

A 'Member-Owned Business' Approach to the Classification of Co-operatives and Mutuals

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Co-operatives are defined according to co-operative principles and an identity statement endorsed by the International Co-operative Alliance (ICA). The article argues that this is too much taken for granted, and that more work needs to be done. It provides a brief history of the co-operative principles, showing how the ICA has codified and periodically revised them. It discusses several difficulties with this approach and suggests an alternative based on the concept of member-owned businesses. Three main stakeholders are identified and the different types of co-operative are put into a comprehensive classificatory system. Co-operatives are placed firmly in the category of 'private sector' rather than in categories that privilege the social over the economic. It suggests co-operative federations should adopt a member-ownership framework, extend a welcome to other types of member-owned business, and through this approach align their membership and business strategies.

Introduction

Co-operative and mutual businesses are a large part of the economy of most developed countries, despite the trend towards demutualisation in some sectors (Birchall, 2010). A project undertaken by the International Co-operative Alliance (ICA) has identified the top 300 co-operatives and calculated their combined turnover at around £11 billion, around the same size as the economy of Canada (ICA, 2010). In some sectors they have become recognised as an important alternative to investor-owned businesses; the banking crisis has shown how resilient co-operative banks and credit unions can be, and how their risk-averse way of doing business has advantages for the economy as a whole (Birchall and Hammond-Ketilson, 2009). In the less economically developed countries, they are making a significant contribution towards meeting the Millennium Development Goals (Birchall, 2004). In Africa in particular they are resurgent, and are now growing strongly (Develtere et al, 2008, Wanyama et al, 2009). In Africa and Asia a reform process is underway that is restoring their autonomy after several decades of too much interference by governments and political parties (Birchall and Simmons, 2010).

It might be thought that the question of how to define a co-operative has been settled once and for all by the co-operative principles and the co-operative identity statement proclaimed by the ICA at a General Assembly in 1995 (ICA, 1996)¹. The identity statement defines a co-operative as:

An autonomous association of persons united voluntarily to meet their common economic, social and cultural needs and aspirations

through a jointly owned and democratically controlled enterprise

The principles include:

1. Voluntary and Open Membership
 2. Democratic Member Control
 3. Member Economic Participation
 4. Autonomy and Independence
 5. Education, Training and Information
 6. Co-operation among Co-operatives
 7. Concern for Community
- (MacPherson, 1995)

These were endorsed by United Nations *Guidelines* (United Nations Economic and Social Council, 2001) and by the International Labour Office's *Recommendation 193* (ILO, 2002), and have been written into many co-operative laws around the world (Henry, 2002). In the view of most commentators the subject is no longer open for debate; we just have to get on with promoting good laws that reflect the international consensus. Yet there are good reasons why we should not take the current set of principles for granted, and should be prepared to do more work on the subject.

This article begins by providing a brief history of the co-operative principles, showing how they were derived from the Rochdale Pioneers co-operative society and how the International Co-operative Alliance took charge of their codification, interpretation and occasional revision. It then discusses several difficulties with this approach to defining a co-operative. It has been a largely consensual process, but other possible principles have been left out. It has suited consumer more than producer and worker co-operatives. Some principles are more important than others, and constitute an

irreducible core. They do not help to provide a classification of all the different types of co-operative, and the identity statement perpetuates an unhelpful duality between the member association and the co-operative business.

The article then provides an alternative approach based on the concept of member-owned businesses, in which three main stakeholders are identified and different types of co-operative are put into a quite comprehensive taxonomy. It discusses various complications that arise when using this classificatory system, but concludes that it can cope with these without having to be revised significantly. The article then goes on to discuss what follows from this approach. Co-operatives are not all that different from other member-owned businesses (MOBs). However, this does not mean they are less significant, and a kite marking system is suggested that would enable MOBs to be rated on their performance in relation to the logic of member-ownership. This approach helps to shed light on issues such as partial ownership, rewards to investors, and the relationship of membership to wider community ownership.

The article then goes on to consider where the MOB approach places the co-operative sector. It is firmly in the category of private sector rather than social economy or social enterprise; categories that tend to privilege the social over the economic. Yet it argues that MOBs have the potential to transform the meaning of 'economic' to include the social. The article suggests that co-operative federations should adopt a member-ownership framework for the

understanding of what is a co-operative, extending a welcome to other types of MOB such as mutuals and perhaps even developing a 'kite mark' for co-operatives. It suggests this approach should also enable co-operatives to unify their work on membership and governance with their business strategies.

A Brief History of Co-operative Principles

Before we begin a more critical analysis, it may be useful to look briefly at the history of co-operative principles. The 1995 revision of the principles was in fact the third that the ICA had undertaken, the first being in 1937 and the second in 1966. The original reference point for these revisions was the set of principles established by the Rochdale Pioneers, who founded the first successful consumer co-operative in 1844 (Birchall, 1994 ch4). Their historian, G J Holyoake identified nine Rochdale principles (Holyoake, 1906). These are listed in Figure 1, from which it is clear that, while some were codified early on, others were only written down up to 16 years later, and some were taken for granted but not written down at all. One might say that Holyoake created a tradition, providing a 'script' for co-operatives to use that was inherited by member organisations of the ICA. Some were fundamental to the idea of co-operation (democracy, limited return on capital, political and religious neutrality), while some applied more to consumer co-operation (the 'dividend' principle, sale of unadulterated goods, cash trading).

When the ICA came to codify its principles in

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1. Democracy (ie one person one vote, not mentioned in the 1844 rules but appearing in the rule revision of 1845)
 2. Open membership (but limited to 250 until the 1852 Industrial and Provident Societies Act gave proper legal status)
 3. Fixed and limited interest on capital (written in from the beginning, as it was one of Robert Owen's principles)
 4. Distribution of the surplus as dividend on purchases (a recognised practice not written down)
 5. Cash trading (another recognised but unwritten practice)
 6. Sale of only pure and unadulterated goods (practiced, but not written down until the Almanac of 1860)
 7. Education (in the 1854 statutes)
 8. Political and religious neutrality (assumed from the start but unwritten)
 9. Disposal of net assets without profit in the event of the society being wound up (added in the 1854 statutes)

Figure 1: The nine co-operative principles identified by GJ Holyoake (1906)

1937, it distilled the Rochdale principles into seven: open membership, democratic control, distribution of surplus in proportion to trade, payment of limited interest on capital, political and religious neutrality, cash trading and promotion of education (Birchall, 1994 p54). Interestingly, it declared that the first four were essential but the last three less binding (a point we will come back to later). By then the fifth principle of neutrality had become seriously compromised: the co-operative unions of several Western European countries had long been organised along political or religious lines. The sixth principle of cash trading had lost its moral authority and was looking more like a business method than a principle. The seventh principle, promotion of education, had always been more of an aspiration than a requirement. The ICA also identified two further principles that were felt to be implicit in co-operative practice: voluntary membership and mutuality (trading only with members). However, it could not press these on its member organisations as there was a lack of voluntariness among its members in the Soviet Union and a lack of mutuality in consumer co-operatives almost everywhere.

This formula remained unquestioned until at the 1963 Congress the Soviet delegates asked for another update. The process of revision could have opened up a serious split between East and West at the height of the Cold War, but a commission managed to produce a unanimous report. It was based on a questionnaire survey that showed there was a common co-operative philosophy and a clear continuity with Rochdale (Birchall, 1997 ch2). At the 1996 Congress, six essential principles were identified: open and voluntary membership, democracy, limited interest on capital, equitable return of surpluses to members, provision of education and co-operation between co-operatives. Not surprisingly, political and religious neutrality was dropped.

By the time of the third revision in 1995, the emphasis had shifted to the need to reform co-operatives in the developing countries in response to the process of economic liberalisation that was taking place (Birchall and Simmons, 2010). A similar process of consultation with the members was undertaken over the five years between 1990 and 1995, and at the Tokyo Congress a consensus was achieved. The 'limited interest on capital' and 'equitable return of surpluses' principles were rewritten into a more universal 'member

economic participation' principle, others were updated, and a new 'concern for community' principle was added. The main change was in the emphasis on 'autonomy and independence'; this was a direct challenge to co-operative sectors that were still dominated by governments or political parties. It allowed United Nations agencies to rework their advice to promoters emphasising the need to develop autonomous co-operatives, and led to a worldwide revision of co-operative laws.

Some Difficulties with an Approach Based on Co-operative Principles

It would seem self-evident that this approach, whereby the ICA has custody of the definition of a co-operative and periodically subjects it to reflection and revision, has validity and is the obvious way to generate a definition of a co-operative. However, there are at least five reasons why the co-operative principles and identity statement as they stand are not adequate. First, other possible principles have been left out. The eventual seven principles settled on in 1995 were the result of a highly participatory process. However, at the Tokyo General Assembly the principle of employee participation was strongly advocated but was voted down. Concern for the environment could have been one of the principles and may well be added in the future. At the moment, there are strong lobbies within the ICA membership for employee participation and environmental sustainability to be added. This shows that the ICA principles are a social construct, the outcome of a process of deliberation that took place among a particular set of people at a particular point in time. They cannot be set in stone and will probably be revised again in the future.

Second, the principles have always suited consumer co-operatives better than other types, particularly worker co-operatives. European worker co-operatives have preferred to use a set of four principles defined for them in the 1830s by Philippe Buchez: one person one vote, a return on surpluses proportional to work done, indissoluble capital, and eligibility for full membership after a probationary year (Birchall, 1997 p22). In 1987, eight years before the ICA revised its principles, the Mondragon co-operatives signed up to a set of ten principles including: open admission, democratic organisation, sovereignty of labour; the

instrumental and subordinate nature of capital, participatory management, payment solidarity, inter-co-operation, social transformation, universality, and education (Mondragon, 2010). American farmer co-operatives refer to a simpler set of three principles first identified by the Co-operative Department of the US Dept of Agriculture: member ownership, control and benefit (Birchall, 2005). Some people think this must be a sign that they are not as committed as others, but this would be a mistake; there is still a strong commitment to membership among most US farmer co-operatives. It could be argued that, if the ICA had adopted these three principles as fundamental and then added some secondary principles, perhaps more co-operative apex bodies could have been persuaded to become members. We could have had a more unified and representative ICA. On the other hand, recent additions to the ICA membership list (such as the Raiffeisen Union) show that the seven principles as they stand are no stumbling block to membership for organisations that have a different intellectual and cultural history.

Third, the principles are not all of the same type. Just as the ICA in 1937 identified four key principles and three less essential ones, one can argue about the current principles that the first four carry more weight than the last three. The fourth principle (*autonomy and independence*) is logically prior to any other principle as it establishes that what we are considering are separate business entities. Then, arguably next in order of importance comes *democratic member control*; this incorporates the principle of 'one member one vote' in primary co-operatives, which is fundamental to ensuring that these are people-centred rather than capital-centred businesses. Logically, *member economic participation* follows from this, since members who have an equal vote are likely to allocate surpluses in a fair way (usually by linking dividend to usage, but also by agreeing on other methods such as equal shares, or a community dividend). *Voluntary and open membership* establishes the basis for individual membership, ensuring that people have the opportunity to join and to join of their own free will. Together these four principles are fundamental in establishing the ownership structure of co-operatives as member-owned businesses. The others (education, training and information; co-operation between co-operatives; and concern for community) are

aspirations that may or may not be realised. It is possible to envisage a co-operative that does not meet our expectations in these respects but that can still be called a co-operative. It follows that principles five to seven are less fundamental and are not needed for the basic answer to the question 'What is a co-operative?'

Fourth, there is another problem with the ICA principles; they do not help us to classify types of co-operative. The lack of an agreed taxonomy has severe operational effects worldwide and continually impairs the presentation of the co-operative business option. Each country has its own classification system that has grown up in an ad hoc way and cannot be aggregated with others. It may rely on distinctions between different type of member (consumer, producer, employee), different type of sector (handicraft, production, industrial), or type of co-operative (agricultural, consumer, credit), or a mixture of all three. This means that international statistics on the numbers of different types of co-operative are difficult to create. Some apex bodies such as the International Co-operative and Mutual Insurance Federation and the Association of European Co-operative Banks have classified their own membership, but more work needs to be done to provide a consistent classification across categories.

Fifth, the co-operative identity statement is generally useful, but it perpetuates an unhelpful distinction. It begins with 'an autonomous association of persons that establishes the basic requirement of autonomy. Then it refers to the first three principles that are required if a business is to be member-controlled; it is member-owned and controlled, and by implication, benefits members by meeting their common needs and aspirations. By not mentioning the last three principles it strengthens the argument that there are really four primary and three secondary principles. The identity statement has had a profound impact internationally in making the idea of co-operatives accessible. It has been written into many laws and it is probably the best definition we can find. However, it also contains a hidden assumption that there are two organisations – an association of persons and an enterprise. This is an approach that has often been taken by academic researchers and that has a long intellectual history, but it can be unhelpful and misleading. It tends towards a pessimistic view that there is a built-in tension between democratic structure and business strategy,

whereas a more modern approach integrates these, seeing the value of good governance and treating members as an asset rather than a liability. The work of Tushaar Shah is particularly important here, and deserves to be better known. In a very big study of co-operatives in several states in India, carried out in the early 1990s, he found that the successful co-operatives were the ones that aligned the needs of the members with the organisation's purposes; good governance by boards and responsive management followed on from this basic emphasis on meeting members' needs. In the successful co-operatives, there was no need to contrast an association of persons with a business enterprise; the two parts were fully integrated into one member-owned business enterprise (Shah, 2006).

The Member-Owned Business (MOB) Approach

If these arguments about the limitations of a definition based on co-operative principles are accepted, then we have to find a different approach that will provide:

- a. A definition that everyone is likely to agree on.
- b. A consistent classification of types of co-operative.
- c. A unified vision that avoids the splitting of the organisation into two (an association and an enterprise).

The proposed alternative begins from the idea of the member-owned business (MOB). It consists of a two-stage definition that leads to a comprehensive typology.

Definition Stage 1: A co-operative is one type of business ownership among others

Why do we want to define a co-operative? In order to distinguish it from other ownership types we have to label it, otherwise we miss the significance of ownership altogether and go straight to other kind of distinctions such as business sector or size of firm. For instance, retailers can be family-owned, franchised, investor-owned or co-operatively owned but if we fail to make the ownership distinction they are just treated as retailers. For some purposes this is all that is needed, and economists can get a long way without analysing ownership types at all. However,

there are good reasons for believing that ownership matters.

First, ownership brings benefits to one stakeholder rather than another. If a firm is owned by investors, they can appropriate the profits and benefit from increases in share values. Nobody else can do so. If, on the other hand, it is owned by the employees, or by customers, or by other firms that rely on it for their business, they take the profits (though they do not benefit from share value as usually shares are not traded). Further, they can decide not to pursue profit but to give priority to other aims; consumers may value the quality of the product, employees decent working conditions and producers the quality of inputs to their businesses or effective marketing of their products.

Second, ownership gives control over the business to one stakeholder rather than another. There are always conflicts of interest between different stakeholders. They cannot all maximise their return from the business. If some interests were not excluded from ownership the business would lack direction and the costs of governance would be too high. More positively, ownership by stakeholders who rely on the business not just for profit but to meet basic needs enables the business to be 'people-centred' rather than money-centred. (There are some reservations though. In modern business organisations managers have a lot of power regardless of the ownership form the organisation takes; it can be argued that a 'managerial revolution' has taken place that makes ownership less relevant. In consequence, ensuring effective governance is a problem for all types of business except those owned by individual owner-managers).

Third, there are always costs incurred in bringing one set of stakeholders or another into ownership. Stakeholders who are left outside have to rely on contracts that carry transaction costs, while those on the inside have to bear the costs of governance. Member-ownership provides a different mix of costs that, under the right circumstances, makes a firm more competitive. For instance, mutual life insurers have an inherent advantage over investor-owned equivalents, as they do not have to decide how to allocate profits between with-profits policy holders and investors. Clearly, other things being equal, policy-holders will gain from controlling the business as members. Related to this is the cost of regulation. In potentially monopolistic industries such as supply of

utilities, and in sectors that rely on long term contracts such as provision of pensions, investor-ownership needs heavy regulation by governments to safeguard the interests of customers. Mutual water companies and electricity co-operatives align the interests of customers more closely with the aims of the business.

Fourth, the existence of diverse ownership structures has wider systemic effects. It can be argued that markets that include owners other than just investors provide more choice to consumers, help prevent monopoly, provide room for innovation and generally keep investor-owned businesses competitive. The demutualisation of the building society sector in UK was opposed by critics who warned of the dangers of an investor-dominated banking system. Anyone who doubts the importance of ownership should note how struggles over

demutualisation have intensified – it is now clear that it is ‘fought out’ by interested parties who have a lot to gain by the outcome.

Definition Stage 2: Co-operatives are member-owned businesses

A co-operative is a *member-owned business*. Here is a simple classification. Apart from the investors of capital, there are three main stakeholders in a business: its consumers, the producers who supply inputs to or take the outputs from the business, and its employees. In an MOB, usually one of these other stakeholders is put at the centre of the business. This gives us three classes: consumer-owned, producer-owned and employee-owned businesses. The advantages to stakeholders of co-operating are obvious; together they can channel the value added from the business to themselves rather than to investor-owners or to

Class	Genus	Species	Hybrids
Consumer owned	General retailing	Consumer co-operatives: food, staple goods	Jointly owned business with other retailers
Consumer owned	Specialist retailing	Consumer co-operatives: pharmacy, funerals, travel, garage services, etc	Joint ventures
Consumer owned	Insurance	Friendly societies, mutual assurance, life insurance, health insurance	
Consumer owned	Housing	Market value, limited equity and non-equity housing co-operatives	Community housing associations (Scotland)
Consumer owned	Utilities	Electricity, water, telecoms co-operatives	Joint ventures with local government
Consumer owned	Education	Child care co-operatives, co-operative schools (Sweden)	Schools with multi-stakeholder governance, foundation health trusts (England)
Consumer <i>and</i> producer owned	Banking	Co-operative banks, credit unions, savings and credit co-operatives	Mutual savings banks (USA)
Producer owned	Primary producer co-operative	Farming, fishery, forestry (supply, marketing and/or processing)	Several hybrids introducing investor owners
Producer owned	Retailer-owned wholesaler	Supermarkets, hardware stores, pharmacy	Jointly owned business with wholesalers
Producer owned	Shared services for self-employed, small business and professionals	A wide variety, including taxi drivers, artisans, market traders, dentists co-operatives	Minority producer-ownership in an IOB
Employee owned	Continuum: simple labour co-operatives to conglomerates	A wide variety of sectors	Employee share-ownership schemes

Table 1: A suggested taxonomy of member-owned businesses (from Birchall, 2010)

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

A straightforward definition of an MOB follows: it is

a business organisation that is owned and controlled by members who are drawn from one(or more) of three types of stakeholder – consumers, producers and employees - and whose benefits go mainly to these members.

We can use this classification to list the different types of MOB in the same way that scientists identify individual genera within a class, and species within a genus (see Table 1). If a new species of MOB were to evolve, we ought to be able to fit it into an existing genus or class. Also, if an MOB allows some ownership by investors or government, or has some of the features of an MOB and some of another type, it can usefully be called a hybrid.

This approach to classification is not perfect, but it is a significant advance on other classifications in use. Traditionally, in different countries a classification of co-operatives has grown up that reflects the particular history of co-operatives in that country, so that an ad hoc list will be created that then forms the basis for published statistics. In Sri Lanka the list includes coconut co-operatives and school co-operatives, while in Vietnam it includes handicraft and tourism co-operatives. Such listings are potentially endless, and their classifications say nothing about the underlying ownership structure. Often co-operatives are grouped into broader types such as industrial or producer co-operatives, but these types can obscure the difference between, for instance, shared service co-operatives for self-employed people and employee-owned co-operatives. Sometimes the confusion goes all the way up to the international level; the International Organisation of Industrial, Artisanal and Service Producers' Co-operatives is, as the name suggests, an accretion of co-operatives who

have in common only that they produce things or provide services. By separating out different stakeholders we can at least see whose interests the co-operative is supposed to be promoting.

So far we have not defined what we mean by a member-owned *business*. We could just call it a *company*, but this has too narrow a definition, excluding organisations not registered under company law but as co-operatives or associations. Economists tend to use the word *firm*, but this implies organisations that are large in size and leads to cumbersome terms such as 'proprietary firms' (for investor-owned businesses) and mutual firms (for member-owned businesses). The term 'business' is broader but it is also imprecise. Used as a noun it can mean the kind of occupation one is in, the purchase and sale of goods to make a profit, the volume of trade achieved, or a building where trade is carried on. The best definition is *an organisation that is engaged in commerce*. All the organisations identified in the above taxonomy are engaged in commerce, though the ones that rely heavily on public sector grants (co-operative schools, non-equity housing co-operatives) are less often described in this way. The nearer an organisation gets to providing a public service the more awkward this definition becomes, and yet people who run such organisations do sometimes remind themselves and others that they are, essentially, running a business.

What is it that makes some people resist using the term 'business' (and resist even more the related term 'commerce'). There is a clue to this in the way it is used as an adjective (*business-like*), to imply a judgement as to whether an organisation is run efficiently or has a particular set of values. Nobody complains when someone claims their organisation is 'business-like', meaning efficient or effective. It is the implied set of values that causes the unease. To run an organisation as a business can imply that it puts profit before service, or makes decisions based on financial considerations rather than human needs. However, the advent of the new public management in the delivery of public services has made it harder for delivery agencies to avoid commercial considerations. The linking of public grants to demand from consumers, the opening up of services to competition, the increasing use of performance measures and inspection, all lead to commercialisation. We are

all 'businesses' now. The term 'community business' shows that the term is becoming more morally neutral, and so we can include it in the definition of a MOB without implying particular values.

Some Complications to the MOB Taxonomy

Of course, it is not quite that simple. There are several complications in the MOB approach.

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

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

Third, it is not always possible to distinguish clearly between producer-OBs and employee-OBs. The Mondragon co-operatives are owned by their 'workers' but as self-employed people they have something in common with members of producer co-operatives, such as farmers or retailers. In the UK, co-operatives that are set up by professional people such as architects, graphic designers or investment managers may be limited liability partnerships or worker co-operatives; what is important is that the MOB helps people to be productive and to share the costs of production. Similarly, in developing countries handicraft co-operatives are common, and it is often unclear whether their workforce is employed or self-employed. We cannot just call them all producer co-operatives, because there is a whole class of employee-owned businesses that have been acquired by their employees from a previous owner or in a gradual

buyout through employee share ownership plans.

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

Fifth, MOBs come with different labels attached. They are called variously, *co-operatives*, *mutuals*, and *economic associations*. These terms are almost synonymous but not quite. *Co-operatives* trace their origins to the 'Rochdale Pioneers' in 1844 and tend to have a strong shared identity based on co-operative principles (though they do not always constitute a unified 'co-operative movement'). *Mutuals* do not have such a strong social identity; their history is much more mixed and less obviously heroic, and they have definitely never been part of one unified movement. However, some types of mutual do have a distinguished history and a social movement ethos. British friendly societies were such a movement until sidelined by the state in social insurance after the Second World War. In France the term 'mutuality' carries a much stronger meaning than elsewhere, and is more like that of a co-operative. There are important differences between a co-operative and a mutual. The term mutual is usually applied to financial MOBs; their purpose is to raise funds from their customers in order to provide them with services such as savings and loans, various types of assurance, health insurance, pensions, housing mortgages and so on. They do this through recycling money within a closed system that does not include – or need – outside investors. A mutual can have different stakeholders taking part in governance. Building society customers can be savers or borrowers, or both, while pension customers can be on a with-profits or a fixed interest basis. Their rights in the business have to be allocated carefully, but otherwise governance is similar to that of a

co-operative. Mutuals insist that customers become members, while co-operatives often also have dealings with customers who are not members. Finally, the other term, *economic association*, is the broadest, carrying no ideological 'baggage' or set of universal rules by which it is distinguished from other types. It is usually applied to farmer associations, and is useful in distinguishing MOB's that do not conform to co-operative principles.

Sometimes other business types use the term 'mutual' in a misleading way. Some demutualised businesses still carry the word 'mutual' in their name even though they are investor-owned and have no right to! Savings banks often see their customers as 'members' but do not allow them a share in governance; they are governed by a self-perpetuating board of trustees and so are much more like charities. In the USA they are called mutual savings banks, but they are only mutual in one sense, that there is no separate set of investors to take the profits (Birchall, 2010 ch7).

What Follows from this Approach?

Seen from this perspective, co-operatives are businesses that have a particular identity derived from a sense of history and commitment to a particular set of principles, but *they are not all that different from other member-owned businesses*. What follows? First, we can make use of a broad definition of member-owned businesses, reaching out to other MOB's regardless of cultural origin or commitment to common values. Co-operative promoters can see themselves as part of a larger sector defined by its difference from, and comparative advantages over, IOB's (investor-owned businesses). To some extent this is beginning to happen in the UK with the links being built between Co-operatives UK and the Building Societies Association. The International Co-operative and Mutual Insurance Federation (ICMIF) has taken this approach one stage further, including in membership both co-operatives and mutuals.

Second, we can provide a narrower definition, in which co-operative promoters can see themselves as a distinct type of MOB that carries with it a particular tradition and a common set of values and principles (of which the ICA is the custodian). When we unpack the idea of member-ownership we find that it implies the first four ICA principles, whether or not particular

organisations choose to sign up to them. We can make value judgements about whether an MOB is really living up to its internal logic of member ownership, control and benefit, and its external logic of being an autonomous and independent business. The International Co-operative and Mutual Insurance Federation already makes these kinds of judgements in its membership policy. A case could be made for a kite marking system based on the logic of member-ownership, and the ICA and its sectoral bodies, along with national co-operative federations, might develop such a system.

What we cannot do from the MOB approach is to derive from it values concerning community, fair trade or the environment; values derived from membership cannot be used to give value to non-members. However, we can easily extend the logic if we see non-members as *potential* members; people or businesses with similar needs have a moral claim on the MOB to open up membership further. There are two good arguments for extending membership to new members. First, in most types of business extension is good for existing members as it lowers costs and so increases rewards, and it also spreads risk. Second, it meets wider demands for equality of opportunity and so demonstrates the value of the business to civil society and to government. This can have benefits in the promotion of a sympathetic business environment around the MOB.

A good test of the usefulness of the MOB approach is whether it helps to resolve some contentious issues that would otherwise remain unclear and controversial. Here are three issues that it does help to resolve. First, there is the issue of partial member-ownership. Some co-operatives begin as 100% member owned, and then diversify, offering shares to investor-owners. This applies mainly to farmer co-operatives, but also to others needing large investments, such as telecoms and insurance co-operatives. Sometimes the co-operative remains separate as a holding company, while operating through a plc. Here, while member ownership is obscured it still exists in a pure form behind the business. Sometimes investors are brought into direct ownership, and here the business can still be seen as member-owned if members retain at least 51% of the equity. However, there are doubts as to whether in practice members can exert enough influence to be said to be still in control, and so a better but more subjective definition would be that

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

Some co-operatives begin as a member-owned association whose purpose is to buy into an existing business so as to exert control by a particular group of stakeholders. Wind farm co-operatives in Scotland are one example, as is the football trusts that are buying shares in British football clubs. We might call them consumer investment co-operatives. Another form is the employee share-ownership trust that is buying into a business on behalf of employees; we might call this an employee investment co-operative. This helps us to clarify the status of 'investment mutuals' that are common in the USA and becoming more popular in Britain. Here, groups of people get together to invest money collectively and share the resulting profits. Because co-operatives are traditionally set up to reward use of the business rather than capital investment – members rather than investors – it might seem that this cannot be a co-operative. It is certainly not a form that co-operative federations may wish actively to promote, but it is a business organisation designed to meet the needs of its members, and so it is a MOB and probably could be seen as a type of co-operative.

Second, there is the question of whether rewards to members as investors infringe co-operative principles. There is a 'new generation' of farmer co-operatives that have been radically redesigned, and some critics think they infringe co-operative principles. It is true that they reward capital: they operate with a closed membership and members can sell membership rights at a market value to other farmers, and some of them weight voting rights by capital investment. However, the capital investment that each farmer makes is linked directly to usage rights. Capital and use are aligned, and so it could be argued that rewards to capital are the same as rewards to usage. There are other large farmer-owned co-operatives that have begun to give shares to farmers on the basis of usage, but that carry increased voting rights and attract a dividend. This is a serious move from member-ownership towards investor-ownership. Such moves are becoming more common as large, transnational co-operatives begin to seek to raise

more capital from their farmer-members. In fact, at the international level there is a need for some kind of commission to look into the question of ownership and control rights at the 'cutting edge' of co-operative development. The test of any innovation must be whether it can still be said that the business is substantially member-owned and controlled, and is run mainly for the benefit of members.

Third, the MOB approach says nothing about the idea of community ownership. It theorises three categories of member: consumers, producers and employees. It assumes that individual people or businesses become members in order to meet specific needs, and does not have anything to say about communal ownership. It has no problem in linking membership to a particular geographical area; co-operatives often do this as part of their business strategy (or as in Japanese consumer co-operatives, because they are constrained by law from operating in more than one area). In this sense the term 'community co-operative' is perfectly acceptable; it is a consumer or multi-stakeholder co-operative based in one locality. However, if people become members automatically by virtue of being part of a geographical community, then a specific stakeholder interest is replaced by a more amorphous interest and the community organisation cannot really be called a co-operative. In a co-operative people have to sign up voluntarily to become members, and some members of a community will choose not to be members of the co-operative. If one wants all people in a community automatically to benefit from a service regardless of membership, then it is better to set up a community business with a trustee structure. This has been illustrated in the history of health co-operatives; nearly everywhere that these have been introduced as a general provider of rural health care (eg Serbia, India, rural USA and Canada) they have not known how to exclude non-members. Gradually they have evolved into conventional community health centres funded mainly by government and allowing all residents the same access to health care (see Birchall, 2010, Ch6).

Where Does the MOB Approach Place the Co-operative Sector?

For those who are interested in the social aspects of co-operatives, the MOB approach may seem clinical and economic, but there

are good reasons why it should be preferred. It works at a level of thinking which is prior to the distinction between social and economic. It assumes the primary purpose of the MOB is to meet the needs of members, however the members define these. The needs can be any mix of the economic and social that the members require at any point in time. In contrast, the 'social approach' to co-operatives leads to their identification with social enterprises, helped by an erroneous view that co-operatives are (or ought to be) non-profit making. Most co-operatives do make profits, and the difference between them and capitalist enterprises is that they distribute the profits on the basis of use of, rather than investment in, the business. They may choose, as a matter of policy, to distribute the profits in the form of lower prices (typically the policy of utility co-operatives), but this does not make them non-profit. On the other hand, if co-operatives do choose to have a non-profit distributing policy there is nothing wrong in their being labelled social enterprises.

How, then, should we view community co-operatives? If all members of a community are automatically considered members of the co-operative, then it fails the test of having a voluntary membership consisting of individuals who benefit from the business. If members of a community are offered the chance to buy a membership share and to invest in the business through non-voting preference shares, *and* they then get to choose how to distribute the profits, then it is a co-operative. We can see this clearly in the International Labour Organisation's INDISCO project, where indigenous peoples decided either to set up a community business or a co-operative – the two forms were quite distinct (Birchall, 2003). In the UK, the difference between community-owned wind farms and co-operatives that enable local people to invest in windfarms is also distinct (Birchall, 2009). Co-operative members may, of course, choose to distribute the profits in a way that benefits the whole community, but the important point of principle is that it is **their** decision as members.

The Implications of this Approach for Co-operative Federations

The MOB approach implies that those who are custodians of the co-operative tradition should adopt a member-ownership framework for the understanding of what is a co-operative. This does not necessarily mean adopting all the

terminology presented in Table 1. For example, the International Labour Organisation's term 'shared service co-operative' is what Co-operatives UK calls a 'consortium co-operative', and either term will do provided it is used consistently and widely understood. The important point is that the definition should be based on a distinct set of ownership types rather than just on the co-operative principles. If a consistent set of definitions were agreed internationally, then a project could get underway to improve co-operative statistics worldwide.

This approach also implies that co-operative federations should extend a welcome to other MOB sectors that are not called co-operatives. It shows that the different sectors are all related genetically via the idea of member ownership. This is happening in the UK, where Co-operatives UK, the Building Societies Association and the Association of Mutual Insurers are building closer links. In the not too distant future, it should be possible for such organisations to develop a kite mark for MOB; it should not be too difficult to measure to what extent the key principles of autonomy, member ownership, control and benefit are demonstrated by a particular business.

The MOB approach could be a spur to promotion of member-ownership where it is not yet established. The classificatory system suggested in Table 1 could be used to add up the total contribution of co-operatives, mutuals and similar organisations in each market sector. Market share is a crucial variable that is often not available. When it is (for instance from the European co-operative banks), an argument can be constructed for the importance of MOB in ensuring a fair and balanced market. In sectors where MOB are not present in enough numbers to affect the way the market operates, a strong argument could then be made for their promotion.

The MOB approach should also enable co-operative federations to unify their work on member relations and governance with their business strategies. The old idea that a co-operative consists of two organisations – an association of persons and a business enterprise – lingers on in some sectors. Membership is still seen as an aspect of public relations, or as a minimum requirement for good governance, rather than as a fundamental starting point for understanding co-operatives.

Conclusion

This article has outlined a new approach to the question of how to define a co-operative, suggesting that an understanding of co-operatives as 'member-owned businesses' has distinct advantages over the traditional approach of checking candidates against seven co-operative principles. It has not suggested that the traditional approach be superseded, but that we should focus on the first four principles that are part of the core identity of co-operatives and that are compatible with competing sets of

principles endorsed by some worker and producer co-operatives. These four principles should be understood within the logical structure of member-ownership and all that it implies. There are several advantages to this approach, but perhaps the most important is that it provides a clear classification system for co-operatives and similar businesses worldwide. This might be the starting point for a project on co-operative statistics that is urgently needed if the current impact and future potential of MOB's are fully to be appreciated.

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Notes

- 1 The ICA also endorsed a set of values, but since these do not directly relate to the question of how to define a co-operative they will not be discussed here