



# Co-operation in the Age of Google

A review for Co-operatives UK - draft for comments

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“ Co-operation today is facing a new generic technology that is destroying old industries and creating new ones as it goes. ”

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# Preface

The brief for this Review was to assess the current state of co-operative development in Britain in relation to the opportunities for innovation and growth in co-operation and co-operative models of enterprise.

The initial focus was to be on the existing co-operative development infrastructure and how it could be strengthened. But it became apparent that this was only one part of a wider question of how the broader changes in private and public services driven by the revolution in information technology and parallel social changes opened up spaces for co-operative innovation and expansion both in new sectors and within the co-operative economy itself.

The brief also requested that the Review take on board current work in related fields such as social innovation, community development and international development, as well as lessons from successful models of co-operation from other countries of relevance to the UK.

The outcome of the Review was to be the production of an implementable co-operative development plan for discussion within the co-operative movement.

The short timescale for the Review was determined by the pressure of economic and political events. What is presented here could only have been produced with the help of many people from within the movement. I attended a number of the national meetings of the Co-operative Development Bodies, as well as that of the North West CDBs; the Co-operative Development Panel, and the Co-operative Development Network, the Co-operative Futures Conference in Swindon and the Co-operative Congress in Plymouth, and had the chance to talk to wide range of those attending.

I was also able to participate in a meeting and subsequent visits arranged by Co-operatives and Mutuals Wales for Welsh co-operatives to meet primary producer and fair trading co-operatives from India, Africa, and South and Central America.

I would particularly to thank the following for meeting me and/or corresponding about issues arising in the Review: Adrian Ashton, Alex Bird, John Bowes, Dave Boyle, Jim Brown, Richard Bickle, Anne Byrom, Bob Cannell, Peter Couchman, Angela Davies, Sarah Deas, Andy Good, John Goodman, Laurie Gregory, David Jenkins, Tim Lang, Alex Lawrie, Usula Lidbetter, Ed Mayo, Martin Meteyard, Cliff Moore, Gareth Nash, Stan Newens, Martin Price, John Restakis, Roger Sawtell, Linda Shaw, David Smith, Brian Titley, Gary Traynor, Andrew Turner, Pam Walker, Jo White, Stephen Yeo, and David Youlton.

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## Synopsis

Google was started in a garage in 1998. It now has a market capitalisation of \$173 billion. It is one of a number of companies of comparable size – Microsoft, IBM, Apple, Cisco – who are leading an information and communications revolution which is redrawing the economic landscape. This is the necessary starting point for a review of the future of co-operation.

Just as the pioneers of Toad Lane started their project in the midst of a railway boom and the ruin of an industry, so co-operation today is facing a new generic technology that is destroying old industries and creating new ones as it goes. As in the 1840s and again in the 1920s a financial frenzy has accompanied the rise of the new sectors, creating a bubble that has collapsed into a slump. What we can now see with hindsight is that these depressive pauses were a time of transition, when an old world was dying while a new one was forming to take its place.

Previous technological changes of this magnitude were about material production – textile mills, railways, steel and Ford's mass production factories. The information and communications revolution is different. It has created a virtual economy that sits in cyberspace above the material economy of goods and services. It is connected by airwaves and spectrums rather than roads and railways. It sends messages by satellite and ethernet, and uses cloud computing. Like the sky its horizons seem to stretch to infinity.

But its impact is only too material. Traditional industries are finding their foundations dissolving – music, broadcasting, the press, publishing, postal services, travel agents, branches of retailing all face a receding economic tide. Others are expanding in their place. Design, data processing, scientific research, software and computer systems, management and technical consultancy, education, artists and a host of maintenance and support services – these top the list of most rapidly growing sectors.

The traditional pillars of the 20<sup>th</sup> century economy – the great centralised corporations and welfare administrations – are far from finished. But they are being hollowed out, bypassed, or if they are banks, have to be publicly propped up in order to survive. What at once felt solid is being remoulded. Which forms will become dominant is not yet clear. Their emergence is contested. There are alternative paths of development and how they are organised. I refer to this as a second industrial divide.

The evidence of this divide is unfolding in sector after sector – in energy, waste, food, finance, retail, broadband, housing, education, health, and many of the caring services. It is clear that there are different ways of organising these services, each with their own systems of regulation and organisational structures. Much depends on which path is taken. That will determine how far the new information economy can spread its benefits throughout the economy or will be used to consolidate the existing structures of economic and political power.

It will also shape the prospects and process of co-operative development. For co-ops have always flourished best in decentralised economies, and one common pattern across the economy is the return of the micro. Early industrialisation centred on small firms and homeworkers. Both were marginalised in the 20<sup>th</sup> century. But now

industrial processes are being separated out and distributed in the search for creativity and flexibility. The technological icons are no longer huge factories and power stations but the computer, the iPhone and the solar panel. It is as if a flower pod has burst open and scattered its seeds and new micro technologies have followed.

There have been parallel trends in economic organisation. The 20<sup>th</sup> century model of command and control has in some cases been strengthened by the ever expanding capacity to gather and process information. The surveillance society has its parallel in the surveillance economy, and is the antithesis of co-operation.

But the last thirty years have seen the introduction of quite different distributed models of organisation. They mix collaboration and delegated responsibility with systemic orchestration, and are most common in those industries dependent on high levels of innovation and external interaction. Front line workers and plant managers have been given greater autonomy and are managed by results and statistical oversight via continuous flows of information. Work is being organised in teams and around projects. Projects draw in other firms in webs of collaboration. The capacity to co-operate, within firms and between them, is becoming more important than the principle of obedience.

There are other trends that run in favour of co-operation: the increasing involvement of both shop floor workers and consumers in the process of production; the growing importance of a civil economy based on values and mutualism; an expanding class of creative occupations and skills; and a new subjectivity in a generation that puts self expression and autonomy before security, and who are determined authors of their own lives. All of them provide fertile soil for the growth of co-operation at all levels, both formal and informal.

These are economic forces that have swung behind co-operation and help explain the turn in the political tide. All three political parties are now advocates of mutualism. It has become an ideological centrepiece of the Coalition's policies. The Age of Google has within it the potential to usher in a new era of co-operation.

### *Virtual co-operation*

This is already evident in the explosion of informal co-operation in the sphere of information itself. Over the past decade the growth of the internet has seen information break free from the customary world of the market and the state. Citizens armed with their computers have bypassed the old institutions and are connecting to each other directly. They are sharing their news and their images, even their unused gardens. They are exchanging or passing on no longer needed possessions. They share advice and experience and work together on developing ideas and projects.

The most celebrated example is the creation of software. Two thirds of the world's software is now produced collaboratively and circulated freely under open source protocols. Programmes like Linux or Mozilla, or projects like Wikipedia or the mapping of Mars, are examples of how a collective intelligence at an entirely different level has emerged as the result of the web. Discussion has moved from the kitchen table and the meeting room to the four corners of the world itself.

The informal information economy is open and global. It is driven by interest and enthusiasm rather than money. The bulk of its traffic is free. It is taking time to digest the implications of these changes, and for those involved to work out what rules are necessary to govern behaviour. Some have seen it as a new form of the commons, and looked at codes of behaviour that have been developed by those using common land or fishing grounds. But this informal economy is more than sharing a common resource, for with the web the resource is unlimited. It is merely a site for relationships, and where joint projects are involved, it requires the kind of qualities found in those pioneer communities where everyone worked together to raise the roof of a home.

It is nothing other than a co-operative economy that is now growing with the speed and diversity of a tropical forest. It is informal and astonishingly inventive. It shares many of the same values and practices of formal co-operatives, and opens up numerous possibilities for a meshing between them. William Morris's News from Nowhere depicted a world based on mutualism that for more than a century was seen as utopian. But in the last decade it has emerged as a reality not on the banks of the Thames but in the world of the web.

### ***Challenges***

If we look at the co-operative movement through the lens of this new economy of information, it has many assets where there is a close fit:

- it is a distributed network, its elements linked together through shared values and a federal organisational architecture at the level of industries and of the movement as a whole.
- it has values that stress the importance of collaboration and sharing, not just between co-ops but with the communities within which they work
- it has a democratic organisational form which is inclusive of those connected with production, whether as consumers, workers, or communities, and a long experience of how to make this work effectively

Yet seen through the same lens there are areas which need strengthening if the movement is to make the most of the current co-operative moment.

- i) ***Integration.*** The co-operative economy is stronger at the micro level than the macro. The emphasis in co-operative development has been on the creation and support of new co-operatives rather than on the expansion of existing ones and on strengthening the inter-connections of the co-operative economy as a whole. Too little attention has been given to how information, know-how and technologies are diffused between co-ops, and to the development of specialisms between them. There are notable and instructive exceptions, but the conclusion of this Review is that strengthening the way co-ops work together as a system is the first priority for a strategy of co-operative development.

This emphasis reflects the fact that the trend towards distributed production has taken place in the context of the design and management of complex systems. The house can become a power station, a hospital, or an office because it is connected to networks, to smart grids, or health management systems. Each part of the network may be able to connect to any other part directly, but this depends on the design and management of a platform and tools that allows them to do so. Attention has shifted from economies of scale and scope to economies of system.

The systemic quality is one of the characteristics of the successful co-operative districts in Italy and Spain. The Italian industrial districts have developed as complex systems of small firms. They are specialised, collaborative, and connected through consortia and common institutions for those services (particularly the gathering and circulation of information) where there are economies of scale. They have developed financial and training institutions that support the productive economy, as well as technology centres and common kite marks. Much the same applies to the Mondragon co-ops. There are major system economy gains to be made for the British co-operative movement.

- ii) **Intelligence.** The 5<sup>th</sup> co-operative principle on the promotion of education, training and information is directly in tune with the new economic and technological paradigm. It is central to the coherence of the movement that those involved have a common perspective and collaborative skills, and that the movement is able to reflect on its work and the strategic opportunities it wishes to pursue. At the moment these functions need to be radically expanded, with the help of the technologies and methods now available.
- iii) **Information.** A similar point holds for the ability of the movement to draw on ideas from outside, to track international developments, and to share information and pass on know how between co-operatives. Information technology has revolutionised the way information is generated, codified, circulated and analysed, and it is imperative that individual co-ops and the co-operative economy as a whole is able to keep up with and make use of the latest tools in this field.
- iv) **Innovation.** The contemporary economy has moved from episodic to continuous innovation. The new competition has shifted focus from scale to innovation in product, process, and service capacity. Design, prototyping, rapid user and market testing have all grown as specialisms, for services as well as goods. Continental small firm and co-operative districts have developed their own institutions for innovation: intermediaries that link the needs of small firms and with university research capacity; specialist research co-ops; innovation consortia; technology scouts; and subsidised design programmes. There are examples of this within British co-operatives, but there is little economy-wide support for co-operative innovation or for identifying co-operative opportunities opened up by innovation elsewhere.



- v) **International.** British co-ops have an internally oriented tradition. Their strength has been in the local, and in communities of attachment. For the most part (some of the agricultural co-ops and travel companies are a partial exception) they are oriented towards domestic not overseas markets. Yet even in sectors that are traditionally domestic – retail, funerals, education, even health care – the global with its systems is crossing the threshold.

If the economy is being globalised, co-operatives may offer a local, rooted alternative, but this will necessarily be ‘glocal’. It will face pressure from the global and will need the support of co-operatives globally. There is scope for a much greater degree of international collaboration, for example in the design and delivery of systems of co-operative care, or in the organisation and micro technologies of local food systems.

- vi) **Idea.** Informal co-operation is driven by a shared interest and enthusiasm. The same is true for the social economy. 19<sup>th</sup> century co-operation had a strong and disruptive idea, of an autonomous economy democratically controlled. It had both an economic proposition and a democratic one, and the same holds true for successful co-operative economies elsewhere. British co-operation is distinguished by its values and democratic structures, but its values are less distinct relative to others in the social economy (and some parts of private market), while the co-operative economic model has lost its specificity.

Work needs to be done on developing both the economic and democratic expression of the co-operative idea in the information age. In particular co-operation needs to be positioned as a unique and practicable path between the private market and the state for addressing the ever more intractable problems of climate change, resources and welfare. As an idea it has to address ends as well as means, in a way that has a strong, distinctive social resonance.

- vii) **Infrastructure.** The current infrastructure of support for co-operative development needs expansion, in its capacities, its brief and its coverage. It should extend from the generation and early development of new co-ops, to their expansion and diffusion, and to the development of sectors. The existing co-operative development bodies need to be more closely integrated into a Co-operative Advisory Service supplemented by support from within existing co-operatives and by the addition of a network of Sectoral Development Bodies. This infrastructure would provide multiple points of local and sectoral animation and support, both responding to particular circumstances and opportunities, and advancing national co-operative initiatives.
- viii) **Institutions.** British co-operation has a formal federated structure of governance, but it lacks an overall capacity for systemic economic organisation. This problem has arisen because of the growing economic diversification of the movement. For many years it was predominantly a co-operative retailing economy, and the process of amalgamations into the

Co-operative Group along with the associated retail societies means that this part of the movement is strongly co-ordinated. But retailing now accounts for only some 50% of co-operative turnover. The other 50% may have their own industry federations, but as a group they are a loose flotilla. The formal umbrella body, Co-operatives UK, is under-resourced to undertake the tasks of co-ordination and systemic inter-connection. It is in these non retail areas that the opportunities for major co-operative expansion are now appearing, and where the requirement for strategic animation is most apparent.

There is one general conclusion from the above. The co-operative movement will only be in a position to fully respond to the current opportunities by greatly strengthening its local, sectoral and systemic capacities. The recommendations in the Review are geared to that end.

### *Ways forward*

The Review proposes a series of initiatives as part of an initial 2 year action plan from 2011-2012, designed to strengthen the systemic elements of the co-operative economy and enable it to make greater use of its own resources as well as to mobilise others. Each of them is an entrepreneurial venture in itself, and for the purpose of the two year plan, 10 initial teams are proposed to take the work forward and establish:

1. A broad programme of development of co-operative education through the College, including a co-operative business school, a reflective practice service, the digitalisation of the co-operative archive, the development of We-Learning, and a co-operative cable channel.
2. A Knowledge Hub.
3. A specialist web unit to promote web-based services for existing co-ops and the co-operative movement as a whole, as well as stimulating the development of new e-co-ops.
4. A network of sectoral development bodies and a prototype co-operative 'MITI' to develop and facilitate the implementation of a Co-operative Industrial Strategy.
5. An international conversion consultancy, bringing the expertise and experience of the international co-operative movement to bear on the increasing pace of conversion currently taking place in the UK.
6. A strengthened and expanded Co-operative Advisory Service.
7. A Co-operative Innovation Lab.
8. A co-operative mark and/or smart card as a tool to strengthen the integration of the co-operative economy and extend its range.

9. A financial institution on the model of the first phase Caja Laboral to strengthen the connection between venture formation and funding, and to provide an oversight and support for existing co-operatives.
10. A Co-operative Economy Acceleration Trust to mobilise finance for the expansion programme.

The detail and rationale for each of these is discussed in the Review.

### ***Conclusion.***

There are ten summary propositions that have informed the analysis and recommendations of the Review:

1. We are living at a time of profound economic and social transformation which is leading to the redrawing of the economic and institutional map. I have referred to this as the Age of Google.
2. The current recession signals a point in this transition, parallel to previous major financial crises, when the way opens for a new socio-technical paradigm (in this case the information and communication revolution) to become generalised in areas that have been largely untouched.
3. The new paradigm presents a wide range of possibilities for co-operative expansion, reflected in the cross party political support for co-operation.
4. The economic transformation affects all current co-operative operations. This poses threats and opportunities for individual co-operatives and places.
5. To make the most of the possibilities the co-operative movement will need to strengthen its capacity to act as a movement, and in particular to bring in changes that reflect the new socio-technical paradigm.
6. A primary task is to develop the central co-operative idea both in terms of its economic proposition and its democratic one. The movement should shift its definition of co-operatives from form to values, and should refocus its role in relation to the two dominant issues of the coming period: the growing environmental crisis and the reconstitution of the welfare state.
7. It should then redesign its educational, intelligence, financial, infrastructural and information systems both to strengthen individual co-ops and their integration.
8. It should draw on the lessons of the social movements, not by abandoning its democratic structures but re-invigorating them with new forms of local organisation
9. The central organisational issue is the gap between that half of the movement organised through the Co-operative Group and the half which is fragmented

and where many of the new opportunities are now opening up. The latter needs to have a much strengthened Co-operatives UK

10. It needs to develop a new financial model for financing the growth and integration of the co-operative economy as a whole.

## **Part 1    The Co-operative Moment**

## I The Political Turn

After many years of beating against the wind, there is a gathering sense within the co-operative movement that - ideologically, politically and commercially - the wind has turned, that there are opportunities for the movement to regain the momentum it had during its first flowering in the second half of the nineteenth century, and its rise to retailing leadership in the first half of the twentieth. Lists are drawn up by think tanks, political parties and now departments of Government of areas in which we can expect the 'new mutualism' to expand. In the May 2010 general election all three main parties placed co-operatives as central planks in their platforms. The ambitious takeover of Somerfield by the Co-operative Group and the merger between the Co-operative Bank and the Britannia Building Society exemplified this mood of the co-operative movement shifting from the back to the front foot.

Any review has to start from an assessment of these possibilities. We need to understand what lies behind this widening interest in the 'new mutualism' and in how the 'old mutualism' works. If there are new horizons coming into view what does the economic landscape that leads up to them look like?

Much of the interest results from two issues. One is the continuing search by all political parties for new ways of providing public services. The radical privatisations of the Thatcher era were one strategy whose limitations have become evermore evident in one set of services after another. New Labour's approach based on an uneasy blend of user choice and strong top down command and control has had its own increasingly acknowledged limitations (and costs). Co-operatives and mutuals are seen as providing a 'third way' of engaging both service workers and users in the shaping and delivery of services. Their diversity and relative autonomy from central control, and hence their capacity for innovation, also carry the promise of 'more for less' – the driving idea at a time of public sector budgetary cuts.

This is a heavy weight of hope being put on the shoulders of the co-operative movement. It is hope in its capacity to radically innovate in sectors in which it still has limited experience, and to do so in a way which both improves the working experience of those providing the service, and the quality of the service itself. Co-operatives have done this before in other fields, but the stakes are high.

The second driver behind the new mutualism – clearest in the Labour election manifesto – is the role of co-operatives as a form of social enterprise in fields where the private market has demonstrably failed. Football is one example. Finance is another, where the Co-operative Bank and the mutuals can be said to have had a 'good crisis', having avoided the pitfalls of the speculative global investment of the major private banks. Their model provides the strongest case for the re-mutualisation of the renegade Northern Rock.

Co-operatives have always been recognised as a way of reaching those parts of the economy that the private sector can't (or is structured not to) reach. Credit unions,

rural shops, land and housing development in run down urban areas, are all examples of co-operatives being able to provide services where the market has demonstrably failed. We will return to these evidently ‘marginal’ economies later. What is interesting about Labour’s new mutualism is that it is acknowledging the distinct role that co-operatives and mutuals can play in mainstream sectors, not least as a company model that could become a generalised form of company suited to the new century.<sup>1</sup>

Neither public nor narrowly private. Driven by social goals and not solely by financial imperatives. Able to engage workers, consumers and communities in the core of ownership. In the market but not of the market. These characteristics of co-operatives offer ‘next Labour’ a new version of the Third Way.

The drive to statism, led by the Fabians in the late 19<sup>th</sup> century, which pushed co-operation increasingly to the margins during the 20<sup>th</sup> century, is now in question. So too is the raw individualism of Thatcher’s Britain. This is the ideological and political space that has opened up for co-operation. It is one reason for believing that this is a co-operative moment.

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<sup>1</sup> For a recent statement of the case of employee ownership see William Davis, Re-Inventing the Firm, Demos 2010

## II A Second Industrial Divide

The change in political perspective arises as much from the perceived failures – or at least limitations – of the market and the state, as from the recognition of the co-operative movement's undisputed success. But there is an economic argument which makes co-operatives central not because of the failure of the alternatives, but because of the relevance of co-operative experience to the emerging forms of production and consumption.

The argument is that the mass production paradigm which was the basis of the surge of growth in the industrial countries in the thirty years after the Second World War was running out of steam by the 1970's. The gains from productivity slowed down. It faced widespread resistance in the workplace as well as a post 1968 change in patterns of consumption. As a result it could not sustain the rates of profit and growth it had enjoyed during the long post war boom.

From the 1970s onwards a new technological paradigm emerged based on information and communication technologies. It provided the conditions for radical innovations in many industries – from flexible production systems and mass customisation to scientific research, the cultural industries and many areas of distribution. The dot.com bubble saw finance recognise the potential of the new industries before they were able to fully deliver, and the bubble collapsed as a result. But the underlying surge in innovation continued and with the eruption of the internet it is now transforming not only whole industries but the way in which society itself is organised.<sup>2</sup>

The co-operative movement was largely sidelined by the growth of mass production. The strict division of mental and manual labour, the managerial hierarchies, and the sheer scale of the production operations were at odds with the principles and practices of producer co-operatives. Co-operative wholesale and retail could for a time more than hold its own as a channel for mass processed food and basic necessities. Small producers notably farmers, fishermen and bakers could band together to strengthen their presence in the market. But for the great bulk of the UK and North American economies as in the Soviet system scale was king.

In continental Europe there was a more mixed picture. While there was a drive to scale, notably during the period of Fascism and in the post war nationalised and mass consumer goods industries, there were areas where networks of small and medium firms survived. The furniture sector in Jutland in Denmark was one example. The telephone system in Finland was another. The engineering industry in the German state of Baden Württemberg was structured in this way. In the so-called Third Italy – that area extending from the Veneto, down through Emilia Romagna and Tuscany to Umbria and La Marche – there were a whole range of light industries – textiles, shoes,

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<sup>2</sup> This is the argument of the Venezuelan economist Carlota Perez. She was one of the few to have forecast the collapse of 2008-9 and place in its historical context. See her *Technological Revolutions and Financial Capital*, Edward Elgar 2002, and her article "After the Crisis – creative construction, Open Democracy, 5<sup>th</sup> March 2009.



ceramics, food processing, furniture, even mechanical engineering – that had survived without scale. There were similar though less developed examples in Northern and Eastern Spain.

Initially these areas were considered pre-modern. But in the last quarter of the 20<sup>th</sup> century – as the European and global markets widened – they not only survived but began to outcompete the mass producers. Economists, puzzled at first, found that these small and medium firms had developed institutions which connected them together. Like Adam Smith's pin producers the firms were highly specialised, and the components were fed into assembly units or in the clothing industry to 'impanatori', intermediaries who sold the cloth through to fashion houses. When a firm received an order that exceeded its capacity it would share it out with its nominal competitors, and in some of the districts they could call in family and friends to fulfil orders quickly, as would happen on farms in harvest time.

The districts themselves are specialised. Poggibonzi in Tuscany is a small town with 85 furniture firms. Prato, Tuscany's second largest city with a population of 180,000, has 8,000 textiles firms. Imola in the south of Emilia Romagna specialises in ceramic tiles. These districts can call on local and regional banks to provide capital. They have technical colleges – even in small towns - where the artisans are often the teachers. In Emilia Romagna 'real service centres' were established in the 1980s that scoured the world for the most up to date market and technical information on behalf of their sectors.<sup>3</sup> In Germany there are R&D intermediaries that connected the small and medium firms to research capacity in universities.<sup>4</sup>

In these ways, the small and medium firms have been able to gain the advantages of scale where it matters. But they preserve the flexibility, motivation and creative capacity that comes from smaller autonomous units. It is the high quality, coupled with the constant innovation in products and processes that has underpinned the competitive success of industrial clusters.<sup>5</sup>

This industrial model is known as flexible specialisation. It was based on small firms and large systems. In this sense it was not about small being beautiful, but rather about the architecture of systems. Historical studies suggested that the distributed systems of small firms had lost out to mass production in the early 20<sup>th</sup> century as much through the political power of existing big players in shaping public policy – the telegraph companies in the development of the telephone for example – as in an in-built economic disadvantage. This marked a first industrial divide. Already by the

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<sup>3</sup> For a summary of the work of real service centres see Robin Murray, "Italy – a sectoral approach" in: Howard Rush, Michael Hobday, John Bessant, Erik Arnold and Robin Murray (eds) *Technology Institutes: Strategies for Best Practice*, Thompson Business Press, 1996.

<sup>4</sup> Outstanding is the Steinbeis Foundation, launched in Stuttgart in 1971 which now has 516 technology transfer stations world-wide that act as intermediaries between companies with specific technical problems and universities and other research institutions. As the Foundation puts it, they seek to act as a bridge between science and the economy. Their model is suggestive for a similar body to bridge institutional research and enterprises in the British co-operative economy. See <http://www.steinbeis-europa.de/en/index.php4?cat=about&topic=steinbeis>.

<sup>5</sup> There is now a substantial literature in English on the Italian industrial districts. See for example Michael Best *The New Competition*, Polity Press, 1990 Chapters 7 and 8. For industrial districts in Italy in the early 2000s, see Fiorena Belussi, Giorgio Gottardi and Enzo Rullani (eds) *The Technological Evolution of Industrial Districts*, Kluwer 2003

early 1980s the resilience of these districts and their advantages in a post mass production era suggested that there was an impending second industrial divide where distributed, polycentric systems would contend with the large centralised corporations, each strengthened in their own way by the new information and communication technologies.<sup>6</sup>

### *Co-operatives and the industrial districts*

Co-operatives were at the heart of continental systems of flexible specialisation. Co-operation was the underlying principle of the model. In many of the areas the firms were themselves co-operatives. In some cases such as the Emilian food industry they were part of a vertical chain of co-operatives, that ran from agricultural co-operatives, to farmer owned processors (as with Parma ham or Parmesan cheese) through to branding and then retailing via co-operative shops.

In others the links were made through consortia of small and medium firms - some co-operatives, many of them family firms - who co-operated in sales, or purchasing or the provision of financial guarantees. The Mondragon co-operative complex in the Basque country of Spain is a tangible example of the model, with its own clearly defined principles, its own university, its business consultancies and the remarkable Caja Laboral that for many years circulated the personal and company savings of co-operators to fund further expansion. Each in their own way is a co-operative commonwealth.

There are two points arising from the experience of the industrial districts that are of relevance to this Review. First, the co-operatives and consortia have been so successful because they have been part of complex systems. There was a system of production within which each co-operative played a particular part. It was orchestrated through common standards and by firms that played the role of 'systems integrators' like the assemblers or the *impanatori*. There was also a more general system of reproduction, that included the training of the next generation of producers, the re-creation of a culture of co-operation, and the dense set of relationships that have come to be called 'social capital'.<sup>7</sup> For these regions culture is as important an ingredient as economic structures in the recipe of co-operation.

Their success has been conditioned by their 'embeddedness' and their ability to co-operate not only with other co-operatives but other firms and institutions that have common interests in a strong local industry. They are 'open' in this sense, reaching out beyond themselves, searching the world for the latest ideas and technologies relevant to their production. They are glocalists, rooted locally, but global in their sales and their technologies.

The co-operatives do not fly solo. That is a primary lesson from continental experience. It is not that isolated co-operatives cannot survive. There are many examples in Britain where they have done so. But they remain confined to particular niches and are constantly vulnerable. Radical co-operative development depends on creating networks and institutions that can mutually strengthen each other.

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<sup>6</sup> See Charles Sable and Michael Piore, *The Second Industrial Divide*, Basic Books, 1984.

<sup>7</sup> For a discussion of social capital in terms of institutional and historical traditions in Italy see Robert Putnam, *Making Democracy Work: Civic Traditions in Modern Italy*, Princeton 1993.

The second related point is that there is no unique form of organisation in any industrial sector. Finland's telephone system was formed from a federation of local telephone companies (like the one that survived for many years in Hull). In the 1970s and 1980s the diversity and autonomy of its constituent units meant it was more open to innovations than many of the national telecommunication monopolies, public or private. As creativity and the capacity to innovate becomes central in market competition, the networked model of the industrial districts has come into its own.<sup>8</sup>

The tide in other words is turning in industrial organisations, and turning in ways favourable to many forms of co-operation. What could not be foreseen in the 1980s and 1990s from Carpi or Poggibonzi is how the diffusion of the information and communications revolution would extend the scope of co-operation far beyond the walls of the artisan workshop and open up opportunities for co-operative production in areas that upto now have been the preserve of giants.<sup>9</sup>

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<sup>8</sup> Andrew Davies, *Telecommunications and Politics: the Decentralised Alternative*, Pinter 1994

<sup>9</sup> A later book Michael Best discusses how the different forms of networked economies he analysed in Italy and Japan have developed in the new technology industries of Boston's route 128 and Singapore. See *The New Competitive Advantage*, Oxford 2001

### III The New Economy

#### *Co-operation without frontier*

With the creation of the Mosaic browser and the World Wide Web's hypertext interface in 1993, the web became a global phenomenon. It was freed from the proprietary systems that had gone before it and became in effect a public good, creating ever more millions of virtual village squares. It has created an infrastructure for conversation and co-operation which has spread with the force of an explosion. Email and email lists, chat rooms, discussion boards, wikis, application and document sharing, teleconferencing, web conferencing, blogs and mini blogs, instant polls, photo and video sharing, electronic whiteboards, podcasting, shared calendars, SMS, FAQs, tags, automatic translator windows, tag clouds, automatic archiving, all these and more are transforming the process of collaborative working, of conversation, and the means and scope of participation. Our traditional structures of meetings, discussion documents and minutes are still there but serviced with new tools and made more flexible in space and time.

The results, even for those of us who don't use all these tools, are all around us. Wikipedia is a collaborative encyclopaedia project beyond the dreams of Robert Owen. Like all wikis it derives its content from voluntary contributions and revisions and now rivals the Encyclopaedia Britannica in scope and depth and far outruns it in usage. Open Source software is similarly based on collaborative volunteering and by 2006 accounted for 80% of the software on computer servers worldwide. In health, for almost every chronic disease there are mutual support websites and e-mail lists, the majority of them global. In education, mutual learning sites have multiplied and there has been a proliferation of web-based communities of practice which are learning oriented networks of professionals and practitioners.

All these and a multitude of other examples are co-operatives without walls. Their practises reflect many of the seven co-operative principles: voluntary and open membership, member participation, autonomy and independence, education and information, and connection to other related groups. Their forms of democracy vary. Collective projects such as open source software have a central process of editing and approval. In some the most productive members are chosen for this function. In others there are polls of members (the web based members of one football club can even vote on the selection of the team).

What is distinct about them is that their inputs, their outputs and their distribution are largely free. People contribute voluntarily. There is open access to the outputs on the condition that any use made of them is also free. It is at heart a gift economy, based on core principles of co-operation – reciprocity and mutual respect.<sup>10</sup>

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<sup>10</sup> Much of the most interesting analysis of how this new social economy of information works as an economy has come not from economists but from political scientists, sociologists and above all lawyers with their interest in changing forms of property and the management of commons. One of the most lucid economic analyses of what he calls 'commons based peer production' is by Yochai Benkler, *The Wealth of Networks*, Yale 2006, part 1.

Its relevance for the co-operative movement is three-fold. First, an ever-widening circle of people are engaging in collaborative communities. Second, these communities have developed rules and conventions that address similar problems to those found in formal co-operatives – how to run themselves democratically, particularly with regard to curatorial and rule setting functions, how to deal with those who abuse the spirit of collaboration, how to make membership meaningful and worthwhile. Third, the new web based tools potentially allow formal co-operatives to greatly enrich their democratic processes, their connectivity, and their education and experiential learning.

This great wave of informal co-operation does not require formal structures. There are platforms, tools, rules and passwords. It is an economy where all who engage in it are enriched. In Charles Leadbeater's words, we are passing from an economy of 'by', 'from' and 'to', to an economy of 'with'. "In the twentieth century", he writes, "we were identified by what we owned; in the 21st century we will also be defined by how we share and what we give away". This is a rich soil for the co-operative movement and its development.<sup>11</sup>

### *The distributed economy.*

Wikipedia exemplifies a distributed economy. Its content is provided by thousands of autonomous contributors. It is a form of collective intelligence in the new knowledge economy. Jimmy Wales the founder of Wikipedia designed a platform. The users provided the content. This was a big shift. One of the senior managers of the social networking site MySpace said that it was in 2003 that Silicon Valley suddenly realised that they should move from content to platforms. Platforms are the infrastructure of a distributed collective intelligence.

One of the early celebrated cases was that of Goldcorp, a Canadian gold mining company. It was a faltering \$100m company which was running out of its existing mineral reserves. A new chief executive who had heard about the innovations in the informational economy placed all its geological data on the web and invited ideas about potential new sources of gold. 50% of the ideas submitted were of places overlooked by the company's geologists. 80% of them yielded significant quantities of gold. Goldcorp quickly grew into a \$9 billion major. Though this is a commercial example the distributed principle is the same.<sup>12</sup>

When we move into the formal economy of services and things we find the same possibilities opening up. Working from home, linked by the internet, is well established. In energy, smart grids are making it possible for every home to be a power station. Boilers that produce not only heat but electricity exportable to the grid are already being installed on the continent (some of them produced by a Mondragon co-op). In the UK households are now being paid not only for their solar power exported to the grid but that which they use themselves. Community heating systems – producing power, heat and cooling – such as those developed in Worthing, are becoming technologically and economically feasible. The coalition of interests

<sup>11</sup> Charles Leadbeater, *We Think: Mass Innovation not Mass Production*, {Profile Books, 2009

<sup>12</sup> Don Tapscott and Anthony Williams tell the story of Goldcorp at the opening of their book *Wikinomics*, Portfolio 2006.

promoting plug in hybrid and electric cars includes the energy utilities who see such cars as a form of two way distributed power station, with batteries recharging themselves when grid demand is low, and feeding back power to the grid when demand is high.

In education, groups of home schoolers now have access via the internet to an almost unlimited wealth of syllabuses, documents, lectures, and videos. The Open University – a paradigm of distributed education – now has 180,000 students connected to the university from home, who meet locally with tutors and fellow students, and online through forums, chat rooms, and conferences (the OU now hosts 16,000 conferences annually, 2,000 of them convened by students, with 110,000 participants).

Even in health care we see the early signs of treatment and knowledge traditionally centralised in large hospitals being distributed to local health centres and to households. Tests, consultations and even some treatments are now being conducted from home. The latest forms of renal treatment in New York allow those on dialysis to receive their treatment at night while they sleep.

Many of these things did not depend on the internet. People have long shared their ideas through publications and conferences. The Open University started in 1970 and used traditional broadcasting and print. District nurses (and in the past doctors) have cared for patients at home. But the computer, fibre optics and the internet have burst through the constraints of centralisation and opened whole fields to these types of distributed activity.

The computer is at the heart of it all. It is the principal capital good of the current industrial revolution. It is not just its processing capacity, but also its miniaturisation that is so significant.<sup>13</sup> Its size and price mean that there are now 30 million personal computers in use in the UK, 12.8 million smart phones, with 70% of households now having access to broadband. It is a great reversal of the 19<sup>th</sup> century destruction of the handloom weaver by the giant textile mill. Now it is the giants that are under threat, when everyone can have their own ‘information mill’, wired to send as well as receive, to produce as well as consume.

This trend opens up great spaces for a new era of co-operative development. Democratic co-operatives are marginalised in centralised economies, but come into their own in distributed networks. It is not just the cells of the networks where the co-operative model can thrive, but also its experience of collaborative ways in which the cells can be wired together into large productive systems.

### ***Innovation***

The new information technology has become a spur and a tool for generalised innovation. It opens up the possibility of old things being done in new ways. It underpins the change from mass production to mass customisation and flexible specialisation, a change that in turn puts a premium on continuous innovation. In high wage countries the frontiers of competition have shifted from scale to innovation and

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<sup>13</sup> Minaturisation – often enabled by mini computers - is one of the primary features of the new era. There are mini steel mills, mini paper mills, mini machine tools, mini breweries. Some see these developments moving towards the home becoming a factory.

the economies of information. There is a new hunger for innovations, however small, in processes and products. In some industries the revolution in scientific instruments and information processing is at the heart of the advances. In others like construction it is new materials and the use of computers in design and the management of complexity that is critical. In the market, new technology allows for ever shortening lead times for new product development and rapid testing on the high street in the endless search for variety.

A research field has grown rapidly to understand the conditions and methods for generating and diffusing innovation. It recognises the importance of distributed intelligence – that new ideas come as often from frontline workers, customers, or in cases like Goldcorp from the world as a whole, as from specialised research staff. It emphasises the importance of collaboration within and between organisations, and of companies opening themselves up to external influences and to the myriad networks that have mushroomed as the internet has taken hold.

The open and reciprocal characteristics of the economy of creativity have come into conflict with traditional forms of centralised organisation and labour management, and has been driving changes in them both. Co-operatives have a potential advantage here, with their participative structures and wide member networks. The ability to harness the intelligence of their members to generate innovation is one of the great challenges for the contemporary movement.

### *New forms of organisation*

The new economy has seen major changes in organisation that are driven by innovation and mirror the trends towards a distributed economy. The Italian industrial districts provide one model of distributed organisation – and in the early 1990s innovative large industrial firms were replicating many of the features of co-operation found in the industrial districts. They stripped out middle management, devolved authority to factory managers, and increased collaboration between their plants.

A comparison of management thinking in the 1960s and 1990s has charted the change, from command and control by the centre to self-control by semi-autonomous groups and by the discipline of the market.<sup>14</sup> It is described as a shift from hierarchy to heterarchy (the rule of many as in a partnership) and to responsible autonomy. The new forms are not anarchic. They have clear boundaries and responsibility for outcomes. But within those boundaries they have an extended freedom for self-management.<sup>15</sup>

Such forms of organisations require new skills - the interpersonal skills of collaboration, of teamwork, and conceptual thinking. They involve new processes for making decisions – such as voting, or consensus – and for resolving disputes. There have to be group rather than individual incentives, a greater fluidity of work including the rotation of jobs, and an enabling infrastructure. The common terms of

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<sup>14</sup> Luc Boltanski and Eve Chiapello, *The New Spirit of Capitalism*, Verso, 2005

<sup>15</sup> The term heterarchy was first used by James Ogilvy in his *Multidimensional Man: Decentralising Self, Society and the Sacred*, Oxford 1977, A concise summary of three organisational principles is contained in Gerard Fairtlough, *The Three Ways of Getting Things Done*, Triarchy Press, 2005. Fairtlough was for 25 years an executive in Shell, and then the CEO of the biotech firm Celltech.

contemporary organisational approaches – reflective practice, learning, communication, shared goals and cultures – all reflect the requirements and possibilities of collaborative and autonomous working.

Closer relationships are also developing between firms. There is a recognition that not everything needs to be done internally. The castle walls are being lowered to allow inter-firm collaboration. Intercompany project teams, partnerships and joint ventures have become common. Small and medium firms previously encamped in the shadow of the fortified corporations are now recognised as sources of flexibility and ideas and are being invited in. Large firms are spinning out some tasks and concentrating on system integration. It is the system not the firm that is the crucial economic category. Co-operation, in short, is increasing across walls as well as within them. The growing power and speed of data processing and the spread of the web in the past decade has accentuated these trends.

### *New forms of labour*

One of the revelations of Japanese just-in-time manufacture was that those on the shop floor were often in the best position to know what was wrong and how to improve processes. They spoke of turning Taylorism on its head, and developed teamwork and quality circles as a way of directing the intelligence of shop floor workers and technical staff onto the particular problems of the production process.

At the same time the information intensive economy produced a whole new set of professions away from the shop floor and service counter. Programmers, data analysts, strategic planners, technologists, project managers, designers, advertisers, economic and market researchers, all flourished in the drive to develop and market new products. And the cultural sectors became rapidly growing industries in their own right and their work processes and distributed organisation an example for other industries.

Many jobs remain routine and monotonous, but where innovation is central, engaged, creative labour becomes the scarce resource. It cannot be subordinated, paid and substituted as it was on the productionline. Job interviews are now two way. The cultural creatives and thinkworkers have to have the conditions and tools that provide the climate for creativity. They assess jobs not just by what they pay but by their interest, and the organisation's culture. In the era of fluidity, projects replace careers in their curriculum vitae, each project a stage in a person's expressive life.

The problem for employers is that neither labour nor creativity can be captured and owned as if they were so much money or machinery. They carry their own capital within them, and can demand terms and payment that reflects the productive impact of that capital. Footballers and pop stars show in extreme form a more widespread shift. Employers have changed their forms of organisations and their methods of management accordingly.

This is a more fertile soil for co-operation than the large scale hierarchies of 20<sup>th</sup> century corporations. Cultural creatives are team players and depend on networks for work and the assembling of projects. In running their own companies, some have established themselves as mutuals since co-operatives give their workers an interest in



continuity, something that is equally significant for technical workers. It has been one of the secrets of the success of Italian and Spanish manufacturing co-operatives, that they have low labour turnovers of highly skilled workers because they have a stake in the profits and the governance of their companies. Co-operatives are a form which in its essence recognises collaborative labour as capital.

### *Users as producers*

One consequence of the growth of flexible production is that goods and services can be reconfigured round each individual user. Montague Burton, the Bradford-based clothing company, used to advertise under the slogan “A bespoke suit for every working man”. This aspiration could not hold its own against the cut price pressures of standardised outputs. But in sector after sector, the new information technology enabled firms like Benetton to tailor their products to ever finer granularities of the market, and in cases like Dell to deliver ‘a bespoke computer’ for every man and woman.

Like Lego, many products are an assembly of modules that are designed to fit together in many configurations. The customer can be provided with a set of designs, or they may choose their own (in Lego’s case some users hacked into Lego’s software to create their own designs and Lego has now created tools that allow its users to design their own models for Lego production). With customised housing where there may be over 130,000 parts, customers can spend two days in a design park, creating their house virtually. They call on the advice of architects and designers, and see the actual parts and alternative configurations as if they were in an Ideal Home Exhibition (Sekesui, the largest of these firms in Japan produces 70,000 such houses a year).<sup>16</sup>

Sekisui still determines the modules and does the construction. But in music, the iPod allows the user to pick and mix and assemble their own album with modules (tracks) from any source. From here it is a short step to produce as well as assemble ones own modules. The popularity of cookery and gardening programmes stands as symbol for the new model of the economy: show-how for self-production. We do not yet have an iHouse, but the trend is there- to iBooks, iBeer, iPrinting, iToys and so on.

In the information and cultural fields it is ‘wePods’ as much as iPods that have been the pioneers: we-pedias, we-maps, we-games like Second Life, we-software, even we electric cars<sup>17</sup>. Households are producing things together not passively consuming them alone.<sup>18</sup>

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<sup>16</sup> For the background to this industry see Mark Dodgson and David Gann, *Innovation*, Oxford 2010. pp. 75-79. They highlight the fact that many of these houses are craft based and have revived craft industry, through innovating in time consuming processes such as the cutting of traditional timber joints. CNC timber cutting machines were developed and installed in 600 micro factories across rural Japan, which could produce timber frames according to a local carpenter’s design in a fraction of the time it would have taken to hand cut them. This is another example of distributed production within a system integrated by the final assembler.

<sup>17</sup> Riversimple is a prototype electric car which is being developed on open source principle in order to establish a basic standard on the core elements of an electric car that is then freely available for all to develop their particular models as Red Hat develops applications of Linux.

<sup>18</sup> In all of these modularisation has been found to be crucial. The NASA project that engaged professional and amateur astronomers in the mapping of craters on Mars, broke the task down into modules to allow volunteers to contribute as little or as much as they liked.

These changes are even more marked in services. Household are increasingly co-designers and providers of their packages of care or of the energy management systems in their homes. In health care, as the focus has changed from infectious to chronic disease, responsibility has shifted to citizens to adopt healthy lifestyles and manage their own medical conditions. For people with diabetes, for example, 98% of treatment is provided by themselves together with their friends and family, yet traditional health services have yet to re-organise their provision around these home based needs.

In education there are now schools that assemble packages around the needs of particular pupils, just as the Open University has done for its pupils. We-services – from proof reading to newsgathering, and from transport planning to scientific research – are mushrooming via the web.

The US writers James Maxmin and Shoshana Zuboff see the assembly of packages or service modules around the needs of the individual consumers as a radical break from the twentieth century model of standardised services (or commodities) delivered by a specialist producer. It allows the prosumer to bypass large service organisations with rigid and costly structures, and stimulate a new trust based support services. Trust is the key, for the user has to have confidence that those providing the support are acting in the user's interest not that of a supplier. They refer to this as the new Support Economy.<sup>19</sup>

In summary:

- Users are themselves increasingly involved, individually or jointly, in some element of design and production, changing from passive consumers to 'prosumers'.
- Prosumption is most advanced in the economy of information. But in the material economy, goods and services are themselves being reconfigured around the user. Modern production has changed from pushing out products to pulling them through according to the demand of the user.
- Users have become a key source of innovation (second only to employees according to the EU's Community Innovation Survey)
- New types of support services are required – from health coaches to computer help lines
- Users are developing their own mutual forms of support

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<sup>19</sup> James Maxmin and Shoshana Zuboff, *The Support Economy*, Penguin 2003 and see Shoshana Zuboff's recent article "Creating Value in the Age of Distributed Capitalism", *McKinsey Quarterly*, September 2010. This contains a case study of a distributed system of eldercare in the US state of Maine, that has provided a support system of care for the elderly at one tenth of the cost of conventional nursing home care. There are other innovative private sector models of support from concierge services, to a support service for head teachers, and for home energy efficiency. The leading company in this field is TenUK, which services over 350,000 clients, and whose knowledge management systems are critical to their effective support services.

- The service or commodity point of contact has been rethought around these support needs (whether the doctor's surgery, the supermarket, or the school).

The refashioning of this landscape opens up many spaces for co-operative development. Co-operatives are uniquely placed to include users in the governance of those relational services which are expanding so rapidly. Their structures provide a material basis for trust. Evidence on elder care in Canada confirms the co-operative advantage in this field, with many structured like the 42 elder support co-operatives in Quebec to include in their governance not only users and care workers, but supporters, community members and even volunteers.<sup>20</sup> The self managed care pilots to support those in receipt of direct payments are a UK example of a co-operative service of this kind, with multi-stakeholder co-operatives already operating or in the process of forming in Croydon, Rochdale, and Leicestershire.<sup>21</sup>

### *The new subjectivity*

Side by side with these changes in production, has come a radical shift in social subjectivity. This is harder to pin down than changes in the flow of products through a factory or the delegation of responsibility to the shop floor. Sociologists have variously described it as a shift from the modern to post modern, from productionism to consumerism, and from solid to liquid modernity.

Common to these analyses was a view that the last decades of the twentieth century in the industrialised countries saw a marked change in individuation. People no longer accepted identities determined by class and nation, but moved to construct their own multiple identities, partly through their tastes and what they consumed, partly through their life stories and subjective meaning, partly through their values. A person's Facebook page presents a constructed version of the self – a collage of activities, pictures, places and friends. It is an active individualisation.

The Polish sociologist Zygmunt Bauman described it as the change from a solid modernity where people traded security for freedom – the security of a job, a home, a pension, a defined national identity – to a liquid modernity that abandoned security for freedom. Now the emphasis has swung to the individual's choice of their own life journeys, where a premium is on flexibility and movement. As in the world of money, there is a reticence to commit to the long term, a suspicion of association, the pursuit of multiple weak connections, each containing a possibility if life should take one that way. At any one time one quarter of US citizens are changing jobs. They are changing places (300,000 people are in the air daily over the US). They are changing partners. And in doing so they are becoming authors of their own stories.<sup>22</sup>

There is a dystopic version of this social narrative, of a me-generation whose concern with the self weakens empathy for others. It erodes those institutions that were at the core of society – the family, local communities, the professions, the nation state, the

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<sup>20</sup> John Restakis, *Eldercare in Canada*, British Columbia Co-operative Association, May 2008

<sup>21</sup> Department of Health and Co-operatives UK, *Self Managed Care – a co-operative approach*, 2010

<sup>22</sup> Zygmunt Bauman, *Liquid Modernity*, Polity Press 2000 and *Liquid Times: Living in an Age of Uncertainty*, Polity Press, 2006

church, even the whole apparatus of political democracy. And with their appetite to consume, they are even threatening the planet.

That is one version. But there is another which recognises that at the core of these changes is people actively seeking to take control of our own lives, rather than having them determined by others. Citizens are becoming producers not consumers of culture. They are assessing the world in terms of its meaning and values, values which are at the same time individual and social. A Canadian study of values in 2003 recorded their sample as rejecting the notion of imposed traditional values but found a common agreement on the value of shared community, equality, justice, respect for diversity, mutual responsibility, accountability and democracy.<sup>23</sup> These values are behind the remarkable growth of social movements in recent years, and now the eruption of activity – social, political and organisational- on the web.

These changes are intertwined with those in the new economy. The fragmentation and fluidity of the labour market erodes the basis of old collectivities at the same time as the high street offers ever-greater varieties of products and experience. Diversity, multi-culturalism, choice, flexibility, self-determination are all part of the zeitgeist of production and consumption. The market tracks the social changes and re-enforces them, but is itself tracked and held to account by the emergent social values. The growing gap between the market and values – ever wider as the current recession proceeds – is the space in which co-operatives work.

### *A civil economy*

The democratic importance of a strong ‘civil society’ independent of the main corporate and state institutions is now well established. Less recognised has been the significance of a ‘civil economy’. This refers to those economic activities not geared to the drive for profit, nor subject to the forms of finance and control that govern the activity of the state. It includes the so called third sector of social enterprises and grant centred organisations, as well as many of the activities of the informal economy, work carried on in the household and that arising from mutual collaboration and social movements.

There has been a remarkable flowering of ‘civil economy’ initiatives over the past twenty years. Some of them are formal like the 50,000 plus social enterprises now operating in Britain. Many are informal like the open source movement, or those digging on allotments, or selling fair trade goods after church, or planting trees in a transition town.

The factors behind this growth have in some cases been necessity, in others enthusiasm. But the main historical drivers have been the ever more pressing macro

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<sup>23</sup> Canadian Policy Research Networks, Citizens Dialogue on Canada’s Future: a Twenty First Century Social Contract. This study is cited in one of the few papers I have seen which seeks to relate these wider social changes to the co-operative movement. The author Brett Fairbairn analyses the way in which 20<sup>th</sup> century mass production models still dominate sections of the co-operative movement in Canada, particularly agricultural co-ops, and how the new social circumstances and sensibilities require co-ops to rethink the meaning and mechanisms of co-operative democracy. See his rich “Communications, Culture and Co-operatives: Liminal Organisations in a Liminal Age” in: Ian MacPherson and Erin McLaughlin-Jenkins (eds), *Integrating Diversities within a Complex Heritage*, Series on Co-operative Studies, Volume 2, New Rochdale Press, 2008 pp 179-222.

problems that have proved intractable to state activity or the managed mechanisms of the private market. The environment is the most immediate one, where we stare like rabbits in the headlights at the impending storm, but which is also an immediately tangible issue in so many walks of life – energy, water, waste, food, transport – each with their own crisis points, and their particular hazards.

There are also the many social problems which rage like a fire that the fire-fighters of public policy seem unable to control. The rise of chronic disease threatens health budgets everywhere. So does the ageing of industrial countries' population, and the growth of inequality nationally and globally that has been the great wound which traditional national policies appear powerless to heal.

These issues and their symptoms (including the great migrations) fill the political programmes of parties. The lack of traction of many of the policies explains the new attention to a civil economy that was strong in the nineteenth century but was marginalised in the twentieth.

Though there are some large centralised charities, the civil economy is a distributed one, whose hidden connectors are shared values and aspirations, and whose material connectivity has been greatly strengthened by the web. Rather than money, it is the project idea and the way it embodies those values that, like a magnetic force, attracts volunteers, finance, as well as attention. It is an economy of meaning, at the same time individual and social.

The civil economy is a natural hunting ground for co-operative development. Though formally defined and governed by the interests of their members – which can turn inwards into a possessive autonomy – in practice the co-operative movement has aspired to the social and the general interest. The commitment to open membership is one reflection of this. The seventh principle of working for the sustainable development of their communities is another. I have yet to meet a co-operative that pulls up the drawbridge to defend a special interest. Their meaning is a wider one, both in terms of the impact of their work, and as a model of how the economy could work more generally. This is the distinction of co-operatives from many (but not all) partnerships. There are no co-operatives of mercenaries, and as yet few of accountants, lawyers, or investment bankers.

What is distinct about co-operatives is that they have a capacity to integrate what is split in so much of our social organisation. In the words of the title of a book on the great Peckham health centre of the 1930s and 1940s "Being Me and Also Us", co-operatives can be both I and We. They can be 'self-directed' and at the same time 'other-directed'. In this they are different from charities which are entirely other directed, and which structurally exclude from governance those whom they are established to support. The inclusiveness of co-operatives means that they can bridge another divide, between the formal and informal, the world of paid work and the world of the household.

They can also – and this is the great prize – avoid the split between the commercial and the social, between the carnivores of the market and the herbivores of equity and care. At its best co-operative working practices - what is produced and how the

co-operatives relates to users and suppliers - are at the same time social and commercial.

The increasing pressure of environmental and social issues and the re-emergence of the civil economy in response to them are central to current co-operative development. For, within the formal economy, co-operatives are uniquely placed to provide practical solutions to them.

## IV A Moment of Transition

These are the economic factors which help explain the turn of the political towards co-operatives. Intuitively there is a sense that co-operatives are particularly suited to services of care, or health, or education. There has always been some measure of government support for co-operatives for people and areas abandoned by the economic tide, particularly in periods of economic crisis. But now we are talking about a co-operative presence in the economic heartland, and an organisational structure that is of relevance to the economy as a whole.

Economic historians have pointed out that since its inception capitalism has moved in rhythms or long waves. There are installation periods of intense technological innovation that rise to a crescendo with a financial bubble, and collapse into a recession when the bubble bursts. The emerging new technologies – textile factory production, railways and machinery, mass production, and now information and communication technologies – take root first in their own and immediately adjacent sectors. But they require a whole raft of new conditions and institutions if their potential is to spread throughout the economy.

Systems of regulation appropriate to one era have to be refashioned for a new one. The geography of production changes, as do sources of power and materials. Some of the innovations are institutional like the joint stock company. Others are organisational like the multi-divisional corporation in the early 20<sup>th</sup> century. There need to be appropriate forms of finance, new types of transport and labour, new systems of education as well as new household structures and life styles. Some of these changes are long drawn out, but there are also surges of parallel innovations, particularly in the wake of a crisis.<sup>24</sup>

Carlota Perez, one of the leading economists of long waves, sees the post crash period as one of deployment, when the new techno-economic paradigm generates innovation across all sectors and spreads its social benefits more widely. While the installation period and the subsequent crash are marked by creative destruction, the deployment period is one of creative construction led by the producers themselves and the state. Financial capital, having taken the lead during the bubble, is reined back to take a facilitating service role in support of deployment.

We are at just such a point, the economy caught between two worlds in a post bubble recession. We don't know how long it will last, and what it will take to resolve it. But if the historical patterns hold, we can expect a period of institutional fluidity. In the past twenty years corporations and governments have been experimenting. In the corporate world new organisational paradigms are emerging. In the public sphere, directions are still unclear.

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<sup>24</sup> The analysis of long waves of industrial development and the role of successive general technologies as applied to the current point of global economic development is that of Carlota Perez *op. cit.*. See also the outstanding work of her long term collaborator Chris Freeman, notably Chris Freeman and Francisco Louca, *As Time Goes By: From the Industrial Revolution to the Information Revolution*, Oxford 2001.

What happens at such junctures determines the extent to which the full potential of the new technologies will be realised and how. There is no one set path. Fascism, Soviet communism and Social Democracy all provided an institutional architecture for the spread of mass production. They shared a common model of production but very different assumptions about social and political forms and the way in which the economy was orchestrated.

The current recession is a similar period of intensifying pressures for radical change arising from the information and communication revolution and the environmental imperative. The relentless increase in greenhouse gas emissions together with resource pressures will involve a major transformation in material technology, in production processes, transport and location, and ways of life. The only question is when and how.

In such a transition period, at a time when inherited economic institutional arrangements are in question, the co-operative proposition is of immediate relevance. The co-operative movement grew initially in the wake of the railway boom and a period of intense industrialisation. In Britain it lost its momentum in the second half of the 20<sup>th</sup> century. But now— as the British economy falters on the edge of a double dip recession – co-operation in its many varied forms offers possible solutions to the systemic questions that we face. It is the deeper economic reason for believing that we are now at a co-operative moment.



## V The Co-operative Challenge

This is the opportunity. What does the movement need to do to make the most of it? At a time of major institutional innovation we know that co-operatives themselves will have to innovate in response to the economic and social changes that are taking place with such speed.

It is the first proposition of this Review that any strategy for co-operative development has to be located in the context of these changes. It has to ask what is necessary if the values which are at the heart of the idea of co-operation are to be realised economically to their full potential. What new forms of co-operation are called for? How is its identity to be expressed? Where are its boundaries drawn? At a time of such widening opportunity, where are the most promising areas for the movement to focus on?

One of the strengths of the co-operative movement is its strong sense of history. This first proposition is about seeing the present as history, looking at the movement and its opportunities as if from the outside and from the future. It is to underline the importance of the work of self-reflection, that starts not from existing institutions and their interests, but from the opportunities and what is required. Within the movement, institutions can divide, but it is values and a common project that unites.

Above all this first proposition is about ambition. Much of the presentation of co-operatives reads like a re-assurance that co-operatives are possible, that here is an idea with a reality. Case studies are presented as examples of the idea, and the aggregate statistics are a re-assurance that co-operatives have a wider significance. But at a time when the wind has turned in favour of co-operation and its potential mainstreaming, we first have to recognise that most co-operatives are currently small, and that in aggregate they are still marginal.

Between the existing co-operative economy and the possibilities now opening up there is a gap. The question for every case study, co-operative and aggregate statistic, is how each co-op's assets can contribute both to their own growth, and to the capacity of the movement to make the most of the current opportunities. It is their potential as much as their existence that is important.

At times of such major change, co-operative development has a double element. The first is how existing co-operatives can successfully navigate this change and secure their future. What are the prospects, for example, for co-operative bookshops in the face of Amazon and the iPad, or of co-operative newspapers as advertisers move online? What do the local retail societies do in the face of the growth of web based shopping and the increasing stranglehold of the major chains? There are answers in each case – indeed the experience of other sectors and other countries suggests that their very size can be made to work to their competitive advantage. The point is that the future of existing co-operatives is as much a part of the discussion of co-operative development as the creation of new ones.

That said, the second element is about the creation of new co-operatives and the expansion, not just the survival, of existing ones. This involves mobilising the movement's existing assets and attracting in new resources— people, finance, organisations, and ideas. Start ups are part of this but only a part. As important are conversions, and alliances, and the connection to the informal forms of co-operation that are spreading so quickly.

### *The Review*

The current Review is not the place to go into the details of every co-operative sector from the perspective of each of these elements. What I shall do in Part 2 is to focus on the process of generating and expanding co-operatives. This involves three phases: the generating of ideas and their prototyping; the establishment of new ventures; and the way in which the know how and other assets of existing co-operatives can be used to expand the co-operative commonwealth, particular in those sectors where there are the greatest opportunities.

There is a fourth phase, which is how co-operatives – and the sub-sets of large co-operatives – work together as systems. In an age of systems, this is one of the areas in which is most critical both to the survival of existing co-operatives and the creation of new ones. At the moment there is a strong sense that the co-operative movement in Britain as a whole is less than the sum of its parts. Part 3 looks at some of the areas where this systemic element of the movement's development needs to be strengthened.

The Review is intended as a contribution to a process of self-reflection, at the same time as providing proposals for some immediate practical ways forward. In many ways it is the self reflection that is most important for the major changes that are now called for need to be firmly rooted in 'co-operation as it actually exists', and be fully supported by those on whom such change depends. In this sense, the questions posed by this Review are as significant as the answers. Once the questions are agreed, the answers become much easier.

At the moment the mechanisms for the movement's self-reflection are episodic. The last major one was ten years ago through the work of the Co-operative Commission. This had a necessary focus on the ability of the movement, particularly its retail sector, to remain competitive. The current moment calls for a wider brief - how the movement can respond to the opportunity to radically expand.

I later discuss how the movement's process of self-reflection can become continuous. At a time of intense change, such a process is a necessary complement to the daily tasks of the economy and central to the institutionalising of innovation. In smaller enterprises in particular it can be squeezed out by the tyranny of the immediate. There are notable examples of successful 'reflective practice' in individual co-operatives. But it is at present one of the most notable absences for the movement as a whole.

The present Review has been shaped with the above in mind. It starts from the primary question I have posed here, and suggests a number of promising avenues to explore for answers. I put particular emphasis on the clarification of co-operative identity – on the co-operative idea – and the means for reproducing the co-operative

culture. Each is important, both for those within the co-operative movement itself, and for its power to attract those from outside. That is a subject for Part 3. First I want to consider the economic questions – of the movement as it is, the economic challenges it faces, how it can use its existing assets to expand and where these need to be supplemented.

## VI Assets and Rivals

The co-operative economy is like a wood with deep roots. It faces competition from a new, less rooted industrial ecology. But many of its assets cannot be reproduced overnight, and well marshalled, provides it with a potential competitive advantage. There are five that are immediately relevant:

- *The ethic.* Co-operatives have always had a social meaning. It is not just about co-operating to further a particular interest, but about relating to the general interest. The movement's goal has been to develop a different type of economy, one that was fairer, more democratic and addressed social needs. And it has done it in practice. It is this which has attracted so much of the current interest in mutualism.
- *A diverse and distributed network.* There is scarcely a town or village in Britain that is not touched by some aspect of co-operatives. Here where I write, the village shop and post office is a co-op. So is that of the neighbouring village. In the small market town four miles away the main store is a Co-operative supermarket, and on its front street are two local mutual building societies and a whole food store stocking co-operative bread. 5 miles to the North is a co-operative hotel. 10 miles to the East is a co-operative broadband network. There are as yet no co-operative doulas to help bring children into the world, but there is a local co-operative funeral service to take us out. All this some way away from Rochdale, and it is not untypical of many parts of Britain, each with their own variants. In all there are now 4,990 registered co-operative businesses in the UK, each a living centre of co-operative growth.
- *Democratic structures and experience.* Co-operatives are democratically literate. They know the value and the limitations of direct democracy, of the commune, the workplace, and the shop. They have experienced the strengths and weaknesses of the 19<sup>th</sup> century concept of representative democracy as applied to the economy and have experimented in innumerable ways of involving a wide membership in decisions. They are no strangers to issues of corruption, transparency and accountability. They have had to deal with the tension between consultation and action, between the ordered custom of the everyday and the disorder of innovation. At a time when the forms of representation and accountability in large corporations and the state are in question the co-operative movement's range of practices, and its unique structure for engaging workers, users, and the wider community in its governance, is a major asset.
- *A presence in key sectors.* In the contemporary economy, co-operatives have a limited presence in the information and communications sectors, and in the research intensive and creative industries. But they are well established in two other commanding sectors, retailing and finance and have a significant presence in different parts of the food chain.

- *Connections.* The scattered microcosms of co-operation are connected by organisational threads, some strong, some much weaker. Many are part of the Co-operative Group, which alone accounts for 40% of the movement's £33.5 billion turnover, and of the other principal retail societies. Others are clustered in mutual Federations. Some 500 are members of Co-operatives UK, the umbrella organisation that provides further connections and notably organises the annual Co-operative Congress. These connections could be much stronger, but they provide a platform for one of the crucial areas for development.

From a macro point of view, co-operatives may still be marginal. But these assets together provide a powerful 'starter base' for the expansion of co-operation as a whole.

### *Evolutionary competition.*

The argument in part 1 is that the new economy has refashioned the economic landscape in ways that have opened up major opportunities for co-operative development. Yet this is contested territory. While there is the potential for a new wave of distributed production, the forces of scale are still strong. Centralised corporations are using the new technologies to strengthen their models of production and distribution, and their political influence to secure regulatory structures that favour them.

In sector after sector the alternative paths are colliding: large nuclear plants versus the distributed energy systems; incinerators versus source separated recycling; ever larger hospitals as against networks of cottage hospitals and home care networks; ever larger farms and centralised food processing factories as against micro plants and local food networks. The alternative architectures of these new systems represent the second industrial divide.

In evolutionary terms, co-operative systems face the competition of giant centralised structures. They also face competition from all kinds of firms that are responding to the new economy with transformed corporate models. These firms are establishing interactive relations with their users, as well as increasing autonomy in the workplace, in order to promote innovation and increase labour retention. They are offering – albeit in a different form – some of the qualities of economic life which so distinguished co-operatives from the mainstream in a previous era.<sup>25</sup>

This is most evident in companies where innovation is the pivot of competition, in the creative industries for example, or the informatics sectors in firms such as Hewlett Packard, IBM, and Google. A company like the Japanese Hamamatsu Photonics, with its multitude of semi-autonomous teams of innovators, its technologists doing spells on the productionline and collective incentives paid to all employees, from night-

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<sup>25</sup> An interesting evolutionary perspective on the economy – seeing it in a more dynamic and wider institutional way than conventional competitive theory – can be found in Eric Beinhocker, *The Origin of Wealth*, Random House 2007. There is also a stimulating parallel approach to sociology in David Runciman, *The Theory of Cultural and Social Selection*, Cambridge 2009

watchman to managing director, is another that sets a benchmark for the organisation of innovation.<sup>26</sup>

Such firms have not only been exploring how to make collaboration work at a micro level, but how a system with distributed nodes of activity can work together as a whole. They have been thinking of firms as systems, connected to many other, wider ever more complex systems.

These firms are rich with experience of great relevance to co-operatives. Their models are a source of competition, both ideologically and in fields where they challenge co-operatives for markets.

Co-operatives also face competition in the labour market. Firms like the above attract labour not by offering a share of ownership but rather promising experience, an experience that provides an opportunity to realise a worker's expressive aspirations and at the same time contributes to his or her cultural and cognitive capital. You can see this palpably in the great number of people applying for a job with Apple, for example, where the lengthy and unconventional selection processes make no mention of wages until the selection is made; or in Emilia Romagna, where the employees of Ferrari, all in their red uniforms, see their spell with the firm as an investment in the acquisition of skill and association with the leading firm in the industry.

Further, the co-operative proposition of worker ownership is only one among many ways in which workers can be offered stakes and a say in the governance of an enterprise. And whether the co-operative proposition of worker involvement proves a decisive attraction, partly depends on the definitions and the processes of economic democracy, and the significance given to it in an era of 'liquid modernity'. Here then is another challenge for co-operatives - how to attract and retain labour with all its different creativities.

There is a sense too in which much of the new civil economy can be seen as a competitor as much as an ally of co-operation. The civil economy shares the values of co-operatives and the primacy each gives to social goals. But the civil economy is organised with a wider range of structures – some as community of interest companies, some as associations, some as conventional limited companies, some as charities, some as companies limited by guarantee. Those in informal 'co-operation without frontiers' those involved may work collaboratively, with shared values, but without any formal structures, while making their living on the side individually or in conventional commercial ways.

The general point is that there are many informal and formal value driven initiatives that have emerged in areas open to co-operative development. While there is much in the new economy that shifts the ground in favour of co-operatives, they face major 'evolutionary' competition in many of these spaces, a competition which in part is economic but in the case of many sectors like food, or energy, or transport, or any of the social care and cultural services, is political as well.

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<sup>26</sup> On the way in which IBM re-thought itself in the 1990s see the book by its Chairman Louis Gerstner, *Who Says Elephants Can't Dance?* Collins, 2002. There are notable examples in the manufacturing sectors, amongst the most radical being that of Semco, the Brazilian engineering firm run by Ricardo Semler. See his book *Maverick*, Grand Central Publishing 1995

There is no clear run for co-operatives. It is the John Lewis model rather than that of consumer co-operatives which is being widely recommended as a new model for public services as well as for firms that wish to convert to some form of mutuality. When it comes to converting public services into some version of 'big society' services we already see that it is large conventional consultancy firms and others with alternative social models of organisation that are contending as advisors as much as established co-operatives. We have to understand why this is and whether it matters.

Faced with such pressures, one option would be to focus on those areas where co-operatives are already well established and where the contesting forces are weaker. Initiatives in rural areas are an example or schools – in both of which the movement has been making striking progress. Care services are another sphere where the multi-stakeholder co-operative model has shown itself to offer decisive advantages.

But I think it would ill-advised to stop there. Fields such as energy production, or new forms of waste management, or many branches of the creative and knowledge industries where the contesting forces are more powerful, are ones where co-operatives have a distinct and persuasive role. Taking on these forces should be part of a programme of ambition.

## **Part 2 Sources of Co-operative Development**



## VII Informal Co-operation and the Generation of Ideas

One of the arguments in Part 1 is that we are in a new era of informal co-operation. The present dominating ideology of individualism is belied by the daily practice of mutuality. This has been greatly extended by the web. A recent local example is that of Landshare, a website set up by the chef Hugh Fearnley Whittingstall which records and maps those looking for plots to grow their food on, and connects them to those who are willing to share their gardens or their land. In a short time the site has grown to 49,000 members. As with the rise of volunteering and participation in common projects – real and virtual – this is a gift economy. It represents life beyond the commodity.

The co-operative movement has already tapped into this seam. Many food co-operatives involve informal labour. So do childcare co-operatives and new initiatives in the care of the elderly. In much co-operative housing each member contributes in kind to the maintenance and operation of the co-op.

There are three points to make about such informal co-operation. First, the co-operative movement should foster and embrace it. It represents one great territory of co-operative practice. One retail co-operative encourages all its senior directors to engage in local voluntary activities, both to contribute their know-how and resources to these social activities, and to learn from them.

Second, co-operatives have a purpose and structure that facilitates the intermixing of the formal and informal. They provide a structure that is open to collaborative volunteering. Many fields particularly suited to co-operative development - health, leisure, education and the many branches of care – can be greatly enhanced by the mix of paid labour and volunteers.

Thirdly, the internet has taught us about the richness of collective intelligence. One of the great changes of the last 20 years is that companies have recognised the wealth of ideas among their workforce and their customers. With the spread of the internet, they have spread wider with online suggestion boxes and problems posed on the web. Innocentive is an online platform started by the pharmaceutical firm Eli Lilly that connects organisations that have science related research and development problems ('seekers') with people and organisations that can offer solutions ("solvers"). Solvers send their solutions (together with their intellectual property rights) in return for a cash prize.

Governments are developing their own ways of tapping into a global commons of information and ideas. There has been an extraordinary growth in policy consultation. The New Zealand government put its draft Police Act on a wiki and invited additions and amendments. It elicited thousands of contributions, and one day attracted as many as 10,000 visits to the site.

Many of these tools have considerable potential for co-operatives, both for their own concerns and – in the present context – in terms of calls for ideas for new co-operatives.

The question is how to tap into these ideas and energies for generating new co-operative projects – formal and informal - and engaging citizens in existing ones. The following are some of the methods that have been successfully used in the wider social economy:

- **competitions.** The Big Green Challenge was a competition run by NESTA to promote green initiatives in the social economy. It prompted over 350 submissions, the most promising 100 of which received seed funding and support to develop their ideas, while the 10 finalists were provided with further funds to implement them. The winning prize was £1 million shared between four projects. Competitions elsewhere have evoked similarly large responses with much smaller prizes, with competitors in some cases being encouraged to merge in order to strengthen their project.

Much of the art of these competitions lies in the question posed. In the case of a competition for innovation in Chicago's public transport, the question was how to raise usage to 1 million journeys a day. It prompted submissions from all over the world (though the winner was a transport journalist from Chicago). The X prize Foundation is another example which offers large prizes of up to \$10 million for such things as a device to accurately sequence 100 human genomes in ten days, or a Progressive Automotive X prize to produce a low carbon, low polluting car which drives at least 100 miles per gallon, or a Village Utility X prize to bring water, renewable energy and connectivity to villages in the developing world.

A *co-operative competition* might best be focused on a particular social or environmental issue and run in conjunction with other bodies engaged with the subject – foundations, NGOs or sections of local and national government.

- **micro grant programmes.** A variant of this would be to form a similar coalition to offer Grameen type grants for mutual solutions to particular problems. By 'Grameen-type' I refer to the principle developed by the Grameen micro credit bank in Bangladesh to lend small initial sums, that could be increased step by step on the basis of successful performance.

One form for a *co-operative grants programme* would be to offer small sums to villages and urban wards to seed fund climate change initiatives or the identifying of unused space and its conversion to common uses like community gardens and allotments. Micro funding programmes of this kind are cheap to administer. They encourage practical mutualism, acting as a focal point for voluntary contributions of time and resources, with successful projects graduating step by step to larger grants. With each group aware that they are part of a wider project (facilitated by a web platform for the exchange of ideas between grant receivers) apparently small actions gain meaning by being part of a larger whole.

- **ideas banks.** The web has generated a large number of ideas banks. Examples are the Global Ideas Bank (that receives a quarter of million visitors a year), the Norwegian Ideas Bank (principally on the environment) and Ideas a Day (the top 500 ideas submitted are published in book form). There are then specific topic ideas banks such as My Health Innovation. While these are a version of an open

suggestion box, the sites can be arranged to prompt people to write about places that have put the suggestion in practice already. In South Korea, the Hope Institute persuaded the Seoul government to launch an ideas bank. In one year it received 74,000 proposals, each of which received a reply within a week. 1,300 were adopted in full (such as lowering hand straps in the Metro for shorter passengers), and many others in part.

A *co-operative ideas bank* would include ideas for new and existing co-operatives. As with the Seoul example, the key would be for the suggestions to receive a reply, and for existing co-operatives – particularly the retail co-operatives – to have a designated innovator or unit to respond to suggestions and put the best of them forward within their own organisations.

- *social innovation camps*. S.I. camps were stimulated by the growth of Barcamps. Barcamps are a kind of ‘ideas mobbing’ where open space meetings set their own agendas and procedures, and generate ideas about the chosen topics. Social innovation camps are more structured. They meet for two days from a Friday night with the aim of producing a workable prototype by the Sunday afternoon. The topics are preselected from submitted suggestions and have focused to date on the application of virtual technologies to social issues. The camps bring together web designers and software specialists with those working in the relevant social fields. Judged by an expert panel, the best prototypes are funded to proceed to the development stage.

The 2009 winner was a team from Scotland that developed a website called My Police. This allowed citizens to comment on local policing (good and bad), post information, and make suggestions. The prototype has now been taken up and funded by West Lothian Police and a new mutual to administer the website has been born.

One of the lessons of these camps is that people are willing to come and contribute expertise and ideas if there is a prospect of a practical outcome in relation to a social problem. The promise of practice generates ideas.<sup>27</sup>

Readers will have their own ideas of what a *co-operative innovation camp* might look like. It could be held in a town to prototype a solution to a specified problem, with teams undertaking rapid mappings and gathering support in a neighbourhood or estate for a mutual initiative. There is now a rich body of techniques for this kind of rapid mapping and action research (rapid urban and rural appraisal, user and resident led ‘souveys’ or surveys from below, short service internships and so on).

It could address an issue like rural transport, or a sectoral problem like school meals or agricultural credit. It should involve people with a wide range of skills and experience, designers, web specialists, engineers, community organisers, the local co-operative retail manager and other co-operators, schools and students, as well as the particular communities themselves. The camps could be time limited

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<sup>27</sup> The concept of innovation camps is now being extended to a ten week night school that seeks to take prototypes to the next stage of beta testing and the pitch for funding. See Bethnal Green Ventures at <http://bethnalgreenventures.com>

to the two weeks of Co-operative Fortnight, and require no more than two days and two evenings.

- **launchpads.** These are a form of social venture funding. They attract proposals and people to develop innovatory services. There is a successful launchpad for health and another for education hosted by the Young Foundation for example. As with venture capital funding, the launchpad staff (who are often specialists from the sector in question) work with the proposers to prototype and launch the idea, and help raise finance for further development.

A *co-operative launchpad* may well be most effective if it was specific to a sector. It could be run in conjunction with social organisations engaged with the sector and with one of the co-operative financial institutions.

- **walking.** There is a strong Gandhian tradition of economic and political walking. One example is the Indian Honey Bee Network where farmers, scientists and researchers walk for up to 250 kilometres from village to village, meeting villagers, visiting schools with the aim of discovering, sharing and disseminating sustainable solutions to local issues.

Another example are the celebrated ‘transparency’ walks in Rajasthan led by Aruna Roy to uncover village level corruption by local officials, using local hearings and publicity to highlight micro cases of misappropriations. The walks led eventually to a change in national laws.

In the UK the fair trade town of Garstang in Lancashire has designed the first fair trade way from Garstang to Keswick (with plans to extend it to Carlisle then east to Newcastle and north to Edinburgh). Groups of walkers spent 6 days stopping at fair trade resting points – cafes, pubs and bed and breakfasts – and promoting fair trade issues along the way.

*Co-operative walking* would involve groups formed round a particular issue, visiting existing co-operatives and informal mutuals to see how they addressed the questions, and prompt ideas for new solutions and projects. Learning by visiting is one of the most powerful triggers for action, partly through seeing things working in practice, and partly because visiting as a group encourages open discussion and a set of continuing contacts. Such visits can of course take place over a wider territory using conventional means of transport, but walking has the particular virtue – like slow food – of attending to the particular, of serendipitous meeting, and remaining at the level at which projects have to be formed.

The fair trade walks illustrate a more general point. They take two existing leisure interests – walking and visiting – and link them to a third social issue. Other common pursuits such as cooking and eating, gardening or reading groups could be adapted to similar ends.

- **events.** Another example of a leisure interest is events – what one economist has termed the ‘experience economy’. These could be music or film festivals, sporting occasions, exhibitions, agricultural shows, open days, or markets. For a diminishing number there may also be meetings and conferences. The GLC in the

1980s hired specialist events organisers to host large festivals to promote its policies – including industry and employment and the formation of co-operatives. Like many such events there was the sub theme of a trade fair with stalls and a programme of discussion sessions.

The Fair Trade Foundation recently held such an event on London's South Bank and ran a continuous programme of talks by co-operative producers. Cinepop in Mexico hosts free public showings of films and invites social ventures to set up stalls for the event. Kerala's fair trade co-operatives organise large scale events for their members (including volunteers building their own hall to house the event) that include cultural performances, talks, discussions among farmers about the problems of growing organic cashew nuts, and a permanent exhibition of co-operative products and books.

The co-operative movement has a long tradition of events. The annual festivals at the Crystal Palace between 1888 and 1910 lasted 5 days in their hey day, and were seen as a Co-operative version of the Great Exhibition of 1851. They included an exhibition of co-operative goods, athletics and cricket, a flower show, fireworks, speeches, and a mass choir (of 10,000 voices in 1897). Similar festivals were held in the North, one in Manchester attracting 60,000 visitors. The tradition continued in the interwar years with celebrations of International Co-operative Day from 1923 onwards, and a CWS exhibition in 1934 attracting 140,000 visitors.<sup>28</sup>

The co-operative movement has its own more modest largely local programme of events, now with the added focus of Co-operative Fortnight, scheduled as it happens in the heart of UK's festival season. *Co-operative festivals* could be a project of its own, meshing different forms and involving other movements that share the co-op's wider social goals. Local and national events of this kind have an economic dimension. They provide an occasion for the showcasing of existing formal and informal co-operatives. They stimulate new ideas, and the making and re-making connections. But they also offer what the earlier co-operative movement achieved so successfully, a sense of a wider culture, of co-operation as a way of life not just an economic project.

- **television programmes and the digital transition.** Reality TV, talent shows, cookery competitions, and Dragons Den are constructed round an ethic of competition and humiliation. Even Monty Don's programme on relearning rural crafts was forced into this formula. But there are exceptions. Most celebrated is Jamie's school dinners, and his subsequent food programme in Rotherham. Channel 4 ran a notable series on participative urban design that teamed up citizens in Castleford with designers, architects and engineers in working groups to work on regeneration projects in the town. The results were a new footbridge over the River Ayre, a gallery, a play forest, an underpass and a new village green. These were examples of the mutual ethic in practice, in striking contrast to Dragon's Den.<sup>29</sup>

<sup>28</sup> Lawrence Magnanie, "National Co-operative Festivals" in Stephen Yeo (ed) *New Views of Co-operation*, Routledge 1988 pp 174-186

<sup>29</sup> The earlier suggestion of organising competitions is not at odds with this critique of Dragon's Den type programmes. Co-operative competitions are ways of encouraging ideas, and then supporting the

There are TV directors in the industry committed to this type of imaginative programming. This is not the place to rehearse the many possible programme ideas, but rather to highlight – in the age of the multiplication of cable channels and of video on the web – the value of *co-operative programming* and the use of the electronic media in generating new co-operative ideas. It is about the power of programmes to pull people and ideas into the movement. It is also about providing expertise and ideas to encourage mutualism in a range of services (for example local cable channels for GPs and schools, or digital spines on housing estates or amongst the elderly which enable video interaction.)

- ***platforms to encourage collaborative action.*** Pledgebank is an online platform where people can offer money or time for a specified project. The pledge takes the form ‘I will do x if y number of other people do it by date z’. Another site is Meetup, that enables people to organise meetings, activities like yoga and events collaboratively. There are now thousands of meetups globally. A variant is Minibar which is a monthly event to get involved in start ups and brings together those with projects with designers, programmers and funders. The movement could either develop its own site for *co-operative pledging* or *new venture meetings* or use the existing sites along with YouTube and Facebook.
- ***promoting mutual learning from those with direct experience.*** The Arizona Department of Corrections has involved ex-prisoners in a programme to help others leaving prison to re-integrate into society. There are many examples of this kind: former drug addicts helping those still caught in addiction; the NHS Expert Patients programme of those with long term experience of chronic disease helping those newly diagnosed; well established migrants helping those newly arrived to this country, and so on. There is a great scope for such peer-to-peer advice in many fields from education and home energy design and management to childcare circles or gardening projects.

Such *experiential sharing* can lead to new mutuals being established. A group of immigrants in Toronto came together in this way, and later set up an interpretation service for Toronto hospitals. A group of chronic disease patients undertook research on themselves that they sold back to the local Primary Care Trust. This is the origin of a number of childcare co-operatives. It is an example of the migration from informal to formal mutualism.

Readers will have their own list of ways in which they have promoted informal and formal co-operation (including no doubt the ones above). I have set these out to illustrate a number of general principles related to the process of generating co-operatives:

- i) the examples are primarily about the generation and testing out of ideas. Launchpads may move into the formal establishment and financing of the new venture, a phase which has been the primary focus of co-operative development bodies.

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best of them to be developed, where relevant merging them together, and ensuring all those with substance receive a measure of support and finance.

- ii) many of them promote informal mutualism as valuable in itself, and in some cases a step towards the establishment of formal structures
- iii) they are ways of tapping into and drawing out co-operative ideas and a willingness to act upon them
- iv) they are by and large issue driven – the formation of co-operatives is an organisational enabler
- v) most involve co-operation with other organisations concerned with the issue
- vi) in such collaborations the co-operative movement provides organisational and process experience as well as potentially being able to draw on the assets of its network

There would be many possible hosts of such projects. Some would be best developed nationally, or at least have a national dimension even if initiated locally or regionally. This would be the case with a Co-operative Pledgebank, and the media programming. A co-operative ideas bank could be national as well as local, and likewise co-operative competitions. Others are essentially local in character. Much depends on the enthusiasm of existing co-operative organisations for particular ways of generating new co-operative ideas, as part of a more general ‘co-operative ideas’ programme.

It also depends on finance. Some core co-operative funding would be required. But many of the methods would be best undertaken as collaborations, in which the co-operative contribution is first and foremost an entrepreneurial drive and project organisational ability, rather than finance. More generally, innovative ideas that address issues that existing institutions are searching for ways to solve – as is the case with a number of these methods - are easier to fund than finding finance for co-operative development alone. Any core co-operative finance should, in short, be heavily leveraged.

One practical way forward to extend this list and put into practice one or more of the ideas would be to have a meta-competition, offering a prize of £50,000 for the best proposal for generating and trialling new co-operative ideas. The prize money from such a *New Co-operative Ideas competition* would go towards funding the immediate start up of the winning proposal.

## VIII Establishing New Co-operatives

Sergey Brin, the co-founder of Google, said that the generation of ideas was the easy part. The difficult one is get them into a workable form that can be established on its own footing. Part of this is a process of prototyping, trying out many variations early on to get mistakes in early. The project progresses through a succession of stages to the point when it is ready for funding. But often there is no sharp cut off point. The early operations of a new venture are always something of an experiment. In some cases it may be best to get an idea up and running quickly on a small scale with minimal finance, as a way of refining the project idea while you are already on the road.

There are a great variety of models for establishing new enterprises. They all have to address the way in which project preparation is linked to funding. In many cases the two functions are separated. The proposed enterprise and its advisors prepare a business plan, which is then considered by a financial institution. In conventional banking, the specialist industrial knowledge lies with the proposer, while the bank assesses the proposal with its specialist financial knowledge. This has been a notorious problem with small business finance and with development banking. The great gulf between industrial and financial knowledge – seen from the financier's point of view – is translated into an assessment of risk. Ignorance increases risk.

There have been a variety of ways of overcoming this rift. Some types of venture capital back the people and the idea, and are actively involved in the development and commercialisation of the idea. Micro credit limits the risk by limiting the amount of money advanced, and in the case of the Grameen Bank, relies on the guarantees of the borrowers friends as a means of distributed project assessment (by the friends).

The co-operative movement, for its part, has been a pioneer in finding solutions to the rift. One is 'crowd funding' - the aggregation of small sums by those with a direct interest in the project's outcome. They both know about the project and provide its risk finance. This was the basis of the original funding of co-operative retail societies, as it is of the village shops and pubs currently.

Another is the financial consortia developed in Italy. An example is that in Modena, The consortia has a board comprising representative producers elected from each principal sector in the local economy. Projects submitted to the Board are assessed and suggestions made for improvement. Projects that are approved are then transferred to a local co-operative or regional bank for funding with the consortia providing the guarantee. The process means first that the proposal has been thoroughly worked over by those who know the industry and the proposer, and the bank's risk reduced by the consortia's guarantee. The obligation felt by the proposer to his producer peers is a further reason why the failure rate of consortia loans is a fraction of conventional bank lending in Italy.

A third model is that of the Caja Laboral in the first 25 years of the Mondragon co-operative district in Spain. The Bank, which was owned by member co-operatives, had two sections. The first was a development section that worked with the



prospective members of a new co-op. The development period took 18-24 months, and often involved the new co-operators visiting the leading competitor companies in the field, as well as extensive training and mentoring, all financed by an initial development loan from the bank. Once the development mentor judged that the new team were ready and the business plan was prepared, they signed off the project and handed it over to the second, financial section of the bank. I know of no other development bank (of which there are some hundreds in the developing world) which has a structure and process of this depth and level of success. It was one of the secrets of Mondragon's overall growth, and was restructured only when the group shifted its emphasis towards the expansion of existing co-operatives as against the creation of new ones.

### ***Co-operative Development Bodies***

The Co-operative movement in the UK has no real equivalent to the guarantee consortia or the Caja Laboral. Its principal development infrastructure comprise the 30 Co-operative Development Bodies (CDBs) and some of the Federations and sectoral development bodies. I am not aware that any have a structural link with banks of the kind I have described, with the partial exception of Co-operative Development Scotland that is a branch of the Scottish Development Agency. The development bodies have many informal connections to co-operative financing institutions and there are some specific arrangements as well as the expanding Community Shares programme. But overall there remains a gulf between the development and financing functions of new co-operatives. This is the first issue.

I shall consider the role of sectoral development bodies later. Here I shall discuss the CDBs. There are currently 30 of them, employing some 150 co-operative advisors. They range in size from one or two person operations to the Wales Co-operative Centre with 72 employees.

They perform a variety of functions. First and foremost they are a source of advice and support for new and existing co-operatives – a distributed network of co-operative consultancy services. The following is a representative list of services offered by one CDB:

- Advice and guidance in legal structures, governance, engaging members, finance, planning and social accounting
- Social Enterprise Diagnostics
- Mentoring
- Business Analysis and Planning
- Feasibility Studies
- Consultation and Market Research
- Market Development
- Marketing Strategy and Implementation
- Financial Analysis and Planning
- Funding Advice and Applications
- Legal and Organisational Structures
- Governance and Participation
- Social Accounting

CDB activities go well beyond these advisory roles. They are promoters of co-operative ideas and scouts for development possibilities. Co-operative Futures exemplifies this animating role. Many provide training courses. Tower Hamlets CDA has developed a network of local food co-operatives. Coventry and Warwickshire CDA run an adult learning and advice centre. Co-operative and Mutual Solutions based in Wigton in Cumbria has supported existing firms converting to mutualisation, and undertaken projects on the development of mutual provision of public services. Hackney CDA has spearheaded the development of a major regeneration project and cultural quarter in its Borough. Somerset Co-operative Services have played a key role in the establishment of ambitious ventures to run a railway, a lightweight community transport venture and a radio company. They are also engaged in promoting co-operative housing projects and credit unions.

What is striking is the diversity of CDBs. Common to all are business advisory services, but around this core they have their own distinct mix and character. There is no one model.

There are number of points to make about this central resource in co-operative development:

- i) CDBs are first and foremost promoters and service providers for individual co-operatives. Co-operative Development Scotland organises its work around sectors, and the Welsh Co-operative Centre runs substantial programmes on financial and digital inclusion. But for the most part this is a network for supporting individual co-operatives, by and large new ones, and mainly coming from outside existing co-operatives. It represents co-operative development from below.
- ii) As business service providers there are blurred boundaries. On the one hand they can find themselves in competition with conventional business advisory services like Business Link, and emphasise the distinction of their values-based services and specifically co-operative experience. On the other, many offer their services to social enterprises more generally in some cases exclusively, rarely dealing with co-operatives at all.
- iii) This is tied into the question of who can be regarded as a bone fide co-operative development advisor, and to proposals to establish a formal association of advisors, with appropriate training and qualifications.
- iv) Although there are some CDBs that are geographically wide ranging or providers of a particular service nationally, most are locally and regionally based. Even so there is an element of competition between them, both across geographical boundaries and within them. This has created sometimes acute tensions and even suggestions of the need for territorial exclusivity. The Enterprise Hub has encouraged greater collaboration at a regional level without fully removing this tension.
- v) There is a greater emphasis on responding to approaches than on the proactive development of new projects.

- vi) The benefits of the diversity of their work have not yet been fully realised. Although there is a network of CDBs that meets regularly under the umbrella of Co-operatives UK, as well as regionally – particularly following the establishment of the Enterprise Hub – I am not aware of an assessment of the value of the diverse activities or of discussion about how to generalise them.

It is partly a question of resources, but the Enterprise Hub programme shows how resources can be raised to finance a function on which there is general agreement to secure national coverage.

- vii) Almost all of them face the challenge of finance and the need to establish their own sustainable business models in the current climate. The original expansion of the CDB network in the 1970s and 1980s was based primarily on local authority and to a lesser extent national funding. As this has been cut back, so many CDBs have collapsed, and the prospects of public funding of co-operative development as such is even bleaker. To sustain the existing network let alone expand its functions, methods and coverage puts the financial model for CDBs at the heart of any discussion.

### *The challenge for CDBs.*

CDBs are primary players for developing a distributed co-operative system in the current period. If they didn't exist they would have to be rapidly invented. Fortunately they do exist and have many years of experience between them. They are one of the principal progenitors and midwives of new co-operatives. Their existing in-depth area coverage is still patchy, but the existing structure of locally based CDBs with some national and footloose cross cutting services is a valuable one.

Yet there is one central issue for the network as it currently operates. CDBs are for the most part autonomous bodies pursuing their own strategies – and save for the Enterprise Hub initiative – are only loosely co-ordinated around shared programmes. This independence and the variety of initiatives and the flexibility which results from it reflect the qualities of a distributed network. But their 'systematisation' is much weaker. By this I mean that as a 'knowledge infrastructure' for supporting and driving new co-operatives, there are issues at the level of the network as a whole that are insufficiently developed. The integration of this infrastructure with finance is an example. But there are others to do with the package of services that the network is able to provide, its capacity to deal with large conversions, its means of circulating knowledge within its own and wider networks, and making it more widely available, and the range of its role with respect to the various phases in co-operative development.

In comparison to the Italian version of flexible specialisation, there are fewer consortia and institutional alliances to realise the economies of scale, scope and knowledge that are necessary elements in system economies. In short the CDBs are flexible but insufficiently specialised or connected. This has implications both on the demand side for advice and that of supply.

i) On the *demand* side, there are a number of current or potential areas requiring development support for which the CDBs are not fully prepared.

- public sector conversions. For the first tranche of ‘big society’ Pathfinder mutualisations announced by the Government in August 2010 those being called on as advisors included large consultancy organisations, and existing employee ownership companies and the EOA. Greenwich Leisure is the one formal co-operative that has been included.

The CDBs are not yet organised to respond to central government moves of this kind. There needs to be a lead body that can put together teams of the relevant specialisms for this work. In discussing the issue with CDBs it is clear that some of these skills and experience exist within the CDBs. Others would have to be bought in. A further option is to partner with other organisations that share a co-operative/mutual perspective. The key is that the knowledge that comes from the process of conversion is internalised within the movement so that it can be readily available to those setting up or operating in the field.

- private sector conversions. A similar argument applies.
- national co-operative projects. Where there are national programmes for particular types of co-operative development, there will be a requirement for local intermediaries, both to promote and support local elements of the programme, and to feed back that experience to others involved in the programme. It may be a question of local support for the expansion of credit unions or care co-operatives, or indeed any national programme of education or sectoral development.

There is, too, the question of drawing out the ‘latent’ demand that the developments in the new economy suggest is growing.

ii) On the *supply* side, the key questions are:

a) **Diffusion.** There needs to be a stronger mechanism for making the most of the diversity of the CDBs work to spread the activities and share the experiences. Among the initiatives that could be generalised are:

- The operation of a hub for local organisations involved in different areas of the social economy, such as provided by Lincolnshire CDB and Avon CDA.
- entrepreneurial initiatives such as those of Somerset, Hackney or Tower Hamlets
- the specialist focus of some CDBs like North West Housing Services or the programmes of the Wales Co-operative Centre promoting digital inclusion and co-operative local radio. Are these Welsh initiatives ones that could spread nationally?

What would follow from reconceiving the work of CDBs in establishing individual projects as a form of *co-operative development laboratory*, each project an experimental prototype that could be diffused more widely?

More generally, Co-operative Development Advisors already form a cadre for co-operative development. This needs to be expanded into a *community of practise* spread through many organisations, that uses all the techniques for discussion and sharing that have been opened up by the digital age.<sup>30</sup>

- b) **Formation.** At present it sometimes seems as though there are too many advisors offering co-operative support, whether as designated CDBs or those from general business advisory services. This has led to proposals to manage this competition, by emphasising the quality differences between CDBs and general business consultants, for example, or not allowing individual operators to act as a CDB. There have been discussions on designating areas of local exclusivity to limit competition among CDBs.

From the perspective of the movement, however, the task is rather one of mobilisation than restriction. While some of the factors driving demand are external – such as the Government’s Pathfinder programme – others are potential and require cultivation. In this sense the demand for new co-operatives is not independent of the supply of advisors. In view of the opportunities the issue is that there will be too few people able to support and animate co-operatives rather than too many.

One part of a radical expansion strategy is the development of *a programme of formation of CDB workers*, to ensure that those working to promote co-operatives should have a direct understanding and experience of co-operatives and a commitment to its core values. Such a process of formation would dovetail with the proposals for a formal qualification and a professional association. It would also suggest that the boundary lines for CDB recognition should be determined by the quality and qualifications of the network advisors rather than the name or size of the body they work for.

Such a programme would not be just to ensure a supply of staff for CDBs but a flow of proponents of co-operatives in other organisations – from banks and local government departments, to development agencies and existing co-operatives. It would spread the skills of co-operative development to existing organisations as well as CDBs working independently. Such a network of co-operative development professionals and the spread of co-operative skills to other organisations would also provide a variety of personal development choices for existing CDB workers. As for many ‘knowledge’ workers, the question is often less one of career paths than of a working life that widens and enriches experience.

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<sup>30</sup> On communities of practise and new web based tools for connecting see Etienne Wenger, Nancy White and John Smith, *Digital Habitats: Stewarding Technology for Communities*, CPSquare Press, 2009

- c) ***Support platforms and virtual content.*** CDBs have an interest in the widest circulation of their knowledge and skills. Open source processes ensure that one learns as much as one shares, and in the CDBs case it means that their time can be focused on face to face activities and advice. This raises the question of how much of existing advisory work can be made open source and virtual. There are examples such as the legal postings on the Co-operative Networks website, and the Plunkett Foundation's virtual guide to the establishment of a village shop. But I am aware of only a few actively hosted open source sites that elicit experience and advice from many sources at home and abroad, or of sites which involve group processes of venture formation moderated by an advisor (one example is the programme to expand co-operative schools).

As with the knowledge economy more generally, there is the continuing tension between the free and open circulation of knowledge that can be codified, and the need to earn an income from those providing that knowledge. It becomes an issue of business models, and incentives that would encourage as much of the co-operative know how as possible being made virtual and added to by an international co-operative development community.

Part of the work of CDBs and their networks would be to develop such ***open source materials*** in collaboration with the Co-operative College.

- iii) ***range of local development functions.*** The functions required locally are much more than co-operative business support. They include:
- proactive animation and where required entrepreneurial venturing.
  - a network of local developmental intelligence
  - a two-way communication channel between any locality and the wider co-operative network.
  - the active engagement of others in the social economy around the advancement of the programme of co-operative expansion
  - the encouragement of co-operative culture (here there is a lesson from the transition town of Winchester which recruited a cultural development officer as their second staff appointment).
  - a rooted enough network to be a service intermediary for those national or even local authority bodies seeking to reticulate their services at a granular local level.
  - a capacity to arrange for local co-operative formation, part of a system for the creation of co-operators.

- the administration of micro co-operative promotion funds, as well as being a direct channel/service agent of co-operative financial institutions

There are examples of most if not all of these happening at some point in the network of the CDBs. But they are not generalised nor always fully developed. Should this be one of the functions of CDBs?

It may be that their work would be most effective if they focused on business support. But for those that are local, they have often acted as dynamics hubs for many of these wider functions. Not all of the functions need to be carried out by the CDBs themselves. There are other existing and potential sources of help, from the co-operative associations, the retail members groups, local fair trade groups and indeed some of the individual co-operative members themselves. The point is that some local body is needed to act in the role of a hub and if it is not CDBs then – from the movement's point of view – it is important that there are others who can take on the task and act as a channel connecting local development networks to wider national initiatives. This, too, is a system issue.

In summary, the infrastructure to support the development of new co-operatives faces major challenges:

- the integration of venture formation and finance
- the technical range and organisational capacity to respond to the current wave of potential public and private conversions
- the integration of local development capacity with national and sectoral co-operative initiatives
- the extension of the network of co-operative development specialists to those working in existing enterprises and public bodies where there is scope for co-operative expansion
- expanding and reproducing a body of co-operative development specialists
- the application of the innovations of the information economy to the sharing of know how and experience between specialists, and the establishment of open source platforms for creation and diffusion of co-operative development resources
- the potential extension of a technical business support role to an entrepreneurial and animating function for local co-operative development
- the development of business models and alliances that would allow CDBs to play an expanded role.

### *Financing CDBs*

In his autobiography Gandhi speaks strongly against the principle of core public funding. He wrote:

“It has become my firm conviction that it is not good to run public institutions on permanent funds. A permanent fund carries in itself the seed of moral fall of the institution. A public institution means an institution conducted with the approval, and funds, of the public. When such an institution ceases to have public support, it forfeits the right to exist.”<sup>31</sup>

Gandhi used the word public here not to indicate a state body, but one which was devoted to social causes rather than private ones. In his view a voluntary source of finance played a parallel role to the discipline of the market for private trade.

There is indeed an observable difference in grant based organisations between those that are centrally funded and those that rely on a multitude of small contributions. Greenpeace is an example of the latter. It refuses grants from either large corporations or governments and instead it has 3 million subscribers. If subscriptions fall (as they did after 9/11 when the US Government branded Greenpeace as a terrorist organisation) it responded as a firm in the market would have done to a fall in sales, by rethinking its practices.

Co-operatives have a public element in Gandhi’s sense as do CDBs. They can approach the issue of their financial sustainability in three ways:

- who are the potential supporters who share their public purpose
- what do they provide which could be marketed as services
- what activities could they undertake which would yield a surplus to fund their other developmental activities.

I pose the question in this way because there is a tendency in contemporary grant funded organisations to re-conceptualise themselves as sellers of commodity services, not least to an increasingly ‘commodity-commissioning’ state. This change in public funding from grant to contract does not mitigate Gandhi’s warning if the aim of the organisation is a social one.

So I start with the first question, which is how far the work of the CDBs could command the type of public support on which Greenpeace relies. Is the formation of co-operatives sufficient as an idea to elicit the kind of voluntary contributions of money and time that co-operative expansion requires? How far does it touch a wider social enthusiasm, or will the movement have to rely on its existing assets and enthusiasts for development work of this kind? I shall discuss this question more fully in part 3. But I raise it here because there is a local dimension to it.

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<sup>31</sup> M.K.Gandhi, *An Autobiography: The Story of My Experiments with Truth*, Penguin 1982, p.188



The great local causes that provoke demonstrations and action groups and in rare cases even elect MPs are often those with a mutual dimension: the battle against incinerators, or nuclear dumps, the closure of cottage hospitals or a local factory, the planting of GM crops or the sale of green space for development. All such campaigns involve the development of alternatives, and in each of these cases there are potential mutual solutions. Co-operation then becomes part of a wider cause as it did indeed in Gandhi's own championing of co-operation in India. These causes are likely to grow as public expenditure cuts take hold.

I do not say that it is individual subscriptions that will be a major source of funds for CDBs. But the spirit of championing a public cause in Gandhi's sense does draw support and finance from often unexpected quarters. The hollowing out of public morality that has taken place over the past thirty years leaves a space where co-operation finds a natural home. For so many of these public causes the problem has been how to develop practical answers. This is where co-operatives come in.

The Welsh Co-operative Centre had its roots in this moral economy with its support of the Tower Colliery and now its programmes on social and digital inclusion. This is true of many CDBs. For the Welsh and Co-operative Development Scotland there is still firm public sponsorship. But as public money recedes, then support from within the co-operative movement becomes ever more critical.

The Co-operative Group's funding of the Enterprise Hub is an important contribution. A number of CDBs, notably Co-operative Futures and Lincolnshire CDB have core funding from their local retail societies. Some of this stems from the principle of the importance of expanding co-operatives. This source could expand if there are ways that the work of CDBs could be seen to strengthen the retail co-operatives themselves.

The national level should be another source of funds. For if CDBs are no longer to be just local pioneers but part of a co-ordinated network of national co-operative development then the co-operative nationally has an interest in an expanded CDB network. At the moment, there are no national funds of this kind available. But the CDB network is part of the case for raising them.

So of the three sources of funds discussed so far – the local public, a local co-operative-committed state and the co-operative movement itself - all three are currently limited.

What then are the alternative business models that could sustain the CDBs. I suggest five, to which readers will add others of their own:

- i) *mission led contracting*. In the social economy field one model for mission led groups is to mix fund raising for a project, with bidding for grants and contracts relevant to the mission. The first raises funds for ones own project. The second bids for other people's project's that have their own funding but whose goals coincide with those of the CDB. These could be called mission based rather than commodity contracts and consultancies.

Somerset Co-operative Services has adopted this model. It describes itself as a campaigner and initiator of co-operative solutions, and has

environmental sustainability as a strong thread through much of its work. It raises finance for its own initiatives, but describes its principal business model as bidding for individual contracts and specific projects that fit with its values and purposes.

- ii) *mutualising public services*. There is some experience of this in CDBs and it is clear that it is likely to be an increasing trend over the next few years. When it comes to municipal contracting, CDBs will have the advantage of local knowledge compared to national consultancies. But they will need to build up a team of specialist national and international experts that can be marshalled for a bid. Here the international co-operative network provides a rich resource – such as the social care co-operatives in Italy and Canada.
- iii) *informal mutualism* developed on the model of the Circle movement. The first Circle was developed in Southwark by the social design group Participle. It is a membership organisation that co-designs its own services and encourages mutual support amongst elderly people. As suggested in Part 1 this type of informal mutualism linked into a refashioned public service is likely to increase in many areas of health, social care, education and even food, and like the Circle movement its start up and operating costs are publicly funded
- iv) *collective services* provided to co-operatives. The Confederazione Nazionale dell'Artigiani (CNA) is a consortium that provides back office services such as book-keeping, accounting, regulatory and legal advice to artisans and small firms in Italy on an extensive scale. In the town of Carpi for example, a clothing town near Modena, the CAN building is the tallest in the town, and it has 24 branches in to which there are continuous stream of artisans bringing their invoices and enquiries. Somerset Co-operative Services provides accountancy services for local co-operatives, and there are many others such as web design, IT, and financial management services that could generate a continuing income stream for a CDB.
- v) *projects that produce surplus* that can be transferred to co-operative expansion. A recent example that has emerged after the announcement of energy feed-in tariffs is the fitting of solar photovoltaics on public buildings and social housing. Over the next two years there is a window of profitability for such schemes which is attracting city money with little expertise and less commitment to any area. There is one exception where the profit is being diverted into a local community company to encourage development – a mutual project in itself and one which could be harnessed for co-operative schemes.

What runs through these alternatives is the importance of specialism both in the establishment and operation of co-operatives and in the particular service and/or community. The combination of social values, local knowledge and specialist expertise are the three elements which give CDBs their USP when competing in this field.

## **Conclusion**

After its expansion in the 1970s and 1980s and its later contraction, the network of CDBs has stabilised and plays an invaluable role in the establishment of new co-operatives. But its effectiveness could be greatly increased by closer integration with the various branches of co-operative finance, and the development of its own range and depth of capacities, its professional cadre and the way in which its 'knowledge economy' is organised.

What is needed is a stronger national co-ordination of this multimodal network, so that it can become an effective system rather than an archipelago of autonomous bodies. It is not a question of re-forming a national CDB on the late 1970s model. The task is the fine fingered one of co-ordination and synthesis not that of delivery. In other words CDBs should be a distributed network not a centralised service, capable of providing support in response to the growing range of opportunities that are already evident.

My sense is that many people within the network are only too aware of the need for greater 'systematisation' in relation to the points I have discussed. The questions are those of finance, and the creation a process for institutional collaboration to overcome the fragmentation and even competition that characterises much of the current institutional arrangements.

The Co-operative Group and Co-operatives UK both offer frameworks for such a task of synthesis – the Co-operative Group as the funder, through the Values and Principles Committee(s), of the Enterprise Hub and Co-operatives UK as a policy champion and the democratic forum for co-operative enterprises and developers. Both are needed but they should be meshed and radically expanded, to ensure a quality service that extends universally across the UK. This should be done in concert with the relevant national development experts at devolved level and linked in with the wider infrastructure of co-operative innovation raised here. Those who benefit from co-operative development support, for example through the Enterprise Hub, can in time expect to contribute funds or time to benefit others, creating a more sustainable peer network owned by the sector as a whole.

*I have suggested a number of initiatives that are required:*

- *the establishment of a consultancy drawing on the expertise of the international co-operative movement to advise on public and private mutual conversions*
- *the development of a programme of formation of co-operative development specialists, both to expand the network of those practising independently and to extend it to those working within existing public and private organisations*
- *in conjunction with the Co-operative College the development of an orientation programme for voluntary mentors and non executive board members and advisors for new co-operatives,*

- *the compiling of a register of those willing to act voluntarily in the above capacities*
- *the creation of a means to link the process of venture formation and early stage financing, either through the expansion of venture generating mentoring and industrial expertise within existing co-operative financial institutions, or by closer links between the financial institutions and the enterprise hubs*
- *the establishment of mutual guarantee consortia for early stage and expansion finance*
- *the development of specialist services that could be offered to co-operatives on a continuing basis by CDBs*
- *the formation of a national network of local co-operative promotion hubs*
- *the formalisation of a process of reflective practice for the network of CDBs, including the study of particular initiatives with a view to their wider diffusion*
- *the further development in conjunction with the Co-operative College and a Co-operative financial institution, of a specialist web portal that would act as an online co-operative advisory service, a discussion forum, a site for generating open source material on co-operative start ups and management, along with case studies, TED type lectures, and updates on promising new areas of co-operative development*
- *the compiling of a central register of specialist professional advisors that could be used to assemble project teams on the model of IBM's internal project programming*
- *the promotion of methods to generate new co-operative ideas as outlined in Chapter VII, with an initial competition for those prepared to organise co-operative innovation programmes of this kind*

*To kick start the process of collaboration between the Co-operative Group and Co-operatives UK , both bodies together with the co-operative financial institutions, the Co-operative College and the CDB network should:*

- *launch the first phase of an action programme, by identifying at least six areas where they could jointly take action over the coming two years*
- *in parallel complete a development infrastructure plan that addresses the financial and network issues raised here.*

*The results of the first phase of the Action Programme and the medium term plan should be presented to appropriate fora in the Co-operative Group and to the Co-operative Congress in June 2011.*

## IX New Co-operatives from Within: Diffusing Co-operation

### *The process of co-operative diffusion*

Existing firms are a second port of call for any strategy for the development of new co-operatives and the expansion of existing ones. They are in many ways a firmer launching pad than is found by new co-operatives that start from scratch.

For new and established co-operatives, the issue of their expansion is often framed as a problem of scaling. But it is more appropriate in the information age to think of it in terms of the diffusion of the knowledge and practical experience contained within a co-operative enterprise. How can such resources already contained – like rich minerals – in existing co-operatives, be fully harnessed in the interest of the co-operatives themselves and that of co-operative development more generally?

Here it is useful to make a distinction between enclosed and open diffusion. In the private market economy, firms are seen as if they were gated communities, who exploit their knowledge through their own expansion and by mergers and takeovers. If passed over to others, the know-how is formalised as ‘intellectual property’ (IP) and valorised through the charging of royalties, franchises, licence fees and so on. This is the path of *enclosed diffusion*.

In the social economy the spread of know-how can take a different form. The goal of a social venture is furthering a mission. It can do this by expanding its own organisation, but equally by sharing its knowledge and systems with other organisations. There was a vivid example of this in the Royal National Institute for the Blind. Some years ago they found that they were only able to train a small proportion of the guide dogs needed, so decided that instead of expanding they would offer their know-how to other institutions that were capable to applying it. This included previously rival organisations as well as local authorities. Both were surprised not least because the transfer of know-how was accompanied by start up funding from the RNIB. The charity was funding the state.<sup>32</sup>

A current example is that of the social venture company Bio Regional. They are the environmental innovators who created the zero carbon housing developments at Bed Zed in South London and a similar landmark development in Brighton. Recently they put all the proprietary know-how on the Bio Regional website as a way of speeding up the conversion of housing construction to low carbon methods. This is ‘*open diffusion*’ similar in many ways to open source software.

Most co-operatives are in an intermediate space. They are both operating in the interest of their members, and have a commitment to the wider community and to social goals. One of the arguments in this review – and one reflected in the Co-operatives Group’s ethical emphasis – is that for co-operatives there is no

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<sup>32</sup> G.Dees, B. Battle Anderson, and J.Weï-Skillen, “Scaling Social Impact: Strategies for Spreading Social Innovations”, Stanford Social Innovation Review, Spring 2004.

necessary split between the two, that social interests are also members' interests, and that a clear social commitment attracts new custom and new members. Co-operatives have an interest in sharing in order to spread. As a principle, this is one of the key distinguishing features of a co-operative economy.

### *The firm as a platform*

Existing co-operatives can, therefore, play a pivotal role as a platform and resource for promoting expansion and the establishment of new co-operatives. This could take any or all of the following paths:

- ***Spin offs.*** They could identify a group of existing co-operative staff to establish a new venture drawing on the know-how and networks of the mother company. This was the model that lay behind the remarkable growth of medieval monastic orders with their mother and daughter houses. It has been used successfully in the private sector, most notably as the Bunsha method in Japan, whereby a company identifies potential new company managers, invites them to choose a small team from the parent's existing workforce, funds the start up and then maintains associate relations after the launch. It is a model that has much in common with cell growth, a process of splitting yet keeping the same DNA.<sup>33</sup>

Many of the co-operatives and small firms in Italy have been formed by spin offs of specialist workers who remain closely linked to their company of origin. Among co-operatives in the UK, the fair trade co-operative Twin Trading incubated and then spun off Café Direct, Divine, and Liberation Foods. Similarly Daily Bread in Northampton supported one of its employees to set up Unicorn in Manchester, and another one in Cambridge.

- ***Incubating hubs.*** In a similar way the co-operative could act as an incubator for independent start-ups. It would host initiators of the new projects to work within the co-operative so they could understand its methods and markets. It would make available the basic tool-kit of the start up (legal forms, financial software, websites, quality assessments, democratic and HR processes) and provide mentoring and training support as well as operating space during the start up phase. In this way, as with the internal spin offs, the existing co-operative would be acting as an aircraft carrier, the deck from which new ventures take off.
- ***Know-how and methods.*** These could be made freely available bilaterally or as with Bio Regional on an open basis. An excellent example in the co-operative field is the booklet written by Roger Sawtell, one of the founders of Daily Bread, explaining the principles and methods of setting up a wholesale food co-op.<sup>34</sup>
- ***Finance.*** An incubating firm can provide some of the initial capital as a loan or a gift. The Davis Food Co-operative in California, now a 10,000 member co-operative with a turnover of \$19 million, gave start up capital to a new food

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<sup>33</sup> Bunsha means 'division', and is the driving philosophy behind the Bunsha Group of some 40 high tech companies in Japan. See the book by the creators of the group Kuniyasu Sakai and Hiroshi Sekiyama, *Bunsha*, ICG 1992.

<sup>34</sup> See Roger Sawtell, *Blueprint for 50 Co-operatives*, CDA, 1985

co-operative on the condition that if the new enterprise made profits it would in turn fund another enterprise.

It is a constant struggle for co-operatives not to turn in on themselves. They have a business to run and keep afloat in fiercely competitive markets. There is always too little time to turn outwards let alone adopt independent projects of expansion. This is true not only of co-operatives but of big firms and small as well as departments of government.

Over the past 10 years there have been a range of methods adopted to create a space for innovation and new project development independent of the day to day disciplines of operations. They include free time like Google's day a week when employees can work on their own projects, and other extensions of internal 'skunk works'. Some have established free thinking innovation units and design labs. They have appointed internal innovation champions and social intrapreneurs, and hosted thinkers and social entrepreneurs even artists in residence. Such methods could all be adapted to the creation of new co-operative projects.

### *Tapping proprietary knowledge*

There is a further point of importance. Seeing firms as rich repositories of knowledge, underlines the importance of recruiting firms into the co-operative network that are willing to share their know-how for social and environmental ends. The firms may be quasi mutuals like Burdens of Bristol a civil engineering company, that is a family firm part-owned by its employees. With the help of its foundation it has used its engineering knowledge to develop a technology long advocated by the community composting movement, namely modular forms of anaerobic digesters, that can be used on farms and in villages to produce power and compost. Burdens is one of more than 100 employee owned firms registered with the Employee Ownership Association, a number of them from the knowledge and cultural economy, and all potential supporters of co-operative development.

There are rare cases, too, where mainstream corporations have made their proprietary knowledge available to social ventures. Muhammad Yunus, the founder of the co-operative Grameen Bank has come to believe that tapping into this knowledge by the social economy is crucial for any process of economic development. He has been much influenced by the success of his partnership with Danone Yoghurt who agreed to provide the firm's know-how (in formulating and producing yoghurt, as well as the construction of yoghurt making factories and the production of packaging) to formulate a low cost yoghurt that would improve nutrition in rural Bangladesh.

It is an inspiring story. Yunus insisted that the yoghurt had to be cheap enough to be afforded by poor peasants, that the container had to be both biodegradable and edible, and that the production had to be in micro factories close to villages not in a large central factory in the capital. This was all very different from Danone's norms. But they were able to use their food, engineering, and sourcing knowledge to innovate in the way insisted on by Grameen, at the same time agreeing that all profit from the joint venture would be re-invested in the Grameen project.<sup>35</sup>

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<sup>35</sup> Muhammad Yunus, *Creating a World Without Poverty*, Public Affairs, 2007, Chapters 6 and 7.

### ***Shops.***

Retailers and wholesalers have particular scope to develop co-operatives because of their pivotal position in the supply chain. Marks and Spencer at one time played an important role in raising the standards and capacity of the British clothing industry, with a department of 150 technicians who worked closely with suppliers (much as the Japanese motor manufacturers have long term relations with their supply chain on technology and performance).

Sainsbury suppliers have commented on the help they have received in improving their quality and service reliability. They are one of the retailers, along with the Co-operative Group, to have been involved in an innovative programme of co-operative development in Africa. The FRICH programme, sponsored by the Development for International Finance and Development, is designed to link retailers to the development of African primary co-operatives, and has already helped revive coffee production through a farmer's co-operative in the Democratic Republic of the Congo.

And, of course, this impetus for creating new suppliers was a central feature of the first wave of consumer co-operatives. Initially it was retail societies that created new co-operatives - flour mills, bakers, butchers, abattoirs, the original Co-operative Insurance Company, and in 1863 the CWS. But from then on it was the CWS that became the principal hub for new ventures, and for the care and support for local retail societies in trouble. By 1937 the CWS had created 182 factories and workshops, with its own shipping fleet, farms and tea estates. These were not spin offs but wholly owned enterprises, as was the Co-operative Bank that was created from the CWS banking department. They exemplify the use of the CWS's staff, finance and trading channels to promote new developments. I want to say more about this later in relation to the key role of the Co-operative Group and the retail societies in fostering new co-operatives. A number of the retail societies have done so. For any wider programme they remain one of the movement's core resources.

### ***Banks.***

Banks in the Anglo-Saxon world have traditionally been weak in their role as development agents. They have tended to be project based and reactive. Even development banks have lacked the sector specialism and industrial intelligence that allows them to go out and proactively promote new ventures in promising fields.

The co-operative and regional banks in Germany are different. They exemplify the principles of flexible specialisation. Conceived as banks oriented to service retail customers and promote local and regional economic development rather than maximise profit, they operate a highly distributed branch structure (the co-operative and public savings banks alone account for 2/3 of all the country's branches). Together with the state Landesbanks, they have provided the finance for the small and medium manufacturing enterprises that are at the core of Germany's continuing industrial strength. Italian co-operative and regional banks have similarly been one of the cornerstones of the industrial districts as has the Mondragon bank in Spain. These systems provide a model for the British movement.



## ***Conclusion***

It is one thing to say that existing co-operatives, retailers and banks could play an important part in a programme of radical expansion. It is another thing for them to be able to do so. This is where their involvement in designing a strategy for co-operative expansion is important. For their know-how and staff are one of the great assets of the co-operative movement. Once this is recognised, how this source is deployed can be worked through on a case by case basis.

Later I recommend the development of a web platform to post problems to which existing co-operatives may already have an answer. In the meantime there are two initiatives that would encourage the application and spread of proprietary knowledge:

- ***a partnership programme for technological and commercial mentoring between employee owned mutuals and the larger co-operatives on the one hand and new co-operative initiatives on the other.***
- ***an annual prize to recognise those co-operatives and Danone-type companies that have used their proprietary knowledge to generate new projects.***

## X Shaping Sectors

Up to now I have focused on the establishment of individual co-operatives and the diffusion of co-operative ideas and know how. But as I suggested in relation to continental co-operatives, it is sectors that are central to radical expansion. They are the grain along which industry itself is organised. The reasons are partly due to industrial knowledge and skills, partly to markets. Sectors are more than the sum of their parts. They develop their own specialist companies, and their own sector wide services such as training, economic intelligence, and representation. They are affected by new general technologies in common ways. They generate their own distinct sectoral technologies. They are governed by common regulations and trading regimes. It is at this level that the co-operative movement must find ways of moving forward.

Looked at through a sectoral lens, co-operatives have a significant presence in retail, in banking and insurance, in agricultural marketing, pharmacies, funeral care, and leisure management. In light industry there is nothing to match the position of the co-operative networks on the continent, nor co-operative windpower in Denmark and Germany, nor social care in Italy.

On the other hand it is striking how diverse are the sectors in which co-operatives in the UK have a presence. Just as there is scarcely a neighbourhood which does not have some form of co-op, so there is scarcely a sector in which a co-operative cannot be found.

What is needed is to ensure that there are sectoral development bodies (SDBs) that can act as animators of co-operative development in those sectors where there is greatest scope to realise the 'co-operative advantage'. The most promising sectors are those with one or more of the following characteristics;

- where the private market is widely acknowledged as failing, or where its chosen path of development is at odds with the distributed model that is more open to the application of co-operative principles
- where the state is having difficulty in providing the necessary services and where the private market is an inadequate alternative
- where a strong presence is important for the co-operative system
- where the production clearly addresses a critical social or environmental need.

Many of the sectors that are listed as opportunities for a new mutualism meet these criteria: education, health, the many branches of social care, housing, food and agriculture, finance, the environmental industries, those working with places and people who have been stranded by the retreating tide of the economy.

### ***Sectoral Development Bodies***

A sectoral body has a number of functions:

- i. *Animation*. Its primary task is to act as an energetic force for the development of the sector. This requires the skills of the facilitator, bringing those in the sector together to develop a common perspective, and then drive it forward. Its task is to articulate a vision for the sector and the economic and social case for its expansion.
- ii. *Strategy*. The strategy sets out the vision and the values that underlie it. It provides a mapping of the economic territory and promising directions of advance. It is not a programme with fixed plans and targets. There is too much uncertainty for that. But it offers horizons and identifies spaces that are threatened or are opening up.
- iii. *Global intelligence*. The body should have the capacity to provide leading international examples of practice, technologies and system architecture, and connect the sector to international networks.
- iv. *A promoter of innovation*
- v. A provider of *advice and information* on technology, on business models, on community processes and on the inputs necessary for the establishment and operation of projects
- vi. *Formation of a coalition of interests*. The SDB will often develop coalitions around the sectoral project, including specialists, technology and service providers, community bodies and NGOs, research bodies and think tanks, industry analysts and the press, local and national politicians and civil servants. Such a coalition is a source of intelligence and advocacy as well as an aid to development on the ground.
- vii. *Regulatory framework*. The body should participate in the establishment of standards and a regulatory framework for the sector.
- viii. *Funding channel*. It can act as an intermediary for the receipt of public or foundation funding for the development of the sector – having the industry knowledge and connections which government departments or independent grant givers lack.

In addition to their role as entrepreneurial developers, some bodies may play the role of a trade association, and that of a real service centre – in the Italian sense – actively providing market and technological information, advice and connections to start ups, organising seminars and so on. Some of these may pull against each other. The role of a trade association to promote the interests of current members may limit the time for entrepreneurial expansion. The drive for new members must be balanced with providing the services for existing ones.

### ***Sectoral service units***

There are many different ways in which this sectoral development function can be performed. One are the units that service sectoral co-operatives, like those of the 21 Co-operative Federations, In housing, for example, the dedicated units for the different sub-sectors, worked together in recent years to support the Co-operative and Mutual Housing Commission which published a report that sets out a strategy for the expansion of co-operative housing. The units are now meeting regularly to discuss how to puts the Commission's recommendations into practice. A number of the other Co-operative Federations have produced similar strategies. All of them are an important developmental resource.

### ***Developmental bodies***

In some cases, co-operative development organisations have structured their work round sectoral development. This is the case of Co-operative Development Scotland, the Scottish CDB, whose work has focused on the food and drink industry, on forestry, energy, tourism, textiles and the creative industries. In this case the work does not start so much from existing co-operatives but aims to expand the co-operative presence in the sector by the support of start ups and the expansion of existing co-operatives as well as by converting family firms with succession issues.

Another example is that of the Plunkett Foundation which has played a developmental role in a number of segments of the food industry, notably the promotion of local food, through farmers markets, community shared agriculture, as well as the purchasing, distribution and supply of food through co-operatives. The Foundation's most successful initiative has been its village shop programme that has to date led to the saving or re-establishment of 247 village shops, two thirds of which have a post office.

Here it is the social as much as the technical organisation that has been critical. The Foundation has developed a model for establishing a sustainable local shop, run as a co-operative usually by volunteers with minimal paid labour, that can be adopted and adapted according to the community concerned. There are four particular features of the Foundation's work that have wide applicability:

- i. The Foundation has established a website as a platform for the shops. The site has a chat room that allows the shops to discuss problems and share ideas of what does and doesn't work, as well as generating collective intelligence on examples and information relevant to the shops. This virtual meeting place is complemented by periodic get-togethers of the shops.
- ii. It has got the shops to confidentially post a list of their products together with prices and margins, on the basis of which overall benchmarks are produced against which any shop can assess its own margins policy.
- iii. It facilitates and mentors study visits by new and potential projects to existing shops.

- iv. It has begun collective negotiation for the supply of commonly stocked items on behalf of the shops

The Foundation is now adopting a similar model for reversing the closure of local pubs.<sup>36</sup>

### *Network developers*

In some cases co-operatives have been established explicitly to promote, develop and service new enterprises in the sector. This is the case with Energy4All, the principle driver for the expansion of co-operative wind turbines in the UK. It is both a promoter of new co-operative wind projects and a provider of know-how. It is a source of global economic and technical intelligence and an advocate nationally. Sectoral development is its business.

The Community Broadband Network (CBN) is another example. Like Energy4All it is promoting a different path of development to that of the mainstream. Energy4All encourages a distributed system of wind power in contrast to the large commercial wind farms or traditional centralised power stations. CBN is engaged in the establishment of local high speed broadband networks to the home with an open model that is strikingly different to the closed technical systems being put in place by the vertically integrated operators like BT. The CBN services are open to competing broadband service and content providers and therefore encourage both competition and innovation to a far greater extent than the closed centralised networks.

Some localities have taken the initiative of installing their own fibre optic networks. They range from large cities like Manchester to villages like Alston in Cumbria. The Alston model of a co-operative where the subscribers own the network gives them control of the infrastructure and the ability to choose what services are offered over it (the town of Nuenen in Holland has a successful model of this kind with 96% of residents as members of the Ons Net co-operative that owns the network). But the local systems need in turn to be linked up to be able to access large content providers some of whom require 1 million + customers before they will negotiate. Here the network with other local broadband providers becomes crucial.

The CBN is in effect a developmental consortia. It describes its work as follows::

“CBN supports, promotes and develops community owned broadband schemes. We have helped more than 100 projects directly and connect to 200 project promoters throughout Great Britain. We develop strategic thinking in the Next Generation services and architectures. We work with partners to deliver advanced and exciting community services. CBN works with communities, local authorities and NGOs both in the UK and internationally, to help develop community-focused, sustainable broadband networks. It brings together some of the UK’s top experts in telecommunications strategy, business development, technical implementation and social ownership and mutual structures.”

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<sup>36</sup> For more detail on the history, nature, and analysis of the village shop programme see Mike Perry and James Alcock, “Community Owned Village Shops – a Better Form of Business”, *Journal of Co-operative Studies*, vol 43 no 2 August 2010.

Summarised here are many of the roles I distinguished above. But it is also the articulation of an alternative architecture for the sector and its linking up of what would otherwise remain isolated fragments that is important as a model for other sectors.

The CBN has been at the heart of the discussions on regulation at the government level and has formed a new coalition – the Independent Network Co-operative Association to strengthen progress on both practical and regulatory fronts. Its experience highlights the opportunities for co-operation opened up by the digital revolution, and at the same time the industrial battleground on which the dominant course of development will be decided.

### ***Franchisers***

Franchising allows for rapid expansion if finance is provided by the franchisees, and if there is an adequate pool of people with the right technical and co-operative skill sets to develop the franchisees. In its conventional form it is a top down form of expansion and the question for those designing the franchise is how far the terms of the franchise are loose enough to encourage service innovation among the franchisees, from which all would benefit.<sup>37</sup>

A flexible and democratic model of co-operative franchising for sectoral development has been put in place by Sunderland Home Care Associates (SHCA). On the basis of their experience of delivering domiciliary care (SHCA now have 170 trained staff delivering 3,500 hours of care per week) they formed a new company CASA. CASA provides start up support to new care co-operatives for an initial license fee of £35,000-£40,000. The support includes the preparation of a business plan, negotiation with social services, registration, preparation of tender documents, installation of IT systems, recruitment, job descriptions, staff training, design, negotiations of funding. The new co-operatives have access to the CASA Business Manual and ongoing support for operational and financial management, and for R&D.

Once established the new co-operative joins a panel of all the associated care co-operatives to discuss experience and new development and elects two of their number to the CASA Board of Directors. CASA in turn owns a minority stake in each of the co-operatives. This is a system that is quite different from a mass franchise (like McDonalds). It has a hybrid quasi federal structure and the space for all the co-operatives to contribute to the practice and policy of the group as a whole. At the same time there is a means of oversight and guidance of each unit, and support in those functions that could not be effectively provided by the co-operatives on their own. It is a model which has wider applicability in the co-operative movement.<sup>38</sup>

### ***Barefoot consultants***

‘Barefoot consultants’ have played an important strategic role in a number of social and environmental sectors such as waste and recycling. They are committed to the

<sup>37</sup> On franchising in the social economy more generally see D.Albert et al. *Social Franchising: a way of systematic replication to increase social impact*, Association of German Foundations, Berlin, 2008

<sup>38</sup> See the Outline Business Plan for a New Co-op, May 2007, on the CASA web site

social visions of the sector, and support community action groups engaged in contesting the directions of a sector's development. They provide the expertise required in public enquiries, project development, and research and policy engagement. Some are members of independent networks. Others are found in research institutes.

In social care, for example, a specialist sectoral consultant has been developing a model that enables those people who receive personal budgets to form co-operatives to provide them with support in choosing and managing the care they receive. The consultant works with Co-operative Development Bodies to provide support for the new care co-operatives, which may in time form their own networks of the kind establish for rural shops.

### *Colleges*

Colleges have been an important contributor to sectoral development in the Italian industrial districts. I shall say more about this later, but here we should note the central role played by the Co-operative College in driving forward the programme of co-operative schools.

This is one of the most significant developmental initiatives in the co-operative movement over the past two years. The College has acted as an advocate of the idea of co-operative schools. It worked closely on the early prototypes, and now provides materials and support as well as a web platform that allows the schools to share materials and experience. The network now has its own self-generating momentum.<sup>39</sup>

### *Social movements*

Alternative sectoral initiatives often come out of social movements, and will commonly have a strong co-operative and social enterprise network component. This has been the case in the food sector, in energy, in some areas of transport, and in waste. What starts as a campaign about the direction a mainstream sector is taking, becomes also an economic project to show that there is a practical alternative.

An example from the leisure field is that of Supporters Direct. It has many of the features of a network developer, but in this case it emerged out of a campaign for the democratisation of sport, particularly football, arising out of the financial difficulties faced by many football clubs, particularly those in the lower divisions.

Since it started in 2002 it has played a catalytic role in developing a critique of football ownership, working with researchers, writers and journalists both to analyse the current economic structures of support and – drawing on Spanish, Portuguese and German experience – developing alternative models of supporter ownership and mutuals.

As an increasing number of football (and some rugby) clubs found themselves in financial difficulties, Supporters Direct and their associated trusts have grown in

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<sup>39</sup> In March 2010 the co-operative schools established the Schools Co-operative Society, a ben.com to promote the development of co-operative schools.

parallel. There are to date 15 clubs owned or controlled by Supporters Trusts and another 145 with active Supporters Trusts of their own. Supporters Direct now takes on some of the tasks of a trade association and a 'real service centre' – providing support for existing sport mutuals at the same time as widening the scope of its campaign.<sup>40</sup>

### *A co-operative MITI*

The entrance hall to the Japanese the Ministry of International Trade and Industry (MITI) which played such an important part in orchestrating Japanese post war growth there is a great board listing more than 100 specialist sectoral development units. The co-operative movement should create its co-operative equivalent.<sup>41</sup>

All the sectors most open to co-operative development need a body to drive the expansion. As we see, the necessary functions can be played by a variety of hosts - existing firms, development organisations, colleges, as well as groups of entrepreneurial co-operators. Sooner or later different types of second level consortia are established linking together the co-operatives in the sector. The question then is how to sustain the sectoral drive at the same time as servicing the needs of existing co-operatives.

Energy4All, CASA and the Citizens Broadband Network are all examples of organisations that have a built in impulsion for sectoral expansion. Where there are already Federations acting as trade associations they should have a unit whose primary task is the eight functions listed above where these are not already being undertaken. Those bodies that have helped establish looser networks need to find ways of sustaining their role without dependence on external grants.

To say that the movement needs to ensure that there are development bodies in every sector, it is then a question of choosing the forms appropriate for the particular sector. It is the functions that are important not the specific form.

### *Interconnections*

The Japanese industrial development experience carries another lesson. Both the industries and the government had different strands of collaboration which cut across the sectors, both at the level of the government and industry and at that of individual firms. Any one firm tends to be involved not just in sectoral groups, but in groups of those working in its particular supply chain, and in groups that connected to the financial sector.

Individual co-operatives and the sectoral bodies need to find ways of connecting the diverse parts of their economy to strengthen each other. The sectoral bodies, for example, have much to learn from each other, and from the kind of packages that such bodies provide for new and existing co-operatives. There will be ways in which one sector can connect in to another. Some already takes place as when a retail society helped Supporters Direct in the rescue of the local football club. But this kind of

<sup>40</sup> <http://www.supporters-direct.org>

<sup>41</sup> On Japanese Industrial Policy and the role of MITI see Michael Best, *The New Competition*, op.cit. Chapter 6.



cross-sectoral connection needs to be more systematic if the richness of the co-operatives industrial and geographical coverage is to be fully harnessed.

### *A way forward*

***A primary recommendation of this Review is that a network of Sectoral Development Bodies (SDBs) is created.*** This means establishing such bodies where none exist in sectors that are open for co-operative expansion, and linking these bodies together so that they can share approaches and methods. Co-operatives UK need to expand their resources that can be devoted to this. It requires a small team that can focus their energies on creating such a network, preferably as stand alone unit attached either to Co-operatives UK or to the Think Tank that is proposed as part of the formalisation of the movement's system of economic intelligence.

To speed up the process, I suggest four immediate activities that would feed into the establishment of the unit:

- a ***one day workshop*** of existing SDBs to discuss the methodologies of sectoral development and strategies for their financial sustainability.
- the production of a ***Co-operative Industrial Strategy*** that would contain strategies for the co-operative development of each sector and show the range and strength of the co-operative economy.
- the production of an ***exempla strategy*** for an 'opportunity' sector to demonstrate what is involved in creating new SDBs. One candidate would be the foster care sector where the only co-operative is looking to radically extend and diffuse its experience. A brief case study of the sector and its options is attached as Appendix 1.
- The creation of a small ***temporary unit*** as the prototype of a co-operative MITI. It would comprise secondees to take forward this programme of sectoral development and the establishment of a permanent unit.

In addition to establishing the SDB network, the immediate task is to find ways of connecting the widely distributed local and institutional intelligence that exists within existing co-operatives.

There are three mutually supporting ways in which this can be done:

- i) a common ***sectoral development web platform*** where questions and problems are posted by the SDBs and opportunities and local intelligence contributed by all connected to the platform. The new Co-operative Networks website ([www.networks.uk.coop](http://www.networks.uk.coop)) is structured to allow this.
- ii) the development of a ***wiki*** that would contain a collation of sector strategies and the rationale behind the work, to provide the basis for an orientation of all those involved. The strategies on the wiki would be open to comment, amendment, and updating – combining the broad overview with the detail necessary for effective action.

- iii) the nomination of a senior manager in the top 50 co-operatives who would be *sectoral ambassadors* within their organisation. They would be informed about sectoral projects and contribute the co-op's intelligence about opportunities, as well as registering ideas for new sectoral developments.

The structures for this work need to be kept as loose as possible with the emphasis on accountability through creative achievement. Fortunately the Co-operative Business Development Panel already exists as an accountable body to guide the work.

### ***Financing***

The financing of SDBs is distinct from that of CDBs since the sectoral bodies relate to existing as well as new co-operatives. In the early development of a sector, there will always need to be start up funding, that can be raised on a case by case basis. Where there are already operating lead firms, they provide the initial finance of the development hubs, and build in contributions from new co-operatives as they come on stream to ensure an expanding income stream for the hubs. From the first, as in the case of CASA and Energy4All, the hub is an integral part of the operations of the participating co-operatives, with agreements on service support and funding and the scope to intervene if problems arise in particular co-operatives (in CASA's case its minority holdings give it the power to do so).

Where the initiatives come from development organisations that are dependent on external funds, there are long term funding issues. In the case of Supporters Direct for example, whose funding for the time being comes from the Football League, the economic issue is threefold. First many of the clubs themselves (particularly the smaller ones) are searching for sustainable business models for themselves. Second, the Supporters Trust have their own revenue questions, whether or not they should charge a subscription to their members, and what other sources of income are open to them. Third, how in these circumstances Supporters Direct could receive a sustainable flow of income for the services it provides.

For Supporters Direct the possibilities include capitalising the cost of an initial package of support for a club in the original capital funding proposals; arranging part of the initial financing including community share issues and taking a stake in the club itself; or organising discounts for members, for example via running a supporters co-operative club card scheme, from which the hub would take a small fee from the discounts negotiated.

I later suggest that a new Co-operative Development Fund is essential if the movement is going to be able to respond to the current opportunities. One section of this Fund should be assigned to sectoral development so that it can contribute to early stage start-up funding and to the cost of a central Sectoral Unit.

## Appendix 1

### Foster Care Co-operatives.

Foster care is one small branch of public caring services. Over the past 20 years there has been an increase in the privatisation of these services so that now the contract market amounts to some £400 million a year. This privatisation illustrates much of what is wrong with privatisation. In spite of elaborate regulations, it has led to pressure on wages and on levels of service, an increase in local quasi monopolies, and high levels of profitability for the leading firms. At the same time social service departments with high overhead costs and under budgetary pressure have found it difficult to provide an adequate service. Co-operatives involving workers, foster care givers and potentially local government itself, offer a third way.

As of mid 2010, The Foster Care Co-operative (FCC) is the only co-operative in the sector. It is a workers co-operative of 46 staff that also recognises the union. It pays local authority rates and is committed to find new foster parents (this is the shortage in the industry) and not bid them away from local authorities. It is a worker co-op, but includes the foster care givers as associates and involves them in decisions. FCC's turnover has grown to £5 million in 6 years, and yet is still a mere 1% of the contract market. How can the co-operative foster sector grow to replace privatised care?

The FCC has opened an office in Glasgow and now one in London. It has a number of other contract possibilities, but its pace of growth is limited, as is its overall size if it wishes to maintain its current democratic practices.

There are at least six paths for a more rapid expansion:

- **Conversions.** FCC could take over ill managed foster care companies and transform them into new co-operatives. This could be costly both in finance and time, but could be a potential route if social workers in a threatened company approach FCC for help. Alternatively private or charitable foster care companies could choose to adopt the FCC model and processes, converting to a co-operative structure in response to the case for close involvement of both the social workers and foster carers in the governance of the enterprise.
- **Public/social partnerships.** This is a model in which local authorities participate in the co-operative along with the social workers and foster care providers, thereby simplifying the commissioning and oversight process which is so costly at the moment. Once the legal and contractual issues raised by such a partnership had been resolved, this model could spread rapidly both as a substitute for privatised commissioning and to improve existing public sector services. FCC have been discussing a pilot version inspired by Italian social co-operatives
- **Incubation and spins offs** on the Bunsha model.
- **Franchising** on the CASA model.
- **Know-how transfer and support** on the RNIB or open diffusion model.
- **Educational programmes.** FCC in conjunction with the Co-operative College could take the lead in running educational programmes. Specialist courses on foster care co-operatives would identify those social workers with a potential interest in starting such a venture, and then provide a shallow dive and then a deep dive into what is involved. It would be complementary to all the previous five models, and if coupled with a placement component would become part of the incubation process.

To date the FCC has funded expansion from its own resources. But it needs the resources to play its full role as an SDB.

## **Part 3 From Firm to System**

## XI The Ecology of Co-operation

### *From mechanistic to generative systems*

One of the features of the new era – in part because of the enormous improvements in scientific instruments and computational capacity brought about by information and communication technology – is a much richer understanding of how inorganic, biological and human systems work. Whether the system in question is a particle or a planet, whether it is a cell or a forest, whether it is language or a population, the new sciences highlight the structures that give coherence and stability to a system and those which disrupt it into creativity and growth. In living organisms for example there is the DNA which is stable and is the bearer of memory, and amino acids that make proteins in multiple and unstable forms that degrade and are recreated according to the DNA's messages. We could think of one as structure, the other as process, or one as grammar, the other as the spoken word. As with light and shadow, order and disorder cannot survive without the other.

This clearly has a bearing on human organisation. Organisational theory – at a time of ever increasing change – has been much influenced by the new science. It has taken on board another of its insights, that such systems that are open rather than closed. They are self-reproducing and distinct from their environment, yet interconnected and subject to it. Like each of their parts – which are themselves mini systems of their own – all systems are autonomous yet dependent at the same time. The parts may carry with them aspects of the whole – as when each cell of an organism contains the totality of genetic information of that organism – just as the whole is the relationship of the parts.

Systems, on this reading, are a far cry from those of cybernetics and the mechanistic systems analysis of the industrial age, where there was a place for everything, and everything had to be in its place. The new generative systems – as they have come to be called – could not be taken apart, bit by bit, and then re-assembled and programmed by an external hand. There is no linear causality, but rather a process of mutual interaction, within a world of contingency and uncertainty, of complexity and chaos. It is a world of emergence and mutations, of clouds and whirlpools, of butterflies and the migrating warblers that carry the constellations of the night sky in their heads. It is a world in which information in the form of messages, knowledge, memory and meaning comes to be central for strategies of a system's survival and growth.

This different way of understanding systems – a new paradigm if you will – is just as much part of the new era as the material character of the technologies and economic structures of the age of Google. It can act as a guide to thinking about the co-operative movement as an ecology, and the strategies and paths of development now opening up for it.<sup>42</sup>

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<sup>42</sup> There is a great and ever expanding literature on the new systems. One remarkable synthesis is the work of the French polymath Edgar Morin, a short English summary of which is published as On

***The co-operative system.***

The principles of the co-operative movement run with the grain of the new paradigm. The principle of autonomy and independence of the individual co-operatives is an example of autopoiesis, meaning self-organising groups, one of the concepts of the new systems theory. Co-operation between co-operatives and concern for the community both emphasise the organisational ‘openness’ of co-operatives. The priority placed on education and training – a long co-operative tradition – is central to a generative future. Similarly the originating core co-operative principle of member control and economic participation is strikingly modern in its recognition of the informational richness and energy of a member led organisation.

How far is this realised in the current co-operative economy? There are three main issues:

- i) ***bridging the dual economy.*** There is a separation that runs like a fault line in Britain’s co-operative economy. On the one side is the co-operative retail and financial sector, centred on the Co-operative Group and the associated independent retail societies. They account for half the turnover of all UK co-operatives, and as a system are organised primarily through the corporate structure of the Group and the multilateral governance and purchasing agreements with the independent retail societies.

On the other side is a fragmented mix of agricultural co-operatives, small manufacturing workers co-operatives, an array of intermediate food co-operatives between the farm and the table, a growing group of employee and community owned leisure companies, the sporting mutuals, credit unions, housing co-operatives as well as pioneers in telecommunications and the environmental and social sectors - energy, water, transport, health, care and education. Many have their own sectoral federations, but the links between them are weak, informal and contingent, and finances to strengthen them are scarce.

The primary economy-wide body, which formally spans this dual economy is Co-operatives UK. It bridged one divide when the consumer and worker co-operatives came together under its umbrella. That was a major step. But its capacity is severely restricted. It is the Co-operative Group and to a lesser extent the principal independent retail societies that are still the key source of social and developmental funding, but this, too, is limited.

The co-operative economy is inadequately structured or financed to make the most of its common resources, and to gear itself up to the immediate opportunities for expansion. It relies heavily on the Co-operative Group, which of necessity has to focus on surviving against intense competition and cannot take on the role of principal driver of co-operative development as a whole. While each co-operative and each federation are themselves creative

points of development, at the system level it is the extent to which the core retail and financial co-operatives can generate a wider development as part of their competitive strategies that remains critical, along with the strengthening of system wide services under the umbrella of Co-operatives UK.

- ii) ***information, education and knowledge.*** These are central in the contemporary economy as they are in generative systems more generally. As I have argued, the social rather than purely private character of co-operatives make them a unique structure for mutual learning and the generation and free circulation of information beyond the barriers of private property. But they require the platforms, the tools and the channels in order to do so. Strengthening these at the level of the co-operative economy as a whole is an overriding task for a strategy of co-operative development.

Strong institutions for research, design and development are one requirement. Another is an expertise in the informational economy that can service and connect co-operatives and their members. A third is education and those institutions that serve to create a common culture. These were at the heart of the success of early co-operation but have been starved of resources and fragmented, and, in spite of many creative initiatives, have yet to approach the levels of activity that held right through to the second world war.

- iii) ***openness.*** The co-operative economy is still strongly marked by its boundaries. Some are boundaries of identity. Others are institutional and spatial. In spite of formal international representative structures, the co-operative economy remains strongly defined by its national and regional boundaries. These are partly linked to the nature of co-operative economic democracy and its structures of governance, and in part to the sectors and spaces in which the economy operates.

For all these reasons Britain's co-operative economy tends to be introspective in its orientation and self reliant in its financing. This is both a strength and a weakness. It is a strength in its rootedness in locality and community, a weakness in its capacity to collaborate across boundaries and to track ideas and innovation in the global economy. There are few of the international scouts, or the centres of global technical and economic information we find in the Italian consortia.

Taken as a whole, the strength of the movement has been the diversity and creativity of its autonomous parts. Many are inspiring as examples of how an alternative economy can be organised. They are profiled on websites and in the co-operative publications, and are celebrated as a proof that the idea of co-operation can be made real. They are united by an idea and a particular organisational form, and share, more or less consciously, a common history. But there has been a tendency in the movement to focus more on the individual co-operatives than on the complex interconnections of the whole.

It remains remarkably fragmented. There is nothing to compare to the integration of finance and co-operative production that we find on the continent. The new economy of information and communication has yet to be developed to anything like its

potential. In the language of the current era, the co-operative movement is markedly distributed. But its co-ordination is weak.

A principle theme of this review is that if the movement is to take full advantage of the co-operative moment it will have to radically advance the way co-operatives connect together as a system. Co-operative development in the coming decade has to be much more than the creation of new individual co-operatives. It needs to draw on the experience of co-operatives, past and present, and on other types of economy that have created successful systems out of a multitude of autonomous firms.

The Italian industrial districts provide one model for how this can be done. There are other examples that share many of its features in Northern Europe, Spain, Canada, India and Japan. Since the early 1990s innovative large industrial and commercial firms have been replicating internally and in collaboration many of the features of co-operation found in the industrial districts. The organisation of Visa for example, a business organisation that has 10 times the turnover of Walmart and a market value double that of General Electric, is a paradigm of member led collaborative organisation with manifold insights for the future of co-operation.<sup>43</sup>

There is a literature on each one of these – often extensive. What is needed is:

***a working group on distributed co-operation, to undertake a synthesis of the architecture and processes of these distributed systems and consider how some of their key features could be grafted into Britain's co-operative economy. The working group should comprise both researchers and co-operative practitioners, and in particular those responsible for strategy within the different parts of the Co-operative Group and the independent retail societies. It is less a question of new research, than of working through the implications for UK co-operation. The goal should be to produce a set of papers – drawing out the lessons from each example and the strategic options arising from them – and discuss them at a colloquium in April 2011, for editing and presentation to the Co-operative Congress in June 2011.***

In the last part of the Review, I want to draw on these experiences as they relate to six systemic issues that bear on the strategy for co-operative development:

- the further specification of the overarching 'co-operative idea' that plays a particular role in the cohesion and integrity of a social movement.
- the nature and variety of economic democracy in contemporary co-operative production in the context of a shift from closed to open organisations.
- the expansion of the movement's educational and knowledge capacity.
- the means of economic governance
- the developmental implications of models of retailing which remain at the core of the British co-operative movement.
- the organisational and funding options for a major expansion of the co-operative economy.

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<sup>43</sup> For an account by the pioneer and architect of its organisation, see Dee Hock, *One from Many, Visa and the Rise of the Chaordic Organisation*, Berrett-Koehler, 2005.



## XII The Idea

*“If you want to build a ship, don’t drum up the men to gather wood, divide the work and give orders. Instead, teach them to yearn for the vast and endless sea.” Antoine St Exupery*

The first thing for giving coherence to a movement is its unifying idea. In the social economy the idea drives the project. It attracts people to it and inspires the loyalty of those working for it. It is tangible yet at the same time embodies a set of values. Just as an acorn contains within it the promise of an oak tree, so an idea offers a path to wider horizons. The idea that can spark a movement works on different levels - values, ambitions and a practical way forward.

BedZed’s zero carbon housing development is an example of such an idea, or its 15 year quest to make paper out of straw. Ibrahim Aboulsh’s creation of an oasis out of the Egyptian desert with biodynamic agriculture is another that has transformed the nation’s cotton production. The Grameen Bank’s micro loans to those with no collateral other than themselves has inspired a global micro credit movement. Ideas like these carry their own critique of the world as it is, and offer a different vision. The story of how they put that vision into practice is like the quest of a medieval knight, each have their own version of the witches and dragons and tangled briars that have to be overcome along the way.

Often they reverse everyday practice – slow food rather than fast food, the Sicilian reverse strikes of the 1950s, the Brazilian City of Curitiba’s construction of an underground metro overground by replacing cars with a bus-train system on the main roads, or its scheme to pay people for their waste rather than charging them to collect it. At their best they have the force of a work of art that makes people see the world differently. They can have the force of a detonation.

The co-operative movement was born from such an idea. The notion that dispossessed weavers and working class communities could run their own economy that captured the economic surplus for those who produced it was a shock that by the end of the first world war had become a threat. The Toad Lane shop was and remained the embodiment of this idea, the acorn of co-operation. Other acorns did not take root in the same way – notably the New Lanark mill – though the ideas behind them reverberated over the years. And elsewhere there have been other acorns that have grown, from the German credit unions, to the Japanese livelihood co-operatives, or the Mexican coffee farmers co-operatives that have lost many lives in their quest but twenty years on had established their own fair trade supply lines to the port and beyond.

The co-operative movement in Britain is now a complex aggregation of activities, many of them sparked by their own particular ideas in the sense I am talking about. Those I mentioned in the discussion of sectors have this quality – the village shops and pubs programme, co-operative schools, and the community broadband network. They have gathered a momentum of their own. There are many others which are prototyping ideas – those in the food movement for example or co-operative housing.

The question for the co-operative movement as a whole is whether there is a meta idea which expresses what is common to all co-operatives and which resonates in the current age?

There are certainly principles that are widely shared:

- i. ***self help*** the idea that people collaboratively are active agents in creating new worlds
- ii. ***fair shares*** the equitable distribution of the earned surpluses between employees, consumers and the communities in which they live
- iii. ***work organisation*** in many areas a commitment to collaborative rather than hierarchical work organisation and to the quality of working life
- iv. ***democracy*** through joint ownership and collaborative self-government
- v. ***social value*** the commitment to quality and the social and environmental value of co-operative production
- vi. ***economic success*** through the combination of commercial efficiency and co-operative values

As with the original Rochdale principles there is a combination here of economic, organisational and social principles, and an affirmation that the economic cannot be separated from the social and political sphere. We catch what is still a profoundly radical idea in the Co-operative Commission's Mission statement:

*“To challenge conventional UK enterprise by building a commercially successful family of businesses that offers a clear Co-operative Advantage”*

And their expression of the Co-operative Advantage as:

*“Excellent products or services with distinct competitive benefits derived from our values and principles, our rewards for members or our commitment to the communities we serve. “*

This strong fabric of co-operative values has an undoubted resonance in a culture where there is unease with utilitarian individualism and with a society dominated by the ideology and workings of the private market. This helps explain the strong performance of co-operative retailing, banking and insurance. But these principles on their own no longer have the distinct shock value of nineteenth century co-operation, that sense of radical economic and political reversal – the idea made flesh – that underpinned co-operation's early success.

This is partly because, as I suggested in Chapter VI, there are now others in the field. There is the sudden extension of informal collaboration, both on the web and in school halls or front rooms, creating their own economies and forms of organisation. There are a wide variety of social enterprises, and major changes of organisational and working practices in some private companies. If we take any of the driving social issues at the moment – from food, to health, to climate change, or care – co-operatives are only one among many forms of organisation seeking to address them. There is in other words more noise.

If we ask today what is most distinct about co-operatives, it is their form of ownership and democratic government rather than their economic and social projects that comes to the fore.<sup>44</sup>

### *The co-operative distinction*

The question then is whether the character of co-operative organisations – which remains a profoundly radical idea – is sufficiently strong on its own to galvanise a movement? As Jim Brown put it to me, is the co-operative movement nuts about co-operatives or nuts about nuts?

There was a brief period, broadly between the mid 1960's and the mid 1980's, when co-operatives became a mobilising idea, not so much in their traditional consumer form – where the retail societies were already under siege – but as a form of democratic organisation in the workplace. Workplace democracy became a movement in its own right during this period. The Institute for Workers Control was founded in 1968 and regularly drew meetings of 1,000 or more delegates to its meetings. The events of May 1968 in France sent shock waves throughout Europe with 365 factories taken over by workers. Workers co-operatives sprung up all over Europe and in North America, with more than 1,000 being formed during the 1970s in the UK alone.

The promotion of workers' co-operatives became a theme of public policy, both nationally, notably in Tony Benn's time in the Ministry of Industry in the mid 1970s, and then at the municipal level in the 1980s. The GLC had units supporting workers involvement in enterprise planning and human centred technologies. Another of its units helped fund a new generation of Borough Co-operative Development Units. Its Enterprise Board supported a large number of workers' co-operatives and trade union-led rescue packages. There were similar policies in Sheffield, the West Midlands and in many smaller local authorities.

The momentum of this movement then faded. This is commonly blamed on the failure of the co-operatives themselves – above all the high profile ones backed by Tony Benn – and the sense that they were not 'practicable'. But the failures of co-operatives in the 1820s and 1830s did not deter the Pioneers in Rochdale and all those inspired by them. Looking at the recent record, many of the worker co-operatives formed in the 20 years after 1968 are still going strong (they account for 60% of the top ten UK worker co-operatives in 2009) as they are in the United States and Canada.

Other factors than the performance of co-operatives were more significant. I have already discussed one of them, the fact that management thinking and increasing numbers of firm took on board the lessons of 1968. Industrial sectors faced

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<sup>44</sup> We can compare this with fair trade, where it is its impact on improving the income for small farmers that stands out. It is a distributional message. The fact that the farmers are organised in co-operatives or that there is a shift in economic power that follows from this and from the ownership in the trading and marketing companies in the North, and that the productive and merchanting capacity is strengthened, all these have become subordinate to the message of fair shares. Or with the Soil Association and organic farming the focus is on the quality of food and its environmental implications not on the fact that many of those involved share all the principles of co-operation and some indeed are organised as co-operatives.

competition from a Japanese model that explicitly turned Taylorism on its head and put a new emphasis on the skills and knowledge of the front line worker. New technology firms were often started by 'soixante-huitards', those who had been formed in the counter culture of 1968 and after.

Manufacturing was in any case giving way to services. There was a shift from commodities to information and from large workplaces to a more scattered flotilla of factories and offices.<sup>45</sup> Globalisation sharpened competition, and further sped the trend to corporate multinationalisation. On top of all this was the political assault on trade unions. It is factors such as these rather than the failures of Meriden and the Scottish Daily News that changed the industrial climate and account for the loss of traction of the movement for democracy in the workplace.

The French thinker Andre Gorz was one of the first to articulate the shift. He argued that social aspiration was switching from alternatives at work to the creative spaces outside it. The iron cage of mass production could not be prised open. It was home life and emerging social issues such as food, health, and the environment, which had become the spheres where energies for creating an alternative society should be focused. The new cause should be the reduction in the working week, a cause that led to the introduction of the 35 hour week in France 15 years later.

Gorz didn't get it entirely right. There were growing sectors that provided opportunities for creativity and greater autonomy at work. But he had hit on a change in the temper of the age. It is characterised by some as a shift from production to consumption. But that is too narrow. For it is also the shift from industrial to wider social and environmental issues and to what Gorz called autonomous economic, social and cultural life.<sup>46</sup>

It might be thought that these changes favoured consumer co-operation. In a sense this is the case. But it is a co-operation that goes beyond the high street, and beyond the organisational model on which co-operative retailing has been based. And if we change the concept of consumption to all sorts of informal individual and social activities, we find that the growing issues that Gorz identified find their way back into production. It is notable that eight out of ten of the top ten workers co-operatives are 'issues-oriented' - health food, wind energy and cycling. And they are close cousins to a multitude of similar initiatives that share the values but take a different legal form.

To rely on its organisational model as its strongest suit can leave the co-operative movement with a reasonable part but not that of the lead character in the drama of the transition to a different kind of social order. I think it should look for a more diversified hand – where its distinctiveness is that it is nuts about nuts, and most practical in delivering them, rather than being primarily nuts about co-operatives. Its values and its distinct form of organisation need something added if they are to generate a contemporary mobilising idea.

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<sup>45</sup> It is hard to imagine now that small firms were something of a taboo in much industrial policy thinking up to the 1970s.

<sup>46</sup> Andre Gorz, *Critique of Economic Reason*, Verso, 1989, and his *Reclaiming Work*, Polity 1999

## **XIII The Co-operative Economy**

### *From micro to macro*

There is a considerable literature on the micro economic theory of co-operation – on why individuals might choose to co-operate rather than compete – and, thanks to the work of Elinor Ostrom and her colleagues – on the theory and practice of economic co-operation in the management of common resources.<sup>47</sup>

There is also the long inspirational line of micro experimentation and of ideas about how such experiments could be universalised, from Winstanley's Diggers on St George's Hill, Weybridge to Owen's producer co-operatives, Tolstoy's farms, Gandhi's villages, and the uncountable examples of collaborative achievements – peasant land occupations, housing co-operatives, worker run factories, land settlements, orchestras, jewellers, people's railways even airlines. In almost every kind of economic activity, collaborative alternatives have been forged into life and thrived. Anarchism, distributism, associationism, communitarianism and co-operativism are only some of the –isms that have sprung from this soil.

They have often had great influence, like the butterfly that causes a storm across an ocean. But in comparison there has been much less on the complex architecture of macro systems of co-operation. Or on the practical models which could guide the evolutionary practice of a co-operation that connects across sectors and spheres of everyday life, and in doing so inspires and coheres a dispersed community.

This is one of the challenges for the co-operative movement in this country. It is the macro co-operative economic question. Is there an economic idea that can stand beside the shared democratic commitment as the inspirational heartbeat of British co-operation?

### *Agricultural and industrial co-operation*

There have been examples of such economic ideas. Some of them focus on the role of co-operatives in strategic sectors within an economy. The great Russian theorist of co-operatives, Alexander Chayanov, focused on co-operatives as the cornerstone of the Russian early 20<sup>th</sup> century rural economy. He argued that a productive agriculture was best carried out by small farmers, connected to the rest of the economy through purchasing, processing and marketing co-operatives. After the Soviet Revolution in 1917 he became the leading spokesperson for this strategy of agricultural development, insisting that mass production – necessary for industry – was not appropriate for agriculture, and that the Soviet regime should encourage vertical co-operatives that would apply large scale production techniques only at the appropriate stage of processing. As Stalin moved to collectivisation, Chayanov was

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<sup>47</sup> For a recent synthesis of this work see Amy Poteete, Marco Janssen and Elinor Ostrom, *Working Together: Collective Action, the Commons and Multiple Methods of Practice*, Princeton University Press, 2010, and the earlier book by Elinor Ostrom, *Understanding Institutional Diversity*, Princeton University Press, 2005

first imprisoned and then executed in 1937.<sup>48</sup> But his work was rediscovered in the 1960s by a new Western generation of rural development economists.

By way of contrast, while the Third Italy has a significant co-operative food sector integrated from the farm through food processing to co-operative retail, its model of co-operation is focused on industrial sectors, with its co-operative network of small and medium firms providing a more innovative and flexible alternative to mass production. Just as Chayanov's work has had a lasting influence on policy towards peasant agriculture, so the success of the Italian industrial districts has inspired a re-orientation of industrial policy in the developed and developing world over the past 25 years, and in particular the importance of expanding inter-firm co-operation.<sup>49</sup>

### *An autonomous economy*

In both these examples the co-operative economic idea applies to a way of organising a strategic sector more effectively in relation to the overall, performance of the mainstream economy. There is another tradition, which sees co-operation as an autonomous system, with its own principles of production and distribution. This was the case with British consumer co-operation in its hey-day, and with the Japanese livelihood co-operatives today.<sup>50</sup>

In the British case, it is striking how much the 19<sup>th</sup> century co-operators had in common with a strong strand in 20<sup>th</sup> century economic development theory in their strategic vision and tools. In radical development theory the unit was the national economy, and the goal was to protect it from foreign competition in order to foster domestic capital accumulation, education, and a more egalitarian distribution of the surplus.

Britain's consumer co-operatives had the co-operative economy rather than the nation as their frame of reference. Although the co-operators lacked the instruments of the state (tariffs, currency and tax) J.T.W. Mitchell, in his period as Chairman of the CWS from 1878 to 1895, saw the movement as 'a state within a state', as an association of societies that could become Society.<sup>51</sup> Economically this meant not following the 19<sup>th</sup> century economist David Ricardo's principle of national specialisation through trade, but rather developing a largely self reliant economy, crossing national boundaries where necessary, and moving from retail and wholesale back into flour mills, biscuits, and merchants ships, into banking, insurance even the National Debt itself.

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<sup>48</sup> Alexander Chayanov, *The Theory of Peasant Co-operatives*, I.B.Taurus 1991.

<sup>49</sup> A principal theorist and architect of industrial districts was Sebastiano Brusco, Professor of Economics at the University of Modena. See his article "The Emilian model" *Cambridge Journal of Economics* vol 6, 1982.

<sup>50</sup> The notion of building alternative co-operative supply chains with different relations of distribution and economic power has also been one of the driving ideas behind fair trade in the UK. See John Bowes (ed) *The Fair Trade Revolution*, Pluto Press, 2010.

<sup>51</sup> The phrase is that of the Daily Chronicle correspondent at Mitchell's funeral. See Stephen Yeo's compelling biography, *Who was J.T.W. Mitchell*, CWS Membership Services, 1995 which pieces together the story of Mitchell's life and ideas, and connects his formation in Congregationalism with his commitment to a federated Co-operative movement.

It also meant protecting this economy as it grew – not with tariffs but by member loyalty and the control of purchasing. If the German butter was better down the road, then a member should remain loyal to the co-operative while the CWS found ways of getting the best German butter itself and in its own ships. Similarly the CWS under Mitchell refused to stock goods that competed with its own production. Its tariff was its order book. Protection in these cases was more like a shelter belt than an impassable wall. It gave time for the ‘economy within an economy’ to improve its products so that it could compete when it again went out to face the full gale of competition.<sup>52</sup>

The control of production of wealth meant that the movement could then capture the surplus produced, not through taxation, but through trading surpluses at the retail level. These were then allocated to fund the movement’s civic functions, its education programmes and capital investment, with the remainder distributed as a dividend to consumer members. Instead of being taxed by the state to fund civic services, its members received a dividend. It was an idea made flesh that stood the principles and the experience of the mainstream economy on its head.

There were specific conditions which made this autonomy possible – ones that I will discuss later. Here I want to underline one of these conditions – namely the existence of a widely shared economic idea that helped bind together the scattered retail societies.

### ***Employment and dignity***

A century later the Mondragon co-operatives developed a system with a quite different starting point and economic architecture to consumer co-operation. Its emphasis was not on redistribution but on employment and the realisation of human dignity through work.<sup>53</sup> Co-operative working was one aspect of this. But there were two others - technological capability and education. For its founder and animator, the priest Jose Maria Arizmendiaretta, mastering technology was important for a sense of social as well as individual freedom. “Our people require of our men the development of the means to scale the heights of scientific knowledge, which are the bases of progress”.

As a result technical education has had a central place in Mondragon – indeed the co-operatives were originally born out of the training school for apprentices established by Arizmendiaretta in 1943. The training school is now Mondragon University, with 2,000 students. It has retained its technical orientation with 70% of its students studying engineering, and the students have their own co-op, producing

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<sup>52</sup> This approach has similarities to the infant industry argument as a justification for tariff protection in economic development theory. The idea was that it would take time to get an industry on its feet to compete internationally. The CWS approach was that protection might be needed not only in the early stages of the development of a co-operative controlled supply chain, but also at times in adulthood. It was like the principle of ‘never knowingly undersold’, with the private market seen as setting benchmarks in price and quality which co-operative production had then to match.

<sup>53</sup> For an excellent discussion of the ideas of social Catholicism that shaped Arizmendiaretta’s approach to co-operation see Fernando Molina and Antonio Miguez “The origins of Mondragon: Catholic co-operativism and social movement in a Basque valley (1941–59)”, *Social History* Vol. 33 No. 3 August 2008

electric components, wiring and teaching equipment, as a way of helping them finance their studies.

Central, too, has been research and development. An important part of the preparation process for a new co-operative was the study of the latest technology in the particular product proposed for the venture, and visits to factories all over the world which were at the forefront of competitive production. Established co-operatives have as a result always undertaken their own R&D, as did the Mondragon Polytechnic College.

The College spun off R&D work to a new co-operative Ikerlan in 1974 which by the turn of the century had more than 130 highly qualified engineers and technicians that provided contract research on such issues as CAD-CAM, electronics, energy systems and renewables to Mondragon co-operatives, and to other commercial firms not in direct competition with Mondragon. A second research agency specialised in machine tools, and a third in thermoplastics and product and process design.

This emphasis on modern technology and technical education may have sprung from the idea of human dignity. Economically it has meant that the Mondragon co-operatives have from the beginning set themselves a benchmark of international competitiveness. They have been outward looking rather than autarchic. Their orientation has not been the production of basic necessities but of competitive employment (though in some fields the two overlapped). Their patterns of geographical expansion have been not to source butter from the Baltic but to negotiate joint ventures and takeovers of firms that could strengthen them in the national and international market.

### *The quality of the economic idea*

There were many layers to Mondragon's economic idea. It rested on a social Catholic view of the human personality and society; an organisational view of micro co-operatives linked together through consortia and federations; the use of the Caja Laboral as the principal means of expanding and orchestrating this co-operative network; and the embrace and institutionalisation of modern technology and scientific knowledge at the heart of the system.

It combined a strong ethic of co-operation, with a broader proposition as to how the co-operative economy as a whole would work, what were the necessary instruments and institutions for it to do so, what were the principles that should underpin the policies on wage rates and wage differentials, surplus distribution, saving and investment, relations to the mainstream, and above all how it would address the major issues facing society and its members.

We find these layers in many of the macro models of co-operation. They commonly connect the micro, the personal and the way the system operates as a whole. Some of them have a strong religious foundation. Others a secular humanist one. The Third Italy had both, with 'white' Christian Democrat regions and 'red' Communist ones.



Ideologically and organisationally these provided the fabric of social capital which has been so much a part of their economic success.<sup>54</sup>

Each of those we have discussed has distinct visions, entry points and strategic paths in addition to the inter-co-operative systems they have developed. Together these contribute to their idea. They cannot all be spelled out at the beginning. The process is evolutionary. They build the road as they travel, and in doing so the ‘idea in practice’ becomes richer and more powerful as they proceed.

### ***Co-operation 2.0***

What can we learn from these examples of mobilising economic ideas? First, co-operation on its own is not enough. It needs to relate to acute society-wide issues which the mainstream economy – both the private market and the state – are unable to resolve. Second, the co-operative movement has to show at the macro level that it has the institutions, capacity and ambition to address them.

Part 2 of this Review looked at co-operative development from the perspective of the co-operative movement as it is now. Here I want to start from the other end, that of society’s most pressing issues, and then consider how far and in what way the movement is now able to address them.

### ***Intractable issues.***

There are two that are likely to dominate the next phase of the long economic cycle:

#### ***i) Climate change and resource pressures.***

As I argued earlier, the environmental imperative is likely to have the most profound effects on the way we live our lives, on what we consume, on where we live, on how things are produced, with what materials, and to what designs. At the moment the scientists are ahead of both society and the economy, with politicians caught in the gap in between.

A green industrial revolution has begun. Public policy is nudging the economy that way. A growing number of major businesses are factoring the environmental factor into their current practice and strategic plans. Some are engaged in developing new environmental technologies, new types of material, or forms of assembly which can be easily disassembled. The industrial fairs showcasing new green technologies are expanding. But the great 20<sup>th</sup> century tanker of resource and energy intensive production has yet to significantly change course.<sup>55</sup> The visions of what needs to happen are racing ahead of what has been achieved.

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<sup>54</sup> On social capital and institutional performance in the Third Italy see Robert Putnam, *Making Democracy Work: Civic Traditions in Modern Italy*, Princeton University Press 1993.

<sup>55</sup> One good update on progress from the inside can be found in the latest edition of Walter Stahel’s *Performance Economy*, Palgrave MacMillan, 2010. Stahel is a Swiss architect, who works at the heart of the European insurance industry and is the convenor of the Europe-wide Product Life Institute. He is one of the founding members of the Factor Ten Club (started in 1994) and a consultant with many European companies on ways of radically transforming their resource productivity.

What specific role is there then for co-operatives? The answer once more is in the many ways in which the environmental transformations involve people and social relationships as well as technologies. It entails new forms of consumption, of housing and travel, of food and energy and so on. Just as few in the 1930s could imagine that within 40 years the great majority of households would have a car, a television, and a catalogue of white goods, or that the town and country would be refashioned round the car, so it is difficult for us to imagine a way of living that is not centred on the accumulation of stocks of goods rather than the flow of cultural and support services.

Policy makers call this behaviour change, but it goes well beyond that. It is about the redesign of ways of living and relating. Just as designers shaped the form of space and goods in the age of production, so they are now producing the prototypes of a different style of living. And they are finding that in many fields what has to be designed are new ways of co-operating – of mutual forms of care and learning for example, or to take a transport example, the creation of a walking bus for children to go together on their way to school.<sup>56</sup>

In these spheres as in new forms of sustainable production there is no single path, but alternatives that have different implications for people and places. The co-operative movement is uniquely placed to play a leadership role in this coming transformation – both to advance these innovations and to influence the pathways along which a green industrial revolution proceeds. There is no better example than that of sustainable energy, where distributed systems of co-operative wind turbines – owned by those affected by the sight and sound of the turbine - have been able to spread more rapidly and with more positive local economic impact than the centralised alternatives of offshore wind or nuclear power.

### *ii) the welfare system*

The relentless growth of chronic disease, the ageing of the population, the pension crisis, and levels of inequality have each been described as time bombs for the future. Clinicians now refer to diabetes as the epidemic of the 21<sup>st</sup> century. Health spending and social care already account for 15% of GDP and are both rising inexorably. The post war welfare settlement, structured by Beveridge and by the founding of the NHS, and administered by the centralised organisational models of the corporate world, is now faced with the twin pressures of rising demand and almost continuous attempts at radical reform.<sup>57</sup>

What we know is that the nature of the services, the forms of security, the means of redistributing incomes and the structure of welfare organisation all call for a profound

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<sup>56</sup> The Design Council has promoted a shift in focus of design from the world of commodities to that of public services and resource-lite life styles. A continuous guide in this field is John Thackara and his regular Doors Report, [doors-report@list.doorsofperception.com](mailto:doors-report@list.doorsofperception.com). See also his book *In the Bubble*, MIT Press 2005, and that of the Italian designer Ezio Manzini (with Francois Jegou) *Sustainable Everyday: Scenarios of Urban Life and Album: A Catalogue of Promising Solutions Edizione Ambiente*, Milano 2003.

<sup>57</sup> Participle are a design do-tank who have been prototyping new forms of health and welfare services as part of a project to re-think the forms and structures of the welfare state. See their founding document, *Beveridge 4.0* by Hilary Cottam, <http://www.hilarycottam.com/wp-content/uploads/2010/01/Beveridge-4.pdf>. Cottam led the work of the Design Council innovation unit RED, and a number of those from that unit are now working for Participle.

redesign. But models shaping the reforms are both problematic and contested. The work of social designers suggest that co-operatives often in partnership with the state have potentially a central role in developing services that retain the values of public welfare and enhance their delivery. This is another set of issues in which the co-operative movement can take the lead both in policy and practice. For example:

**a) Relational services.** Public services are first and foremost relational services. Health, education, care, policing, and community services all pivot round the relations of the front line service provider and the user. Many involve informational services, where the service provider is an information intermediary between sources of information and the particular needs of the user (citizen advice bureaux for example, or social house lettings and repairs, benefit claims, and employment centres ). The same is true of many activities in the public environmental field where householders require guidance and support (such as home energy retrofits, waste recycling or transport).

There are four features of such services:

- the quality of the relationship between service provider and the user is part of the quality of the service. In these cases the service is not a given package to be delivered by a postman, but is in part determined by the relationship established between user and provider.
- central to the relationship is the establishment of trust. The provider is commonly in a privileged position of information and skill (a doctor or teacher for example) and the user needs to feel that they are on their side not governed by other interests.
- these are services which are being transformed by changes in the digital economy, that enable mutual help and advice both through the internet and visual connections, the posting of issues, the arrangement of appointments and so on.
- these are areas where the formal and informal economies are often interwoven, not just with the user being in effect part of production, but also his or her family and friends or those in similar situations.

In all these respects co-operatives are a uniquely appropriate form of organisation. As with the social care co-operatives, they can involve user, providers and others who contribute to the service. They are not mediated by the administrative structures of the state or the profit imperative of private providers. And the informal mutuality of the information economy most readily connects to co-operatives. This is an economic sphere which in some respects opens up spaces for the expansion of co-operation that parallels the retail co-operatives of the 19<sup>th</sup> century.

**b) Pensions.** There is a long tradition of mutual saving for sickness, unemployment and old age. Given the changing demographics and ageing of the population, what can co-operatives offer that is distinct from private or public pensions?

Possibilities:

- The personal capital accounts in Mondragon's producer co-operatives, and similar arrangements in the Emilian co-operatives, are a form of long term saving for retirement which is personalised and generates interest along the way.
- A co-operative energy bond issued in return for carbon reducing investment could be repaid by low cost energy provision in retirement, negotiated collectively with public utilities.
- The Japanese furei kippu currency are care notes issued to those contributing volunteer care to the elderly which can be redeemed in care hours for those needing care.

So side by side with financial savings, there is a second set of mutual schemes that valorise voluntary activity at the point of retirement. The art is to make voluntary activity humanising in itself, from which benefits in retirement are a later harvest. Mutuals are in a unique position to ally formal and informal activity in this way.

*c) Inequality.* Inequality and the poverty that stems from it has intensified both nationally and internationally over the past 20 years. The private market generates it. States are increasingly constrained in their capacity to resolve it through taxation because the mobility of capital and the capacity of wealthy individuals to move to low tax areas. Its impact on a whole range of indices of health, well-being, education and violence has now been highlighted by the remarkable studies of Richard Wilkinson and Kate Pickett.<sup>58</sup>

What Wilkinson and Pickett – and numerous policy studies – find more difficult is to design the answers in the face of erosion of the national instruments of wage regulation and income redistribution as the result of the global mobility of corporations and the rich. Moreover, if as they argue it is relativities as much as absolutes that are significant, then it poses the question of how social policy can also address the relative fulfilment of different aspirations that can no longer be reduced to the relativities of income. Does the notion of equality change when we move from a world dominated by the relative consumption of commodities to one that turns towards the relative production of meaning?

Can co-operatives take the lead in establishing a fair standard of pay in their own employment (such as Mondragon's 6:1 ratio)? Can development Trusts be one means of realising Henry George's dream of capturing land rent for the benefit of those on low income? In tangible terms, are there services that can be provided to low-income households in commercial deserts– such as shops on housing estates? Or sources of finance and support to allow low income

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<sup>58</sup> Richard Wilkinson and Kate Pickett, *The Spirit Level*, Allen Lane, 2009.

households to produce their way out of poverty – as with the Grameen Bank and its micro credit?

There are positive answers to each of these questions in different parts of the co-operative movement. But at a time when the quite extraordinary disparities of income and the consequences that result from it are becoming so damaging, the co-operative can make its values more concrete by showing how co-operatives within a market economy are a prime route to a fairer share of income for all those connected to it.

The scope for co-operation widens as we move from the equality of income to the equivalence of meaning. For this is what co-operation has always stood for, opening up the possibilities of individual fulfilment and new forms of social living.

### *Moving to the front*

In cycling the peleton moves in the slip stream of the leader, and the challenge for the followers is not to get dropped from the pack. Consumer co-operation was for many years the head of the retail peleton, but once overtaken struggled to keep in contact with the new leaders. Since then it has stabilised, but, along with many other parts of the co-operative movement, it still lies in the slipstream. The argument in this Review is that the economic landscape is now changing in ways that favour co-operation. The two issues I mention – that appear increasingly intractable – are ones where there is now the opportunity for co-operation to move to the front.

Already there are many examples of co-operatives, large and small, addressing these issues. The Co-operative Group and the other independent retail societies have been particularly successful in their championing of environmental practices, in their programmes to address social exclusion, to support fair trade and to strengthen local communities. It is rare to find a co-operative that does not touch directly on one or more of these questions. For many it is their *raison d'être*.

But they remain largely fragmented. That is the first point. There is as yet little that pulls together the experience and results of these individual initiatives and champions them as the collective achievements and potential of the co-operative movement as a whole.

Secondly, there has been a tendency at times to separate the commercial and the social, with the community dividend representing the social side of co-operatives. The challenge is to internalise these social and environmental imperatives as far as possible at the heart of the commercial work. There are always many ways to make or deliver a product competitively, just as there are many ways up a mountain. This is the argument of the second industrial divide. Co-operative organisations can lead by following those paths that advance the goals of the movement, and that show in their daily practice the essence of the co-operative economic idea.

Thirdly, by starting not from what existing co-operatives are already doing, but rather from the social and environmental issues themselves it extends the agenda for the movement. It presses questions on each co-op, and marks out territory where new

co-operatives are needed. And re-framing the rationale of the co-operative movement around these issues highlights the way in co-operatives offer a practical way of addressing problems that are at the forefront of social and political concern. In spite of the growth of corporate responsibility, these issues still remain in the footnotes for the mainstream. For the co-operative economy they can move into the main text.

### *Specifying the idea*

For their 1855 Manifesto, the Rochdale pioneers set out their general principles – of equality, of justice not selfishness, of democracy – and their commitment to transform society through their project – “as soon as is practicable... to arrange the powers of production, distribution, education and government...” to that end.

In 2001 the Co-operative Commission sought to re-state the idea for 21<sup>st</sup> century. The values were similar. John Monks referred to them in his preface as ‘honesty, openness, social responsibility and caring for others’. For the Commission these values along with unique member ownership, and the community focus constituted the co-operative advantage.

As an economic idea this remains general. It was justified since the main question facing the Commission was an internal one, what is necessary if co-operatives are to survive. The question now is an external one – what can co-operatives do to address the major social and environmental issues now facing us. There are many others in the field. As I said earlier, there has been a growing ethical noise. The challenge to the movement is to make its idea more specific, to show how a co-operative economy can “arrange the powers of production, distribution, education and government” in such a way that it provides a ‘practicable’ alternative. The remainder of this Review considers some of ways of strengthening the co-operative system that would enable it to do so.

## **XIV Co-operative Democracy**

*In the modern age, people are making their own democracy. It is people not constitutions that are giving meaning to membership.*

Economic democracy has been one of the two primary themes of co-operation. Power should be in the hands of those who produce or who purchase their necessities, not those who provide capital or control the state. Co-operatives took the demands of the French revolution and applied them to the government of the economy. Liberty from the control of capital, equality among those who were economically engaged, fraternity/solidarity binding them together. Britain did not have a universal male franchise until 1918 nor votes for women until 1928. The early co-operators, men and women, granted themselves the franchise within their own autonomous economic sphere.

Most importantly it worked. The largest industrial concern in the world in the 1880s was not a joint stock company but a complex federation of co-operatives in which each layer of governance was elected from below. This structure was not just economically efficient but its distributed, democratic structure was one of the decisive reasons why it was able to grow so fast. Economic democracy and organisational effectiveness went hand in hand. The same applies to Mondragon, to the Japanese food and livelihood co-operatives, and to the Italian agricultural and industrial consortia. These are all co-operative economic systems in which their democratic structures are central to their economic success.

One hundred and fifty years after the opening of the Toad Lane shop the co-operative movement updated the co-operative principles, retaining the spirit of the original. Of the seven principles adopted by the Manchester Congress in 1995, five were directly related to organisation. Co-operatives are autonomous bodies, controlled by economically active members on an equal basis, one member one vote. The workers and consumers are like the citizens of a state. Its organisational borders are defined by these democratic principles, with a membership open to all who wish to join on these terms.

The model is clear and particularly relevant at a time when the two main economic structures of the twentieth century - the hierarchical state and the public shareholder company are both in question. The centralised state is under attack for its inflexibility and cost, the public company for being driven by the short demands of the financial market and ignoring environmental and social costs in its search for shareholder value.

Co-operatives in principle combine the flexibility and innovative capacity of a private company, with the social and environmental commitment of the state. At the heart of the co-operative concept was the idea, as Holyoake put it, that labour employed

capital paid for at market rates rather than the other way round.<sup>59</sup> It was the interests of labour rather than capital which was the driver. True these interests were defined as those of their members, but the 1995 Manchester Congress widened the scope with a new principle that required co-operatives also to work for the sustainable development of their communities.

It is no wonder that co-operatives as an organisational form have attracted so much current political support. They are seen as potentially resolving so many tensions – between the private and the social, between efficiency and democracy, between dynamism and security, between equity and motivation, and between meaningful work and competitiveness on the market. The co-operative idea, like a Christmas tree, carries a burden of hope.

Are these broad principles adequate for defining the sphere of co-operation in the complexities of today's economy? Here there is uncertainty. Co-operatives as pragmatic organisations have tried to accommodate the pressures they face within the terms of the principles. This has resulted in differences about what constitutes the essence of co-operatives and where the boundary should be drawn.

Should co-operatives have a common property element represented by an asset lock for example? Is the John Lewis model of employee ownership inside or outside the fold? What of those workers co-operatives which may employ more non-members than members? If co-operatives have now come to be classed as a sub-set of social enterprises, where is the line within the category of social enterprises to be drawn, and should those working to support co-operatives also be supporting non co-operative social enterprises? These are questions that touch the nerve of co-operative identity.

Nor are the seven principles precise enough to settle the matter. Their ambiguity is their strength. They are not a catechism but a set of principles within which can sit many mansions. What of the open membership principle for co-operatives which have high entry fees and other restrictions for membership (in the Imola Ceramic Co-op, for example, prospective members have to be between 25 and 40 years of age and pay a membership fee of €100,000 refundable on departure)? How do we distinguish between different models of employee democracy from John Lewis to Suma? What of some of the Canadian care co-operatives which have funders as well as users and employees as members? How meaningful is democracy in retail societies if less than 1% of members vote in annual elections? What of those co-operatives and mutuals where the links to the community are still weak? If we talk about the essence of co-operation, the substantive (as against formal) nature of co-operative democracy and its boundaries are far from clear

### ***The principal-agent problem***

Most of these issues arise because of the economic changes that have taken place since the original principles were framed. Many of them relate to size. The scale and complexity of twentieth century organisation shifted power to managers, and left

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<sup>59</sup> “Capitalists hired wage labourers, paid the market price for labour and appropriated all the gain. Co-operative labour proposes to hire capital, pay the market price for it, and appropriate all the gains.” G.J.Holyoake, *History of the Rochdale Pioneers*, Swan and Sonnenschein, 1893 p.28



unresolved the accountability of managers to the formal owners, whether the owners were public shareholders, co-operative members or citizens and their representatives.

Owners were told to keep to the sidelines. They could pick the team manager, but they were to keep off the field of play. As a result there has been a growing loss of public trust in large organisations – whether they be multinational corporations, governments, political parties or trade unions. In mass society organisations become alienated from those they formally represent. Each have their formal mechanisms of accountability, but the atomised rank and file electors are no match for the informed, professional central managers. Co-operatives have a lot of experience of this problem. Their efforts to resolve it and to make membership meaningful have a wider message for public and civic democracy.

### *From firm to system*

There are also developments in the economic and political field that are relevant for the framing of the problem of economic democracy. In the economy, firms are less and less closed entities related through an anonymous market. The nature of production and the demands of innovation can no longer be successfully contained within the firm, even large ones. As I noted in part 1, corporations are opening out into coalitions and alliances and taking their place in large systems.

Previously there was internal power within firms and the external power of the market. These were the issues for economic democracy. Now there is also the external power of systems. A co-operative may have internal democracy but be subordinated by contract so that it is little more than a collective wage labourer.<sup>60</sup> In chapter II I described the way in which Italian industrial districts have used consortia to construct democratic systems capable of competing successfully on the market. They illustrate the fact that economic democracy has become a question of external as well as internal relations.

### *Distributed politics*

Politically, we can observe a radical change – hastened by the internet. The old model of politics was conducted from a central node and communicated through the mass media to passive subjects. This is now being challenged. Active subjects are engaging in their own discussions, undertaking their own investigations of the conduct of government, and forming their own movements and plans of action. It is a distributed model of politics. It does not do away with the structures of government, or the political parties or the mass media. But it is creating new spheres of independent activity and dialogue which the centralised institutions now have to take into account.<sup>61</sup>

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<sup>60</sup> The Co-operative Group has recently been able to source some of its fair trade bananas from a co-operative in Panama that had been bound by a restrictive contract with the banana multinational, Chiquita, that had reduced the co-operative members to severe poverty.

<sup>61</sup> A clear and informed account of the impact of the web in strengthening the move to a distributed politics is contained in Yochai Benkler, *The Wealth of Networks*, Yale 2006, Chapter 7.

The economist Albert Hirschman pointed out that people have three options in relation to institutions – loyalty, voice or exit.<sup>62</sup> As society becomes more diversified, loyalty to mass parties weakens. As institutions get larger individual voices are lost. There has, therefore, been a long term trend to exit. Political energy is leaking out from the traditional political parties and regrouping into innumerable clusters of interests and enthusiasms, to which there is greater loyalty and in which there is more voice. It is a shift from passive to active – the emergence of the ‘pro-citizen’, the political equivalent of the rise of the prosumer (the productive consumer) that I noted to begin with.

### *The challenge of loyalty*

These trends and Hirschman’s point, bear directly on the co-operative model of democracy. Its principles were formed around institutions where there was both voice and loyalty. This remains the case with workers and other producer co-operatives. But for consumers, co-operatives are no longer as central to their lives as they are for producers. There are other interests and other shops. The ties of consumer members are weaker, and grow weaker still as the size of the co-operative increases. Retail co-operatives compete for their attention.

Consumer co-operatives have been able to hold their own through the marketing of their co-operative values and the dividend. These bring members into the shops but not into the polling booth. The consumer co-operatives face a challenge common all such large organisations, that of creating an institution that not only commands loyalty, but gives voice and above all scope for an active participation in its work.

### *From formal to participative and open democracy*

It is in this context that the movement needs to draw on its experience and the many innovations enabled by the use of information technology to articulate its own distinct model of democratic organisation. I suggest here eight elements:

- i. ***a shared idea***. The emphasis I have given in this Review to the importance of the Co-operative Idea is the starting point for a concept of democratic organisation. It gives the organisation its meaning and its spark. In the new distributed politics clusters are formed around enthusiasms. They are driven by interest rather than interests, by values before value. For effective co-operative democracy, it is important that there is a shared understanding of the primary idea, and that this is embodied in daily co-operative practice. The visitor to a good co-operative shop or workplace, or the recipient of co-operative services will be aware of the difference.
- ii. ***productive democracy***. Representative democracy involves a transfer of member responsibility to an intermediary. This is the formal aspect of democracy. But equally important is the opportunity for members to contribute productively to the work of the organisation. This concept of a democracy of engagement conceives power less as a stock that can be delegated and then

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<sup>62</sup> Albert Hirschman, *Exit, Voice and Loyalty: Responses to Decline in Firms, Organisations and States*, Harvard U.P., 1990.

exercised over others, than as a flow of information and activity which allows members to make a difference to how a system works. It may be through volunteering, or the undertaking of a joint project within the framework of the established co-op. It may be in the virtual world of intelligence and creativity. Contributing ideas and having them listened to will often be more meaningful than voting for candidates that members have never met or even heard of.

The internet has greatly extended the scope for such informational contributions and feedback. Patient Opinion is a site on which NHS patients comment on the treatment they have received (similar to My Police for policing). Fix My Street is a site where residents can comment on local issues such as potholes or noisy neighbours, and get the council official's responses in a week. In New York a new free iPhone application called iBurgh allows people to snap local problems on their phone such as graffiti or abandoned cars and send them to the city's 311 complaints system, embedded with GPS data pinpointing the exact location of the problem. The Seoul Ideas Bank website extends this principle to innovations in public services. Crowd sourcing via Innocentive-type competitions takes this further, inviting outsiders to provide answers to an organisation's problems.

Large organisations have looked to such sites as a source of users' ideas. I want to emphasise the extraordinary resource of member intelligence and the way in which a chance to provide that intelligence contributes to a sense of member engagement and to a feeling that they are helping to 'make' the co-op.

- iii. ***nested organisation.*** Productive and participatory democracy can go furthest in smaller organisations. In representative democracy, as in sound or electricity, there are transmission losses the greater the distance from the point of departure. The direct democracy of workers co-operatives is made possible by their manageable size. Of the 411 British workers co-operatives the largest, Suma, has 150 employees. The average employment of the 24 largest workers co-operatives with a turnover of more than £1m p.a. is 40.

In Spain, when Mondragon's co-operative Ulgor increased in size Arizmendiaretta and his associates introduced a policy of spinning some its component production into new co-operatives. The new co-operatives retained a secure market with Ulgor but were free to find other markets outside. A new co-ordinating co-operative was formed from Ulgor itself to give coherence to the group, with a General Assembly comprising members of the Governing Councils, the Management Councils and the Audit Committees of the affiliated co-operatives, that determined the policies and the membership of the group.<sup>63</sup>

This was a model of nested organisation. It illustrates a policy where organisational structure was not determined by technical economies of scale, but by the social economy of democratic organisation which – as in Italy – took account of scale in the structuring of relations between the different co-operatives.

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<sup>63</sup> Race Mathews, *Jobs of Our Own: Building a Stakeholder Society*, Pluto Press, 1999 p.214. Race Mathews was an Australian politician much influenced by the distributist tradition.

Historically the distributed structure of co-operative retailing into hundreds of local societies favoured active member involvement. The subsequent amalgamations have made this more difficult. I discuss the issue of ‘responsible autonomy’ in retail organisations more fully in Chapter XX.

- iv. ***lateral consortia***. Similar principles apply to the architecture of co-operative systems designed round consortia and collaborative ventures. The sixth Manchester principle, co-operation between co-operatives, becomes critical to the concept of co-operative democracy in an age of systems. Not all those in a consortium are necessarily co-operatives, but all parties to the consortia, family firms, family farms, social enterprises and other co-operatives should share a commitment to egalitarian relations between the partners.
- v. ***inter-co-operative projects***. Productive involvement can be external as well as internal. Using the collective assets of local co-operatives to support new independent projects is a valuable way of expanding membership and providing an opportunity to play a part in the movement. Some retail co-operatives already support voluntary groups by encouraging their staff to engage as volunteers. But if the movement extends its role in addressing the core environmental and social issues this would involve expanding their involvement in new local projects.

There is a double point here. First, co-operatives taken as a group have assets which can be mobilised often at little cost or diversion from their main activities. These assets of professional and practical skills and know-how, together with their sites and channels of information can be leveraged to provide crucial support to such local social movements as transition towns or zero waste.

Second, strong projects generate their own momentum. They attract finance, and provide opportunities for a range of paid and voluntary work. I am suggesting here a more active bridge between the formal economy of co-operatives and the informal economy of community initiatives as a means of member engagement. It exemplifies co-operatives moving into the age of ‘with’.

- vi. ***member intermediaries***. Co-operative retail societies are unique in having staff whose job is to act as a two way channel for members. They are the equivalent of community development workers in the social world, and of hosts in the virtual world. Much of their work has traditionally been in relation to the workings of the representative democracy of co-operatives and in the organisation of campaigns. From the perspective of productive democracy they are in a position to enable member involvement through the active hosting of local and group-wide websites, the promotion of projects, of new informal initiatives such as reading groups and land sharing, as well as encouraging new co-operative ideas.

Over time a separation has grown up between a financial and commodity benefit of membership and that of the opportunity for democratic participation. The former takes the form of the dividend and various offers available only to members. It is a variant of consumerism and involves only weak, episodic engagement. The latter involves the participation in the processes of representative democracy. It has had a much lower response. Greater

involvement has come from local meetings on neighbourhood issues such as the extension and revamping of a village store. Member intermediaries can help provide many similar opportunities for direct participation, and raise voting levels as a consequence.

- vii. ***participative governance.*** The web has greatly extended the scope for participation within the structures of representative governance. Annual meetings can be relayed live over the web. Representatives can report back virtually. Barak Obama introduced an online Town Hall which elicited 106,000 questions, on which the public voted as to which he should answer. Proposals can be posted on the web so that representatives can gather members' comments. Wikis and chat rooms provide a space for member discussion. In short there has been a spate of innovation in e-democracy in the public sphere which can be applied to democracy within the co-operative movement.

There is also a wide variety non-web democratic innovations in the developing world which are suggestive for co-operative governance. The Indian state of Kerala's remarkable people's planning is an example, as is South Korea's Tribunus Plebis (a committee of legislators committed to put citizens' ideas into practice) and South America's participatory budgeting. The last of these has spread to the UK, notably in schools. In Tower Hamlets the local Council allocated £160,000 for local schools to decide on its use. Each school elected representatives who then met for a day and voted on priorities (top of the list was computers for the elderly). Something of the same kind happens in the Lincolnshire Retail Society, where members groups in towns and villages decide on the best use of their share of the Co-op's community dividend. These are meetings to which it is worth turning up.

- viii. ***Auditing.*** One of the most popular activities for members of the Seikatsu Club, the Japanese food co-op, is the mass auditing of the suppliers. Food standards in agriculture, fishery, stock raising and processed food are set by an Independent Control Commission made up of Club members and producers, and producers sign up to these standards, make their performance data publicly available and work with the club to improve them – thereby aiming to raise national standards. Mass audits are then carried out by groups of members who visit farms and processing factories and test the products. They play an important part in a system of quality control and improvement.<sup>64</sup>

The idea that the establishment of standards and their auditing should be a collaborative and transparent project with the aim of continuous improvement – 'power with' rather than 'power over' – sits squarely within the co-operative tradition of quality and transparency. Because of distance and cost, fair trade has not been able to replicate this system but it has worked on developing metrics jointly with the producers that would first help co-operatives in their own self assessment as well as providing consumers with data on the results of fair trade.

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<sup>64</sup> This system is described in John Restakis, *Humanising the Economy: Co-operatives in the Age of Capital*, New Society Publishers, 2010 p.125. John Restakis is the chief executive of the British Columbia branch of the Canadian Co-operative Association.

Auditing derives from the Latin word to listen, but has come to mean inspection. The Seikatsu Club treats it rather as a dialogue, a joint investigation of what is, as part of a process of becoming. It clearly has a relevance for the auditing of co-operatives themselves not only their suppliers. It involves the collaborative agreement on the goals of the co-operatives and the metrics and qualitative forms of assessment that can be used to assess performance and consider improvements. The process of auditing has features of an internal quality circle.

Audits in the past have been primarily financial and involve a granular inspection of the accounts by an independent specialist. The auditor it is hoped will sign off the accounts and re-assure an annual general meeting. Few members would wish to be part of this detailed process. But as the notion of auditing widens to include qualitative performance and ideas for improvement – a direction in which the Audit Commission was slowly moving and was always part of early post-war school inspection – then members could play a valuable Seikatsu type role.<sup>65</sup>

### ***The principle of co-operative democracy revisited***

There are three themes running through this discussion:

- The idea of power as a flow of activity and information not just a stock of authority over that activity
- The need to conceive of democracy in terms of the active engagement of members not only their rights of voting
- The need for democracy to be open to co-operation between firms – to create a macro democracy of networks not only a micro democracy within the firm.

None of these conflict with the Manchester principles. Rather they extend them. They seek to give substance to what otherwise remains formal. Much turns on the concept of membership – how strong or weak it is in the eyes of the member; how various are the ways in which they can participate economically, not simply in their formal status as workers or consumers. Autonomy and independence demands ever-widening external collaboration. Concern for community needs to become the pole that guides all activity and be internalised in co-operative practices not treated as a separate sphere.

I am suggesting here a widening of the idea of economic democracy, beyond the legal forms and architecture of representation that can at times become separated from the economic context, to one which extends to models of organisation and of systemic design that enable self rule. It was another of Gandhi's points in his theory of co-operation that self rule depended on human centred technologies. In his long running argument with Nehru he contrasted the spinning wheel with the giant chemical factory, and pointed out how difficult it was to have self rule over complex

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<sup>65</sup> The recent National Audit Office report was a significant step in developing audit as a promoter of innovation.

technologies.<sup>66</sup> The governability both of technology and organisations is a democratic principle that has new relevance at the time of a second industrial divide and the opening up of a choice between centralised and distributed systems.

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<sup>66</sup> M.K.Gandhi, *Hind Swaraj and Other Writings*, (edited by Anthony J.Parel), Cambridge University Press, 1997, notably his correspondence with Nehru, and his writings on machinery.

## XV Co-operative Boundaries

If the substance of democracy in part depends on the external relations of an enterprise, where do we draw the boundaries of co-operation? The Co-operative Principles cover this in two ways: first there should be internal democracy, second that there is co-operation between firms. But if these firms are not themselves co-operatives (as in the case of most farmers' co-operatives) or if they are not formal co-operatives but share many of the co-operative principles, where then should the co-operative boundary be drawn?

One of the principles of complex organisational systems is a shift from definition by boundaries to definition by core values. It allows for the play of a diverse mix of values and for continuities rather than cut off points. One organisation may be strong on one set of values, weaker on others. Each one changes in response to changes in their environment. What is important is the continuity of values.

This encourages us to see co-operatives not as a territory defined by its constitutions, but by its core values and principles each with their own continuum.<sup>67</sup> There is the founding principle of divorcing governance from the control of capital. There is the core principle of membership as the foundation for a co-operative citizenship, with a continuum running from completely open membership to a narrowly restricted one. There is the principle of the social scope of a co-operative's mission, running from entirely 'self-directed' co-operatives to those like ben coms which are 'other directed'. There is a principle of social ownership, where the continuum runs from co-operatives as an aggregation of individuals from which any member can remove their equity, to collective co-operatives where property is held in common and where there is an asset lock on individual withdrawals.

We could add others – the degree of openness for example, or the forms and extent of democratic control. The democratic continuum is itself complex. At one level it could run from a small worker's co-operative where all significant decisions are made by the members, to a large retail society where – whatever the form – there is little member participation. As we know from the corporate world, the form of shareholder control at annual general meetings is not enough for the effective governance of an executive.

In moving from boundaries to core values, the first step is to unpackage the mix of co-operative values – where different co-operatives may attach different weights to each - and then establish the applicable continua as an aid to locating co-operatives in the wider universe of companies. In Figure 1 I have plotted one of the dimensions (open and closed membership) against the influence of capital, the first as against the fourth of the Co-operative Principles. In the top left hand corner is a co-operative

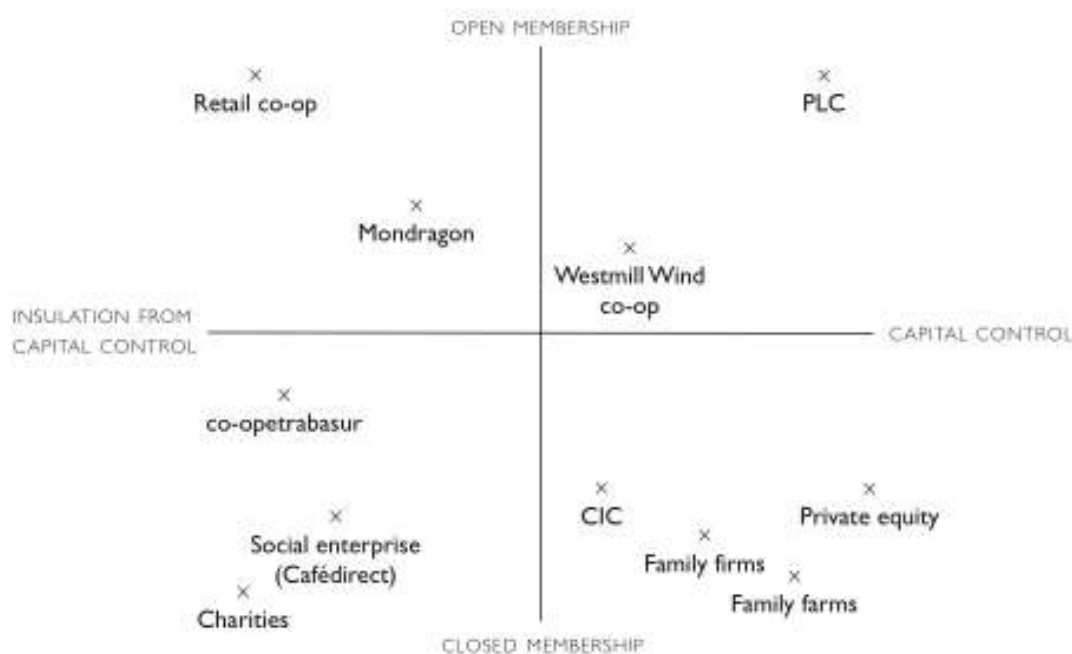
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<sup>67</sup> There have been two contrasting traditions in the European social economy, between a legal approach that distinguishes co-ops, mutuals and associations, and a normative approach that emphasises values and practices rather than legal forms. The latter has characterised many of the post-1968 initiatives in the social economy, where the formal structures may be associations while the core values are democratic decision making, independence, and the primacy of labour over capital. See Carlo Borzaga and Jacques Defourny, *The Emergence of Social Enterprise*, Routledge 2004.



with an unrestricted membership which is fully insulated from control by those putting up the money. In the top right hand corner is a PLC where there is open membership (for people buying the company's shares) but where there is the full rule of the discipline of financial capital. In the bottom left quadrant we have those non-co-operative social enterprises which are to a greater or lesser extent resistant to the pressures of capital but which have limited membership, charities being in the bottom left hand corner of the quadrant. Finally in the lower right hand quadrant, there are family firms, and farmers which have a restricted membership (members of the family) but as private businesses are not necessarily governed solely by a financial imperative. Private equity is also usually in this quadrant.

Figure 1 Governance and Capital (1)

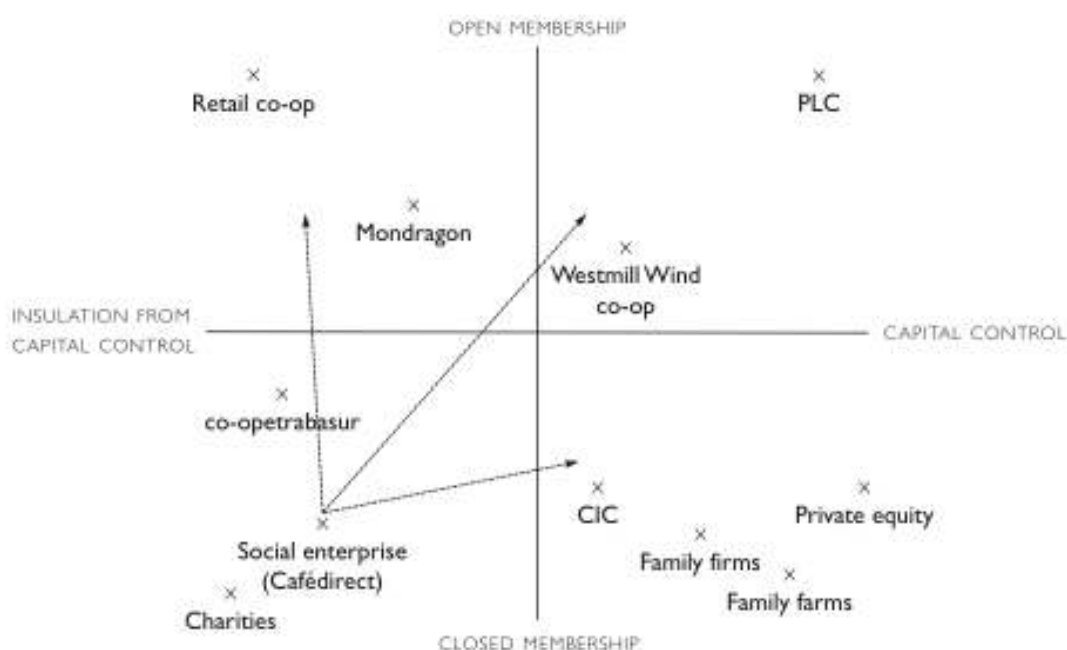


There are three points that arise from a mapping of co-operative values in this way. First one aim for the co-operative movement is to create the conditions that draw companies up towards the co-operative quadrant. Thus a family firm that converts to social ownership will move in a North Westerly direction, expanding its membership to include employees with their own distinct interest. Similarly social enterprises, particularly those established as companies limited by guarantee, can be drawn towards the co-operative quadrant by an expansion of membership.

Figure 2 illustrates the point. It is the same as Figure 1 but with the addition of possible directions of development faced by one social enterprise, namely Cafedirect. For its first decade Cafedirect would be in bottom left hand of the diagram. It was owned by one co-operative (Equal Exchange), one charity (Oxfam) and two social enterprises. It financed its growth internally and was therefore insulated from control by capital. Its pace of growth meant that by 2003 it needed an injection of finance. It could raise this through an ethical venture capital fund requiring a 25% annual rate of return that drew it westwards to the bottom right quadrant. It could have a public

share issue with a minimal rate of return aimed at ethical investors, which drew it to the top right quadrant alongside Westmill Wind. Or it could convert to a multi-stakeholder co-operative of producers and consumer/investors, which would draw into the top left quadrant. It chose the public share issue option, but provided a 5% stake for the producer co-operatives plus two seats for the producers on the Board, with the four founders maintaining a 40% stake. It therefore moved partially up the middle arrow, with a complex set of guidelines and a golden share to ensure that the interests of the producer members remained paramount, and were insulated from the control of capital.

Figure 2 Governance and Capital (2) Directions of Development



The second point highlighted by such a mapping is the significance of the conditions for substantive democracy. For example the size and nature of the business makes it more or less easy to have open membership and direct democratic governance. Mondragon's co-operatives do not have membership for all workers, because some of the jobs lack the permanence necessary for effective membership, or they are overseas which makes the democratic operation of membership more difficult. There are ways in which this could be overcome: by establishing sub co-operatives within a group or labour co-operatives for example (as was done by Coopetrabatur, a small banana farmers co-operative in Costa Rica). The point being that the size and nature of the business does not determine the breadth of membership or the most effective form of substantive democracy but it does present conditions that a commitment to openness and democracy have to take into account.

Market constraints may be even tighter. A co-operative with one member: one vote may be forced to operate as if the profit maximising imperative dominated the co-op's governance. This could be through the dependence on mainstream loan finance, or by competitive conditions which meant that there was no leeway to run the co-operative in any other way than as a capitalist firm (this was Marx's view of the constraints on

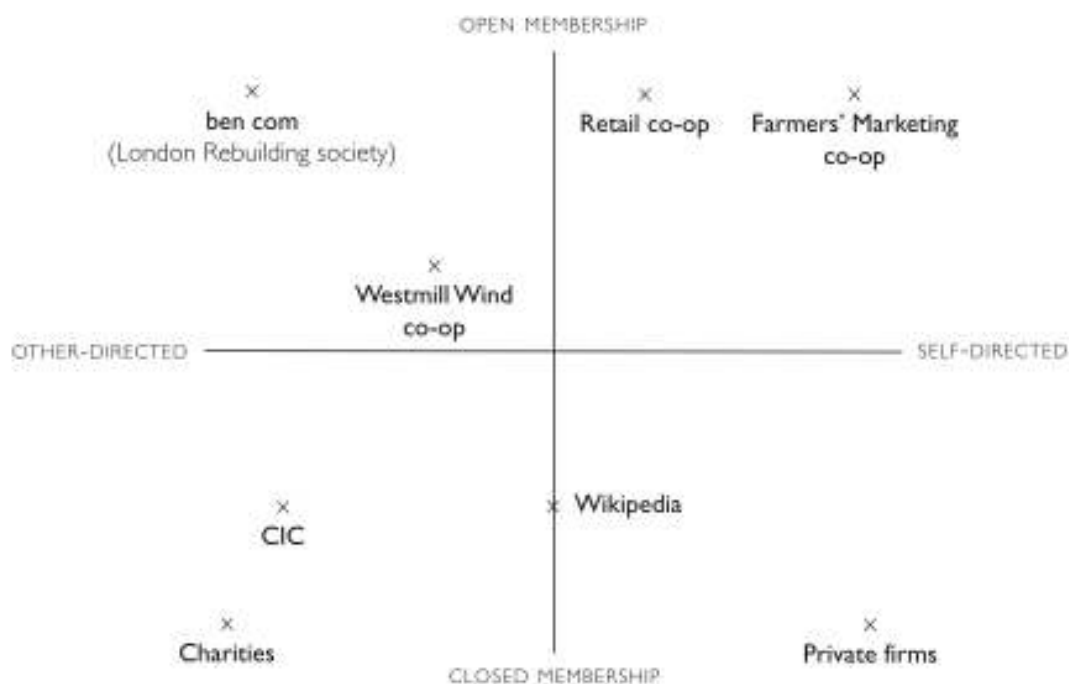
co-operatives and of value oriented family firms like those of the Quakers). In these cases it is not a question of distributing profits to consumers or workers if there are no profits, or of working with communities or the wider co-operative network if there is no time.

Surplus time and surplus profits are a condition to realise many of the co-operative aspirations. A new lone co-operative may have an internal autonomy in governance, which is straight jacketed by the external governance of the market. As all co-operatives know only too well, the pressure of competition can act as a continual pressure dragging co-operatives eastwards in Figure 1.

Thirdly the focus on conditions re-enforces the importance of seeing co-operatives in terms of values, aspirations, forces and flows, rather than simply in the static categories of company structure and organisational rules. The latter are necessary but not sufficient conditions. They are supportive frameworks, but not by themselves adequate definers of territory. Nor can the co-operative quadrant itself adequately define the territory. For it all depends on where the axes are drawn, and what other axes need to be taken into account.

Figure 3 charts the membership axis this time against the axis of purpose (self-directed versus other directed), that is the 7<sup>th</sup> Co-operative Principle of concern for the community. Here a ben com like the London Rebuilding Society stands at the opposite pole to an exclusively internal farmers co-operative (and to a PLC) in the two upper quadrants of the diagram. In the lower quadrants the continuum runs from charities, which by their very charters are 'other directed', to 'self directed' private firms.

Figure 3 Governance and Purpose



In Figure 3, Westmill Wind Co-operative is shown to be primarily 'other directed' (the development of alternative energy) subject to the restricted dividend provided to

its ethical investors. In contrast in Figure 1 it is placed in the top right quadrant because it is disciplined by the required rate of return of its shareholders.

Wikipedia on the other hand, which has open access but is controlled by a select group of contributors and the founder, is an example of those projects which are simultaneously self-directed and other directed, in that the individual interest is realised through participation in a social project. This may be the case for many co-operatives.

Such mappings represent force fields rather than territories. They suggest that co-operation is first and foremost a set of values to be realised in a wide variety of ways rather than determined solely by company constitutions and formal rules.

Co-operative values – of a socially oriented, democratic economy – are those of the contemporary zeitgeist. So are many of its precepts – a focus on the quality of relationships in services, on the quality of working life and human centred technology, on the kind of goods and services that are produced and the conditions of their production.

Co-operatives are not alone in practising these values. There are the co-operatives without walls I discussed earlier. There are a range of social enterprises, and indeed some private firms who seek to realise these values in their own way. The force field of co-operation extends well beyond the co-operative quadrant. For the Co-operative Idea, the definition of co-operatives, of who is in and who is out, should emphasise substance and wherever possible avoid a fetishism of form.

These issues become particularly important in the age of networks. This is an age of openness – open innovation, open source, open networks, open brands, open access, open licensing, open architectures, open testing and so on. It is an age when boundaries are becoming blurred and permeable. Many of the critical elements of modern competitiveness - innovation, flexibility, and the economies of collaborative working - call for organisations to be open rather than closed.

The opportunities now unfolding for a surge in co-operative development will require the involvement of many who share co-operative values, if not its legal structures. There have been times when the co-operative movement needed to build strong walls to protect its autonomous spaces. Today autonomy is preserved and strengthened by its readiness to extend its identity and collaboration across the frontiers of form.

The emphasis on values as the definer of the movement, underlines the significance of the co-operative idea as a force of cohesion and a guide to direction. That has been the subject of the last four chapters. It also means that the movement's educational provisions are of prime importance, both to ensure that co-operators have a broadly shared understanding of co-operative ideas and values, and are able to contribute to their development and practical realisation. This is the subject of the next chapter.

## XVI Education

*Apple stores have an open lecture room, where there is a continuous programme of how-to talks as well as a genius bar, to which customers take their equipment problems to discuss with staff. The assistants in the store are themselves specialists, and you can arrange special lessons with them to learn computer skills, or you can join group courses at the back of the shop*

*Livemocha.com is a free online language school, where people can sign up for courses and are paired with speakers of other languages for reciprocal conversation*

*In San Francisco, there is a shop selling pirate gear. At the back is an 'after school' where volunteers offer 'slivers of time' to help children with their homework. The profits from the pirate shop have funded new 'after-schools' in other cities.*

*The Victoria and Albert Museum hosts over 350,000 school children a year. Some museums give over as much as 50% of their space to learning areas*

*TutorVista.com provides a tutoring service where for \$100 a month children anywhere in the world can get one-to-one tutoring from graduates in India*

*200 schools have retrained their dinner ladies and parents to provide healthy meals based on Jamie Oliver's school food programme*

*The Massachusetts Institute of Technology Open Courseware carries 1,800 free courses online and has students from over 200 regions and countries taking the classes*

*The School of Everything is a web-based service that links those wanting to learn a subject with those who can teach it. Its site logs e-Bay type ratings as part of its quality control.*

*Everdale Farm 50 miles from Toronto offers learning for labour and has trained up a new generation of organic farmers who have been recognised by Ontario's Agricultural Ministry as one answer to the province's declining medium sized farms*

*Moodle, the Australian open source software package, helps teachers create online learning communities. It now serves 2.5 million courses in 49,000 universities, high schools, community education programmes and corporate training centres and is used by 28 million students*

*CPsquare is a community of practice for communities of practice, which have proliferated as the result of the explosion of web technology for communities*

*A GP's surgery in Tiverton has a seminar room where those with chronic conditions, such as asthma, come together with a doctor to discuss how to manage. There is space for yoga and a conference room, computers where patients log on to find out about their conditions, a garden where patients can come and learn about organic gardening (with a shop and restaurant attached). The local radio and TV stations carry programmes with the GPs*

*TED lectures on the web are watched by over 30 million people*

*There are now an estimated 4000 reading groups in Britain*

### *Co-operative Education in the Post Industrial Economy*

In the age of mass production it was capital that was key to industrialisation. In an age of continuous innovation it is human capacities that become central. In post industrial society there is a demand for human intelligence and imagination. In some measure it validates the long standing humanist aspiration that life is a process of self-realisation and the development of what it means to be human. It offers some hope that self improvement and increasing skill will find recognition in the labour market, that education is worth it.

This is the caveat to Gorz's argument that such human aspirations can only be realised outside work. In the past decade it is clear that the mainstream economy, at its leading edge, is also dependent on them. Creativity, innovation, resourcefulness, a learning culture have become the buzz words of management literature. They are applied on the shop floor and the service counters of the most advanced companies as much as in the design studio. Venture capital assesses a new project not in terms of its machines and its money but the quality of its idea and the capacity of the people to realise it. Labour is the new capital

For co-operatives this has profound implications. The co-operative movement sought to capture the surplus it created and convert it into capital, eventually channelled through its own bank, to increase the range and autonomy of the co-operative commonwealth. But if skill, intelligence and creativity are now at the heart of economic competitiveness what does that do to the co-operative economic model and the institutions appropriate to it? How does it bear on the recognition of labour in consumer co-operatives and on the principles of equity and equality? What is the equivalent to the Co-operative Bank if labour is the new capital?

Here I want to focus on the last of these questions. The simple answer is that the Co-operative College should be as significant to the future of co-operatives as the Co-operative Bank. There is a strong case to be made for this. But to leave it at that would be to treat labour and its learning as a thing that could be defined, deposited and then lent out again as if it was so much money. Human capacity, of course, is not like that. It rests with the people who have it. It is they who apply their capacities in practice. They have the freedom to move. And what they learn and how they develop their capacities cannot be confined to a specialist college as if a college was an input-output knowledge factory.

Learning, as the co-operative movement has always recognised, is much wider than that. It has been at the core of its idea of self-help and self-realisation. The College was founded in 1919, and had its special role. But there were also reading rooms, libraries, newspapers, week-end schools and courses. The WEA, like the early Methodists, had its travelling tutors, with book boxes sent on ahead. It was a distributed system of learning, one that was universal in its subject matter and in its appeal to all ages.

The post-war expansion of state education and the squeeze on co-operative profits left only limited outposts of this co-operative tradition of learning. Public educational spending has been increasingly structured round one version of what the economy requires and has been largely channelled through the traditional institutions of the

school, the college, and the training course. But in the past decade human aspiration and web technology has seen education bursting out of traditional institutions, and finding new sites and methods of unrestricted learning.

Sites like shops, GPs surgeries, museums, farms, art galleries, TV stations, public parks, football stadia, even waste disposal sites are developing as quasi schools and colleges alongside their traditional functions. Companies are starting their own universities. Learning will not sit still. It is on the move with a back-pack, on weekend courses or a guided tour. Or it is shared with a friend round a computer screen, or in a reading group, or at work on a project. In the ideology of becoming, life is being re-interpreted as learning.

There are three points to make about this. First, learning is social. Like a child, we learn from each other. Second, the best learning is not something separate from ourselves, to be remembered and repeated, but has a meaning and connects to our being. In this sense it is pragmatic. We seek not only to understand the world but to change it, and change ourselves in relation to it. Third, the materials that help us to learn have been swept into the technological revolution. Wikipedia answers our questions. David Attenborough gives us a botany lesson. Google can guide us through its links ever deeper into any subject we choose.

There are of course many types of learning. There are skills, like driving or cooking or working a computer, skills which in some hands merge into art. There are the many personal skills of how we relate to others and express and manage ourselves. There is formation which is the way the French and Spanish (and the Germans through their idea of 'bildung') describe the process of creating character and identity, a particular way of thinking about and acting in the world. And connected to all of them is imagination, and a capacity to think about how life and society might be otherwise.

When we talk of the co-operative advantage we sometimes express it in a simple formula linking social values, democratic structure and commercial efficiency. But in the current era which the social geographer Allen Scott has called 'cognitive-cultural capitalism' there are educational and cultural processes behind each term in the co-operative formula that are critical to co-operative success in the market.<sup>68</sup>

For a measure of democracy to work there have to be shared values and an understanding of the goals and the practical demands of co-operatives. Commercial

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<sup>68</sup> Allen Scott, who is a Professor of Geography at the University of California in Los Angeles, uses the term 'cognitive-cultural capitalism' to describe the new economy that emerged in the late 20<sup>th</sup> century, though California's Hollywood and Silicon Valley exhibited many of its features from the 1950s. It includes technology-intensive manufacturing, services of all kinds, cultural industries, and neo artisanal design and fashion-oriented production. It is focused on small production runs, niche marketing. Its core sectors are radically de-standardised and de-routinised. He sees it as a two tier economy. The upper tier comprises managers, professional workers, business and financial analysts, scientific researchers, technicians, skilled craftworkers, designers, marketing specialists, advertisers, artists and so on. The lower tier is less well paid and less psychically gratifying and is found in factories and workshops and in many service trades, notably those in 'relational' jobs. I think there is a greater continuum than he allows for in some sectors and also variation in the same industries - retailing, education, health and social care for example. His overall analysis, however, and the significance it gives to the economy of relationships and the geographical consequences of these changes for urban life has many implications for the future of co-operation. See his book, *Social Economy of the Metropolis*, Oxford 2008.

efficiency in the economy of today and tomorrow is not just an issue of keeping costs down and marketing up, and managing by numbers. It is a recognition that intelligence and imagination are widely distributed, among the workforce, among customers and the wider public. How this is tapped into and developed will determine both the efficiency of operations and the level of innovation. The Japanese recognised this long before the Anglo Saxons in the old industrial sectors. The Californians and the new ‘cognitive-cultural’ occupations have formed their organisations around it.

This should be home ground for co-operatives. But the movement as a whole lacks the infrastructure to form and spread the creative culture among all those who come in contact with the co-op, as employees, and customers, or the communities in which they work.

There are individual examples of this new spirit of production within the movement. They can be found in sections of retail, in workers co-operatives and in branches of co-operative housing. St Lukes Advertising and the co-owned Make architectural practice are just two of the co-operatives in the creative industries. Those visiting the Mountain Equipment Co-operative in Canada are aware that here is shopping with a difference. Like Apple they have enthusiasts and experts on the shop floor who provide advice and feed ideas and comments to the new product developers housed above (they also have 1 million members). But the modern movement as a whole has not given priority to how the new spirit is infused throughout the co-operative economy, how it is reflected in everything from the structure of organisations to the lay out of chairs at a meeting. This capacity to form a culture for systems of co-operation is what I refer to as co-operative education.

### ***Education and Co-operative Development***

Historically, education in the sense of creating a common culture has been at the very heart of almost all early co-operative development. The roots may be in other organisations with their own processes of formation – non-conformist religion in mid 19<sup>th</sup> century Britain, folk schools in Denmark from the 1860s, the labour movement, as with the Knights of Labour in the USA in the 1870s and 1880s, in political parties (as in Italy) or liberation movements before and after they had taken power as in India and Africa. Once established they developed their own forms of self education – in the co-operatives themselves, or particular parts of the movement like the Co-operative Women’s Guild or the Woodcraft Folk.

From the 20<sup>th</sup> century it is striking how educational institutions themselves and those who passed through them came to play a central role in the development of co-operatives. In the US many of the land grant universities developed co-operative courses and programmes in their extension work, and some continue to do so. The Antagonish movement in Nova Scotia sprung from St Francis University in Nova Scotia and through community education developed co-operatives in the fishing communities in a way that influenced co-operative development all over Canada. <sup>69</sup>

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<sup>69</sup> On the Antagonish movement and the way in which the spirit and confidence to start co-operatives was galvanised from adult education see Race Mathews, op.cit. Chapters 7 and 8.



In Europe, Mondragon sprang from educational roots, and of its four pillars of support to the Mondragon group it regards its system of social, technical and managerial education and above all its university as the most indispensable. Specialist technical colleges have played an important role in the life of European industrial districts. Germany has co-operative centres at ten universities. From the founding of Britain Co-operative College in 1919, other national movements established their own co-operative colleges.<sup>70</sup>

Most of these examples will be well known to British co-operators. They explain why Education, Training and Information is the fifth of the seven Co-operative Principles. Yet this principle appears to have slipped beneath the radar line at the very moment when it should be visible to all.

In this brief Review I have not been able to gather a full inventory of the education and training provision being undertaken within all parts of the movement. Retail groups have their own training programmes, as do many individual co-operatives and the co-operative development bodies.<sup>71</sup> There are a number of university courses on co-operatives and a research network of Co-operative Studies. But overall the provision remains fragmented, under recognised and underfunded. The Co-operative Commission had only four paragraphs and one recommendation that explicitly dealt with the issue of learning. In 2009 registered co-operatives had a turnover of £33.5 billion. The Co-operative College has core funds of £110,000.

I see education as a cornerstone for co-operative development, and the Co-operative College as the hub for a radical expansion of the movement's educational activity. I say this not just because of the historical experience of co-operatives, but because of the role that education as a process of formation and development has played in almost all successful institutional development, whether of traditional forms like the military and the organised church or new forms like those of the environmental movement and Silicon Valley.

The environmental movement has an ever expanding network of bases in universities, but it also has many of its own independent institutions like think tanks and colleges – such as Schumacher College in Devon or Forum of the Future's de facto college established to develop a cadre of environmental animators. It is noteworthy that many of the most successful movements in the social economy have set up their own colleges as centres of research and of the formation of people to put into practice the ideas of the movement. Sekem, the pioneers of bio-dynamic farming in Egypt, have their own technical school and now a University in Cairo. The slow food movement has established a University of Gastronomy in Northern Italy as one means of providing coherence to a far-flung, international movement.<sup>72</sup>

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<sup>70</sup> Ian MacPherson discusses many of these examples in the context of co-operative studies in an article that is equally relevant to the role of education in co-operative development. See his "Confluence, Context and Community and Community: The Expanding Boundaries of Co-operative Studies" in Ian MacPherson and Erin McLaughlin-Jenkins (eds) *Integrating Diversities Within a Complex Heritage*, New Rochdale Press 2008.

<sup>71</sup> The Co-operative Group have recently launched an exemplary £9 million programme to train 2,000 young apprentices.

<sup>72</sup> A striking example is the Lynedoch Eco-village in South Africa which has established a Sustainability Institute at the heart of the village, linked to Stellenbosch University. The Institute receives students from all over the world and is intended to bridge the research and educational

It is, of course, not enough to have a college. The question is what it does and how it links to other resources. As noted there already exist a significant number of Co-operative Colleges internationally. Ian McPherson who himself heads an independent co-operative institute in British Columbia and was one of the principle drafters of the 1995 Manchester Principles, recently made this general assessment of them:

“The colleges provided – and many continue to provide – excellent support services for the development of co-operatives, particularly in their formative stages. Gradually, though, many of them tended to become inward looking, preoccupied with the movement’s internal issues and focused essentially on training. Moreover, they were, in general, inadequately funded to sustain prominent involvement with the major intellectual trends of the day; they had all they could do to meet the training and development needs of increasingly complex movements. That partly explains why the promising early involvement of co-operative thought in some of the key intellectual trends of the nineteenth century was not sustained in the twentieth century. It also helps to explain – along with the relative disinterest of most business schools and commerce programmes – why the theoretical base for the management of co-operative enterprise was weaker than it could and should have been and why co-operatives essentially depended more and more on imitating management practices and adopting management theories from other forms of enterprise.”<sup>73</sup>

### *The Co-operative College*

McPherson noted that four of the colleges were being rejuvenated, one of which was the Co-operative College in the UK, which he describes as “enjoying a renaissance as it embraces new technologies and reaches out around the world”<sup>74</sup>.

This is certainly the case. In addition to its long standing work in providing courses for members and managers, as well as vocational programmes for those working in co-operatives, it has pioneered three substantial initiatives:

- work with co-operatives internationally, notably in Africa, where in addition to the support it has given to individual farmer co-operatives it is supporting the development of a consortium of eight co-operatives in Africa as the ‘machine tools’ for the strengthening of co-operatives on that continent.
- the ambitious project for the upgrading of the Rochdale Pioneers museum, which, together with the national co-operative archive and library, is a key resource for co-operative learning
- the promotion of co-operative schools as discussed above

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capacity of an Institute with the social and technical problems of developing a zero carbon, socially and ethnically inclusive village.

<sup>73</sup> MacPherson and McLaughlin-Jenkins op.cit. p.420

<sup>74</sup> *ibid.* p.396

It is also working on a number of new projects:

- a virtual learning programme which will give online access to learning materials and assessment by the end of 2010.
- post graduate PHDs in partnership with universities
- collaborative programmes with the WEA and trade unions to strengthen the College's distributed resource base
- the extension of the model of co-operative schools into further education.

### *New ventures*

These are excellent projects, achieved through partnerships and leveraging substantial external finance from the remarkably limited base of core funding. But there are a number of other initiatives that are necessary for the step change in co-operative development, which the relatively small management team at the College have had neither the time nor the resources to undertake:

- ***a co-operative business school (CBS)*** in the sense suggested by Ian MacPherson should be established to provide a new generation of co-operative animators and managers. Compared to the position in the 1960s there is now a substantial infrastructure of business schools and management courses, whose educational methods (notably case studies), materials, validation, and personnel can be called upon by the new programme. But it needs to be undertaken on the home ground of the Co-operative College rather than contracted out to an existing institution for four reasons:
  - i) The task is to develop a methodology for the establishment and management of co-operative enterprises that has its own identity, and is distinct from conventional business studies in a whole number of dimensions. This work has to take place in the heart of the co-operative movement and be directly accountable to it.
  - ii) The CBS would be a key component for establishing an intellectual hub for the co-operative movement alongside other parallel initiatives and the existing work of the College.
  - iii) The intellectual property rights of the CBS, and the control over the diffusion of its materials should be in the hands of the movement, for the goal should be to develop this in collaboration with other parts of the international co-operative movement on open source and open access principles.
  - iv) The CBS should develop courses on the model of the Open University, both to increase coverage and reduce cost. This builds on the work already being undertaken at the College on distance learning, and will involve the preparation of printed and audio-visual material, the

establishment of a network of local tutors, online tutorials and conferences, chat rooms and peer-to-peer contacts.

The immediate goal would be to establish the school with a small core staff to provide a Masters in Co-operative Administration together with shorter programmes for existing co-operative managers and staff.

- ***a service for ‘reflective practice’ in existing co-operatives.*** The capacity to stand back and reflect on the issues arising in the ongoing work of co-operatives is one of the most difficult for any organisation, caught up in the day to day task of operating the business. That necessary interplay between experience and reflective analysis and learning from it is a matter for all involved in the enterprise – workers, managers, boards, other members – and is not something that can be left to usually overworked managers or disconnected boards.<sup>75</sup>

There are many ways in which this can be taken on board within a co-op. The CBS courses are clearly one, and it could develop shorter tailored sessions for a day or week-end. Consultants provide an occasion for it. Small producer co-operatives can do this through their regular meetings. Co-operatives could have a shadow Board sitting alongside the operational one, that is primarily concerned with operational learning.<sup>76</sup>

The Sicilian community organisation established by the ‘Italian Gandhi’, the architect Danilo Dolci, brought all those working in its five centres together each Saturday to reflect on their week. Another Italian example is the network of co-operative schools in the town of Reggio Emilia. They are jointly run by teachers and parents, and time is reserved at the end of each day for teachers to reflect on the experiences of the day, and have the time to discuss these with parents. One of the principles of these schools – which are for pre-school children upto the age of 6 – is that schools should be a place for parents (and teachers) to learn as well as children and it is this which has been a spur to the centrality of reflective practice.<sup>77</sup>

There needs to be a specialist service, attached to the College, that helps co-operatives establish systems of reflective practice of this kind.

- ***The digitalisation of the archive*** held by the college, and the establishment of an ***open portal*** to provide web access to the widest possible range of material relevant to co-operatives. This should be a collaborative project with other

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<sup>75</sup> The work of Donald Schon has been influential in highlighting this issue and the ways in which it can be practised. See for example his book *The Reflective Practitioner*, Basic Books, 1983.

<sup>76</sup> There is a suggestive metaphor in Philip Pullman’s novel *Northern Lights*, which takes features of the human psyche and embodies them in a different person, as though the anima was separate from other parts of the self. Every character in the novel has his or her own daemon, a separate soul. All co-ops need their own distinct anima, which would provide a rationale for a shadow Board that was concerned with the ‘soul’ of the co-operative and its learning.

<sup>77</sup> For the inspiring story of the co-operative schools in Emilia Romagna see Carolyn Edwards, Lella Gardini and George Forman (eds), *The Hundred Languages of Children*, 2<sup>nd</sup> edition, Ablex, 1998, Lella Gandini, Lynn Hill, Louise Cadwell, & Charles Schwall, *In the Spirit of the Studio: Learning From the Atelier of Reggio Emilia*, Teachers College Press, 2005, and Carlina Rinaldi, *In Dialogue with Reggio Emilia*, Routledge 2006.

colleges and collections of co-operative documentation internationally. It will include copyright negotiations with key publishers, and arrangements that encourage academics working on co-operatives to have their material included as part of an open web resource.

- ***We-learning.*** The web allows people to assemble their own packages around tastes and interests. iTunes is a model that is not only revolutionising the music industry, but is extending to other sectors including education. Instead of a model where the institution and its professionals determine the package, offering choice within resource limits, but delivered according to the institution's own time slots and calendars, we have an emerging iEducation, in which the student shapes the package from a much wider set of modules and resources to fit in with his or her own time patterns and circumstances. Students will seek guidance and support from chosen advisors but the relationship has changed. Learning follows interest and initiative rather than obligation.<sup>78</sup>

We-learning encourages self-selecting study groups to form. They may remain informal as co-operative reading groups. Or people can access a website that functions like Landshare, registering those wanting to learn about particular issues with those willing to teach. The School of Everything has developed such a site which is based on a fee from learner to teacher. In the case of co-operatives more use could be made of volunteer tutoring by those with co-operative experience – on the Landshare model. This is also a service that could be provided through the Co-operative College, alongside the more formal courses offered through its distance learning.

- ***A co-operative cable channel.*** With the BBC moving to Manchester, there would be an opportunity to establish a channel that would provide the equivalent of an educational YouTube for the Co-operative movement. It would provide a framework for developing content of value to all those involved in the co-operative not just those engaged in formal courses.

The content would include co-operative development advice and reflective case studies, OU-type programmes to accompany the co-operative business courses, studio interviews and discussions, films on international examples of co-operation, TED-style lectures, a component for and about co-operative schools, a broadcast version of co-operative news, and content and films on the core social and environmental issues that are not widely available through the mainstream channels. As with BBC posting of its programmes on iPlayer, the cable programmes would be available online but without time restriction.

It would be a 'barefoot' service, relying on a small core of professional staff, and voluntary contributions by those within the movement – nationally and internationally, as well as those in the 'cognitive-cultural' industries sympathetic to co-operation.

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<sup>78</sup> Charles Leadbeater has written extensively on how these changes can reshape education. See for example his book *We-Think*, op.cit. pp.146-150

In the spirit of Joseph Reeves, it would provide a wide-ranging educational and cultural programme of the kind he developed in the Royal Arsenal Co-op, delivered through digital media, and available to all co-operative members and to the growing number of those in receipt of the service of co-operative care.<sup>79</sup>

### ***Distributed co-operative education***

As the result of the remarkable growth and success of co-operative schools, there has emerged the outline of a model of lifelong co-operative education of a scope and ambition that carries within it the spirit of the first century of co-operation. The possibility of extending co-operation into and between colleges of further education is now opening up as the result of current government policy. There is already a significant presence in early years learning, as well as the inspiring early years model of Reggio Emilia's co-operative schools. The proposals made here are to extend this growing 'educational commonwealth' to other forms of adult life-long learning, focused on those engaged (or wishing to be engaged) in the co-operative movement, whether as producers, consumers, or supporters.

The College would provide some of these services itself, notably the Co-operative Business School. But its primary role would be to animate the new projects as it has done with the schools programme and ensure that the platforms and materials are developed for widely distributed 'living centres' of learning.

The vision should necessarily be global. Education like information is now a world traveller. The Age of Google has made accessible world wide sources of co-operative experience and learning. It has radically lowered the costs and increased the effectiveness of international collaboration in the development of programmes, and in the circulation of their outcomes.

As education itself is bursting out of its institutional walls, this should be doubly the case with co-operative learning. In Britain it is already taking place in innumerable ways, formal and informal. The task is to strengthen the systemic elements which allow it to expand in scope, in depth, and in the number of people who can be in touch with it.

***I recommend that a Co-operative Education Task Force be established to develop a programme on the lines proposed here, in collaboration with other centres of co-operative education on the continent, and the results be presented to a colloquium in April 2011, with the aim of submitting the revised programme for discussion and approval at the Co-operative Congress in June 2011.***

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<sup>79</sup> John Attfield, *With Light of Knowledge: A Hundred Years of Education in the Royal Arsenal Co-operative Society, 1877-1977*, RACS/Journeyman Press, 1981.

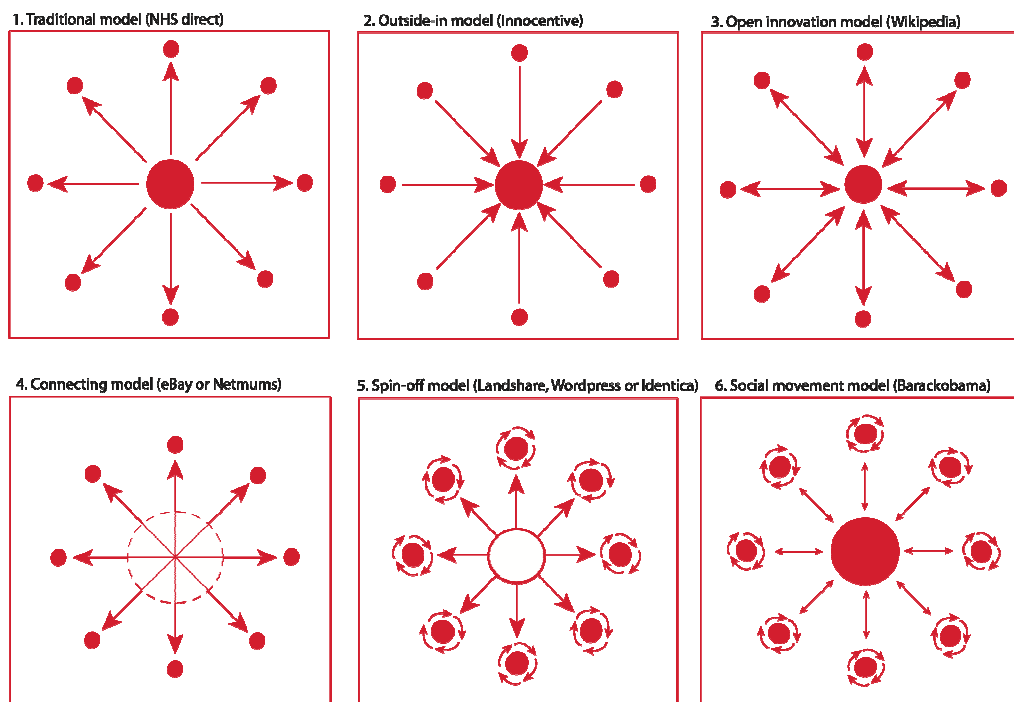
## XVII Co-operative Intelligence

The education programme helps enrich the movement's collective intelligence. It strengthens the three key aspects of intelligence – the skills of analysis, of creativity, and of connecting ideas with everyday practice. It also forms the bedrock of a movement's democratic intelligence, both in its distribution and development of these skills and in forming a shared culture and language that are conditions for dialogue.

At a general level, this is the case for giving education such a central place in the co-operative system. But it is equally important to find ways of harnessing this intelligence through the exchange of ideas and information. It is in this field that the developments of the last ten years have made the most radical impact. It has revolutionised the way information is circulated in a system.

### *Patterns and flows*

In the diagrams below I have set out seven different patterns of information flow, each with potential for co-operative communication.



The first uses the net and other modern media to communicate content from the centre. In the case of NHS Direct it may take the form of advice over the telephone.

Increasingly common are informational websites – such as Microsoft Health – where the user navigates centrally developed information to find what he or she needs. Intelligence here is centralised and the web's main function is to greatly increase its accessibility and searchability. But there is a degree of interactivity in that the user can pose questions and centre can monitor them and develop its material accordingly. One of the features of such sites is that 90%+ of the searches are repeats. Once the original investment in preparing the information has been made, the marginal cost of expanding the service is minimal and can be supplemented by a more interactive support service.

As I suggested in Part 2, there is a question of how far co-operative development advice and indeed aspects of co-operative training can be codified and posted in this way. As with routine legal work, this is not only much cheaper, but frees up the time of specialists to provide a bespoke interactive service.

The second diagram represents an example of crowd intelligence where the centre posts a problem and requests ideas for possible solutions. This is the Gold Corp case or that of Innocentive, and also describes many open source projects where the centre screens the incoming ideas for improvement. This is suitable for a central problem like the New Zealand Police Act wiki, and is a model that greatly enhances the problem solving and innovation capacity of Co-operatives UK, or indeed any of its member co-operatives.

The third diagram shows the pattern of information flows in open innovation, where there are platforms and protocols for users to create their own joint outputs, with little if any intervention from the centre. This is the virtual equivalent of raising the roof, where such simple co-operation creates an outcome that is much more than the sum of its parts. Open mapping is an example of this or Wikipedia, and we could imagine a number of co-operative wikis being built up in this way, including some containing advice on establishing co-operatives.

The fourth diagram shows a case where there is no common project, other than one that allows people to relate to one another. The role of the centre retracts into the management of the site and provision of tools to facilitate the transactions (such as the ratings on eBay).

The fifth diagram is also about interconnection as in a dating or a mentoring service, the latter of particular relevance to co-operatives. In the Landshare case the match is between those with spare land and those looking for allotments, and we could imagine spare co-operative assets that could be shared or loaned using a similar model.

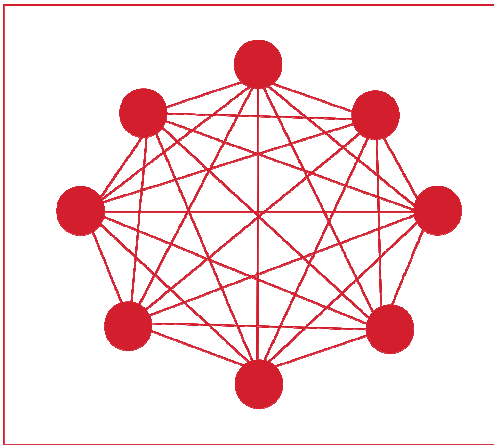
The difference between 4 and 5 is the more active role of the centre. Dating services may use psychographic matching techniques. Landshare provides support materials. Netmums, which started in model 4, has progressed to model 5. It now has 850 members organised into 151 local groups who provide each other with mutual support and information as well as meeting in a virtual 'coffee house'. This distributed network led to requests for some kinds of general information and support that are now supplied by the centre (including a Parent Support Service) and the centre also runs campaigns on behalf of their members.



Wordpress and Identica both provide open source blogging tools that, like Facebook and Twitter, enable peer to peer communication between self selecting groups. The role of the centre in these is that of continual improvement of the tools in question.

The sixth diagram returns to a strong centre with a common project but with interactive relations with distributed groups. This model was one of the secrets of the Presidential campaign of Barack Obama and drew on the experience of Silicon Valley and internet companies (the co-founder of Facebook Chris Hughes took a sabbatical to work full time on establishing these systems for Obama's campaign). It encouraged local groups to play an active part in commenting on and suggesting policies, and to hold discussion and money raising events.<sup>80</sup> This model is particularly appropriate for the co-operative movement, and represents the organisational form of both Carrefour and the Japanese consumer co-operatives, which I discuss in more detail in Chapter XX.

7. Peer-to-peer platforms (Limewire or Peercast)



Lastly Diagram 7 shows a social network without a centre, but which facilitates a multiplicity of polycentric connections, with tools that allow participants to make their own matches. Limewire is a file sharing programme for example, and Peercast an open source peer to peer software, without a central server, that gives anyone the tools to become a broadcaster, a server or to tune into any station. Joining Peercast

<sup>80</sup> On the connections of Silicon Valley and the revolutionary character of the Obama campaign see Joshua Green, *The Amazing Money Machine*, *The Atlantic Magazine*, June 2008. <http://www.theatlantic.com/magazine/archive/2008/06/the-amazing-money-machine/6809/3>.

would allow any co-operative to become a broadcaster. Some of these flows can be accommodated on a single website.

Both the Co-operative UK website and the Co-operative Group's Hive site have spaces for interactive discussion groups as shown in diagrams 5 and 7 (the Hive site launched early in 2010 now has 87 active web discussion groups). But I have separated them out these patterns of communication because each has been the subject of specialist development, and each is suggestive of ways in which co-operation's collective intelligence can be connected and enriched. They provide a new generation of techniques for realising the potential to share the know how and ideas that have often remained locked within the different cells of the system.

The last decade has not only seen an explosion of such sites (all those I have mentioned were founded in the last ten years - Google itself only started in 1998), but also an expansion of software and website specialists. The movement needs to have its own core team and network of such specialists, both to develop system wide platforms and tools, and to provide tailored services at low cost to member co-operatives.

**As a step towards this I recommend that a small two day workshop be convened of such specialists to:**

- **review the existing co-operatives sites and their uses**
- **identify promising services to develop**
- **suggest an effective and economic means of expanding the movement's internal capacity for keeping abreast with developments in the field, and making them available to the movement.**

**This workshop should deliver recommendations to the Board of Co-operatives UK on the capacity, opportunity and finance required.**

### *A co-operative knowledge hub*

As part of this economy of intelligence, there is a need for one or more specialist hubs or think tanks. Their function would be to take the lead in the development of ideas and the active hosting of relevant sites and discussion groups. It should range widely, not only on subjects where co-operatives are already engaged, but looking at a range of contemporary issues through the co-operative lens. Its aim should be to raise the profile of co-operation, and give substance to its claim to be a universal not a particularist approach to contemporary problems.

They would act as knowledge intermediaries, keeping abreast of developments in the primary fields notably the environment and the welfare system, as well as forms of effective distributed organisation, social innovation and varieties of economic democracy. In each case their brief would be to identify openings and connections that would be relevant for individual co-operatives – acting in this case as scouts for the movement.

Think tanks developed rapidly from the 1970s as intermediaries between academic research and the world of politics. They were able to respond quickly and less academically to new social and political issues as they emerged. They were problem rather than discipline oriented, yet for the most part operated at arms length from political parties. Some were specialist like the Green Alliance on the environment or the Kings Fund on health. Many were eclectic in their subject matter but sought to develop a coherent approach to the major economic, social and institutional changes that emerged with such force in the late 20<sup>th</sup> century. Their publications were engaged, written accessibly, and, unlike much academic literature, often distributed free on the web under a commons license.

A well run think tank involves many people in its processes – through interviews, seminars, launches and engagement with the media. A recent innovation has been to re-conceptualise think tanks as think-and-do tanks. The Young Foundation for example operates launchpads for new health and education initiatives, that has resulted in the opening of seven new studio schools, and the development of an innovative health card with the South-East Birmingham PCT. The rationale is that by direct engagement in the area of study, there will be improved understanding of what is needed to move forward.

Much of the writing in pamphlets and reports on Co-operation and the New Mutualism has come from existing think tanks, notably Mutuo, Demos, the New Economics Foundation, the Young Foundation and now Res Publica. They show the value of this type of publication – fresh, provocative, and with a firm eye on practical proposals.

Mutuo is the one specialist think tank with a focus on mutual and employee owned businesses, and public policy towards them. There are a number of other centres of co-operative policy research and advocacy – at the Oxford University Centre for Mutual and Employee Owned Business at Kellogg College, at the University of Cardiff, at the Open University, and the University of Stirling, in the Co-operative College itself where there is a small policy group, and in Co-operatives UK and the Co-operative Group.

***I propose that there should be a significant expansion of this network of resources. The first step would be to establish an academic knowledge hub or network, either attached to the College or oriented around a more outward-facing and reformed Society for Co-operative Studies. This would provide an intellectual centre to underpin the work of the College and the Business School, Co-operatives UK, Co-operative Group and those working in the co-operative economy.***

### ***Co-operative innovation***

An expansion of co-operative education, of web based knowledge sites, and of a network of knowledge hubs would encourage a culture of co-operative innovation. Here the British movement has lagged behind the Third Italy and Spain I have already noted the role of the Italian ‘real service centres’ in scouting the world for the latest technology and the regular industry wide discussions on the issue. I have also noted how Mondragon structured its educational and development infrastructure around

technology and scientific knowledge as the basis of progress. Its firms and the group have their own research and development funds, and like the Italian districts, saw the world as a source of ideas, its competitive challenge and its market. Economically this made for a more open culture and strategy than the more introspective consumer co-operative perspective.<sup>81</sup>

Arizmendiaretta's view of science and technology has a 1950s and 1960s ring about it, the co-operative version of Harold Wilson's 'white heat of technology'. There is now a greater awareness of the social context and consequences of technology, and of the alternative paths which any given technology can take. There is also a more recent recognition that social and institutional innovation has lagged behind technical innovation and has restricted the latter's diffusion.

Co-operatives have the potential to be hosts of this socially informed commercial innovation. They internalise within them, more so than private companies, the tension between social purpose and commercial sustainability. They may be constrained in the degree to which they adopt green alternatives or pursue social goals such as maintaining shops with low turnovers in distressed areas. There are continual trade offs. But these constraints are a spur to innovation as exemplified in the Danone/Grameen yoghurt partnership in Bangladesh.

The pressure of the social imperative constantly pushes up against the limits of the present, but in doing so sets an agenda for innovation. If politics is the art of the possible, socially oriented co-operatives are engaged in the art of the impossible, and it is finding solutions to the impossible which will give the co-operative economy a decisive competitive edge.

With social imperatives driving innovation in this way, co-operatives are then in pole position to take advantage of the new information economy. They can promote open innovation.<sup>82</sup> They can play an active role in web based communities of practice and technical development networks. If innovation is about ideas and information, and if both are most productive in a collaborative, non-proprietary context, then this is an unparalleled new resource to support socially driven co-operative innovation.

Until now, the British co-operative movement has lacked an infrastructure and culture of innovation. There are no specific innovation funds allocated in the distribution of the dividend. There is no central innovation hub, or an intermediary between the co-operatives and universities like the Steinbeis Foundation in Germany. Most British co-operatives serve the domestic market, and have few if any exports. Their horizons (and strengths) are national, and at times local, which has been a source of social innovation in itself, as with the village shops or the co-operative schools. One of the challenges for the British co-operative economy is to use the tools of the web and its international connections to make an outward turn.

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<sup>81</sup> In Spain CEPES-Andalucia, which has been a powerful force for cooperation in the region, has a highly effective innovation unit, Innoves. They also have a TV station [socialeconomy.tv](http://socialeconomy.tv). See [www.cepes-andlaucia.es](http://www.cepes-andlaucia.es) and [www.innoves.es](http://www.innoves.es).

<sup>82</sup> For a discussion of open innovation see Henry Chesbrough, Wim Vanhaverbeke, and Joel West *Open Innovation: Researching a New Paradigm*, Oxford 2008.

A new impetus for innovation is as much a question of the orientation of established co-operatives as the requirement of new resources. Much can be done with little. But in the long run finance is crucial. The funding of innovation and diffusion needs to be built into the daily working of co-operatives. Currently 2% of Europe's wealth is devoted to research as against 3% in Japan, and considerably more for firms in sectors where competition depends on innovation. Co-operatives have from the beginning sought to allocate a proportion of their profits to education and community projects. They now need to do so for innovation and diffusion.

The movement should establish:

- *the creation of a Co-operative Innovation Laboratory to act as an intermediary between co-operatives and centres of research, and to promote innovation in existing co-operatives, and support new ones, particularly in the environmental and welfare fields.*
- *a central co-operative innovation and diffusion fund to encourage initiatives by existing co-operatives*
- *an X prize-type programme to encourage crowd sourcing of innovation*
- *once this innovation work has proved its value, the movement should set a target benchmark and timetable for 2% of net profits for all co-operatives to finance innovation*

## VIII Systemic Governance

A major advance in the flow of information and dialogue within and between co-operatives contributes to the capacity of self government by individual co-operatives. But there is also the question of systemic governance and how to secure both the stability and growth of the co-operative economy taken as a whole. One approach is to leave it to the market to reward or strike down individual co-operatives according to their performance. One of the reasons economists have always been attracted to the market, is that the process of exchange produces flows of information in the form of relative prices, and at the same time shifts real resources between economic actors that act as both an incentive and discipline to those involved.

But there is now an extensive literature and body of experience which shows the limitation of this mechanism of economic governance. These include:

- the collapse of one of its parts can affect the working of the system as a whole
- consumers have imperfect information about markets and the quality of products
- long term development can be penalised in favour of short term gains
- the intangible value of relational capital built up within and between enterprises is not adequately reflected in market prices

For an economy – whether it be local, national or co-operative – there need to be mechanisms that support the management of each part and of the sustainability and direction of development of the system as a whole.

The co-operative economy in Britain needs to strengthen such systems. One means it has used in the past is for strong organisations to come to the aid of faltering ones. It is a form of enterprise mentoring. The CWS played this role over the years, stepping in to help weaker retail societies to get back on their feet, and performing a similar supervisory role in relation to its supply chain. It is parallel to the developmental role played by some retailers and by Japanese assemblers that I mentioned in Chapter IX, though in this case the support is more technical than financial.

In Italy, it has often been municipal government that has played a key part in ensuring system stability. In the Tuscan town of Prato, for example, a slump in the market for the town's principal product (reconstituted woollen cloth) led the council to convene an emergency coalition of producers, the local bank, and municipal officials who – in the manner of a papal election – did not disband until they had devised a strategic direction out of the crisis.

### *Governance through banks*

One of the principal agents of development and discipline have been the banks. I cannot in this Review go into the limitations of mainstream banking which in many ways mirror those of the market – inadequate information, short termism, distance from the practice of management. I note only that there is an emerging ‘second industrial divide’ in financial services, with two potential paths – one of mainstream banking where finance dominates production, the other a distributed system of mutuals and local and regional public banks that allow production to have primacy over finance. Here I want give an example of the second and the role that a financial organisation can play in systemic co-operative governance by returning to Mondragon’s Caja Laboral.<sup>83</sup>

I have already described its developmental role in generating new co-operatives. It is its system sustaining role that is relevant for the argument of this chapter. The Caja’s first step was the initial 18 month to 2 year credit it gave to help potential co-operatives prepare a business plan. This established a relationship between the Caja and the prospective co-operators and their project. If the plan was approved, the Caja offered further loans, but the new co-operative had to sign an agreement which required them to submit monthly accounts to the bank and allowed the Caja to intervene with advice and even temporary control if the co-operative was in financial difficulties.

This is the crucial bit. For it meant that a central institution committed to the development of the system was keeping an eye on progress of its component parts. There is a similarity here with how conglomerates are managed. What is different is that the Caja was committed to the survival of the co-operative as an independent unit, and takes the necessary steps to ensure it.

The loan agreement also specified that the co-operative would follow core Mondragon principles. Each co-operative was required to allocate 45% of its profits to individual capital accounts, 45% to its reserves and 10% to educational and social provision. The individual accounts were a form of saving and could only be withdrawn on completion of employment. As with a co-op’s liquid reserves, they had to be lodged with the Caja who paid withdrawable interest on them. Wages were paid as advances on the capital accounts and were regulated in relation to the region’s wage levels (by job and level of responsibility) and to minimise inequality (the ratio between highest and lowest paid was a maximum of 1:6).<sup>84</sup>

This was the mechanism that allowed the system to reproduce its basic structures and values – Mondragon’s version of a co-operative DNA. The exact character of the

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<sup>83</sup> For the role of co-operative banks in distributed financial systems in continental Europe see Rym Ayadi, David T. Llewellyn, Reinhard H. Schmidt, Emrah Arbak, and Willem Pieter De Groen, *Investigating Diversity in the Banking Sector in Europe: Key Developments, Performance and Role of Co-operative Banks*, Centre for European Policy Studies, Brussels, September 2010, and an excellent parallel UK related policy paper by Jonathan Michie *Promoting Corporate Diversity in the Financial Services Sector*, Kellog College, September 2010.

<sup>84</sup> There is a good account of the Caja Laboral in Race Mathews, *op.cit.*

Mondragon principles have been a subject of debate. But not the mechanism. For it provides a means of economic governance which leads not to consolidation and centralisation but the reproduction of sustainable self governing co-operatives that adhere to agreed principles of distribution, investment and social expenditure.

Seen from a macro point of view, the Mondragon model was a system of forced saving and its centralisation in a development bank. Many countries have tried with difficulty to implement regimes of wage regulation, forced savings, and developmental accumulation. Mondragon did so in a way in which the workforce and their enterprises felt that they maintained ownership and control (since the Caja was itself governed by an Assembly with a majority from associated co-operatives and a minority from its own workforce). It was collectivisation by other means.

***A key instrument for strengthening the movement's capacity for oversight and support would be to establish a co-operative development bank on the model of the initial Caja Laboral.*** This could be within an existing co-operative financial institution, or the spinning off of a new one. The important point is that it structured, staffed, and function on the lines of the Caja, which has so marked it out from traditional development banks.

### ***Brands and marks***

An alternative means of governance is the use of brands or marks. Whereas banks gain their purchase in the system through money, brands do so through attention. Many brands are closed in the sense that they exercise strong degrees of direct control on those using the brand. They fear that ungoverned, anomalous action by those using the brand could lead to brand contamination.

The social economy has been developing a more open form of branding. It is based on values and its use is granted to those enterprises that the branding organisation regards as representing its values.<sup>85</sup> Some social brands are almost entirely hands off – this is the case with the slow food movement which grants its sign of the snail to any venture that in its judgement shares its aesthetic.

Others develop detailed standards. The Soil Association is one example, the Fair Trade Foundation another. In the case of the fair trade mark there are four principal sides to the Foundation's work. First the elaboration of standards of process and price, specific to each commodity and to the different types of supply organisation (small farmers, large plantations) Second a process of auditing and control, including the suspension of primary producers and/or the marketing firms in the North, until the fair trade terms are complied with. Third the promotion of the brand using many of the tools of social marketing. Fourth a systemic role of working with potential users of the mark to ensure that their systems can adjust to the terms of fair trade supply, and at the same time ensuring that there is a sufficient number of co-operative suppliers to meet the expected demand.

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<sup>85</sup> On open branding see Robin Murray, Julie Caulier-Grice and Geoff Mulgan, *Social Venturing*, The Young Foundation and Nesta, July 2009 pp 158-168.



This system allows the Foundation to inspect and exert control over participating enterprises as a means of upholding the values of the system as expressed in the regulations. It has taken on a market managing role of ensuring a balanced expansion of supply and market. But it has also acted as a symbol for the social movement of fair trade towns, fair trade schools, fair trade universities and fair trade faith groups. that has developed round fair trade

The fair trade mark has been remarkably successful in driving fair trade into the heart of the mainstream commercial world. As a system of economic governance it suffers from the difficulties of all rigid standards, namely the specification and lengthy negotiations of the standards, and the costly and far from perfect auditing process to ensure the standards are respected.

The past twenty years have seen a more flexible regime of standards being introduced in the commercial world, notably as a result of the Japanese concept of kaizan – continuous improvement. Here a standard is adopted with the expectation that it will be constantly upgraded. The information feedback required to monitor performance against standards is integrated into the production process itself, and the difficulties encountered in maintaining standards are used as a basis for improving them. The popular auditing process I cited from the Seikatsu Club is an example of this approach where the consumers' visits to check the standards of food suppliers are used as a basis for discussing ways in which the standards can be raised.

### *A smart card*

Electronic cards are another instrument for governing the conduct and range of the co-operative economy. In the form of air miles and loyalty points they have begun to assume the role of a limited currency. Tesco sees its club card as one of the key factors in its success. It abandoned green shield stamps in 1993 and launched its club card when it realised that it was a doorway to data mining of the purchasing patterns of its customers. Like all electronic cards, loyalty cards are a means of instant feedback from individuals to the store, at the same time as providing a customer incentive.

But they can play a different role in the circulation of information. They need not be confined to the products and services of a particular enterprise, but rather extend to products and services that meet a certain criteria. As such they would have a similar function to a mark. But a card can go well beyond a mark, because it can also become a consumer guide to the quality of commodities available through the card.

The Government of Ontario in the 1990s prototyped a green card. This identified a short list of products category by category – a dishwasher for example, or a boiler. Its green pages gave each selected product Michelin type stars for their environmental impact, their degree of 'localness', their cost and their quality. It then negotiated discounts with the suppliers and retailers of the listed products.

The card in this case acted at once as a consumer guide – similar to Which, or the Good Food Guide – as well as an instrument for negotiating group discounts on behalf of the cardholders. Instead of the card providing detailed information to the store, it was providing detailed information about products and companies to the consumer. Like money, the card defined an economic space via a tool of market

information. For co-operatives a card of this kind would provide a service for consumer members and a means for realising the market power of membership.

Card technology has advanced rapidly since the 1990s. Whereas swipe cards recognise the holder and can register static information related to a member which is later downloaded for processing, with a smart card it is possible to write information onto the card. This means that money can be credited on the card or spent from it, so that it functions as a form of accounting money. The card can hold different accounts, for example credits for staff as well as credits for purchases. Members of co-operatives with a smart card can use it for savings as well as payments.

From the viewpoint of the economy, a card has its leverage, like the mark, as a managed channel of information. Because of the negotiated discount, the consumer has a particular interest in the products and services accessible through the card, so for the supplier the card performs the function of marketing. And it is this which gives the card orchestrator the ability to filter suppliers according to their values and the characteristics of their product.

A smart card is a more flexible instrument than a mark, because it is not tied to fixed standards. It allows the negotiation of particular deals that directly benefit consumer members, and can be targeted at specific products that exemplify co-operative values. It has greater precision as a peg for stories, and is a more versatile provider of incentives. It is an instrument of great potential for influencing the workings and range of the co-operative economy.

### ***Conclusion***

To orchestrate the movement as an economic system, some instruments are necessary of the kind I have described. One of the advantages of all of them is that they are flexible means of extending co-operation on the basis of values. The Co-operative Commission placed considerable emphasis on the importance of developing a common brand for the Co-operative movement. But its primary focus was the retail societies, and like the dividend card, it has been used first and foremost as a tool of marketing. The spirit of the recommendations has been carried forward, and there are now five independent societies that use the Co-operative brand and collaborate on inter-co-operative working, including mutual recognition of the dividend cards.

But this is still limited as an instrument of integration and extension of the co-operative movement as a whole. Both a mark and a consumer oriented card would be instruments for recognising socially oriented enterprises – whatever their form – and pulling them towards the co-operative quadrants in the diagrams in Chapter XV. They would require the development of the economic and democratic ideas along the lines I have discussed in order to establish more precise guides for conduct – not in the detail of the Fair Trade Foundation or Soil Association, but more in the spirit of kaizan and the Seikatsu Club.

Both the mark and the co-operative smart card have a different character and purpose from the existing brand and dividend card administered by the Group. They should be designed to complement and support those of the Group, with the goal of expanding the sway of the co-operative economy as a whole. ***I suggest a Co-operative Mark***

*and Card working group be established to explore a proposal along these lines, and report to the Board of Co-operatives UK by the end of 2011.*

## **XIX Systemic Organisation: the Scope of Consumer Co-operation**

### *The dilemma*

The principle substantive organising force in Britain's co-operative economy is the Co-operative Group. It provides the conscious management of 40% of this economy through its corporate structures, its acts as purchaser and in some cases brander and card operators for the associated independent retail societies which account for a further 10% of the economy. Together they have a significant staff of member organisers, are a prime source of core funds for Co-operatives UK and provide important income for a number of movement-wide organisations, including, the Co-operative College and (through the Co-operative Enterprise Hub) the co-operative development bodies.

In the past the network of co-operative retail and wholesale societies with their associated financial structures had an even greater preponderance. From the 1880s there were a growing number of agricultural co-operatives and there was always a fertile seam of worker co-operatives, but they remained minor in relation to British consumer co-operation.

Now the Co-operative Group and the associated retailers account for 50% of the movement. This leaves 50% outside the Group's castle walls, and it is outside the walls that the major opportunities for co-operative expansion are sited. The body formally responsible for co-ordinating the sector as a whole is Co-operative UK, but it is tiny compared to the Group. While the Group's current turnover is running close to an annual level of £14 billion, and its underlying profits to £600 million, the budget of Co-operatives UK is £2.7million. This is a mark of the dilemma now facing the movement.

The primary commitment of the Group understandably is to promote and expand the businesses for which it is responsible. Its information, its marketing and branding, its dividend card, much of its education, and its finance – all of these aspects of systemic integration – are oriented to the work of the Group. But as I have illustrated in the previous chapter, this poses a problem for the outside-the-walls economy.

There are five options:

- leave the organisation of the co-operatives outside the Co-operative Group and its associates as it is, with sectoral Federations, and a modicum of support from Co-operatives UK
- develop parallel means of co-ordination and growth outside to those of the Group inside
- extend the scope of the Group to cover the new areas and possibilities

- develop systems that integrate those outside with those inside
- establish a division of labour between the Co-operative Group and Co-operatives UK as to spheres of systemic co-ordination.

There are no easy answers. The first option is the least desirable because it would squander the opportunities that now exist. The ability to realise the potential of the co-operative economy as a whole is clearly desirable, not least because an expanding, creative economy in the non retail sectors could only work to strengthen the retail economy. Any solution should have this as its aim, because co-operative retailing needs to remain the great strength of the British movement.

I want to discuss this dilemma in three parts. First the course of development of consumer co-operation and the implications of the information and communication revolution – and the parallel social changes – for the future of mainstream retailing. Second, in the next chapter, alternative models of organisation that have emerged in retailing and their bearing on retailing as a generator of co-operative development. What scope is there for co-operative retailing to escape from the slipstream of the Tesco model, and like the early co-operators, use its social base and engagement to strengthen itself in retail's competitive global world? Third, in the last chapter, I will discuss how those things that lie outside the Group's current range can be organised and financed through Co-operatives UK.

### ***Long waves in retailing***

The literal sense of retail is cut. Grocers converted large pieces into small ones. Now retailing means to combine, bringing together ever more things in one place to assemble into so many different shopping baskets. The waves of its development have tracked developments in technologies of information and communication.

Co-operative retail still possesses some of the structures and habits from the first wave of industrial retailing. It adjusted with difficulty to the second wave. Are we now moving to a third wave and if so what are the options?

#### ***i) Scale through distributed co-operation***

Consumer co-operatives dominated the first century of Britain's industrial grocery trade. Its scale and achievements have been universally celebrated, but there has been less certainty about how it was that this remarkable network of working class men and women were able to confound the scepticism of the Fabians and the attacks of private retailers and successive governments, and build the largest and most diverse direct supply and distribution system in the world.

Attention has primarily focused on the CWS and its associated workshops, farms and factories. These were, however, only made possible because of the loose distributed network of retail societies that made the critical connection between the emerging market of their individual members and the potential of mass production of the supply chain. On their own, many of the 1000+ retail societies were small and fragile. Together they comprised an unparalleled and resilient platform connecting demand and supply. If societies went under they were helped to get back on their feet or

amalgamated with stronger neighbours. Ground was not yielded by selling them off to rivals. The multiple bridges to consumer members were kept intact.

No private retailers could come close to matching this with the organisational and communications technology then available.<sup>86</sup> Nor could any wholesaler develop to the size of the CWS without a secure channel to market. Those consumer industries that did grow to scale in the early 20<sup>th</sup> century, like the Lever Brothers, were too specialised to offer an alternative and took out their frustration at not having free access to the co-operative chain by organising politically against it.

The very character of the co-operative retail societies that led the Fabians and social democrats to doubt their capacity to hold their own in the market – their individually limited scale, together with management and governance by their working class members – were the very things that allowed them to succeed. Here was a rare case of the distributed industrial model winning out at the time of the first industrial divide.

The co-operative was able to gain the benefits of mass production because it had developed a decentralised system of retailing that was held together by a federated structure of governance, and a strong common culture. This was the significance of the elaborate process of elections, of the Co-operative College, the multiplicity of educational programmes run by retail societies, the cultural events, and the responsiveness of the retail societies to local needs such as food during strike periods and work during recessions. It was an institutional structure that has a surprisingly contemporary resonance.

## *ii) The rise of centralised retailing*

All this changed in the second half of the twentieth century. Retailing was one of the pioneers of the new information technology. The caterers J.Lyons built their own digital computer in the late 1940s to handle logistics and company accounts and sold its computers as a parallel line to its food business.<sup>87</sup> With improved information systems, Sainsbury's was able to successfully pioneer self-service supermarkets in the 1950s and 1960s, followed by Tesco.<sup>88</sup> Like Wal-Mart in the United States, they grew from chains of retail shops to centralised distribution systems.<sup>89</sup> From 1970 onwards retailers were in the forefront of adopting and adapting the exponential advances in IT to the management of complexity. The size of supermarkets grew to handling thousands of products and their respective supply chains, many of them perishables, ordered daily, according to the varying sales patterns of hundreds of

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<sup>86</sup> J.Sainsbury, founded in 1869 six years after the CWS, was by the 1920s the largest private retailer in the UK with 128 outlets. There were more than ten times that number of co-operative retail societies in that period, many of them with multiple branches and shops.

<sup>87</sup> Lyons was the first UK business to use computers in this way. It merged its Leo computer business with English Electric in 1963.

<sup>88</sup> The Co-operative was the first retailer to introduce the supermarket format into the UK in 1948 but got stung by it

<sup>89</sup> In 1961 Sainsburys became the first food retailer to computerise the distribution of products to the stores replacing a mechanised Power Samas punch card system. A second key change was the introduction of check out scanners in 1979. Between 1950 and 2000 the number of its stores rose by 77%, but its retail floor space by more than 18 times. Sainsburys now has 872 stores compared to Tesco's 2,500, and Asda's 377. The Co-operative Group has 3000 grocery stores, and its 23 independent retail co-operative corporate members a further 1000 grocery stores.

stores. By the end of the century the largest international hypermarkets carried no less than 80,000 products.

The co-op's 19<sup>th</sup> century model of a network of federated shops was swamped by this retailing revolution. In the smaller markets of Sweden, Finland and Switzerland co-operative retailers were able to take on board the new technologies and remain the dominant firms in their national markets.<sup>90</sup> But in the larger UK market the Co-operative could not keep pace with its competitors. From supplying over 20% of the nation's food trade in the late 1950s, its share had fallen by 1988 to 13% and by the end of the century to no more than 5%, compared to the major multiples' share of 78%.

As the co-operative retail societies came under pressure, so the long process of restructuring quickened. From 859 societies in 1960, the number fell to 357 in 1970, to 206 in 1980 and to 79 in 1990. The CWS had moved directly into retailing in 1973 and absorbed 53 societies by the turn of the century. In 1994 it severed its integrated supply chain by selling off its food division. At the start of the new century the number of independent societies had shrunk to 46, the CWS took over the assets of Co-operative Retail Services, and the Co-operative Commission made 57 recommendations to consolidate and strengthen retailing and the movement as a whole, the bulk of which were accepted by the Congress.<sup>91</sup>

These were dark years for the Co-operative and left scars among those involved in the retreat. But a decade on two things stand out about this process. First, over thirty years there was only one bankruptcy among retail societies. Those in difficulty were kept within the co-operative fold by amalgamations. Second, the Co-operative as a whole, with its shared values and structures, survived. It fought off private attempts in the mid 1990s to take it over, as well as the proposals to locate its social purposes in a Trust so that its commercial operations could be run as a conventional business.

More than that, it has not only returned to growth but has made the most audacious takeover in its history. If Somerfield can be successfully incorporated, it will be the culmination of a period of forty years that in some ways is as striking as the period of the movement's initial growth. For to manage retreat in the face of the most intense competition, and, still intact, return to the advance is a remarkable achievement. Like a ship in a storm, some things have been swept overboard or been jettisoned, but the ship is still in one piece and is making headway. That is a central fact for co-operative development.

Retailing is not just another sector. It has become one of the commanding heights in the contemporary economy of goods and services. Because of its capacity to handle complexity, it marries economies of scope with economies of scale. As a result it has

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<sup>90</sup> The three largest retail groups in Finland are co-ops, and account for 40% of the grocery market. In Sweden co-ops are similarly dominant. In Switzerland, the Co-operative and Migros (the latter converted from private ownership into a co-operative in 1941) together account for a third of the trade. And at the European level, the Swiss Co-op, together with leading retail co-ops in Belgium, France, Germany and Italy founded the first European co-op, Coopernic in 2006, which has 17,500 outlets and a turnover to rival Wal-Mart of €100 billion.

<sup>91</sup> For a summary of this period of restructuring see Stephen Yeo, *The Making of a Successful Co-operative Business: the Co-operative Wholesale Society, 1973-2001*, Zebra Publishing, Manchester, 2002.

become the modern town square and to its traditional role as a grocer it has added a growing range of goods and more and more services.<sup>92</sup> Its information systems not only track the innumerable variations of taste and volume, store by store and – thanks to the loyalty card – person by person – they can detect trends early and respond to changes with the speed of a bantamweight in contrast to the slow reactions of the traditional brands.

This poses a challenge to the Co-op, whose democratic structure and closeness to its members once gave it an unmatched system of market intelligence. Modern retailers now get their intelligence through centralised data and marketing techniques. To this detailed real time knowledge of demand, they add a flexibility of supply. They are system integrators, deriving their economic power not from the ownership of a multiplicity of supply chains but from the capacity to assemble them together and calibrate them in response to constantly shifting demand. They are a prime example of hierarchical companies that have used new technology to expand their capacity to handle complexity from the centre.

The Co-operative in its process of modernisation has had to follow this model. It lay behind the amalgamations and the sale of the CWS food manufacturing. It was the message of the Co-operative Commission, when it urged the further unification and centralisation of the retail societies and their purchasing, the adoption of a single brand and the application of new technologies. The answer to fragmentation and poor economic performance was centralisation. The changes and the professionalisation of management have underpinned the restoration of the fortunes of the Co-operative Group.

### *iii) The third wave*

For the past 50 years retailing has been in the forefront of the move to mass customisation, long before its adoption in manufacturing industries. It was no accident that Toyota developed its just-in-time manufacturing system after a visit to a US supermarket.<sup>93</sup> Large system integrators like General Electric or the major construction companies apply many of the practices long established by the retailers.

Yet there is still a question of how this model of centralised mass customisation relates to the trends outlined in part 1 of this Review. Will the information and communication revolution, together with environmental pressures and changes in the nature of consumption lead to a third wave in retailing, and open the way for different types of retail system that can hold their own against Walmart and Tesco?

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<sup>92</sup> Tesco now offer 12,500 non food products, have sales of £13.1 billion, and 4% of non food retail market. Their services have sales of £3.6 billion.

<sup>93</sup> See the book by the founder of the system, Taiichi Ohno, *Toyota Production System: Beyond Large Scale Production*, Productivity Press, 1988. Chapter 2. Ohno interpreted the supermarket's methods as effectively re-locating the larders of households and the unsold stocks of a shop back down to the capacity of suppliers to produce. A consumer would go to the shop when they needed something, the shop would re-stock according to what was sold from the shelves, and the producer would then produce only items needed to maintain availability in the shop. Instead of economies of scale encouraging long production runs that would then have to be pushed on the market, the modern supermarket was a means of pulling production through the system according to the daily demands of the consumer. Ohno and his team applied this principle to auto manufacture and in doing created a revolution in production as profound as that of Henry Ford.



Because they have a grandstand view of the consumer market allied to their advanced information systems, British retailers have been among the quickest to respond to the trends and possibilities that have opened up in the past decade:

- many of them are pursuing a programme of opening local convenience stores, in addition to the traditional large supermarkets and superstores
- they have embraced online shopping and home delivery (Tesco is the now the leading online grocery retailer in the world with annual sales of £2 billion, 5% of its total sales)
- they are seeking to increase the sourcing of local and regional products (Asda now has reportedly 11,000 local products on its shelves and Sainsbury too has developed its local lines).<sup>94</sup>
- a number of them are also creating local distribution hubs, with local suppliers delivering to these hubs (Asda) or directly into the shops (Waitrose)
- they have increasingly conceptualised their role as providing a physical and virtual platform not just for goods but for an ever widening range of services – pharmacies, opticians, banking and insurance, software, internet services, telecoms, cafes, playspaces, health and dietary advice, and even a service to pick up repeat prescriptions from a doctor’s surgery. Tesco has led in many of these new areas, and has even gone in to film finance to produce DVDs for launch in its own shops.
- they have given a central place to electronic loyalty cards (see Chapter XVIII)
- they have responded to the shift in ethical values by paying increased attention to environmental products and practices, the stocking of ethical products, and support for a wide range of community projects and campaigns. While for some, like Tesco, this has been a ‘bolt on extra’, for others, notably Marks and Spencer and Sainsburys, it has been more systemic.<sup>95</sup>

These trace the outlines of a possible retail future with the following features:

- i) it will be more *distributed*, both in terms of its outlets and its sourcing. The pressures to reduce road transport (reflected already in the growing reluctance of planning authorities to agree to large out of town and edge of town superstores) coupled with the rising price of oil, the demographic trend to small households, and an ageing population, are likely to increase the pressure for local stores. Environmental factors are also one of the drivers for local sourcing and distribution centres to reduce food miles.

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<sup>94</sup> Alison Clements, “The Benefits of Thinking Locally”, Retail Week, March 5<sup>th</sup> 2010

<sup>95</sup> Sainsbury’s have introduced an internal scorecard system for rating its products in terms of sustainability criteria.

- ii) a change in lifestyle away from commodities towards services, particularly support services that facilitate ‘prosumption’, suggest that shops could become *local service nodes*. Many of the new services being added to supermarkets are support services of this kind, particularly those involving health and the internet. We could imagine the pharmacies expanding to doctor’s surgeries, and even to ‘Tesco gyms’. The shops could include Apple-style internet education and trouble shooting centres. How long will it be before one of the multiples sets up its own Academy schools and home learning centres, its own home energy service company, or partners with Sekesui to provide Toyota style houses serviced by the retailer?
- iii) a growing shift *from retail to e-tail*. This applies not only to goods but the services that supermarkets do and could provide (consider, for example, the growth of online banking, or Tesco’s health advisory service which is primarily online). Online services can be connected to the actual shops via click-to-chat and click-to-call back up services which have markedly improved the quality of e-commerce.

The general point is that the economies of scope supermarkets have offered as a one stop shop providing many thousands of products under one roof, can be greatly extended by the transfer of the shop to the web. A multiple’s website is a one stop, multi-click shop that can not only carry far more products but also shift from the single display dimension of physical packaging, to multiple layers of information and images. There has been a strong trend in retailing over the last forty years to change shopping from a utilitarian to a cultural experience. The internet expands the scope for such a change.

The design and experience of supermarket websites may move to the front line of competition, along with the quality of a retailer’s delivery logistics. French ‘e-tailers’ are now using many thousands of corner shops as secure delivery points, and this enhances the pressure for the multiples to develop their network of convenience stores and agreements with corner shop outlets.

- iv) the degree to which a supermarket embodies broader *social and environmental values* in its goods, its services and its processes, is likely to become an even more significant factor in competition in the next wave. This will be notably the case with food products, their health effects and the sustainability of the systems that produce them.

### **Limits**

Just as large scale retailers pioneered mass customisation, so they are exploring ways of providing for a new era of consumption, what is demanded, how it is delivered and what values it carries within it. They are seeking to be greener, more distributed, more integrated locally, more responsive to citizen values, a supplier of advice and support, and supportive of community activities (through Corporate Social Responsibility programmes). These are the messages that are given prominence in annual reports and promotional speeches.

Yet there are limits to the degree to which they can become distributed and value driven systems. Their fine tuned product and customer information systems, for example, can respond to the purchasing patterns of individual consumers. But they cannot relate to the fine grained complexity and differences of local economies. There is little scope for the initiatives of local store managers or consumers, or for activities driven by values and the sharing of knowledge.

Expanding services like self managed health, or care, or education are not organised by linear supply lines to which just in time techniques can be applied. They are rather part of an information and relational economy, where the crucial ingredient is that of trust. In these services, 'prosumers' are themselves the point of production. They will need a variety of things assembled around them – some physical, some informational, some advisory. Most of these are not produced 'to order'. They are already there, and freely available (like information) or are scarce (like a doctor) and have to be organised in modules of time. This is a quite different economy to that of physical commodities. A doctor is not like a packet of cornflakes, to be produced and delivered to a passive consumer, but an existing resource that has to be allocated, and whose service is one of advice to an active individual.

While a supermarket like Walmart could provide products, information and even advice, it would lack the primary ingredient of trust. If the next generation of the Tesco Clubcard is a Tesco Health Card, carrying all a person's medical data (a quest that is exercising both Google and Microsoft) there would always be a question of whether the data would be used only in the interest of the individual rather than those of the service provider.

Contemporary retailing is still very much an economy of 'by' and 'to' rather than 'with'. Its structures of ownership dictate that its primary responsibility is to its shareholders, and its principal driver is the generation of profit. These limit the degree to which a private retailer can take on board so-called 'externalities' and embody values in its products and processes.

For many years the remarkable productive efficiency of modern retailing has outweighed its costs. They have delivered groceries of a quality and price that has won the argument in the market place as decisively as did the cars of Henry Ford and General Motors at the dawn of the age of mass production.

This may be changing. Attempts to provide all goods and services under one giant roof – the universal vision of Walmart – may become as archaic as the declining, homogeneous malls of post war American suburbia. Others may be better placed to exploit the web than the supermarkets. They may offer 'variety direct' without the mediation of the traditional retailer. A presence on the web is less constrained than a presence on the edge of town or in the high street. And there may be equally efficient and more trusted agents for delivering relational services than major multiples. The multiples can never be written off. They are remarkable examples of a sophisticated production system. But there are chinks in the model which may yet become cracks through which others may enter.

## XX Open Retailing and Co-operative Development

### *The co-operative advantage*

Co-operative retail is competing directly on this mass customised turf. While it has taken time for it to get back in touch with the productive sophistication and scope of the sector leaders, it has a number of key assets of its own. First it is already a distributed network. Its policy of focusing on convenience stores has more than proved itself. It may have a smaller total floor space than its rivals, but the Group and its 23 independent retail members have many more shops, nearly 5,000 stores compared to 2,500 for Tesco, under 900 for Sainsbury, and 570 for Asda.

Further, in spite of the amalgamations it remains a network of independent societies, and of distributed shops. The Co-operative Group now accounts for more than 80% of co-operative retail, but the existence of the independent retail societies gives the sector as a whole an advantage in terms of diversity and experimentation if not of scale.

Second, the Group already has a strong presence in key services – banking, insurance, pharmacies, funerals, its recently merged travel service, life planning, legal services, and even car dealerships. The independent societies have developed others:

- Midcounties runs 6 nurseries, as well as 85 multi-function Post Offices and 60 newsagents with home delivery
- Southern has an online floristry service.
- The Channel Islands provides extensive advice on healthy eating, as well as free email, and a pre-paid foreign currency card.
- The Heart of England funds its own orchestra
- The East of England runs its own choirs, brass bands, an education centre, and most recently has opened an Easier Living Centre in Ipswich geared to those facing health and mobility problems. In partnership with a number of local practitioners it offers wide-ranging advisory services on mobility and health. It provides free home assessments, home design advice as well as hearing and podiatry services.

These examples underline the value of the independent retail co-operatives as laboratories of innovative services. Along with the Co-operative Group's own services, they suggest that if there is a long term shift towards support services, co-operative retailing is well placed to respond.

Third, all the retail societies are distinguished by a commitment to leading on values. While I have suggested there is increasing competitive 'noise' in the field, co-operatives are still more trusted than their rivals. The Group's ambitious £21 million programmes for the under 25s (including support for a campaign to lower the voting age to 16), its many environmental initiatives which have earned it a regular spot as top green retailer of the year, the prominence it has given to fair trade – all these embody its ethical commitment. As a result, co-operatives are in principle in an outstanding position to provide trust related services.

Lastly, co-operative retail has a large membership of some 9 million. It is a potential asset that is unique.

### *Persisting limits*

In spite of these assets the Group does share some of the limitations of the mass customisation model. If it has matched M&S and Sainsburys in trying to internalise environmental criteria in its food business, the centralised control, purchasing and logistics systems in the Co-operative as in all the major British multiples means that it is difficult for it to incorporate local food systems. Sourcing and delivering locally grown organic potatoes straight to the local co-operative store is not something that the systems are designed to handle. The local stores and even the independent retail societies cannot make use of their local knowledge of producers and products without going through the centralised and distant Group purchasing system.

It is a system geared to economies of scale not economies of proximity and it is economies of proximity that will be increasingly important as the pressures for sustainability grow more intense. Co-operative retailing may be distributed in its outlets, but, like other mass customising retailers, it is not distributed in its sourcing.

This is an example of a more general point. If the 21<sup>st</sup> century information economy opens up ways in which ideas and energies can be mobilised for activities at all levels from a much wider public, this sits at odds with a centralised retailing model. The incentive to contribute ideas is dampened if it gets lost in the journey to and from the centre, and if it is divorced from a capacity to act. This applies if we are talking about individuals, communities or local store managers. The great recent surge of informal co-operation and innovation will remain a resource that lies untapped.

The core idea of the Co-operative and its structure makes it in principle uniquely open to this wider engagement. But it cannot but be in tension with a centralised organisation. The two pull against each other. On the one hand we can see the benefits of centralisation not just in the running of the shops, but in the organisation of the Group's campaigns – whether it be those aimed at young people or at saving the honey bee. On the other there is the richness of open innovation, and of self-organisation and self-directed activity that has become such a feature of the present age. It is a tension between two models of organisation that is not easily resolved. For the time being the Group is likely to remain a 'by and to' retailer that can only partially capture the energy of 'with'.

Can it ever be otherwise? Is it possible for consumer co-operation to combine the advantages of the advanced systems of modern retailing with the richness of self-organisation, in some way to recombine the strength of distributed co-operation in the first wave with the systems learnt in the second?

One starting point is at the very opposite end of the spectrum to the global multiples, namely the village shops. The success of this model is a reflection of many of the trends I talked about earlier. It lacks the scale and the systems of the great retailers, and is not a model on which mainstream retailing could be based. But it has qualities that the great retailers lack and which are set to become ever more important as the balance of consumption shifts.

There are, however, two other well established more open distributed retail systems that operate on a much larger scale, one from France, the second from Japan.

***Local customisation: a French model.***

In France the post war modernisation of retailing took a somewhat different course to that in Britain and North America. General de Gaulle once said that it was difficult to govern a country which had 365 different cheeses. It also has also presented problems for mass retailing. This helps to explain why the French have developed a more decentralised form of retailing.

The leading example is that of Carrefour, which is now second in the world after Wal-Mart with sales of €92 billion. It started in 1960 (two years before Wal-Mart) and grew through its development of hypermarkets, supermarkets, and various hard discount stores.

Its model could be called local customisation. At the heart of its approach is decentralisation through local joint ventures and radical delegation to store managers. The store managers are in charge of purchasing, product mix, pricing, store lay out, marketing, hiring and training and forecasting. In the larger stores the department heads have similar autonomy. They buy centrally only when there is an advantage to do so.

As a result a substantial part of their products are locally or regionally sourced – including Carrefour's own brand products. At a Carrefour store in Brittany, say, you would expect to see local fish, fruit and vegetables, all delivered directly to the store, as well as regional specialities. With its regional own brand producers Carrefour works closely on long term contracts, and promotes suppliers clubs similar to those of Japanese manufacturing suppliers.

Carrefour puts great emphasis on local recruitment and training, as well as on the circulation of information between stores. In this way they benefit from the diversity and innovation of each store, while the stores receive a steady flow of technical and product information from the group as a whole. Having pioneered hypermarkets in Europe, it is now bringing down the size of its stores and focusing on a more geographically distributed pattern of compact stores and mini formats.

This decentralised model underpins the success of the group in its international expansion. Over half its sales are now overseas. They tend to expand internationally through joint ventures, to which they contribute their systems and international purchasing power for the standard items. But they encourage the approach of local customisation. In China, for example, in contrast to other foreign retailers, they have seen the country not as a large market but a myriad of small ones, with staff recruited from the area and 90-95% of their products sourced locally. Carrefour now employs 490,000 people in 35 countries with 15,000 stores in Europe alone. It is a giant global corporation, but it has constructed its systems to allow substantial autonomy to its component parts.

*People to people trade in Japan: distributed just-in-time retailing*

A quite different model has emerged from the co-operative movement in Japan. It combines direct local sourcing characteristic of many food co-operatives with an electronically based just-in-time delivery system reminiscent of Japanese factory production. The food co-operatives grew from the 1960s in response to the industrialisation of food production and public disquiet about food safety and quality, particularly in relation to milk and food for their children.

Co-operative members sought out organic producers and other local farmers with whom they made long term 'partnership' contracts and instituted a Toyota style just in time system of distribution. Households would put in their orders which would be aggregated and passed through to suppliers. Products would be delivered to the packing line (avoiding the need for warehousing) and the boxes sorted according to the computerised orders, before being taken to community distribution points and then delivered to the individual households.

This was a box scheme similar to those developed in Canada and then the UK and the continent but an order of magnitude larger. Abel and Cole for example delivers 25,000 boxes a week. The Green Co-operative in Japan is twelve times that size as is the Seikatsu Club, a union of 30 consumers co-operatives. The latter was started in the mid 1960's. Like many of the retail co-operatives the basic cells of its systems are small groups of 5-10 households called Han, which co-ordinate the neighbourhood distribution.<sup>96</sup>

Over the years they have developed procedures which are increasingly relevant to European food systems: transparent costing (since prices are set at levels which guarantee farmers a sustainable income), strict quality standards and a kite mark, product testing and auditing, a joint control committee of members and producers to raise standards (and influence national standards as a result). Members and farmers have together developed 1,800 food products to the required environmental and food quality standards.

There is much in this system that is specific to Japan, notably the continued presence of small farmers, the fragmented retail structure, and the tradition of neighbourhood associations. But as in the Italian districts, there is much that is strikingly contemporary. The concern for the quality of life and the environment, and the connection of food quality with health, the issues that give the Japanese consumer co-operatives their purpose and identity, are growing not diminishing concerns in Europe. The Han as small, self-organising groups are similar to the informal 'liquid' groups that form and re-form around particular issues here in the UK – both local and/or issue based.

From an organisational point of view, the federal structure is not simply one of governance but of how production itself is organised. There is a meshing of the formal and informal (members have first refusal of the jobs in the system and can tailor them to their domestic commitments). Such 'nested autonomy' is a highly

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<sup>96</sup> John Restakis, has written a detailed account of a visit he recently made to the Seikatsu Co-ops in his book *Humanising the Economy*, pp.123 sq.

developed example of the new forms emerging in the West, and has been greatly enhanced by information technology that knits together the multiple layers and cells of activity into an integrated productive system.

One of the advantages of such a system is that it acts as a platform for development in many different ways. In the case of Seikatsu Club, some 400 associated worker co-operatives, employing 15,000 people have sprung up to undertake not only food processing and catering, but recycling, editing, advertising and design. What were originally food co-operatives have broadened their scope and become 'livelihood co-operatives' to develop services for their members, such as elder care, care for the handicapped, health care, and recreational services. They are in effect development hubs, with multiple points of initiative from which new projects develop.

The Japanese food co-operatives have also been able to establish direct relationships overseas. Sugar workers on the island of Negros in the Philippines who were displaced when their sugar estate closed down, have developed into suppliers of bananas to the Green Co-operative through a remarkable interchange between co-operative members and the farmers. They refer to this not as fair trade but 'people to people' trade, and as with local food production it makes wider development issues personal and tangible.<sup>97</sup>

In Britain, co-operatives have played an important role in the wholesaling of organic food, acting as hubs connecting local (and in some cases overseas fair trade) producers with the distributed market of health food shops. Many of the village shops, the local food co-operatives and initiatives arising from the Making Local Food Work programme have similarities with the Japanese arrangements in the way they combine the voluntary and the formal economies. But the Japanese co-operatives have taken this mission driven, socially rooted model to a different level that in some areas has led to the retreat of conventional supermarkets.

### *A hybrid model*

The ability to triangulate the co-operative virtues of the first and second waves will depend on developing a more distributed model of organisation. Although Carrefour may have a system that allows this, the cost to the Group of fully switching over its programming to a Carrefour model may for the moment be too high. Yet even within its current system a greater degree of local autonomy to local store managers would be technically possible and creatively desirable.

How such local autonomy can be more flexible and responsive to local conditions and ideas is likely to be found in the remaining independent societies. At one end of the scale a number of the smallest have lost money and have restricted scope for creativity. Amalgamation may be one answer, but the distributed principle suggests that a first step would be for stronger societies to help the smaller ones with their systems and training.<sup>98</sup> At the other end, the two independents with the highest ratios

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<sup>97</sup> The organising and trading intermediaries here are a social company Altertrade, owned by the Green Co-op, and run by a remarkable former street theatre director, Hotta Masahiko.

<sup>98</sup> As an example the Penrith Co-op, which is profitable, has a dividend system that involves the member cutting out a strip from the invoice and sticking it on a sheet to be submitted twice yearly. This



of profit to turnover (9.9% and 9.3% respectively in 2009), the Channel Islands and Lincolnshire, have both shown the developmental benefits of a more distributed model.

The Channel Islands has a recent history of innovation in the range of its activities, not least in its use of the dividend (4% normally, 8% on Tuesdays and Wednesdays, and 15% on all dividends taken as vouchers). Among its many contribution to community life, it has been the principal provider of the islands' adult education and training. 52% of Guernsey's population are now its members and 75% of Jersey's. It accounts for 44% of food retailing on the islands.

The Channel Islands has benefitted from the protection of distance. Founded in Jersey in 1919 it has been able to modernise at its own pace, and it is only recently that a British multiple (Waitrose) has set up in competition. Lincolnshire had no such protection. When I visited it, I was struck by the degree which the Co-operative has been able to more than hold its own against the major multiples because of its distributed network of 70 primarily neighbourhood stores (along with 40 post offices) and the roots it has in Lincolnshire's local communities. From the perspective of the information economy, its 2,700 staff and 174,000 members are an unparalleled source of local intelligence, loyalty and ideas.

The Lincolnshire Co-operative has been able to act as a generator of new co-operative initiatives in response to local suggestions and opportunities. In addition to the 16 funeral homes and 9 travel agents, it has a growing chain of 45 pharmacies, a pharmaceutical wholesaler, a supplier of cash registers and supporting services, a bakery (taken over when a family bakery was in difficulty), and even a Jaguar car sales company. It has, too, a large property portfolio, on 80 acres of which it is currently developing a new housing neighbourhood, with its own library, pharmacy and doctor's surgery.

Entering the headquarters there is a long list of associated co-operatives that share the building, including a grief-counselling co-operative established in response to a need arising from its funeral care service, and a co-operative development unit, core funded by the Lincolnshire Co-op, whose initiatives include a co-operative to support those in receipt of direct social service payments.

In terms of local purchasing, Lincolnshire source their groceries through the Co-operative Retail Trading Group (CRTG), which has made local sourcing on the Carrefour model more difficult. But there are exceptions. Local honey is sourced through the CRTG as is Lincolnshire beef. The latter arose as the result of the foot and mouth outbreak in 2001, when local beef farmers were unable to move their stock out of the county. Hearing this, the Co-operative organised the slaughter and sale of beef formally channelled through the CRTG, on the basis of which the farmers organised themselves into a co-op. For non-food purchasing that does not go through the CRTG the Co-operative has used its purchasing power to promote local industries, such as those producing plants, bulbs, charcoal, quilts and furniture.

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clearly needs modernising, preferably at low cost with the smart systems from other societies, and loan finance from within the movement.

The Lincolnshire Co-operative has embodied the principles of the ‘Big Society’ long before that phrase was coined. There are nearly 100 member groups, run by volunteers and supported by a membership team of 9. The distribution of the community dividend of £3/4 million is largely decided on by the member groups (and can be fine grained as a result). Senior managers are encouraged to be involved in community activities (and between them sit on 60 local voluntary boards) and staff have volunteered as reading partners in schools. The annual Board elections were in progress when I visited, with details on the candidates and voting slips at the checkouts. Last year they had a 4% turn-out.

Time and again the Co-operative has been able to play a role, partly through its staff, partly with finance, in supporting core institutions in the County. This is not merely instrumental like much conventional Corporate Social Responsibility. Rather it appears to spring from a sense that that is what the Co-operative is there to do. As its Chief Executive said, when in doubt she asks herself what her members would want.

For example the local football club, Lincoln City, recently found itself in financial difficulties. The Co-operative offered the services of its chief finance officer and worked with Supporters Direct and local fans to re-establish the club as a mutual on a sound financial footing. It also has close ties with Lincoln University and invested £1 million in its expansion.

Here then are two examples of a hybrid co-operative model. Both are autonomous local co-operatives. They have been able to develop their retail services in closer interaction with their members and intimately link the social, environmental and commercial side of their business. Like the Channel Islands, Lincolnshire has been able to follow its own evolutionary approach, epitomised by the old Latin motto inscribed over one of its buildings ‘*Crescit paulatim*’ – *it grows slowly*.

At the same time both societies are corporate members of the Group through whom they have access to those things that benefit from scale, notably purchasing. They benefit from the national co-operative brand, and informally share information and ideas with the Group and other retail societies.

Given the existing structure of co-operative retailing in Britain, this model of ‘responsible autonomy’ is one possible future direction of development both for the Group itself and its relations with the independent societies. It would provide a way of greatly extending the innovative capacity of co-operative retail as well as the substance of membership. And it would move into a territory where its principal competitors would find it difficult to follow.

### ***Conclusion***

The Co-operative Group has shown itself outstandingly resilient. It has assets which have a close fit with key trends in the retail market. It has not yet extended its online know how from its e-store into groceries, nor ventured far internationally. But it is well placed to develop the co-operative presence in some of the rapidly growing support services, notably in health through its network of 750 pharmacies, or spreading the coverage of East of England’s Easier Living Centre, if that proves successful.

The Group – through its strategic expansion, its know how and its resources – will remain at the heart of the co-operative movement's response to the current opportunities. But it cannot do it alone. The new opportunities and the measures necessary to strengthen the systemic elements of the co-operative movement need what I have called an 'open' form of development, loosely structured around projects, and mobilising a wide range of energies and resources.

Many of the most promising fields are not those of conventional retailing. Wind turbines or micro combined heat and power boilers would normally be filed under 'sustainable energy systems'. Digital spines to provide a variety of interactive services for networks of the elderly would be placed under eldercare or co-operative housing. But these categorisations are unnecessary cages that fail to recognise the numerous cross connections, not least to the services already provided by the retail societies. The societies have much to gain from a new wave of green, welfare and leisure co-operatives, and a great deal contribute to their growth. But the impetus and responsibility for their development has to come largely from elsewhere.

## **XXI Organisation and Finance.**

The primary conclusion from Part 3 of this Review is that it is a strengthening of the way the co-operative economy works as a system that is necessary if the movement is to make the most of the current opportunities. There is a quite remarkable range of activities and institutions in this economy, but it is inadequately connected.

The primary organised connector is the Co-operative Group, principally through its retailing and financial operations. But while these are able to define and service consumer co-operation – the wholesale and retail systems are in effect the systems of the wider co-operative economy – the competitive pressures and the fact that retailing has as yet only limited connections to the new service areas opening up to mutualism means that they are not in the position at the moment to fully perform this system-wide role.

The body established to play this role is Co-operatives UK. It is currently limited in what it can do. One limit is resources. It has a core staff of some 26 people and a budget of £2.75m. We could compare this with a parallel organisation concerned with promoting only one sphere of co-operation, namely the Fair Trade Foundation. It has an annual budget of £8.7 million, more than double the staff numbers of Co-operatives UK, and has recently raised government funding of £12 million over the next four years. Resources of this order should be the goal of the movement if it is to make the most of the present co-operative moment.

The Fair Trade Foundation is a very different body from Co-operatives UK. It has a narrow focus – the development of the fair trade mark. Its finance – originally dependent on grant funding from its founding organisations – is now centred on licence fees charged to those using the mark. Those paying the fees do so in payment for the tangible benefits of using the mark. Its grant income allows the Foundation to speed up its development, but it is supplemental not central. This is similar to the Soil Association which has an income of £13.7m, of which some 40% comes from the users of its mark (as against 75% in the case of the Fair Trade Foundation) and an equivalent amount from foundations and the Lottery Fund.

### ***An industry association***

Co-operatives UK has a wider brief than either of these two organisations. It has been in essence an industry association for the co-operative sector. Industry associations have traditionally acted as service providers to their members, as suppliers of strategic services on behalf of their members, and/or as a collective voice of their members, the mix varying according to the association. Some co-operative apex organisations have at times added to this the role of providing a collective vision for the sector and acting

as the driver of its development. The work of Co-operatives UK has aspects of all of these, including work to:<sup>99</sup>

- protect the interests of co-operative enterprise and reduce their risks by influencing regulators and government on issues that are business critical
- promote a positive business environment for new and existing members and
- promote the unity and effectiveness of the UK co-operative movement.

Yet the breadth of its tasks and the constraints on its resources have limited what it is able to provide.

The link between subscriptions and impact is more diffuse than it is in the case of the Fair Trade and Soil Association marks. The larger members, notably the Co-operative Group, provide some of these functions themselves. So do the co-operative industry federations. There is even an element of institutional suspicion from some of the federations that the activities of Co-operatives UK may at times threaten to tread on their toes. As for the small and micro co-operatives – comprising the great majority of co-operatives – they have few funds to finance general co-operative economy-wide activities.

These are some of the reasons why the resources of Co-operatives UK have remained limited, above all why its direct membership still covers a majority of the co-operative sector by turnover but only 10% of the sector by enterprise (with many more being indirect members through federal co-operative bodies). In many ways it is remarkable what it has achieved within its constraints, but it would be the first to recognise that what it is able to do is nowhere near what is required.

### ***System orchestration***

The challenge is that much greater if, as this Review suggests, major new resources are needed to strengthen the co-operative economy as a whole. The following is an initial agenda of systemic elements that are either missing or need extending.

- the further development of the co-operative idea
- a greatly expanded programme of co-operative education
- the promotion of a geographical network of co-operative knowledge hubs and think tanks
- the creation of a Co-operative Innovation Laboratory, to encourage the prototyping of new co-operative initiatives, and stimulate innovation in existing co-operatives
- the formation of a network of innovation intermediaries between co-operatives and research institutions on the model of the German Steinbeis Foundation

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<sup>99</sup> The characteristics of Co-operative apex organisations were analysed in a most useful way by Peter Couchman in a paper he prepared for the Board of Co-operatives UK in 2009, “Membership Strategy Review”.

- the expansion of the existing business support infrastructure, particularly for relational services
- the funding and administration of competitions and other methods to promote a new wave of environmental and welfare-oriented co-operatives
- the creation of a joint international co-operative/public service/trade union consultancy to pioneer new models of public/social partnerships
- the advancement of closer integration between business support and co-operative venture funding, including a feasibility project on the establishment of, or extension of existing initiatives such as Co-operative and Community Finance into, a UK version of the Mondragon's original Caja Laboral
- the establishment of a network of sectoral development bodies and a co-operative MITI for the production and implementation of rolling sectoral strategies
- an initiative to create a two tier local mutual/public savings and loan financial system on the German and Italian models
- the launch of a system of mutual guarantee consortia modelled on the financial consortia of the Italian industrial districts
- the expansion of a primary platform for inter-co-operative working and discussion, including the tools for enabling co-operative communities of practice
- the establishment of a specialist unit for new web based technology that would provide low cost/free services to co-operative members, and pioneer new co-operative web based ventures
- the encouragement of open source projects relating to issues arising from the growth of the co-operative economy
- the exploration of the potential for a co-operative mark and an associated smart card

Not all these by any means would be attached to Co-operatives UK. Its task is to ensure that they are effectively provided somewhere, and that there are sufficient funds to get them going. Like the creators of great events, its task is to inspire and then make sure that everything that is needed is in place and that it works. It is the role of the animator and of the agent of integration.

### ***Making it happen.***

The International Year of Co-operatives will take place 2012. It provides a time frame for a ***two year action programme*** that fits with the speed at which public policy and developments in the economy are moving in ways favourable to the radical expansion of co-operatives.

One of the main purposes of the programme would be to set in place initiatives such as those detailed above that strengthen the co-operative economy as a generative system. The goal should be for the movement to become a creative economic force which is demonstrably more than the sum of its parts. By the end of 2012 Co-operatives UK working closely with the Co-operative Group – with the necessary remit and resources – should have established a strategy that incorporates at least five of the system expanding initiatives proposed in this Review, and completed the preparations for another five.

The advance needs to be made on many fronts. Rather than discussing priorities for the use of existing scarce resources – the approach of closed organisations - the starting point should be what needs to be done and then see how far resources can be mobilised to do it.

The co-operative economy has within it great riches of knowledge, information, people and not a little finance. There is also a great reservoir of potential external support from those who share the aesthetic of co-operation. All these resources are scattered, autonomous and cannot be moved about like so many pieces on a chess board. They have to be mobilised. Priorities will be set not by central decision but by relative enthusiasm.

Against this background, we can identify four broad tasks for the project:

#### ***i) A Year of Open Co-operative Development***

Among the many achievements of Jaime Lerner, the former mayor of the Brazilian city of Curitiba, were a succession of rapid time limited projects. He transformed a shopping street over one week-end and built an opera house in a disused quarry within 60 days. He referred to this as ‘urban acupuncture’, applied to urban ‘pressure points’ in order to release energy and create a positive ripple effect. Processes of planning, he argued, must be accompanied by such exemplary actions to sustain a community’s belief that things can change.

There is a good case for making the first strand of the programme in 2011 a practical one, based on many local ‘co-operative acupuncture’ initiatives that would demonstrate the energy and creative capacity of the movement. It is said that there is scarcely a post code that doesn’t have a co-operative. It could be that the ‘cells’ of this campaign could be post codes, or electoral wards or parishes. Equally they could be existing institutions such as a co-operative or a school, a transition town or a local council.

The brief should be as wide as possible. It would be to develop a co-operative project – formal or informal – that addresses key social and environmental issues and releases

the kind of energy Jaime Lerner spoke of. The brief and the campaign are ways of showing tangibly what co-operation stands for and its capacity to put its values into practice. It would also show the wealth of imagination that exists among grass roots co-operators.

Like open source and open innovation, it is a campaign that draws its strength from the ideas and capacities of a highly distributed movement. It would need a web platform for people to post their ideas and requests for help, and later to register progress. At the end of the year the initiatives would be combined and there would be awards to honour achievements. It would mark the co-operative movement as an example of the new economy.

### *ii) Systemic projects.*

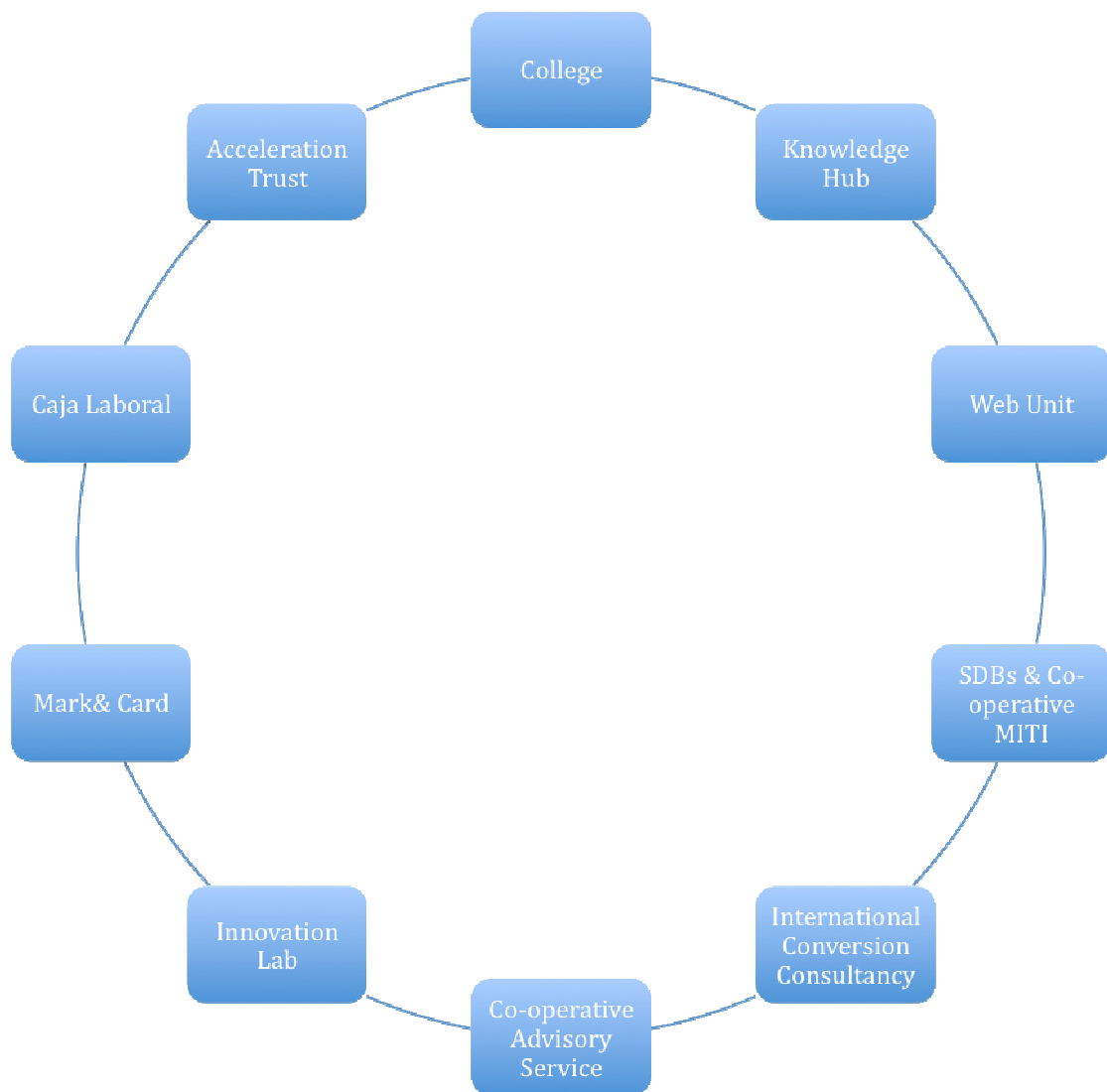
A similar principle would apply to getting the much larger system-wide projects off the ground. Each of those I have listed is a venture in itself, not in the sense of a separate co-op, but as a project that requires all the drive and skill of any new enterprise. It will depend on the extent to which it can generate enthusiasm from inside and outside the co-operative movement, and on an experienced entrepreneurial team to give it flesh and make it happen. Like any other project it will also need financial resources, initially to fund the preparatory work, and then the establishment of the projects themselves.

Rather than setting up separate teams for each of these initiatives, I propose ten new venture teams are established for the period of the 2 year action programme, which could themselves establish other teams to develop particular programmes in their areas. In the accompanying diagram I have shown the ten topics that I would recommend as the subjects for the primary teams:

1. The College and the associated development of co-operative education, including the co-operative business school, the reflective practice service, the digitalisation of the archive, the development of We-Learning, and the cable channel.
2. The Knowledge Hub
3. A specialist web unit to promote web-based services for existing co-ops and the co-operative movement as a whole, as well as stimulating the development of new e-co-operatives.
4. The establishment of a network of sectoral development bodies and a prototype co-operative 'MITI' to develop and facilitate the implementation of a Co-operative Industrial Strategy.
5. An international conversion consultancy, bring the expertise and experience of the international co-operative movement to bear on the increasing pace of conversion currently taking place in the UK
6. A strengthened and expanded co-operative advisory service
7. A Co-operative Innovation Lab
8. The exploration of the potential of a co-operative mark and/or smart card as a tool to strengthen the integration of the co-operative economy and extend its range.



## Co-operative Action Programme 2011-2012



9. The establishment of an institution on the model of the first phase Caja Laboral to strengthen the connection between venture formation and funding, and to provide an oversight and support for existing co-operatives.
10. The formation a Co-operative Economy Acceleration Trust (see below).

Each needs to be led by one or more co-operative entrepreneurs, and draw on the help of interns, secondees, panels, and workshops. In some cases the work would be exploratory, but all should be encouraged to promote activities where appropriate as well as prepare strategies, identify potential sources for funding as well as people to take forward their work on a more permanent basis,

In some cases there are already co-operative institutions that would be the natural home of these projects. In others an individual, small team, or ad hoc task force would be appropriate.

To drive the project forward ***I propose that a core systemic project development team be established to form the venture initiatives, animate the process and, prepare a synthesis to present to the Co-operative Congress in June 2011.***

### **iii) Expansion finance**

Traditionally the finance of the movement's collective and social expenditure has been internal, from the community dividend of the co-operatives themselves. It has therefore fluctuated according to the economic performance of the co-operatives, which is why these social activities were cut back after the second world war. It reflects that nineteenth century tradition of the co-operative as an autonomous economy. It was a model of closed finance.

In the contemporary economy this needs to change. First the movement's own social and collective expenditure should seek greater leverage of external funds. Second, the attraction of the co-operative idea should in part be judged not just through its embodiment in co-operative goods and services sold on the market but by its capacity to mobilise external funds from those sharing its ideas. This is Gandhi's point about funding. He saw the ability of what he was proposing to mobilise funds as an indicator of civic resonance. It was a form of direct democratic test. In the case of the co-operative it would be to add the economy of hope to that of performance.

This principle applies to the funding of a new stage of co-operation. The Co-operative Commission recommended that a Co-operative Foundation be established. It was to be funded internally from the co-operative societies. Its brief was broad but relatively unspecific – to promote new initiatives, education, and community projects. The Foundation has now operated for a decade, currently financed entirely by the Co-operative Group, and supporting a range of projects, campaigns, and now the Co-operative hubs, as well as giving out £10 million in small social grants since it started. It is not structured or resourced to fund the larger co-operative economy-wide measures that are now demanded.

Building on the experience of the Foundation, the more recent social banking programme of Co-operative Financial Services and the activities of co-operatives

such as Co-operative and Community Finance, Shared Interest and the London Rebuilding Society, I recommend that a **Co-operative Economy Acceleration Trust** be established based on 'open financing' principles. It would be concerned with progressing the expansionary programme, and seek contributions from outside as well as inside the movement. The pressure to seek external funds would encourage the movement to look outwards, and connect to those social and economic forces that are its potential allies and supporters. In itself it will be a point of mobilisation and a stimulus to innovation.

Reflecting an ambition in tune with the moment, it should aim to raise £25 million over 5 years, in tranches of £5 million a year, starting in 2012, the achievements in one year being the basis for raising funds for the next. They would not be investment funds offering a rate of return, but their function would be that of investment, in the manner of a micro Marshall Plan, to create the foundation for the next stage of co-operation. The Trust would focus primarily in relation to the UK, but could build a capacity and a specialist Fund to operate internationally where cross-border investment in co-operative activity brings significant human development or commercial opportunity.

The Trust would contribute to the preparation and launch of each of the projects. Their continued growth, however, will depend on the quality of the idea and its capacity to generate momentum, and attract its own resources. The Trust would also fund a new meta development team, connected to Co-operatives UK, to animate and support the process.

#### *iv) Revenue funding*

How can the members of Co-operatives UK raise the income needed for these activities to £7 million a year, in order sustain an expanded integrative role on a long term basis? One route is an expansion of the subscription base for Co-operatives UK. Currently over half the organisation's income comes from subscriptions (55%). Doubling that would provide an annual core income of £3 million.

But this in turn poses the question of what Co-operatives UK needs do to attract a three or four fold increase in membership and/or subscriptions? The Fair Trade Foundation and the Soil Association both provide specific services (principally a mark) to their subscribers that are not available to free riders. With careful consideration of their fit with wider brand activity, a co-operative mark or a Co-operative Smart card could do likewise, each of them having the potential of being a generalised service for all co-operatives, and both of them tools of the information economy.

There are other potential income generating services, such as those I have mentioned supplied to members by the Italian National Confederation of Artisans (CAN). In contemporary terms this could take the form of standardised informational packages (such as accounting or management information systems, bespoke web design and management, as well as web tools and programmes purchased in bulk).

But for many informational and advisory services, it would maximise the expansion of co-operation if the services were free and open to all. As the online economy has

learnt, there is what venture capitalists refer to as a ‘penny gap’. This is the gulf between a service that is free and one that charges a penny. Once it is free it can go viral, and that will be one of the most powerful forces for the spread of co-operation.

Free information should be one of the central principles of Open Co-operation. It applies to the resources of the Co-operative Archive, to the Journal of Co-operative Studies, to codified advice on co-operative start ups, on co-operative legal structures, on co-operative problem solving, on standard web design and operation and so on.<sup>100</sup>

Information of this kind is neither directly income generating nor an incentive to membership. There are, nevertheless, opportunities for associated income generation. Online enterprises concerned to maximise attention by providing free services have adopted a number of strategies:

- *discounts on purchases.* A large audience has power as a collective purchaser. It is like a collective consumer union that negotiates on price. If the service identifies products or services it judges are in its users interests, it can obtain discounts on their behalf, and take a share of the discount to cover the costs of the free service.
- *a freemium strategy.* The basic service is provided free, but users are charged for applications of the service or for premium versions of it. The online language learning business Livemocha, which has 65 million members, works on this principle. There is a free service offering grammar instruction, comprehension exercises and interactive role playing between native speakers attached to the site, and an Active Course for \$20 a month to bring people up to a conversational fluency. Such a strategy could be applied to co-operative business advice or to the web advisory services.
- *advertising.* Most free online services turn first to advertising. They see themselves operating in the economy of attention – an economy in which it is attention which is the scarce factor not materials.<sup>101</sup> A co-operative service would be hesitant to offer space for general advertising but could do so for co-operatives both at home and abroad.
- *associated services.* Co-operatives UK could run income generating services (such as workshops, conferences, a publishing house, specific types of research) and publicise it on its website.
- contributions from individual and organisational supporters who subscribe to co-operative values and principles and want see them promoted through the

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<sup>100</sup> On the arguments for and experience of the free economy see Chris Anderson, *Free: the Future of a Radical Price*, Random House Business Books, 2009. As an illustration of the impact of charging on restricted use, the excellent Journal of Co-operative Studies which has a standard subscription rate for individuals of £18 and only 84 individual subscribers. It should be widely available (free) to Co-operative members and the public more generally, with the £8,000 annual cost of the journal funded in some other way.

<sup>101</sup> See the remarkable work of Richard Lanham, notably *The Economics of Attention: Style and Substance in the Age of Information*, University of Chicago Press, 2006

provision of free online co-operative services on the model of National Public Radio in the US.

A number of the associated services could be made into an incentive to new membership by existing co-operatives, by the offer of cheaper 'freemium' services, a larger share in the negotiated external discounts, or preferential advertising rates.

***A business model is needed for consulting on an expanded revenue base for Co-operatives UK and the proposed programme of systemic investment, including the proposed Co-operative Economy Acceleration Trust.***

***Co-operative organisation as social movement.***

I have talked about systemic organisation from a functional point of view: what needs to be done and what organisation is in a position to do it. There is also a question about the necessary character of the organisation for the tasks I have outlined.

What is striking about many of today's most successful commercial organisations is that they have some of the character of a social movement. Many of them are mission driven – like Tom and Jerry's or the silicon start ups where the mission may mix the technological and social. But there is also a sense that the means should reflect the ends, that the work and the relations between the enterprise and its suppliers and customers should somehow reflect the mission and its style.

Co-operation in Britain grew as a social movement centred round the expansion of a different kind of economy. It was based on an idea and a practice that inspired support and replication not only in Britain but internationally. Mondragon has similar been described as a social movement, and the same applies to the livelihood co-operatives in Japan, the credit unions in Germany, those inspired by the Gandhian tradition in India and the many branches of co-operation in North America.

All of them approach the economy from the perspective of 'with' rather than 'by' and 'to'. They start from a cause and then ask how they can gather people together around it rather than from a product or service which is marketed 'to' people. The cause has to be one that resonates, that attracts people to it, and the movement has to be able to offer a plan of action, and the inspiration of example, which gives hope that collective action can achieve the purpose.

To take the contemporary example the Fair Trade Foundation which created and championed the fair trade mark. This has been led by a woman whose background was not business but that of an organiser in the World Development movement. She has driven the mark into the heart of the commercial world at the same time as encouraging an ever growing movement of fair trade towns, fair trade schools, fair trade universities and fair trade faith groups.

The Foundation is a branding organisation and uses many of the tools of social marketing. But it is an open brand in the sense that it lays down terms under which others can use the brand, but leaves it up to them how they meet the terms. The pioneer fair trade companies operate as commercial companies in accordance with these terms, but the most successful of them are run with the spirit of a social

movement – drawing in volunteers, providing literature, keeping the cause of fair trade rather than their own companies to the fore.

The model of systemic organisation as a social movement is one that reflects the sociological trends and the rise of networks that I discussed in part 1.<sup>102</sup> It is particularly appropriate to co-operation. For its expansion will critically depend on its capacity to formulate its ends, develop its means, and realise them in practice in such a way as to attract ever widening support for its expansion. The Age of Google opens out whole new spaces for co-operation but co-operation in practice must reflect in some ways this open organisational style.

I am aware of some tension within the co-operative movement between the formal federated organisational structures and processes of co-operation and the new, more open and fluid character of social movements. But the two should be complementary not antagonistic. Social movements are only too aware of the tyranny of structuralness, and the organisational structures of Friends of the Earth or the Community Recycling Network have much in common with that of co-operatives.

What follows from this is that the organisation of the co-operative movement as an economy is in part that of its federal structures and the formal organisation of the Co-operative Group and Co-operatives UK, but it is also the day to day connectors that I have discussed in this final part of the Review – its idea, its education, its networks of information and intelligence and its means of economic governance. It is why both should be developed in tandem.

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<sup>102</sup> Sociologists have seen the growth of social movements from the last decades of the twentieth century as a deep-rooted contemporary trend reflecting the alienation from traditional hierarchical organisation and the search for meaning in a global networked informational capitalism. See for example the work of the Italian sociologist Alberto Melucci, *Nomads of the Present*, Radius 1989, or the Spanish sociologist Manuel Castells, *Communication and Power* 2009, and his earlier trilogy on the network society.

The brief for **Co-operation in the age of Google** was to assess the current state of co-operative development in Britain in relation to the opportunities for innovation and growth in co-operation and co-operative models of enterprise. This report was published in draft in November 2010 for distribution and comment.



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