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Interpreting the roles and economic importance of cooperative enterprises in a historical perspective

ABSTRACT

Cooperative enterprises have been in existence in all fields of economic activity for around 200 years, but they have tended to bunch in some sectors. This paper will examine which sectors have the most cooperatives at a world level, attempt to sketch out a typology and enquire into the reasons for this bunching. There are essentially four cooperative forms: Users cooperatives, Producers cooperatives, Workers cooperatives, and Social or community cooperatives. While workers cooperatives have received a disproportionate amount of attention from the theoretical literature, I argue that historically this has been the least successful type of cooperative and only recently has seen some revival in the service sector. The role of capital, management styles and intrinsic motivations will be considered to explain this historical evidence. The final section of the paper is devoted to drawing lessons from the historical material analyzed in the paper.

KEY-WORDS

COOPERATIVE ENTERPRISES, WORKER COOPERATIVES, USERS COOPERATIVES, INTRINSIC MOTIVATIONS, HISTORICAL EVIDENCE

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1. Introduction

Cooperative enterprises have been in existence in all fields of economic activity for around 200 years, but they have tended to bunch in some sectors. This paper will examine which sectors have the most cooperatives at a world level, attempt to sketch out a typology and enquire into the reasons for this bunching. There are essentially four cooperative forms:

- **Users** cooperatives, created to minimize intermediate costs and give a voice to consumers.
- **Producers** cooperatives, through which producers increase their market power, contrasting monopsonies and internalizing the profits to be reaped from processing their products.
- **Workers** cooperatives, where workers self-manage their business.
- **Social or community** cooperatives, with a multi-stakeholder form.

While workers cooperatives have received a disproportionate amount of attention from the theoretical literature, I argue that historically this has been the least successful type of cooperative and only recently has seen some revival in the service sector. The role of capital, management styles and intrinsic motivations will be considered to explain this historical evidence. The final section of the paper is devoted to drawing lessons from the historical material analyzed in the paper.

2. Why the cooperative form of enterprise arrived so late

The cooperative form of enterprise has been the last to come into existence, after the civil and capitalist forms. Until the birth of the civil form of enterprise in the Middle Ages, economic activities had been conducted on a personal basis, by farmers, merchants, shopkeepers, artisans and moneylenders who carried out their business in premises inside or near to their house, occasionally using public spaces for gatherings, markets, fairs and other dealings. The first large enterprise not belonging to individuals was the hospital, created in the early Middle Ages to accommodate people in difficulty (the ill, old, handicapped or destitute). The hospital was a big business, not only because it had to care for a large number of people, but also because it had to manage capital (often made up of real estate, buildings to be administered and fields to be cultivated) which it used to cover the expenses of treating residents and paying wages to all the service personnel. The capital for civil enterprises was donated by wealthy people and the business was run on a not-for-profit basis, but using sophisticated accounting techniques. Many other civil enterprises subsequently developed (pawn banks, conservatories, academies, universities, libraries).

Meanwhile, through the *commenda*, introduced in Venice in the 12th century, a larger number of capital providers could participate in an individual business, receiving remuneration on the basis of the capital supplied. This was the antecedent of the joint stock company. The first large examples were the Dutch and English commercial companies at the beginning of the 17th century. With the creation of stock exchanges, it became easy to buy and sell stocks, so speculation expanded and the joint stock company became the established form of enterprise – the capitalist enterprise – which could easily gather enough capital to meet the high requirements of new industrial plants and transportation equipment. As the shareholders generally did not work in the companies they financed, their only aim was the maximization of distributed profits and managers were instructed to run the business to this end by a board elected by the

shareholders. The capitalist enterprise is an enterprise which minimizes all costs in order to hand the largest possible profit over to capital owners. In a world in which capital was scarce and badly needed to fund investment in commerce and industry, it is understandable that those who had it could impose this tough condition on the one side to workers, who would otherwise remain unemployed or be forced to work in the backward sectors of the economy where their lot was no better, and on the other side to consumers, who had no alternative but to buy from the local shops, or to borrowers, who had to accept the conditions imposed by bankers.

This was the context which prompted a reaction from people who did not accept being at the mercy of capitalists and wanted to provide different conditions for their economic activity. These people “invented” a third type of enterprise, the cooperative form. Cooperatives differ from civil enterprises because capital is not donated, but advanced by members who are granted some remuneration, though minimal; they also differ from capitalist enterprises, because capital is not given a key role in the company and the surplus produced is distributed to members in correspondence to their activity within the cooperative. Cooperative enterprises were created in all economic fields and countries and responded to different approaches. We can classify cooperatives according to the different positions and roles of members:

1. *Users cooperatives.* This type of cooperative is created by people who use their cooperative’s product or service and can be found in the **retail, utilities, credit, insurance and housing sectors**. Members appoint managers to organize the business on their behalf, using dependent workers. Capital is advanced by members, who need not make a large individual contribution, as there are generally very large numbers of them. They can get the goods and services at the best price, avoiding costly intermediaries, as well as receiving the surplus in the form of a rebate. In addition, these cooperatives can carry out specific campaigns that focus on the specific priorities of members (fair trade, clean environment, microcredit, co-housing etc.).
2. *Producers cooperatives.* This type of cooperative is formed by members who have their own private company in which they produce something that is then conferred to a cooperative, which is in charge of buying inputs, marketing and often processing the output. The best example is given by farmers’ cooperatives, which increase the market power of farmers by opposing monopsonies and internalize the profits produced by processing the produce in cooperative-owned dairies, wineries, oil mills, canneries etc., though they are often incorporated as joint stock companies. Retailer cooperatives are a special version of producers cooperatives. Originally, retailers maintained their direct activity as shopkeepers (as farmers do), but cooperated on wholesale purchases and many other services. When hypermarkets appeared, however, retailer cooperatives became a rather blurred type of cooperative, because retailers shared a capital stake in hypermarkets, and some of them gave up their shopkeeping activity altogether.
3. *Workers cooperatives.* These are cooperatives self-managed by those who work in them, who also advance the required capital. This type of cooperative has received a great deal of attention from the economic literature, starting with John Stuart Mill, because it is democratically run and offers a direct contrast to the capitalist form of enterprise.
4. *Social or community cooperatives.* It has taken a long time for this type of cooperative to be officially recognized by ICA; only in the 1990s did it add a seventh principle of external mutuality to the already existing principles. They remain a special type of cooperative, combining workers and users of social services, and can include voluntary work. They are generally run by a multi-stakeholder board.

The interesting questions to ask now are the following: 1) what types of cooperative have historically been more successful and why? 2) which countries have developed more cooperatives and why? I will mostly deal with the first question, but indirectly I will also be concerned with the second, which will be addressed in the conclusions.

2. What type of cooperative enterprise has historically been more successful?

2.1 Users cooperatives

There is little doubt that the most successful type of cooperative enterprise is the **users** cooperative: credit and insurance, retail and wholesale trade, housing and utilities are the most widespread activities practiced by this type of cooperative. The advantage lies in cutting intermediate costs and making the service concerned available to small and scattered users at the best possible conditions, responding to the needs and preferences of users, rather than to the profit-maximizing desires of capital owners. Capital can be collected by multiplying the number of members of such cooperatives, which can easily reach the tens or hundreds of thousands. Additional capital can be made available through member loans.

Let us first consider **credit** cooperatives, which are easily illustrated, because of all the fields in which cooperatives are present, finance is by far the best researched. There were 3,874 cooperative banks in the European Union in 2010, with 66,000 branches, 777,000 employees, 50 million members (10% of the population), 181 million clients, €5,647 billion of assets and an average market share of 20% (Boscia, Carretta, Schwizer, 2010)¹. Their comparative importance in European countries can be seen in Table 1. As is well known, credit cooperatives started in Germany in the 1840s, both in the countryside (Raiffeisen) and cities (Schultze-Delitzsch); as time passed, major groups were also formed outside Germany, in France, the Netherlands, Finland, Austria, Italy and Switzerland.

Outside Europe the diffusion of credit unions in the developed world is also substantial, particularly in the United States as well as in Canada. In the United States in 2009, there were 7,600 credit unions, spread across all states, with US\$911 billion of assets and 92 million members (a third of the total population). Their market share can be estimated at around 6 or 7%². In Canada, there were 877 credit unions (including the Caisses Populaires) in 2010, with C\$256 billion (US\$265 billion) of assets (around 20% of market share) and 11 million members (35% of the total population) (McPherson, 2009)³. It can be noted that in the United States there are high numbers of credit union members, because they mostly grant mortgages and back the credit cards of families, while in Europe the members are generally local businesspeople, artisans and farmers, who support their investments through their cooperative banks.

Credit cooperatives are therefore more capitalized in Europe and play a very important role in financing SMEs. The diffusion of credit cooperatives in developing countries must also be acknowledged. The IMF has recently become very interested in cooperative banks, not only because they can be helpful in developing countries, but also because they have shown a high resilience to the recent crisis in developed

¹ Figures come from the European Association of Co-operative Banks (www.eurocoopbanks.coop).

² Figures from www.cuna.org.

³ Figures come from Credit Union Central of Canada and include affiliated and non-affiliated banks (www.cucentral.ca).

countries as a result of their non-speculative mission and also the more efficient organization developed over time (Fonteyne W., 2007).

	MARKET SHARE %	
	Deposits	Credit
Austria		
Osterreichische Raiffeisenbanken	29.3	25.5
Osterreichischer Genossenschaftsverband	7.2	7.3
Cyprus		
Cooperative Central Bank	19.3	20.3
Finland		
OP-Pohjola Group	32.5	33.0
France		
Credit Agricole	24.0*	22.0*
Credit Mutuel	14.2	17.0
BPCE	6.7	7.6
Germany		
BVR/DZ Bank	19.4	16.9
Italy		
Associazione Nazionale fra le Banche Popolari	26.9	24.7
Federcasse	7.3	7.2
Luxembourg		
Banque Raiffeisen	11.0	11.0
Netherlands		
Rabobank Nederland	40.0	29.0
Portugal		
Credito Agricola	4.5	3.1
Spain		
Union Nacional De Cooperativa de Credito	6.6	5.3
United Kingdom		
The cooperative Bank	5.0	1.5
TOTAL EU27	21	19

Table 1. Diffusion of credit unions in Europe in 2010

Source: www.eurocoopbanks.coop

Note: *2008

In the **insurance** industry, information from the ICMIF (International Cooperative and Mutual Insurance Federation) website⁴ reveals that a quarter of the world insurance market was cooperative in 2008, with Germany at 44%, France at 39%, Japan at 38% and the United States and Canada at 30%.

In the field of retail⁵, **consumer** cooperatives have developed since the middle of the 19th century, following the Rochdale Equitable Pioneers model. Today many have become large enterprises, ranking in the top positions in the list of the world's 300 largest cooperatives produced by ICA, 80 of which are retail cooperatives (including retailers' cooperatives⁶). They are present all over the world, in the United States and Canada, where consumer cooperatives have important retail corporations in non-food sectors (for example, REI in the United States and Mountain People's in Canada, which sell outdoor gear). In Japan there is a special kind of consumer cooperative that caters for its clients in a very personal way, with home delivery of orders and additional services, becoming a sort of community cooperative. As they grow larger and larger, consumer cooperatives need to improve their managerial capabilities and when this has not been adequately understood, major bankruptcies have taken place; the worst have been seen in Germany and Austria, where the very survival of consumer cooperatives has been threatened. (Furlough and Strickwerda, 1999).

But there are also remarkable cases of success in Europe, especially in the Scandinavian countries (Ekberg, 2008) and Italy (Zamagni, Battilani and Casali, 2004). In 2010, there were still around 4,500 consumer cooperatives in Europe, with 30 million members, 36,000 points of sale, 450,000 employees and a turnover of €74 billion. A detailed picture for 2011 can be found in Table 2, where one can see increases in many aggregates with reference to the 2010 figures. The British case is of special interest because consumer cooperatives have managed to remain in business over the last century and a half, but with a distinct loss of market share over time, mostly due to slowness in anticipating new consumption patterns and opening up to the middle classes (Gurney, 1996 and 2009). Despite this, the largest British group, the Co-operative Group (formerly CWS) is large and diversified, with, in 2010, 9.5 million members, 110,000 employees and a turnover of £19 billion, not all in retailing, where the market share is perhaps around 8%. The European retail cooperatives have formed a common organization – Eurocoop – one of the vicechairmen of which is in 2012 an Italian cooperator.

There are also users cooperatives in the **utilities** sector, especially in electricity distribution. Of these, 14 are quite large and are among the 300 largest cooperatives. Their presence is quite important in the United States⁷, where almost 1,000 electricity cooperatives control 40% of the country's electricity distribution lines, covering three-quarters of American territory and serving 37 million members and their families⁸ with their production plants owned by the cooperatives. They came into being in the 1930s, as part of the effort by the Rural Electrification Administration (REA) to promote the diffusion of electricity in rural areas, but they have since developed into highly organized corporations. Smaller cooperatives can also be found in other utilities in different countries⁹. There is now an increasing awareness that the new

⁴ www.icmif.org.

⁵ There are other forms of cooperatives in retailing: retailers' cooperatives and workers' cooperatives. In Spain, Eroski, a retail cooperative founded by the Mondragon group, is a workers' cooperative.

⁶ It must also be recalled that there are important retailers' cooperatives in the European countries, which have recently formed a large European cooperative, Co-opernic.

⁷ Of the 14 large cooperatives in utilities, only one is Brazilian.

⁸ One of the two 2009 winners of the Nobel Prize for economics, Elinor Ostrom, has studied precisely the theme of how to govern "commons". See Ostrom (1990 and 2005).

⁹ For housing and other users cooperatives, see Shaffer J. (1999).

alternative sources of energy could give rise to new forms of cooperation.

	Number of Co-operative societies	Consumer Members (x 1.000)	Employees	Outlets	Turnover € (x 1.000.000)
Bulgaria	805	153	9,761	2,586	1287.8
Cyprus	157	29.9	140	19	41.8
Czech Republic	56	231.7	14,075	2,893	1057.7
Denmark	418	1,600	35,000	1.196	5,888
Estonia	19	83	4,400	358	391
Finland	22	1,994	42,142	1.668	11,460.7
Germany ¹	1	53.02	5,161	224	1,260
Hungary ²	97	50	32,000	5,250	1.851,3
Italy	114	7,702	56,951	1.474	13,140
Netherlands	1	780	4,547	211	740
Norway	117	11,306	22,500	955	4,047.1
Portugal	na	na	na	na	na
Romania ²	899	27	7,916	6,303	83,5
Slovakia	31	173	13,089	2,225	1,146
Spain	170	2,347	50,951	2,827	8,436
Sweden	42	3,237	8,366	760	4,463
Ukrain	2,163	469.9	54,872	9,675	489.6
United Kingdom ³	24	10,019	102,007	5,000	21,105
TOTAL	5,138	27,378.5	463,878	43,894	75,728.5

Tab. 2. Consumer cooperatives in Europe, 2011

Source: www.eurocoop.org

Notes: ¹Figure for CoopeG (Kiel) only; ²2010 figures; ³Figures for employees and outlets represent The Co-operative Group and its subsidiary undertakings only

na = not available

2.2 Producers cooperatives

The second type of successful cooperative is the **producers** cooperative, especially in agro-industry. The reasons for the success of cooperation in this field are clear: cooperatives increase the market power of farmers, while leaving them free to directly conduct their activity. Producers, generally small and scattered, have a strong interest in avoiding being exploited by wholesale buyers, reaping the benefits of economies of scale in the purchase of inputs and machinery and being able to internalize the profits of industrial processing of their produce. The capital needed to start a business is not large and can be accumulated as the business grows. The tendency of these cooperatives to become large is well established, especially if they deal with highly standardized commodities. The important role these cooperatives can play in supporting

the income of farmers is so established that governments are often inclined to commit the management of the bulk of their agricultural sectors to cooperatives, as the cases of India and Japan show. However, if cooperation remains confined only to agriculture in a narrow sense, mechanization, the shrinking of the labour force and the increased size of farms tend to lock farmer cooperatives into marginal business, so the food industry grants farmers' cooperatives better prospects of having a lasting place in national economies.

Agro-industrial cooperatives are prospering in the world, both in developed and developing countries. Already in 1951, ICA created a specialized committee (the ICAO, International Co-operative Agricultural Organization), which holds an annual meeting. They represent 110 of the world's 300 biggest cooperatives (ICA Global 300 survey in 2008), boosted by the large number of American (23) and French (21) cooperatives. This type of cooperative started to spread towards the end of the 19th century, following the Scandinavian example (Zamagni S., Zamagni V., 2010): dairy in Denmark, forestry in Sweden and Finland, wine and dairy in Italy and France, grain and cotton in the United States. All these examples found thousands of emulators all over the world, and the model was applied to the cultivation and processing of the most diverse crops as well as animal rearing and meat processing. In Europe today, there are 35,000 cooperatives in the field, with 12 million members, a turnover of €250 billion and an average market share as high as 60% (Juliá Igual, Martí Meliá, 2008; Chloupková, 2002).

In the United States, agricultural cooperatives have been very strong since the 19th century, as a result of widespread protests against national and multinational corporations and in support of localized development based on the "cooperative commonwealth" of farmers (Schneiberg, King, Smith, 2008, p. 638; Curl, 2010). The main farmers' organizations, the National Grange (NG) and the Farmers' Alliance (FA), sponsored the founding of cooperatives, mainly in the field of input purchasing and collective marketing, with a modest diversification into the food industry and no propensity towards developing community services¹⁰. In 1986, there were 5,369 agricultural cooperatives, with 4.6 million members. The subsequent decline in numbers (in 2005 there were 3,000, with 2.8 million members) was mostly due to mergers and acquisitions, a few failures and the decline in the population of farmers, while the market share remains steady at around one-third¹¹.

Already in the pre-World War II period, agricultural cooperatives in Japan conducted various business connected with credit and better living conditions in the countryside, but in the post-war era they really developed into multi-purpose community-based cooperatives and began to be run more democratically. Besides being responsible for the vast majority of agricultural business activities (JA-Zenchu has 70% of the market share), the JA system also provides for infrastructural development, financial services (including insurance), social services (health, public care, culture, food and agriculture education) and retail facilities in the countryside (Rajaratne, 2007). With the financial liberalization of the 1990s, things have changed and JA has reacted by trying to make the system more efficient. But the results are not yet satisfactory. Today, male farmers under 65 who work full time account for less than 10% of the total; the legion of part-time farmers distort the mechanisms of cooperation in various ways¹². In particular, part-time farmers are not interested in reforms increasing the scale of farms and refrain from adopting a more efficient model of farming, especially in the production of rice. These inefficiencies mean that food prices in Japan are 56% higher than the world average¹³. Tariffs and subsidies help Japanese agriculture remain in place. The

¹⁰ The reason being the private nature of welfare in the United States.

¹¹ 86% milk, 40% grains, 43% cotton (Williams, 2007). The general figures comes from the NCFC (National Council of Farmer Cooperatives).

¹² Y. Kazuhito (2009).

¹³ H. Yutaka (2012).

international pressures towards liberalization will change Japanese policies towards agriculture and this will certainly have an impact on the power of JA.

The cooperative presence in Indian agriculture is truly impressive. Cooperation in India goes back to British rule. The first Cooperative Society Act in 1904 enabled the formation of agricultural credit cooperatives, which were soon complemented by other types of cooperatives. The movement spread in the countryside and today India has 230 million cooperative members, generally located in the countryside (80%), with 14 million employees. The movement is organized in 214 federations under the aegis of the umbrella organization NCUI (National Cooperative Union of India). The village cooperatives provide inputs for farming, storage facilities, produce marketing and processing for various crops, but they also provide irrigation, electricity, transport and health services and retail facilities, much like the Japanese approach of multipurpose cooperatives. When India embraced central planning, cooperatives had become quasi-state organizations, with little autonomy. They are now striving to recover efficiency and democratic stakeholding. They have strong market shares in rural credit (46% in 2006) and the production of sugar, rubber, cotton, milk¹⁴ and seed oils. Consumer cooperatives (with 22% market share) and credit unions are the only cooperatives that have some presence in the Indian urban environment (Das Palai, Das, 2007).

2.3 Social and community cooperatives

Social and community cooperatives are another successful type. The comparative advantage of cooperatives in social services is mostly based on intrinsic motivations (Becchetti, Castriota, Tortia, 2009). The fact that social services postulate direct contact between the producer and the clients – an interpersonal relationship (Gui, Sugden, 2005) – makes the personal involvement of the producer much more essential to the good result of the process. Having “intrinsic motivations”, sometimes a true passion, for social service work is the best prerequisite to having a satisfactory relationship with clients. Cooperative members, who choose to be in a social service company which they run, are in the best position to develop their talents and express their “benevolence” towards their colleagues and clients, ready to tailor their services to the real needs of clients. Social service cooperatives are normally not large, precisely because of the need for customization, and rely more than other types of cooperatives on networks (Menzani, Zamagni, 2010). The physical capital needed is often modest, while human capital is extremely important.

So far, only the development of these cooperatives in Italy has been widely covered by the literature. The first “social cooperative” was founded in Italy in 1963, providing training, education, assistance, recreation and work for disadvantaged people, both members and non-members, advocating an extended concept of mutual cooperation, an “external” mutualism. Workers are often members of the cooperative, but the presence in the assembly of members who receive the services means that such cooperatives classically follow the multi-stakeholder form, in which representatives from the local community can also have a seat on the board of directors, side by side with the producers and recipients of the services. Italy has passed a special law to regulate social cooperatives (No. 381 of 1991). It is estimated that as many as 50% of the social services produced in Italy in 2010 were supplied by social cooperatives. The system has four tiers, with fairly small, highly diversified single cooperatives at the bottom, coordinated by a second tier of local

¹⁴ In the case of milk, a project was launched by the state in the 1970s – “Operation Flood” – aiming at increased milk production, fair prices and improved incomes. By the end of the project, the system comprised 43,000 village cooperatives linking 4.25 million milk producers and several dairies and cattle farms (Williams, cit.).

consortia, themselves part of a national consortium which provides the most specialized services. On top of the national consortia are the sectoral associations of the national umbrella organizations, mostly providing political representation.

This model¹⁵ has been emulated in France, Spain, Portugal and Greece, but it exists elsewhere in other forms: community cooperatives in English-speaking countries or multipurpose cooperatives in Japan. Social services are also offered by non-profit enterprises, as the book edited by Borzaga and Defourny (2001) illustrates, with an undefined border line between the cooperative form and the non-profit, or civil, form, the latter being, as I mentioned earlier, the original way of delivering social services before the welfare state.

2.4 *Workers cooperatives*

Workers cooperatives are not so widespread, for a host of reasons, most importantly the following: standardization of products and Fordist production processes in industry; the huge physical capital needed; large economies of scale to be reaped. Workers on an assembly line have to perform menial jobs, in which there is very little scope for the exercise of personal talents. The huge corporations demanded by economies of scale can only be governed through tough hierarchies and there is certainly no scope for “democratic” management. What predominates in these corporations is capital, and managers are seen as instruments to serve capital, hence “capitalism”, a truly expressive word.

There are a few cooperatives in **industry**. France, for instance, still has an important group of artisanal cooperatives (327), but their total turnover, according to the figures published by the GNC (Groupement National de la Cooperation), is only 1% of the total turnover of French cooperative enterprises (Bataille-Chedotel, Huntzinger, 2004). There are only five industrial cooperatives listed in the Global 300 for 2008, two in the construction industry (both in Italy, CCC in Bologna and CMC in Ravenna) and one mixed (CCPL in Reggio Emilia, again in Italy), so that in manufacturing there are only two cooperatives listed, one Spanish (the famous Mondragon) and one Italian (SACMI, Imola). There are many more workers cooperatives of a smaller size, but on the whole their relevance in manufacturing is truly limited.

More workers cooperatives can be found in **services**: transportation (taxis, lorries, buses¹⁶), catering, facility management, logistics, theatres, management of cultural resources, media, tourism, professional firms. The literature on cooperative activities in services is to my knowledge very modest, with the exception of Italy, where the Bologna research group on cooperatives has done much to understand this type of cooperative enterprise. Bologna is home to a large catering cooperative, Camst (Zamagni V. ed., 2002), the largest Italian company in the field, and a large facility management cooperative group (Manutencoop), again one of the most important Italian companies in its sector. It also hosts a large consortium of service cooperatives (Battilani, Bertagnoni eds., 2007; English abridged version, 2010), which aims at offering clients a complete set of services produced by different cooperatives and coordinated by the consortium.

The limited success of workers cooperatives raises important questions. In general, those who advance

¹⁵ The best comprehensive book on Italian social cooperatives is Borzaga, Ianes (2006). For a comprehensive assessment in English, see Chapter 5 in Restakis (2010).

¹⁶ I note in passing that some of these transportation cooperatives are of the producer type, because drivers own their means of transport and share services in the cooperative. There is a good company history in Battilani P., Bertagnoni G, Vignini S. (2008)

capital are interested only in dividends¹⁷, and not in the “common good” of the people working in and for the company or companies they finance, because there is no “commonality” of life. To limit the squeezing of workers to benefit the shareholders, trade unions were organized, giving rise to the class struggles well known in the history of capitalist development. These resulted in improved conditions for workers without solving the problem at the root. To reach a more ambitious target, some workers’ parties developed a plan to dispossess the capitalists altogether through a revolution, and by building a state that would control capital on behalf of the workers. This type of revolution took place in Russia and raised hopes that the solution to overcoming capitalism had been discovered, but it proved unviable over the long run for reasons that we cannot go into here. In the countries they governed, the Soviets did run some companies as “cooperatives”, but they had to respond to a strict planning approach from above, departing from the fundamental principles of cooperation, which include democratic management¹⁸.

There was no place for cooperatives in such a context. It was precisely during the 20th century, with the spread of Fordism and the predominance of the “Soviet” solution, that economists lost interest in the cooperative form of enterprise, which was seen as a remnant of agrarian societies, at best surviving in niche sectors or in marginal sections of finance and retailing, where it remained present “by inertia”, carrying on petty activities. Cooperatives even disappeared from theoretical elaborations, with a few exceptions, not least because their sustainability was studied using assumptions taken from capitalist firms. This invariably led to the conclusion that cooperatives were unviable and inferior (Borzaga, Depedri, Tortia, 2009).

3. Lessons from history

The cooperative form of enterprise is more difficult than the non-profit or capitalist forms and indeed it arose later. The non-profit enterprise solves the problem of finance by donation; the capitalist one solves the problem of entrepreneurship by minimizing the need for it through the generalization of “dependent” work. The cooperative firm does not solve either of the two problems as easily: members have to advance capital themselves and are directly responsible for the management of their business. However, it has attracted many people because of its fair distribution of surplus, its promotion of the needs and intrinsic motivations of members and the way it adds value to human capital. There are a number of lessons that can be drawn from the world history of cooperatives I have sketched above. I summarize them in this section, which also serves as a conclusion to the paper.

The first lesson can be derived from the most successful cooperative types: users, producers and social cooperatives. **Users** cooperatives are successful because the capital advanced by individual members is small (additional capital can be raised from members in the form of loans), the cooperative is run by managers (who ensure increasing efficiency) and users prefer a more satisfactory service (which responds to their preferences) over profit maximization. We can speak in this context of “consumer sovereignty” as the cooperative’s aim. **Producers** cooperatives are successful because they increase the market power of producers who work in a sector in which the application of a purely capitalist logic brings perverse results in terms of the business’s sustainability. **Social and community** cooperatives are successful because they

¹⁷ With the notable exception of “social” entrepreneurs like Ernest Solvay, Alessandro Rossi, the Marzotto family and many others, who distributed some of their profits in favour of their workers and the local community, though in a paternalistic way.

¹⁸ In formerly Soviet-controlled countries, it is difficult today to speak in favour of cooperatives, which are still seen as disguised state agencies.

produce personal services, which require a high degree of “customization” and intrinsic motivations, hard to find in capitalist enterprises. My general conclusion is that these types of cooperatives have been able to prosper because they have comparative advantages over their capitalist counterparts, in so far as they perform roles that capitalist enterprises are unable or unwilling to perform.

The second lesson springs from the limited viability of workers cooperatives. My view is that this is due to the many following concurrent reasons: 1) self-management is not always an unmixed blessing, because skilled workers might not always be efficient managers of a company (this is why apex organizations often provide managerial services to their cooperatives); 2) competition with capitalist enterprises is direct, because cooperatives in these fields produce exactly what is produced by capitalist firms; this is the reason why worker cooperatives in services are comparatively more successful than in industry, because services in general are more customized; 3) the capital needed is high (this is why in general it is practically impossible to find cooperatives in the most capital-intensive businesses, like steel, automobiles, chemicals); 4) production often needs to be highly standardized to achieve economies of scale (this is why it is more common to find small and medium worker cooperatives, producing non-standard products and services); 5) a pressing need to multinationalize has developed, and this is difficult to follow for cooperatives (MacLeod, Reed, 2009). While it is not impossible to have large workers cooperatives in industry, they are quite exceptional cases, requiring ad hoc explanations mostly connected to a special social context.

This does not prompt us to the conclusion that the limited success of workers cooperatives demonstrates the optimality of the capitalist form in industry. Rather, it can suggest that the cooperative form might not be the only instrument to put in place effective participation of workers in industrial enterprises. The German *Mitbestimmung* shows a possible alternative, as well as the distribution of shares to workers¹⁹. The “partnership” form is another way of making participation of workers in the management of firms effective, as the British company John Lewis has shown. More recently, in the United States, B Corps (Benefit Corporations) have been developed in some states. B Corps have an explicit social or environmental mission and a legally binding responsibility to take into account the interest of workers, the community and the environment as well as its shareholders (who must accept lower profits). Some scholars have advanced the idea that corporations should aim at promoting “shared value”, namely profits for shareholders and benefits for society²⁰.

I think these are all lines of thinking worth pursuing, also in view of the fact that these days the new firms being founded in developed countries are mostly in services, where workers’ participation is more crucial than in industry, because the physical capital needed is quantitatively less important, customization is often necessary and human capital and relational skills are required. If we could empirically demonstrate that worker cooperatives in services are generally more successful than in industry, we would have an additional element to argue that cooperatives are successful when they can count on comparative advantages over capitalist enterprises. In this case, the comparative advantage would lie in the better optimization of human capital and relational skills.

The third lesson concerns the different geographical penetration of coops. Limiting myself to developed countries, the presence of cooperatives is higher where: 1) cooperatives are not confined to one single sector, but are diversified and can form networks with backward and forward linkages (Menzani, Zamagni, 2010), tending to strengthen the size of their business; 2) business networks can be supported by strong

¹⁹ For a recent survey of profit sharing in the United States, see D.L.Kruse, R.B. Freeman, J.R. Blasi, *Shared Capitalism at Work. Employee Ownership, Profit and Gain Sharing and Broad-Based Stock Options*, NBER Conference, University of Chicago Press, 2010. However, profit sharing does not normally entail workers’ participation in management.

²⁰ M. Porter, M. Kramer, “Creating shared value”, *Harvard Business Review*, Jan-Feb. 2011, vol. 89, pp. 62-77.

and active federations and umbrella organizations; 3) “civic virtues” are widespread. Civic virtues are based on the propensity by citizens to be active and responsible with reference to the “common good”. In the countries where civic virtues are practiced, people hate to depend either on private individuals or the state for their well-being and tend to exercise economic, social and political activity directly. Cooperatives are a way of interpreting this direct responsibility. The Scandinavian countries are the most cooperativized in the world, but Canada, the United States and Switzerland follow suit, as well as a number of other countries in Europe. Where dictatorial regimes have left their mark, cooperatives have lost appeal, because they are seen as state agencies and not as places where it is possible to exercise self-help and self-determination.

The final lesson has to do with cooperative management. Cooperatives have grown substantially in size and efficiency over time. But the satisfactory administration of larger cooperatives is an unsolved issue everywhere²¹, which has sometimes caused demutualization, excessive forms of hybridization (cooperatives forming groups with joint stock companies, which become leaders and not followers) or even conformity to capitalist behaviour. An example of demutualization can be found among the British building societies, which had been present in the United Kingdom since the 1840s as mutuals. In the 1980s, with the liberalization of financial markets, many of these building societies became unspecialized banks. The tendency towards demutualization appeared, led by managers who saw it as in their interest (they could increase their salaries). The first to demutualize in Britain was Abbey National in 1989, which was soon bought by Banco Santander, together with other demutualized building societies. In 1997 Northern Rock demutualized, then adopted a highly speculative approach, which brought it to bankruptcy in 2008; it was bailed out by the British government, which took control of it and in 2011 decided to privatize it (again through foreign capital). Less than 50 mutual Building Societies are left in Britain today, still with 18 million members.

On the basis of this empirical evidence, some have come to the conclusion that “true” cooperatives can only be fairly small; others maintain instead that it is not impossible to run large cooperatives, but there has not yet been enough theoretical elaboration of cooperative managerial practices for large cooperatives. This is certainly a major challenge for the cooperative movement of the future.

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²¹ Problems and developments of cooperative managerial practices have been analyzed in the case of Italy in Battilani and Zamagni, forthcoming in 2012.

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