value - Based Management and the Co-operative Purpose

Value-based management does not reject the tools developed by the three schools that we have briefly reviewed above. Issues relating to ergonomics, selection and training, communications, relationships, leadership, the business environment, and organisational structure and strategy among many others will always have to be addressed by managers, and when they are the insights and lessons arising from these approaches will offer valuable guidance. But the hour is long overdue when the critical human-centred challenge to Capitalism presented by Robert Owen in his Address to the People of Lanark must get a response. Business - all business, including co-operative business - must examine its purpose not in the light of micro level analysis but at the level of macro level analysis. By macro level I mean two things:

a) an examination of human society and its development, and,
b) an examination of the environmental systems that sustain human society (including the biological and animal cultures we depend on and interact with).

Value-based management is not to be seen as an "airy fairy" idea but one that requires as much data and data analysis as in any other form of management decision making. Its starting point is human need at the macro level matched against the specific nature of the micro level business. Its role is to position the business to respond effectively to the human-centred needs identified through the value choices it makes in the provision of goods and services to customers. The questions it asks are - what are the contemporary needs of human society and human development? What are the needs of the environmental systems upon which human society and its development depend? How can our business respond to those needs by what we do and what we refrain from doing? No organisational purpose, or mission, or objectives can be established which do not have answers to these questions. The need for economic success and competitive pressure are still important motivators as well as constraints on action. The concerns and the goals of the consumer are just as critical as ever they were. Now, however, the information organisations are seeking from the consumer and the message they will be giving to the consumer are based upon criteria that are determined by a societal-level analysis based upon a human-centred and ultimately creation-centred agenda. Gerry Johnson maintains that values determine how management perceives and responds to the environment.[12] Very well, what value-based management insists on are that those values themselves are subject to critical analysis and justification against human centred macro level criteria. It is not just what our values are, it is how well they relate to the human centred needs of our time and place. Without an insistence on this, proposals for a stakeholder driven approach to management[13] will remain devoid of content and as dependent on the power to influence.

There are three reasons why Value Based Management is the future for management. Firstly, it represents what the consumer wants and, when the consumer gets the opportunity, what s/he will invariably choose. Secondly it is the future for management because it represents the logical development of management into a true profession. Up to now senior management has been depicted either as Taylor's "economic man" driven by the need to enhance personal wealth, or as extroverted egotists bent on power and position; in both cases, however, they end up as neutral manipulators or administrators of tools of analysis and various techniques with the aim of meeting the ultimate criteria of competitive rates of Capital growth. It is in this neutral context that the label professional is most often attached to managers. What most managers want and probably try to be, however, is what a real professional has to be - not value-neutral but value-led. A truly professional manager exercises a position of genuine leadership based not on superior knowledge but on a superior knowledge of the needs of those being led. Thus, professional management can only be a management based on human-centred values. Those being led are not just the employees of course but in a critical way it includes the consumers, who are being asked to choose a particular life style and future in the proposition being made, and the broad community of interests interacting with the organisation. Thirdly value-based management is better placed to respond to the economic reality of the world as it enters the 21st Century. The fastest rate of Capital growth is no longer the only or even primary criterion for economic performance today. Such notions are being challenged at the highest levels of economic policy development.[14] Resource constraints require that sustainable development replaces capital growth as the lead criterion for economic performance. The focus of economic endeavour is not to resolve problems of wealth creation but problems of access to wealth creation opportunities and the general allocation of resources.

This high technology age, driving down unit costs in manufacturing and services and driving down the price of labour, will result not in the triumph of Capital as the senior partner in the relations of production but with the triumph of Labour. Paradoxically, the more science and technology exercise power and control over nature including human beings themselves, the more the moral question becomes the question. This requires a human centred criterion for the analysis and development of managerial/organisational values that leads the economic process. This provides the grounds for the achievement of what Taylor and Mayo dreamt of, namely, a genuine management led community of labour will have become the driving force in the economy. Management serving people rather than capital will truly empower and legitimise management. We will have a genuine managerial revolution not benefiting a few fat cats manipulating power for their own enrichment but a managerial revolution that reunites human labour as it participates in the conception, implementation, and realisation of economic welfare.

Part 2. Reviewing the Co-operative Management and Organisational Development Literature.

I personally do not believe that a value-based management committed to a human centred analysis as its guide, communicating its message clearly and acting consistently with that message will have difficulty carrying its organisation's major stakeholders including its customers with them. Management in both Capital and Membership based organisations are I believe starting to feel their way towards this concept. No doubt there will be successes and failures in both sectors, but I am confident that the membership-based structure will offer least resistance to the changes a value-based management culture will bring. Co-operative Societies and other mutuals are uniquely placed to implement a genuine stake-holder model led by a value-based management that will be credible with the consumer because it has a genuinely representative structure. Paradoxically, however, it is the Co-operatives themselves that have largely failed to utilise their human-centred values dynamically in their communications with their customers and employees. The reason for this is I believe because the Movement has paid little attention to what its values mean for management.[15] The co-operative literature betrays this in its emphasis on democratic responsibility for policy, and managerial responsibility for the execution of policy. The practice of Co-operative Management has in fact been left to be determined by inappropriate managerial ideologies that has created a lack of vision on the part of management in co-operative societies and a closure to members of the real decision-making processes within their co-operative. The view that democracy is about managerial accountability rather than member participation leaves members without influence and managers witho1,1t information. It makes for a divided house of mutual suspicion not a united community of labour serving the needs of the wider society to the mutual benefit of all.

Draheims (1955) concept of the "double nature" of Co-operatives sums up this approach exactly. " co-operatives are characterised by........."the association of persons" with external economic components and social features on the one hand, and the "economic undertaking" to be managed like. all other private enterprises in the market economy on the other hand"[16]. Two recent publications (Edgar Parnell, 1995 and Isao Takamura, 1995) also reflect this established view of a polarity between social and commercial aspects of the co-operative. In Edgar Parnell's book, Co-operatives are seen as being organisations formed as a result of the market economy as with capital-based investor-owned organisations but distinguished by their members being the cardinal stakeholders in the organisation. This makes them people-centred rather than capital-centred businesses. The problem for co-operatives identified by Edgar is

a) the loss of focus on the provision of benefits to members and,
b) the loss of control by the cardinal stakeholder group (members defined by the functional services provided by the co-operative, i.e. consumers, farmers etc.) to a variety of other stakeholders or interest groups.

This is identified by Edgar as the main cause of failure in the co-operative sector. There is a lot of truth in this proposition as in the proposition that co-operatives lack focus and clarity as to their objectives.

Edgar's further proposition that co-operatives be defined by their objectives or purpose is to be read in the narrow sense of immediate business activities rather than co-operative purpose as I define it.[17] For Edgar this lack of clarity is due to over reliance on co-operative principles. Edgar tries to avoid the contingency model of management with the additional grounding for management decision-making in the notion of benefits for members. Edgar insists that it is "benefits to members" that provide the core rationale for co-operatives and are the touchstone for defining co-operative purpose.[18] This may not, however, be as clear cut as Edgar appears to believe. If we take an example from a UK consumer co-operative the need for the right goods at the right price at the right time is not the question. What are the right goods and what is the right price in the members' interest? Is it the cheapest, the one least environmentally damaging, the one with additional features? What about products the members have never heard of, fulfilling needs they didn't know they had? How are we to determine appropriate benefits without discussing the role of marketing and market research in the context of a membership-based organisation? Surprisingly, Edgar omits any discussion of these topics.

I have, however, a more fundamental objection to Edgar's' formulation. Benefits to members is too general and actually can be completely unrelated to the notion of Co-operation at all. Edgar must recognise this problem otherwise he would not, along with many others, seek to restrict the rights of members to dispose of the co-operatives assets in any way they might wish to. He is, of course, right' to suggest restrictions on what any particular group of members at the micro level may wish to do with their society and its assets. This is because Co-operatives are not just about membership and the benefits of membership in abstraction. Co-operatives are about the benefits of membership in association. The association's purpose is to provide market leverage and access to resources (including information) that would not be otherwise readily available to the individuals who join and without which they would remain at best disadvantaged, and at worst poor and excluded. This applies to all sectors and regions of co-operative activity. Thus, social justice and community are central to an understanding of Co-operative purpose and in understanding and evaluating the propriety of those activities, products, and services providing benefits to members. It is upon the values and principles that emerge from this macro level analysis of social need that the truly distinctive co-operative "framework for rules of behaviour" that Edgar Parnell calls for in chapter 2 (and particularly develops in his discussion of leadership in chapter 4, and corporate governance in chapter 11) can be established.

Specific Co-operative activities provide employment, fair priced good quality products, decent housing, cheap credit and other financial services, fair priced utilities, fishing boats, and many other specific goods and services including education. It is the overarching macro level purpose, however, of social justice and the common strategy and end of community building that has the potential to unite all co-operatives into one socio- economic movement. This movement is not about delivering this or that benefit but about mobilising economic and social resources to deliver economic and social justice and destroy dependency in the global marketplace today. I do not argue with Edgar that co-operatives must produce benefits to members, but we do need to understand very clearly what the nature of the benefits are and how they are to be achieved within the co- operative context. In Edgar's formulation there is the danger of parochialism and materialism leading to the fragmentation and dissipation of Co-operative assets when all the competitive pressures require us to conserve, accumulate and collaborate in order to achieve the required critical mass in the marketplace.

It is when Edgar discusses the importance of establishing clear definitions and divisions of labour within co-operative organisation that his analysis conforms most closely to the "double nature" model of co-operatives. It is in these areas of Leadership and Corporate Governance within Co-operatives that his analysis most closely conforms to the Civil Service view of Management. The myth is that the elected board of directors is exclusively responsible for the direction and leadership at the highest level of the co-operative. Edgar rightly points out that leadership can be exercised in many different contexts and levels within organisations. His emphasis, however, on the distinction between primary leadership (who develops the plans of action) and secondary leadership (required to lead those who organise the delivery of co-operative services) is misguided.[19] Edgar reduces management to business administration. His solution to the central problem of Co-operative Organisation today - which is how to develop professional leadership of co-operative businesses operating in increasingly complex business environments - is structural rather than cultural.

By concentrating on the division of functions, management is downgraded to a civil servants' role and the members are downgraded to an elected members' council which appoints really qualified people to act as Directors to manage the business on the members' behalf[20]. This additional layer of policy making is unlikely to be a solution that recommends itself to many co-operative managers or members. It carries real risks of further fragmentation and conflict within co-operative organisation. Unity and a sense of involvement is the most essential grounding for successful association. This requires that effective leadership be brought to bear on the development of the organisational and management culture.

Edgar does acknowledge that manager leaders can emerge that "successfully provide the primary leadership role" but for Edgar this is an exception not the rule. For Edgar, the problem of technical incompetence in lay Boards is resolved by placing another tier of experts between them and the managers. Why can we not accept that the managers are the experts, and they need to be as close to the membership as possible? Takamura acknowledges the need but does not seem prepared to give managers the position of responsibility for the decisions, leaving them rather as expert advisers whose advice the Board will be well advised to pay attention to. His formulation of the division is between management in a "broad sense" conducted by the Board and in a "narrow sense" by the Executive Board of management[21]. In times of change ".....the top management of the co-operative must always have the ability and will to introduce reform from within....."[22] Takamura recognises the qualities required by management but appears unable to recognise the organisational culture and values necessary to ensure a management that will have the authority and ability to embrace them. Co-operative Managers are required to exert leadership and judgement and in addition "Co-operative managers, are.... not only required to settle business problems but are also expected to have a sense of humanity and a fully developed character."[23]

Co-operative management clearly needs high ethical standards, but it also needs an analysis of the needs and values of society as they affect the co-operative customers and members. These ethical standards must not remain the preserve of the top few but be reflected in the culture, relationships and behaviour of the whole organisation and be communicated as such to the outside world.

Both Parnell and Takamura recognise the human-centred basis of co-operatives and the need for ethical values to inform management practice, but the membership is viewed abstracted rather than integrated into the wider society, and the management's relationship is formalistic and separate from the membership rather than as an integrated part of the community of labour whose business strategy is driven by a human-centred analysis of social needs. Duelfer (1986) comes closest to recognising the importance for management to link the social integration of the individual members with his notion of "co-operative combine" which for him links the co-operative organisations' decision-making to that of their members' household economies.[24] Unfortunately this insight is not developed as a focus for determining the macro level social needs of the customers and members. These needs form the focus for the core idea of value - based management that sees the aggregate socio-economic needs of those households as the material data affecting management decision making and the foundation for the legitimate exercise of leadership by management within the co-operative community.

This is where I believe the real solution lies. Directly elected Boards of lay members must be the right grounding for co-operative governance and management but Boards need a mix of skills, and the co-option principle used by many company boards should re-enforce the elected board by the inclusion of two or three of the top management team as full board members, (including the CEO) leaving open the possibility of one or two further co-opted appointments from outside the organisation, but only when a real need is identified; otherwise the appointment-will be open to abuse and manipulation. Lay leadership alone can only exceptionally provide the necessary skills to lead a modern co-operative society. Co-operatives need Co-operative managers who recognise that the Co-operative enterprise must be managed as a whole without the totally false distinction between the business and the social "sides". Far from being as Edgar claims, a risk "...too great to be contemplated."[25] we desperately need Managers who have the qualities to take responsibility for leading and building the whole community of members and employees into a social and value-based business seeking the fulfilment of the co-operative purpose. Value-based management does not replace one member one vote Democracy in the Co-operative. What it does is to demand that the professional responsibility for the quality of that democratic content lies with management. Management has the responsibility to consult, survey, and research members' needs and the needs of the society to which they all belong. Management has the responsibility to lead and develop a united membership. The members will not only always have the right to challenge and dismiss a management that acts unprofessionally but, as I have suggested elsewhere, it will have much clearer criteria for making its judgments and more information and real involvement than the formalistic rituals that form much of the content of the so - called democratic process today.[26] Thus value based management is the essential goal for co-operative management and organisational development today. Value-based management will not be unique to the Co-operative Movement, but the Co- operative Movement is uniquely placed to take full advantage of its insights and contemporary relevance as it goes forward into the next century.

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Book Review

John Corina

Prychitko, David L. and Vanek, Jaroslav, **Producer Co-operatives and Labour-Managed Systems. Vol. I Theory. Vol. II Case Studies.** The International Library of Critical Writings in Economics. Edward Elgar, Cheltenham, 1996, £170. Vol. I xxiii, 487pp. Vol. II xix, 316pp.

Over the past 30 years, the economic theory of producer co-operatives and labour-managed economic systems has burgeoned. Yet, the individualist neoclassical paradigm has remained the central tool employed by economists to analyse co-operative modes of production and distribution. Students of orthodox theory still start by scribbling down the 'objective function' of the capitalist firm, and then proceed by differentiation, and the use of Lagrange multipliers and other mathematical artifices, to analyse the first and second order conditions for profit and output maximisation under special perfect-market assumptions. Though useful as a toolkit, the model is too limited for 'virtual reality'; being intrinsically blind to the social realities of mass unemployment, wage-slavery, and job insecurity, prevalent throughout the post-communist and post-industrial capitalist order. Over the past decade, alternative developments in the mathematical theory of co-operative games have provided an equally, if not more, powerful simulation of optimal economic behaviour.

Co-operative-vision economists, committed to creating a healthy stakeholder-economy in the new millennium, must combat every *laissez-faire* inspired attack upon their brand-new multidimensional 'coalition' game-theories and co-operative-behaviour models. The *laissez-faire* conception of 'Pareto-efficiency' chases a mirage of already-achieved static equilibrium. It wrongly presumes that there are no prior conflicts of interest within the labour market. Industrial self-government theory, however, offers a dynamic solution to the triangular producer- owner-consumer power struggle in the disequilibrated market economy, generating a meaningful policy debate not just over capital ownership and income distribution as social entities, but also over the associated ownership and control of new technology, and hence the distribution of its cruel social costs and immense benefits.

Capitalist organisation itself, as the inventor of computing, Charles Babbage, early recognised, rests on a perpetual contradiction. The fixed socio-technology behind the curvilinearised competitive 'production function' depends crucially upon co-operation as a precursor to competitiveness. The living dynamics of the 'Hicks-neutral' equation, as Silicon Valley shows, will work only if the candle flame of co-operation is kept alive within a profit-dominated high technology culture; despite the piratical 'free-riding' of owner-autocrats, each competing to blow out the tiny co-operative flames elsewhere. Now an alternative body of *co-operative* microeconomic theory has merged to challenge the so-called 'objective function' itself; undermining the foundations of a production theory built upon antagonistic units and unmasking the narrow profit-maxim as merely a limiting case in the principal-agent/stakeholder debate.

Introducing the new wave of self-management theory, Volume I presents a stimulating selection of 27 technical writings published between 1958-86 by mainstream Western economists. The American scholar, Professor Vanek, acknowledged as the master of the general theory of economic democracy, has long been the trailblazer. Here, he boldly maps out the pure macroeconomic contours of the labour-managed market economy. The British Nobel-laureate, James Meade, follows up with a number of sparkling classic contributions on producer co-operatives, first written for the *Economic Journal.* Jacques Dresses powerfully demonstrates, originally in *Econometrica,* that the Walrasian general equilibrium outcomes achievable under labour management would not fall short of the efficiency solutions presumed to occur under private profit maximization. Gregory Dow demonstrates conclusively that co-operative ownership of capital will not necessarily damage investment incentives. David Ellerman, economist to the American Industrial Co-op Association, offers a penetrating analysis of the economics of legal structures.

Volume II tries to bridge the gulf between the theoretical and empirical literatures on producer co-ops. it presents the powerful 1993 overview of the current state of theory and applied research, undertaken for the *Journal of Economic Literature* by the leading U.S. researchers, John Bonin, Derek Jones, and Louis Putterman. Most testable economic hypotheses on producer co-ops and self-management examine participatory variables against a backdrop of five broad themes: exploring the positive employment and output effects, the positive incentive and productivity effects and the positive effects on innovation, while examining the capitalisation constraints on take-off points, and fundamental ecological questions underlying co-op enterprise formation and life cycles. The research evidence, so far assembled, overwhelmingly supports the view that producer co-operation, though small, is very beautiful - self-actualization accompanies economic gains on all fronts.

This raises a problematic question. Why then are there so few producer co-ops and self-managed enterprises in the market economy? Without cracking the enigma, the other contributions in Volume II probe the international spectrum of economic participation for evidence-based success. The informative case studies embrace self-management in former Yugoslavia, the lessons of Mondragon, the benefits of co-determination in Germany, the possibilities for self-management in the emerging Russian economy, producer co-operation in Poland, and the potent co-op exemplars in America and Western Europe. Like the guild Socialist vision, the introductory evidence, surveyed by Prychitko and Vanek for volume II, provides hard-headed economic insights into the promise of participation for the 2000s. *Why not now mount a fully funded and large-scale inter-University research programme into the economics of labour-managed systems, fully supported through the internet by Co-operative activists, on these critical foundations?*

These professional volumes, invaluable to economic and social research institutes, are highly recommended for the reference collections and teaching libraries of Universities. They are also highly commended as a *Tractatus Co-operationus* for serious students and practitioners of producer co-operation everywhere.

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