



HUMANISM IN BUSINESS SERIES

Humanistic Governance in Democratic Organizations

The Cooperative Difference

Edited by

Sonja Novković · Karen Miner ·
Cian McMahon

OPEN ACCESS

palgrave
macmillan

Humanism in Business Series

Series Editors

Ernst von Kimakowitz, Humanistic Management
Network, Humanistic Management Center, Geneva,
Switzerland

Wolfgang Amann, HEC Paris in Qatar, Doha, Qatar
Pingping Fu, University of Nottingham Ningbo China,
Ningbo, China

Carlos Largacha-Martínez, Fundación Universitaria del
Área Andina, School of Management, Bogotá, Colombia

Kemi Ogunyemi, Lagos Business School, Pan-Atlantic
University, Lagos, Nigeria

Agata Stachowicz-Stanusch, Canadian University of
Dubai, Dubai, United Arab Emirates

Shiv S. Tripathi, IIMR University Campus, Jaipur, India

Since its inception in the year 2011, the Humanism in Business book Series is brought to you by a dedicated editorial board representing the Humanistic Management Network (www.humanisticmanagement.network). The Humanistic Management Network is a global network registered as a Swiss association that lives, works and acts through chapters and collaborations in many countries around the globe. Its purpose is to encourage, promote and support economic activities and business conduct that demonstrate unconditional respect for the dignity of life.

Following the purpose of the Humanistic Management Network this book series serves to enhance and consolidate the body of knowledge on Humanistic Management and surrounding topics such as business ethics, leadership, CSR, corporate citizenship, sustainability, executive education, impact investing or purpose driven organizations to name but a few.

The books in this series all view Humanistic Management through their own lens, focusing on different aspects and highlighting different dimensions of humanism in business. What unites the books in this series is that they are all aligned to the three stepped approach which defines how we view Humanistic Management. It is based on the unconditional respect for the dignity of life, the integration of ethical reflection in managerial decision making and the active and ongoing engagement with stakeholders.

Furthermore the volumes in the series are an open invitation to join our efforts to make impact towards a more equitable and a more sustainable planet.

Sonja Novković · Karen Miner ·
Cian McMahon
Editors

Humanistic Governance in Democratic Organizations

The Cooperative Difference

palgrave
macmillan

Editors

Sonja Novković
International Centre for Co-operative
Management
Saint Mary's University
Halifax, NS, Canada

Karen Miner
International Centre for Co-operative
Management
Saint Mary's University
Halifax, NS, Canada

Cian McMahon
International Centre for Co-operative
Management
Saint Mary's University
Halifax, NS, Canada



ISSN 2662-124X

ISSN 2662-1258 (electronic)

Humanism in Business Series

ISBN 978-3-031-17402-5

ISBN 978-3-031-17403-2 (eBook)

<https://doi.org/10.1007/978-3-031-17403-2>

© The Editor(s) (if applicable) and The Author(s) 2023. This book is an open access publication.

Open Access This book is licensed under the terms of the Creative Commons Attribution-NonCommercial-NoDerivatives 4.0 International License (<http://creativecommons.org/licenses/by-nc-nd/4.0/>), which permits any noncommercial use, sharing, distribution and reproduction in any medium or format, as long as you give appropriate credit to the original author(s) and the source, provide a link to the Creative Commons license and indicate if you modified the licensed material. You do not have permission under this license to share adapted material derived from this book or parts of it.

The images or other third party material in this book are included in the book's Creative Commons license, unless indicated otherwise in a credit line to the material. If material is not included in the book's Creative Commons license and your intended use is not permitted by statutory regulation or exceeds the permitted use, you will need to obtain permission directly from the copyright holder.

This work is subject to copyright. All commercial rights are reserved by the author(s), whether the whole or part of the material is concerned, specifically the rights of translation, reprinting, reuse of illustrations, recitation, broadcasting, reproduction on microfilms or in any other physical way, and transmission or information storage and retrieval, electronic adaptation, computer software, or by similar or dissimilar methodology now known or hereafter developed. Regarding these commercial rights a non-exclusive license has been granted to the publisher.

The use of general descriptive names, registered names, trademarks, service marks, etc. in this publication does not imply, even in the absence of a specific statement, that such names are exempt from the relevant protective laws and regulations and therefore free for general use.

The publisher, the authors, and the editors are safe to assume that the advice and information in this book are believed to be true and accurate at the date of publication. Neither the publisher nor the authors or the editors give a warranty, expressed or implied, with respect to the material contained herein or for any errors or omissions that may have been made. The publisher remains neutral with regard to jurisdictional claims in published maps and institutional affiliations.

This Palgrave Macmillan imprint is published by the registered company Springer Nature Switzerland AG

The registered company address is: Gewerbestrasse 11, 6330 Cham, Switzerland

Acknowledgements

The editors of this volume are grateful for financial assistance from FWO Belgium (SBO project S006 019N) and the Atlantic Canada Opportunities Agency's (ACOA) Atlantic Policy Research Initiative (APRI Project No. 217990).

Contents

1	Introduction	1
	<i>Sonja Novković, Cian McMahon, and Karen Miner</i>	
1.1	The Contents of the Book	5
1.2	Concluding Remarks	10
	References	11
Part I	Theory	
2	Humanism and the Cooperative Enterprise: Theoretical Foundations	17
	<i>Sonja Novković and Cian McMahon</i>	
2.1	Introduction	17
2.2	Behavioural Foundations	22
2.3	The Purpose of the Enterprise	24
2.4	The Nature of Ownership, Control, and Distribution	27
2.5	Governance Systems	29
2.6	Concluding Remarks	31
	References	33

3	Parsing Dignity for Organizations	41
	<i>Ryszard Stocki</i>	
3.1	Introduction	41
3.2	Kinds of Knowing About Dignity	42
3.2.1	Experiential Knowledge	42
3.2.2	Presentational Knowledge	43
3.2.3	Propositional Knowledge	44
3.2.4	Practical Knowledge	49
3.2.5	Summing up—four Ways of Knowing	50
3.3	Dignity in Management Studies	51
3.3.1	Dignity Models Used in Management	51
3.4	Critical Analysis of the Models	52
3.4.1	Elementary Aspects of Human Rights Coupled with Dignity	53
3.4.2	Understanding and Protection of the Social, Political, and Economic Environment	54
3.4.3	Community Orientation vs Individualism (Selfism)	54
3.4.4	Human Need for Participation	55
3.4.5	Common Good and the Language of Competitive Market	56
3.4.6	Transformation Through Altruism, Sacrifice, Suffering, and Courage	57
3.4.7	The Possible Conflict Between Persons, if They Differ in Their Goals	58
3.4.8	Power Relations, Especially Those Related to Ownership	59
3.4.9	Values	60
3.4.10	No Regulator for the Global Market and International Corporations	60
3.4.11	Summing up—Enumeration of the Ten Critical Aspects of Dignity	61
3.5	Different Organizational Forms and the Ten Aspects of Dignity	62
3.5.1	Family Companies	65

3.5.2	Limited Liability Companies	66
3.5.3	Public Companies	68
3.5.4	Cooperatives	69
3.6	Conclusions	71
	References	72
4	Cooperative Governance in Context	81
	<i>Sonja Novković, Karen Miner, and Cian McMahon</i>	
4.1	Contextual Cooperative Governance Framework	82
4.1.1	Cooperative Purpose and Situational Democratic Governance	83
4.2	The Building Blocks of Democratic Governance Systems in Cooperatives: Structures, Processes, and Dynamics	84
4.2.1	Governance Structures	84
4.2.2	Governance Processes	88
4.2.3	Governance Dynamics	90
4.3	Situational Variables Impacting Cooperative Governance	92
4.3.1	Co-op Type and Purpose of Membership	92
4.3.2	Context: Purpose of Enterprise	96
4.4	Governance Systems Across Cooperative Types	97
4.4.1	Governance in Worker Cooperatives	97
4.4.2	Governance in Consumer Cooperatives	101
4.4.3	Governance in Producer Cooperatives	104
4.4.4	Governance in Multistakeholder Cooperatives	107
4.5	Concluding Remarks	110
	References	111
 Part II Democratic Structures and Processes		
5	Humanism and Democracy in Worker Cooperatives	121
	<i>John A. McNamara</i>	
5.1	Introduction	121
5.2	Structures of Decision-Making and Voice	125

5.2.1	Hierarchy—Cooperative Home Care Associates	126
5.2.2	Collective—Burial Grounds	129
5.2.3	Sociocracy—Unicorn Grocery	130
5.3	Member Voice and Conflict Resolution	132
5.3.1	Union Cab	133
5.3.2	Rainbow Grocery	134
5.3.3	Building Worker Power (Role of Union and Co-op Solidarity)	135
5.4	Challenges with Growth	137
5.5	Conclusions	138
	References	140

6 **Democratic Cooperative Governance: Role Ambiguity, Pseudo-Democracy and Tacit Acceptance?** 145

Anu Puusa and Sanna Saastamoinen

6.1	Introduction	145
6.2	Context	147
6.2.1	The Structure of Governance in the Case Cooperative	148
6.2.2	The Tasks of Governing Bodies at the Case Cooperative	150
6.3	Consumer Cooperative Governance Challenges	152
6.3.1	Management in the Member-Centered Approach	153
6.3.2	Member Voice in the Member-Centered Approach	154
6.3.3	Representation in the Member-Centered Approach	155
6.3.4	Expertise in the Member-Centered Approach	155
6.4	Research Methodology	156
6.5	Empirical Findings	157
6.5.1	The Roles of the Members Council Through the Eyes of Its Members	158

6.5.2	The Roles of the Members Council Through the Eyes of the Supervisory Board	159
6.5.3	The Roles of the Supervisory Board Through the Eyes of the Members Council	160
6.5.4	The Roles of the Supervisory Board Through Their Members' Eyes	161
6.5.5	The Duties of the Board of Directors	161
6.5.6	Motives for Participating in Governing Activities	162
6.5.7	In Summary	164
6.6	Concluding Remarks	166
	References	170
7	Governance in Lincolnshire Consumer Cooperative	177
	<i>Roger Spear</i>	
7.1	Introduction	177
7.2	Governance, and Strategic Challenges of Consumer Cooperatives	178
7.3	Ways of Addressing the Challenges	181
7.3.1	Institutional Measures of Polycentric Governance (at the Co-op Sectoral Level)	185
7.4	The Governance System at Lincoln Cooperative Society	187
7.4.1	The Member Nexus	192
7.4.2	Broader Systems of Governance—Networked & Polycentric	194
7.4.3	Lincoln Stakeholder Strategies	198
7.5	Discussion and Conclusions	204
	References	205

8	Comparing Governance Systems in Cuban Cooperatives: A Study of Producer and Worker Cooperatives in Agriculture, Industry, and Services	209
	<i>Camila Piñeiro Harnecker</i>	
8.1	Introduction	209
8.2	A Brief Overview of Cuban Cooperatives	211
8.3	The Cuban Revolution's Humanistic Ethos and Cooperatives	218
8.4	Findings Related to Humanistic Governance from Six Case Studies	224
8.4.1	Governance Bodies	224
8.4.2	CEO or Manager Role	229
8.4.3	Terms for Positions in the Executive Governance Bodies	230
8.4.4	Frequency of General Assemblies	230
8.4.5	Other Spaces for Participation	231
8.4.6	Education Committee	233
8.4.7	Distribution of Surplus Among Members	234
8.4.8	Participation of Other Stakeholders	236
8.5	Concluding Remarks	239
	References	243
9	From Theory to Practice: Social Capital in Agricultural Cooperatives in Flanders, Belgium	249
	<i>Stefanie Friedel and Frédéric Dufays</i>	
9.1	Introduction	249
9.2	Social Capital in Agri-Food Cooperatives	252
9.2.1	Social Capital: A Complex Concept and Its Dimensions	252
9.2.2	Empirical Research on Social Capital in Agri-Food Cooperatives	255
9.3	Context and Methodology of the Study	258
9.3.1	The (Cooperative) Agricultural Sector in Flanders, Belgium	258
9.3.2	Sampling Strategy	259

9.3.3	Data Collection and Analysis	260
9.4	Results: Dimensions of Social Capital in Different Types of Agricultural Cooperatives	261
9.4.1	Overview of Types of Agricultural Cooperatives	261
9.4.2	Manifestations and Interpretations of the Three Dimensions of Social Capital	263
9.4.3	Matrix of Dimensions of Social Capital in Different Types of Agricultural Cooperatives	271
9.5	Discussion	273
9.5.1	A Diversity of Cooperatives	273
9.5.2	Linking Social Capital Features with Humanistic Management and Governance Principles	274
9.5.3	Limitations and Future Research	275
9.5.4	Implications for Practice	276
	References	277

10	The Governance of Multistakeholder Cooperatives in Mondragon: The Evolving Relationship among Purpose, Structure and Process	285
	<i>Oier Imaz, Fred Freundlich, and Aritz Kanpandegi</i>	
10.1	Introduction	285
10.2	The Research Context—The Mondragon Cooperative Experience (MCE)	288
10.2.1	The Roots of the Mondragon Cooperative Experience	289
10.2.2	The Consolidation and Expansion of the Model: Inter-Cooperation	290
10.2.3	Multistakeholder Governance(s) in the Mondragon Cooperative Experience	293

10.2.4	The Missing Link: Individual Multistakeholder Cooperatives in the Mondragon Cooperative Experience	298
10.3	Multistakeholder Cooperatives in Mondragon Cooperative Experience: A Case Study	300
10.3.1	Methods	301
10.3.2	Results	302
10.4	Discussion: Processes and Dynamics of Governance in Mondragon MSCs	317
10.5	Conclusions	324
	References	328
11	Networking, Governance, and Stakeholder Engagement of Financial Cooperatives: Some National Case Studies	331
	<i>Ermanno C. Tortia and Silvia Sacchetti</i>	
11.1	Introduction	331
11.2	The Network of Cooperative Banks in The Netherlands and Rabobank	335
11.2.1	Network Governance	336
11.2.2	Stakeholder Engagement	337
11.3	The Desjardins Movement in Canada	339
11.3.1	Network Governance	342
11.4	Cooperative Banks in Italy: Cassa Centrale and ICCREA	343
11.4.1	The Reform Process in 2016	347
11.4.2	The Creation of Two Strategic Networks: Cassa Centrale Banca and ICCREA Banca	349
11.5	Discussion and Conclusion	351
	References	354

Part III Dynamics and Change

12	Decades of Radical Self-Management at a Venezuelan Cooperative: Institutional Distinctiveness and Ideology	361
	<i>Aurélie Soetens, Benjamin Huybrechts, and Ignacio Bretos</i>	
12.1	Introduction	362
12.2	Theoretical Background	364
	12.2.1 Legitimacy, Institutional Distinctiveness, and Organizational Ideology	364
	12.2.2 Participatory Organizations	367
12.3	Methods	369
	12.3.1 Research Context	369
	12.3.2 Data Collection and Analysis	370
12.4	Findings	372
	12.4.1 Emergence of an Alternative Organizational Ideology Guiding Workers' Actions	372
	12.4.2 Shielding the Ideology from External Interferences	376
	12.4.3 Internally Reproducing the Ideology	380
12.5	Discussion and Conclusion	384
	References	388
13	Transformational Resilience and Future-Ready Cooperative Governance Systems	397
	<i>Karen Miner</i>	
13.1	Introduction	397
13.2	Integrated Social, Ecological, and Economic (SEE) Worldview	399
13.3	Resilience in the Face of Complexity	401
	13.3.1 Resilience Principles	402
13.4	Discussing Resilience and the Cooperative Model	404
	13.4.1 Enterprise Model—Complexity Mindset and Purpose	406

13.4.2	Enterprise Model—Participation, Cohesion, and Social Capital	409
13.4.3	Enterprise Model—Long-Term Planning and Intergenerational Stewardship	410
13.4.4	Enterprise Model—Networks of Inter-Cooperation	411
13.4.5	Network Governance—Polycentricity and Broad Participation	413
13.5	Conclusion: Resilience Alignment to the Cooperative Model Is Not Enough	415
	References	417
14	Measuring Transformational Impact of Cooperatives	423
	<i>Sonja Novković and Dražen Šimleša</i>	
14.1	Increasing Pressure to Measure Sustainability Performance	423
14.2	Transformation Toward Sustainability	425
14.3	Transformative Nature of the Cooperative Enterprise Model	427
14.4	What Do Cooperatives Need to Measure?	431
	14.4.1 Environmental Indicators	432
	14.4.2 Socio-Economic Indicators	433
14.5	Measuring Transformational Impact	434
14.6	The Economy for the Common Good (ECG) Indicators in Practice	435
14.7	Discussion and Concluding Remarks	441
	References	443
	Index	449

Notes on Contributors

Bretos Ignacio is Assistant Professor at the Department of Business Organization and Management, University of Zaragoza, Spain. He has been Visiting Scholar at Sheffield Business School and Leeds University Business School. Ignacio's research primarily explores the intersection of business and society, with a particular interest in the role of cooperatives and social enterprises in the promotion of workplace democracy, social inclusion, and sustainable development. The results of his research have been published in several international refereed journals, including *Organization*, *Human Resource Management Journal*, *Review of Radical Political Economics*, *Industrial and Labor Relations Review*, and *Annals of Public and Cooperative Economics*.

Dufays Frédéric is Assistant Professor at HEC Liège—University of Liege (Belgium) and at KU Leuven (Belgium), where he is the co-promotor of the Cera-Boerenbond Chair on Cooperative Entrepreneurship. His current research interests include (1) the implementation of economic democracy and deliberative practices in cooperatives and the internal and external impact thereof; (2) legitimation processes of alternative organizational models; and (3) the collective internal dynamics at

work in the emergence of hybrid organizations such as cooperatives and social enterprises.

Freundlich Fred is a professor in the Faculty of Business, Mondragon Unibersitateaa, and a researcher at the LANKI Institute for Cooperative Research at its Faculty of Humanities and Education Sciences. He teaches undergraduate and graduate courses on cooperatives and the social economy as well as enterprise ownership, and carries out research on the psychosocial effects of shared ownership, on cooperative governance, and on the effects of shared ownership education and training.

Friedel Stefanie is a Ph.D. candidate at the Faculty of Economics and Business (KU Leuven, Belgium) working within the Centre of Expertise for Cooperative Entrepreneurship (KCO), where she is exploring several facets of member participation and democratic governance in cooperatives, with particular focus on different types and stakeholders in the agricultural and food sector. Being equipped with more than a decade of professional experience in health care and socio-cultural work, she came back to academia to combine qualitative and quantitative research methods to gain scientific knowledge on primarily social logics of cooperatives, i.e. social capital, cooperative values such as solidarity, and motivations for member participation.

Huybrechts Benjamin is Professor in Business and Society at IESEG School of Management (France), where he participates in the IESEG Centre for Organizational Responsibility (ICOR). Before joining IESEG, he worked as Associate Professor at emlyon business school (France) and HEC Liège Management School (Belgium), and as Post-doctoral Researcher at the Saïd Business School, University of Oxford (UK). His research addresses the entrepreneurial dynamics leading to the creation of alternative organizations (with a focus on social enterprises and cooperatives); and the partnerships and networks that these organizations form in the context of diffusing their alternative forms and practices. His work has been published in journals such as *Organization Studies*, the *Journal of Management Inquiry*, the *Journal of Business Ethics*, and the *British Journal of Industrial Relations*.

Imaz Oier is a professor in the Faculty of Humanities and Education Sciences, Mondragon Unibertsitatea, and a researcher at its LANKI Institute for Cooperative Research. He teaches graduate courses on cooperative governance and intercooperation among cooperatives and does research on governance in cooperatives, cooperatives and the UN's Sustainable Development Goals (SDGs), responsible innovation, and on deliberative democracy in civil society.

Kanpandegi Aritz is a professor in the Faculty of Humanities and Education Sciences, Mondragon Unibertsitatea, and a researcher at its LANKI Institute for Cooperative Research. He teaches courses on science, technology, and society, and on sustainable development, and his research focuses on cooperative enterprise, community development, and social transformation, on cooperatives and the UN's sustainable development goals, as well as governance in cooperative firms.

McMahon Cian is an International Centre for Co-operative Management (ICCM) postdoctoral fellow at Saint Mary's University (SMU) Halifax, where his research centers on participatory democratic cooperative governance systems (FWO SB-project S006019N). Prior to this, he completed a Ph.D. on the topic of worker cooperatives and sustainable development at the University of Galway in Ireland, where he also taught courses on heterodox economics and radical political economy. He has published in the *Review of Political Economy*, the *Community Development Journal*, and the *Régulation Review: Capitalism, Institutions, Power*. He is co-editor (with Terrence McDonough and David M. Kotz) of the *Handbook on Social Structure of Accumulation Theory* (Edward Elgar, 2021). McMahon worked previously as a Policy Analyst with the Irish progressive left Think-tank for Action on Social Change (TASC). He subscribes to a public role for academics through involvement with labor and community activist education.

McNamara John A. works as Senior Cooperative Development Specialist for the Northwest Cooperative Development Center serving the Pacific Northwest of the United States. John researched worker co-op management for his Ph.D. and earned a Master of Management: Cooperatives and Credit Unions (MMCCU) from Saint Mary's University

(Halifax). He currently teaches Cooperative Strategy for the MMCCU program. John also serves as Chair of the Union Co-ops Council (<http://unioncoops.org/>) of the US Federation of Worker Cooperatives and on the board of CooperationWorks! (<https://cooperationworks.coop/>), a US-based network of cooperative development centers and developers. Previously, John gained 26 years of practical experience in the worker cooperative world with Union Cab of Madison, participated in the development of the Co-op Index Tool, and taught cooperative management at the graduate and undergraduate levels.

Miner Karen is an expert in values-based business with broad experience across sectors and industries. For much of Karen's career, she worked coast to coast across North America as a management consultant with large consulting organizations through to small boutique firms, always with a focus on business and sustainability. During this time, she developed a deep understanding of the complex and evolving nature of environmental, social, and economic systems. Over the past decade, Karen's expertise has evolved to be most focused on the management and governance of values-based businesses, with an emphasis on cooperatives, credit unions, and mutuals (plus, the broader social solidarity economy). Since 2012, Karen has held the Managing Director position at the International Centre for Co-operative Management (Saint Mary's University, Canada). The focus of this career chapter is on developing global relationships and networks, combined with sharing and exchanging knowledge on how to build people-centered economies and societies. Great governance is a specific professional passion for Karen: she is a certified director, conducts research and teaches on governance, and has served on business, non-profit, and charity boards of directors in organizations as varied as outdoor retail, financial services, energy efficiency, environmental advocacy, and fair trade certification. Additionally, Karen is a Ph.D. candidate in the business school at the University of Eastern Finland.

Novković Sonja is Professor of Economics and the Academic Director of the International Centre for Co-operative Management (ICCM) at Saint Mary's University, Canada, as well as Research Associate at the University of Eastern Finland. She served as Chair of the International Co-operative

Alliance Research Committee (2013–2021), and is a member of the National Cooperative Business Association’s (NCBA-CLUSA) Council of Economists. She serves on the advisory board of the World Cooperative Monitor and the UNRISD project on “Sustainability performance indicators”, having also contributed to the work of the Committee for the Advancement of Cooperatives (COPAC) “Task force on cooperative statistics”. Her research and writing encompass theoretical work on the theory of cooperative firms, cooperative networks, multistakeholder cooperatives, and democratic governance, as well as applied work on participation and diagnostic tools in worker cooperatives. Her coedited works include *Co-operatives and the World of Work* (Routledge, 2019); *Cooperativism and Local Development in Cuba: An agenda for Democratic Transformation* (Brill, 2018); *Co-operative Governance Fit to Build Resilience in the Face of Complexity* (ICA, Brussels 2015); *Co-operatives for Sustainable Communities: Tools to Measure Co-operative Impact and Performance* (University of Saskatchewan Press, 2015); and *Co-operatives in a Post-growth Era* (Zed books, 2014).

Harnecker Camila Piñeiro has been a professor at the Cooperative Management and Development Masters Program at the Latin American Faculty of Social Sciences (FLACSO) at the University of Havana, Cuba since 2013. She was a Research Fellow at the Center for Latin American and Latino Studies at American University as well as at the University of California, Riverside in 2018 and 2019. From 2009 to 2018, she was a professor, researcher, and consultant at the Center for the Study of the Cuban Economy at the University of Havana. She holds a Ph.D. in Economics from the University of Havana, an MBA from the same alma mater, and a M.A. in Sustainable Development from the University of California at Berkeley. Her work has focused on worker and producer cooperatives, economic democracy, and the social and solidarity economy. She is author of four books and several articles on these topics.

Puusa Anu works as a Professor in Management at UEF Business School at the University of Eastern Finland. She is a Docent of Management and Co-operatives at LUT School of Business and Management, Lappeenranta University of Technology. Her current research interest

areas are cooperatives (namely their dual nature, cooperative governance, and management), expert organizations, organization change, organizational identity, and work-community skills/Organization Citizenship behavior. Puusa has published textbooks and numerous journal articles and other publications. She has several cooperative positions of trust such as membership of the board at Cooperatives Europe, Pellervo Co-op Center, and Pohjois-Karjalan Osuuskauppa, a regional consumer cooperative that is part of S-Group. She is an experienced organizational speaker, TED TALK speaker (<http://go.ted.com/anupuusa>), and an awarded teacher.

Saastamoinen Sanna is a lecturer in Management at the Business School at the University of Eastern Finland. She is a doctoral student and the topic of her dissertation relates to cooperative governance and management. She has recently published in the *Journal of Co-operative Studies* and *Journal of Co-operative Organization and Management*.

Sacchetti Silvia is a professor in the Department of Sociology and Social Research at the University of Trento. Her research activity focuses on the nature and role of social economy organizations for public value creation, as well as the role of creativity, individual motivations, and network linkages for people, organizations, and local economies. She acts as Co-Chief Editor of the *Journal of Entrepreneurial and Organizational Diversity* at EURICSE, and as Scientific Committee member of the *European Management Journal*. She is a member of EMES and the European Research Board of the International Cooperative Alliance.

Šimleša Dražen works as a research associate at the Ivo Pilar Institute of Social Sciences in Zagreb. His fields of work are social and solidarity economy, sustainability, and permaculture. He has published eight books and several scientific papers. The most recent book is *Public Policies for Social and Solidarity Economy—Manual for Cities* (2021). He teaches the Global Society and Sustainable Development course at Peace Studies. He is active on the civil scene and currently volunteers as the coordinator of the knowledge center program of the association Green Network of Activist Groups (ZMAG), and is the manager of the Cooperative

for a Good Economy. He is the General Coordinator of the Solidarity Economy Network—RIPESS Europe.

Soetens Aurélie holds a Ph.D. from HEC Liège Management School of the University of Liège (Belgium). She conducted her research at the Center for Social Economy of HEC Liège. She has been a visiting scholar at the International Center for Co-operative and Social Economy (CIESCOOP) of the University of Santiago de Chile. Her research addresses the development and maintenance of democratic practices within alternative organizations (associations and cooperatives). Her work has been published in the *Journal of Management Inquiry*.

Spear Roger is Emeritus Professor of Social Entrepreneurship, Member of Ciriec Scientific Committee, and a founder member and ex-vice-president of EMES research network on social enterprise. He taught innovation, organizational systems, and research methods at the Open University, where he is emeritus professor (<http://www.open.ac.uk/research/people/rgs5>) linked to Systems and Complexity, and Innovation Knowledge and Development. He is currently a guest professor in the Centre for Social Entrepreneurship at Roskilde University (Copenhagen, Denmark), contributing to International Masters in Social Entrepreneurship, specializing in measuring social impact. Recent research projects: “Cities, the social economy, and inclusive growth”; “EC project: Map of social enterprises and their eco-systems in Europe.”

Stocki Ryszard, Ph.D. is an organizational psychologist at the Pontifical University of John Paul II in Cracow. He is coauthor of many organizational diagnosis tools including the Co-op Index, and author of the world’s first nosology of organizational pathologies. He analyzed, for example, cooperative isomorphism in Canada and the Basque Country (Spain), i.e. co-ops’ abandonment of their values and principles in an environment dominated by investor-owned firms. He is presently doing research on toxic knowledge disseminated by multinational corporations (MNCs) to modify people’s lifestyles to increase MNC profits.

Tortia Ermanno C. is a professor in the Department of Economics and Management at the University of Trento. His research activity focuses on the institutionalist theory of the firm, organizational studies,

personnel economics, and human resource management, as applied to third sector organizations (cooperative and social enterprises, non-profit organizations). He is in charge of the Ph.D. program in Economics of Development and Social Systems (DELOS, joint between the University of Trento and the University of Florence) in Trento, where he teaches Institutional Economics.

List of Figures

Fig. 4.1	Cooperative governance system	84
Fig. 4.2	Variables impacting governance systems in cooperatives	94
Fig. 8.1	Evolution of cooperatives in Cuba (<i>Source</i> author, based on National Statistics and Information Office (ONEI) and Piñeiro [2014])	215
Fig. 8.2	Cuban cooperatives by activity and origin (<i>Source</i> author, based on ONEI [2022] and others)	217
Fig. 10.1	The structure of a Mondragon worker cooperative (<i>Source</i> Freundlich [2015])	294
Fig. 10.2	The structure of the Mondragon Corporation (<i>Source</i> Freundlich [2015])	295
Fig. 13.1	Conceptual framework—linking resilience to the cooperative model and its governance system (<i>Sources</i> Resilience principles derived from Hauge Simonsen et al. [2015]; Enterprise Model reproduced from Miner and Novkovic [2020])	407
Fig. 14.1	ECG Matrix 5.0 2017 (<i>Source</i> Economy for the Common Good, 2017 www.ecogood.org/)	437

List of Tables

Table 2.1	Theoretical foundations of governance in investor-owned vs member-owned (democratic) firms	21
Table 3.1	Recognition of ten dignity aspects for four kinds of enterprises	65
Table 4.1	Elements of cooperative governance: structures, processes, and dynamics	93
Table 6.1	The governing bodies and their tasks in the case cooperative	149
Table 8.1	Key data about different types of cooperatives in Cuba	216
Table 8.2	Key descriptive information about the case cooperatives	225
Table 8.3	Main governance organizational structures and practices in the studied cooperatives	226
Table 9.1	Collected data: Sample size by type of organization	260
Table 9.2	Matrix of social capital dimensions in different types of agricultural cooperatives	272

Table 10.1	Multistakeholder cooperatives in Mondragon in chronological order by name, founding year, employment, percentage of worker-members in the workforce, Mondragon Area designation and sector	304
Table 10.2	Mondragon MSCs by the cooperative's legal structure	308
Table 10.3	Legal form, percentage of worker-members, and types of members by MSC	310
Table 10.4	Percentages of different categories of members of Mondragon MSCs' General Assemblies (GAs) and Governing Councils (GCs) by MSC legal structure	314
Table 13.1	Resilience definitions and principles	403
Table 14.1	Complementary approaches to processes of transformation to sustainability (<i>Source</i> reproduced from Scoones et al., 2020, p. 68)	428



1

Introduction

Sonja Novković, Cian McMahon, and Karen Miner

Governance of democratic member-owned enterprises is complex and context-dependent. Members typically engage with the enterprise as contributors to its operations, while they also jointly own and democratically control it in order to enable such engagement. This sets the member-owned enterprise model apart from the investor-owned model, with implications for governance theory and practice.

While member-owned and democratically governed organizations span from cooperatives and mutuals to associations and other voluntary

S. Novković (✉) · C. McMahon · K. Miner
International Centre for Co-operative Management, Saint Mary's University,
Halifax, NS, Canada
e-mail: snovkovic@smu.ca

C. McMahon
e-mail: cian.mcmahon@smu.ca

K. Miner
e-mail: karen.miner@smu.ca

sector organizations, of particular interest for the advancement of the literature on this subject is the cooperative enterprise, given a common definition of its boundaries provided in the Statement on the Cooperative Identity of the International Cooperative Alliance (ICA, 1995). Governance in cooperatives as *collective enterprises* (MacPherson, 1996; Novkovic et al., 2022) is about promoting human dignity, democratic decision-making, and engagement (empowerment) of employees and other stakeholders. What is lacking is a better understanding of governance practices involved in implementing the humanistic paradigm and their implications. This book attempts to fill this gap. The aim of the project, then, is two-fold: one, to advance the theory of humanistic governance in democratic organizations and two, to showcase cooperative governance structures and processes that fit the humanistic paradigm perspective. While the first objective appeals to academic inquiry, the second goal aims to inform practice and assist in identifying systems and practices that curb degenerative isomorphic pressures on cooperative governance.

Starting from the premise that the humanistic paradigm and democratic governance in organizations go hand in hand, the book explores governance based on the intrinsic characteristics of cooperative enterprises, namely: being values-based; jointly owned and democratically controlled; and centred on peoples' needs as producers, consumers, or workers (Novkovic & Miner, 2015). This allows us to establish the basic parameters of humanistic governance systems applicable to cooperatives, as well as to the context of economic democracy more broadly. Cooperative enterprise is a means of collective action through which members achieve their goals and aspirations, from decent work to access to markets and/or protection from market risks and speculative trading. We contend that the model therefore lends itself to the underlying assumptions of humanistic economics and management. In particular, behavioral assumptions behind a collective enterprise depart from the hyper-rational self-centred optimizer in neoclassical economics and align with bounded rationality (Simon, 1979), which considers human imperfections as well as empathy and solidarity in socio-economic/ecological affairs.

This volume also furthers the conceptualization of humanism in business through the inclusion of collectivist aspirations of the members of cooperative and social solidarity enterprises. We subscribe to “cooperativist humanism” (see McMahon, 2022), the more radical framing of humanism, in two important ways. First, it is partly aligning with post-humanist ideals in its attention to care and regeneration of all natural systems, i.e. it is humanistic, but not anthropocentric (see Braidotti, 2017). Secondly, our focus on economic democracy implies a collective (associationist) version of humanism rooted in solidarity and mutualism, thereby expanding the liberal individualistic understanding of the term often subscribed to in the business literature (Melé, 2003; Pirson, 2017). Our view lies in contrast to the philanthrocapitalist social business and social entrepreneurship approach, with individual entrepreneurs acting for a greater good; rather, it includes a form of enterprise involving mutual self-help and democratic control by its members—i.e. users of the enterprise in some operational capacity (producers, workers, consumers, supporters of its “mission”/purpose).

Cooperatives engage in market exchanges, but they also resort to reciprocity and relational exchanges among their members, as well as with like-minded organizations through inter-cooperation. This is reinforced by intergenerational stewardship since cooperative members are concerned about longevity of the enterprise, instead of short-term financial gain for the current generation of members (see Lund & Hancock, 2020). In order to maintain this vision of a cooperative enterprise as an intergenerational asset, governance structures evolve over time to protect the members’ and organization’s integrity from vulnerabilities created by external and internal pressures and dynamics. Well-governed co-ops also tend to evolve nested and networked governance structures when they develop and grow, as they strive to practice and uphold the values and principles that all co-ops subscribe to—e.g. member participation, democratic decision-making, solidarity, and cooperation among cooperatives, among other.

Besides an enhanced understanding of humanism in business through the lens of collective action, we challenge the prevailing approach to cooperative governance discourse as “one size fits all” democracy. A typical cooperative governance structure considered in the literature is

a unitary board with elected representatives. Such a structure foresees the tension between member representativeness and the required expertise not guaranteed by the election process (Birchall, 2017; Cornforth, 2004). Turnbull (2002) argues against unitary boards more generally, deeming them inferior to multistakeholder network governance due to human cognitive limitations. Expanding on that thought, we advance the theory of governance of democratic member organizations (DMOs) to account for the co-op model's associational and mutualist character, networked inter-cooperative structures, and a direct relationship through members' *use* of the enterprise for a particular need-satisfying purpose (rather than as a purely financial investment).

Governance systems, comprising of structures, processes, and the dynamic interplay between them, are diverse and context dependent in such democratic organizations, but this diversity does not sacrifice adherence to cooperative enterprise characteristics. The key variable differentiating governance among cooperatives is members' relationship with the organization. Members can be consumers or users of services; producers selling their products or purchasing supplies through the enterprise; workers as insiders to the enterprise; or supporting members who provide resources and advance a cooperative's mission and purpose. Depending on the relationship and the extent of a member's engagement, governance challenges will be different, as will be the solutions.

Further to the type of members, governance structures and processes will be affected by the purpose of the organization (e.g. providing quality jobs; access to goods/services; or pooling risk); the stage in its lifecycle; the type of industry; the regulatory and legal frameworks; the historic and cultural environment; the strategic stakeholders; and the numerous evolving external pressures. We approach governance from that context-dependent humanistic lens. The book is replete with cases and examples illustrating this diversity in the practice of economic democracy and member and stakeholder participation.

1.1 The Contents of the Book

The book is structured into three parts. The first part develops the theoretical foundations of cooperative humanistic governance; the second illustrates context-dependent issues facing different types of cooperatives and highlights some practical solutions; while the third part explores the dynamics of change in cooperative governance under the force of internal and external pressures.

The theory part lays out the foundational assumptions of democratic governance in cooperatives (Chapter 2 by Sonja Novković and Cian McMahon) based on the literature in humanistic economics and management. It highlights the characteristics of the cooperative model and, in particular, the use-aspect which grants control rights to the members. Since investment of capital is only instrumental as a means to a different end, its ownership bears no impact on governance structures and democratic processes. The hallmark of cooperation is its associational character demonstrated through collective ownership, contributions, and benefit (Novkovic et al., 2022), with implications for governance of collective assets and income distribution decisions. The chapter contrasts the humanistic theory of democratic member-owned organizations with the traditional approach in neoclassical and new institutional economics, outlining the behavioral foundations, the purpose of the enterprise, the nature of its ownership and control, and the subsequent governance systems.

Ryszard Stocki in Chapter 3 examines various conceptualizations of dignity and theorizes the promotion of human dignity as an inherent feature of cooperative organizing. The chapter elaborates on diverse sources of reflection about dignity and its meaning—from scientific knowledge to personal experience, artistic expression to practical knowledge. Several approaches to dignity in the business literature are also discussed, extracting ten ingredients defining dignity in organizations. These key elements are used to analyse various enterprise forms and assess their alignment with the promotion of dignity as the key tenet of humanism in organizations.

The first part concludes with Chapter 4 by Sonja Novković, Karen Miner, and Cian McMahon sketching out the framework and variables

impacting context-based and diverse cooperative governance systems. Governance *structures* include ownership and control, governance bodies, and formal rules and policies. Governance *processes*, on the other hand, are about democracy and participation, channels of communication, and monitoring and control. *Dynamics* of governance as the third component of governance systems includes the interplay between structures and processes and externally and internally induced changes. This chapter contextualizes governance systems for worker, consumer, producer, and multistakeholder cooperative types and discusses common practices by membership type. The chapter also sets the stage for the next part of the book where diverse systems are further highlighted and explored through specific case studies.

The second part of the book presents a select set of issues and participatory solutions in different types of cooperatives. The part opens with John McNamara's account of worker cooperative governance in Chapter 5. Worker cooperatives use different types of structures, from traditional hierarchical managerial model, to flat structures with collective decision-making, or sociocratic double-linked circles. What ties these models together, while separating them from other types of cooperatives, is that members are insiders who engage both in operations and in governance. The lines are often blurred between the types of decisions made by the members. The tensions in worker cooperatives are unique due to member proximity, but they also have an advantage in terms of member participation and engagement. The chapter outlines examples of three types of governance in worker cooperatives in the United States and explores the potential benefits of unionized worker cooperatives as an added complexity.

Chapters 6 and 7 by Anu Puusa and Sanna Saastamoinen, and Roger Spear, respectively, look at consumer cooperatives. Chapter 6 examines the governance structure of a large Finnish consumer cooperative. The authors point to issues when co-op membership is large, less engaged, and members are outsiders. Typical issues in consumer cooperatives concern low member engagement and board expertise. The authors describe the multiple board structure in Finnish consumer co-ops, involving a membership council, a board of directors, and a supervisory

board. These structures align with Birchall's (2017) proposal for more effective consumer co-op governance; however, the authors point out that well-designed structures are not enough on their own. They have to be accompanied by education of directors and other members engaged in decision-making, so that healthy interpersonal processes can reinforce the nested structures of distributed control.

Spear likewise highlights governance challenges in consumer cooperatives, particularly the typically low membership participation in basic member ownership responsibilities (e.g. annual general meetings and elections). He points to solutions through a humanistic theory lens, in particular, as it relates to broadening the understanding of cooperative governance to include networked and polycentric systems linking institutions and organizations in the "cooperative ecosystem". Through the examples of Lincoln Cooperative Society, other consumer cooperatives in the UK, and stories of demutualization, he argues in favor of this approach when compared to traditional, more narrow understandings of governance in consumer cooperatives.

Camila Piñeiro Harnecker examines the governance of Cuban producer and worker cooperatives in Chapter 8. Developed in the unique socialist context under the combined forces of external pressure and internal system change, Cuban cooperatives span from small farmer producer cooperatives introduced in the 1960s, to collective agricultural cooperatives in the 1970s, to 1990s–early 2000s agro-industrial complexes turned into agricultural worker co-ops, ending with the post-2011 development of worker cooperatives in the wave of de-nationalization of state enterprises. In a socialist economy whose policies are designed to promote human development, cooperatives express features of humanistic governance systems in the design of structures and processes of decision-making, also consistent with the humanistic and participatory ethos of the Cuban Revolution. Furthermore, network governance structures, frequent processes for member participation, and decentralized decision-making are regular features of governance systems in Cuban cooperatives.

Stefanie Friedel and Frédéric Dufays in Chapter 9 use three dimensions of social capital—trust, networks, and rules and norms—to differentiate between large, small, and multistakeholder agricultural producer

cooperatives in Belgium. The authors make connections between the principles of humanistic management and governance and patterns of social capital in these diverse sub-types of producer cooperatives, contributing further to one of the main arguments of this volume: that cooperative governance is diverse, and context dependent. Key findings confirm the hypothesis that identity-aligned cooperatives are people-centric in their governance design, and focussed on active engagement of their members in daily practices. The authors note the difference in leadership styles, correlated to social capital, spanning from traditional corporate governance rooted in the principal-agent model, all the way to ethical/humanistic practices, using deep democracy methods to engage diverse members.

Chapter 10 by Oier Imaz, Fred Freundlich, and Aritz Kanpandegi takes a closer look at the Mondragon Corporation, to highlight the large and longstanding presence of multistakeholder cooperatives (MSC) across all areas of the co-op network: retail, industrial, finance, and education. The number and size of the MSCs make them significant for the Mondragon group, and they are an interesting development both from the governance perspective, and the adherence to cooperative principles, in particular democracy and inter-cooperation. Based on primary data, the authors describe and classify MSCs, illustrating the diversity of the model's application across Mondragon. They outline the extent, nature, and purpose of MSCs; discuss the relationship among different stakeholders and the resulting governance structures; and explore the evolution of purpose, structure, and processes in response to internal and external dynamic pressures. The authors highlight the heterogeneous nature of MSCs in the Mondragon system, but, as a common thread and not surprisingly, they find that all are labor inclusive, with worker-members as a central figure for Mondragon MSCs. The authors point out that networked inter-cooperation is at the root of multistakeholder governance development in the Mondragon system, with evolving dynamics under internal and external pressures.

Chapter 11 concludes the part, with Ermanno Tortia and Silvia Sacchetti's exploration of network governance in cooperative banks. The authors analyse three cases of financial cooperative networks in three different countries and find some elements and evolutionary trends

in common. In particular, cooperative financial institutions are firmly locally embedded and an integral actor in local development. They are also coordinated horizontally in complex, multilateral, and decentralized networks, with trust as the key ingredient in the network relationships. Further, they resort to cooperation, rather than competition, via horizontal coordination with other institutions with shared goals and values. Cooperative banks become more integrated and formalized over time, partly due to regulatory pressures, and partly due to growth. Over time, they come to rely on a central institution which functions as a hub for risk pooling and making strategic decisions.

The third part of the book opens with Chapter 12 by Aurélie Soetens, Benjamin Huybrechts, and Ignacio Bretos, describing the dynamics of governance processes and structures that change under pressures. The case in question is an illustration of innovations in governance in an attempt to preserve the original purpose of the organization. The authors present the example of Cecosesola, a longstanding second-tier cooperative in Venezuela, staying true to its normative values and managing to maintain its participatory culture, thereby defying the dominant institutional patterns in the broader neoliberal economic policy environment. The chapter describes how alternative organizations resist non-congruent institutional isomorphic pressures and shield their “institutional distinctiveness”. Democratic (participatory) organizations face numerous pressures to cave to the mainstream institutional paradigms; this chapter suggests that creating a strong (radical) ideology can be the foundation for preservation of institutional distinctiveness and the prevention of organizational degeneration.

Chapters 13 and 14 by Karen Miner and Sonja Novković and Dražen Šimleša, respectively, relate to the governance dynamics under external pressures. They examine the transformational nature of cooperative organizing in the context of societal crises. While Miner considers resilience from a complex social-ecological perspective and places it in the ability of cooperatives to be transformative, the final chapter talks about the use of key performance indicators to drive transformation.

Miner’s use of a resilience framework moves beyond the focus of most cooperative resilience research, which concerns the resilience of the enterprise model under economic stress (e.g. economic slow-down, shock,

recession). Instead, resilience is framed more broadly, in recognition of the interrelated and integrated nature of economic, social, and environmental systems. Resilience as a holistic concept is then compared to the cooperative enterprise model and governance system to demonstrate the model's strength in key areas such as engagement of multiple stakeholders and polycentric governance. Miner suggests that as we navigate an era of turbulence and difficult system change, a resilience mindset in governance is imperative to ensure cooperative survival over the long term. The co-op model is designed particularly well to accommodate this mindset, and cooperatives need to use this to their advantage.

Novković and Šimleša extend the discourse on the transformative potential of the cooperative model by establishing the role of key performance indicators in driving the transformation to sustainable socio-ecological-economic systems. Given the purpose and identity of cooperatives, and a different institutional logic compared to investor-owned businesses, the chapter discusses their contributions to the requisite radical imagination needed for a transformative change in the system. The intersection between the cooperative model and the Economy for the Common Good (ECG) approach to measures of performance is examined as an example of values-based indicators. The chapter points out the need to use context-based indicators with thresholds and allocations (McElroy, 2015) in order to appropriately assess sustainability and proposes that cooperative goals and purpose can set the sustainability benchmarks for social indicators.

1.2 Concluding Remarks

The theoretical and philosophical contributions to this volume propose moving beyond the disembodied and hyper-rational individual/organization of the dominant economics and management paradigms. They also imply that democratic control by people involved in the operations of an enterprise introduces complexity, but it also enables innovative governance practices. Cooperatives presented in this volume belong to a class of collective member-owned enterprises guided by organizational values and principles.

How members engage with the enterprise matters: democratic governance practices are diverse and context dependent. Participatory democratic governance structures, processes, and dynamics are manifest throughout the volume in a diverse array of representative co-ops operating within their unique contexts. These experiences demonstrate in practice that not only can co-ops govern in accordance with the model's stated values and principles, but that doing so can deliver both a competitive and an ethical advantage. This holds increasingly true in the current environment characterized by multiple overlapping systems crises—most readily visible in the intersecting economic and earth systems crises, and the underlying disintegration of systems of care and social/ecological reproduction (Lynch, 2022). We believe the time is ripe to present the cooperative model of economic democracy in its diversity, and for its strengths and advantages in the pursuit of a post-neoliberal global order.

The volume's contributions also illustrate that governance in cooperatives is not necessarily about separation of ownership and control, reflected in a hierarchical monitoring function. Rather, governance in collective enterprises needs to strengthen the synergies between an association of member-users and the enterprise by transposing values into practice.

References

- Birchall, J. (2017). *The governance of large co-operative businesses*. Co-operatives UK. <https://www.ica.coop/en/media/library/research-and-reviews/governance-large-co-operative-businesses>
- Braidotti, R. (2017). *Posthuman, all too human: The memoirs and aspirations of a posthumanist*. Lecture presented at the Whitney Humanities Center Tanner Lectures on Human Values, Yale University, New Haven, CT. https://tannerlectures.utah.edu/_resources/documents/a-to-z/b/Braidotti%20Lecture.pdf
- Cornforth, C. (2004). The governance of cooperatives and mutual associations: A paradox perspective. *Annals of Public and Cooperative Economics*, 75(1), 11–32.
- International Cooperative Alliance (ICA). (1995). *Statement on the Cooperative Identity*. <https://www.ica.coop/en/cooperatives/cooperative-identity>

- Lund, M., & Hancock, M. (2020). *Stewards of enterprise: Lessons in economic democracy from Northern Italy* (Working Paper Series 01/2020). International Centre for Co-operative Management. <https://www.smu.ca/webfiles/WorkingPaper2020-01.pdf>
- Lynch, K. (2022). *Care and capitalism*. Polity Press.
- MacPherson, I. (1996). *Background paper to the Statement on the Cooperative Identity*. International Cooperative Alliance. https://www.academia.edu/6524851/Background_Paper_to_the_Statement_on_the_Cooperative_Identity
- McElroy, M. (2015). Science- vs context-based metrics—What is the difference? *Sustainable Brands*. <https://sustainablebrands.com/read/new-metrics/science-vs-context-based-metrics-what-s-the-difference>
- McMahon, C. (2022, July 6–8). *Human dignity in organisations: The cooperative ideal*. Paper presented to the International Association for the Economics of Participation (IAFEP) Annual Conference. Montpellier, France.
- Melé, D. (2003). The challenge of humanistic management. *Journal of Business Ethics*, 44(1), 77–88.
- Novkovic, S., & Miner, K. (Eds.). (2015). *Co-operative governance fit to build resilience in the face of complexity*. International Co-operative Alliance. <https://www.ica.coop/en/media/library/cooperative-governance-fit-build-resilience-face-complexity>
- Novkovic, S., Puusa, A., & Miner, K. (2022). Co-operative identity and the dual nature: From paradox to complementarities. *Journal of Co-operative Organization and Management*, 10(1), 100162. <https://doi.org/10.1016/j.jcom.2021.100162>
- Pirson, M. (2017). *Humanistic management: Protecting dignity and promoting well-being*. Cambridge University Press.
- Simon, H. A. (1979). Rational decision making in business organizations. *The American Economic Review*, 69(4), 493–513.
- Turnbull, S. (2002). *A new way to govern: Organisations and society after Enron*. New Economics Foundation. <https://neweconomics.org/2002/08/new-way-govern>

Open Access This chapter is licensed under the terms of the Creative Commons Attribution-NonCommercial-NoDerivatives 4.0 International License (<http://creativecommons.org/licenses/by-nc-nd/4.0/>), which permits any noncommercial use, sharing, distribution and reproduction in any medium or format, as long as you give appropriate credit to the original author(s) and the source, provide a link to the Creative Commons license and indicate if you modified the licensed material. You do not have permission under this license to share adapted material derived from this chapter or parts of it.

The images or other third party material in this chapter are included in the chapter's Creative Commons license, unless indicated otherwise in a credit line to the material. If material is not included in the chapter's Creative Commons license and your intended use is not permitted by statutory regulation or exceeds the permitted use, you will need to obtain permission directly from the copyright holder.



Part I

Theory



2

Humanism and the Cooperative Enterprise: Theoretical Foundations

Sonja Novković and Cian McMahon

2.1 Introduction

The dominant theories of corporate governance equate effective governance practices to meeting the enterprise owners' goals, typically to increase company value and maximize return on investment. This understanding draws on the premise that ownership of capital grants

S. Novković (✉) · C. McMahon

International Centre for Co-operative Management, Saint Mary's University,
Halifax, NS, Canada

e-mail: snovkovic@smu.ca

C. McMahon

e-mail: cian.mcmahon@smu.ca

residual control, and residual income rights over the enterprise (Hansmann, 1996).¹ With the formal separation of ownership and control in modern corporations (Berle & Means, 1932; Fama & Jensen, 1983), various theories of governance, most notably the principal-agent theory (Jensen & Meckling, 1976), as well as new institutional economics and transaction costs theories, rest on particular assumptions about human behaviour that give rise to extrinsic incentive structures, which purport to resolve agency issues in organizations (Grundeir, 2008; Klein et al., 2012). Stewardship theory (Davis et al., 1997; Muth & Donaldson, 1998), on the other hand, draws on different behavioural assumptions, in which the manager is intrinsically motivated, identifies with organizational goals and does not behave opportunistically as a result (Grundeir, 2008).²

These two conflicting theories lead to diverging conclusions about governance structures, particularly the role and makeup of the board of directors (Cornforth, 2004). The board has a hierarchical monitoring and control function under the agency model, yet a collaborative supporting and advisory role under the stewardship model; board directors represent the owners in the former case, while they provide stakeholder expertise in the latter.

While many researchers suggest that each theory has value in different contexts (see Sundaramurthy & Lewis, 2003; Cornforth, 2004; or Cullen et al., 2006), cooperative governance continues to be discussed from the asset ownership perspective of maximizing the value of the firm (investor logic) rather than from the perspective of the membership relation with the enterprise (“usership” logic, Borgen, 2004).³ Cooperatives and other democratically governed enterprises in the social solidarity

¹ While classical property rights theory defines ownership as rights to residual income (left after all contractual obligations are met), modern property rights theory suggests ownership grants the residual control rights (Klein et al., 2012). Hansmann (1996) considers both these rights as rights of ownership, inflicting transactions costs upon enterprise owners.

² While this literature focusses on board–management relationships and dynamics, similar logics apply to other stakeholders like workers or community supporters.

³ When democratic cooperative governance is considered in the literature, it is usually focussed on the political decision making and the role and makeup of the (typically) unitary Board (Birchall, 2017; Cornforth, 2004; Spear, 2004). The focus of this book is on cooperative solutions to governance challenges stemming from their democratic nature, rooted in humanistic theory; emergent and diverse due to different contexts, not least of which the type and nature of membership.

economy (SSE) have a different *raison d'être*. Their governance therefore ought to align with their purpose and organizational logic.

In line with the International Cooperative Alliance (ICA) Statement on the Cooperative Identity and definition of a cooperative enterprise (ICA, 2015), we set out to frame a theory of cooperative governance with the focus on a collective membership,⁴ whereby control of the enterprise is acquired by engaging with (via patronage/usership/work) rather than investing in the firm. The term often used to describe this type of enterprise is “member-owned business” (MOB; Birchall, 2010), underscoring the primacy of member contribution to the operations and governance of the enterprise in different capacities as workers, consumers, suppliers, rather than merely investors.

The associational character of the enterprise is a hallmark of cooperatives, as expressed through collective ownership, contributions, and benefit (Novkovic et al., 2022), with implications for governance of collective assets and income distribution decisions. The right to control the enterprise is a right of membership (i.e. a personal right),⁵ rather than a property right (Borgen, 2004; Ellerman, 2021; Lutz & Lux, 1988), while ownership of cooperative assets is collective (at least in part), rather than individual. For these reasons, as well as the inherent feature of cooperative organizing to foster human dignity, we place greater emphasis on the usership logic of coop membership in thinking through governance challenges and incentive problems (see Novkovic & Miner, 2019).

While legal ownership is a necessary condition under most institutional settings, it is not a sufficient condition for control of the cooperative enterprise, where voice in primary cooperatives is granted on a one-person-one-vote basis. We, therefore, approach cooperative governance from the humanistic theory perspective (Lutz, 1999; Lutz & Lux, 1988; Pirson & Turnbull, 2011; Schumacher, 1973; Tomer, 2002)

⁴ Note that the membership, or “usership”, perspective here refers to different types of members engaged in diverse operations with the co-op, including as workers, consumers, producers, community supporting members, or a mix. While members in a cooperative also provide a part or all of its working capital, financing a co-op is a means to a different purpose. Mutual enterprises, for example, require zero investment from their member policy holders, yet they maintain the control rights over the enterprise.

⁵ Lutz and Lux liken it to the political voting right in a particular area, granted when one lives there, but not transferable and revoked when one moves (1988, p. 173).

and a member-use-own-control relationship with the enterprise. This, to us, goes beyond the agency or stewardship relationship between the board of directors and hired managers, although humanism subscribes more closely to the behavioural assumptions of a steward, coupled with cognitive limitations that require systems for collective accountability. The humanistic theoretical foundations centre economic activity around human needs and human development, instead of capital accumulation. In contrast to neoclassical “*homoeconomicus*”, it recognizes the dual—or, more accurately, complex—nature of human beings in simultaneously satisfying both self-interest and mutual interest; addressing basic needs alongside social and economic justice (Lutz & Lux, 1988). More broadly, humanism in economics presupposes the existence of absolute social values independent of individual preferences and market demand; the goal of economic activity is to satisfy basic human needs and promote dignity for all and to involve meaningful work as a primary vehicle for human development (Lutz & Lux, 1988, pp. 146–149).

Cooperatives⁶ then, as mutual self-help organizations, represent a microeconomic institutional form built on the premise of satisfaction of both personal needs and collective needs and aspirations (see the ICA Statement, 1995); their governance is emergent and diverse, depending on context (Morgan, 1986), as elaborated in Novković et al., Chapter 4 in this volume. Governance systems evolve over time in cooperative organizations, as new challenges and opportunities arise, or new members with changing needs and aspirations join the organization.

Table 2.1 summarizes the key differences in assumptions and ensuing governance characteristics between the investor-centred and humanistic, people-centred form of enterprise, framing the rest of the chapter.

⁶ Cooperatives are understood here as a benchmark model for democratically governed, values-based, and member-owned and controlled enterprises, rather than the only organizational form satisfying these conditions.

Table 2.1 Theoretical foundations of governance in investor-owned vs member-owned (democratic) firms

Governance foundations	Theoretical approach	
	Neoclassical/new institutional (investor-owned firm, IOF)	Humanistic (member-owned firm, MOF)
Behavioural foundations and the nature of “Man”	Self-serving Opportunistic Perfectly rational Reductionist Extrinsic motivations Utility maximizers	Dual/complex motives Stewardship (goal alignment) Bounded rationality Embeddedness Intrinsic motivations Moral basis for balanced interests/outcomes
Purpose/goals	Shareholder value/financial return on investment	Total value creation Long term use of the enterprise for a shared purpose (“activity instead of profitability” ⁷)
The nature of ownership, control, and distribution	Private ownership of assets Control rights based on capital ownership Residual income rights and distribution based on capital ownership Shareholder (investor) supremacy	Collective ownership of assets Control rights are personal rights Residual income rights and distribution based on patronage “User” (producer/worker/consumer) supremacy
Governance systems	Command and control Unitary board structures Monitoring role for the Board (principal-agent)	Democratic Participatory Multiple centres of decision-making (polycentricity) Solidarity ⁸ —based stakeholder focus of governance

⁷ Vienney, as cited in Malo and Bouchard (2002).

⁸ Cooperative stakeholders are motivated by solidarity and a shared objective they can realize through a cooperative enterprise. They each bring a different perspective to the table, but their interests align to work toward cooperative viability and adherence to cooperative values (Novkovic & Miner, 2015, p. 12).

2.2 Behavioural Foundations

The fundamental question of human nature and its complex social expression as human behaviour in an organizational setting gives rise to diverse theories of governance. Contrary to the one-dimensional utility maximiser of neoclassical economics, and principal-agent theory building on that premise (Jensen & Meckling, 1994), humanistic management scholars argue that there exists a growing “consilience of knowledge” spanning the natural sciences, the humanities, and the social sciences, which indicates that humans are driven by a mixture of independent lower-order (economistic) and higher-order (humanistic) impulses and needs (Lawrence & Nohria, 2002, as cited in Pirson, 2017). This complexity perspective on human nature is anticipated by the humanistic economics conception of a “dual self” (Lutz & Lux, 1988; Lux & Lutz, 1999), which maps onto the “human firm” (Tomer, 2002) and, in particular, underpins the dual (or complex)—economic and social; individual and collective; associational and business—nature of cooperatives (Novkovic, 2012; Novkovic et al., 2022; Puusa et al., 2016).

While psychologists assign “dual motives” and a need to balance physiological brain function (Cory, 2006; see also Tomer, 2012), humanistic economists attach the important proviso that the balance existing within this duality is socially and institutionally mediated (Lux & Lutz, 1999; Novkovic, 2012; Puusa et al., 2016). In contrast to the optimizing behaviour of so-called rational economic man (Tomer, 1992), Simon proposes that actual human decision-making is characterized by bounded rationality (1979, p. 501). The existence of organizations (vs sole reliance on independent market exchanges—see Williamson, 1973) can be perceived as a necessary outcome of human inability to fully process information under conditions of complexity and uncertainty (Ghoshal & Moran, 1996; Simon, 1979). Hence organizational decision makers *satisfice* rather than optimize/maximize in their search for the best alternative course of action—that is, they utilize “rules of thumb” to arrive at decisions that are good enough for now (Simon,

1979). Systematic decision-making bias in the collection, processing, and deployment of information also occurs due to normative and affective involvements, signalling the contradictory and complex reality of human motivation (Tomer, 1992). Therefore, the design of governance structures ought usually to incorporate an element of accountability, taking into consideration human limitations in information processing, rather than necessarily opportunism assumed by agency theory. This approach places mutual support instead of mistrust at the centre of governance design.

These alternative, heterodox microeconomic foundations, derived from humanistic strands of behavioural economics (Tomer, 2007, p. 477; see also Lutz, 1999; Tomer, 2002, 2017) and organizational psychology (Lovrich, 1989), more accurately describe the behaviour of organizational decision makers in their search for a *satisfactory* balance between—and possible synergy of—collaboration and control mechanisms under conditions of uncertainty and change. An overemphasis on either agency-inspired or stewardship-inspired management practices may set in motion reinforcing degenerative cycles of control or collaboration, respectively (Ghoshal & Moran, 1996; Sundaramurthy & Lewis, 2003). In the former case, excessive use of controls creates and reinforces distrust; while in the latter case, the potential for groupthink arises.

For our purpose, bounded and affective/normative rationality and a particular point of view reflected in the type of relationship a member may have with the cooperative (worker, producer, consumer or other; insider or outsider) will affect behaviour and provide further context for evolving governance dynamics and structures. This is evident in the development of diverse democratic processes and practices to ensure accountability and distribution of power among a larger group of members. Human limitations, but also the need for transparency, necessitate a separation of governance powers through a variety of independent “control centres” (multiple boards reflecting multiple stakeholder perspectives through network governance), which operate as a system of checks and balances on organizational decision-making (Pirson & Turnbull, 2011).

The logic of network governance draws on the behavioural insight that “human beings have limited ability to *receive, store, process, retrieve,*

and *transmit* information” (ibid., p. 103, original emphasis). In light of human processing limitations, the division of decision-making tasks among many specialists and coordination of their work through some form of communication, authority, and accountability structure was also proposed by Herbert Simon (1979, p. 501). Multistakeholder⁹ network governance has the potential to reduce individual and group biases and avoid information overload facing unitary board structures (Pirson & Turnbull, 2011). This feature is then likely to emerge in people-centred democratic organizations such as cooperatives.¹⁰

2.3 The Purpose of the Enterprise

Theories of corporate governance assume that the firm’s purpose is to maximize its financial value (return on investment). A relatively strict separation of ownership and control, coupled with opportunistic self-serving behaviour of management gives rise to agency problems. In a cooperative firm, the members are the owners, and in many cases—particularly in worker cooperatives—also the managers, who are elected to governance structures by and accountable to the wider membership. Hence, the assumptions of agency theory lose relevance in a context where some or all owners and controllers are also co-op members. In the ideal scenario (a worker-inclusive multistakeholder co-op—see Girard, 2015; Lund, 2011; Novkovic, 2019), “All ‘agents’ are also ‘principals’, so there is little or no separation of ownership and control” (Turnbull, 2000, p. 51). At least in theory, then, interest alignment should be high (Eckart, 2009, p. 70).¹¹

⁹ The Mondragon worker cooperative network governance is described in Turnbull (1995) and Pirson (2017). Imaz et al., Chapter 10 in this volume, explore the under-studied multistakeholder nature of the Mondragon network.

¹⁰ This requires fundamental attention to the promotion of cooperative organizational culture, associative/collective intelligence (Laloux, 2014; MacPherson, 2002), and trust building in social-communicative relations within and between the various nodes of nested decision making (Stacey & Mowles, 2016).

¹¹ Confronting theory with practice, however: while stewardship potentialities are more apparent in small, and in inclusive and participatory worker and multistakeholder cooperatives, in other

Assumptions of the stewardship model (and partly the stakeholder model) of governance (see Cornforth, 2004) have, therefore, greater resonance in a cooperative organizational setting, where there is generally less of a conflict between firm ownership and control (Eckart, 2009); although the implied expert board structure under the stewardship model may be in conflict with the democratic nature of cooperative enterprise. Democratic, bottom-up organizations such as cooperatives have an embedded control mechanism when members can voice their potential disapproval directly to the management of the cooperative (Eckart, 2009), or through democratic representation on various governance and oversight bodies. This can potentially allow for a degree of managerial oversight unthinkable within conventional firms and is perhaps all the more effective as compared to the traditional top-down control mechanism; especially if such bottom-up control were to take a more collaborative form. Proximity of members to the organization is critical in effectively fulfilling this role. Depending on the reasons for cooperative formation by its members, member-owners may also work in the organization, or supply its inputs, provide services, or consume its products. Separation between management and governance functions may be blurred at times, but this is often necessary (see Wilson, 2021), and a source of reduced transactions costs.

The interest, or purpose, of members and the cooperative organization depends on many factors—there is no one size fits all cooperative enterprise. However, *use-value* as reflected in the provision of dignified work, or high-quality products, access to markets, fair pricing, or a social mission, binds cooperatives together through shared values and identity,¹² epitomized in economic democracy.¹³ The stakeholder value maximization hypothesis of modern property rights theory (MPRT; see Klein et al., 2012), while broadening the beneficiaries of enterprise

types of cooperative, joint ownership is usually limited to outsider membership types and control is often delegated to Boards, or in some cases, to externally hired managers.

¹² See Spear (2011) and Novkovic (2019) for a discussion about different types of cooperatives. Here, we refer to cooperatives as defined by the ICA Statement.

¹³ We subscribe to the broad definition of economic democracy, to imply the transfer of decision-making authority from shareholders to key stakeholders (members: workers, consumers, producers, and/or relevant community members).

success beyond shareholders, is different from the cooperative membership and use-value proposition. While the former is about distribution of residual income, the latter is about mutual self-empowerment. Stakeholders have a transactional relationship with the enterprise according to MPRT, with capital ownership still granting control rights, although recognizing that other stakeholders also contribute to value creation. Members in a cooperative, on the other hand, are collective owners and users of the enterprise, engaging with it in multiple ways (Mamouni Limnios et al., 2018), including as members of the community. Ultimately, stakeholder representation in governance does provide a different point of view; however, financial return remains central in the stakeholder model, while “activity instead of profitability” (Vienney, as cited in Malo & Bouchard, 2002) guides the motivation of cooperative members.

A host of a priori critiques have been mounted against the cooperative organizational form, employing the investor logic of the principal-agent and property rights theories (Borgen, 2004; Fama & Jensen, 1983). The critiques generally revolve around purported investment- and decision-related incentive problems in cooperatives (free-riding; portfolio problem; investment horizon, etc.; see Cook, 1995; Dow, 2003). The salient point here is not that such investment—and decision-related incentive problems can’t or don’t arise in cooperative organizations, but that they arise only in certain circumstances, rather than as inherent properties of the cooperative organizational form. Instead of adopting stringent a priori assumptions, Borgen (2004) outlines the factors impacting those incentive problems, such as heterogeneous membership and misalignment of individual and organizational goals, the amount of member financial contributions, and the degree of members’ involvement with the cooperative. However, the extent to which these conditions arise and constitute a significant problem depends largely on “whether members are essentially ascribed the reasoning and strategic interests of a rational investor or a rational user” (ibid.). Borgen argues that the former behavioural logic characterizes the investor-owned firm, while the latter is more characteristic of a cooperative ownership structure; even if the two roles may be blended in reality. Therefore, governance issues in cooperatives may arise due to misalignment of the

investor logic and the member-centred characteristics of cooperative enterprise (*ibid.*).

2.4 The Nature of Ownership, Control, and Distribution

As described above, democratic member-owned enterprises such as cooperatives are collectively owned by their members, who gain rights to control the enterprise and engage in its operations—as suppliers, workers, or consumers. Members' responsibility includes securing finance, typically through membership shares and retained earnings, but also by issuing debt or equity financial instruments that do not grant control rights. Cooperatives create reserves and accumulate wealth that is transferred to the next generation of members (Hesse & Čihák, 2007).

Intergenerational organizational stewardship is embedded in the cooperative structure (Bancel & Boned, 2014; Borgen, 2004; Lund & Hancock, 2020; Tortia, 2018).¹⁴ Indeed, a cooperative ideology and value system, based on intergenerational stewardship, underpins the longstanding success and vibrancy of the impressive network of cooperatives in the northern Italian region of Emilia-Romagna (Lund & Hancock, 2020), and the Mondragon cooperative network in the autonomous Basque region of Spain, among others (Pirson, 2017; Sanchez Bajo & Roelants, 2011). Indivisible reserves serve as a mechanism to reduce risk, ensure cooperative resilience and longevity, and secure cooperative survival as a member-owned organization (Tortia, 2018). Indivisible reserves are also a mechanism that enables job security and income smoothing in worker cooperatives (Navarra, 2016).

¹⁴ This type of stewardship is reflected in the protection of collective assets, such as collectively-owned equity and indivisible reserves, i.e. creating a fixed portion of co-op equity that cannot be paid out in member dividends. See Principle 3, Guidance notes on the cooperative principles (ICA, 2015).

The collective, intergenerational ownership feature of cooperatives is supported by humanistic approaches in economics and management, while it contradicts the mainstream enterprise and governance studies. Positioning the purpose of cooperative enterprise as serving the needs of a “rational user” (Borgen, 2004) sets the stage for the development of structures that ensure enterprise longevity, to secure its use-value with impact on the broader community (Erdal, 2014; Gordon-Nembhard, 2014).

Increasingly, cooperatives are also described as “commons” due to their collective governance and intergenerational reciprocity as a self-organized institutional attribute (Azzellini, 2018; de Peuter & Dyer-Witthof, 2010; Perilleux & Nyssens, 2017; Tortia, 2018). Mutualizing costs and benefits, pooling and sharing, is the *modus operandi* of cooperation, shared with the commons (Bollier & Helfrich, 2019, p. 178), since cooperation involves interpersonal relations, rather than pure transactions such as in market exchanges. The operating mechanisms among the members are relations of trust, reciprocity, and mutuality as opposed to equivalent exchange (see Zamagni, 2008). Zamagni in particular points to the proportionality of this relationship where every member contributes fairly in proportion to their ability.

Besides collective ownership, the residual income distribution in cooperatives as not-for-profit organizations is also a feature poorly understood in the governance literature and policy circles (Levi & Davis, 2008). The patronage dividend in cooperatives and the investment dividend based on capital share ownership are often confused, as illustrated by the exclusion of cooperatives from the definition of Non-Profit Institutions in the UN System of National Accounts (2008), based on the non-distribution constraint requirement in the definition.¹⁵ The patronage dividend or patronage income (Lutz & Lux, 1988, p. 174) is a mechanism for price adjustment, rather than a return on investment. Prices (in the case of suppliers or consumer members) or wages (for worker members) are set as advance payments under uncertainty. At the end

¹⁵ Article 23.21. states that a co-operative can be included in the Non Profit Institution accounts only “if the articles of association of a co-operative prevent it from distributing its profit, then it will be treated as an NPI; if it can distribute its profit to its members, it is not an NPI (in either the SNA or the satellite account)” (SNA, 2008, p. 457).

of the accounting period patronage dividends are distributed based on the level of contribution, i.e. “use” of the enterprise (sales, purchases, or hours worked, respectively). The distribution of income, including into indivisible reserves, is democratically determined by the members.

The nature of firm ownership and control in the case of cooperatives, therefore, is fundamentally collective. The logics and incentive structures generally applied to “rational” capitalist investors are hence severely curtailed, if not outright redundant, where co-op membership/usership is concerned. This is evident in the empirical experiences of successful cooperative enterprises and movements that have adhered to the coop identity in a suitably flexible and evolving manner.

2.5 Governance Systems

The concern with cooperative governance in the literature is usually about the principle of democracy and challenges it poses for the governance structure, namely providing a satisfactory balance on a unitary board of directors between representation and voice of members, while also ensuring elected directors’ expertise (Birchall, 2017; Cornforth, 2004). We expand this focus to suggest that democratic governance is often inclusive of different stakeholders, and conjecture that democratic organizations practice network governance (Turnbull, 2002) and polycentricity (Allen, 2014; Ostrom, 1990, 2010) as a natural fit for the multiple-stakeholder concerns of people-centred organizations. While all cooperatives share democratic/participatory governance, democratic processes, and organizational structures are contingent on a number of internal and external factors, as elaborated in separate chapters in this volume. Importantly, members’ and stakeholders’ continuous involvement and engagement with the organization provides the normative framework for “best practice” in cooperative governance, but it needs to be amplified by the organization’s embeddedness in society and the natural environment, i.e. external factors (Aguilera et al., 2015).

Governance structures, processes, and their dynamic exchanges, forming the system of governance (Eckart, 2009), are shaped in cooperatives as a democratic and participatory interaction among members.

In the foundation stage, these interactions are direct and deliberative, but they evolve as cooperatives grow and move into different stages in their lifecycle. What participation means, and how democracy plays out may shift over time, but how it changes also depends on the context—the type of members, regulatory frameworks, changing perceptions and needs, and shifting economic, social, and environmental conditions.

The extent to which participatory democratic governance is actualized and sustained in cooperatives will be a question both of internally driven processes of member and organizational “reproduction”¹⁶ (Gand & Béjean, 2013; Stryjan, 1994) and externally driven processes of institutional and competitive isomorphism (Bager, 1994). These internal and external processes, in turn, interact with prevailing governance structures to create dynamic organizational change over time—that is, governance structures and processes coevolve in a contingent manner (Bager, 1994; Eckart, 2009; Stryjan, 1994). Stryjan (1994) and Cornforth (1995) recentre attention on the fundamental importance of cooperative reproductive processes, noting an overemphasis in cooperative studies on degeneration, and organizational structure. Key to the co-op reproduction process from this perspective is the part played by member (and worker) recruitment, onboarding, development, and turnover. Meaningful democratic participation also involves encouraging open communication between co-op members at a manageable scale (Basterretxea et al., 2022; Cannell, 2010; Stacey & Mowles, 2016).

What then are the external mechanisms bearing upon this internal process of member and co-op reproduction? Most macroeconomic institutions today are hostile to member-owned democratic enterprises, where investment is not the source of organizational control. The same can be said of globally accepted regulatory frameworks, such as recommended accounting practices, financial products and regulation, rating systems, and so on. This external environment has to be carefully navigated and cooperatives steered in line with their values and identity. This opens up an opportunity for institutional collaborative processes that

¹⁶ Reproduction is about the cycle of membership selection, engagement, and renewal. This process is impacted by the organisational lifecycle and is closely intertwined with external isomorphic pressures.

generate organizational homogeneity between cooperatives (Bager, 1994; Gand & Béjean, 2013; Sacchetti & Tortia, 2016; Stryjan, 1994).

While “isomorphism” is used in organizational literature to indicate unintended changes (DiMaggio & Powell 1983), Bager (1994) proposes two different forms of isomorphism relevant for the transformation of cooperatives: congruent and non-congruent isomorphism. Most authors focus on non-congruent organizational isomorphism and its causes, particularly in cooperatives emulating structures and processes of investor-owned enterprises, and competing in a capitalist market economy. Congruent institutional and competitive isomorphic processes, on the other hand, can be strengthened through mutualistic network and federation building among cooperatives (Arando et al., 2010; Novkovic, 2014; Roelants et al., 2012; Sacchetti & Tortia, 2016; Smith, 2001, Zanotti et al., 2011); and through the cooperative movement building alliances with other political and social movements that share similar values and a self-help ethos, such as the labour movement, social solidarity economy, the commons, and the environmental movement (Azzellini, 2018; Bager, 1994; Bollier & Helfrich, 2019; de Peuter & Dyer-Witthford, 2010; Miller, 2010; Utting, 2016; Vieta, 2020). Key performance indicators, measures, and reporting also play an important role in delivering on the vision and strategy (see Côté, 2019; also see Novković & Simlesa, Chapter 14 in this volume). Cooperative governance, then, is about steering the organization in the right direction for the long haul; it will be situation and context-specific, driven by members, their needs, and the needs of the next generation of members.

2.6 Concluding Remarks

Cooperative identity translates into a unique enterprise model with specific characteristics: it is people-centred, jointly owned and controlled by its members; and democratically governed (Novkovic & Miner, 2015). Member participation with rights and responsibilities as “users” (workers, producers, consumers etc.), contributors to democratic governance, and to capitalization of the enterprise is an integral part of the enterprise model, while values and principles of cooperation inform the

processes of member and stakeholder engagement, and purpose of the enterprise. Cooperative governance and business strategy ought to reflect the cooperative identity.

The chapter sets the stage for cooperative governance built on humanistic economics and management theories, as opposed to the reductionist assumptions in neoclassical and new institutional economics that dominate the corporate governance literature. A more holistic view of human beings with complexities, multiple goals and motives, and including human needs and ethics in the decision-making process, provides the background for a different understanding of the purpose of the enterprise, and the nature of user-ownership and control. These together form the bases for democratic governance and management systems within values-based cooperative enterprises.

Most prominent theories of governance give rise to rigid systems, with a particular focus on the role of the Board. Humanistic foundations, on the other hand, suggest that the systems of democratic cooperative governance will be diverse, and context dependent, while promoting human dignity and satisfying human needs. Structures that follow humanistic theories may include multiple centres of decision-making (polycentricity and network governance); member and stakeholder participation; distribution of power; distributional equity, and possibly a blurred line between management and governance, depending on context. Humanistic democratic and participatory processes may include representative and direct forms, conflict resolution practices, formal and informal communications. The dynamic interplay between cooperative governance structures and processes under internal and external pressures can be navigated to sustain humanistic organization only through regular and adaptive governance system review and renewal (Cornforth, 2004; Grundei, 2008). Best co-op governance also requires extending outwards through mutualistic organization within the cooperative movement, and by coordinating with like-minded allies (Bager, 1994; Sacchetti & Tortia, 2016).

References

- Aguilera, R. V., Desender, K., Bednar, M. K., & Lee, J. H. (2015). Connecting the dots: Bringing external corporate governance into the corporate governance puzzle. *The Academy of Management Annals*, 9(1), 483–573.
- Allen, B. (2014). A role for co-operatives in governance of common-pool resources and common property systems. In S. Novkovic & T. Webb (Eds.), *Co-operatives in a post-growth era: Creating co-operative economics* (pp. 242–263). Zed Books.
- Arando, S., Gago, M., Jones, D. C., & Kato, T. (2010, January 3–5). *Productive efficiency in the Mondragón Cooperatives: Evidence from an econometric case study*. Paper presented at Allied Social Sciences Association (ASSA) Annual Conference, Atlanta. https://www.slideshare.net/slides_eoi/saioaymonica-productividad-en-la-cooperativas-de-mondragon
- Azzellini, D. (2018). Labour as a commons: The example of worker-recuperated companies. *Critical Sociology*, 44(4–5), 763–776.
- Bager, T. (1994). Isomorphic processes and the transformation of cooperatives. *Annals of Public and Cooperative Economics*, 65(1), 35–59.
- Bancel, J.-L., & Boned, O. (2014). Heirs and annuitants of co-operative banks—Three principles for securing the long-term future of co-operative governance. *International Journal of Cooperative Management*, 7(1), 90–93.
- Basterretxea, I., Cornforth, C., & Heras-Saizarbitoria, I. (2022). Corporate governance as a key aspect in the failure of worker cooperatives. *Economic and Industrial Democracy*, 43(1), 362–387.
- Berle, A., & Means, G. (1932). *The modern corporation and private property*. Commerce Clearing House.
- Birchall, J. (2010). *People-centred businesses: Co-operatives, mutuals and the idea of membership*. Palgrave Macmillan.
- Birchall, J. (2017). *The governance of large co-operative businesses*. Co-operatives UK. <https://www.ica.coop/en/media/library/research-and-reviews/governance-large-co-operative-businesses>
- Bollier, D., & Helfrich, S. (2019). *Free, fair, and alive: The insurgent power of the commons*. New Society Publishers.
- Borgen, S. O. (2004). Rethinking incentive problems in cooperative organizations. *The Journal of Socio-Economics*, 33(4), 383–393.
- Cannell, B. (2010). *Break free from our systems prison: Implications of complex responsive process management thinking*. Paper presented at the

- UKSCS Conference, Wales. https://www.academia.edu/36658111/Break_Free_from_Our_Systems_Prison
- Cook, M. L. (1995). The future of US agricultural cooperatives: A neo-institutional approach. *American Journal of Agricultural Economics*, 77(5), 1153–1159.
- Cornforth, C. (1995). Patterns of cooperative management: Beyond the degeneration thesis. *Economic and Industrial Democracy*, 16, 487–523.
- Cornforth, C. (2004). The governance of cooperatives and mutual associations: A paradox perspective. *Annals of Public and Cooperative Economics*, 75(1), 11–32.
- Cory, G. A. (2006). The dual motives theory. *Journal of Behavioral and Experimental Economics (Formerly the Journal of Socio-Economics)*, 35(4), 589–591.
- Côté, D. (2019). *Cooperative management: An effective model adapted to future challenges*. Les Éditions JFD Inc.
- Cullen, M., Kirwan, C., & Brennan, N. (2006). *Comparative analysis of corporate governance theory: The agency-stewardship continuum*. Paper presented at the 20th Annual Conference of the Irish Accounting & Finance Association, Institute of Technology, Tralee. https://www.academia.edu/2173809/Comparative_analysis_of_corporate_governance_theory_the_agency_stewardship_continuum
- Davis, J. H., Schoorman, F. D., & Donaldson, L. (1997). Toward a stewardship theory of management. *Academy of Management Review*, 22(1), 20–47.
- de Peuter, G., & Dyer-Witthoford, N. (2010). Commons and cooperatives. *Affinities: A Journal of Radical Theory, Culture, and Action*. <https://ojs.library.queensu.ca/index.php/affinities/article/view/6147>
- DiMaggio, P. J., & Powell, W. W. (1983). The iron cage revisited: Institutional isomorphism and collective rationality in organizational fields. *American Sociological Review*, 48(2), 147–160.
- Dow, G. K. (2003). *Governing the firm: Workers' control in theory and practice*. Cambridge University Press.
- Eckart, M. (2009). *Cooperative governance: A third way towards competitive advantage*. Südwestdeutscher Verlag für Hochschulschriften.
- Ellerman, D. (2021). *The democratic worker-owned firm: A new model for the East and West*. Routledge.
- Erdal, D. (2014). Employee ownership and health: An initial study. In S. Novkovic & T. Webb (Eds.), *Co-operatives in a post-growth era: Creating co-operative economics* (pp. 210–220). Zed Books.

- Fama, E. F., & Jensen, M. C. (1983). Separation of ownership and control. *The Journal of Law and Economics*, 26(2), 301–325.
- Gand, S., & Béjean, M. (2013, June). *Organizing sustainable democratic firms: Processes of regeneration as the design of new models of cooperation*. 13th Annual Conference of the European Academy of Management, EURAM 2013, Istanbul, Turkey, 30 pp. <https://hal-mines-paristech.archives-ouvertes.fr/hal-00881721>
- Ghoshal, S., & Moran, P. (1996). Bad for practice: A critique of the transaction cost theory. *Academy of Management Review*, 21(1), 13–47.
- Girard, J. (2015). Governance in solidarity. In S. Novkovic & K. Miner (Eds.), *Co-operative governance fit to build resilience in the face of complexity* (pp. 127–133). International Co-operative Alliance. <https://www.ica.coop/en/media/library/cooperative-governance-fit-build-resilience-face-complexity>
- Gordon-Nembhard, J. (2014). *Benefits and impacts of cooperatives*. White paper, Howard University Centre on Race and Wealth, and John Jay College CUNY. <https://community-wealth.org/sites/clone.community-wealth.org/files/downloads/0213-benefits-and-impacts-of-cooperatives.pdf>
- Grundeis, J. (2008). Are managers agents or stewards of their principals? *Journal Für Betriebswirtschaft*, 58(3), 141–166.
- Hansmann, H. (1996). *The ownership of enterprise*. The Belknap Press of Harvard University Press.
- Hesse, H., & Čihák, M. (2007). *Cooperative banks and financial stability* (IMF Working Paper WP/07/02). <https://www.imf.org/external/pubs/ft/wp/2007/wp0702.pdf>
- International Cooperative Alliance (ICA). (1995). *Statement on the Cooperative Identity*. <https://www.ica.coop/en/cooperatives/cooperative-identity>
- International Co-operative Alliance (ICA). (2015). *Guidance notes to the co-operative principles*. <https://www.ica.coop/en/media/library/research-and-reviews/guidance-notes-cooperative-principles>
- Jensen, M. C., & Meckling, W. H. (1976). Theory of the firm: Managerial behavior, agency costs and ownership structure. *Journal of Financial Economics*, 3(4), 305–360.
- Jensen, M. C., & Meckling, W. H. (1994). The nature of man. *Journal of Applied Corporate Finance*, 7(2), 4–19.
- Klein, P. G., Mahoney, J. T., McGahan, A. M., & Pitelis, C. N. (2012). Who is in charge? A property rights perspective on stakeholder governance. *Strategic Organization*, 10(3), 304–315.

- Laloux, F. (2014). *Reinventing organizations: A guide to creating organizations inspired by the next stage of human consciousness*. Nelson Parker.
- Levi, Y., & Davis, P. (2008). Cooperatives as the “enfants terribles” of economics: Some implications for the social economy. *The Journal of Socio-Economics*, 37(6), 2178–2188.
- Lovrich, N. P. (1989). The Simon/Argyris debate: Bounded rationality versus self-actualization conceptions of human nature. *Public Administration Quarterly*, 12(4), 452–483.
- Lund, M. (2011). *Solidarity as a business model: A multi-stakeholder cooperatives manual*. Cooperative Development Center, Kent State University. <https://community-wealth.org/content/solidarity-business-model-multi-stakeholder-cooperatives-manual>
- Lund, M., & Hancock, M. (2020). *Stewards of enterprise: Lessons in economic democracy from northern Italy* (ICCM Working Paper & Case Study Series 01/2020). <https://www.smu.ca/webfiles/WorkingPaper2020-01.pdf>
- Lutz, M. A. (1999). *Economics for the common good: Two centuries of economic thought in the humanist tradition*. Routledge.
- Lutz, M. A., & Lux, K. (1988). *Humanistic economics: The new challenge*. Bootstrap Pr.
- Lux, K., & Lutz, M. A. (1999). Dual self. In P. E. Earl & S. Kemp (Eds.), *The Elgar companion to consumer research and economic psychology* (pp. 164–169). Edward Elgar.
- MacPherson, I. (2002). Encouraging associative intelligence: Co-operatives, shared learning and responsible citizenship (Plenary presentation). *Journal of Co-operative Studies*, 35(2), 86–98.
- Malo, M.-C. & Bouchard, M. (2002). En hommage à Claude Vienney (1929–2001). *Revue internationale de l'économie sociale*, 283, 5–14.
- Mamouni Limnios, E., Mazzarol, T., Soutar, G. N., & Siddique, K. H. (2018). The member wears Four Hats: A member identification framework for co-operative enterprises. *Journal of Co-operative Organization and Management*, 6(1), 20–33.
- Miller, E. (2010). Solidarity economy: Key concepts and issues. In E. Kawano, T. N. Masterson, & J. Teller-Elsberg (Eds.), *Solidarity economy I: Building alternatives for people and planet* (pp. 25–41). Centre for Popular Economics. https://www.academia.edu/2472194/Building_a_Solidarity_Economy_from_Real_World_Practices?from=cover_page
- Morgan, G. (1986). *Images of organization*. Sage.

- Muth, M., & Donaldson, L. (1998). Stewardship theory and board structure: A contingency approach. *Corporate Governance: An International Review*, 6(1), 5–28.
- Navarra, C. (2016). Employment stabilization inside firms: An empirical investigation of worker cooperatives. *Annals of Public and Cooperative Economics*, 87(4), 563–585.
- Novkovic, S. (2012). The balancing act: Reconciling the economic and social goals of co-operatives. In E. Molina & M. Robicheaud (Eds.), *The amazing power of co-operatives* (pp. 289–300). International Summit of Co-operatives.
- Novkovic, S. (2014). Co-operative networks and organizational innovation. In C. Gijssels, L. Zhao, & S. Novkovic (Eds.), *Co-operative innovations in China and the West* (pp. 47–63). Palgrave Macmillan.
- Novkovic, S. (2019). Multi-stakeholder cooperatives as a means for jobs creation and social transformation. In B. Roelants, H. Eum, S. Esim, S. Novkovic, & W. Katajamaki (Eds.), *Cooperatives and the world of work* (pp. 220–233). Routledge.
- Novkovic, S., & Miner, K. (Eds.). (2015). *Co-operative governance fit to build resilience in the face of complexity*. International Co-operative Alliance. <https://www.ica.coop/en/media/library/cooperative-governance-fit-build-resilience-face-complexity>
- Novkovic, S., & Miner, K. (2019). *Compensation in co-operatives: Values based philosophies* (ICCM Working Paper and Case Study Series 01/2019). <https://smu.ca/webfiles/ICCMWorkingPaper19-01.pdf>
- Novkovic, S., Puusa, A., & Miner, K. (2022). Co-operative identity and the dual nature: From paradox to complementarities. *Journal of Co-operative Organization and Management*, 10(1), 100162. <https://doi.org/10.1016/j.jcom.2021.100162>
- Ostrom, E. (1990). *Governing the commons: The evolution of institutions for collective action*. Cambridge University Press.
- Ostrom, E. (2010). Beyond markets and states: Polycentric governance of complex economic systems. *American Economic Review*, 100(3), 641–672.
- Perilleux, A., & Nyssens, M. (2017). Understanding cooperative finance as a new common. *Annals of Public and Cooperative Economics*, 88(2), 155–177.
- Pirson, M. (2017). *Humanistic management: Protecting dignity and promoting well-being*. Cambridge University Press.
- Pirson, M., & Turnbull, S. (2011). Toward a more humanistic governance model: Network governance structures. *Journal of Business Ethics*, 99(1), 101–114.

- Puusa, A., Hokkila, K., & Varis, A. (2016). Individuality vs. communality: A new dual role of co-operatives? *Journal of Co-operative Organization and Management*, 4(1), 22–30.
- Roelants, B., Dovgan, D., Eum, H., & Terrasi, E. (2012, June). *The resilience of the cooperative model. How worker cooperatives, social cooperatives and other worker-owned enterprises respond to the crisis and its consequences*. CECOP-CICOPA Europe. https://ess-europe.eu/sites/default/files/report_ccop_2012_en_web.pdf
- Sacchetti, S., & Tortia, E. (2016). The extended governance of cooperative firms: Inter-firm coordination and consistency of values. *Annals of Public and Cooperative Economics*, 87(1), 93–116.
- Sanchez Bajo, C. B., & Roelants, B. (2011). *Capital and the debt trap*. Palgrave Macmillan.
- Schumacher, E. F. (1973). *Small is beautiful: Economics as if people mattered*. Blond & Briggs.
- Simon, H. A. (1979). Rational decision making in business organizations. *The American Economic Review*, 69(4), 493–513.
- Smith, S.C. (2001). *Blooming together or wilting alone? Network externalities and Mondragón and La Lega co-operative networks* (WIDER Discussion Papers, 2001/27). World Institute for Development Economics (UNU-WIDER). <https://www.wider.unu.edu/publication/blooming-together-or-wilting-alone>
- Spear, R. (2004). Governance in democratic member-based organisations. *Annals of Public and Cooperative Economics*, 75(1), 33–59.
- Spear, R. (2011). Formes cooperatives hybrides. *Recma: Revue internationale de l'économie sociale*, 320. http://oro.open.ac.uk/32268/2/Cooperative_Hybrid_sRECMA_Spear.pdf
- Stacey, R., & Mowles, C. (2016). *Strategic management and organisational dynamics* (7th ed.). Pearson.
- Stryjan, Y. (1994). Understanding cooperatives: The reproduction perspective. *Annals of Public and Cooperative Economics*, 65(1), 59–79.
- Sundaramurthy, C., & Lewis, M. (2003). Control and collaboration: Paradoxes of governance. *Academy of Management Review*, 28(3), 397–415.
- System of National Accounts (2008). *United Nations; European Commission; International Monetary Fund; Organization for Economic Cooperation and Development; World Bank*. UN Publication. <https://unstats.un.org/unsd/nationalaccount/sna2008.asp>
- Tomer, J. F. (1992). Rational organizational decision making in the human firm: A socio-economic model. *The Journal of Socio-Economics*, 21(2), 85–107.

- Tomer, J. F. (2002). *The human firm: A socio-economic analysis of its behaviour and potential in a new economic age*. Routledge.
- Tomer, J. F. (2007). What is behavioral economics? *The Journal of Socio-Economics*, 36 (3), 463–479.
- Tomer, J. F. (2012). Brain physiology, egoistic and empathic motivation, and brain plasticity: Toward a more human economics. *World Economic Review*, 1, 76–90.
- Tomer, J. F. (2017). *Advanced introduction to behavioral economics*. Edward Elgar.
- Tortia, E. C. (2018). The firm as a common. Non-divided ownership, patrimonial stability and longevity of cooperative enterprises. *Sustainability*, 10, 1023.
- Turnbull, S. (1995). Case study: Innovations in corporate governance: The Mondragón experience. *Corporate Governance: An International Review*, 3(3), 167–180.
- Turnbull, S. (2000). Corporate governance: Theories, challenges and paradigms. *Gouvernance: Revue Internationale*, 1(1), 11–43.
- Turnbull, S. (2002). *A new way to govern: Organisations and society after Enron*. New Economics Foundation. <https://neweconomics.org/2002/08/new-way-govern>
- Utting, P. (2016). *Mainstreaming social and solidarity economy: Opportunities and risks for policy change* (UNT-FSSE Background Paper, 12). <https://base.socioeco.org/docs/paper-mainstreaming-sse-12-november-2016-edit-untfsse.pdf>
- Vieta, M. (2020). *Workers' self-management in Argentina: Contesting neoliberalism by occupying companies, creating cooperatives, and recuperating autogestión*. Brill and Haymarket Books.
- Williamson, O. (1973). Markets and hierarchies: Some elementary considerations. *The American Economic Review*, 63(2), 316–325.
- Wilson, A. (2021, June 17–19). *Challenging governance orthodoxies* [Keynote address]. 2021 International Cooperative Governance Symposium. Halifax, NS. [https://www.smu.ca/webfiles/CHALLENGINGGOVERNANCEORTHODOXIES\(Wilson\).pdf](https://www.smu.ca/webfiles/CHALLENGINGGOVERNANCEORTHODOXIES(Wilson).pdf)
- Zamagni, S. (2008). Reciprocity, civil economy, common good. In M. S. Archer & P. Donati (Eds.), *Pursuing the common good: How solidarity and subsidiarity can work together* (pp. 467–502). Pontifical Academy of Social Sciences.

Zanotti, A. (2011). Italy: The strength of an inter-sectoral network. In A. Zevi, A. Zanotti, F. Soulage, & A. Zelaia (Eds.), *Beyond the crisis: Cooperatives, work, finance generating wealth for the long term* (pp. 21–100). CECOP Publications.

Open Access This chapter is licensed under the terms of the Creative Commons Attribution-NonCommercial-NoDerivatives 4.0 International License (<http://creativecommons.org/licenses/by-nc-nd/4.0/>), which permits any noncommercial use, sharing, distribution and reproduction in any medium or format, as long as you give appropriate credit to the original author(s) and the source, provide a link to the Creative Commons license and indicate if you modified the licensed material. You do not have permission under this license to share adapted material derived from this chapter or parts of it.

The images or other third party material in this chapter are included in the chapter's Creative Commons license, unless indicated otherwise in a credit line to the material. If material is not included in the chapter's Creative Commons license and your intended use is not permitted by statutory regulation or exceeds the permitted use, you will need to obtain permission directly from the copyright holder.





3

Parsing Dignity for Organizations

Ryszard Stocki

3.1 Introduction

This chapter addresses the question: What form of business enterprise promotes human dignity best? A four-step analysis is used to answer this question. Since dignity can be understood in multiple ways, the first step considers diverse sources of reflection about dignity: from propositional (scientific) knowledge to personal individual experience, presentational knowledge (art), and practical knowledge. The second step analyses how these different kinds of knowing are reflected in several approaches to dignity found in the business literature. The presented approaches are examined in the third step, resulting in ten elements of dignity necessary to scrutinize different forms of enterprise. Lastly, we explore how family businesses, limited liability companies (LLCs), public companies, and

R. Stocki (✉)

Pontifical University of John Paul II, Kraków, Poland

e-mail: ryszard@stocki.org

cooperatives meet the dignity criteria when it comes to governance and decision-making in organizations more broadly.

3.2 Kinds of Knowing About Dignity

We start with kinds of knowing because the bias in recognizing scientific or philosophical knowledge as superior to other kinds may be the first harm we make to human dignity. Although we admit human rights in general, we may not recognize all types of knowing as legitimate, with practical consequences. We thus reduce our potential for understanding the human condition and its consequences for participatory decision-making.

According to Heron (1992), universities sustain a strong Aristotelian bias favoring propositional knowledge, that is, considered rational. Emotionally loaded experiential statements or the often-tacit character of practical knowledge infringe upon the conventional rules of logic and evidence. He instead proposes using a multi-dimensional account of knowledge to create holistic knowledge, adding practical, presentational, and experiential knowledge that validates propositional knowledge. All four kinds of knowledge also validate one another. For example, as we will see in the following subsections, propositional knowledge often departs from what is practically done in management and the economy. Each kind of knowledge has its specific validation criteria and thus should not be considered inferior to other kinds. The four kinds of knowledge constitute a systemic whole, in which experiential knowing at the base of the pyramid supports presentational knowing, which supports propositional knowing, which upholds practical knowing. A more detailed elaboration of the concept can be found in Heron (1992).

3.2.1 Experiential Knowledge

Experiential knowledge is based on our participation in life and our sensations and empathy related to it. In this kind of knowledge, one does not recognize dignity until one experiences losing it. Every one of

us has probably experienced what it means to be humiliated or hurt. We consider it an attack on our dignity. The natural reaction is revenge and aggression; if this experience is shared with others, a tribal mentality is born whereby we are those who have dignity, and others do not (Hartling & Lindner, 2016). An important part of our experience is being a witness, a role allowing for empathy toward those who suffered, although we were not personally hurt (*ibid.*). It may be painful to be aware of our or others' wounds. But we also compare ourselves with others regarding personal possessions, entertainment, education, etc., and consider we lack dignity if we are bereft of them, as we think we deserve the same. This view of dignity harmonizes with the contemporary neoliberal concept of human rights, which are supposed to lead to personal wellbeing (Stetson, 1998).

3.2.2 Presentational Knowledge

Presentational knowledge is experience recorded in such a way that it can be communicated to others. It may be expressed in all kinds of art, with fiction and movies being excellent sources of dignity themes.

Many religious and mystical texts belong to this category. In their holy scriptures, all eight major religions in their doctrines proclaim the love of the enemy (Templeton, 1999) and equality (Knox & Groves, 2006). For instance, the essence of the Christian view of dignity can be found in the stories of the good Samaritan helping a Jew who belonged to the tribe of the enemy. Another story is that of Jesus, performing a job of a slave washing his disciples' feet (to represent equality). The stories about Christ reveal him as not only equating rich and poor, free and slaves, but considering all people, both Jews and gentiles, men and women, as brothers and sisters, as well as sons and daughters of God. Throughout human history, and up until the present, such an understanding of human dignity ends with death or persecution. Many true stories of dignity all throughout history are tragic martyr stories.

Although not always called by this name, the topic of dignity has been present in the fine arts from Antiquity. Achilles in Homer's *Illiad* is seeking his dignity in heroic deeds (Korus, 2012), and Sophocles's

Antigone is risking her life to bury her brother's body to secure his dignity. They are followed by Plato, St. Augustine, More, Campanella, Bacon, Morris, Beecher, Blake, and many others.

The representation of workplace dignity in art has started to gain some interest in the propositional knowledge area (e.g., Pless et al., 2017; Stephens & Kanov, 2017). Moreover, there will be more and more places where dignity violations in the colonies are uncovered (e.g. Chew, 2021), as is made plainly obvious by the Black Lives Matter Movement, for example. In academic work, we often underestimate the influence of presentational knowledge, but we have to remember that those works impact the imagination of the general public. For instance, *Uncle Tom's Cabin* is considered to have highly influenced the American Civil War (Kaufman, 2006); similarly, Doris Lessing and others claimed that Aleksandr Solzhenitsyn's *The Gulag Archipelago* destroyed an empire (Scammell, 2018), all for the sake of dignity and the freedom related to it. Presentational knowledge should be studied carefully if we want to understand all dimensions of dignity in organizations.

3.2.3 Propositional Knowledge

Heron describes propositional knowledge as intellectual statements, both verbal and numeric, conceptually organized in ways that do not infringe the rules of logic and evidence (Heron, 1996, pp. 32–33). It is usually associated with academic or scientific knowledge. However, it should not be mistaken for empirical knowledge, and aspects that are related to managerial practices can be tied back to theology, philosophy, sociology, psychology, and biology. In their book on intentionality, Searle and Willis (1983) show that individual sciences describe our reality on different levels.

This section on propositional knowledge starts with a discussion of theology, followed by philosophy as the higher teleological level was traditionally studied by these two disciplines. To understand their role today, we have to be aware of the division within the propositional knowledge domain. Before Galileo, science took responsibility for its discoveries and did not popularize those that could harm humans.

The split between morality and science can be traced back to Galileo, who made strict methodological but not moral demands on science. In this way empirical science evolved independent from moral judgment, leading to more and more barbarian practices, and abandoning human dignity (Henry, 2012).

Theological Reflection

For centuries, both in antiquity and in the Middle Ages, the consistency of the natural order with the moral order was a matter of course, even though it required effort. Chaudhuri (1998) gives a short overview of dignity in different religions and their consequences for jurisdictional systems. Generally, almost all dignity researchers mention the theological idea of man being created as an image of God. The most frequently mentioned consequences of this are free will, equality (Mieth, 2014), the universality of dignity, and its unconditional character (Dierksmeier, 2015).

The first theological statement pertinent in management is human participation in creation. Participating in God's creation makes human participation in the world, not a value that we can choose or not, but an element of our dignity (Kijas, 2012). Furthermore, theology considers cognition leading to an understanding of oneself and the world also an element of human dignity (Kijas, 2012). If we are to love other people, we have to understand them.

After participation, the second theological consequence of man as "Imago Dei" is the trinitarian character of God. If God is present as a love relationship between three persons, then human dignity also has to be relational by nature (Dobrzyński, 2012; Hanvey, 2013; Kijas, 2012). If so, sufficient individual autonomy has to be coupled with our social nature for a complete image of dignity (McCrudden, 2013). Another consequence of this relational character is seeking the common good on a global scale. The idea of individual, social (tribal), or even national wellbeing is unacceptable from this point of view, as all humankind is one family (Dobrzyński, 2012).

Suppose we consider the previous consequences as horizontal ones, as they are reflected in human relationships. The third important dimension of dignity, from a theological point of view, is its vertical nature. Dignity is expressed in man's dialogue with God; the human is created to be saved and to live eternally in God (Hanvey, 2013). Sacrifice and suffering are integral elements of human dignity in this view (Kijas, 2012). From this point of view then, cognition, free will, care for the community, and participation are all elements of dignity.

Dierksmeier (2015) claims that if we make human dignity derivative of God's nature and thus dependent on theological premises, then such foundation may not be convincing if someone does not share the faith. The view that God is a human creation derives from an idealist point of view, it is argued, where dignity too is just another human construction.

Philosophical Reflection

Plato and Aristotle linked dignity with human rationality. It had to be achieved through the guidance of others, and according to Aristotle, in self-mastery where understanding of one's purpose of existence plays a crucial role (Dierksmeier, 2015). Dignity had a conditional rather than universal character. Some human beings like women or non-Caucasian races were seen as "natural slaves", lacking the capacity of purposive reasoning. This view had obvious economic and managerial consequences because it gave the intellectual elite the moral right to lead the so-called unwise even against their will (Dierksmeier, 2015).

In the seventeenth century, Emmanuel Kant was the philosopher who finally separated philosophy from theology, and dignity from God. Once dignity is detached from God's law, humans can design the course of life and their ideas as they wish, and what follows can also redefine their dignity accordingly. From this perspective, no past existence, customs, or circumstances create boundaries (Dierksmeier, 2015). It is in the era of Enlightenment that the idea of human rights was first proposed. Although mainstream thinking about dignity follows the

Kantian approach, alternative views are present in the existential perspective (Kierkegaard, 1995 [1847]; Marcel, 1964), in personalism (Maritain, 1973; Wojtyla, 1979), and in phenomenology (Spiegelberg, 1971).

Contemporary thinking is highly influenced by liberalism, which distorts human self-understanding and defaces human dignity (Stetson, 1998).

Sociological Theories

The distinguished figures of sociology analyzing dignity were Karl Marx, Emile Durkheim, and Max Weber. The challenges to dignity were, respectively: (1) the control of labor by capitalists and their exploitation of workers, resulting in alienation from meaningful work; (2) the breakdown of social norms or rules governing workplace relations due to the drive toward endless expansion generated by modern industry; and (3) the imposition of bureaucratic rationality in the world of work and the resulting stifling of human creativity.

In more recent analyses, based on ethnographic detail from diverse settings, ranging from automobile manufacturing to medicine to home-based sales and temporary clerical work, Hodson (1996) finds that four significant challenges to dignity at work are: (1) mismanagement and abuse; (2) overwork; (3) limits on autonomy; and (4) contradictions of employee involvement. Hodson also analyses successful strategies in which workers maintain and defend their dignity. These are (1) resistance; (2) citizenship; (3) the creation of independent meaning systems; and (4) the development of social relations at work (Hodson, 1996). Interestingly, all of these phenomena have a dynamic, processual character and are much closer to the idea of dignity as a potential that has to be developed, rather than just an ontological state of humans.

Psychological and Biological Reflection

Dignity is not recognized as a phenomenon in mainstream psychology (Skinner, 1971), but we find reflections about dignity at work from significant representatives of humanistic and positive psychology (e.g.,

Frankl, 1985; Fromm, 2006; Jung, [1957]1990; Maslow, 1968; May, 1953; Robbins, 2016; Rogers, 1985). Fascinating is the view of human dignity as the hermeneutics of love which is practically exemplified by the likes of Martin Luther King Jr., Gandhi, the Dalai Lama, Mother Theresa, St. Therese of Lisieux, St. Francis of Assisi, Thich Nhat Hahn, Al-Ghazali, Rumi, and Thomas Merton (Robbins, 2016).

Few people remember that it was in the eighteenth century that we were given a distinct name by a Swedish biologist, Carl Linnaeus, who, by not being able to find anatomical differences between primates and humans, had to refer to our features of self-awareness and thinking, as reflected in the term he used—*homo sapiens* (Cribb, 2016). Contemporary biologists also see the purposefulness of behavior from their own point of view. It turns out that “even the ‘growth behaviors’ of plants and the ‘chemical behaviors’ of the individual cells in our bodies are in some sense intelligent and purposive, wisely directed toward need-fulfilling ends” (Talbot, 2017, p. 63). This biological observation is an important aspect in finding and defining a sense of human work as an element of human dignity (McGranahan, 2020).

Another stream of research both in psychology and in neuroscience is about how dignity feels because such knowledge can also guide our organizational life. Hicks refers to Miller’s notion of “condemned isolation”, in which people feel locked out of the possibility of human connection (Hicks, 2018). Hartling and Lindner (2016; Hartling, 2007; Lindner, 2006) studied humiliation and confirmed that social pain, associated with the experience of disconnection and rejection, is as real as physical pain. There are many other studies supporting what was so far only an element of experiential or presentational knowing (Kendler et al., 2003; Leary et al., 2003; Nohria et al., 2008; Thomas & Lucas, 2019). Less spectacular, but nonetheless devastating for our happiness, is the abnegation of dignity in the drive for profit and consumption (Pirson, 2017). Babiak et al. (2007) see this drive as the consequence of psychopaths being more successful in recruitment and promotion because of their ability to be charming, thus giving the impression of being good leaders. They also fit the necessities of the bureaucratic workplace, and most of all, better fit the rapidly changing and dehumanized business environments.

3.2.4 Practical Knowledge

Practical knowledge, evident in knowing how to exercise a skill, is for Heron (1996) the fulfillment of the quest for knowledge, as it is based on all other forms of knowing. It is essential to realize that practice does not always align with the propositionally formulated concepts upon which they sit.

Donna Hicks, skilled in resolving painful conflicts and negotiations all around the world, summarizes her experiences: “Honoring dignity is love in action. Human connections flourish when dignity is the medium of exchange” (Hicks, 2018, p. 59). Her Dignity Model comprises Acceptance of Identity, Recognition, Acknowledgment, Inclusion, Safety, Fairness, Independence, Understanding, Benefit of the Doubt, and Accountability (Hicks, 2018). This view of dignity is unconditional. Everyone has it. All we have to do is take care of it and protect it both in ourselves and others. However, she realizes that we do not always do so, hence she enumerates the most frequent temptations¹ to abandon real dignity for the sake of fake dignity. This concept of dignity resembles what we will find in theological discussion, sociological concepts, and ethnographic research. Hicks confirms these conclusions of the dynamic character of dignity, stating that dignity consciousness means that we are connected to our dignity, the dignity of others, and the dignity of something greater than ourselves. This latter form of connectedness may take different interpretations, for example, as a higher power or a connection to the natural world and the planet.

Similar to dignity researchers, Hicks stresses the need for developing dignity consciousness. This is done in three stages: (1) dependence; (2) independence; and (3) interdependence. Her inherent dignity concept, emphasizing the interpersonal dynamics of dignity, effectively surpasses the most popular wellbeing and human rights understanding of dignity because she stresses our responsibility for fulfilling it.

¹ These include: Taking the Bait, Saving Face, Shirking Responsibility, Depending on False Dignity, Maintaining False Security, Avoiding Confrontation, Assuming Innocent Victimhood, Resisting Feedback, Blaming and Shaming Others, Gossiping, and Promoting False Intimacy (Hicks, 2018).

Respecting dignity is something that we need in all social contexts of human life. This is evidenced in the development of many standards, tools, and frameworks in which dignity plays the central role (e.g. Tiwari & Sharma, 2019; the Equality Act of 2010²; National Council of Dignity³; Dignity at Work Act⁴; ISO26000⁵).

3.2.5 Summing up—four Ways of Knowing

Experiential, presentational, propositional, and practical knowledge create a multi-dimensional, systemic, and holistic account of knowledge. Each type of knowledge is not inferior to the others, and instead, they build on and support each other. The four types of knowledge can be summed up as:

- Experiential: based on our participation in life and our sensations and empathy related to it.
- Presentational: experience recorded in such a way that it can be communicated to others through all kinds of art.
- Propositional: consisting in intellectual statements, which are conceptually organized in ways that do not infringe the rules of logic and evidence.
- Practical: the exercise of a skill based on all other forms of knowing, but in practice, it does not always align with the propositionally formulated concepts upon which they sit.

² <https://www.legislation.gov.uk/ukpga/2010/15/contents>.

³ Dignity in Care, https://www.dignityincare.org.uk/About/The_10_Point_Dignity_Challenge/.

⁴ <https://dignityatworkact.org/>.

⁵ <https://www.iso.org/iso-26000-social-responsibility.html>.

3.3 Dignity in Management Studies

3.3.1 Dignity Models Used in Management

One of the most recent reflections about dignity comes from humanistic management scholars. Pirson divides managerial practices into economic and humanistic approaches. Within the economic approach, dignity may either be (1) completely neglected (Pure Economism), (2) protected (Bounded Economism), or (3) promoted (Enlightened Economism) (Pirson, 2017). The weakness of all “economisms” is that they fail Kant’s means-ends test. For Kant, a person could only represent the end of the action. At the same time, in the economic approach, the human being and their dignity are the means for achieving some external outcomes (ends) of an organization.

The humanistic approach in organizations is meant to change the situation because it rests on two pillars: dignity and wellbeing. In the stated assumptions, the overarching goal of organizational activity is meant to be shared wellbeing, based on the idea of creating the common good. Unfortunately, without shared ownership, the concept of shared wellbeing is just theoretical wishful thinking (Cribb, 2016). In the humanistic approach, all stakeholders are, in theory, invited to participate in meeting the goals of the organization. The concept of wellbeing is defined after Aristotle’s *eudaimonia*. Literally translated, it means “good spirit”, but it is usually translated as happiness. Aristotle linked the state of happiness with virtues so that, according to him, *eudaimonia* is “virtuous activity in accordance with reason” (Pirson, 2017). In the context of our previous discussion, this concept of dignity is related to a person’s reasoning and development of virtues. We will return to these issues below, when explaining other possible conceptions of dignity in management.

There are two kinds of humanistic approaches delineated by Pirson. In Bounded Humanism, wellbeing is the objective, but the focus is on defending it against autocratic or paternalistic practices. An essential question for the Bounded Humanism pedagogy is what it means to lead a good life (Pirson, 2017). In Pure Humanism, apart from protecting wellbeing and dignity, the focus is on finding organizing practices that would

promote dignity. The promotion of dignity is also the objective of educational efforts. In this approach, dignity is recognized in the educational process and efforts to develop the virtues and character of all involved (Pirson, 2017).

Another conceptualization of dignity in management is the organizational dignity theory, a concept in which the subject of dignity is not a single person but an organization instead (Teixeira, 2021). The development of this theory started with the following question: What do the stakeholders review when they evaluate the consequences of the actions that organizations carried out for the stakeholders' dignity? First, the stakeholders are assumed to evaluate organizations in terms of (1) cultural elements (practices supported by values); (2) an ethics orientation (deontological or teleological); and (3) a more personal or social-oriented focus (stakeholder focus). Then the stakeholders classify the organizational dignity (from high to low) in the organization's moral, legal, and pragmatic aspects. What is meant to be original in this approach is that organizations, rather than persons, are allocated with dignity for their relations with stakeholders. But, in fact, organizational dignity is nothing more than a measurement construct, which represents the aggregation of many aspects of individually measured dignity. We should note that the same author conducted research confirming a strong relationship between organizational dignity and personal well-being (Teixeira et al., 2021).

The above presentation is just a selection of organizational models referring to dignity. In fact, every theory addressing values refers to dignity. A review of such models can be found in Cheng and Fleischmann (2010), Bal (2017), and Bolton (2007).

3.4 Critical Analysis of the Models

With an overview of all kinds of knowledge about dignity and attempts to formalize them in management science at the individual and organization level, we take a look at which aspects of dignity are captured above, which ones are not, and which crucial elements promoting dignity

should be present in evaluating organizational forms. By way of a critical analysis of the presented models, we extracted ten aspects of dignity that are necessary for a more complete conceptualization of dignity in management, as follows:

3.4.1 Elementary Aspects of Human Rights Coupled with Dignity

It is difficult to reconcile the recognition of human dignity with the facts that, according to the World Health Organization (WHO),⁶ 811 million people in the world are undernourished; two billion people still do not have basic sanitation facilities such as toilets or latrines.⁷ The list of unmet basic human needs is longer. Poverty and lack of sanitation is followed by economic neocolonial exploitation; illiteracy; racial, ethnic, sexual, and age discrimination; humiliation and religious persecution. Today, every company and every consumer, whether knowingly or not, operates in the global market and influences these statistics; but the temptation of low prices and large profit margins is usually strong, so we (un)consciously support the lack of respect for human dignity. Meeting the elementary human needs described in the UN Universal Declaration of Human Rights (1948) or the European Convention on Human Rights (2021) is a ground level for any discussion of dignity. But we cannot resolve the debate concerning dignity on this basis alone. Although all presented management concepts accept universal human rights, few of the companies who declare abiding by them are prepared to inform their stakeholders to make them more aware of human dignity in their purchasing and investment decisions.

We contend that respecting human rights in the global business context should be the first criterion in evaluating an organization for the promotion of human dignity.

⁶ <https://www.who.int/news/item/12-07-2021-un-report-pandemic-year-marked-by-spike-in-world-hunger>.

⁷ <https://www.who.int/news-room/fact-sheets/detail/sanitation>.

3.4.2 Understanding and Protection of the Social, Political, and Economic Environment

Unlike sociological, psychological, or bioethical approaches, none of the management conceptualizations of dignity presented above account for the environment at large. Companies and their managers are legally, economically, and educationally pressured to assume those human rights conceptions of dignity that are the most popular, and perhaps the most acceptable for policymakers.

Klang (2014) and Kamir (2019) warn that popular social media platforms and services are not neutral in what they disseminate. Instead of stable knowledge (*episteme*) of the world and its perennial problems, people are influenced by ad hoc knowledge (*doxa*) which is based on the opinions of others (Dierksmeier, 2015). This also is true about self-knowledge and understanding of others (Hicks, 2018). The texts we usually read about dignity refer to the concept of dignity as individual human rights. The collective economic, social, and cultural rights that we mentioned before are progressively ignored (Morin, 2012).

Reliance on stable, universal knowledge of collective economic, social, and cultural processes, therefore, forms the second criterion in recognizing dignity in an organization.

3.4.3 Community Orientation vs Individualism (Selfism)

How, when, and by whom did it come about that nature, family, community, moral law and religion were changed in the Western mind from identity-giving, happiness-producing networks of meaning into their opposites— self-alienating, misery-inducing webs of oppression? How was the me-centered world formed? (Highfield, 2012, p. 18)

Many authors answer Highfield's question (e.g., Verhaeghe, 2014). It originated with (misconstruing) Kant, who contended that a human being is "free from all laws of nature, obedient only to those laws which he himself prescribes" (Morin, 2012, p. 182). His philosophy was the

foundation of the individualist tradition and practice of the Enlightenment, which misinterpreted human nature, sometimes against his intentions. In the nineteenth century, Marx ridiculed it as “Robinsonades” (Pirson, 2017). For him, social determination plays a fundamental role in personal conditions developing into common and general conditions (Henry, 2012). We already mentioned that our deep social nature as an element of dignity has been confirmed by all natural and social sciences. Unfortunately today, utilitarianist/individualist thinking has influenced the development of a subjective view of the good and has promoted our personal flourishing in this world as the exclusive human goal (Highfield, 2012).

The third element of dignity is the interpersonal, social, and collective nature of humans, which should be recognized in organizational practice.

3.4.4 Human Need for Participation

According to the theology of dignity, God invited the man to participate in the creation of the world. Secular humanism also considers participation as a vehicle for human development and growth. This ability and potential are essential elements of human dignity, and, undoubtedly, people encouraged by the competitive spirit of capitalism use this capability. However, in a capitalist organizational context, there are strict limitations on the extent to which worker participation and creativity can be engaged. Even in economic models, as described by Pirson, the employers encourage employees to be innovative to supersede the competition (Crowther & Gomez, 2012). But practically, lack of competence and lack of ownership limits the employees’ scope of participation (McGranahan, 2020). As a result, a universal inherent dignity becomes dignity conditioned by virtues and education. If we assume full participation (see Prokopowicz et al., 2008; Stocki et al., 2012) as an indispensable element of dignity, then the organizational model and practice should include educational efforts and governance that make participation real (Dierksmeier, 2015; Ober, 2014). Hicks’ model, which is oriented toward leaders, does not sufficiently recognize the nuances of participation. The humanistic model does so only partially.

We conclude that enabling unconditional full participation should be the fourth element of a dignity-oriented management practice.

3.4.5 Common Good and the Language of Competitive Market

Real competition⁸ (Shaikh, 2016) encourages exploitative behaviors, which destroy human dignity. However, it would be naive to think that free-market or ethical conduct would mediate the conflict between the rich and the poor (Crowther & Gomez, 2012). More importantly, neoliberal polices have redefined human rights to protect the current market order (Whyte, 2019). This new view of human dignity is reduced to the capacity to assert claims about different rights (Anderson, 2014). As a result, we have an expanding set of asserted human rights: the rights of privacy; the rights of children; the rights of criminals; and the rights of everyone to everything (Stetson, 1998). Behind every such right, there is a business opportunity and implicit assumption that the free market can resolve the situation better than the existing non-market institutions. Common good, guarded by common sense and simple cooperation, is not taken into consideration. With the successfully undermined reference point for real, as opposed to “free market” dignity, the future of dignity rests in organizations that declare, abide by, and are living examples of dignity in action. In such organizations, people have autonomy and the right to plan and control their future (Raz, 1979). Still, such autonomy cannot rest on ephemeral market forces, but rather must rest on stability based on values and shared access to knowledge, allowing responsible decision-making that accounts for the common good. Aside from Hicks’ model, the humanistic model also recognizes the common good and the interest of all stakeholders as an element of dignity, whereby shared and organizational wellbeing reflects its social character.

The fifth element of dignity is the concern for the common good and protecting the interests of all stakeholders.

⁸ Real competition assumes markets in which firms have market power (oligopoly, monopoly, etc.).

3.4.6 Transformation Through Altruism, Sacrifice, Suffering, and Courage

Pirson realizes that humans are social and moral beings ready for trust, forgiveness, altruism, and love (Pirson, 2017). Gomez and Crowther (2012) and Hicks (2018) remind us of the need for love in organizations. However, suffering and sacrifice are not positive elements of Pirson's theory. Like many others, he does not mention that the traditional value of dignity was defended in the Roman Empire by the martyrdom of some two million Christians (Moss, 2012). A similar prosecution in defense of dignity was present throughout history, as exemplified by the previously mentioned outstanding figures of non-violence movements throughout the twentieth century. In an organizational context, sometimes workers must risk their lives to defend their dignity. Workers' movements such as "Solidarity" in Poland (Staniszki, 2019), or the movement of *Empresas recuperadas* (recovered businesses) in Argentina (Rebón, 2005), are examples of this risk. There is also a whole list of company whistleblowers who, for the sake of the public good, risk their careers, family life, and sometimes life to defend the truth and human dignity in general (Lennane, 2012).

When we look at how the terms like *wants*, *needs*, and *rights* are used today, it can seem as if the era of corruption, exploitation, and abuse is over, and people do not know what to do with their "freedom" (Stetson, 1998). Meeting "wellbeing" needs and rights, according to this neoliberal logic, may look like something closer to securing a consumerist lifestyle than risking defending something vital. As a result, people feel resentment when confronted with the demands of traditional morality and faith, associating them with traditional politics (be they social democratic, socialist/communist, fascist, etc.), which operates as a potentially distinct source of identity and cooperation via political parties, labor unions, etc. This artificially created, me-centered, neoliberal self is afraid to lose its supposed "dignity" (Highfield, 2012). Defending civic dignity in a workplace requires courage, which should also be an element of management (Ober, 2014). Organizations should not be created to

protect the rights of one group at the cost of another. Instead, in a world where most people are members of an organization, these should be tools for transformative change. Unfortunately, this aspect is absent in all of the presented management models.

Considering the human search for meaning (Frankl, 1985), the ecosystem's purposefulness, and the worker's need for meaningful work (McGranahan, 2020), we should expect courageous and transformational leadership from organizations to make the world a better place. This is the sixth element of dignity in organizations.

3.4.7 The Possible Conflict Between Persons, if They Differ in Their Goals

In defending dignity, there are danger zones. This results from the arbitrariness of jurisdictional control, which does not have a stable basis (Morin, 2012). Even the most quoted dignity document—the Universal Declaration of Human Rights—has conflicting rights, as access to resources, especially property rights, may conflict with workers' rights and protection of the vulnerable from specific injustices (Anderson, 2014). Danger zones are places where maximization of welfare of one group of persons creates a loss of such welfare in another group. De Tocqueville saw the role of government to be to balance the rights of individuals in such a way that all are met to the extent possible (Crowther & Gomez, 2012). Mediation efforts are also a possibility, but they have greater chances of success if the power of individuals is similar (Crowther & Gomez, 2012), which is rarely the case in investor-owned organizational models. Finally, there is a virtue that may solve this issue over the conflict of rights—it is self-restraint, another uncommon virtue that, together with courage was traditionally the basis of dignity (Ober, 2014). In fact, out of all the presented models, the organizational dignity and humanistic management models share a multi-stakeholder (or network) governance approach that balances conflicting dignity interests, as a radical departure from power structures that are based on hierarchy and financial wealth.

As the seventh element of dignity, organizational practice should prioritize sharing power, solving conflicts, and striving for the common good for which persons are ready to constrain their own welfare.

3.4.8 Power Relations, Especially Those Related to Ownership

In the previous subsection, we mentioned the possibility of mediation if we have a conflict between sides of equal power. Unfortunately, it is rarely the case that all sides are equal. Varying access to information, capital, education, mobility, etc., makes our societies highly unequal. Moreover, private property rights over resources (the basis of the so-called “free market” economy) ensure the institutional protection of many inequalities (Lindemann, 2014). For Foucault, power has a relational character; it is also related to knowledge (Townlwy, 1993). We may say that no power can take our dignity away if we do not allow it to. The champions of dignity throughout history attest to this. Louback (2021) analyses discourses of dignity where stakeholders refuse to be governed. Still, some management and governance systems enable egalitarianism, while others dictatorship. In Open Book Management (OBM) companies (Case, 1996), or in worker cooperatives (Mill, 2012), the ownership is widely distributed among workers. This is complemented by much higher levels of business literacy. Other companies enable dictatorship; for instance, the strong lobbying influence of large corporations is an exercise of power that leads to legalized infringements on democracy, as decision-makers are under pressure from those who can afford to lobby (Morin, 2012). For example, pharmaceutical companies are the largest spenders on lobbying in recent years.⁹

Dignity practice should recognize power control systems in an organization, particularly the significance of ownership rights as a power tool (McGranahan, 2020), and calibrate decision-making rights and systems to avoid unfair and unequal bases for the resulting distribution of power, as the eighth element of dignity.

⁹ <https://www.investopedia.com/investing/which-industry-spends-most-lobbying-antm-so/>

3.4.9 Values

Many violations of human dignity are caused by conflict. Conflicts cannot be solved without courage, self-restraint, and education. These require agreement on a similar hierarchy of values. Workplaces, where people spend most of their time, are the places where dignity is practiced daily; therefore, the management's values and their concepts about dignity have a tremendous impact beyond the organization.

Dignity conceptualizations should result, at the organizational level, in a coupling of the intrinsic dignity values of freedom, love, care, responsibility, character, and ethics with the goals of wellbeing and common good that result from the Declaration of Human Rights. This relates the organization to the wider society and natural environment to protect all of its stakeholders.

3.4.10 No Regulator for the Global Market and International Corporations

When Adam Smith wrote *The Wealth of Nations* (Smith, [1776]2010), the free market experience he witnessed was radically different from what we face now (Chang, 2014). Then, the world was run by rich states which controlled the market. Apart from the East-India Company, the firms were relatively small. Today, global corporations more potent than most states, control the market. We already showed how human rights are transposed into consumer rights under global neoliberalism. In the absence of a global democratic government, the question is if any institutions can be conceived of to protect human dignity, which goes beyond the human rights rhetoric. Although not very successful, the United Nations tries to tackle this issue with programs promoting corporate social responsibility, such as the Global Compact (Crowther & Gomez, 2012). We have also mentioned the use of standards, tools, and frameworks in which dignity plays the central role, such as ISO26000 for social responsibility, as guidelines for integration of corporate social responsibility into organizational practices. We certainly need some global institutions that would recognize the dignity issues on an international level.

Some attempts toward this end are being made by The Trade Union Advisory Committee (TUAC)¹⁰ to the OECD and European Works Councils.¹¹ In 1997, The InterAction Council, consisting of political and religious leaders, proclaimed an alternative to declarations of rights—the Universal Declaration of Human Responsibilities.¹² Apart from advancing this Declaration, the group started a discussion about a Universal Declaration of Human Obligations. We can find some versions of it in Humanistic texts.¹³ It was meant to establish a common ground for all major world religions. The Catholic Pontifical Council for Justice and Peace has issued a reflection entitled “Vocation of the Business Leader” (Naughton & Alford, 2012). Unfortunately, in common with previous documents, it does not address many of the issues we enumerated in this chapter. In the absence of satisfactory national and global institutions to protect human dignity, there exist independent citizens’ initiatives such as Corporate Watch¹⁴ or Fairtrade International,¹⁵ which try to address global and intergenerational dignity independently.

Management practice can benefit from an independent external body that can verify the protection of dignity of all its stakeholders. We consider the external control mechanism as the tenth element of dignity.

3.4.11 Summing up—Enumeration of the Ten Critical Aspects of Dignity

In this part of the chapter, we analyzed the following ten aspects of dignity resulting from our earlier discussions regarding kinds of knowledge and conceptions of dignity in different disciplines:

1. *Human rights coupled with dignity*—Recognizing human rights in the global context.

¹⁰ <https://tuac.org/about/>.

¹¹ <http://www.worker-participation.eu/European-Works-Councils>.

¹² <https://www.interactioncouncil.org/sites/default/files/udhr.pdf>.

¹³ <https://www.humanistictexts.org/undo.htm>.

¹⁴ <https://corporatewatch.org>.

¹⁵ <https://www.fairtrade.net/about>.

2. *Universal knowledge repository*—dignity in an organization should rely on stable, universal knowledge of collective economic, social, and cultural processes.
3. *Human social nature* recognized as an element of dignity.
4. *Universal participation*—unconditional full participation as an element of dignity.
5. *Universal common good*—common good and the interests of all stakeholders as an element of dignity.
6. *Transformation*—the organization's role to courageously make the world a better place.
7. *Self-constraint to avoid conflict*—solving conflicts and establishing a common good for which people are ready to constrain their welfare.
8. *Control of power*—installing power control systems in an organization.
9. *Values*—the organization's values through which it is vigilant to the social and natural environment to protect all of its stakeholders.
10. *External verification*—Organizations need an independent external body to verify the protection of dignity of all its stakeholders.

These ten aspects result from all forms of knowledge discussed earlier in the chapter. Aspects 7 and 4 result from experiential knowledge; aspects 5 and 9 result from presentational knowledge; aspects 1, 3, 6, and 8 result from propositional knowledge; and, finally, aspects 2 and 10 result from practical knowledge.

This list is certainly not exhaustive in regard to the aspects of dignity that could be drawn from our introductory analyses of kinds and disciplines of knowledge. Instead, we have chosen ten elements that are most relevant for organizational practices.

3.5 Different Organizational Forms and the Ten Aspects of Dignity

To clarify how we can use the ten aspects of dignity in managerial practice, we selected four business legal forms to explore how they can enact dignity in their daily operations. The four forms are family firms, limited

liability companies, public companies, and cooperatives. Let us briefly overview the peculiarities of these four forms of enterprise.

A. Private enterprises and family firms. These are the oldest and most frequent forms of business; they are usually small in size but most numerous. Legally all the owners' possessions are a liability. The few owners are identifiable and influential, and capital and legal issues are less critical than psychological and social aspects of their functioning in power relations and action. As family ownership is a complex phenomenon, there are immense differences between firms in their governance and the role of non-family employees. The main features are a focus on long-term endurance, lack of a shareholder value logic, loyalty, and identification with family values (Brundin et al., 2008).

B. Private limited liability companies. These are capital investor companies, where liability is limited to the specific capital gathered by a group of investors. Power is distributed according to the rule: "one dollar, one vote". These companies are profit-driven with slight differences in corporate governance between the Anglo-American model, which gives priority to shareholders, and the continental European and Japanese models, which also recognize the interests of other stakeholders (Crowther & Gomez, 2012). These are relatively small companies with non-anonymous shareholders. That is why from an investment and time horizon perspective, they have some features in common with family companies.

C. Public joint-stock companies. When a private limited liability company offers its shares to the general public and is available in the stock market, it becomes a public company. Power relations change because the company must generate profit for its anonymous shareholders who take no responsibility for its actions. The stock market logic is concentrated on short-term profit, which is carefully analyzed based on quarterly reports by stock market analysts and financial journalists. Governance is reduced to a game between major stock owners and top management who change coalitions and strategies to make their companies bigger and more prosperous through mergers and acquisitions. Huge public relations departments and numerous lawyers ensure that potentially damaging information about the company does not permeate to the general public, as it may influence its stock value.

D. Cooperatives. These companies are created to meet the economic, social, and cultural needs and aspirations of their members. It means that profit is not maximized as in investor companies but balanced to account for other needs and stakeholders. Participation in governance by all members is secured through the rule “one member, one vote” regardless of the level of investment by particular members. What differentiates co-ops from all other companies discussed above is a set of cooperative values and principles, which act as ethical and practical guidelines for co-op members and leaders, including democratic governance. The members are expected to adhere to values of *honesty, openness, social responsibility, and caring for others*. In addition, the co-ops should abide by the values of *self-help, self-responsibility, democracy, equality, equity, and solidarity*. These ten values are translated into seven action principles that are practical rules for running a co-operative.¹⁶ Cooperatives create a network of federations and associations that help them to implement these values and principles (Novkovic, 2006).

We must realize that those pure legal forms are often mixed to create an enormous array of possibilities. For instance, many family companies with major family shareholders decide to become public and sell part of their shares on the stock market. On the other hand, governance of some large consumer co-ops is practically reduced to an elite of members and management. Small limited liability companies may create larger corporations, etc. Still, in the discussion of dignity, it is worth seeing what challenges each enterprise form has to meet (Table 3.1).

In liberal thought, firms exist to make it more efficient for individuals to pursue their self-interests (Crowther & Gomez, 2012). In this sense, all four types of companies recognize individual wellbeing as an element of dignity following the most common logic of human rights. Below, we propose a short description of each kind of enterprise regarding the ten aspects of dignity.

¹⁶ <https://www.ica.coop/en/cooperatives/cooperative-identity>.

Table 3.1 Recognition of ten dignity aspects for four kinds of enterprises

Aspect of dignity	Family companies	Limited liability companies	Public companies	Cooperatives
Human rights coupled with dignity	✓	✓	✓	✓
Universal knowledge repository	–	✓	✓	✓
Human social nature	✓	–	–	✓
Universal participation	–	–	–	✓
Universal common good	–	–	–	✓
Transformation	–	–	–	✓
Self-constraint to avoid conflict	✓	–	–	✓
Control of power	✓	✓	–	✓
Values	✓	✓	✓	✓
External verification	–	–	✓	–

3.5.1 Family Companies

Family companies are no exception to pursuit of self-interests (according to liberal thought), although we can speak of a broadened self, which includes family members. However, these businesses go beyond liberal thinking. Family companies certainly are much more solidaristic than liberals might recognize. First, there are significant cultural differences between family companies worldwide, so they do not refer to any universal repository of knowledge. Relationships are crucial for their effectiveness, and natural family communication processes shape them. Usually, only the family members participate in the decision-making. Second, these companies place a priority on the family's common good, so an appeal to the universal common good may occur but is likely secondary to that of the family interest. As this is the oldest form of enterprise, they would instead return to an honor-based society, where dignitaries (here family members) have duties to their inferiors (employees)

—according to the principle *noblesse oblige* (Anderson, 2014). This social service would be an element of the dignity of the owner's family, but compliance of the employees would also be an element of their dignity. This is nothing more than perceiving dignity from the Enlightened Economism point of view. There is no prescribed commitment to societal transformation, thus a family business can be a leader or laggard in this regard. Examples of many family companies show that family members are ready to constrain their self-interest to protect the interests of the family business. The decision-making power is controlled by the family hierarchy rather than by capital or merit, so a restricted number of family members with opposing interests makes the companies vigilant to changes in the world. So far, no external institution certifies their conduct, although they create associations for defending their interests and for exchange of experience and knowledge.

Summing up, dignity is an essential aspect of family businesses, and it goes beyond self-interest and wellbeing. Family values, reciprocal loyalty, and respect of the family and the employees make this form exceptional. Yet this identity lacks joint participation, assurances of universal common good, as well as any commitment to make the world a better place.

3.5.2 Limited Liability Companies

Beyond the ordinary view of dignity as wellbeing, humanistic management scholars see Kantian human-oriented dignity involving freedom, love, care, responsibility, character, and ethics as aligning with business goals (Gomez & Patino, 2012; Pirson, 2017). Unfortunately, this is true only from a long-term perspective, while limited liability companies and public companies are focused on the short-term perspective of rewarding investors with profits. This recalls Friedman's famous statement that the "social responsibility of a business is to increase its profits". So, in practice, business performance and human dignity are rarely compatible (Morin, 2012). The traditional Master in Business Administration (MBA) curriculum could be considered a good approximation of the universal knowledge repository for limited liability companies, with an

abundance of case studies and a network of business schools worldwide. Relational practices have been managed in the domain of human resource management (HRM). Even the name of the discipline indicates that human beings are considered mainly as commodities in this approach (Crowther & Gomez, 2012). As long as investors' capital plays a crucial role and is the link with control and power, there is no possibility of universal participation as an element of dignity. Still, for the motivational benefits, there are attempts to introduce the involvement of employees in governance (Laloux, 2014) and decision-making, and to broaden employee ownership, as is the case of employee stock ownership plans (ESOPs).

Under utilitarianism, any means of achieving profit for the investors was seen as acceptable until quite recently (Gomez & Patino, 2012). Only lately, have we been witnessing some greater concern for a business's supply chain. Exploitation, child labor, and sweatshops are common among limited liability companies operating in poorer countries that supply to huge international firms all around the world (Crowther & Gomez, 2012). Therefore, we can hardly speak of the universal common good or an attempt to transform the world as an inherent characteristic of this business model. Self-constraint is forced on the companies by still fragile consumers' and workers' movements and institutions such as Fair Trade or the International Labour Organization (ILO). Where possible, trade unions organize to temper the power of capital, although they have been on the decline since the 1980s marking the peak of neoliberalism. The companies are exposed to brutal competition, so they have to be very vigilant. So far, there has been no effective way to control the conduct of these companies (Dibra, 2016). The existing regulators focus on the local market, while capital mobility is global, so control of corporations operating in global markets is a challenge (Crowther & Gomez, 2012).

Summing up: dignity is an unwanted disturbance in LLC businesses. If employees' dignity is recognized, it is done so instrumentally as an element of Human Resources (HR) policy, with the primary goal to increase profits. Recognition of dignity is either forced by international movements and institutions or is part of some public relations strategy.

3.5.3 Public Companies

Publicly traded companies share most of the weaknesses of limited liability companies. But there are some significant differences we would like to point out in this overview.

First, there are two critical differences regarding power relations. One is the companies' lack of a risk-reward relationship, which leads to irresponsible corporate behavior and arguably to a loss of dignity (Crowther & Gomez, 2012). There are too many vested interests related to public companies and their managers, so they practically cannot fail. Their preservation is illustrated by stories of companies like Union Carbide, Enron, Monsanto, Pfizer, Nestle, Toyota, and Volkswagen whose management rarely suffer serious consequences in spite of many possible victims of their malpractice (e.g. Arnold et al., 2020; Moorhead, 2007; Vlasic & Apuzzo, 2014). The second difference between public and non-public investor-owned companies is that, through incentive schemes, between five and ten percent of the average corporation is owned by its executives regardless of the financial results of the company (Crowther & Gomez, 2012). As one author observed, some companies have apparently become "Too big to fail" (LePatner, 2010). The idea of the common good is also difficult to realize because these companies see people as their commercial targets (i.e. primarily as customers) (Gomez & Patino, 2012). As consistently argued in this chapter, by making human beings objects, they deprive them of their dignity and change the world but for the worse, and not for the better. The reason for self-restraint on the part of these companies is the pressures emanating from the stock market, but also activist investors, progressive initiatives (e.g. Global Compact), various global standards and disclosure requirements, or media, which are external, though relatively weak, evaluator of their activity. To distinguish themselves from the rest of the corporate world, some corporations resort to various programs and indices verifying their ethics and social responsibility, e.g., FTSE4Good Index, Dow Jones Sustainability Index, Corporate Responsibility Index, Wilderhill Clean Energy Index, Dow Jones Islamic Market World Index, Stoxx Europe Christian Index, Respect Index, and others. While "stakeholder capitalism" is on the rise as illustrated by increasing attention on

impact investing, ESG frameworks and measures (environmental, social, governance), and B Corporations, evidence points to the continued dominance of the investor focus in corporate practices to the detriment of social concerns and wellbeing (Bakan, 2020; Johnson, 2021).

Summing up: although public companies share the features of LLCs, the scale of their operation and lobbying possibilities leaves many of them unpunished in spite of violating the dignity of their suppliers, customers, and employees. Investors' drive for profit makes many corporate social/environmental responsibility efforts and programs ineffective in general.

3.5.4 Cooperatives

Cooperatives, in their approach to wellbeing, go beyond material aspects. The very definition of a cooperative includes economic, social, and cultural needs and aspirations of members (ICA, 1995), treated really as the primary, qualitative objective of business (Dierksmeier, 2015). So, by definition, they recognize human social nature. Cooperatives balance (1) the ability to gain a livelihood for oneself and family, (2) self-respect, and (3) socially responsible individual contribution (Ponce, 2012), thereby aiming for universal common good. In their control of power, cooperatives implement the dignity concept that many authors only assume in theory (Miller & Telles, 1974; Pirson, 2017; Ponce, 2012). This concept goes much further than the logic of individual rights, in that it also includes the capacity for collective processes and practices of self-management, participation, and equity—that is, the aspect of universal participation.

The cooperative universal knowledge repository is recorded in the set of values enumerated previously, and in the seven cooperative principles. Co-ops also frequently refer to their historical tradition and practice all around the world. Unfortunately, cooperative business education is not as popular as MBA programs. But, unlike in other forms of business, there is a strong tendency in cooperatives to organize internal forms of education for their members, which is strengthened by the *Cooperative Principle 5—Education, training, and information*. Many

cooperative values refer to the quality of social relationships in the co-ops (particularly values—*honesty, openness, and caring for others*). *Principle 6—Cooperation among cooperatives* encourages the building of relationships and creating networks with other co-ops. This allows the spreading of good dignity practices in cooperatives.

With the principles of *1—Voluntary and Open Membership*, *2—Democratic Member Control*, and *3—Member Economic Participation*, cooperatives practice stakeholder democracy (Dierksmeier, 2015). The principles assure active participation and, where difficult, at least the passive representation of all concerned in questions of strategy and governance (as postulated for dignity by Dierksmeier, 2015; Evan & Freeman, 1988). Democratic member control (one person, one vote) allows for the bottom-up control of power, and for the recognition of dignity related to this. In multistakeholder cooperatives, control is exercised not by one, but by two or more distinct types of co-op member (Novkovic, 2019). Many cooperative values and principles, but particularly the value of *solidarity* and *Principle 7—Concern for Community*, ensure that co-ops and their members are oriented toward the common good. This is what proponents of humanistic management (Pirson, 2017) and of the broadened dignity concept (Crowther & Gomez, 2012) call for businesses to do.

Co-ops are most successful in the poorest areas of Asia, Africa, and Latin America. They are also helping regions abandoned by global companies, as in Argentina and the USA (e.g. Detroit). So they practice altruistic behavior which is necessary for real dignity, as postulated by Crowther and Gomez (2012), and the environmental consciousness proposed by Gomez and Patino (2012).

Co-ops are exceptional in recommending to their members a set of values that are the guidelines and recipes for both individual and collective self-constraint and problem-solving. The members who understand these recommendations can complain if a conflict arises from violating them. As a result, co-ops may more easily become “virtuous organizations” (Gomez & Patino, 2012). Vigilance is a strength of cooperatives.

Many tools exist that can verify adherence to the cooperative values and principles. Yet, except for verification of the legal and administrative data in the application to incorporate or apply for a cooperative association membership, there is no international standard or procedure by which to objectively verify cooperatives' alignment with the cooperative values and principles. Some limited attempts to certify cooperatives for adherence to the principles have been made in Latin America (see Marino, 2015), but it is not widespread. Although many organizations claim the "cooperative" label, they do not always adhere to the high standards of the formal movement, established by its founders in the nineteenth century and updated several times since.

As was shown by Michie et al. (2017), there is a renewed interest in cooperatives following periods of widespread corporate failure. A recent report confirms that during the Covid-19 crisis, not only did the cooperative world survive, but many co-ops in Europe increased their sales (The World Cooperative Monitor, 2020).

Summing up: co-operatives, unlike any previous business form discussed, fulfill all ten critical aspects of dignity. Yet, perhaps their specificity in a concrete cultural context and their independence make universal, external verification difficult, and hence this is the weakest of all the dignity aspects for cooperatives.

3.6 Conclusions

We began this chapter with a discussion of the universal character of human dignity. We referred to four kinds of knowing to show how dignity is not simply another philosophical concept, but a crucial element of our daily experience and culture. We showed how referring to all kinds of knowing, and not only to propositional knowledge enriches our understanding of dignity. With this multidimensional knowledge of dignity, we delved into the treatment of dignity by various academic disciplines. Relying on a single discipline may flatten the complexity of the concept of dignity, and we therefore argue that only a trans-disciplinary approach can grasp its essence. Subsequently, we described several models of dignity that are proposed in management studies and

analyzed them from the perspective of the different forms of knowledge presented before. In a critical analysis regarding all kinds of knowledge and management models, we extracted ten aspects that are necessary for a proper conceptualization of dignity in organizations. Finally, we selected the four most popular legal forms of private enterprise and analyzed to what extent they respond to the ten aspects of dignity. We found that cooperatives respond to nine out of ten aspects, the highest score of any of the studied business forms.

Interestingly, many authors quoted in this chapter on dignity do not even mention cooperatives. The cooperative model has vanished from most standard economics texts (Kalmi, 2007), as from the minds of management theorists and practitioners. With the renewed interest in cooperatives of late (Michie et al., 2017), we urgently need a cooperative theory of dignity, encompassing all its aspects and enabling the promotion of cooperatives as the best business organizations in recognizing and promoting human dignity.

References

- Anderson, E. (2014). Human dignity as a concept for the economy. In M. Düwell, J. Braarvig, R. Brownsword, & D. Mieth (Eds.), *The Cambridge handbook of human dignity: Interdisciplinary perspectives* (pp. 492–497). Cambridge University Press.
- Arnold, D. G., Stewart, O. J., & Beck, T. (2020). Financial penalties imposed on large pharmaceutical firms for illegal activities. *JAMA*, 324(19), 1995–1997.
- Babiak, P., Hare, R. D., & McLaren, T. (2007). *Snakes in suits: When psychopaths go to work*. Harper.
- Bakan, J. (2020). *The new corporation*. Penguin Random House.
- Bal, M. (2017). *Dignity in the workplace: New theoretical perspectives*. Springer.
- Bolton, S. (Ed.). (2007). *Dimensions of dignity at work*. Routledge.
- Brundin, E., Florin Samuelsson, E., & Melin, L. (2008). The family ownership logic: Core characteristics of family-controlled businesses. Working Paper, 2008:1. Center for Family Enterprise and Ownership.

- Case, J. (1996). *Open-book management: Coming business revolution*. Harper Collins.
- Chang, H.-J. (2014). *Economics: The user's guide*. Penguin Books.
- Chaudhuri, P. (1998). World religions and human dignity. *Rev. Quebecoise De Droit Int'l*, 11, 267.
- Cheng, A. S., & Fleischmann, K. R. (2010). Developing a meta-inventory of human values. *Proceedings of the American Society for Information Science and Technology*, 47(1), 1–10.
- Chew, C. (2021, March 16). The British Raj: The atrocities of British colonial rule in India. *Histories of Colour*. <https://historiesofcolour.com/THE-BRITISH-RAJ>
- Cribb, J. (2016). *Surviving the 21st century: Humanity's ten great challenges and how we can overcome them*. Springer.
- Crowther, D., & Gomez, A. M. D. (2012). Governance, dignity and responsibility: Towards a symbiosis. In A. M. D. Gomez & D. Crowther (Eds.), *Human dignity and managerial responsibility: Diversity, rights, and sustainability* (pp. 195–212). Gower Publishing Ltd.
- Dibra, R. (2016). Corporate governance failure: The case of Enron and Parmalat. *European Scientific Journal*, 12(16), 283–290.
- Dierksmeier, C. (2015). Human dignity and the business of business. *Human Systems Management*, 34(1), 33–42.
- Dobrzyński, A. (2012). Godność człowieka w misji Kościoła według Jana Pawła II. In H. Grzmil-Tylutki, & Z. Mirek (Eds.), *Godność w perspektywie nauk* (pp. 13–28). Krakow: Societas Scientiarum Internationalis Fides et Ratio.
- European Convention on Human Rights*. (2021). European Court of Human Rights Council of Europe. https://www.echr.coe.int/documents/convention_eng.pdf
- Evan, W. M., & Freeman, R. E. (1988). A stakeholder theory of the modern corporation: Kantian capitalism. In T. Beauchamp & N. Bowie (Eds.), *Ethical theory and business* (pp. 75–93). Prentice Hall.
- Frankl, V. E. (1985). *Man's search for meaning*. Simon and Schuster.
- Fromm, E. (2006). *Art of loving*. Harper Perennial.
- Gomez, A. M. D., & Crowther, D. (2012). Caring, sharing and collective solidarity in management. In A. M. D. Gomez & D. Crowther (Eds.), *Human dignity and managerial responsibility: Diversity, rights, and sustainability* (pp. 57–73). Gower Publishing Ltd.
- Gomez, A. M. D., & Patino, S. S. L. (2012). Ch. 2 Management, virtues and human dignity: Towards a better future for the “whole” In A. M. D.

- Gomez & D. Crowther (Eds.), *Human dignity and managerial responsibility: Diversity, rights, and sustainability* (pp. 27–40). Gower Publishing, Ltd.
- Hanvey, J. (2013). Dignity, person, and imago Trinitatis. In C. McCrudden (Ed.), *Understanding human dignity* (pp. 209–228). Oxford University Press.
- Hartling, L. (2007). Humiliation: Real pain, a pathway to violence. *RBSE*, 6, 276–290.
- Hartling, L. M., & Lindner, E. G. (2016). Healing humiliation: From reaction to creative action. *Journal of Counseling & Development*, 94(4), 383–390.
- Henry, M. (2012). *Barbarism*. Translated by Davidson, S. London: Continuum Impacts.
- Heron, J. (1992). *Feeling and personhood: Psychology in another key*. Sage.
- Heron, J. (1996). *Co-operative inquiry: Research into the human condition*. Sage.
- Hicks, D. (2018). *Leading with dignity: How to create a culture that brings out the best in people*. Yale University Press.
- Highfield, R. (2012). *God, freedom and human dignity: Embracing a God-centered identity in a Me-centered culture*. InterVarsity Press.
- Hodson, R. (1996). Dignity in the workplace under participative management: Alienation and freedom revisited. *American Sociological Review*, 61(5), 719–738.
- ICA. (1995). *International Cooperative Alliance Statement of the co-operative identity*. <http://www.wisc.edu/uwcc/icic/issues/prin/21-cent/identity.html>
- Johnson, S. (2021, February 22). ESG investment favours tax-avoiding tech companies. *Financial Times*. <https://www.ft.com/content/486afe00-5347-4f23-ab30-fb2ab901b2cb>
- Jung, C. G. ([1957]1990). *The undiscovered self*. Princeton University Press.
- Kalmi, P. (2007). The disappearance of cooperatives from economics textbooks. *Cambridge Journal of Economics*, 31(4), 625–647.
- Kamir, O. (2019). *Betraying dignity: The toxic seduction of social media, shaming, and radicalization*. Fairleigh Dickinson University Press.
- Kaufman, W. (2006). *The civil war in American culture*. Edinburgh University Press.
- Kendler, K. S., Hettema, J. M., Butera, F., Gardner, C. O., & Prescott, C. A. (2003). Life event dimensions of loss, humiliation, entrapment, and danger in the prediction of onsets of major depression and generalized anxiety. *Archives of General Psychiatry*, 60(8), 789–796.
- Kierkegaard, S. ([1847]1995). *Works of love*. Princeton University Press.
- Kijas, Z. J. (2012). Godność człowieka I teologia. In H. Grzmil-Tylutki & Z. Mirek (Eds.), *Godność w perspektywie nauk* (pp. 29–40). Societas Scientiarum Internationalis Fides et Ratio.

- Klang, M. (2014). The rise and fall of freedom of online expression. In M. Düwell, J. Braarvig, R. Brownsword, & D. Mieth (Eds.), *The Cambridge handbook of human dignity: Interdisciplinary perspectives* (pp. 505–513). Cambridge University Press.
- Knox, H., & Groves, S. (2006). World religions and the struggle for equality. *Conscience*, 27(1), 40–45.
- Korus, K. (2012). Godność jednostki w starożytnej kulturze greckiej. In H. Grzmił-Tylutki, & Z. Mirek (Eds.), *Godność w perspektywie nauk* (pp. 57–66). Societas Scientiarum Internationalis Fides et Ratio.
- Laloux, F. (2014). *Reinventing organizations: A guide to creating organizations inspired by the next stage in human consciousness*. Nelson Parker.
- Leary, M. R., Kowalski, R. M., Smith, L., & Phillips, S. (2003). Teasing, rejection, and violence: Case studies of the school shootings. *Aggressive Behavior: Official Journal of the International Society for Research on Aggression*, 29(3), 202–214.
- Lennane, J. (2012). What happens to whistleblowers, and why. *Social Medicine*, 6(4), 249–258.
- LePatron, B. B. (2010). *Too big to fall: America's failing infrastructure and the way forward*. University Press of New England.
- Lindemann, G. (2014). Social and cultural presuppositions for human dignity. In M. Düwell, J. Braarvig, R. Brownsword, & D. Mieth (Eds.), *The Cambridge handbook of human dignity: Interdisciplinary perspectives* (pp. 191–199). Cambridge University Press.
- Lindner, E. (2006). *Making enemies: Humiliation and international conflict*. Praeger.
- Louback, J. C. (2021). Refuses to be governed as discourses of dignity: Dignity in the Foucauldian perspective. In M. L. M. Teixeira (Ed.), *Organizational dignity and evidence-based management: New perspectives* (pp. 47–57). Springer.
- Marcel, G. (1964). *Creative fidelity*. Fordham University Press.
- Marino, M. (2015). The co-op certification process: Co-operatives of Americas. In L. Brown, C. Carini, J. Gordon Nembhard, L. H. Ketilson, E. Hicks, J. McNamara, S. Novkovic, D. Rixon & R. Simmons (Eds.), *Co-operatives for Sustainable Communities* (pp. 310–321). Co-operatives and Mutuals Canada. <http://www.cooperativedifference.coop/wp-content/uploads/2015/09/CoopsforSustainableCommunities1.pdf>
- Maritain, J. (1973). *Integral humanism; temporal and spiritual problems of a new Christendom*. University of Notre Dame Press.

- Maslow, A. H. (1968). Some educational implications of the humanistic psychologies. *Harvard Educational Review*, 38, 685–696.
- May, R. (1953). *Man's search for himself*. W. W. Norton.
- McCrudden, C. (Ed.). (2013). *Understanding human dignity*. Oxford University Press.
- McGranahan, L. (2020). Meaningful labour, employee ownership, and workplace democracy: A comment on Weidel (2018). *Journal of Human Development and Capabilities*, 21(4), 389–397.
- Michie, J., Blasi, J. R., & Borzaga, C. (2017). Introduction and overview. In J. Michie, J. R. Blasi & C. Borzaga (Eds.), *The Oxford handbook of mutual, co-operative, and co-owned business* (pp. xxi–xxxvi). Oxford University Press.
- Mieth, D. (2014). Human dignity in late-medieval spiritual and political conflicts. In M. Düwell, J. Braarvig, R. Brownsword & D. Mieth (Eds.), *The Cambridge handbook of human dignity: Interdisciplinary perspectives* (pp. 74–84). Cambridge University Press.
- Mill, J. S. (2012). Democracy in the workplace I: Worker co-operatives. In D. McDonnell (Ed.), *Democratic enterprise: Ethical business for the 21st century* (pp. 65–75). University of Aberdeen.
- Miller, J. F., & Telles, R. L. (1974). The power of dignity: A matter of dignity. *The Personnel Administrator*, 19(5), 47–57.
- Moorhead, J. (2007, May 15), 'Milking it'. *The Guardian*. <https://www.theguardian.com/business/2007/may/15/medicineandhealth.lifeandhealth>
- Morin, P. -P. (2012). Managing human dignity and corporate performance. In A. M. D. Gomez & D. Crowther (Eds.), *Human dignity and managerial responsibility: Diversity, rights, and sustainability*. Gower Publishing, Ltd.
- Moss, C. R. (2012). *Ancient Christian Martyrdom*. Yale University Press.
- Naughton, M., & Alford, H. J. (Eds.). (2012). *Vocation of the business leader: A reflection*. Pontifical Council for Justice and Peace.
- Nohria, N., Groysberg, B., & Lee, L. E. (2008). Employee motivation. *Harvard Business Review*, 86(7/8), 78–84.
- Novkovic, S. (2006). Co-operative business: The role of co-operative principles and values. *Journal of Co-Operative Studies*, 39(1), 5–16.
- Novkovic, S. (2019). Multi-stakeholder cooperatives as a means for jobs creation and social transformation. In B. Roelants, H., Eum, S. Esim, S. Novkovic, & W. Katajamäki (Eds.), *Cooperatives and the World of Work* (pp. 220–233). Routledge.
- Ober, J. (2014). Meritocratic and civic dignity in Greco-Roman antiquity. In M. Düwell, J. Braarvig, R. Brownsword, & D. Mieth (Eds.), *The*

- Cambridge handbook of human dignity: Interdisciplinary perspectives* (pp. 53–63). Cambridge University Press.
- Pirson, M. (2017). *Humanistic management: Protecting dignity and promoting well-being*. Cambridge University Press.
- Pless, N. M., Maak, T., & Harris, H. (2017). Art, ethics and the promotion of human dignity. *Journal of Business Ethics*, 144(2), 223–232.
- Ponce, S. (2012). Knowledge workers and creativity class: From hopes and ideals to day-to-day reality. In A. M. D. Gomez & D. Crowther (Eds.), *Human dignity and managerial responsibility: Diversity, rights, and sustainability* (pp. 97–126). Gower Publishing Ltd.
- Prokopowicz, P., Żmuda, G., Stocki, R. (2008). Cognitive theory of total participation management. *Selected Proceedings of the IAREP/SABE 2008 Conference at LUISS in Rome*. Luiss University Press.
- Raz, J. (1979). *The authority of law*. Oxford University Press.
- Rebón, J. (2005). Trabajando sin patrón. Las empresas recuperadas y la producción. *Documentos de trabajo*, 44. <http://biblioteca.clacso.edu.ar/gsd/collect/ar/ar-030/index/assoc/D1509.dir/dt44.pdf>
- Robbins, B. D. (2016). The heart of humanistic psychology: Human dignity disclosed through a hermeneutic of love. *Journal of Humanistic Psychology*, 56(3), 223–237.
- Rogers, C. (1985). Toward a more human science of the person. *Journal of Humanistic Psychology*, 25, 7–24.
- Scammell, M. (2018, December 11). The writer who destroyed an empire. *The New York Times*. <https://www.nytimes.com/2018/12/11/opinion/solzhenitsyn-soviet-union-putin.html>
- Searle, J. R., & Willis, S. (1983). *Intentionality: An essay in the philosophy of mind*. Cambridge University Press.
- Shaikh, A. (2016). *Capitalism: Competition, conflict, crises*. Oxford University Press.
- Skinner, B. F. (1971). *Beyond freedom and dignity*. Bantam Vintage.
- Smith, A. ([1776]2010). *The wealth of nations: An inquiry into the nature and causes of the Wealth of Nations*. Harriman House Limited.
- Spiegelberg, H. (1971). Human dignity: A challenge to contemporary philosophy. *The Philosophy Forum*, 9(1–2), 9–64.
- Staniszczak, J. (2019). *Poland's self-limiting revolution*. Princeton University Press.
- Stephens, J. P., & Kanov, J. (2017). Stories as artworks: Giving form to felt dignity in connections at work. *Journal of Business Ethics*, 144(2), 235–249.
- Stetson, B. (1998). *Human dignity and contemporary liberalism*. Greenwood Publishing Group.

- Stocki, R., Prokopowicz, P., & Żmuda, G. (2012). *Pełna partycypacja w zarządzaniu: Tajemnica sukcesu największych eksperymentów menedżerskich świata*, wyd 2. poprawione [Total participation in management: The success mystery of the greatest management experiments in the world]. Oficyna a Wolters Kluwer Business.
- Talbott, S. L. (2017). Evolution and the purposes of life. *The New Atlantis*, 5(1), 63–91. <https://www.thenewatlantis.com/publications/evolution-and-the-purposes-of-life>
- Teixeira, M. L. M. (2021). From dignity in organizations to dignity between organizations. In M. L. M. Teixeira & L.M.B de Oliveira (Eds.), *Organizational dignity and evidence-based management* (pp. 3–12). Springer.
- Teixeira, M. L. M., Graças Torres Paz, M. D., & Alves, S. S. (2021). Dignity and well-being at work. In M. L. M. Teixeira, & L.M.B de Oliveira (Eds.), *Organizational dignity and evidence-based management* (pp. 271–281). Springer.
- Templeton, J. (1999). *Agape love: Tradition in eight world religions*. Templeton Press.
- Thomas, B., & Lucas, K. (2019). Development and validation of the workplace dignity scale. *Group & Organization Management*, 44(1), 72–111.
- Tiwari, A., & Sharma, R. R. (2019). Dignity at the workplace: Evolution of the construct and development of Workplace Dignity Scale. *Frontiers in Psychology*, 10, 2581.
- Townlwy, B. (1993). Foucault, power/knowledge, and its relevance for human resource management. *The Academy of Management Review*, 18(3), 518–545.
- Universal Declaration of Human Rights*. (1948). United Nations. <https://www.un.org/en/about-us/universal-declaration-of-human-rights>
- Verhaeghe, P. (2014). *What about me?: The struggle for identity in a market-based society*. Scribe Publications.
- Vlasic, B., & Apuzzo, M. (2014, March 19). Toyota Is fined \$1.2 billion for concealing safety defects. *The New York Times*. <https://www.nytimes.com/2014/03/20/business/toyota-reaches-1-2-billion-settlement-in-criminal-inquiry.html>
- Whyte, J. (2019). *The morals of the market: Human rights and the rise of neoliberalism*. Verso Books.
- Wojtyła, K. (1979). *The Acting person*, translated by A. Potocki and edited by A.-T. Tymieniecka. D. Reidel Publishing Company.
- World Cooperative Monitor. (2020). *Exploring the cooperative economy. Report 2020*. Euricse and International Cooperative Alliance. <https://monitor.coop/sites/default/files/publication-files/wcm2020-1727093359.pdf>

Open Access This chapter is licensed under the terms of the Creative Commons Attribution-NonCommercial-NoDerivatives 4.0 International License (<http://creativecommons.org/licenses/by-nc-nd/4.0/>), which permits any noncommercial use, sharing, distribution and reproduction in any medium or format, as long as you give appropriate credit to the original author(s) and the source, provide a link to the Creative Commons license and indicate if you modified the licensed material. You do not have permission under this license to share adapted material derived from this chapter or parts of it.

The images or other third party material in this chapter are included in the chapter's Creative Commons license, unless indicated otherwise in a credit line to the material. If material is not included in the chapter's Creative Commons license and your intended use is not permitted by statutory regulation or exceeds the permitted use, you will need to obtain permission directly from the copyright holder.





4

Cooperative Governance in Context

Sonja Novković, Karen Miner, and Cian McMahon

The word governance has its root in the Latin verb ‘Gubernare’ which derives from the Greek ‘Kybernan’, meaning ‘to lead, to steer, to be the head of, to set rules, to be in charge of the power’. Governance is related to vision, decision-making processes, power dynamics and accountability practices. The ultimate goal of governance is to effectively fulfill an organization’s goals in a way consistent with the organization’s purpose. Cooperatives are member owned and democratically controlled organizations. Their governance has to meet cooperative’s objectives, protect

S. Novković (✉) · K. Miner · C. McMahon

International Centre for Co-operative Management, Saint Mary’s University,
Halifax, NS, Canada

e-mail: snovkovic@smu.ca

K. Miner

e-mail: karen.miner@smu.ca

C. McMahon

e-mail: cian.mcmahon@smu.ca

© The Author(s) 2023

S. Novković et al. (eds.), *Humanistic Governance in Democratic Organizations*,
Humanism in Business Series,

https://doi.org/10.1007/978-3-031-17403-2_4

member interests and maintain member control. Cooperatives are also values-based businesses whose governance and management principles and practices need to reflect and safeguard their values. (Novković & Miner, 2015, p. 10)

4.1 Contextual Cooperative Governance Framework

Cooperatives differ from other enterprises due to their specific purpose and the nature of member engagement with the enterprise through self-help. How democratic governance plays out will depend on multiple internal and external factors—that is, on specific organizational situations (Cornforth, 2004).

Governance systems include structures, processes, and their dynamic interplay in response to internal and external forces (Eckart, 2009, p. 56). The corporate (and, indeed, cooperative) governance literature typically refers to structures, and is primarily concerned with ownership and control of the enterprise, as well as the composition and the role for the board of directors. We, however, adopt Eckart's conjecture that processes matter, particularly in democratic organizations such as cooperatives. How decisions get made, and how members and stakeholders engage with the organization is an important characteristic of cooperative governance and decision-making more broadly.

Democratic governance is understood as a process of collective learning by cooperatively doing (Cooley, 2020). The complex social-communicative interactions of firm participants, necessitating humane characteristics such as empathy, understanding, respect, affection, reciprocity, solidarity, trust, cooperation, and compromise, lead to emergent ideas, innovations, (tacit) knowledge, organizational culture, and (co)production of collective/associative intelligence (Laloux, 2014; MacPherson, 2002; Stacey & Mowles, 2016).

Dynamic interaction between processes and structures, one influencing the other, is how change is implemented in organizations. In the case of cooperatives, democratic processes and enabling structures also generate the dynamics of change in the organization.

4.1.1 Cooperative Purpose and Situational Democratic Governance

Cooperative organizations are jointly owned and controlled by their members, who engage with the enterprise in a “user-relationship” as workers, consumers, or suppliers (Borgen, 2004). Decision-making practices in cooperatives depend on the purpose of the organization, and their wider context. The cooperative enterprise is people-centred, jointly owned and controlled, and democratic (Novkovic & Miner, 2015; Miner & Novkovic, 2020). Following those key features of the co-op enterprise model, all cooperatives subscribe to democratic governance, although practices and forms of democracy will be context-dependent, changing with size, maturity, and co-op type, among other factors.

As outlined by Novkovic and McMahan, Chapter 2 in this volume (and Novkovic & Miner, 2015; Pirson & Turnbull, 2011), the humanistic theory of the firm points to the promotion of wellbeing and protection of human dignity with a multistakeholder concern. Human dignity is more likely to be promoted when stakeholders have a voice, as is the case in democratic cooperative organizations. The distinct foundations of the cooperative business model and its governance lay in collective ownership and associative logic (Novkovic et al., 2022), giving rise to governance systems marked by different motivations and purposes of the enterprise (see Table 2.1. of Chapter 2 in this volume).

Governance structures in cooperatives will be impacted by the organization’s purpose and the nature of the members’ relationship with the cooperative; processes are democratic, but situation dependent and not uniform; and the dynamics of organizational change involve the co-op’s adaptation and evolution in response to external and internal forces influencing members’ evolving needs and goals (including impact on future generations).

4.2 The Building Blocks of Democratic Governance Systems in Cooperatives: Structures, Processes, and Dynamics

4.2.1 Governance Structures

Different factors will shape formal governance structures in a cooperative. They include the nature of ownership and control, the type of governance bodies, and formal rules and policies (see Fig. 4.1).

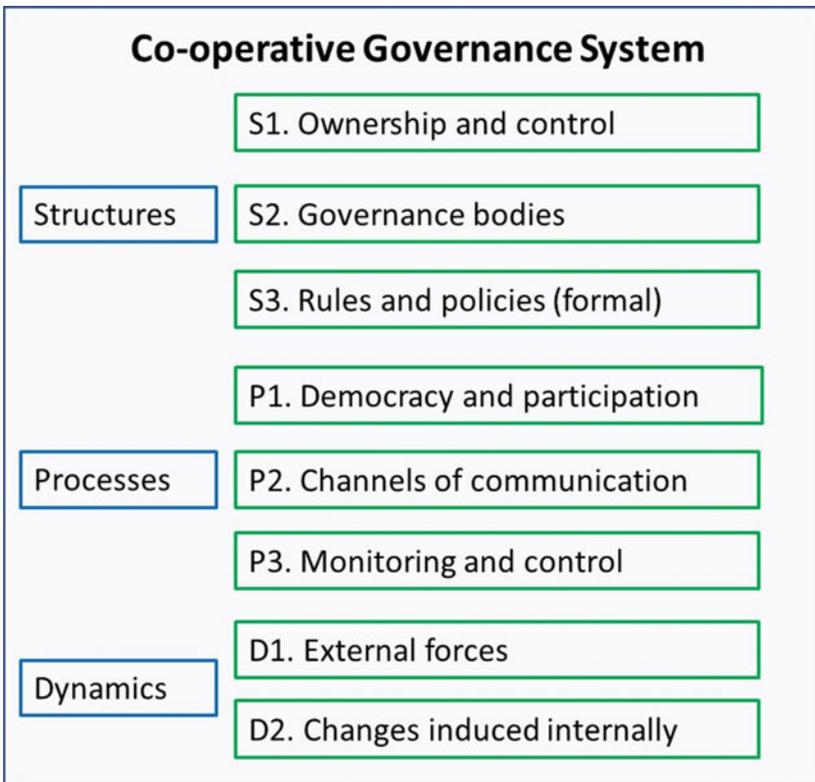


Fig. 4.1 Cooperative governance system

S1. Ownership and control. A cooperative is owned and controlled by its members. Ownership rights are collective, which is considered problematic in the economics literature, and often misinterpreted as “vaguely defined [individual] property rights” (Gray, 2004). The collective nature of ownership is thought to cause underinvestment and governance issues (Borgen, 2004; Dow, 2003; Sykuta & Cook, 2001) since the investment horizon is longer than membership tenure, and decisions are collectively made and not proportional to capital ownership. However, considering that cooperative ownership provides access to products and services and patronage-related benefits, rather than to a return on investment, members engage with the enterprise as “users” (who own, control and benefit from membership). Providing finance to the cooperative is a responsibility of membership, rather than an investment opportunity, although it can be both.

Depending on the nature of the member relationship with the organization—i.e. whether members are insiders (e.g. workers), or outsiders (e.g. consumers or producers)—separation of ownership and control either does not exist, as in the former case when managers are worker-members, or is diminished due to members’ direct access to management when compared with an investor-owned business (Eckart, 2009).

S2. Governance bodies (e.g. boards, general meetings, committees). Most governance literature focuses on the role, policies, and composition of the board of directors. Different theories accentuate different board roles, from monitoring and control (agency theory), to expert advice and collaboration (stewardship), or engagement of different stakeholders (stakeholder and resource dependency theories, for example). For the cooperative context we must calibrate the use of theories and models built on the assumptions fit for shareholder ownership to the member (“user”) ownership model.

In cooperatives, *boards of directors* are elected by the members, shifting the debate to a trade-off between member representation and voice on the one hand, and expertise on the other (Birchall, 2017). Eckart advocates for “cooperatively integrated boards” that include *both* member representation and cooperative professional knowledge (2009, p. 233).

We also subscribe to this view, and the emphasis on *cooperative* professional knowledge is essential among director (and management, see Davis, 2000) competencies.

Some cooperatives opt for a dual or *multiple board structure*, either due to regulatory requirements (Huhtala & Jussila, 2019), or in order to ensure accountability and better flow of information (see Suma case study, McMahon & Novkovic, 2021), or to enable deeper member engagement (i.e. more members actively engaged on an ongoing basis). In other cases, all members assume direct governance functions (i.e. all members are board directors), especially in small cooperatives.¹

General members' meetings are the ultimate decision-making forums in every cooperative. These meetings are held annually as required by most legal frameworks, although in many cases membership meetings are held more often. Those self-imposed rules are conditioned by the size and type of membership, as well as the organizational culture.

Committees, councils, or circles are additional forums for members' participation in decision-making in cooperatives. In traditional structures, a set of committees of the board is common. Many small cooperatives manage and govern by committees, in particular when they include workers, or other insider-members. Though less prevalent in larger cooperatives, OASFCU in Washington DC is an example that utilizes both a board of directors and a committee structure that engages a large group of non-elected volunteer members (McMahon et al., 2020).

Unions and panels provide representative structures of engagement between member and internal/external stakeholder interests. Labour/trade unions represent member and non-member workers through independent local/regional/national structures. The cases of Suma (McMahon & Novkovic, 2021) and Comebo (Lund & Liret, 2022) worker co-ops, for example, display various forms of local/national union representation, including on works/member councils, and varying approaches to union recognition and collective bargaining, given generally non-antagonistic and collaborative union-co-op relations. Some co-ops also invite wider stakeholder dialogue through, for example, supplier/customer/community panels.

¹ See the worker co-op case of Isthmus Engineering, as an example (Lund, 2021).

*The executive team.*² Although there is a consensus in the literature that governance tasks (vision, strategy, rules) are distinctly different from management tasks (implementation, operations), in practice, the roles may be blurred (Wilson, 2021). Further, the CEO has a distinct position in the organization, and plays an important part in its development. The relationship between the CEO and president (chair) of the board is important, where those roles exist and are separated (Cornforth, 2015)—although in some cooperatives the two roles may overlap. In those latter cases, concentration of power may become a concern, especially with a unitary board structure. Overall, and as stated above regarding governance bodies, those in management roles need similarly strong cooperative competency to support a cohesive “cooperatively integrated board”, or whatever relevant set of governance structures exist within a given cooperative.

Member participation in governance-related dialogue and debate may take place through various other forums. This can be particularly useful in cooperatives with a large membership where the member connections may be weaker. These mechanisms must extend beyond the use-relationship to involve members in ways that engage them in conversations that link to the ownership, control, and benefit dimensions of the cooperative. Example structures include member facilitation structures (Guillotte, 2022), member advisory panels, strategic planning consultations, or long-range scenario planning with member input. These efforts are not about day-to-day operations but instead create opportunities for members to voice on the future direction of the organization.

S3. Rules and policies. The choice of rules by cooperative members reflects cooperative values and the purpose of the enterprise. They result in concerns around the promotion of human dignity and social justice; fairness; preventing the concentration of power; and reducing personal risk to members, among others.

² The management team may be led by the CEO, general manager, an executive group, or all members in small cooperatives.

The function of governance is to provide a constitution and policies, i.e. rules that frame the way a cooperative operates; rules about the processes of changing the rules; roles and responsibilities of governance bodies and management, including control mechanisms; compensation policies; and other.

Members in all types of cooperatives make decisions about rules they agree to abide by, within and beyond the legal requirements. The legal structure is quite context-specific, both from country to country and in terms of the level of specificity for different types of cooperatives. Furthermore, the quality of laws varies, and this can pose challenges when laws are not aligned with the cooperative model, or may work at cross-purposes (e.g. weak provisions for avoiding demutualization; requirements for expert directors).

As a cooperative grows and becomes established, the rules change under the influence of external and internal factors. Rules for the cycle of cooperative reproduction (Stryjan, 1994) are extremely important, including conditions of membership renewal, means to engage in decision-making (voice, involvement), and the member selection process (onboarding in worker cooperatives, for example).

4.2.2 Governance Processes

Processes are defined as the way strategic direction-setting and control is carried out. These processes are democratic and participative in well-functioning cooperatives. However, what that means and how it may be executed is contingent on the type of members, and whether members are directly involved in the operations (insiders, such as workers or members in housing co-ops), or external to the organization (e.g. consumers or producers). Further, the size of the cooperative and its stage in its lifecycle will also influence the decision-making processes.

P1. Democracy and participation. As cooperative decision-making is collective, it is often described as slow and cumbersome. Ongoing negotiations and agreements are the hallmark of participatory governance mechanism (Schwarz 1979, as cited in Eckart, 2009, p. 75).

There are advantages to the democratic process, however, as buy-in from members is secured by the time of the decision, thereby reducing the implementation time (Eckart, 2009; Spear, 2004).

Cooperatives are looking for ways to reduce the decision-making costs (time, and conflict in particular). To do that, they use different forms of democratic processes—direct, deliberative, or representative democracy (delegate system, or trustee)—as well as decision-making rules (majority decision, decisions by consent, consensus, proxy voting, and so on). Schemes offered by sociocratic (dynamic governance) rules and processes of effective decision-making in flat, interconnected circles are on the rise in worker cooperatives and collectives (see the case of Unicorn Grocery, McMahan et al., 2021; also McNamara, Chapter 5 in this volume). The appeal is in the facilitated meetings, double-linking of circles to ensure information flows between different layers in the organization, and consent as a rule, speeding up the decision-making process (Buck & Villines, 2007; Rau & Koch-Gonzalez, 2018).

P2. Channels of communication: Members' voice may be exercised through formal or informal channels of dialogue and communication. Some communication means and tools may be formalized, and fall under the governance structures, but communication in cooperatives tends to be informal and ongoing particularly when members are insiders. Even within boards of directors, especially if they meet often, communication may be fluid and emergent, as evidenced by shifts in means of communication with changes in technology (e.g. cell phones and text messaging; social media, etc.). Communicating with members, or creating communication opportunities for outsider-members takes many forms, not least of which includes providing forums for social engagement which enables members and stakeholders to “be heard” and feel connected.

P3. Monitoring and control: Accountability through monitoring and control is discussed in the literature as a governance issue, both as part of the structures (see above), and as part of the processes. In cooperatives, these processes will be contingent on the co-op type and size; whether members are insiders or located outside of the organization; the degree and type of employee participation, and other factors. It is important to

be mindful of the interplay between control mechanisms and intrinsic motivations (Novkovic & Miner, 2019) to avoid counter-productive design impacting cooperative culture.

4.2.3 Governance Dynamics

Governance structures and processes change over time due to evolving internal and external forces.

D1. External forces: Eckart (2009) points to the changing external environment in which the original *raison d'être* of the cooperative may no longer be relevant, and advocates for a proactive approach to organizational change, rather than only responding to crises. Moreover, cooperatives are impacted by different competitive and institutional isomorphic pressures (DiMaggio & Powell, 1983) over their lifecycle, as well as processes of organizational reproduction (Stryjan, 1994).

Changing external environmental factors may include increasing market competition. This may induce innovative solutions if it accelerates cooperation among cooperatives and prompts the creation of consortia and cooperative groups. Group governance will naturally affect individual cooperative governance as independence is reduced, and heterogeneity increases (Eckart, 2009, p. 81; Sacchetti & Tortia, 2016).

Shocks and crises form another critical set of external forces, and the characteristics of these include their complex, uncertain, and unpredictable nature. The Covid-19 pandemic and climate change are two such examples, and the effect on organizational governance is quite clear. The health of the governance system is tested in the face of shocks and crises, presenting the necessity to be agile (not rigid), and hence able to evaluate and adapt to changes.

D2. Changes induced internally: As living organizations (Capra, 2002), cooperatives experience emergent dynamics through human interactions and communications. The interplay between processes and structures, one influencing the other, creates changes in an organization's governance system; for cooperatives one would conjecture that those shifts in structures occur as a result of participatory, democratic

processes. The potential danger for cooperatives with a more hierarchical decision-making structure³ lies in attempts to impose change on members and employees in a top-down process, instead of engaging them in the processes of dialogue and emergent change.⁴

Cooperatives are organizations with collective decision-making in their design; therefore, ongoing interactions between people through democratic processes will affect organizational structure. The more participatory the processes, the more dynamic will be the governance systems. Holacracy (Robertson, 2015) and sociocracy (Rau & Koch-Gonzalez, 2018) both provide tools for operational changes through a democratic process that can result, fairly quickly, in rules changes instigated from bottom-up in the organization. These practices are a good fit for participatory cooperative enterprises, particularly those with insider-members—although governance circles (Rau & Koch-Gonzalez, 2018) may include diverse stakeholders, both internal and external to the organization.

Changes induced internally can also emerge through scheduled and more formal governance activities. A governance system review processes is one example of this. Such a review of structures, processes, and dynamics creates an intense period of reflection and member dialogue to determine changes or status quo to the overall governance system. The routine and systematic nature of such a review provides an outlet to legitimize member's voice.

As any living organizations, cooperatives need both the designed and the emergent structures for long-term survival and resilience. The former provides stability by setting rules and routines, while the latter provides novelty, creativity, and flexibility (Capra, 2002). In other words, the complexity of cooperative organizations and their environments demands room for experiments and informal communications in order to innovate and thrive.

³ Viggiani (1997) calls them democratic hierarchies, “because [cooperatives in the study] were democratic and also functioning—at least in part—hierarchically” (p. 232).

⁴ This is a matter of values, but typically not perceived as a problem in cases of stewardship by leaders who impose changes that benefit employees and members.

Table 4.1 illustrates some aspects of democratic governance systems that emerge in cooperatives,⁵ contingent on the purpose and nature of membership, as well as other factors.

4.3 Situational Variables Impacting Cooperative Governance

Cooperatives are democratically governed. However, rather than fitting under one umbrella, governance systems in cooperatives differ and depend on a number of variables, as pointed out earlier. Key among them is membership type, i.e. the nature of members' engagement with the cooperative, followed by the purpose of the enterprise. Other critical variables affecting governance systems include the size and stage in the lifecycle of a cooperative, and its stakeholders (see Fig. 4.2). Besides these core situational variables, governance of cooperatives will be impacted by various other internal and external forces including organizational culture, economic sector, regulatory and competitive pressures in particular industries, rating agencies, and major system shocks (pandemics, climate change, economic recessions). These factors are more variegated, however, and hence are not considered in detail.

4.3.1 Co-op Type and Purpose of Membership

Cooperatives are formed by groups of members who meet their needs through a jointly owned and controlled enterprise. According to the role members have in a cooperative's operations, cooperatives are established by consumer, producer, or worker-members. Some cooperatives engage multiple types of members (multistakeholder, or solidarity, cooperatives). Cooperatives classified by members' interest, therefore, include worker, producer, consumer, and multistakeholder cooperative forms (Eum et al.,

⁵ The list is not exhaustive, as innovative practices emerge in complex, dynamic environments.

Table 4.1 Elements of cooperative governance: structures, processes, and dynamics

Democratic governance system	Governance practices	
Democratic structures		
S1. Ownership and control	One member, one vote Voice by patronage (not one member, one vote)	Indivisible reserves/asset lock
S2. Governance bodies	Assembly (general members' meeting) Elected boards Multiple boards Member councils Workers' councils Regional councils Functional member committees Unions	Advisory committees and panels Solidarity committee Governance review committee Nominations Committee Circles (sociocracy) Executive team Coordinators' forums
S3. Rules and policies (formal) including monitoring and control	Legal structure Policies—compensation, monitoring, and control, accountability, board composition, etc	Bylaws Reports (regulated or internally mandated)
Democratic processes		
P1. Democracy and participation	Direct democracy -Participatory -Deliberative Representative democracy -Delegate system (directive) -Trustee system (non-directive)	Electing directors to the governing body Demarchy ⁶ (sortition) Sociocracy—decisions by consent
P2. Channels of communication	Formal communication (e.g. eNews, website, etc.) Informal communication (SMS; social media; "watercooler" conversations)	Member consultations (surveys, focus groups)

(continued)

⁶ While not a democratic process per se, sortition may be used as a random sampling method of selection of representatives from a large member population into different bodies.

Table 4.1 (continued)

Democratic governance system	Governance practices	
P3. Monitoring and control	Processes for accountability Governance system review process	Peer monitoring (evaluations)
Dynamics/change		
D1. External forces	Response to crises (static vs. adaptation) Isomorphic pressures—internal and external forces (competition, regulation, ratings, etc.)	Stakeholder influence (external, non-member)
D2. Changes induced internally	Internal dialogue Conflict resolution	Emergent changes Non-member worker influence

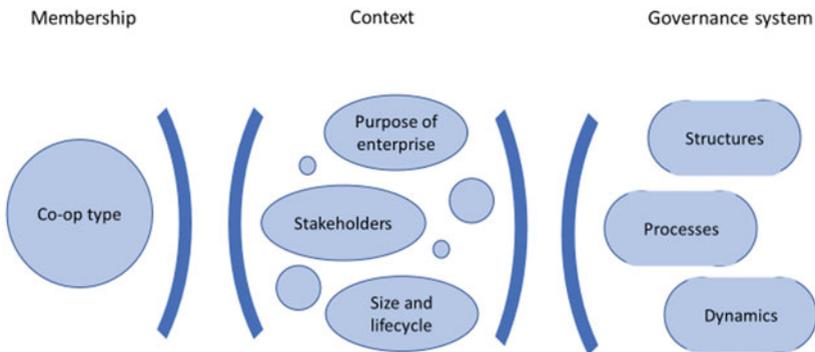


Fig. 4.2 Variables impacting governance systems in cooperatives

2020, p. 17). This typology is most relevant for its impact on governance, so this is what we continue to use below. However, we note that there are other common features by which to identify cooperatives, such as the economic sector in which they operate (e.g. financial, agricultural, or housing cooperatives); whether members are insiders or outsiders (worker or housing co-ops are examples of the former, while

credit unions or retail cooperatives signify the latter); socio-economic function (youth cooperatives; women's cooperatives; or work-inclusion cooperatives belong to this typology).

The purpose of membership in a worker cooperative is to secure decent work, enable control of one's working life (voice), and ensure job security, fair pay, and self-determination. Promotion of human dignity is evident in worker cooperatives; they are therefore the cornerstone of humanistic economic theory, and humanistic management practice. Worker cooperative start-ups often address social justice and labour rights issues, although they may be a result of business conversions (Vieta, 2019) or worker takeovers in some cases (see Vieta, 2020).

The purpose of membership in a consumer cooperative typically includes access to reasonably priced goods/services, but it may also be about product quality measured either in nutritional value, or ingredients (non-GMO, organic, for example), or ethical production and distribution such as fair trade certified products, locally sourced products, etc. In the case of housing cooperatives, members reduce risk by removing their assets from market fluctuations, gain access to affordable housing, and gain a sense of ownership and control over the place where they live. Financial cooperatives on the other hand often serve as vehicles for local community development, besides providing financial access to (often) underserved segments of the population.

Members join a producer cooperative to mitigate “market failures”, such as monopsony markets, but also to secure access to input or output markets; to benefit from scale economies; to produce value added; or to pool risks.

Lastly, multistakeholder cooperatives attract diverse stakeholders with a shared complex purpose or mission. They often provide a common good of “general interest” to a community. These can be local community-owned cooperatives serving as vehicles for revitalization of an area, protection of the commons, or social cooperatives providing welfare services (see Borzaga & Defourny, 2001; Borzaga & Depedri, 2014; Lund, 2011; Vézina & Girard, 2014; Ostrom 1990).

The member logic and resultant rules differ depending on the nature of the relationship with the organization—as consumers, workers, producers, or supporters of the cooperative mission. This, arguably,

is the defining factor when considering diverse models of democratic cooperative governance. We therefore give it special consideration.

4.3.2 Context: Purpose of Enterprise

The purpose of an enterprise in the social economy is complex. Novkovic and McMahon, Chapter 2 in this volume, summarize purpose through a humanistic view as being about total value creation, and long-term use of the enterprise for shared purpose with use/work as the driving force (activity; not profitability). While investor-owned firms subscribe to a simple purpose to maximize return, or increase company value, cooperatives need to maintain the provision of use-value to their members which is based on specific foundations and the assumed nature of “Man”. While a broad set of characteristics unify the purpose of the cooperative enterprise, co-ops are also diverse—whether they are mission driven, or address market failures in the start-up phase, they all need to revisit their purpose as they mature.

Membership type and enterprise purpose are interconnected. In the case of worker cooperatives, social purpose dominates with the provision of jobs, solidarity, and control over working conditions being at the forefront. Consumer cooperatives have a financial purpose (fair pricing) and social purpose associated with accessing quality goods and services, or de-commodifying necessities such as housing. Producer cooperatives also have a financial purpose in securing scale and/or market access to members, but often producers also care about fairness and solidarity in the supply chain; or stewardship of land and other natural resources. Multistakeholder cooperatives (MSCs) naturally see a broader purpose for the enterprise, in addressing the needs and aspirations of diverse key stakeholders-members. The MSC purpose can be general or complex; it typically includes social and economic dimensions, and often contributes to protecting the commons.

Besides the nature of member engagement with the cooperative, the purpose of the enterprise will impact the democratic governance systems. These are the two deciding factors which differentiate one co-op from another.

When it comes to other factors, size and stage in the lifecycle will impact cooperatives in similar ways, regardless of their type. Engaging

stakeholders other than the members also has some shared features, although, as a rule, cooperatives with outsider-members (consumer and producer co-ops) often realize that they need the insiders (employees) to carry the message and operationalize the organizational values. Therefore, they often create governance structures such as employee forums, workers councils, committees with employee representation, etc., or the workers themselves (who are often service user-members in their own right) decide to unionize the organization as a counterweight to corporate professionalization.⁷

4.4 Governance Systems Across Cooperative Types

This section discusses governance systems in worker, consumer, producer, and multistakeholder cooperatives with each membership type resulting in noticeable differences in governance structures, processes, and dynamics.

4.4.1 Governance in Worker Cooperatives⁸

Worker-members are insiders in the organization, engaging in daily operations with other worker-members and, in some cases, non-member employees. The focus of governance is in establishing a system that maintains direct control and democracy in the hands of the workers, in ways that diffuse power and ensure equality among members.

⁷ See, for example, the decision and rationale of consumer co-op workers at REI (Recreational Equipment, Inc.) in New York to unionize their workplace (Scheiber, 2022).

⁸ Members in a worker cooperative are in an employment relationship with the collectively-owned enterprise, and have a non-separable contribution to the organization. We are differentiating it from producer cooperatives of self-employed members and/or their enterprises. The latter are cooperatives of independent professionals, artists, service providers, or agricultural producers who either sell their product/service through the co-op, or engage in an employment contract providing them with income smoothing and social protection.

Structures—Worker Co-ops

There is relatively little to no separation of ownership and control in worker cooperatives; governance structures premised on an agency relationship are therefore not the right fit, and, when implemented, may serve as a self-fulfilling prophecy, disempowering workers. Rather, organizational design supporting autonomous motivations (see Novkovic & Miner, 2019), stewardship, and reciprocity may be more conducive to an appropriate organizational culture in worker cooperatives. Worker cooperatives are often mindful of potential conflictual relationships given member proximity to the organization and to each other.

Worker cooperatives typically espouse a collective mindset. Joint ownership is well understood, often resulting in the creation of indivisible reserves as an asset lock, even when this is not legally mandated (Lund & Hancock, 2020; Pérotin, 2016). Worker-members can frame the management structure, select a management team, and contribute to peer monitoring practices thereby reducing governance-related monitoring costs (Putterman, 1984).

Flat structures with all members serving as directors are also not unusual in worker cooperatives (see, for example, Lund, 2021 and McMahan et al., 2021), particularly when the number of members is relatively small. Member meetings are more frequent, and they may deal with operations as well as governance issues. In larger organizations, a separation of functions starts to emerge through multiple control centres, which also provide for a system of checks and balances on authority (see, for example, McMahan & Novkovic, 2021). Some workers are elected to the governing board, or other structures, as well as management functions. Managers are most often insiders, selected among the members.

The main drivers of policies and governance structures in worker co-ops are the members' concern for equality and the diffusion of power (one member, one vote; transparency) and equity, i.e. fair income distribution based on work contribution. Often, operations are carried out in committees, or self-managed teams. Worker cooperatives use diverse structures to ensure worker control. These may include workers' councils,

social councils (e.g. Mondragon, see Freundlich, 2015), or sociocratic circles (see McMahon et al., 2021 on Unicorn cooperative), for example.

Policies in worker co-ops generally set out to protect workers/members; ensure equality (all voices are heard; worker-controlled flexibility; diffused power) and equity (income distributed according to work; fair division of labour); and facilitate conflict resolution. Worker co-ops are particularly vulnerable to conflict, as workplace issues become personal. Sociocracy offers tools that are particularly well suited for decision-making in worker co-ops, with facilitated meetings and decision-making by consent.

Processes—Worker Co-ops

Participative democracy is more likely in small worker cooperatives, but as they grow, a representative structure may become necessary. Direct democracy in many large worker co-ops is increasingly confined to general meetings, while indirect forms of democracy come more and more to the fore. This does not necessarily imply a deficit in worker participation, and may even increase the effectiveness of participatory democracy overall (see McMahon & Novkovic, 2021; McMahon & Miner, 2021). However, representative workplace democracy also bears oligarchic tendencies, unless countered by healthy formal and informal democratic process (see Cornforth, 1995; Cannell, 2010, 2015). This requires maintaining high levels of member and stakeholder involvement in governance and management, and establishing an organizational culture of mutual respect and understanding in social relations of interpersonal communication (Cannell, 2010, 2015; Stacey & Mowles, 2016).

Over time, or indeed at the outset, it may be possible to create and maintain largely direct or collective forms of worker co-op democracy even at the medium scale. Democratic models of sociocracy (Rau & Koch-Gonzalez, 2018) and holacracy (Robertson, 2015), for example, are increasingly popular in worker cooperatives, allowing for specialization of tasks, functions, roles, and responsibilities (often with job rotation), without abandoning consensus-based decision-making (see, for example, McMahon et al., 2021).

It is imperative to underline in all of this the centrality of internal worker “reproduction” (Stryjan, 1994)—i.e. attracting, keeping, and eventually replacing the “right” kinds of workers/members, meaning those best suited to a thriving participatory organizational culture. This implicates recruitment, hiring, onboarding, education and development, and turnover and succession practices and processes (Cornforth, 1995). A firm basis in the cooperative identity is crucial, especially when considering co-op professionalization under the related pressures of competition and scale (Basterretxea et al., 2022).

Appropriate processes of monitoring and control take on an unusual guise in a participatory worker co-op setting. In place of the unaccountable hierarchy of standard corporate governance practice—all too often replicated in degenerative worker co-ops—there is instead the possibility of a “reverse dominance hierarchy” (ibid.) rooted in an engaged worker-membership. Taken to extremes, this presents its own dangers unless decisions can be effectively agreed and communicated across the various governance bodies. Yet the informal collective disruption of formal structures and processes can also offer a powerful means of instigating worker co-op regeneration in other circumstances.

A regular governance review mechanism, subject to membership consultation and approval, greatly assists in identifying governance issues and developing solutions (Cornforth, 1995).

Dynamics—Worker Co-ops

Worker co-ops face intense competitive and institutional isomorphic pressures to conform to standard corporate governance practice. This is particularly so concerning regulation of the employment relation (see Cannell, 2010); but the wider political-economic regulatory regime is also generally hostile to this form of co-op (e.g., see Costa Vieira & Foster, 2021). The weakening of the global labour movement in recent decades has given a new lease of life to “boss culture” (Larrabure, 2013, p. 170) in the minds of many workers. This subordinate attitude, while not universal, immutable, or unchallenged, often infiltrates worker co-op settings to the detriment of vibrant participatory democracy.

It is vital as worker co-ops grow and mature that emergent ideas and innovations from workers/members inside the organization can adapt to changing conditions. Flat structures and consensus decision-making in earlier stages of development may eventually need to give way to multiple control centres with checks and balances on decision-making powers to ensure accountability and broad-based support or agreement (McMahon & Novkovic, 2021; Turnbull, 2002).

4.4.2 Governance in Consumer Cooperatives

Consumer co-ops in the retail, food, and financial sectors tend to be owned by relatively large, mostly outsider, customer-memberships, who purchase the commodities and receive patronage dividends in proportion to their use of the business. Given their predominantly transactional interests in the co-op, broad member understanding of the meaning of membership is often lacking, and participation rates in governance (electing the board directors and attending general meetings, for example) and interest in the general affairs of the business are low (Spear, 2004).

Structures—Consumer Co-ops

The governance structure of consumer co-ops is often conventional, with an elected board of directors who hire a (generally external) CEO or general manager to run the day-to-day operations. Agency issues are more likely to arise, and standard corporate governance practices and consequent control mechanism are also common (see Eckart, 2009).

It is possible for consumer co-ops to establish greater participatory democracy in governance and management by evolving representative bodies to help ensure accountability to the wider membership and strategic stakeholders. In order to do so, consumer co-ops would expand opportunities for member participation in governance activities by moving beyond a simple governance structure: i.e. the unitary board of directors and typical hierarchy of committees (see Spear, Chapter 7 in this volume).

For example, to alleviate the low participation issue, consumer cooperative members may elect a membership council which becomes the members' representative oversight body monitoring the board, potentially also playing a vital two-way communication role between the board and the wider membership (see Puusa and Saastamoinen, Chapter 6 in this volume). While arguably less common, regional and delegate structures are another approach to increasing the number of engaged members. Supervisory boards also form a structure involving members, intended to act as a watchdog on the board of directors (Huhtala & Jussila, 2019). Various governance committees and stakeholder panels can play a similar role. For example, see McMahan et al. (2020) on the OAS Federal Credit Union case, which utilizes a vibrant non-elected committee system in support of the legally mandated elected board of directors. Similar decision-making mechanism can be established in housing co-ops, which, given their generally smaller memberships, also have the option of flatter structures with higher participation rates in co-op governance.

Mechanisms of worker participation (e.g. labour unions, collective bargaining, works councils, worker directors, etc.) also have a productive role to play in establishing a greater sense of stewardship between workers, management, and the board of many consumer co-ops. Careful onboarding of employees who are values-aligned with the cooperative mission (e.g. Vancity credit union, see Côté, 2019) secures preservation of the organizational purpose and culture. In combination with a more active membership, this may prove a more effective and democratic check on possible agency issues such as managerial or worker opportunism (Eckart, 2009). It again suggests a degree of manoeuvrability within seemingly rigid legal ownership structures, helping to establish greater stakeholder influence and control over the organization's destiny.

Processes—Consumer Co-ops

In consumer co-ops, common features include the type of democracy employed and the relatively low level of engagement in governance processes. Most often, representative democracy is the standard practice,

with participation opportunities being that any member can choose to run for and elect the board of directors. What is witnessed often are low levels of awareness and engagement in both of these processes. In larger consumer co-ops, who runs for the board is often constrained and limited to those deemed to have the requisite skills and experience. This is sometimes viewed as an inappropriate constraint, especially if skills and experience are narrowly defined. However, this approach can work to safeguard cooperative expertise when it is given priority in the selection of candidates. Unfortunately, particularly in large and mature cooperatives, these processes often result in corporate professionalization of governance bodies without the requisite cooperative expertise, and director education is insufficient to address the knowledge gap. In smaller co-ops, democratic engagement may be higher, and co-ops can be challenged to find members willing and skilled at governance to fill board seats.

Channels of communication with consumer members tend to be similar to other types of enterprises and indistinguishable from marketing campaigns. Employees, who are often also consumer members, may carry the message of the cooperative model if they are trained to recognize the difference between a consumer-member, and a customer. Unless organizational culture nourishes cooperative values, an expectation of employees as cooperative knowledge keepers and messengers is not an easy task.

Dynamics—Consumer Co-ops

External forces and internally induced changes are problematic for any co-op, but they seem to be the Achilles heel of consumer cooperatives. Particularly as consumer co-ops grow and mature over time, member engagement and involvement in governance tend to wane, along with knowledge and appreciation of the founding purpose of the co-op. This potentially creates degenerative tendencies through corporate (not cooperative) professionalization, and consumer cooperatives are therefore vulnerable to eventual demutualization, particularly as their asset base increases, often without the protection of indivisible reserves (see

Brazda & Blisse, 2018; Couchman & Fulton, 2015; Fulton & Girard, 2015). Furthermore, consumer co-ops in competitive industries are faced with intense pressure to mimic non-cooperative competitors. While this may warrant changes to the governance structures and processes, it is not necessary to reduce adherence to cooperative governance. Regulatory pressures do often result in cooperative mergers (as in the case of credit unions, for example), and thereby introduce more complexity, as well as innovations, to cooperative governance.

4.4.3 Governance in Producer Cooperatives

Producer cooperatives form through an alliance of independent producers, in some cases running a small business, in other cases self-employed. The challenge for producer cooperatives is to remain relevant to their members, who can decide at any time to break off from the cooperative and attempt to sell their products independently through other channels. The members typically scrutinize the competitive advantage of remaining in a cooperative.

Structures—Producer Co-ops

Since members in producer cooperatives are outsiders represented by a board of directors who hire professional management, principal-agent issues may arise. Governance structures are often traditional, with a general membership meeting as the decision-making body that elects the board of directors.

Cooperative rules define the usership relationship with the cooperative, such as the per member product flowing through the co-op and the resulting patronage dividends and supply management rules. They may therefore blur the lines between a member's interest in operations and governance, as supply management and new member onboarding (which can dilute benefit to the other members) are pressing issues impacting economic viability and benefit to individual members. Producers are also often asked to provide significant infrastructure investments to ensure competitiveness, diversification, and risk pooling; therefore, the financial

stake that members have in their co-op (through investments and ownership of capital) may play a more dominant role in the minds of members in this type of cooperative than in others.

Market concentration in the agricultural sector over recent decades has also forced many producer cooperatives in this sector to merge, and proximity to members may be jeopardized as cooperatives merge or otherwise grow (Bijman & Van Dijk, 2009, as cited in Cook, 2014). To bring members closer to the co-op, member councils or supervisory boards have often been established to mediate between the board of directors and a large, heterogeneous membership. Some agricultural cooperatives institutionalize mentorship/ambassador programs as another way to enhance member participation (see Guillotte, 2022). The inclusion of these types of structures (beyond a unitary board) encourages healthy member engagement and are correlated positively with co-op performance (Cook & Burrell, 2013).

Given that the increased complexity at scale forces many such organizations to seek and invite external expertise on to governance bodies, intermediary bodies can also function as a recruitment and training ground for (younger) lay members to acquire the knowledge and skills necessary to represent member interests on the board. Members that become skilled in governance and knowledgeable about the cooperative model itself (as they should be as members) play an essential role in safeguarding and stewarding the cooperative and forestalling degeneration. Adherence to cooperatives' dual economic and social purpose therefore requires that any moves towards corporate professionalization are adapted to fit the co-op identity and enterprise model.

Processes—Producer Co-ops

The processual challenge for producer cooperatives—outsizing even structural concerns—is member engagement, feedback, transparency, and improving communication (Cook & Burrell, 2013). These concerns are amplified by the geographical remoteness of independent producers from one another. Formal and regular communication processes are important, plus greater opportunities for member engagement,

voice, and co-learning can be facilitated through regional forums bringing producer representatives together, and/or through floating organizers/advisors who transfer information and engage in dialogue horizontally between independent producers, and vertically between the central organization and its component producers—such practices can be coordinated both by primary and secondary co-op organizations (Birchall, 2017; Guillotte, 2022; McMahon, 2022).

Healthy co-op governance processes may also be impeded by management capture, where decision-making power is concentrated with the CEO as producer co-ops grow and increasingly face the complexity of international markets (Bijman & van Dijk, 2009; Cook, 2014). This underscores the importance of member engagement in governance processes, cooperative professional experience among engaged members, as well as ongoing co-op management/director education and training in producer co-ops (McMahon, 2022).

Dynamics—Producer Co-ops

Agricultural cooperatives have been pressured by external developments over many decades of increasing globalization. The tendency has been aggressive growth, high capitalization, loss of member proximity, member heterogeneity (Cook, 2014), inclusion of external board members, and often a slow shift from democratic control into managerial capture, at times with a separation of the business from the cooperative (i.e. co-ops becoming holding companies—Bijman & van Dijk, 2009, as cited in Cook, 2014).

These factors create a dangerous combination of a lack of member oversight or the provision of meaningful input into strategic direction. In Canada and the US, the need for large investments in agriculture saw the creation of hybrid “new generation cooperatives” (NGC) which “facilitate a strong market orientation by defining membership and requiring high supply and equity capital commitments” (Grashuis & Cook, 2018, p. 623). In other words, NGCs violate some of the ICA principles, with closed membership and investment shares. The authors establish that the

survival rate of these cooperatives over the 20 years since their forming was dismal, and slightly lower than the competing companies in similar industries (p. 633).

Under pressures for sustainable food systems, small agricultural producer cooperatives also organize to engage in short supply chains (farm to table movement), or various community-supported agriculture and local food distribution schemes (see Friedel and Dufays, Chapter 9 in this volume).

4.4.4 Governance in Multistakeholder Cooperatives

Multistakeholder cooperatives (MSCs or solidarity cooperatives) integrate multiple types of members into cooperative ownership and democratic governance. Varied member categories may include workers, consumers, producers, community supporting members, or cooperatives and other organizations. MSCs therefore internalize externalities by ensuring that both ownership and control are in the hands of the key constituents impacted by, and contributing to the operations of the organization. They develop in all types of industries, but are more prevalent in complex situations which require meaningful engagement from various stakeholder groups.

Structures—MSCs

The complex purpose of the enterprise is a key determining factor of membership and governance structures in MSCs. Diverse members do not necessarily represent a particular interest group, as predicted in economic theory based on the assumption of self-interest, but engage in solidarity with others for a common purpose (Borzaga & Depedri, 2014; Novkovic & Miner, 2015, 2019). Lund (2011) terms this feature “solidarity as a business model”, arguing that stakeholders in MSCs build long-term relationships to encourage transformation, rather than engage in purely transactional relations.

Multistakeholder cooperative governance is diverse. In some cases, the structure—particularly the breakdown of representative types on

the board of directors—is prescribed by law (see Lund, 2011; Lund & Novkovic, forthcoming; Vézina & Girard, 2014), while in others it is defined by the bylaws. The rules include the types of stakeholders included in the membership, eligibility, and the breakdown of voting power, roles, and responsibilities, by membership type.

Given the wide diversity of the application of MSCs, it is more difficult to generalize the types of governance structures employed. MSCs may engage their different constituents through diverse forums, such as workers councils, community councils, and committees, but they may also structure these bodies to ensure all constituents are represented in all decisions. Or, structures may be more traditional and limited (e.g. unitary board of directors). Regardless of the structures in place, having multiple member types at the table—in ownership, control, use, and benefit—is a critical distinction from single member type co-ops. This is also distinct from “multistakeholder governance” where stakeholders are invited to contribute their voice to the board of directors, without the other elements that form cooperative membership—ownership, control, and benefit.

This added heterogeneity in membership and governance is termed problematic in the transaction costs literature, built on the assumption of competing interests (Dow, 2003; Hansmann, 1996). In reality, cooperative members simultaneously engage with the cooperative in multiple roles, as workers, consumers, providers of finance, and community members (Mamouni Limnios et al., 2018). Further, Borzaga and Depedri (2014) point out that theoretical considerations of MSCs do not translate into practice. Members of multistakeholder social cooperatives in Italy share the organizational mission and purpose, translating into simplified and less costly decision-making processes (ibid., p. 153).

The inclusion of labour as a voting member category is of particular importance for best MSC governance, given the key position of insiders as shapers of organizational culture and values (Novkovic, 2020). It is perhaps for this reason that so many MSCs in regions where they proliferate, such as in Emilia Romagna or Quebec, do indeed provide separate membership status to workers (Lund & Novkovic, forthcoming). The Mondragon group also features a number of MSCs (some 25% of the group’s cooperatives; see Imaz et al., Chapter 10 in this volume)

which showcase workers as the mandatory member category. An added complexity in Mondragon's case is the role played by the existing cooperatives in the development of many MSCs where one member category is occupied by the cooperative enterprises as founding and supporting members. In all cases, a concern for worker control and voice dictates the makeup of governance structures.

Processes—MSCs

Multistakeholder governance is more likely to fulfil stakeholder-specific and broader societal needs than single member co-ops. In particular, democratic deliberation by multiple constituents seems to provide a good solution to complex social issues (Girard, 2015) which takes on even greater significance today and into the future than it did in past decades.

Challenges of member reproduction (Stryjan, 1994) take on added significance, given that MSCs must recruit, retain, retrain, and replace not only suitable insider-members (in worker-inclusive MSCs), but also suitable outsider-members, who can likewise contribute to effective participatory governance in pursuit of the diverse co-op membership's common purpose.

Communication processes must appeal to and match the needs of all members. This requires effort and skill to ensure that communication is effective and encourages dialogue among members. To the degree that disagreements arise, formal and informal processes of democratic deliberation and conflict resolution are also paramount.

Information sharing in MSCs is critical, since members are engaged in different ways and through different channels. Members can also engage in operational matters, through which they can better understand the organizational culture and contextualize issues of strategic importance for the organization. Mixed membership forums and opportunities for exchange are often involved, at times in social settings which allow for more informal relations.

Dynamics—MSCs

The organization typically includes both insider and outsider-members, a feature that can improve communication, but can also impede it and create cliques if adequate conflict resolution structures and processes are not in place. Conflict resolution may in fact be the driving force for change. Multistakeholder organizations search for ways to solicit member feedback (through surveys, for example), which serve as tools for dynamic and interactive organizational development. By its nature, influences can be both internal and external. Mutually beneficial institutional relationships with the wider cooperative and labour movements may provide resources to assist the smooth functioning of this dynamic (e.g. trade union collective agreements contain provisions for conflict resolution that MSC members can learn from).

More recent interest in the governance of the commons has also brought MSC ownership and control into focus. Multistakeholder governance in cooperatives offers a blueprint for democratic engagement of diverse stakeholders around a common purpose and the common good (Lund and Novkovic, forthcoming).

4.5 Concluding Remarks

This chapter set the stage for differentiation between governance systems in cooperatives, taking context into consideration through select key defining variables. This differentiation starts with the membership type, with focus placed on the member benefit from a usership role tied to being consumers, workers, producers, or a combination of various member types in a multistakeholder cooperative. The purpose of the enterprise also serves as the members' motivation to join forces in a cooperative enterprise; this may be narrowly or broadly defined to encompass the expectations inherent in the ICA Identity Statement. Stakeholders (beyond members), plus the organization's size and the stage in its lifecycle (new through mature) are the remaining critical variables highlighted in this chapter. These context-specific variables result in many forms of "best cooperative governance", all of which must

manage the dynamic interplay of member expectations of a democratic and participatory system that can balance internal forces on the one hand, and external pressures on the other: from competition-induced growth, to changing industries and regulations, to broader societal and environmental pressures.

References

- Basterretxea, I., Cornforth, C., & Heras-Saizarbitoria, I. (2022). Corporate governance as a key aspect in the failure of worker cooperatives. *Economic and Industrial Democracy*, 43(1), 362–387.
- Bijman, J., & van Dijk, G. (2009, June 15–17). Corporate governance in agricultural cooperatives: A Dutch perspective. Paper presented at the International Workshop of Rural Cooperatives in the 21st Century. Rehovot, Israel. https://www.academia.edu/45382176/Corporate_Governance_in_Agricultural_Cooperatives_A_Perspective_from_the_Netherlands
- Birchall, J. (2017). *The governance of large co-operative businesses*. Co-operatives UK. <https://www.uk.coop/resources/governance-large-co-operative-businesses-0>
- Borgen, S. O. (2004). Rethinking incentive problems in cooperative organizations. *The Journal of Socio-Economics*, 33(4), 383–393.
- Borzaga, C., & Defourny, J. (Eds.). (2001). *The emergence of social enterprise*. Routledge.
- Borzaga, C., & Depedri, S. (2014). Cooperatives providing welfare services: The case of Italian social cooperatives. In C. Gijselinckx, L. Zhao, & S. Novkovic (Eds.), *Cooperative innovations in China and the West* (pp. 140–158). Palgrave Macmillan.
- Brazda, J., & Blisse, H. (2018). *Beiträge zur kritischen Genossenschaftsforschung*. WIENER STUDIEN DES FORSCHUNGSVEREINS FÜR GENOSSENSCHAFTSWESEN NEUE FOLGE BAND 24. Eigenverlag des FOG.c
- Buck, J., & Villines, S. (2007). *We the people: Consenting to a deeper democracy: A guide to sociocratic principles and methods*. Sociocracy.info Press.
- Cannell, B. (2010). Break free from our systems prison: Implications of complex responsive process management thinking. Paper presented at the

- UKSCS Conference, Wales. https://www.academia.edu/36658111/Break_Free_from_Our_Systems_Prison
- Cannell, B. (2015). Co-operatives as Conversation: Suma Wholefoods UK. In S. Novkovic & K. Miner (Eds.), *Co-operative governance fit to build resilience in the face of complexity* (pp. 70–73). International Co-operative Alliance. <https://www.ica.coop/en/media/library/cooperative-governance-fit-build-resilience-face-complexity>
- Capra, F. (2002). *The hidden connections: Integrating the hidden connections among the biological, cognitive, and social dimensions of life*. Doubleday.
- Cook, M. (2014). Stakeholder participation in cooperative governance in U.S. agricultural cooperatives. In C. Gijssels, L. Zhao & S. Novkovic (Eds.), *Co-operative innovations in China and the West* (pp. 109–124). Palgrave MacMillan.
- Cook, M. L., & Burrell, M. J. (2013). The impact of CEO tenure on cooperative governance. *Managerial and Decision Economics*, 34(3–5), 218–229.
- Cooley, M. (2020). *The search for alternatives: Liberating human imagination*. Spokesman Books.
- Cornforth, C. (1995). Patterns of cooperative management: Beyond the degeneration thesis. *Economic and Industrial Democracy*, 16, 487–523.
- Cornforth, C. (2004). The governance of cooperatives and mutual associations: A paradox perspective. *Annals of Public and Cooperative Economics*, 75(1), 11–32.
- Cornforth, C. (2015). The eternal triangle: The crucial role of the Chair and Chief Executive in empowering the board. In S. Novkovic & K. Miner (Eds.), *Co-operative governance fit to build resilience in the face of complexity* (pp. 95–103). International Co-operative Alliance. <https://www.ica.coop/en/media/library/cooperative-governance-fit-build-resilience-face-complexity>
- Costa Vieira, T. D., & Foster, E. A. (2021). The elimination of political demands: Ordoliberalism, the big society and the depoliticization of cooperatives. *Competition & Change*, 10245294211003292. <https://journals.sagepub.com/doi/10.1177/10245294211003292>
- Côté, D. (2019). *Co-operative management, an effective model adopted to future challenges*. Éditions JFD.
- Couchman, P., & Fulton, M. (2015). *When big co-ops fail*. Centre for the Study of Co-operatives. <https://usaskstudies.coop/documents/books,-booklets,-proceedings/big-co-ops-final.pdf>

- Davis, P. (2000). *Managing the cooperative difference: A survey of the application of modern management practices in the cooperative context*. International Labour Organization.
- DiMaggio, P. J., & Powell, W. W. (1983). The iron cage revisited: Institutional isomorphism and collective rationality in organizational fields. *American Sociological Review*, 48(2), 147–160.
- Dow, G. K. (2003). *Governing the firm: Workers' control in theory and practice*. Cambridge University Press.
- Eckart, M. (2009). *Cooperative governance: A third way towards competitive advantage*. Südwestdeutscher Verlag für Hochschulschriften.
- Eum, H., C. Carini, & Bouchard, M. J. (2020). Classification of cooperatives: A proposed typology. In M. J. Bouchard, C. Carini, H. Eum, M. Le Guernic & D. Rousselière (Eds.), *Statistics on cooperatives: Concepts, classification, work and economic contribution measurement* (pp. 13–22). International Labour Organization. https://www.ilo.org/global/topics/cooperatives/publications/WCMS_760710/lang--en/index.htm
- Freundlich, F. (2015). Worker co-operatives in focus: Governance in Mondragon. In S. Novkovic & K. Miner (Eds.), *Co-operative governance fit to build resilience in the face of complexity* (pp. 64–69). International Co-operative Alliance. <https://www.ica.coop/en/media/library/cooperative-governance-fit-build-resilience-face-complexity>
- Fulton, M., & Girard, J. -P., (2015). *Demutualization of Co-operatives and Mutuels*. Co-operatives and Mutuels Canada (CMC). <https://usaskstudies.coop/documents/pdfs/demutualization-of-co-ops-and-mutuals.pdf>
- Girard, J. -P (2015). Governance in solidarity. In S. Novkovic & K. Miner (Eds.), *Co-operative governance fit to build resilience in the face of complexity* (pp. 127–134). International Co-operative Alliance. <https://www.ica.coop/en/media/library/cooperative-governance-fit-build-resilience-face-complexity>
- Grashuis, J., & Cook, M. (2018). An examination of new generation cooperatives in the Upper Midwest: Successes, failures, and limitations. *Annals of Public and Cooperative Economics*, 89(4), 623–644.
- Gray, T. W. (2004). De/reconstruction of vaguely defined property rights within neo-classical discourse, and cooperative finance. *Journal of Rural Cooperation*, 32(2), 99–110.
- Guillotte, C. -A. (2022). Case study: Agropur dairy cooperative. *International Centre for Cooperative Management Working Paper and Case Study Series 02/2022-ENG*. <https://www.smu.ca/webfiles/AgropurCaseStudy2022-02-EN.pdf>

- Hansmann, H. (1996). *The ownership of enterprise*. The Belknap Press of Harvard University Press.
- Huhtala, K., & Jussila, I. (2019). Supervisory board in the governance of cooperatives: Disclosing power elements in the selection of directors. *International Journal of Economics and Management Engineering*, 13(5), 660–668.
- Laloux, F. (2014). *Reinventing organizations: A guide to creating organizations inspired by the next stage of human consciousness*. Nelson Parker.
- Larrabure, M. (2013). Human development and class struggle in Venezuela's popular economy: The paradox of "twenty-first century socialism." *Historical Materialism*, 21(4), 17–200.
- Lund, M. (2011). *Solidarity as a Business Model: A multi-stakeholder cooperative manual*. Cooperative Development Center at Kent State University. <https://community-wealth.org/content/solidarity-business-model-multi-stakeholder-cooperatives-manual>
- Lund, M. (2021). Case study: Isthmus engineering. *International Centre for Co-operative Management Working Paper and Case Study Series* 07/2021. <https://www.smu.ca/webfiles/IsthmusEngineeringCS202107.pdf>
- Lund, M., & Hancock, M. (2020). Stewards of enterprise: Lessons in economic democracy from northern Italy. *ICCM Working Paper & Case Study Series* 01/2020. <https://www.smu.ca/webfiles/WorkingPaper2020-01.pdf>
- Lund, M., & Liret, P. (2022). Case study: COMEBO Industries. *International Centre for Cooperative Management Working Paper and Case Study Series* 01/2022. <https://www.smu.ca/webfiles/COMEBOCaseStudy202201.pdf>
- Lund, M., & Novkovic, S. (2022, forthcoming). Multistakeholder cooperatives. In M. Elliott & M. Boland (Eds.), *The Edward Elgar handbook on cooperatives and mutuals*. Edward Elgar Publishing.
- MacPherson, I. (2002). Encouraging associative intelligence: Co-operatives, shared learning and responsible citizenship (plenary presentation). *Journal of Co-Operative Studies*, 35(2), 86–98.
- Mamouni Limnios, E., Mazzarol, T., Soutar, G. N., & Siddique, K. H. (2018). The member wears Four Hats: A member identification framework for cooperative enterprises. *Journal of Co-Operative Organization and Management*, 6(1), 20–33.
- McMahon, C. (2022). Case study: Scottish agricultural organisation society. *International Centre for Co-operative Management Working Paper and Case Study Series* 03/2022. <https://www.smu.ca/webfiles/SAOSCaseStudy2022%7C03.pdf>

- McMahon, C., & Miner, K. (2021). Case study: Just us! Coffee roasters cooperative. *International Centre for Co-operative Management Working Paper and Case Study Series* 03/2021. <https://www.smu.ca/webfiles/JustUsCaseStudy.pdf>
- McMahon, C., & Novkovic, S. (2021). Case study: Suma. *International Centre for Co-operative Management Working Paper and Case Study Series* 01/2021. https://www.smu.ca/webfiles/Suma_casestudy_FINAL_C_Mar4.pdf
- McMahon, C., Miner, K., & Novkovic, S. (2020). Case study: Organization of American States Staff Federal Credit Union. *International Centre for Co-operative Management Working Paper and Case Study Series* 03/2020. https://www.smu.ca/webfiles/Final_OASFCU_casestudyseries.pdf
- McMahon, C., Kempson, A., Miner, K., & Novkovic, S. (2021). Case study: Unicorn grocery. *International Centre for Co-operative Management Working Paper and Case Study Series* 04/2021. <https://www.smu.ca/webfiles/UnicornCaseStudyJune2021.pdf>
- Miner, K. & Novkovic, S. (2020). Diversity in governance: The cooperative model for deeper more meaningful impact. *Cooperative Business Journal Fall*, (pp. 4–14). NCBA Washington.
- Novkovic, S. (2020). Multi-stakeholder cooperatives as a means for job creation and social transformation. In B. H. Roelants, H. Eum, S. Novkovic, S. Esim, & H. Walterri (Eds.), *Co-operatives and the world of work* (pp. 220–233). Routledge.
- Novkovic, S., & Miner, K. (Eds.). (2015). *Co-operative governance fit to build resilience in the face of complexity*. International Co-operative Alliance. <https://www.ica.coop/en/media/library/cooperative-governance-fit-build-resilience-face-complexity>
- Novkovic, S., & Miner, K. (2019). *Compensation in co-operatives: Values based philosophies*. ICCM Working Paper 2019-01. <https://smu.ca/webfiles/ICCMWorkingPaper19-01.pdf>
- Novkovic, S., Puusa, A., & Miner, K. (2022). Co-operative identity and the dual nature: From paradox to complementarities. *Journal of Co-Operative Organization and Management*, 10(1), 100162. <https://doi.org/10.1016/j.jcom.2021.100162>
- Ostrom, E. (1990). *Governing the commons: The evolution of institutions for collective action*. Cambridge University Press.
- Pérotin, V. (2016). *What do we really know about worker co-operatives?* Co-operatives UK. <https://www.uk.coop/resources/what-do-we-really-know-about-worker-co-operatives>

- Pirson, M., & Turnbull, S. (2011). Toward a more humanistic governance model: Network governance structures. *Journal of Business Ethics*, 99(1), 101–114.
- Putterman, L. (1984). On some recent explanations of why capital hires labor. *Economic Inquiry*, 22, 171–187.
- Rau, T., & Koch-Gonzalez, J. (2018). *Many voices, one song. Shared power with sociocracy*. Sociocracy for All.
- Robertson, B. J. (2015) *Holacracy: The new management system for a rapidly changing world*. Henry Holt and co.
- Sacchetti, S., & Tortia, E. (2016). The extended governance of cooperative firms: Inter-firm coordination and consistency of values. *Annals of Public and Cooperative Economics*, 87(1), 93–116.
- Scheiber, N. (2022, March 2). REI Workers in New York Vote to Unionize. *The New York Times*. <https://www.nytimes.com/2022/03/02/business/rei-union-new-york.html>
- Spear, R. (2004). Governance in democratic member-based organisations. *Annals of Public and Cooperative Economics*, 75(1), 33–59.
- Stacey, R., & Mowles, C. (2016). *Strategic management and organisational dynamics* (7th ed.). Pearson.
- Stryjan, Y. (1994). Understanding cooperatives: The reproduction perspective. *Annals of Public and Cooperative Economics*, 65(1), 59–80.
- Sykuta, M. E., & Cook, M. L. (2001). A new institutional economics approach to contracts and cooperatives. *American Journal of Agricultural Economics*, 83(5), 1273–1279.
- Turnbull, S. (2002). *A new way to govern: Organisations and society after Enron*. New Economics Foundation. <https://neweconomics.org/2002/08/new-way-govern>
- Vézina, M., & Girard, J. P. (2014). Multi-stakeholder co-operative model as a flexible sustainable framework for collective entrepreneurship: An international perspective. In C. Gijssels, L. Zhao, & S. Novkovic (Eds.), *Co-operative innovations in China and the West* (pp. 64–78). Palgrave Macmillan.
- Vieta, M. (2019). Saving jobs and businesses in times of crisis: The Italian road to creating worker cooperatives from worker buyouts. In B. Roelants, H. Eum, S. Esim, S. Novkovic, & W. Katajamaki (Eds.), *Cooperatives and the world of work* (pp. 162–187). Routledge.
- Vieta, M. (2020). *Workers' self-management in Argentina: Contesting neo-liberalism by occupying companies, creating cooperatives, and recuperating autogestión*. Brill and Haymarket Books.

- Viggiani, F. A. (1997). Democratic hierarchies in the workplace: Structural dilemmas and organizational action. *Economic and Industrial Democracy*, 18, 231–260.
- Wilson, A. (2021, June 17–19). Challenging Governance Orthodoxies [keynote address]. 2021 International Co-operative Governance Symposium. Halifax, Nova Scotia. [https://www.smu.ca/webfiles/CHALLENGINGGOVERNANCEORTHODOXIES\(Wilson\).pdf](https://www.smu.ca/webfiles/CHALLENGINGGOVERNANCEORTHODOXIES(Wilson).pdf)

Open Access This chapter is licensed under the terms of the Creative Commons Attribution-NonCommercial-NoDerivatives 4.0 International License (<http://creativecommons.org/licenses/by-nc-nd/4.0/>), which permits any noncommercial use, sharing, distribution and reproduction in any medium or format, as long as you give appropriate credit to the original author(s) and the source, provide a link to the Creative Commons license and indicate if you modified the licensed material. You do not have permission under this license to share adapted material derived from this chapter or parts of it.

The images or other third party material in this chapter are included in the chapter's Creative Commons license, unless indicated otherwise in a credit line to the material. If material is not included in the chapter's Creative Commons license and your intended use is not permitted by statutory regulation or exceeds the permitted use, you will need to obtain permission directly from the copyright holder.



Part II

Democratic Structures and Processes



5

Humanism and Democracy in Worker Cooperatives

John A. McNamara

5.1 Introduction

Governance in worker cooperatives can look and feel like that within any other co-op, but it may also be dramatically different. The worker-members may elect a board of directors and that board then hires and supervises a general manager. Worker co-ops using a traditional management structure might be more focused on transactional relationships with the workers (i.e. a material focus on wages and benefits). However, many worker co-ops have some level of engagement that tends to provide a voice for workers in operations and the board/workforce may engage in deeper policy work that provides direction to management on how to run the cooperative. In a worker cooperative, directors generally are also rank-and-file members, so if there is dissatisfaction with policies or management actions, it may often be a discussion on the shop floor.

J. A. McNamara (✉)

Northwest Cooperative Development Center, Olympia, WA, USA

e-mail: johnm@nwcdc.coop

In a traditional business, and even in consumer and producer cooperatives, the role of management generally exists to manage employees and resources to meet the mission, strategic goals, and policies created by the organization's governance body. In a worker cooperative, management still needs to effectively use resources, but the mission (effectively the needs of the membership) tends to be internally focused: create better pay, benefits, and humane working conditions. For example, the mission statement of Union Cab of Madison Co-operative (UCC) essentially sums up a common goal of any worker co-op: "to create jobs at a living wage or better in a safe, humane, and democratic environment" (UCC, 2014).¹ Additionally, the World Declaration on Worker Co-operatives also addresses the social mission of worker cooperation: "They have the objective of creating and maintaining sustainable jobs and generating wealth, in order to improve the quality of life of the worker-members, dignify human work, allow workers' democratic self-management and promote community and local development" (CICOPA, 2005). Worker cooperatives generally operate in a way that respects the individual member and treats them as a person, not another resource to utilize towards generating profit or surplus. Even if the cooperative uses traditional structures for the economic sector that the co-op operates within, the lived experience of workers in these cooperatives, in which at least a substantial proportion of the employees are also the owners who democratically control the enterprise, creates situations in which the politics of the workplace can be much more dynamic and can require different models of governance than might be used in traditional organizations, or even in other types of cooperatives.

The generally accepted legal form of a cooperative firm may not always be available to workers. Worker cooperatives thus operate through a variety of legal structures by incorporating the values and principles of cooperatives throughout the organizations, and particularly within the internal constitutions and bylaws. The International Organization of Industrial and Service Cooperatives (CICOPA) defines a worker co-op within the Statement on the Cooperative Identity, but also as an economic organization owned and democratically controlled by its

¹ The author was a member of Union Cab for 26 years and still holds non-voting capital shares.

workers on a one-member, one-vote basis, and in which the majority of the workers are members and a majority of the members are workers (CICOPA, 2005).

In the United States, the US Federation of Worker Cooperatives (USFWC) and Democracy at Work Institute remain silent on the percentage of worker-member ownership that constitutes a worker co-op; but they do require that “all workers who are willing to accept the responsibilities of membership and who meet member eligibility criteria are eligible to become worker-members” (DAWI, 2015).² The actual legal format may differ widely and may even preclude the organization from using “cooperative” in the name of the business. In the United States, worker co-ops may organize under statutes as a limited liability company or as a S-Corporation (IRS, 2022),³ or even, in some states, as a mutual organization or not-for profit (Nonprofit Miscellaneous and Mutual Corporations Act, 2022).

The manner in which worker co-ops democratically govern themselves runs along a continuum: from collectives with a flat structure, no formally assigned roles and using consensus, to traditional hierarchies with representative democracy and parliamentary voting schemes. Three basic decision-making paradigms hence provide the parameters for this discussion: traditional hierarchy, sociocracy, and (flat) collectives. In addition, the pairing of labour unions with worker cooperatives has grown in popularity in the United States, United Kingdom, and Canada. The “union cooperative” (or, more accurately for the purposes of this chapter, the “unionized worker cooperative”) adds another organizational layer that shares membership (i.e. workers who are members of both the union and the co-op) and navigates the power relationship within the cooperative (primarily between “shop floor” or operative workers/members and the elected/appointed management). The local union also connects the cooperative to the larger labour movement at

² DAWI further defines a worker co-op as having a majority of the board of directors elected by the worker membership class on the basis of one-member, one-vote. Thus a multistakeholder co-op could be considered a worker co-op if the workers select the majority of the board seats.

³ S Corporations are a type of corporation in the United States that passes all “corporate income, losses, deductions, and credits” to the shareholders, which allows the shareholders to be taxed at an individual rate and avoid double taxation.

the regional, national, and international levels. Essentially, labour unions offer another layer of governance that provides direction to management while also acting as a check on the power of the board of directors. Collective bargaining agreements may replace many of the policies that non-union worker co-op boards generally oversee unilaterally. The union cooperative model creates a humanistic focus even within traditional hierarchal management models by requiring managers to navigate between board and union oversight.

The types of governance structures and processes can change over time and there are many examples of co-ops using hybrid models. Co-ops may use majority rule voting at annual general meetings (AGMs) but use consensus or a modified consensus method at committee and board meetings. In Canada and the United States, the state or province enacts corporate law, and in some regions the voting might be mandated as simple majority or supermajority, which may make alternative decision-making procedures difficult if they fall outside of those parameters (for example, if a co-op fails to achieve consensus for a proposal which a majority of members support, the majority could argue that their legal rights as members have been ignored).

This chapter will examine representative case studies of the three basic types of organizational structure in worker co-ops in the United States: hierarchy (Cooperative Home Care Associates), collective (Burial Grounds Collective), and sociocracy (Unicorn Grocery). Following this overview will be a discussion of how worker cooperatives develop democratic communities beyond voting, help members engage in decisions and resolve conflicts (e.g. Union Cab and Rainbow Grocery), and create models for building worker power within the organization and the greater community. Finally, the chapter considers the challenge of growth or “scaling up” while attempting to maintain a vibrant democratic and human workplace. The worker co-op model offers a diverse array of governance and management strategies, including unionization and consensus-based decision-making, to achieve the goal of creating dignified workspaces within the overall structure of the cooperative identity (ICA, 1995).

5.2 Structures of Decision-Making and Voice

In their longitudinal studies, *What Workers Want*, Richard Freeman and Joel Rogers (2006) determined that workers want to be engaged with their workplace; they want to be more than a pair of hands turning a lever or flipping a switch. Workers want to participate and, in many cases, the ability to participate can be more important to them than pay and benefits. The desire for agency in the workplace fits with A. O. Hirschman's theory on Exit, Voice and Loyalty in which Hirschman (1970) argues that people who are denied a voice in their organization will choose to leave. Recent studies also acknowledge that a "Voice Gap" correlates with a new interest in unionism in the United States (Kochan et al., 2019). The expectation of "voice" in a worker-owned business plays a key role. Simply voting at the annual general membership meeting may not feel like a sufficient expression of voice in a worker-owned enterprise. Being able to express opinions on work design, managerial and board decisions, and conflict lies within the cooperative ethics of openness and honesty. Relegating a worker's voice through governance models designed for investor-owned firms can lead to frustration, disappointment, and exit.

Worker co-ops tend to be values-driven businesses based upon the cooperative identity, and examples of the type of organizations that Freeman and Rogers (2006) show are desirable. Research further shows that worker-owned and controlled organizations tend to align around the values and principles of cooperation, which can be seen as an expression of human dignity (Stocki & Hough, 2016). The type of management can also help promote voice or exit within the organization, with those management styles aligned with the cooperative identity also promoting greater voice and loyalty within the organization (McNamara, 2019). In the lived experience of the cooperative workplace, however, the strict adherence to any one governance or decision-making model is limited by the everyday needs faced by the business and the needs of the workers. The result is an unspoken quality in that worker co-ops are pragmatic and adaptable. The academic discussion around governance and operations gives way to "getting the job done". As a result, none of the examples provided in what follows will be a textbook model of the type

of governance, but rather an application of how larger worker-controlled workplaces use these tools as a starting place to engage in democracy, solidarity, and voice.

5.2.1 Hierarchy—Cooperative Home Care Associates

The traditional model of hierarchy generally follows the model of investor-owned organizations in which the shareholders select a board of directors that then hires and oversees a Chief Executive Officer (CEO) or General Manager (GM). In many cases, most of the operational control of the business transfers to the CEO who acts within the parameters set by the board of directors. The unique aspect of the worker co-op arises from the member-owners also being the employees. This creates a circular model in which everyone in the organization answers to someone else (worker-members elect the board-representative workers; the board hires the manager; and the manager supervises the worker-members and non-member employees). In many cases, especially for small cooperatives, the workers who directly report to the GM may also supervise the GM. This creates a distributed balance of power in an organizational model that would normally place most of the power in the hands of the CEO (who in investor-owned firms may also be a majority shareholder).

In larger cooperatives, however, the power of a single vote may be diluted, and political factions may compromise the overall effectiveness of board and membership oversight. While board oversight may dull some of the formal power of a CEO or general manager, the position still concentrates significant informal and formal power on an individual within the organization; so traditional governance models used in cooperatives may not be sufficient to exercise membership control of the organization.

An antidote to managerial power in a worker co-op can occur through a flattening of the hierarchy, as will be discussed later, or by adding another collective voice into the governance model of the organization through a labour union. The union cooperative model uses two membership organizations to create responsive management and governance within the co-op, while also connecting the worker cooperative to

the larger labour movement. The union co-op model traces its history to the earliest days of the labour movement in the United States, with the National Labor Union and the Knights of Labor using cooperatives as a means to navigate the changing nature of work and employment during the first industrial revolution in the United States (Jacques, 1996; Leikin, 2005). However, internal, and external forces limited the ability of the Knights of Labor in the drive to challenge the financiers and industrialists during the Gilded Age of the late nineteenth century. Internally, the Knights failed to invest in management education for their member cooperatives, and, externally, the large extent of collusion between railroad and manufacturing barons limited the ability of these co-ops to reach their market.

Ultimately, as the industrialists claimed supremacy in the new economy, trade unionism and industrial unionism came to dominate the labour movement, with co-ops playing second fiddle at best. In the UK, the cooperative movement, led by Fabian Society leaders Beatrice and Sydney Webb, focused on consumer co-ops, as they viewed worker cooperation through a hostile lens, as unstable and representative of a conflict of interest; however, they also supported the right of workers to organize (Mathews, 1999). The movements of labourism and cooperativism combined as partners politically in the form of the Labour Party and the Co-operative Party in 1919 (Rosen, 2007). In contemporary society, Mondragon Cooperative federation signed a memo of understanding with the United Steelworkers (USW) in 2009, and the Union passed Resolution 27 in 2011 to support worker cooperatives (USW, 2011). This specific model sought to replace the “Social Council” of Mondragon’s primary cooperatives with the labour union (Witherell, 2013). However, there is not only one model of the union cooperative; indeed, the largest unionized worker co-op in the United States partnered with the Service Employees International Union (SEIU) a decade before the Mondragon-USW model came into being.

A labour union allied with a worker cooperative helps the members of the co-op to engage with and learn from the wider labour movement. Labour unions help worker co-ops to engage with their community and economy in a way that furthers their cooperative difference. In a hierarchical management structure, the labour union can also provide a further

check on the formal power of the CEO or GM and keep the board of directors focused on its mission, the needs of the membership, and the needs of the larger community. Worker co-ops can also assist labour unions. Organizationally, labour unions also need to combat isomorphic pressure to conform to the very institutions that they organize against. Worker co-ops can help to create stronger foundations of equity, equality, and democracy within labour unions.

Cooperative Home Care Associates (CHCA), based in the Bronx, New York, with approximately 2000 members, operates as the second largest worker cooperative in the United States.⁴ CHCA was formed in the 1980s to take advantage of new Medical Assistance (Medicaid) programs that provide in-home care. CHCA provides home care services to residents of the Bronx whose income qualifies them for Medicaid,⁵ and the staff mostly consists of residents of the Bronx. The membership reflects the Bronx, NY community, with the caregivers and administrative staff consisting of primarily Latina and Black women. Home care in the United States remains an industry based on in-work poverty, with most home care agencies providing only minimum wage, no benefits, and part-time work. CHCA sought to change this by providing a means for caregivers to have agency through cooperation. However, the funding model limited the ability to significantly raise wages or add other benefits, as the billing rates were based on the budget of the State of New York. In 2001, the Service Employee International Union, which focuses on the healthcare industry, began negotiating with CHCA. SEIU wanted CHCA to join their union as part of their effort to support home care and healthcare workers (Lurie, 2021).

⁴ The Drivers Co-op in New York City claims the mantle of largest worker co-op in the United States, but the drivers are independent contractors, not employees. The workers of CHCA are all employees.

⁵ Medicaid is a state healthcare program, so each state has different rules. The state is reimbursed for a percentage of costs by the federal government. The state authorizes the rate for service and any increase in the rate. Those agencies contracting through Medicaid have no ability to adjust rates.

5.2.2 Collective—Burial Grounds

The ability of workers to use their voice provides a fundamental difference in how worker cooperatives embrace governance. In addition to being able to serve on and elect the board of directors, many worker co-ops have accountability models focused on due process and engagement. Further, often the development of policy proposals and business strategy engages a call-and-response process to ensure that the membership agrees with the leadership on the future of the cooperative.

Collectives subscribe to flat governance structures. The collectivist/flat model sits at the other end of the continuum from hierarchy, in terms of the length of the “chain of command”. In this model, all workers are members of the collective with an equal voice. Collectives generally do not delegate power or decision-making to a board of directors or a management class: most decisions are made by the entire collective. The collective can create sub-groups, but usually, these are for specific tasks. Generally speaking, most worker cooperatives that use a collective model are quite small with under 30 worker-members; however, some larger ones exist such as the Cecocesola worker co-op in Venezuela with over 600 worker-members (see Soetens et al., Chapter 12 in this volume; Cecocesola, 2022). Using the collective process also means that everyone participates in almost all aspects of the organization, including holding each other accountable, setting working conditions, and determining pay and benefits.

Decision-making in collectivist worker co-ops tends to focus on consensus. While there are many versions of consensus, one format involves the group co-creating a proposal and then testing for consensus.⁶ Members can choose to “step aside” if they don’t fully endorse the proposal but wish to let it proceed (i.e. give consent rather than back strict consensus), or they may block its passage if they believe that the proposal goes against the co-op’s mission or other criteria. One person can block consensus; however, different versions of the consensus process

⁶ There are many forms of consensus in practice and some may defer to a committee to draft a proposal or even allow members to simply present a proposal for consideration. Seeds for Change (2013) offers a comprehensive guide and discussion for its model of consensus decision making.

may require more than one person, or some specific reasoning to halt or reject a proposal. This is often termed “modified consensus” or “consensus -1”. In any event, the collective model empowers individuals to use their voice and work together by working towards consensus.

Burial Grounds Collective, a worker cooperative, offers a standard model of the consensus/collective format. Burial Grounds operates a signal café in Olympia, Washington in the Pacific Northwest of the United States. The café converted to worker ownership in January 2020, moved to a new location, and reopened for operations in March 2020, about a week before the state government mandated that businesses close due to the Covid-19 pandemic. The collective survived through the pandemic by pivoting to home delivery (marketing as “consumer supported caffeine”), accessing government support, and meeting to address the constantly changing business environment with the goal of reopening in a way that focused on safety for collective members and their community.⁷ The collective consists of eight members. Decisions on governance issues and operational issues are made by the collective using consensus as the decision-making format. To operate within the community, the collective may provide a member of the collective with specific signing powers (such as signing checks), but only after a discussion among the collective that establishes limits to these powers. Whether the decisions have a governance aspect (strategic planning) or operational (staffing and pay), the collective makes the decision together.

5.2.3 Sociocracy—Unicorn Grocery

Sociocracy is a system of dynamic consent-based governance and decision-making (Christian, 2013; McNamara, 2017; SoFA Co-op Circle, 2018). There are many variations of sociocracy used throughout the world; however, the most common practice is the “sociocracy circle method” (Rau & Koch-Gonzalez, 2018). In this system, an organization creates a hierarchy of work (not of decision-making power) through the establishment of circles. Each circle has a specific aim connected to

⁷ The author provided technical assistance to the staff of Burial Grounds during and after the conversion to cooperative ownership.

the overall vision and mission of the organization. The circles follow the pattern with the “parent” circle creating the “child” circle and appointing a leader. The circle leader coordinates the work of the circle and reports down from the parent circle. The child circle elects a delegate to serve on the parent circle whose role is to report up to the parent circle. In this double-linked, bi-directional communication, the system eventually represents a web of business activity (Rau, 2017).

Sociocracy relies on consent for decision-making. The consent process uses picture-forming exercises in which each participant offers input on the nature of the issue at hand. Further, during picture forming, gauging reaction, or discussion, the process of consent-based decision-making evolves in “rounds” or the “round-robin” method to ensure that each member of the circle has the opportunity to present their views, without allowing any members to dominate a speakers list. A question is asked whether the proposal is “safe enough to try, and good enough for now”, as opposed to asking if there are “blocks” or stand-asides. In sociocracy vernacular, members are asked if they “don’t object” as opposed to if they “agree” (Rau & Koch-Gonzalez, 2018).

Unicorn Grocery Co-operative (UGC) opened in 1996 after two years of hard work to create a worker-owned and managed cooperative in Manchester, ENG (UGC, 2021). Unicorn began operations as a collective, making decisions through consensus. As with Rainbow Grocery Cooperative (see below) in San Francisco, California, they created a board of directors to meet the legal requirements in the United Kingdom. Unicorn, however, chose to appoint all members to the board of directors. UGC has 70 director-members as of 2021. In the 2010s, members began learning about sociocracy and began efforts to transition the operational and governance structure to this model (McMahon et al., 2021).

Given that Unicorn made this transition from a collectivist organization using consensus, one might think that it would be relatively smooth; however, the two models have enough differences that implementing the new process requires diligence and work. By placing all members on the board of directors, Unicorn kept a feature of collectivist organization. The difference between a membership meeting and a board meeting has only to do with the scheduling and specific agenda items. Each

member has a vote so the power of membership does not get defused into a smaller group of members. Decisions of the board are essentially decisions of the membership. The governance and management of the cooperative are decided by the membership.

5.3 Member Voice and Conflict Resolution

The management of conflict and workplace accountability differs widely within the worker cooperative community. As worker-owners, the members have an expectation of voice in their workplace, and this includes the ability to challenge authority and defend oneself against potential accusations (Hoffman, 2003). The area of dispute resolution (specifically discipline) operates as more of a governance function in worker co-ops than an operational function, and this can create problems if there are no clear guidelines for engagement (Vannucci & Singer, 2010). The danger in this arena arises from an imbalance between the rights of individual workers and the needs of the wider membership and the organization. Management of worker co-ops need to engage with progressive discipline models (in which response to violations of policy begin with training and education and increase in severity) and peer review, but also, they should have clear lines of acceptable behaviour and commit to protecting all workers in the co-op as well as other stakeholders and the integrity of the co-op itself. Allowing informal processes to develop forms a secondary danger, as members of privileged classes within the organization may benefit from the informal process to the detriment of the ability of the cooperative to embrace values of equality and equity (Freeman, 1972; Hoffman, 2005), and may even create toxic workplaces in which cliques can engage in power struggles (Hoffman, 2005; Vannucci & Singer, 2010). In this section, we will examine two relatively large worker co-ops and their model for resolving conflict, as well as examine how worker co-ops can engage with labour unions to create effective and transparent systems of accountability. Larger cooperatives such as Union Cab of Madison and Rainbow Grocery may have the capacity to create internal conflict resolution structures in a more conventional manner; however, smaller co-ops or those operating

in markets with little overhead for support may find an alternative way of creating this necessary component of governance. For the latter, labour unions can provide a core benefit through collective bargaining agreements and grievance procedures.

5.3.1 Union Cab

Union Cab of Madison Cooperative (UCC) was formed in 1979 and has provided taxicab service to the community of Madison, Wisconsin in the United States ever since. Its membership has fluctuated periodically, but for the events and discussion described here, the membership hovered around 250 people. Unlike many modern taxicab cooperatives, UCC owns the vehicles, and the drivers along with all other employees (call centre, mechanics, accounting, and management) are members of the Cooperative. In 2011, after two years of planning, the Cooperative chose to remove discipline from management and to create a tribunal system in which peer councils would investigate and adjudicate complaints. Along with these councils, UCC also established support councils as a mediation system to help members manage internal conflict, and a stewards council to assist members in navigating the peer review system (McNamara, 2015). The process was codified in the Peer Review Policy and Work Practices Policy, in which the Board of Directors stated the intent “to foster and maintain a safe, humane, fair, respectful, and transparent framework for our working relationships while protecting the Cooperative from the destructive actions of [uncooperative] workers.... Our goal is to create a legitimate dispute resolutions and discipline system in an environment where all members take responsibility for their actions, the success of the Cooperative, and the morale of the membership” (UCC, 2014).

Importantly, Union Cab did not just create a means of tribunal accountability. They simultaneously created key support systems to provide alternative pathways to dispute resolution. These support systems included stewards and mediators who were trained to assist

members to engage their voice for dispute resolution (stewards as advocates and mediators as impartial facilitators). Alternative dispute resolution programs have a proven history of helping organizations reduce turnover and create better working conditions by helping workers engage their voice and resolve communication problems and misunderstandings (Nabatchi, 2007; Ridley-Duff & Bennett, 2010).

5.3.2 Rainbow Grocery

Rainbow Grocery Cooperative (RGC) operates a single store in the Mission district of San Francisco. It is organized as a worker co-op and all workers are members of the co-op as part of their employment. Through its beginnings in the People's Food System, a movement in the San Francisco Bay area to create access to healthy food with respect for workers, the community (Curl, 2009; Sacharoff, 2016), and sustainable growth of the business, the membership has been committed to flattened hierarchy and collectivist management. The co-op operates through 14 autonomous departments with a steering committee and a board of directors (all directors are worker-members). Each department controls its own hiring, scheduling, training, and accountability (Lawless & Reynolds, 2004).

Each department manages its own affairs with some exceptions. However, the standard format involves "notices". A worker may receive a notice from the department coordinator if they fail to abide by the work rules of the organization and department. The due process occurs at the department level. If a worker receives three notices in a 12-month period, they undergo a "vote of confidence" within their department. The vote doesn't ask if the person should be fired, it asks the department if they want to continue working with the individual. Prior to the point of issuing notices, however, the department may agree to additional coaching, training, and formal agreements between the worker and their co-workers in the department. The level of severity of the

incident can allow steps to be skipped, and, in the case of sexual harassment or similar harassment around legally protected characteristics,⁸ the issue may go before the Storewide Steering Committee (which also has a Grievance Committee) (Edgar, 2020). The membership rights of the worker-member who has their employment terminated will also terminate after a certain amount of time to allow for any internal grievance process (this time period was 17 days in 2001) (RGC, 2001).

Worker cooperatives with a flattened hierarchy tend to also have a disciplinary process that consists of peer review. This avoids the power imbalance of hierarchal systems where a manager reporting only to the board decides the fate of frontline workers. In Rainbow's case, the model also creates more responsibility for the workers to coach and support each other along the way. The proactive nature of Rainbow's system builds the values of self-help, self-responsibility, solidarity, and democracy into the accountability structure. With over 200 workers, Rainbow demonstrates that size does not prevent a co-op from living the co-op values and principles.

5.3.3 Building Worker Power (Role of Union and Co-op Solidarity)

The union co-op model, a small but growing area of worker cooperation, can assist worker co-ops, especially larger worker co-ops, with creating space for workers' voices and conflict resolution. The manner in which worker co-ops and labour unions engage varies depending on the size of the co-op, the specific labour union, and the industrial sector. For smaller cooperatives, the connection to a labour union may be more of an act of solidarity by the workers of the co-op. However, worker co-ops may decide on union membership for a number of reasons: e.g. assistance with conflict mediation, access to benefits, and the ability to push for pro-worker policy changes in their industry (Huertas-Noble, 2016). In addition, a worker co-op engaging in a collective bargaining agreement

⁸ In the United States, "protected characteristics" are legally defined by the federal and state government and generally include race, ethnicity, sex, gender, religion, political affiliation, and others.

may also help streamline policy development as many of the traditional policies considered by a worker co-op board of directors (hiring, pay, scheduling, discipline, etc.) would be covered by the collective bargaining agreement.

Unions can assist cooperatives with creating a disciplinary system based on due process and can limit informal processes that may undermine the mission, values, and principles upon which co-ops build their organizations. The collective bargaining agreement becomes a core document, a policy manual that has legal authority within the organization. This limits management or the board's ability to succumb to isomorphic forces to roll back on values-based practices in the interest of financial goals. In the USW-Mondragon model, the Union Committee takes on the role of the Social Council in the Mondragon system. The union then provides a clear voice for workers' rights and acts as a "watchdog" on both management and the board of directors.

The union co-op model also helps to build worker power in society. Worker cooperatives offer a different version of how companies can operate in an industry. This example of a different path, one committed to meeting human needs over investor profits, assists labour unions in creating policy goals at the regional and federal levels. This may include efforts to raise the minimum wage, add key benefits such as paid time off, and adjust industry regulations to create a more even playing field between worker-owned and investor-owned companies. An example of the latter involves the efforts by the Communication Workers of America (CWA) to open the taxicab market in Denver, Colorado, a regulated monopoly, with the goal of establishing a worker cooperative taxicab company (Bolton, 2016). Another example can be found in the work of the Service Employees International Union—United Healthcare Workers West (SEIU-UHWW). This union went beyond simply representing Licensed Travelling Nurses (LVNs) in California; they helped these workers create a worker cooperative, Nursing and Caregivers Cooperative, Inc. By utilizing the network created by the labour union, organizers were able to organize workers who would normally be isolated in their work and create a co-op that, allied with SEIU-UHWW, can create a new organizational model for the industry focused on the needs of the LVNs. As the modern work environment becomes more

complex with independent contractor status gaining ground through the “gig economy”, the combined efforts of labour unions and worker cooperatives can build on solidarity to create more stable and humanistic employment.

5.4 Challenges with Growth

Many worker co-ops begin as relatively small organizations. This allows a common purpose and vision to be shared among the members. Further, the decision-making process, even if using majority rule parliamentary procedures, tends to have a collectivist feel to it. Growth can be a challenge for worker co-ops, as it brings in more voices than the initial governance system can provide meaningful space for. This can result in shifting to more of a representative democratic model, where a small subset of worker-members makes key decisions. Co-ops may need to grow to increase benefits to their members, maintain market share, and remain viable organizations. This problem is somewhat unique for worker co-ops since adding membership means adding workers. Where consumer co-ops can grow membership without adding staff, worker co-ops must do both. Worker cooperatives need to engage proactively to manage growth so that it provides a benefit to its members (creating economies of scale, for example). By growing strategically, worker co-ops can adjust governance and management models to continue to meet member needs without losing the cooperative difference or succumbing to isomorphism by adopting best practices of their (capitalist-dominated) industry.

The cooperative examples provided in this chapter (with the exception of Burial Grounds)—Cooperative Home Care Associates, Unicorn Grocery, Rainbow Grocery, and Union Cab—all represent relatively large cooperatives, with the smallest (Unicorn) having just over 70 worker-members. However, each has found ways to incorporate governance and management models to create more humanistic and people-centred systems. For some, this involves a flattened hierarchy to create smaller working groups and consensus-style decision-making (Rainbow and Unicorn). CHCA, the largest of the case studies, creates a type of

watchdog group through the union to help keep management and the board focused on the needs of the worker-members. CHCA accomplishes this through a collective bargaining agreement with SEIU. Union Cab spun off management's traditional enforcement duties to a peer council and built stronger team management systems that provided support for monitoring systems and behaviour. In each of these examples, the worker co-op and democratic decision-making model demonstrates how co-ops focus on the needs of their members and adjust operations, management, and governance to create a human-centric workplace.

Smaller co-ops can look to these examples of larger co-ops and how they have worked to maintain a humanistic governance model. A key idea for small co-ops to build into their planning is that the governance structure that they use with nine members may not serve ninety members. Part of strategic planning for the cooperative should include how to maintain a people-centered governance model as part of managing growth in the cooperative.

5.5 Conclusions

Worker cooperatives occupy a unique space within the cooperative community. The combination of member and worker stakeholders in one person creates the need to address operations, management, and governance with a focus on the values and principles of cooperation. The traditional separation of governance and operations becomes more nuanced since the fundamental benefit for members of a worker co-op includes safe and humane practices in the co-op's operations. While consumer or producer cooperatives establish clear policy guidance to management in terms of staff treatment, the board of a worker co-op consists of frontline workers whose lived experience measures the ability of the co-op to achieve its mission and engage the cooperative identity.

Democracy goes beyond simply voting for representatives as it might in other types of co-ops with large memberships. This means creating safe and dignified working conditions and building organizational structures

that emphasize member voice through their input. This creates a cooperative advantage by building loyalty and solidarity within the organization by amplifying member's voice. As worker cooperatives grow in size, they need to regularly re-examine their governance and operational models to ensure that they are maintaining a member focus. An engaged membership allows the co-op to resist isomorphism in their industry, creating a pathway for members to bring information from the frontlines into the organization's governance bodies, creating a connection with their community, and building a cooperative difference that consumers and vendors can experience.

Worker co-ops have used a number of strategies to build democratic processes into their operations and governance. There are ways of organizing work such that the democratic workplace environment remains accessible (e.g. Rainbow Grocery, Burial Grounds); some decision-making processes such as sociocracy allow cooperatives to maintain engagement with workers at various levels of scale by creating hierarchies of work, not of power (e.g. Unicorn Grocery Co-op). Other co-ops create internal structures that rethink the traditional concept of management and decision-making (e.g. Union Cab of Madison). Finally, some co-ops have partnered with allies in the labour movement to help leverage worker power externally and create internal watchdogs on organizational centres of power (e.g. CHCA, union co-ops). The goal of each of these diverse types of management and governance models aims to create humanized workplaces that elevate the individual worker above the organization's bottom line, while also building a competitive advantage through member voice and loyalty.

References

- Bolton, L. (2016). Stores from the organizing front: Denver Colorado's Union Taxi & Green Taxi Union Coops. *1 Worker 1 Vote*. <http://1worker1vote.org/stories-from-the-organizing-front-denver-colorados-union-taxi-green-taxi-union-coops/>
- Cecososola. (2022). What we do. *Cecososola*. https://cecososola-org.translate.google/acerca-de/?_x_tr_sl=es&_x_tr_tl=en&_x_tr_hl=en&_x_tr_pto=sc
- Christian, D. L. (2013). Self-governance with circles: How sociocracy can help communities, Part II. *Communities*, 161, 61.
- CICOPA. (2005). *World declaration on worker co-operatives*. <http://www.cicopa.coop/World-Declaration-on-Worker.html>
- Curl, J. (2009). *For all the people: Uncovering the hidden history of cooperation, cooperative movements, and communalism in America*. PM Press.
- DAWI. (2015). *What is a worker cooperative?* Democracy at Work Institute. <https://institute.coop/what-worker-cooperative>
- Edgar, G. (2020). Interview by author about accountability process.
- Freeman, J. (1972). The tyranny of structurelessness. *Berkeley Journal of Sociology*, 17, 151–164.
- Freeman, R. B., & Rogers, J. (2006). *What workers want* (updated). Russell Sage Foundation.
- Hirschman, A. O. (1970). *Exit, voice & loyalty: Responses to decline in firms, organizations, and states*. Harvard University Press.
- Hoffman, E. A. (2003). Legal consciousness and dispute resolution: Different disputing behavior at two similar taxicab companies. *Law & Social Inquiry*, 28(3), 691–716.
- Hoffman, E. A. (2005). Dispute resolution in a worker cooperative: Formal procedures and procedural justice. *Law & Society Review*, 39(1), 51–82.
- Huertas-Noble, C. (2016). Worker-owned and unionized worker-owned cooperatives: Two tools to address income inequality. *Clinical Law Review*, 22(2), 325–358.
- ICA. (1995). *Statement on the co-operative identity*. International Co-operative Alliance. <http://ica.coop/en/whats-co-op/co-operative-identity-values-principles>
- IRS. (2022). *S Corporations*. Internal Revenue Service. <https://www.irs.gov/businesses/small-businesses-self-employed/s-corporations>
- Jacques, R. (1996). *Manufacturing the employee*. Sage.

- Kochan, T. A., Yang, D., Kimball, W. T., & Kelly, E. L. (2019). Worker voice in America: Is there a gap between what workers expect and what they experience. *Industrial and Labor Relations Review*, 72(1), 3–38.
- Lawless, G., & Reynolds, A. (2004). *Worker co-operatives: Case studies, key criteria and best practices*. University of Wisconsin.
- Leikin, S. (2005). *The practical utopians: American workers and the cooperative movement in the gilded age*. Wayne State University Press.
- Lurie, R. (2021). *A union toolkit for cooperative solutions*. City University of New York. <https://slu.cuny.edu/wp-content/uploads/2021/11/labor-toolkit-final-draft.pdf>
- Mathews, R. (1999). *Jobs of our own: Building a stake-holder society: Alternatives to the market and the state*. Pluto Press.
- McMahon, C., Kempson, A., Miner, K., & Novkovic, S. (2021). *Case study: Unicorn grocery*. International Centre for Co-operative Management Working Paper and Case Study Series 04/2021. <https://www.smu.ca/webfiles/UnicornCaseStudyJune2021.pdf>
- McNamara, J. A. (2015). Self-help and social responsibility: Creating measurements for non-financial performance. In S. Novkovic, L. Brown et al. (Eds.), *Co-operatives for sustainable communities: Tools to measure co-operative impact and performance*. Co-operatives and Mutuals Canada. <https://ed.coop/unit/co-operatives-for-sustainable-communities-tools-to-measure-co-operative-impact-and-performance/>
- McNamara, J. A. (2017, September/October). Dynamic governance promotes inclusive decision-making that reflects coop values. *Rural Cooperatives*.
- McNamara, J. A. (2019). *Aligning values with practice: A comparative analysis of management practices in worker managed co-ops using the co-operative index tool* (Dissertation, Saint Mary's University). Halifax, Nova Scotia.
- Nabatchi, T. (2007, July/August). The institutionalization of alternative dispute resolution in the federal government. *Public Administration Review*, 67(4), 646–661.
- Nonprofit Miscellaneous and Mutual Corporations Act. (2022, June 24). <https://app.leg.wa.gov/RCW/default.aspx?cite=24.06&full=true>
- Rau, J. (2017). *Circles: The “socios” in sociocracy, the teams of people who work together to get something done*. Sociocracy for All. http://www.sociocracyforall.org/wp-content/uploads/2017/04/Organizational-structure_ELC_corrected.pdf
- Rau, T. J., & Koch-Gonzalez, J. (2018). *Many voices one song: Shared power with sociocracy*. Sociocracy for All.

- RGC. (2001). *Personnel manual of rainbow grocery cooperative*. Internal Document.
- Ridley-Duff, R. J., & Bennett, A. (2010, September 14–16). *Mediation: Developing a theoretical framework for understanding alternative dispute resolution*. British Academy of Management, University of Sheffield.
- Rosen, G. (2007). *Serving the people: Co-operative party history from Fred Perry to Gordon Brown*. Biddies Ltd.
- Sacharoff, S. N. (2016). *Other avenues are possible*. PM Press.
- Seeds for Change. (2013). *Consensus decision making*. <https://www.seedsforchange.org.uk/consensus>
- SoFA Co-op Circle. (2018). *Manifesto for wholesome cooperation: A sociocratic perspective*. Grassroots Economic Organizing (GEO). <https://geo.coop/story/manifesto-wholesome-cooperation>
- Stocki, R., & Hough, P. (2016). Coop Index: Human dignity as the essence of co-operative values and principle. *Journal of Co-operative Accounting and Reporting*, 4(1), 79–104.
- UCC. (2014). *Union Cab of Madison policy code*. Internal Document.
- UGC. (2021). *Our history*. Unicorn Grocery Cooperative. <https://www.unicorn-grocery.coop/our-co-op/our-history/>
- USW. (2011). *Resolution 27: Workers' capital, industrial democracy and worker ownership*. United Steelworkers. http://assets.usw.org/convention-11/resolutions/Resolution-No_27.pdf
- Vannucci, D., & Singer, R. (2010). *Come hell or high water: A handbook on collective process gone awry*. AK Press.
- Witherell, R. (2013). Worker cooperatives, unions, and the new union cooperative model in the United States. *International Journal of Labour Research*, 5(2), 251–269.

Open Access This chapter is licensed under the terms of the Creative Commons Attribution-NonCommercial-NoDerivatives 4.0 International License (<http://creativecommons.org/licenses/by-nc-nd/4.0/>), which permits any noncommercial use, sharing, distribution and reproduction in any medium or format, as long as you give appropriate credit to the original author(s) and the source, provide a link to the Creative Commons license and indicate if you modified the licensed material. You do not have permission under this license to share adapted material derived from this chapter or parts of it.

The images or other third party material in this chapter are included in the chapter's Creative Commons license, unless indicated otherwise in a credit line to the material. If material is not included in the chapter's Creative Commons license and your intended use is not permitted by statutory regulation or exceeds the permitted use, you will need to obtain permission directly from the copyright holder.





6

Democratic Cooperative Governance: Role Ambiguity, Pseudo-Democracy and Tacit Acceptance?

Anu Puusa and Sanna Saastamoinen

6.1 Introduction

Member-owned cooperatives differ from other organizational forms by their unique purpose and the nature of member engagement (Mazzarol et al., 2011; Puusa et al., 2013; also see Novkovic & McMahon, Chapter 2 in this volume). The ultimate idea of the cooperative is that its members should be actively involved in the decision-making and play a key role in the direction of the company, making sure that the operations and the business areas serve the needs of the membership. In order

A. Puusa (✉) · S. Saastamoinen
University of Eastern Finland, Joensuu, Finland
e-mail: anu.puusa@uef.fi

S. Saastamoinen
e-mail: sanna.saastamoinen@uef.fi

for the democratic governance model to work and for the purpose of the cooperative's activities to be realized, members of governance bodies need to understand specific features of the co-op's governance model and, above all, their tasks and roles within various governing bodies.

The cooperative principle of democracy and multi-level governance are not only strengths, but can also present challenges, specifically concerning the role of the cooperative's governing body. Cooperative governance has been found to be more demanding and challenging than in the case of investor-owned firms (hereinafter IOFs) (Cornfort, 2004). For example, Spear (2004) noted that the supervisory task of cooperative governance isn't always implemented in the best way possible. In addition, previous research shows that widespread ownership of large cooperatives can lead to members finding it unnecessary or not useful to participate in issues of governance (Basterretxea et al., 2020; Chaves et al., 2008; Puusa et al., 2013; Spear, 2004; Tuominen et al., 2009). Furthermore, governing bodies' members may lack business skills due to their "layperson" background (Chaves et al., 2008; Cornforth, 2004; Spear, 2004; Tuominen et al., 2009). Finally, cooperative dual nature means that cooperatives are simultaneously business enterprises and social groups of members with variety of goals. As a result, a co-op might be difficult to understand and challenging to manage (Draheim, 1952; Puusa et al., 2013). However, balancing the two roles has been proposed as the central duty of co-op governance (Cook, 1994; Mazarrol et al., 2011) and prior studies indicate that co-operative's business role may overshadow the member community role (Puusa & Saastamoinen, 2021).

Puusa et al. (2016) argue that modern cooperatives should address their management philosophy more carefully. In other words, each business form should be managed according to their special characteristics. The unique identity of co-ops is often associated with co-ops' dual nature alongside the collective ownership structure. Both this duality and the members' diverse expectations invite building cooperative management and governance approaches in accordance with the principles of participatory democracy (e.g., Aragonés & Sánchez-Pagés, 2009; Corbett, 2014). In this chapter, we discuss the features and challenges of participatory, people-centered, and democratic cooperative governance (Birchall,

2017; Cornforth, 2004; Novkovic & Miner, 2015) through examining both members councils' and supervisory boards' understandings of the roles, tasks, and responsibilities of various governing bodies. Our empirical case study of a large consumer cooperative provides information on the governance structure of the cooperative enterprise, governing bodies' roles, and their understanding by the elected members. We also wanted to explore what do the members of the members council and supervisory board feel they make decisions on. According to Birchall (2017), there are three elements in successful governance, and the key is to find an optimal balance between them: voice, representation, and expertise.¹ We will introduce each in more detail later and discuss our findings from those perspectives.

6.2 Context

Our case study was carried out in one regional consumer cooperative of the Finnish retailing organization S Group. S Group is the largest cooperative group in Finland, and it consists of 19 independent regional cooperative societies as well as a central organization called SOK. Their network extends throughout Finland, with a strong regional focus. The regional cooperatives own SOK while the regional cooperatives, in turn, are owned by their members. Altogether, S Group has almost 2.5 million members (consumer-owners). SOK serves as the central company for the regional cooperatives and provides them with procurement, expertise, and support services. SOK is also responsible for the strategic guidance of the S Group and the development of the various chains. Furthermore, SOK's business operations supplement S Group's offering in Finland and the neighboring regions (S-ryhmä, 2021).²

¹ Management in cooperatives is also an important element of decision-making structures (Birchall, 2014), with lines between management and governance often blurred.

² In addition to its regional and national subsidiaries, SOK engages in the supermarket trade and the travel and hospitality business in Estonia and St Petersburg. Finnish co-op members benefit from that work in the neighboring regions for example in the form of larger procurement volumes and lower prices (see more at <https://s-ryhma.fi/en/about-us/s-group-in-brief>).

6.2.1 The Structure of Governance in the Case Cooperative

In Finland, according to legislation, each cooperative must have a general assembly and a board of directors. The general assembly may be replaced by a members' council, and the cooperative may also have a supervisory board and a CEO. In addition, the cooperative is required to have an auditor.

In our case cooperative, the governance structure consists of a members' council, a supervisory board, and a board of directors (see Table 6.1). In accordance with the case cooperative's rules, the CEO is also the chairman of the Board of Directors. Members exercise their democratic power by electing other members to join the Members Council, where they serve four years. A member can vote in the elections if he/she has turned 15 and has been accepted as a member before the election year. All members have the right to stand as a candidate for members council after reaching the age of 18. In this particular cooperative, the Members Council replaces the General Assembly. The members of the Supervisory Board are elected by the Members Council based on the proposal of the Nomination Committee elected from among the Members Council. The Nomination Committee also includes the chairman of the Supervisory Board and the CEO. The term on the Supervisory Board lasts three years. Members of the Council may be elected to the Supervisory Board, which may also co-opt external members, based on their professional expertise.

The Supervisory Board of the case cooperative forms a nomination committee for the purpose of selection of the CEO and board directors. The committee consists of the two chairmen of the Supervisory Board, three members, and the secretary, who is the CEO. They prepare the selection of the CEO and the members of the Board of Directors for one year at a time and the Supervisory Board then makes the final decision. The Supervisory Board selects members of the Board of Directors mainly based on expertise.

According to Chelliah et al. (2016) and Reynolds (2020) such a structure removes the power of the members and reduces the democracy of the cooperative. Selection based solely on expertise has been found to

Table 6.1 The governing bodies and their tasks in the case cooperative

<p>Members Council (40 members elected democratically to represent the whole membership, approximately 80 000 member-owners)</p> <ul style="list-style-type: none"> – approves the financial statements – decides on the distribution of the surplus – grants discharge to the Supervisory Board, the Board of Directors and the CEO – decides on the remuneration of the members of MC and SB – elects the members of Supervisory Board • Members Council elects from among its members the members to the Nomination Committee, who prepares the nomination of the members of the Supervisory Board and the auditor. The proposal is submitted to the Members Council for a decision <p>Supervisory Board (17 members)</p> <ul style="list-style-type: none"> – oversees the Board of Directors and CEO – confirms the strategy and budget of the cooperative, proposed by the Board of Directors – decides significant reductions or expansions of the cooperative’s operations – gives a statement to MC about the financial statements – elects the members of the Board of Directors and decides on their remuneration – elects and may dismiss the CEO – decides on the CEO’s remuneration criteria • Supervisory Board elects from among its members the members to the Nomination Committee, who prepare the nomination of the members of Board of Directors. The proposal is submitted to the Supervisory Board for a decision <p>Board of Directors (5 members, CEO acts as the chairman of the Board)</p> <ul style="list-style-type: none"> – defines and decides the strategic guidelines for the business and oversees their execution including the financial objectives – decides on the taking and granting of loans – approves membership applications – decides on financing and investment policy – decides on investments

reduce the representativeness of the membership, which is a key factor in a democratic governance model (Cornforth, 2020; Reynolds, 2020; Spear et al., 2009). However, for example, Birchall (2017) emphasized that a balance must be struck between representativeness and expertise so the cooperative can carry out its purpose, and proposed that the governance structure should be a “two top-level groupings” model, in which the board is selected on the basis of expertise and is accompanied by a Members Council based on representativeness. These bodies have separate but mutually reinforcing roles, and authority is distributed between

them. Since our case cooperative is a large business and makes significant investments, the criterion for the election of a board of directors cannot be mere representativeness.³

In our case cooperative, the CEO has a dual role when he/she also acts as the chairman of the Board of Directors. Most regional consumer co-ops in Finland use this policy. However, when looking at the majority of Finnish cooperatives, this is a relatively atypical practice. Within the S Group this practice dates back to the 1980s, when the profitability of the entire group was weak and business expertise was desperately needed in order to improve profitability and even survive (Skurnik, 2021). Davis (2001) has argued that whether the CEO is a member of the Board or not depends on the specific circumstances and is not a matter of principle. According to him, it is essential to strive to ensure that both the Board and the CEO are committed to the cooperative's values and purpose; and, in order to promote this, it may be helpful if the CEO belongs to the Board. However, this model is not without problems from the point of view of concentration of power.

6.2.2 The Tasks of Governing Bodies at the Case Cooperative

At the case cooperative, the Members Council wields many decisions, including: the approval of the financial statements; the use of the surplus; the discharge of the CEO, the members of the Board of Directors, and the Supervisory Board; and the remuneration of the members of the governing bodies (Case co-op, 2019). The Members Council thus has an important role to play: its role is to ensure that the cooperative's services and benefits for the members are developed based on the wishes of the members. It is the co-operative's highest decision-making body

³ The rules of the case cooperative state: The members of the Board of Directors must have good knowledge of business and administrative matters; and they must be members of the cooperative; and at the beginning of the term of office less than 65 years old (Case co-op, 2019).

(S Group).⁴ The Supervisory Board ensures that the Board of Directors and the CEO operate in accordance with both the Finnish *Cooperatives Act* and the cooperative's rules, and supervises the implementation of the management strategy and objectives. The Supervisory Board also decides on matters concerning the significant reduction or expansion of the cooperative's operations and confirms the cooperative's strategies and financial objectives. The chairman of the Supervisory Board is formally the supervisor of the CEO.

The Board of Directors promotes the interests of the cooperative's trade. It is responsible for the governance of the cooperative and the proper organization of its activities. The Board of Directors also manages the cooperative's affairs in accordance with the law, the rules, and the decisions of the Members Council (MC) and the Supervisory Board (SB), as well as the instructions issued by the Supervisory Board. The Board of Directors decides on the cooperative's strategy and financial objectives, taking out and granting loans and providing guarantees. The Board of Directors also decides on financing and investment policy, significant investments, and disposals. In addition, the Board of Directors maintains a list of members and ensures that the cooperative's accounting and internal audit are properly organized. The Board of Directors is also responsible for providing the necessary information to the Supervisory Board and preparing the annual report and the financial statements. On the basis of these, the Board of Directors will prepare a proposal for measures regarding the use of the surplus.

The governing bodies of our case cooperative and their duties are described in Table 6.1:

⁴ <https://s-ryhma.fi/en/finance-and-administration/governance>. In addition many service cooperatives such as Finnish cooperative banks also state that The Members Council is the cooperative's highest decision-making body.

6.3 Consumer Cooperative Governance Challenges

The cooperatives' purpose extends beyond just making profits (Berge et al., 2016; Draheim, 1952; Novkovic et al., 2022; Puusa et al., 2013, 2016; Shah, 1996). The main challenge facing cooperatives is how to balance meeting the goals of its members, in other words how to remain relevant to its members, while still making it in the increasingly competitive markets. Therefore it is vital that decision-makers understand the dual nature of cooperatives and how to maintain the balance between the two roles, especially in situations where large co-ops have been deemed to have lost some of their co-op identity as they have taken on more capitalist characteristics in response to intense competition (Cornforth et al., 1988; Davis, 2001; Novkovic, 2012; Puusa & Saastamoinen, 2021; Puusa et al., 2013; Spear, 2004).

Most studies of cooperatives use neoclassical economic models that focus on the assumed characteristics and behavior of capitalist firms and their owners. Such a lens ignores an important criterion that motivates establishing cooperatives: the democratic nature of a member-owned company. Ultimately the neoclassical economic models are at odds with the real goals of cooperatives (Huhtala & Tuominen, 2016; Novkovic & Miner, 2015; Paredes-Frigolett et al., 2017). Capitalist theories have questioned the governance structure of cooperatives, describing it as dysfunctional and problematic (Chaves et al., 2008; Cook, 1995; Cornforth, 2004; Nilsson, 2018; Spear, 2004). However, cooperatives appear to be under great pressure “to adopt hierarchical command and control systems” based on the mainstream economics paradigm and to follow “best practices” of corporate governance, which is contrary to the cooperative idea and unsuitable for a democratic organization (Novkovic & Miner, 2015, p. 11).

Although facing a number of challenges, it has also been found that large cooperatives can thrive using a traditional democratic system of governance (Birchall, 2017). Because the governance structures of different cooperatives may vary significantly, there is no simple blueprint (Birchall, 2015), and the structures have become more diverse in recent decades (Hakelius & Nilsson, 2020). Despite varied structures, elected

member-representatives remain the most important component of representative democracy (Basterretxea et al., 2020; Chaves et al., 2008).

6.3.1 Management in the Member-Centered Approach

Cooperatives by nature are values-based businesses, whose governance and management principles and practices should reflect co-op values and ensure the realization of democratic governance (Novkovic & Miner, 2015). Cooperative governance involves a tension between control and cooperation (Cornforth, 2004). The lack of oversight at the governance level is one of the reasons for the concentration of power in cooperatives (Basterretxea et al., 2020; Chaves et al., 2008; Ghosh & Ansari, 2018; Spear, 2004), which leads to a democratic deficit, weakens membership loyalty, and thus betrays key features of the cooperative identity (Simmons et al., 2015). The main task of governance is to fulfill the cooperative's objectives, protect members' interests, and maintain member control. However, this might be particularly challenging in big cooperatives, because the larger the cooperative, the less connected and more alienated its members become, the less it must rely on member involvement and the more it must rely on professional management. As co-ops grow, even a cooperative that puts participatory mechanisms of governance in place may slowly devolve into a thin, representative model, especially with the rise of a class of professional managers that exercises operational control (Kaswan, 2014, p. 196).

Beyond this, there are barriers when it comes to hearing members' voices when members are outsiders to the organization, as is the case in consumer cooperatives. For example, members may be hesitant to speak in large consumer cooperatives (Tuominen et al., 2009); this silence may lead to a distorted view of members' needs, which could in turn lead to poor decisions based on incomplete information (Hakelius, 2018; Pozzobon et al., 2012). Puusa and Saastamoinen (2021) argued that the best governance happens when the governance and management listen to the voice of the membership and know the needs of the members. This can be achieved through bi-directional information, education, and consultation.

Finally, the issue of concentration of power has been discussed in prior research. For example, Itkonen (1996, as cited in Cornfort, 2004, p. 19) states “Power and decision-making in co-operatives are all too often concentrated at the top in too few hands. Co-operative performance has for a long time been characterized by a lack of participation and sense of involvement. Statutory governing bodies exist to review past performance and to endorse management decisions rather than to challenge policies and strategies”. Also, Chaves et al. (2008, p. 31, 35) argue that compared to managers in capitalist companies, cooperative managers enjoy positions of far greater power and much wider margins of discretion, unfettered by the membership, as the member participation is typically low, which strengthens the autonomous power of the managers. Michaud and Auderbrand (2022) argue that cooperatives’ governing bodies cannot play their control role properly because they cannot employ the internal or external control tools to measure performance. They assert that some values of cooperatives, such as solidarity, can cause board members to side with management, even at the expense of their oversight and oversight responsibilities. In summary, all of these factors lead to insufficient supervision, resulting in managers having more freedom to act than in comparable IOFs (Spear, 2004).

6.3.2 Member Voice in the Member-Centered Approach

One of the biggest challenges of cooperative governance is regular, close, and meaningful dialogue with members (Lacmanovic, 2019). Receptiveness to members’ voice leads to greater commitment, which strengthens representativeness and thereby improves the quality of decisions—where quality means that decisions reflect the wishes and needs of the membership at large (Bijman et al., 2013). Member voice can be strengthened through a governance structure that includes several boards or councils, as well as through different groups of members, where the needs of members are given priority. In addition, various forums can be set up to consult members, workers, and stakeholders on complex needs and to share information. Large consumer cooperatives should also leverage new

technology toward effective governance (Birchall, 2017; Ernst & Young, 2012; Lacmanovic, 2019), which offers possibilities to reach and hear broader membership and other strategic stakeholders.

6.3.3 Representation in the Member-Centered Approach

In large consumer cooperatives, there are several challenges to representativeness: voting turnout and interest in standing as a candidate for the Members Council are both typically low (Hakelius & Nilsson, 2020; Spear, 2004). Low voting activity implies that democratically elected governance bodies may not represent the full membership. The governance structure in large consumer co-ops, which includes not only a Board of Directors, but also a Members Council and a Supervisory Board, is democratic, albeit indirectly. In such a structure, members may feel marginalized, as though the governance bodies don't represent them. Furthermore, members may not be aware of their role as owners in large consumer cooperatives; instead they associate themselves as regular customers, which presents further challenges to representativeness (Jussila et al., 2012b; Talonen et al., 2018). Cooperatives can strengthen their democracy by offering more opportunities for member and stakeholder participation (Birchall & Simmons, 2004), or by creating larger (and/or more numerous) boards that represent the membership and their heterogeneity more broadly (Franken & Cook, 2019).

6.3.4 Expertise in the Member-Centered Approach

One of the reasons for the ineffectiveness of the governance structure of many cooperatives is that the elected representatives neither have enough business skills nor recognize the requirements of their own role in co-op governance (Basterretxea et al., 2020; Nilsson, 2018). From this perspective, members of the governing bodies should be selected on the basis of both expertise and representativeness (which is the case when selecting the members of Supervisory Boards, as explained earlier). On the other hand, according to the principle of democracy, members have the right

to elect representatives from among the wider membership (Basterretxea et al., 2020; Chelliah et al., 2016; Conrforth, 2004; Hannan, 2014; Reynolds, 2020) which is realized in Members Council elections.

Effective governance ensures the success of cooperatives in a rapidly changing market environment, which is why their leadership needs competence in business operations, understanding of the purpose and identity of cooperatives (Davis, 2001; Puusa & Saastamoinen, 2021), and a clear understanding of their governance both individually and collectively (Simmons et al., 2015). The members of the governance bodies are “everyday people”, and they are “very often solid, earnest people with good judgment, but without the necessary background for strategic decisions in the business world” (Sivertsen, 1996). In other words, democratically elected members may not have the skills required for effective governance work (Spear, 2004; Staatz, 1987).

The principle of democracy and the representative model prevent purely expert-driven recruitment (Chelliah et al., 2016; Reynolds, 2020). If members of the governing bodies appoint the co-op governors themselves (instead of relying on membership elections), they would have the opportunity to recruit people with the necessary competence. However, according to Cornforth (2020) this would pose a threat that governance would become self-serving and lack external accountability, with no wider membership to hold them to account.

Cooperatives need structures that provide co-op governors with information about the needs and aspirations of a large, and often heterogeneous, membership. Representation, expertise, and member voice must co-exist in well-governed cooperatives (Birchall, 2017).

6.4 Research Methodology

The empirical data was collected via qualitative questionnaires from the case cooperative’s Members Council and the Supervisory Board. Altogether, 54 people participated, 37 members of the Members Council (out of 40) and all 17 members of the Supervisory Board.

We used a qualitative content analysis. First, we read and reread the surveys, looking for both source-based and theory-based patterns

in the responses. The process of analysis is multi-staged, which means that interpretation takes place during the whole process of reading and rereading (e.g. Krippendorff, 1986; Mayring, 2014; Puusa & Julkunen, 2020; Renz et al., 2018). Once themes emerged from the responses, they were coded and similarities and differences were identified. This process gave rise to the categories from which the main themes emerged, which we will discuss next.

6.5 Empirical Findings

All 54 respondents were first asked whether they knew the overall governance structure of their co-op; they were then asked to describe the overall governance structure of their co-op in their own words. For the Members Council, some of the respondents were able to name the cooperative's governing bodies, some forgot one body or listed ones that are not in use. It is interesting that co-op members were also listed in many answers as part of the official cooperative governance structure, even though the members are not part of it according to the legal framework (Cooperatives Act 5§37) nor the bylaws of the case co-op. In a way, however, this conception makes sense because the Council members are elected by the members and they represent them. For the Supervisory Board, everyone indicated that they knew the governing structure of the cooperative they represent. However, their answers showed that they didn't fully understand the tasks of each governing body or the specific roles of those bodies. In general, respondents had difficulty in defining the tasks of governing bodies, with a few exceptions, including the Chair of the Supervisory Board.

Below, we will first discuss the participants' understandings of the Members Council. The first section will detail how the Members Council understands their own roles, followed by the members of the Supervisory Board's understanding of the roles of the Members Council. We will discuss next how all the participants understood the roles of the Supervisory Board and the Board of Directors; and, finally, we will analyze the responders' motives for taking part in governing activities.

6.5.1 The Roles of the Members Council Through the Eyes of Its Members

All members of the Members Council seemed to know, at least in theory, that the Members Council is the cooperative's highest decision-making body. However, they didn't know *what* they could make decisions on or the extent of their decision-making power. They believed that their power rested in communicating co-op members' messages to other governing bodies. Ultimately, they thought that they could not influence the resolution proposals; instead, they saw their job as "rubber-stamping" proposals prepared by the CEO and the Board. Despite this, the members seemed to have a strong desire to influence matters, but they had no exact information on how they could do that. Overall, the Members Council often referred to the co-op members, demonstrating their understanding that the most central mission of their council is to amplify the voice of the co-op members. Although this is an important duty and the correct conclusion, this is not the only duty of the Members Council. Members described duties in a number of ways:

The role of the Members Council is to make sure that the feelings and thoughts of the members are brought to the attention of the governing bodies.

I am a representative of members. I'll get [and deliver] a message from them.

In practice, I don't really make decisions about anything. When matters are presented to the Members Council, they have travelled a long way in the process, and are ready to be formally decided on.

Based on these responses, we may deduce that the Members Council feels that their decision-making power rests in small or insignificant matters. Many respondents had views on what kinds of duties, in the spirit of cooperation, should belong to the Members Council. Generally, it was

also seen that the Members Council is a visible indication of the democratic principle of the cooperative, and, in that spirit, it should have a more significant role within overall co-op governance.

6.5.2 The Roles of the Members Council Through the Eyes of the Supervisory Board

The members of Supervisory Board recognized the duties and role of the Members Council by definition: “*The Members Council has the highest decision-making power*” was a common and correct answer. However, a deeper analysis revealed that only very few seemed to understand what this means in practice. Their answers fail to define, for example, what matters are decided by this highest level of power. They also felt that the most central duty of the Members Council was to make the voice of the co-op members heard.

The... cooperative’s highest decision-making body is the elected 40 members Members Council. The Members Council is the [decision-making body] in governance that is closest to the members.

The Members Council is a customer feedback meeting . . . They are also responsible for providing information and feedback to customer owners about the company’s operations.

The rubber stamp, many have said.

The responses seem to show that the tasks of the Members Council (based on the bylaws) were not understood, and even those respondents who could name the duties feel that the decision-making power lies with the CEO and the Board of Directors. This is contradictory, since respondents generally highlighted that it is the Members Council that is formally the highest decision-making body of the cooperative; and at the same time, they see their role in practice as to rubber stamp decisions made elsewhere, with no real de facto decision-making power on the Members Council. Outside of this, the Council acts as a passive conduit of information between members and management, without

engaging either party in any serious constructive dialogue. Such deliberative engagement is one of the key factors in the effective governance of a cooperative; but from the point of view of the realization of democracy, it is also critical that the governing bodies participate in decision-making in accordance with the powers given to them, so that member voice is taken into account.

6.5.3 The Roles of the Supervisory Board Through the Eyes of the Members Council

We also asked the members of the Council to define the duties and the role of the Supervisory Board in more detail. Their answers were heterogeneous, and the factual knowledge regarding their tasks (see again Table 6.1) seemed very limited excluding a few exceptions. Only some recognized the supervisory role as an important duty of the Supervisory Board, and even fewer could explain this role more precisely. Those who could explained the supervisory role as follows:

One of the most important duties of the Supervisory Board is to select the Board of Directors and to appoint and to remove the CEO. The Supervisory Board oversees the Board of Directors and provides a statement on the confirmation of the final accounts to the Members Council.

An important task is to supervise the activities of the cooperative.

While one could expect a dialogue between various governance bodies in a cooperative, we note hierarchical thinking among the respondents. The respondents felt that the Supervisory Board should function as a link between the Board of Directors and the Members Council, which in turn acts as a link to the members.

After the Members Council comes the Supervisory Board, which oversees the co-op governance and operations.

The Members Council Represents the Membership, the Supervisory Board is Above It, and the Managers Are Above Them.

6.5.4 The Roles of the Supervisory Board Through Their Members' Eyes

We also asked the Supervisory Board members on what matters they make decisions. In general, the respondents had difficulty in defining their duties. According to our interpretation, the Supervisory Board felt they had influence over the selection of the key personnel, such as the members of the Board and the CEO. Some of the respondents listed strategic decision-making as part of their duties. Therefore, it can be inferred that the division of roles between the Board of Directors and the Supervisory Board is not clear to everyone. The Supervisory Board members also saw themselves as a “discussion club” where people exchange ideas, but didn't believe that they actually made decisions. The supervisory role was not perceived to be actually realized. The respondents interpreted the role of the CEO as very strong (for example expressions such as “the head of the house”, “direction determiner”, “figurehead”, “centre of power”, “face of the cooperative”), and they expressed that meetings weren't based on discussions or interactive; but, rather, those meetings were designed to distribute unilateral information.

Decision making is fast, which is a very good thing. This could be done in a more transparent way, so [that] we here in the Supervisory Board would be up to date [on the decisions taken].

After all, the Supervisory Board is not the decision-making body.

6.5.5 The Duties of the Board of Directors

The Members Council felt that the work of the Board of Directors was comprehensive and responsible, saying that they “have a lot on their shoulders”. Despite this, the Members Council could not accurately name all of the Board's responsibilities. Most of the respondents couldn't discern between the strategic and the operative roles, meaning the Board's responsibilities and roles were confused. According to co-op bylaws and

good governance guidance, operational management is not the responsibility of the Board. On the contrary it should refrain from intervening with such activities and focus on strategic matters.

The Board of Directors, together with the CEO, is responsible for operative management.

The Board of Directors... decides on strategy and practicalities. The Board of Directors manages operations.

The board of directors makes almost all of the company's operational decisions.

The Supervisory Board members also recognized the duties and the role of the Board of Directors in differing ways. The common response was a connection between great power and great responsibilities. However, the roles of the management team and the Board of Directors were commonly confused in their answers too.

The Board of Directors... has the more operative power in the business, and makes the most important decisions and carries the actual responsibility.

The Board's task is to support the management team and CEO in more day-to-day management.

The Board of Directors exercises the highest operational authority and is responsible for major investments and strategy development.

6.5.6 Motives for Participating in Governing Activities

As a sub-theme, representatives' motives to become and act as a representative were explored. The responses of the Members Council fell into four main categories, where motives varied from self-serving to altruistic. Firstly, for some, working in governance is a way to satisfy their own

thirst for knowledge or to increase their competence (e.g., “I want...to gain knowledge and information about the activities of the cooperative more broadly”). The second category was formed by responses in which people talked about the overall influence of the cooperative movement, and the respondent’s wish to be part of it (e.g., “[In this area, the case cooperative] has a strong role as a social actor. I am interested in the possibilities of the [case cooperative] as a provincial actor”). The third category contains responses in which the respondents emphasized that they represent the members and that they want to bring the voice of the members into the decision-making (e.g., “I want to influence and represent members and bring their wishes and ideas to the members council and to the other governing bodies”). As a fourth category, a small group of people seemed to find themselves in governance by accident. They described how they had “drifted” into the task, for example, because an acquaintance had asked them to consider taking on a governance role (e.g., “Coworkers asked to run as a candidate”). The motives were not always clear-cut. Some of the respondents combined not only curiosity and the wish to develop their own competences, but also the desire to be part of the co-op’s development—to offer their own efforts and skills to the co-op.

The responses of Supervisory Board members and Council members shared these four response categories. In addition, a fifth category emerged among Supervisory Board members who had previous experience in governance tasks. For them, participating in governance was a kind of growth path; for example, moving from the Members Council to the supervisory body.

At the end of the first term, I was asked by the Nomination[s] Committee [to become] a member of the Supervisory Board and decided to join, because I felt it supported my own learning; but [also] that I could give the [case cooperative] an aspect that may not be [present] enough there yet.

6.5.7 In Summary

The responses from the Members Council and the Supervisory Board clearly show that the overall structure and duties of the governing bodies are not clearly understood. The responses contained inaccuracies or omissions in both the recognition of the governing bodies as well as their tasks. The responses could also indicate that the different governance bodies operate in a hierarchical relationship with each other. Participants did not consistently mention collaboration and interaction between the governing bodies either. According to Pirson and Turnbull (2011), the division of collaboration and knowledge between governing bodies is a central factor that promotes the realization of democracy, and if those aspects aren't apparent, it may weaken the cooperative identity (Skurnik, 2002). The weakening of democracy strengthens the consolidation of power within the Board of Directors and the operative management (Basterretxea et al., 2020), which is problematic for a democratic organization.

The overall responses lead us to believe that power is concentrated at the top of the co-op structures. A genuine dialog is missing between the Members Council and other governing bodies. Instead of having an active decision-making role, the supposed highest power of the Members Council is perceived as being passive: in practice it involves listening to the Supervisory Board, the Board of Directors, and especially the CEO, and also confirming the ready-made decisions of the Board led by a powerful CEO. This means that the decision-making power of the Members Council was mostly seen as rhetoric mantra, which does not support the view of the cooperative as a truly democratic organization. They interpreted their only active role as that of amplifying the voice of the co-op members. Although the Members Council believes that this is a critical undertaking, it is not something done often or consistently. Therefore, the members' voice isn't guaranteed to be heard by any governing body, and decisions are left to the Board of Directors and management. Despite this, the governance structure was perceived to be an expression of democracy, an important value of the cooperative. These aspects are not in line with the ideal implementation of the humanistic paradigm and network governance (Novkovic & Miner,

2015; Pirson & Turnbull, 2011), nor the participatory democratic ideal of co-op governance (Novkovic & Miner, 2015).

The supervisory body also doesn't seem to understand their supervisory duty, which, in turn, also concentrates power in the Board of Directors and management. This concentration of power has been recognized as a challenge in earlier studies (Basterretxea et al., 2020; Puusa & Saastamoinen, 2021), and as a phenomenon it does not follow the humanistic, member-centered perspective or the principles of the cooperative movement (Pirson & Turnbull, 2011). The concentration of power weakens the possibility of the emergence of different perspectives in governance, which, according to Pirson and Turnbull (2011), are a prerequisite for the development of the organization.

Even those respondents who can be understood to be disappointed by the lack of any real opportunity to influence matters did not question the current model of governance or ways of doing things or demand that they be changed to match the principles of cooperation—that is, hearing the voice of members and representation on an equal footing with expertise (Birchall, 2017). This is contradictory, in the sense that respondents being content with a structure where one has little influence seems to conflict with the dispersion of power as the key component of democratic governance. According to Mazzarol et al. (2011) the co-op governance can become overly “management driven”, which seems to be the case here due to an excellent financial performance and confidence in the management.

Our respondents seemed to strongly value the principle of democracy. However, that democracy is taken for granted. That assumption is either a case of member passiveness (Chaves et al., 2008; Cornforth, 2004; Spear, 2004), a lack of understanding of the co-op idea (Davis, 2001; Mazzarol et al., 2011), or strong trust in the CEO and other members of the Board and management (Mazzarol et al., 2011). It might also be the satisfaction with the financial success of the cooperative (see Basterretxea et al., 2020), so governance is not challenged. In practice, the data

present a view of the cooperative as a very hierarchical organization in which real power is exercised by very few.

The members' motives for participation in governance varied from self-serving to altruistic, but the common theme among all the respondents was passivity. The data lead to the conclusion that most of those who previously stated that they became involved with the governance in order to increase their own competences were not actively participating in or promoting democratic governance in a very active way. Rather our interpretation points toward a more passive engagement, where any form of participation was seen as a value in itself. The governance work benefits the representatives themselves through the development of networks and of knowledge or even prestige. Although this is in line with previous research that one of the key incentives for participation in the governance of cooperatives is the opportunity for personal professional development (Jussila et al., 2012a; Sacchetti & Tortia, 2020), primarily self-interested motives for participation run counter to the member-centered perspective (see Birchall, 2017). In conclusion, it can be stated that people have very different reasons to engage in governance across various contexts and organizational cultures, and only some of them are connected with the business form, cooperatives or the co-op ideology, confirming similar findings in previous studies (Jussila et al., 2012a; Sacchetti & Tortia, 2020).

6.6 Concluding Remarks

The principles of democracy and multi-level governance are not only strengths, but also present a challenge to cooperatives. Based on our study, two key findings stand out.

The first finding is that engagement and democracy as values and principles are an integral part of the cooperative ideology. It is the heart and soul of cooperative governance. According to Novkovic et al. (Chapter 4 in this volume) co-op processes are democratic, but situation-dependent

and not uniform. In the responses, we found that democracy was highlighted as the central value related to cooperative operations and/or governance. Analysis of the data leads to the question of what the co-op governors mean by democracy, and how they understand it. As our study shows, democracy is only realized in the case cooperative as the right of the co-op members to stand for election and become elected to the Members Council.

Munck (2014) says that “democracy is about more than elections”. In other words, we should move beyond the conventional electoral conception of representative democracy, and, rather, realize that democracy is more about a holistic governance decision-making system. Indeed, the focus should be on the quality of democracy (see Lijphart, 1999), and its various forms, examining how well democracy promotes itself and how the governance system actualizes its potential. In our case co-op, while the financial performance is excellent, the quality of democracy is limited, or perhaps even poor. “Quality of democracy can also be evaluated by the strength of linkages between citizens and politicians and, in this case, via the linkages between the membership and representatives of governance bodies and the management or, alternatively, the strength of popular control” (Roberts, 2009, as cited in Munck, 2014, p. 3). In our case study, democracy is interpreted through its electoral conception and the quality of democracy is ignored. Thus the governance system neither actualizes its potential nor meets the original ideas forming the co-op ideal.

In conclusion, excluding elections, excessive concentration of power can be described as an embodiment of pseudo-democracy. Distortion of power is prevented by democratic practices of cooperative governance based on member participation and identifying the needs of members (e.g., Birchall, 2017; Shah, 1996; Spear, 2018). In addition, the managers should have little or no power over the election of supervisory board and board of director members (Franken & Cook, 2019). The members’ active involvement is important for the cooperatives’ purpose and for “network governance with multiple centres of decision-making and opportunities for engagement of members and constituent groups” (Novkovic & Miner, 2015, p. 19).

Birchall (2017) suggests that the dilemma of expertise and representativeness in large cooperatives should be solved by

two top-level groupings. There will be a small board of directors who are mainly independent experts, but with some representativeness built in. Then there will be a members council that will be much larger and will be highly representative of the members. This means that, to some extent, board members are freed from the need to prove their representativeness as well as their expertise. It also means that the top executives can become board members rather than just advisers to the board, as their expertise as managers can be recognised. In such a system, authority is distributed and so the members council and the board of directors can each get on with doing what they do best. In order not to choke off the voice of ordinary members, both the council and the board will have to submit themselves for election by the members at an annual meeting. Because of the need to ensure a threshold of competency among council members and specific types of expertise among board members, there will be a powerful nominations committee that will vet the candidates for both board and council. (Birchall, 2017, p. 105)

Our case cooperative seems to have the right structures in place to ensure this balance. However, the second finding, which is also a major concern, relates to the lack of understanding of respective roles: who oversees the case co-op's Board of Directors and the operative management if members of the Supervisory Board do not recognize their most important duty, their role as the supervisors of the cooperative operations and purpose? Even those who recognize that oversight itself is part of their duties do not feel they are realizing it in any practical way. Only a handful of people realized this as a concrete duty.

This may be due to practical reasons. For example, even though information about the cooperative's affairs and decisions made by the Board is openly available only in meetings, processing it in a short time is difficult, if not downright impossible. In time, this may lead to a situation where governance becomes "driven by management", and it starts to rely too much on the operational management, ultimately rubber-stamping proposals (Mazzarol et al., 2011), which seems to be the case here. What is surprising and alarming is that, despite this situation, the respondents

were satisfied with the current structure and did not question the lack of oversight. This might be due to the fact that the cooperative is doing extremely well financially and the other governing bodies seem to have an unswerving faith in the Board and especially the charismatic CEO.

We are afraid that our case example is not unique in its findings and examination of roles and tasks of the cooperative governance. However, it highlights the urgent need for training and education about the cooperative idea and the specific characteristics of its governance system. This requirement is also inherent in the international principles of the cooperative movement, in particular Principle 5 on education, training, and information (ICA, 2015). Davis (2001) highlights that the executive role in co-ops falls on management, and it is therefore crucial that they, in particular, be suitably educated about the co-op identity.

Elected representatives, together with the operational management, are responsible for the decision-making and the realization of the co-op's purpose. The unclear roles and duties of the governing bodies concentrate power and weaken democracy. Methods such as online voting (Zittel, 2007), dialogue between stakeholder groups and governance bodies, and the formation of an inclusive organizational culture (Sepulveda et al., 2020) can lead to democratic participation and representation. This we strongly recommend to all cooperatives, including our case co-op. Besides the existence of more diverse governance structures toward a system of boards, committees, and councils that engage more members and stakeholders in decision-making processes (Novkovic & Miner, 2015; Pirson & Turnbull, 2011), educating members about their roles and enabling them to execute them is critical for a functioning democratic governance.

Acknowledgments We wish to thank Associate Professor of English and English Education Michelle D. Deveraux for language review. We offer our warmest thanks also to the book's editors, Professor Sonja Novkovic, Managing Director, doctoral student Karen Miner, and Postdoc researcher Cian McMahon for collaboration and valuable comments.

References

- Aragonés, E., & Sánchez-Pagés, S. (2009). A theory of participatory democracy based on the real case of Porto Alegre. *European Economic Review*, 53, 56–72.
- Basterretxea, I., Cornforth, C., & Heras-Saizarbitoria, I. (2020). Corporate governance as a key aspect in the failure of worker cooperatives. *Economic and Industrial Democracy*, 43(1), 362–387.
- Berge, S., Caldwell, W., & Mount, P. (2016). Governance of nine Ontario food co-operatives. *Annals of Public and Cooperative Economics*, 87(3), 457–474.
- Bijman, J., Cechin, A., & Pascucci, S. (2013, November 21–23). From governance structure to governance mechanisms: Opening the black box of the member-cooperative relationship. In *Economics and Management of Networks Conference*.
- Birchall, J. (2014). *The governance of large co-operative businesses: A research study for co-operatives UK*. Co-operatives UK.
- Birchall, J. (2015). The design of effective democratic governance structures for large co-operatives. In *Co-operative governance fit to build resilience in the face of complexity* (pp. 25–34). International Co-operative Alliance.
- Birchall, J. (2017). *The governance of large co-operative businesses*. Co-operatives UK.
- Birchall, J., & Simmons, R. (2004). The involvement of members in the governance of large-scale co-operative and mutual businesses: A formative evaluation of the co-operative group. *Review of Social Economy*, 62(4), 487–515.
- Case co-op. (2019). *Bylaws [anonymous]*. Internal Document.
- Chaves, R., Soler, F., & Sajardo, A. (2008). Co-operative governance: The case of Spanish credit co-operatives. *Journal of Co-operative Studies*, 41(2), 30–37.
- Chelliah, J., Boersma, M., & Klettner, A. (2016). Governance challenges for not-for profit organisations: Empirical evidence in support of a contingency approach. In *Proceedings of the Australasian Conference on Business and Social Sciences 2015, Sydney*. ISBN 978-0-9925622-1-2.
- Cook, M. L. (1994). The role of management behavior in agricultural cooperatives. *Journal of Agricultural Cooperation*, 9, 42–66.
- Cook, M. (1995). The future of U.S. agricultural co-operatives: A neo-institutional approach. *American Journal of Agricultural Economics*, 77, 1153–1159.

- Corbett, S. (2014, Summer). A critical qualitative study of the relationship between social empowerment and participatory democracy in the UK. *International Journal of Social Quality*, 4(1), 7–25.
- Cornforth, C., Thomas, A., Lewis, J., & Spear, R. (1988). *Developing successful worker co-operatives*. Sage.
- Cornforth, C. (2004). The governance of cooperatives and mutual associations: A paradox perspective. *Annals of Public and Cooperative Economics*, 75(1), 11–32.
- Cornforth, C. (2020). The governance of hybrid organisations. In D. Billis & C. Rochester (Eds.), *Handbook on hybrid organisations* (pp. 220–236). Edward Elgar Publishing Limited.
- Davis, P. (2001). The governance of co-operatives under competitive conditions: Issues, processes and culture. *Corporate Governance International Journal of Business in Society*, 1(4), 28–39.
- Draheim, G. (1952). *Die Genossenschaft als Unternehmungstyp* (2nd ed. 1955). Vandenhoeck & Ruprech.
- Ernst and Young. (2012). Overview and comparison of public accounting and auditing practices in the 27 EU Member States: Prepared for Eurostat, Ernst & Young, Brussels.
- Franken, J. R. V., & Cook, M. L. (2019). Do corporate governance recommendations apply to U.S. agricultural cooperatives? *Sustainability*, 11(19), 5321. <https://doi.org/10.3390/su11195321>
- Ghosh, S., & Ansari, J. (2018). Board characteristics and financial performance: Evidence from Indian cooperative banks. *Journal of Co-operative Organization and Management*, 6, 86–93.
- Hakelius, K. (2018). Understanding the board of Swedish farmer cooperatives—Cases focusing on board composition and interaction patterns. *Journal of Co-operative Organization and Management*, 6, 45–52.
- Hakelius, K., & Nilsson, J. (2020). The logic behind the internal governance of Sweden's largest agricultural cooperatives. *Sustainability*, 12, 1–19.
- Hannan, R. (2014). Good co-operative governance: The elephant in the room with rural poverty reduction. *Journal of International Development*, 26, 701–712. <https://doi.org/10.1002/jid.2989>
- Huhtala, K., & Tuominen, T. (2016, September 15–16). Election of board members in cooperatives: A review on cooperative governance vis-à-vis corporate governance. In *Proceedings of the 11th European Conference on Innovation and Entrepreneurship*.

- ICA. (2015). *Guidance notes to the co-operative principles*. International Cooperative Alliance. <https://www.ica.co-op/en/media/library/research-and-reviews/guidance-notes-co-operative-principles>. Accessed June 7, 2021.
- Jussila, I., Goel, S., & Tuominen, P. (2012a). Governance of co-operative organizations: A social exchange perspective. *Business and Management Research*, 1(2), 14–25.
- Jussila, I., Tuominen, P., & Tuominen, T. (2012b). Are we owners or regular customers? The obscure meaning of ownership in consumer co-operatives?. *International Business Research*, 5(12), 195–201.
- Kaswan, M. J. (2014). Developing democracy: Cooperatives and democratic theory. *International Journal of Urban Sustainable Development*, 6(2), 190–205.
- Krippendorff, K. (1986). *Content analysis: An introduction to its methodology* (Vol. 5, The Sage Commtext Series). Sage.
- Lacmanovic, S. (2019). The relevance of promoting good governance models and mechanisms for cooperatives success: A review essay. In A. L. da Silva, D. Tomic, & A. Grilec (Eds.), *Economic and social development: Book of proceedings* (pp. 425–435). Varazdin Development and Entrepreneurship Agency (VADEA).
- Lijphart, A. (1999). *Patterns of democracy: Government forms and performance in thirty-six countries*. Yale University Press.
- Mayring, P. (2014). Qualitative content analysis: Theoretical foundation, basic procedures and software solution. *Social Science Open Access Repository SSOAR*.
- Mazzarol, T., Limnios, E., & Reboud, S. (2011). Co-operative enterprise: A unique business model? In *Paper Presented at Future of Work and Organisations* (Vol. 25).
- Michaud, M., & Audebrand, L. K. (2022). One governance theory to rule them all? The case for a paradoxical approach to co-operative governance. *Journal of Co-operative Organization and Management*, 10. <https://doi.org/10.1016/j.jcom.2021.100151>
- Munck, G. L. (2014). What is democracy? A reconceptualization of the quality of democracy. *Democratization*, 23(1), 1–12.
- Nilsson, J. (2018). Governance costs and the problems of large traditional co-operatives. *Outlook on Agriculture*, 47(2), 87–92.
- Novkovic, S. (2012). The balancing act: Reconciling the economic and social goals of co-operatives. *The Amazing Power of Cooperatives*, 289–299.
- Novkovic, S., Puusa, A., & Miner, K. (2022, June). Co-operative identity and the dual nature: From paradox to complementarities. *Journal of Co-operative*

- Organization and Management*, 10(1). <https://doi.org/10.1016/j.jcom.2021.100162>
- Novkovic, S., & Miner, K. (2015). Co-operative governance fit to build resilience in the face of complexity. In S. Novkovic & K. Miner (Eds.), *Co-operative governance fit to build resilience in the face of complexity* (pp. 10–24). International Co-operative Alliance.
- Paredes-Frigolett, H., Nachar-Calderón, P., & Marcuello, C. (2017). Modeling the governance of cooperative firms. *Computational & Mathematical Organization Theory*, 23, 122–166.
- Pirson, M., & Turnbull, S. (2011). Toward a more humanistic governance model: Network governance structures. *Journal of Business Ethics*, 99(1), 101–114.
- Pozzobon, D. M., Zylbersztajn, D., & Bijman, J. (2012). How can cooperatives reduce democratic costs without incurring excessive agency costs? *Journal of Rural Cooperation*, 40(2), 119–144.
- Puusa, A., Hokkila, K., & Varis, A. (2016). Individuality vs. communality—A new dual role of co-operatives? *Journal of Co-operative Organization and Management*, 4, 22–30.
- Puusa, A., & Julkunen, S. (2020). Uskottavuuden arviointi laadullisessa tutkimuksessa. In A. Puusa & P. Juuti (Eds.), *Laadullisen tutkimuksen näkökulmat ja menetelmät* (pp. 189–201). Gaudeamus. [Assessing credibility of qualitative research in Approaches and Methods in Qualitative Research]
- Puusa, A., Mönkkönen, K., & Varis, A. (2013). Mission lost? Dilemmatic dual nature of co-operatives. *Journal of Co-operative Organization and Management*, 1, 6–14.
- Puusa, A., & Saastamoinen, S. (2021). Novel ideology, but business first? *Journal of Co-operative Organization and Management*, 9. <https://doi.org/10.1016/j.jcom.2021.100135>
- Renz, S. M., Carrington, J. M., & Badger, T. A. (2018). Two strategies for qualitative content analysis: An intramethod approach to triangulation. *Qualitative Health Research*, 28(5), 824–831.
- Reynolds, T. (2020). *2020 Co-ops & credit unions: Report from the board room* [Research Report]. Canadian Centre for the Study of Co-operatives.
- Sacchetti, S., & Tortia, E. C. (2020). Governing cooperatives in the context of individual motives. *International Journal of Social Economics*, 48(2), 181–203.
- Sepulveda, L., Lyon, F., & Vickers, I. (2020). Implementing democratic governance and ownership: The interplay of structure and culture in public

- service social enterprises. *VOLUNTAS: International Journal of Voluntary and Nonprofit Organizations*, 31, 627–641.
- Shah, T. (1996). *Catalysing co-operation: Design of self-governing organisations*. Sage.
- Simmons, R., Yuill, B., & Booth, J. (2015). Governing resilient co-operatives: Agricultural co-operatives in Scotland. In S. Novkovic & K. Miner (Eds.), *Co-operative governance fit to build resilience in the face of complexity* (pp. 35–48). International Co-operative Alliance.
- Sivertsen, S. (1996). Governance issues seen from a management perspective. *Review of International Co-operation*, 89(4), 34–36.
- Skurnik, S. (2002). The role of cooperative entrepreneurship and firms in organising economic activities—Past, present and future. *The Finnish Journal of Business Economics*, 1(2), 103–124.
- Skurnik, S. (2021, May 18–21). Creating competitive advantage through co-operativeness: S Group's strategic renewal and co-operative transformation in the Finnish retail sector since early 1980s. In *46th Economic and Business History Society Conference 2021 Zoom*, Internet.
- Spear, R. (2004). Governance in democratic member-based organisations. *Annals of Public and Cooperative Economics*, 75(1), 33–59.
- Spear, R. (2018). Democracy in large co-operatives. In J. Brazda & H. Blisse (Eds.), *Beiträge zur kritischen Genossenschaftsforschung* (pp. 479–496). FOG.
- Spear, R., Cornforth, C., & Aiken, M. (2009). The governance challenges of social enterprises: Evidence from a UK empirical study. *Annals of Public and Cooperative Economics*, 80(2), 247–273.
- S-ryhmä. (2021). *About S Group*. <https://s-ryhma.fi/en/about-us/s-group-in-brief>
- Staatz, J. M. (1987). The structural characteristics of farmer cooperatives and their behavioral consequences. In J. S. Royer (Ed.), *Cooperative theory: New approaches, service report 18* (pp. 33–60). USDA: Agricultural Cooperative Service.
- Talonen, A., Jussila, I., Tuominen, P., & Koskinen, L. (2018). Failing to develop a sense of ownership: A study in the consumer co-operative context. *Cogent Business & Management*, 5. <https://doi.org/10.1080/23311975.2018.1540916>
- Tuominen, P., Jussila, I., & Kojonen, S. (2009). Overcoming challenges to governance in consumer co-operatives: Analyzing reports of key representatives. *The International Journal of Co-Operative Management*, 4(2), 22–35.

Zittel, T. (2007). Participatory democracy and political participation. In T. Zittel & D. Fuchs (Eds.), *Participatory democracy and political participation: Can participatory engineering bring citizens back in?* (pp. 9–28). Routledge.

Open Access This chapter is licensed under the terms of the Creative Commons Attribution-NonCommercial-NoDerivatives 4.0 International License (<http://creativecommons.org/licenses/by-nc-nd/4.0/>), which permits any noncommercial use, sharing, distribution and reproduction in any medium or format, as long as you give appropriate credit to the original author(s) and the source, provide a link to the Creative Commons license and indicate if you modified the licensed material. You do not have permission under this license to share adapted material derived from this chapter or parts of it.

The images or other third party material in this chapter are included in the chapter's Creative Commons license, unless indicated otherwise in a credit line to the material. If material is not included in the chapter's Creative Commons license and your intended use is not permitted by statutory regulation or exceeds the permitted use, you will need to obtain permission directly from the copyright holder.





7

Governance in Lincolnshire Consumer Cooperative

Roger Spear

7.1 Introduction

Lincoln Cooperative Society was originally registered¹ as an Industrial and Provident Society, when founded in the UK 160 years ago in 1861. By the end of its first quarter of trading there were 74 members. Currently there are about 290,000 members, with 220 outlets, concentrated in Lincoln, but spread over the whole of Lincolnshire, and 2,870 staff (termed “colleagues”), with dividend payments amounting to £3.8 million, on turnover of £355 million. They operate in food, primarily local stores, including a bakery, pharmacies, travel, funerals (including

¹ With the recent UK legislation for cooperatives, Lincolnshire Co-operative Ltd is now a Registered Society under the Co-operative and Community Benefit Societies Act 2014.

R. Spear (✉)

Centre for Social Entrepreneurship, Roskilde University, Roskilde, Denmark
e-mail: roger.spear@open.ac.uk

their own crematoria), and post offices. They are regarded as a strong regional society, with a strategic focus on local food stores (urban and rural), so not directly competing with large supermarkets. The keys to Lincoln's success are: firstly, sound financial and business strategies (including strategic investments of profits into property for many years); good management and corporate governance; an emphasis on quality regarding both customers and staff; since the 1990s, a strong emphasis on the value of membership; investing in the local communities and civil society; and, finally, they also benefit from being relatively isolated as a city and county.

Structure of the chapter: The chapter begins with a review of various governance theories, building up to humanistic governance, and leading onto the identification of major challenges facing consumer cooperatives. It goes on to discuss ways in which these challenges can be addressed, including institutional measures of networked/polycentric developments that are particularly relevant to the UK cooperative scene. Next it examines the governance system of Lincoln Cooperative Society, exploring the extent to which networked governance systems played a role. Finally, it reflects on the analysis and draws conclusions.

7.2 Governance, and Strategic Challenges of Consumer Cooperatives

Some previous studies of consumer cooperatives have found management and governance weaknesses, which according to Schediwy and Brazda (1986), in their major study of the recent history of consumer cooperatives, has led to a pattern of failures, including in Austria, Germany, France, and Belgium.

Spear (2004), using a principal-agent² approach, argues that there is a tendency towards low levels of membership activity, and maintaining an

²The principal (owner) has different interests to the agent (manager), so the emphasis is on supervision and finding ways to align interests, e.g. through the design of the agent's remuneration package.

active membership is particularly challenging; this results in weak governance, where managers may have more power than in similar private sector organizations, particularly as the market for external control is quite weak due to dispersed ownership and the difficulties of forming coalitions of members (collective action problem), lack of institutional investors, and resistance to acquisition and mergers.³ This theoretical analysis was supported by data on levels of active participation by members in large consumer cooperatives—with only 1–5% of members voting in retail cooperatives in the UK in the 1990s. Spear (2004) also identifies the issue of non-member customers in consumer co-ops—i.e. how to manage the proportion so that: (a) members have priority; (b) the non-members are welcomed and encouraged to join; (c) information about the preferences of both is secured; (d) legitimacy of the board is maintained; and (e) non-members don't outnumber members and the cooperative identity is preserved. This is important to avoid the bias of an unrepresentative minority (or clique), ensure representative voice, and sustain loyalty; it is also essential for maintaining the vitality of boards.

Puusa and Saastamoinen (2021 and Chapter 6 in this volume) also reveal the weaknesses in consumer co-op democracy; they examined views of representatives of various co-op governing bodies of a consumer cooperative (mainly representatives council, and supervisory boards in a single co-op organization, with a sample size of 54 members). The overall structure and the tasks of the various governing bodies were generally not clear (representatives council, supervisory board, and board of directors); governing bodies were seen as operating in hierarchical relationships with real decision-making power concentrated in the board of directors, and exercised by just a few (often the CEO/chair); and the representative council which is supposedly the highest governing body is seen as mainly concerned with communication of member issues. They conclude that “the democratic nature of cooperatives was emphasized rhetorically, while in practice decision making seemed very pseudo-democratic” (Puusa & Saastamoinen, 2021).

³ Empirical evidence in conventional firms is difficult to transfer, but there does appear to be some evidence in dispersed ownership contexts—see Aguilera et al., (2015, p. 546).

Similarly, Birchall states (2017, p. 17) that: “Consumer cooperatives have been much more prone to governance failure. Because they tend to have many members whose relationship with the cooperative is slight, they are more easily captured by special interest groups or by ambitious managers, sometimes without the members even noticing”. In his study of governance in large cooperatives (2017), he goes on to identify five problems cooperative members have to address: firstly, limited ownership rights, in that the value of member shares does not normally increase with the growth of the business; secondly, the problem of scale and complexity, particularly where there are subsidiaries and where holding structures become quite complex (and, hence, where transparency and member influence are problematic); thirdly, the collective action problem, i.e. difficulties in mobilizing a large group of members to take joint action; fourth, a lack of information, partly to do with lack of market signals from the share price, and partly due to cooperative managers disclosing less information (i.e. information asymmetries); fifth, managerial capture, where in effect managers control the cooperative, in the absence of the market for corporate control; and finally, the problem of multiple goals i.e. the double or triple bottom line (social, economic, environmental).

Cornforth (2004) develops a paradox perspective and identifies three key tensions: between the board as representatives for members vs “experts” driving performance; between the board roles of driving organizational performance vs accountability; and between the board controlling vs supporting management. He examines a number of different theoretical perspectives on governance: principal-agency theory; stewardship theory, which emphasizes partnership and the importance of expertise; a democratic perspective, which emphasizes lay member representation; stakeholder theory, emphasizing stakeholder representation; and resource dependency theory, which emphasizes the influence of key stakeholders and the need for co-optation to manage key resource dependencies. He argues that these different theories shed light on tensions and paradoxes that may exist, and how they can be addressed.

7.3 Ways of Addressing the Challenges

Governance is not just about boards, nor just managing member participation, but ensuring the whole system of reporting, reward structures, and accountability is aligned and well-functioning. This includes appropriate key performance indicators (KPIs) regularly reported to boards, good reporting systems to members and boards, innovative approaches to member participation, and board democracy. Well-functioning boards may require contested elections, regular board rotation, directors with good expertise, and a balance between values and business. Complementary strategies (for community, or ethical benefits) can also play a role in combating member inertia, embedding the cooperative in the community, etc.

Rixon and Duguid (2021) provide a more positive perspective on reviving member participation, making use of Friedman and Miles's (2006) ladder of stakeholder engagement.⁴ In their study of strategic planning in Canadian and international credit unions (23 sampled), and insurance cooperatives (three sampled), they recognize the problem that boards may simply rubberstamp plans prepared by management, and there are no mechanisms for boards to ensure true representation of the views of members. They also find a general tendency towards consultation; however, a deeper level of engagement can be accomplished by the more proactive approach of stakeholder involvement, including invited member involvement in strategic planning.

Spear (2004) noted a number of measures that could be taken to improve the situation. These measures included: improving governance standards through codes of practice; benchmarking performance indicators about customers and members; improving governance practices; professional management development for cooperatives; remuneration packages for managers incorporating member KPIs; better reporting; and stakeholder dialogue. In addition, evidence from US savings and loans agencies indicated that where members were fairly densely populated in relatively stable communities, democratic mutuals were favoured (Rao &

⁴ See Arnstein (1969).

Nielsen, 1992). Digital solutions allow the scaling of member participation at Annual General Meetings (AGMs) through online voting and social media; in addition, some cooperatives have been exploring deliberative democracy groups, and facilitating the voice of interest groups.

Birchall (2017) argues for a member governance approach, which focuses on three relationships: between members and the board, the board and the managers, and the managers and the employees. This requires a member-centred business strategy based on ownership and loyalty, good opportunities for participation by members in various structures, and good systems of reporting and rewarding members (patronage refund). In designing governance structures, he argues that it is important to find a way to listen to the voice of members, represent them, and find the necessary expertise. He also argues (2017) that despite the “very thin” relationship with their members, consumer co-ops can improve this relationship through incorporating an ethical dimension (values) in their “offer”, and through investment in community relations strategies.

Cornforth (2004) discusses how some of the main tensions in cooperatives can be addressed. Firstly, the tension between representative and expert boards (democratic and stewardship perspectives, respectively); some of the ways of resolving this tension are: search committees to find non-executive directors with the required expertise; improving training for board members; and searching for representative members with appropriate expertise. A different tension arises between agency and stewardship perspectives where partnership can be contrasted with monitoring/scrutiny of management; ways of handling this are through board selection, training of directors, and education of managers towards longer term strategy. In a similar way a tension between controlling and supporting can be seen through the lens of stewardship theory, the democratic perspective, and agency theory; ways of handling this are about achieving a balance, depending on the issues being addressed.

Novkovic and Miner (2015) and Miner and Novkovic (2020) develop a humanistic governance perspective⁵ which goes beyond the democratic

⁵ Also see Novkovic and McMahon, Chapter 2 in this volume.

or stewardship perspectives. The humanistic perspective is also based on a different view of human needs, motivation, and development; rather than an individualistic framing, it recognizes more complex models of human interests and motivations. This perspective is rooted in the foundational observation that a cooperative is based on purpose, values, and principles, together with three dimensions: people-centredness, joint ownership and distributed control, and democracy. It emphasizes that governance in cooperatives is democratic, and solidaristic (linking with stakeholders), as well as being polycentric,⁶ with multiple centres of decision-making. And there is variety: humanistic systems of democratic cooperative governance may be diverse and context-dependent.

They argue that decision-making is aimed at achieving a satisfactory balance between collaboration and control, while living with and continually managing the paradoxes/tensions that Cornforth identifies. Their approach emphasizes the possibility of synergy between collaboration and control; and this may be possible through a polycentric governance system which allows a distributed pattern of power and accountability amongst members and stakeholders. An alternative way of representing this is as a form of network governance. Democratic structures when distributed and decentralized can allow varied forms of interaction with management, rather than through a hierarchical board-level style of control. This is effective when there is a substantial degree of proximity of members to the organization and its polycentric governance system.

The networked or polycentric governance system can be better legitimated if its basis is considered as broadening the concept of membership, and separating ownership from control, rather than taking a strict view of membership as necessitating both ownership and control. In the context of social cooperatives providing welfare services “Sacchetti and Borzaga (2017) utilizes an extended idea of membership rather than ownership,

⁶ “Polycentric’ connotes many centers of decision making that are formally independent of each other. Whether they actually function independently, or instead constitute an interdependent system of relations, is an empirical question in particular cases. To the extent that they take each other into account in competitive relationships, enter into various contractual and cooperative undertakings or have recourse to central mechanisms to resolve conflicts, the various political jurisdictions in a metropolitan area may function in a coherent manner with consistent and predictable patterns of interacting behavior. To the extent that this is so, they may be said to function as a ‘system’” (Ostrom et al., 1961, as cited in Ostrom, 2010, p. 647).

where membership is broadly understood as stakeholder involvement in the strategic control or governing function of the organization, with or without ownership” (Sacchetti & Birchall, 2018, p. 89).

This humanistic perspective also brings out the possibilities of congruent isomorphic processes (Bager, 1994; also see Novkovic and McMahon, Chapter 2 in this volume) through networks and federations, which also may be supported through alliances with other political/social movements.

Community relation strategies: Cooperative Principle 7—Concern for Community can be strategically enacted in support of member-based cooperation. From a Polanyian perspective, a cooperative can engage in a certain amount of redistribution, but also in a substantial amount of reciprocity; and both can build a more solidaristic relationship with the cooperative, by re-embedding its market dimensions (exchange) within community relations. Norms of reciprocity (a form of exchange based on gifts, strengthening the social bond) can be seen as a form of solidarity, “socializing” or re-embedding (market-based) socio-economic interactions. Conditions favouring the reciprocity strategy include relative stability of the community (Rao & Nielsen, 1992; Roy et al., 2021).

Although not directly relevant to consumer cooperatives’ systems of unitary board governance, a polycentric system allows more possibilities for drawing on the experience of many multistakeholder cooperatives (MSCs), which often make a place in their governance structure for supportive community members to participate. They do not play a specific role in the day-to-day life of the cooperative the way that employees, consumers, or producers do; but they are often willing and able to provide finance, or volunteer time and/or specific expertise to help the cooperative succeed. Supporter-members, as the name implies, are involved in the cooperative in order to support the cooperative’s purpose (they ownership and control rights in MSCs). The inclusion of supporter-members may originate from various reasons: to offer an honorary and advisory role to a retired member of the cooperative; to attract additional resources; to strengthen the political capital of the cooperative by including a well-regarded person who will widen

the network and the community relationship; or even to bring expertise to cooperatives which have little governance or business experience (Bouchard et al., 2017, p. 48).

7.3.1 Institutional Measures of Polycentric Governance (at the Co-op Sectoral Level)

Changing Ecosystem: Since the data quoted by Spear (2004) about low member participation, there has been a sea change in attitudes towards cooperative governance in the UK. This can be dated to the 1980s and 1990s, as a wave of demutualizations hit the UK building society sector, after deregulation in 1986. New “members” opportunistically joined in order to vote for conversion from a mutual to a limited company to claim the assets built up over generations by previous members. Eventually bylaws were changed so that demutualization required 75% of votes, by at least 50% of members, and many remaining mutuals adopted a “poison pill” strategy of requiring charitable assignation of proceeds by such “members”. Just after this, some agricultural cooperatives demutualized; and, in 1997, there was an (unsuccessful) attempted hostile takeover bid to demutualize the UK’s largest consumer co-op, the Co-operative Wholesale Society (CWS). This was followed by the merger of the two largest consumer co-ops (CWS and Co-op Retail Society); and the leaders of the co-op movement wrote to Prime Minister Tony Blair asking him to create a Co-operative Commission to develop and modernize the movement for the next millennium—this call echoed one made in 1956 when the co-op movement faced major challenges as rationing ended and self-service began. The Commission was duly set up and reported in January 2001: *The Co-operative advantage: Creating a successful family of Co-operative businesses.*⁷

⁷ See summary: https://archive.ph/20071025171847/http://www.co-opcommission.org.uk/summary/summary_fr.html.

As a contribution to this Cooperative Commission, the UK Society for Cooperative Studies raised funds from several retail societies to carry out a research programme entitled “*Reasserting the Co-operative Advantage*”—this involved a collaboration between Leicester University Management School, the Co-operative Research Unit at the Open University and the Co-operative College, Loughborough; the results from a survey (Davis and Donaldson), case studies (Spear),

There followed further mergers, and rationalizations of CWS, and attempts to emphasize the cooperative difference. This was aided by the innovative ethical policy of the Cooperative Bank (wholly owned by CWS), and a nationwide rebranding of “The Co-operative”. There were also changes at the federal level, when, in 2001, the Cooperative Union, which had been the federal body representing consumer co-ops, merged in 2001 with the Industrial Common Ownership Movement (ICOM) representing the dynamic worker coop sector, and became Co-operatives UK. It subsequently came to represent all types of cooperatives, as well as the credit unions (Association of British Credit Unions Limited). During this period, it enjoyed strong leadership from a leading figure in Labour politics, Dame Pauline Green, who had been leader of the European Parliamentary Labour Party (EPLP) in the EU. (She later went on to become president of Cooperatives Europe, and then the International Cooperative Alliance (ICA).) During this period, the Co-op College became more and more active in promoting cooperation in the UK, and the rest of the world.

All this created a new impetus for promoting cooperatives and their advantage, both within the movement itself, and more widely amongst the British public. And almost certainly there were similar responses to demutualizations in other parts of Europe, North America, and beyond; for example, the International Cooperative and Mutual Insurance Federation (ICMIF) based in Cheshire, England, for many years had a training programme on reasserting the mutual advantage, and still regards it as a strategic theme.⁸

But this rejuvenated spirit of cooperation and mutuality almost evaporated, at least in Manchester, when its Cooperative Bank, which had been so influential in re-energizing cooperation with its ethical policy, got into major financial difficulties after its merger in 2009 with the Britannia Building Society, which had a huge amount of property-related bad debt. Its ethical reputation took a further dent with the mis-selling of

and Bickle and Wilkins’ report on a Co-op College training course about cooperatives for managers; in 2000, findings were published in a special issue of the *Journal of Cooperative Studies*, Reasserting the Co-operative Advantage Research Project (2000), *Journal of Co-operative Studies*, 33 (2).

⁸ <https://www.icmif.org/the-mutual-difference/>

payment protection insurance (along with many other financial services companies). The massive debt incurred—£2.5 billion in 2013—almost brought down The Co-operative Group and led to a major review of governance. This resulted in a governance structure emphasizing expertise on the Board over member voice, with only four member-nominated directors on a board of 12 directors.

However, these changes in the ecosystem have resulted in major institutional impact in support of improving governance, particularly by Co-operatives UK, which provides extensive advice on governance, as well as a governance code (Co-operatives UK, 2020a⁹), including contested elections for example—while the code doesn't advocate contested elections, it suggests that uncontested ones be reported. Lincoln did not report this, but The Group reported that one of its four member-nominated directors was in a contested election in its 2020 report. Another aspect of governance is also supported: goals-targets-measurement systems—although the code doesn't actually mention key performance indicators (KPIs), nor UN Sustainable Development Goals (SDGs). But elsewhere on its website, there is a report on KPIs (Co-operatives UK, 2019). This fits with how some scholars concerned with governance at public and societal levels (e.g. Newman, 2006) go beyond the classic governance typology of markets, networks, and hierarchies, to recognize the importance of systems of measurement, targets, and reporting, as a powerful part of governance. In this way it can be argued that accountability—to members, other stakeholders, the environment, etc.—can also be governed by this system.

7.4 The Governance System at Lincoln Cooperative Society

This section describes some of the main features of the Lincoln Cooperative Society, reviews some of the key challenges that consumer co-ops face, then examines how these challenges have been addressed.

⁹ <https://www.uk.coop/resources?s=governance>.

Governance Structure: “The Board’s responsibilities are wide ranging. It is responsible for setting the society’s objectives and strategy, monitoring delivery of that strategy by management, and identifying and managing risk.... the Board must ensure the Society remains true to its purpose and adheres to the cooperative values and principles set out by the ICA” (Lincolnshire Co-op 2021, p. 15). The Board comprises nine elected and two nominated directors. It is now possible within their rules for Board committees to co-opt non-Board members on to its committees for specific skills and experience. Lincoln Coop specifies ICA values and principles in its rules, registered under the 2014 Act; the rules specify an asset lock on dissolution, but not on transfer of engagement.¹⁰ (Cliff Mills—UK legal expert of ICA-EU Partnership #coops4dev 2021—is critical of the UK cooperative legislation in supporting cooperative values and identity—instead placing the onus on constitutional rules to incorporate this cooperative identity.)

There are *several committees* which provide specialist support for the Board: the Audit Committee, Remuneration Committee, and Search Committee (to ensure effective democracy and competency of candidates); as well as a Governance Committee concerned with monitoring and improving the governance processes.

The Remuneration Committee has a very transparent system for setting remuneration levels and approving them. The Committee ensures that the remuneration of the chief executive and secretary is consistent with the Co-op’s remuneration principles and policy. The pay levels of the senior management team are determined by the chief executive, who discusses her approach and conclusions with the remuneration committee. The levels of remuneration of senior management are

¹⁰ “In the case of a society amalgamating with or transferring its engagements to a company, the special resolution proposing this change must secure a three-quarters majority in favour, with a least half of all eligible members participating in the vote. The special resolution must make provision for the society’s members’ share capital and voting rights in the company that emerges from this process. The special resolution must be confirmed by a simple majority vote at a second general meeting held between 14 days and one month after the first meeting. The society will cease to exist when the amalgamation or transfer is completed” (Co-operatives UK, 2020b).

reported in the financial statement, not with specific reference to senior staff, but by specifying how many staff are in different pay categories ranging from £110,000-£720,000. The remuneration policy is published in the annual report.

Lincoln's executives' remuneration policy emphasizes developing people and ensuring colleagues (staff) share in the success of the Society, as well as emphasizing the long-term alignment with the Society's strategic goals: it should also be in line with performance criteria which combine financial and non-financial criteria supporting the Society's strategic purpose and values (KPIs are not specified). Total remuneration for each director on the Board is reported on, and subject to approval by the members, to ensure it is in line with the Cooperative Retail Employees National Agreement of £8,500 per annum for directors and £14,000 for the chair. There are additional sums paid for each committee attended, as well as for transport allowances.

The Audit Committee reviews the financial statement and oversees the Society's system of internal controls to ensure it is adequate for risk management, disclosure, and financial reporting. It takes responsibility for appointing audits (subject to members' confirmation), and during the year it meets external and internal auditors without the presence of management.

The Search Committee manages the systems and processes to ensure that candidates for election meet the Board's competency requirements; and it recommends candidates for election and appointment to the Board. This includes succession planning, and reviewing the directors' register of interests.¹¹

The Governance Committee is concerned with continually improving the governance processes. This includes reviewing and updating the competency framework, and diversity policy. It also reviews the approach

¹¹ The Co-op Governance Code states: "A conflict of interest policy should be in place and should be provided to all directors, executive leadership and senior employees. All conflicts of interest should be dealt with appropriately and

recorded in a register that is available for inspection by members" (Co-operatives UK, 2020a, p. 7).

to member engagement, and considers other matters such as data protection, cybersecurity, and training. Their responsibilities include information events for potential board candidates, providing opportunities for potential candidates the chance to meet current board members and executives; potential candidates can also attend AGMs and Half Yearly Meetings.

This exemplifies a classic cooperative board, well-functioning with a very high level of attendance by directors at board and committee meetings, and with good processes to ensure harmonious relations between the board and senior management. The chief executive and secretary are required to attend every board meeting, and senior managers may also be invited to attend, with some checks in place on too close a relationship, since there should be one meeting a year where no senior managers are present. But what about the governance challenges of managerial capture, and too cosy a relation between boards and management i.e. a managed democracy? Contested elections and board renewal provide some ways of avoiding this.

In Lincoln, although not all board elections are contested (they have reported this in the past, but not recently), they do try to encourage new board candidates, and run information events for potential board candidates—one with a general introduction/update on Lincolnshire Co-op and another more about the role and structure of the Board. This gives potential candidates the chance to meet current board members and executives, ask questions and get to know more about the Society. Board renewal has to be balanced against continuity of leadership. Prior to 2021, the chair (President) changed each year, but then there was a rule change which provided for a maximum term of the chair of six years, subject to annual re-election by the Board. This change was made to improve board performance by increasing the continuity of leadership. But continuity and renewal doesn't just apply to the chair—in the same year, one board member stepped down after 26 years and another after 13 years' service.¹²

¹² The Co-op Governance code advises: "No director should serve more than three consecutive three-year terms and should step down for a period of at least one year before becoming eligible for.

Other checks and balances are provided by the Search Committee and Governance Committee. In particular, these committees address tensions around balancing competency requirements against democratic ones. In 2021, according to the annual report, the Governance Committee was concerned with the Board's competency framework and diversity policies, and member engagement. An independent consultant was engaged to carry out board evaluation. In terms of the board composition and effectiveness, unsurprisingly, they emphasize skills and competencies, and gaps therein, as well as skills audits of directors, and horizon planning for strategy with the chair. Lincoln seems to have considerable expertise to draw on from within the Board; during the last year the Society had to deal with "some specialist and onerous issues of a commercially complex and confidential nature", and the directors who provided this specialist advice (commercially complex and legal) received substantially more remuneration (£50 k to £60 k), as approved by the Remuneration Committee.¹³

While competency is clearly central, member participation for consumer co-ops remains very challenging, and Lincoln is no exception. Lincoln has low levels of participation of members in elections (unreported in 2020, but 2.27% in 2013/4); however, considerable effort was made to improve member participation—seven local AGMs were held around Lincolnshire in 2021; these were also accessible online, and considerable care was taken to inform and engage members both in person and online. But attendance was still extremely low, with only 387 members participating, out of a total membership of 296,264. Due to Covid, elections were cancelled in 2020 and postponed until November 2021. Again, extensive attempts were made to ensure member

election for a further term" (Co-operatives UK, 2020a, p. 10). Lincoln, specifies in its Rule Book (FCA, 2021) that newly appointed directors should comply with this, and the society is transitioning to this requirement, since existing directors appointed before 2015 have to re-apply as newly appointed directors at the end of their current term of office.

¹³ The Remuneration Committee approved this additional remuneration after discussion and receipt of legal advice. There is a policy of flat-fees for directors (£8,500 p.a.), with higher compensation for the chair, president, and vice-president; so this represents a substantial deviation, which is exceptional at Lincoln Co-op; nonetheless it reveals potential tensions between a democratic perspective of equality, and a stewardship perspective which might accept that expertise should be rewarded.

participation by writing to every member with a personal ballot paper. Participation in elections is one of the areas of member engagement which is also the concern of the Governance Committee, but this committee has to address all areas of the member nexus.

7.4.1 The Member Nexus

Member engagement has many dimensions: firstly, the total level of membership, from amongst all the customers to ensure predominancy of members; how the membership is communicated with; economic engagement (through patronage linked to a dividend) to strengthen loyalty; it also includes reporting practices and their transparency, including use of performance indicators to ensure good governance.

Membership is almost 300,000, and Lincoln Co-op has a junior membership scheme which is mainly about giving young people a positive experience of interacting with the Society through fun activities, competitions, and offers. The Membership team organizes all of the activities, and the Board oversees the strategy for all membership-related activities. However, online communication appears rather limited with only 40,000 members logging on during the past year.

Member Economic Engagement: “To agree that the basic rate of issue of dividend continue at the rate of 1% (of member transactions), as recommended by the board, and to authorize it to determine the rate of any additional dividend paid” (Lincolnshire Co-op 2021). There appears to be a good level of loyalty amongst members in terms of regular weekly shopping; 49% of sales in food are with members (this compares with 30% in 2020 for the national Co-operative Group¹⁴).

Reporting and Performance Indicators: Generally, the Lincoln website and the annual reports are very informative about performance.¹⁵ Understandably, there tends to be a positive narrative celebrating successes,

¹⁴ Birchall (2017, p. 34) informs that: “In the Co-operative Group, 4.5 million members account for only 25% of sales, but the aim is to take this to 50% within five years”.

¹⁵ Some regional societies go further, e.g. Central England Co-op produced a Social Impact Report in 2017, noting 61 Member Groups. https://www.centralengland.coop/assets/site/documents/Social_Impact_report.pdf.

and store openings, rather than closures. A similar approach is found on discussions about major strategic issues: relatively little on the Co-op's withdrawal from non-food a few years ago, with the closure of their home stores in Lincoln and Gainsborough by department store group Oldrids, and on the leasing of space in the Moorland Centre to Aldi (potentially a major competitor); but strategic local investments in the joint venture with Lincoln University for a Science Park receive well-deserved coverage.

Performance indicators are also an important part of ensuring governance is on track; and the UK Co-op Governance Code¹⁶ (Co-operatives UK, 2020a) recommends that co-ops monitor a number of indicators. The Code (Item 5) specifies a set of indicators that it thinks boards should monitor in order to maximize member democratic and economic participation, including the:

- Number of members attending members meetings
- Turnout at elections (to see if it's representative of membership)
- Extent of member economic involvement with the co-op
- Number of employees becoming members of the co-op

The first two are crucial to sustain democracy; member economic involvement is undermined if only a minority of sales is to members, otherwise for whose benefit is the coop trading. And the number of employees is important both regarding the extent to which the coop addresses the interests of multiple stakeholders in governance, and to ensure there are not too many since members should be consumers, and the “predominancy principle” (consumer members should be the dominant proportion) is not undermined. The UK Governance Code does not recommend specific criteria—this may be contrasted with cooperative law in several countries which specifies a “predominancy principle”,

¹⁶ *Corporate Governance Standards*: Lincoln is not subject to the provisions of the UK Corporate Governance Code 2018, but the Lincoln Co-op Board is required to explain how it has complied with the principles of The Co-operative Corporate Governance Code set up by Co-operatives UK (the representative body for cooperatives in the UK), or explain any instances of non-compliance. <https://www.uk.coop/resources/co-operative-corporate-governance-code>.

and the limits on non-member users (this also applies to financial members, etc.). See below for further discussion of this difficult balance.

For comparison purposes the performance of the Co-op Group is of note. It has four membership and community KPIs: active members (number of members who traded in the last 12 months—4.34 m) (Co-operative Group, 2021); member sales in food (percent of sales—30% in 2020); rewards (£) earned by members (member discounts on own brand products: 2%); and reward earned (£) for communities (arising from member offer on own brand products: 2%). Thus, the Co-op Group does not report on democratic participation, but emphasizes economic involvement (trading members, dividends, percentage of sales to members) (Co-operative Group, 2021).

Lincoln reported better results for the number of active members, and member percentage of sales in foods:

- The number of members trading this year (64%)
- 49% of sales in food stores with members (indicator of non-member trading)

However, they no longer report on a broad range of KPIs; historically, in their 2014 report, Lincoln had conformed with Co-operatives UK's ten environmental and social performance indicators, including: voting at the AGM (2.27% of members); trade conducted with members (52.3% of total sales); as well as the annual proportion of investment in community/cooperative initiatives as a % of pre-tax profits (6.1%). But although they do substantially better than Co-op Group, regarding trade with members, their reporting on KPIs has reduced.

7.4.2 Broader Systems of Governance—Networked & Polycentric

Drawing on a humanistic governance perspective has allowed a broadening of focus on patterns of networked and polycentric governance, which fits with this case very well. In other words, focusing on governance at the enterprise level misses the full picture of how governance

is shaped and conducted at Lincoln Co-op through connections with other organizations, namely Co-operatives UK, the Co-operative Governance Expert Reference Panel, the Co-operative Group, and the Federal Retail and Trading Services organization. The approach to Principle 7—Concern for Community is particularly interesting, and represents a form of polycentric governance in this case. Lincoln has instituted a decentralized democratic process for local community participation to determine and allocate community benefits congruent with membership strategy (Spear, 2000).

Co-operatives UK could be seen as a dimension of a broader polycentric governance system for all cooperatives in the UK. Its board comprises representatives from many other consumer cooperatives in the UK, as well as other types of cooperatives such as worker cooperatives and cooperative development bodies. As such it represents a collective body that influences standards and good practices in cooperatives run across the UK. Members from the respective sectors/co-op types are directly involved in drafting best practice codes and performance indicators (a member of the Lincoln Co-op Board is on the Co-operative Governance Expert Reference Panel).

Another form of polycentric governance that also contributed to congruent isomorphism (i.e. aligning with cooperative values) can be seen in how a major cooperative financial crisis played out. After a series of mergers and acquisitions in the first part of the twenty-first century, the UK's largest consumer cooperative, The Co-operative Group, was hit by a financial crisis, initially arising from commercial debt defaults in its wholly owned subsidiary, the Co-operative Bank (arising from its merger with the savings and loans business: Britannia Building Society). There followed considerable financial restructuring, as well as a highly critical governance report by Lord Myners (2001).

In the aftermath of that financial crisis, which hit the Co-operative Group in 2013/14, the Lincoln CEO Ursula Lidbetter was also at that time the chair of the Co-operative Group and took responsibility for guiding the group through its new governance system as recommended by Lord Myners in his review (2014). The Co-op Group had evolved into a hybrid structure as a retail society and as a wholesaler or federal

body supplying services to independent co-op retail societies. It was originally founded in 1863 as the Co-operative Wholesale Society (CWS), by independent co-op retail societies to manage their supply chains. These independent retail societies went through wave after wave of mergers (Spear, 2005), from just under 1,000 in 1960 to about 50 in 2000, and the governance structure of CWS represented their corporate interests.

After 2000, when CWS merged with the Co-operative Retail Services (established in 1933 to set up new cooperatives, and later becoming the “ambulance service” of the cooperative sector, taking over failing independent societies), it had to develop a hybrid governance structure representing members as well as independent societies with the large regional societies dominant (Birchall, 2014). This governance reconfiguration towards retail members continued with its subsequent merger, in 2007, with another major retail society. By 2013, its Board had 15 directors elected by members via regional structures, one professional Non-Executive Director, and five directors from independent co-op retail societies (all chief executives); thus, its Board reflected how much the business had changed from its origin as a federal body supplying independent societies to one dominated by its own retail business. This hybrid structure was not discussed from a multistakeholder perspective, but more as a unitary body with historically derived aberrations; thus, the directors elected from the independent societies were “not regarded as independent”, due to potential competition issues (e.g. geographical). To address potential conflicts of interest, they had established a policy¹⁷ in their code of conduct for directors, and in their rules.

However, this brief consideration of the Co-operative Group does illustrate how governance issues of a secondary cooperative with federal relationships of setting up new co-ops, ambulance service for failing co-ops, and providing supply chain services, do network across independent retail societies. In particular, it provides an example of how cooperative governance practices can be established and shared across the

¹⁷ “The Policy outlines how conflicts of interest will be dealt with and the process for directors to follow when notifying the Group of an actual or potential conflict. When deciding whether to authorise a conflict or a potential conflict of interest, only those that have no interest in the matter under consideration are able to take part in the decision, vote on the matter, or be counted towards the quorum for that part of the meeting” (Co-op Group, 2013, p. 37).

sector; and how overlapping board memberships can enhance the legitimacy, networking, and capabilities of the board—building communities of practice, and social capital (Sacchetti & Tortia, 2016). This thereby represents another form of polycentric governance through sharing experiences and knowhow in different cooperative governance settings; and, similarly, the recruitment of directors indicates this experience is valued. For example, in the case of the Co-operative Group, the largest consumer cooperative in the UK, many of its non-executive directors (NEDs) and its member-nominated directors have previous board-level experience in other cooperatives. One could argue that this networking has created a *community of co-op governance practice* amongst board directors. Indeed, this is further elaborated in the self-regulating system supporting good governance standards throughout the UK, set up by Co-operatives UK (federal body); it does this through its training and development materials, much available on its website. And it established a Co-operative Governance Expert Reference Panel (which includes a director from Lincoln Co-op) responsible for establishing the Cooperative Corporate Governance Code, which it has maintained for many years. This Expert Reference Panel comprises members from all sectors of cooperatives in the UK, and currently includes a member of the Board of Lincoln Cooperative.

Supply chain governance: Federal Retail and Trading Services (FRTS—majority owned by the Co-op Group) is a joint buyer and supplier of foodstuffs and other goods to most consumer retail societies in the UK. It was founded in 2015 to help manage resource dependencies by giving bulk and quality buying advantages; it evolved from the Co-operative Retail Trading Group (founded in 1993). It is collectively governed by each member society, each with an equal vote. Lincoln is one of the retail societies with a voice in this supply chain operation, and 95% of its sales from its food stores is supplied by the buying services agreement managed by Federal Retail & Trading Services Ltd. FRTS is 76% owned by the Co-op Group, and 24% owned by the independent retail consumer co-ops using its services; these Independent Society Members (ISMs) are represented on the Co-op Group Members' Council, and their votes are based on patronage. FRTS operates on a

nonprofit, cost-recovery basis. This may be regarded as part of a polycentric pattern of governance within the UK consumer co-ops sector, both at the enterprise, and at the retail sectoral level.

7.4.3 Lincoln Stakeholder Strategies

This section draws on the stakeholder model of governance to examine how the governance system of a cooperative may inclusively address the interests of a wider range of stakeholders than the owner-member. Although there may not be formal representation of this wider range of stakeholders, stakeholder strategies may be guided by the board to serve their interests (see Novkovic and McMahon, Chapter 2 in this volume; Pirson & Turnbull, 2011). This represents a broadening of the concept of membership and a separation of control from ownership in this reconceptualization, as argued above (Sacchetti & Borzaga, 2017). Thus, while member strategies are of primary concern for governance of a cooperative, Lincoln Cooperative has a comprehensive and inclusive approach to integrating owner-membership issues with that of other stakeholders, particularly linking membership and community. The chief executive's report in 2021 emphasized collaboration, working together with a range of stakeholders: members, colleagues (staff), community groups, charities, suppliers, and partners in the private/public sector.

Staff-Colleagues: Around 1% of members are colleagues—Lincoln Co-op has around 300,000 members and around 3,000 colleagues. There is no limit to how many colleague-members can attend and vote in the AGMs, and usually about 20% of AGM attendees are colleagues. In this respect, Lincoln may be regarded as containing elements of an informal multistakeholder cooperative, with representation of staff (although since many of them would also be consumers, it's an open question whose interests they would prioritize).

This is a potentially tricky issue, since it would be optimistic to assume that the employee member would always advocate for consumer interests (despite their membership being as consumers); this tension is recognized in the UK Co-op Governance Code which restricts employee members (and retired employees) if they become directors from being on the

audit or remuneration committees; The Lincoln Co-op Rule Book (FCA, 2021) specifies there should be no more than five board members who are employees, or have been employees within the previous five years. In principle pensions and pay are covered by these restrictions; however, some, such as the well-known Danish researcher Torben Bager, who, when analysing the transformation of Scandinavian consumer co-ops, see considerable risks in the high and increasing influence of employees (and their professional organizations) who are more highly educated conventionally, and not imbued with the norms of cooperation from early recruitment to the co-op. These “insiders” are regarded as the main source of normative isomorphism (DiMaggio & Powell, 1983), and Bager (1994) argues are an important influence on non-congruent isomorphism which homogenizes cooperatives with conventional business. There are different categories of employees, such as managers, technical-professional staff, and ordinary workers, and although he doesn't address the issue of employee members directly, that would increase their influence, and it could be added that they are unlikely to be independent of the senior management team.

It is probably important not to overstate this tendency, since we are in different times to the period that Bager was analysing (1980s), and there has been a strong dynamic to regenerate the cooperative advantage, post the carpet-bagging demutualizations of mutual building societies in the UK. And this may be employee driven—one UK retail society, which is dominated by directors who are also employees, has very strong and progressive cooperative values. Nonetheless, the near demise of the “ethical” Co-operative Bank, now owned by an international hedge fund after its less than ethical selling of personal protection insurance, indicates a mimetic tendency with conventional financial organizations. But the general theoretical argument suggests the need for firmer constraints on employee members in informal multistakeholder governance systems, and/or firm constraints on their representation in any formal multistakeholder governance system.

Lincoln Co-op's annual report celebrates colleagues' achievements, reports bonuses paid during the year (equivalent to two weeks' wages), and pays tribute to those who have died. Regarding staff development, in 2020 they have achieved recognition in the government's Investors in

People programme, gaining Platinum status, which signifies that they are one of the country's top employers, however less is reported on structures for giving voice for employees. This also means they recognize and aim to address inclusion and diversity issues. They recognize the challenges of mental health issues and provide free counselling for staff as well as having more than a hundred mental health first-aiders. There are also confidential whistleblowing channels for colleagues to report fraud, and issues relevant to modern slavery.

Community relations: Member engagement is extensive and appears closely linked to community relations. Lincoln serves over 100 communities through more than 200 different outlets. They have contributed to the community in collaboration with members to address local problems, by helping to run libraries, tackle loneliness, redistribute surplus food, organize health walks, etc. And with the National Health Service (NHS) they are refurbishing and extending a doctor's surgery, and creating an aseptic facility for the NHS to help manufacture specialist drugs.

Their approach to building good community relations is to use a team of nine community coordinators to identify the needs of their local community and work with groups and projects. They help with funding and/or volunteering, to build collaboration and connections between groups and organizations, and link with the Co-ops branches. And they use locally embedded community ambassadors in workplaces and retail outlets to help with fundraising and events. They target local charities and groups by inviting applications every quarter, then members and staff elect a Community Champion linked to each outlet. There's a different theme each quarter—community groups, local social causes, and health causes (physical/mental)—then at the end of each quarter the chosen charity or community group will receive funding (typically around £500 each); funding comes from staff/colleague fundraising, collection boxes in each outlet, proceeds from the sale of carrier bags, and donations from Lincoln Co-op based on members' use of their dividend cards. In the last year, they raised £648,684 for 586 local charities and community groups through this Community Champions Scheme. And for the health and local social causes, fundraising resulted in the provision of community defibrillators, support for local emergency groups, and projects addressing food poverty.

This important part of strategy—community investment and development—could have been centrally controlled and run, but it is co-governed in a decentralized way at the local level, by community ambassadors linked to retail stores, through the votes of local people, and managed centrally by the nine community coordinators. This represents another layer to the networked and polycentric governance system discussed above. Lincoln also works closely with 40 local food banks, and has created through partnership (with the charity Fairshare Midlands, Lincolnshire Community Foundation, and the Lincolnshire Food Partnership) a food redistribution hub for managing surplus food and its distribution to local organizations.

Local Community - Employment: Regarding employment, Lincoln collaborated with the Prince's Trust to support an employability project. The Co-op has created a chartered management degree apprenticeship with the University of Lincoln, and also supported 61 local suppliers in 2020.¹⁸

Board Networking for Community Engagement: The annual report also reports on other externally appointed positions held by directors; these include: director of Lincolnshire Cooperative Development Agency; director of a credit union; member of the Co-operative Group Members Council; director of a local school trust; member of an audit committee for Lincolnshire Police; and member of Bishops Council of Trustees. Reports on committee attendance by directors generally show a very high level of participation. The directors' report also covers the senior leadership team and their outside directorships, such as: member of the Council of the University of Hull; chairing Lincoln City Partnership; trustee of Lincoln Diocesan Trust; trustee of school trust; director of a housing community interest company; governor of a local college; director of a local theatre company, etc.

Local Economic Development: Lincolnshire Co-op has played a major role in local economic development, led by their CEO who was awarded an OBE for her services to the local economy (Order of the British Empire, a national award for public service). Ursula Lidbetter became chief executive in 2004, and from 2010 when she became the first chair

¹⁸ <https://www.lincolnshire.coop/news-and-blogs/working-together-with-local-suppliers>.

of the Greater Lincolnshire Local Economic Partnership (LEP) until 2019, she led this public–private sector partnership, which has aimed to drive and invest in local economic development.

The Co-op has emphasized support for local suppliers and has a supplier payment policy, limiting trade creditor days to 18 days. Most of its supplies come from the national Co-operative Group and its Federal Retail and Trading Services Company. Lincoln Co-op also has policies relating to modern slavery,¹⁹ which are designed to combat trafficking and other forms of modern slavery, and which require transparency in supply chains.

Local Investments: Lincoln Co-op's local investment is clearly a strategic activity, delivering a good financial return as well as contributing to local economic development and the protection and growth of the Co-op's own businesses. The Co-op owns a property portfolio of about 600 commercial properties, including the development and redevelopment of district and local retail centres, as well as small industrial and business units, across the county, which help facilitate new and growing businesses in local communities. It has made a major investment into Lincoln Science and Innovation Park for high-tech spin-off businesses (a joint venture with the University of Lincoln established in 2012); the Park also houses the School of Pharmacy from which the Society hires graduates, providing synergistic links with its ownership of pharmacies. This complements Lincoln Co-op's community development healthcare theme—the development of new health centre buildings, which are let to doctors' practices (GPs), and the housing of Co-op Pharmacies, some on a joint venture basis until the GPs retire or sell their share of the property.

Lincoln Cooperative has led a long-term redevelopment of Lincoln City Centre, including the Society's historic properties and the market and other sites acquired from different landowners. The Cornhill Quarter development created 40 retail outlets, and involved a major heritage development project in Lincoln's city centre, with a £70 m restoration scheme to regenerate the historic Corn Exchange building.

¹⁹ Modern Slavery Act 2015, <https://www.gov.uk/government/collections/modern-slavery-bill>.

Other developments appear more controversial, and include the building of two drive-throughs: for Costa Coffee and for Starbucks. The Co-op is also investing in a development for a new Aldi (a major competitor, which seems to indicate purely financial criteria)! On the one hand, part of the investment property portfolio could be seen as a “treasury activity”—to keep pension trustees happy and to diversify risk within the Society. Strategically, this involves improving the portfolio by selling poor quality, difficult-to-let, and low-value properties and buying a smaller number of better properties let to better tenants. On the other hand, experience from another Society, 20 years ago, provides evidence of positive impact after a similar property development for Aldi, because Co-op sales went up and shifted from low margin packaged groceries to higher margin fresh food as consumers cherry picked their different items from both the Co-op and Aldi. However, this entails risks: recently discounters’ fresh food offers have improved, and complementarity with a local co-op store has been eroded. The case for mutually beneficial synergy is probably clearer with Costas and Starbucks coffee drive-throughs.

Environmental strategy: Lincoln does not have an extensive environmental strategy. The Co-op’s electricity is green—a mix of wind and water power, plus some eco measures in the refrigeration systems of their food stores; and an interesting innovation in one store which has an environmentally friendly sedum roof covered with vegetation. It has also developed schemes to strengthen the organization’s environmental friendliness, including plastics recycling, and compostable bags—specifically this includes the introduction of 100% compostable carrier bags, replacing the 10 pence (sterling) plastic “bags for life”. The Co-op has also introduced soft plastic recycling bills in many of its food stores, and has extended the dividend to the use of reusable coffee cups at take-out coffee venues. Lincoln now has 10 electric car charging points at the Co-op’s stores.

7.5 Discussion and Conclusions

This chapter began by recognizing that many scholars of cooperative governance regard the issues of governance in consumer cooperatives as particularly challenging, with clear evidence of failures. The chapter reviewed the explanations for these governance challenges and discussed some of the approaches which offered useful ways of addressing them. The humanistic governance approach has proven particularly useful in broadening the understanding of cooperative governance to networked and polycentric systems, both within individual co-ops and by linking institutions and organizations in the cooperative ecosystem.

At the sectoral level of cooperatives in the UK, there is a considerable degree of networking between some of the larger retail consumer cooperatives, and the federal body Co-operatives UK; Lincoln is well linked to this network, which has been attempting to rejuvenate the spirit of cooperation and mutuality since a wave of demutualizations at the end of the last century. Part of this institutional support for governance by Co-operatives UK has resulted in a governance code, and key performance indicators, as well as other resources, to improve governance nationally. There is also, through this networking, an argument to be made that a community of practice is apparent in cooperative governance, through the way in which directors and non-executive directors in particular have built their expertise and experience.

Another important way in which networked governance operates in the ecosystem is through the supply chain, where the Federal Retail and Trading Services joint buying group provides supplies for most retail societies in the UK, including 95% of Lincoln's supplies.

Lincoln has well-developed governance processes for engaging with and facilitating participation of members, but it still suffers from the classic problems of large consumer cooperatives: low membership activity in annual general meetings. And despite member democratic participation remaining disappointingly low, its economic participation is notable with almost 50% of trade in food stores being with members.

A humanistic governance perspective emphasizes a people-centred approach, inclusively engaging with stakeholders, as well as members.

Lincoln has adopted a strong portfolio of stakeholder strategies²⁰ to contribute to its community, the local economy, and the environment in important ways. Of particular note is its community development strategy which involves substantial investment in communities linked to local stores, but which is administered through a polycentric governance system. They also have demonstrated remarkable performance in relation to other stakeholders such as staff/colleagues and through environmental strategies. Some of their local economic development is particularly impressive, again through polycentric governance of the partnership with Lincoln University for an Innovation Park, their heritage development of the Cornhill Quarter, and healthcare initiatives, which link with their portfolio of pharmacies. Their potential to intervene so effectively in the local economy is substantially due to their strategic priority of building a property portfolio over many years from profits/surplus.

The Lincoln case reveals continuing governance challenges regarding membership participation in annual meetings, but provides an interesting example of how broader patterns of cooperation within Lincoln and within the cooperative sector have good outcomes for its range of stakeholders as well as for the cooperative ecosystem.

References

- Aguilera, R. V., Desender, K., Bednar, M. K., & Lee, J. H. (2015). Connecting the dots: Bringing external corporate governance into the corporate governance puzzle. *Academy of Management Annals*, 9(1), 483–573.
- Arnstein, S. R. (1969, July). A ladder of citizen participation. *American Institute of Planners*, 216–224.
- Bager, T. (1994). Isomorphic processes and the transformation of cooperatives. *Annals of Public and Cooperative Economics*, 65(1), 35–59.

²⁰ Cf. in recent years, the World Economic Forum has been supporting moves towards stakeholder capitalism, rather than shareholder capitalism (Schwab, 2021). A similar trend can be seen in the growth of ESG criteria in investment to ensure corporations consider environmental, social, and governance issues.

- Bickle, R., & Wilkins, A. (2000). Co-operative values, principles and future: A values basis to building a successful co-operative business. *Journal of Cooperative Studies*, 33(2), 179–205.
- Birchall, J. (2014). Innovation in the governance of large co-operative businesses: The alarming case of UK Co-operative group. In *Quebec 2014: 2nd International Summit of Cooperatives* (pp. 87–97). International Summit of Cooperatives.
- Birchall, J. (2017). *The governance of large co-operative businesses* (2nd ed.). Cooperatives UK.
- Bouchard, M., Le Guernic, M., & Rousselière, D. (2017). Conceptual framework for the purpose of measurement of cooperatives and its operationalization. *Report for the International Labour Office*.
- Brazda, J., & Schediwy, R. (Eds.) (1989). Consumer co-operatives in a changing world: Comparative studies on structural changes of some selected consumer cooperative societies in industrialized countries. International Co-operative Alliance. (Made available digitally in 2011)
- Co-operative Group. (2013). Annual Report. Manchester, England.
- Co-operative Group. (2021) Co-op Annual Report & Accounts for 2020. Manchester, England.
- Co-operatives UK. (2020a). Co-operative Corporate Governance Code. <https://www.uk.coop/resources/co-operative-corporate-governance-code>
- Co-operatives UK. (2020b). The Community Shares Handbook. <https://www.uk.coop/resources/community-shares-handbook>
- Co-operatives UK. (2019). Key performance indicators: A framework & guidance for Co-operatives. <https://www.uk.coop/resources/key-performance-indicators-kpi-framework-guidance-co-operatives>
- Cornforth, C. (2004). The governance of cooperatives and mutual associations: A paradox perspective. *Annals of Public and Cooperative Economics*, 75(1), 11–32.
- Davis, P., & Donaldson, J. (2000). A survey of sixteen British consumer co-operative societies. *Journal of Co-operative Studies*. 33(2).
- DiMaggio, P. J., & Powell, W. W. (1983). The iron cage revisited: Institutional isomorphism and collective rationality in organizational fields. *American Sociological Review*, 48(2), 147–160.
- FCA: Financial Conduct Authority (2021). Rule Book for Lincoln Co-operative Ltd.
- Friedman, A. L., & Miles, S. (2006). *Stakeholders: Theory and practice*. Oxford University Press

- ICA-EU Partnership #coops4dev (2021). Legal Framework Analysis. National Report: UK.
- Lincolnshire Coop (2021). Directors' Report and Financial Statements.
- Miner, K., & Novkovic, S. (2020). Diversity in governance: The cooperative model for deeper more meaningful impact. *Cooperative Business Journal* Fall, NCBA Washington DC, 4–14.
- Myners, P. (2001). *Institutional investment in the United Kingdom: A review*. HM Treasury.
- Myners, P. (2014). Report of the independent governance review. Manchester: Co-operative Group.
- Newman, J. (2006). Modernisation and the dynamics of welfare governance. *Zeitschrift Für Sozialreform*, 52(2), 165–179.
- Novkovic, S. & Miner, K. (2015). Introduction. In S. Novkovic & K. Miner (Eds.), *Co-operative governance fit to build resilience in the face of complexity* (pp. 9–21). international Co-operative Alliance. Brussels. <https://www.ica.coop/en/media/library/cooperative-governance-fit-build-resilience-face-complexity>
- Ostrom, E. (2010). Beyond markets and states: Polycentric governance of complex economic systems. *American Economic Review*, 100(3), 641–672.
- Ostrom, V., Tiebout, C. M., & Warren, R. (1961). The organization of government in metropolitan areas: A theoretical inquiry. *American Political Science Review*, 55(4), 831–842.
- Pirson, M., & Turnbull, S. (2011). Toward a more humanistic governance model: Network governance structures. *Journal of Business Ethics*, 99(1), 101–114.
- Puusa, A., & Saastamoinen, S. (2021) Co-operative governance: Role ambiguity, pseudo-democracy and tacit acceptance? (A consumer cooperative case study in Finland). Presentation to Halifax 2021 International Co-operative Governance Symposium.
- Rao, H., & Neilsen, E.H. (1992). An ecology of agency arrangements: Mortality of savings and loan associations, 1960–1987. *Administrative Science Quarterly*, 448–470.
- Rixon, D., & Duguid, F. (2021). Stakeholder engagement and coop performance. Paper to Halifax 2021 International Co-operative Governance Symposium.
- Roy, M.J., Dey, P. and Teasdale, S., 2021. Re-embedding embeddedness: What is the role of social enterprise in promoting democracy and protecting social rights? *Social Enterprise Journal*, 17(3), 379–397.

- Sacchetti, S., & Birchall, J. (2018). The comparative advantages of single and multi-stakeholder cooperatives: Reflections for a research agenda. *Journal of Entrepreneurial and Organizational Diversity*, 7(2), 87–100.
- Sacchetti, S., & C. Borzaga (2017). The foundations of the “Public” organization: Strategic control and the problem of the costs of exclusion. *Euricse Working papers* 98/17.
- Sacchetti, S., & Tortia, E. (2016). The extended governance of cooperative firms: Inter-firm coordination and consistency of values. *Annals of Public and Cooperative Economics*, 87(1), 93–116.
- Schwab, K. (2021). *Stakeholder capitalism: A global economy that works for progress, people and planet*. John Wiley & Sons.
- Spear, R. (2000). Membership Strategy for Co-operative Advantage. *Journal of Co-operative Studies*, 33(2). Holyoake House, Manchester. <https://www.ukscs.coop/pages/journal-of-co-operative-studies>
- Spear, R. (2004). Governance in democratic member-based organisations. *Annals of Public and Cooperative Economics*, 75(1), 33–60.
- Spear, R. (2005). A study of mergers in the UK consumer Co-op sector. *Review of International Co-operation*, 98(1).

Open Access This chapter is licensed under the terms of the Creative Commons Attribution-NonCommercial-NoDerivatives 4.0 International License (<http://creativecommons.org/licenses/by-nc-nd/4.0/>), which permits any noncommercial use, sharing, distribution and reproduction in any medium or format, as long as you give appropriate credit to the original author(s) and the source, provide a link to the Creative Commons license and indicate if you modified the licensed material. You do not have permission under this license to share adapted material derived from this chapter or parts of it.

The images or other third party material in this chapter are included in the chapter's Creative Commons license, unless indicated otherwise in a credit line to the material. If material is not included in the chapter's Creative Commons license and your intended use is not permitted by statutory regulation or exceeds the permitted use, you will need to obtain permission directly from the copyright holder.





8

Comparing Governance Systems in Cuban Cooperatives: A Study of Producer and Worker Cooperatives in Agriculture, Industry, and Services

Camila Piñeiro Harnecker 

8.1 Introduction

Cuba has the second highest number of cooperatives in the Americas relative to population, and also one of the highest numbers of producer and worker cooperatives worldwide relative to population.¹ While most Cuban cooperatives are in agriculture, they are also increasingly observed in industry and services over the last decade.

The importance of cooperatives for the Cuban revolutionary process has varied according to the hegemony gained within leadership by the most emancipatory or transformative tendencies of the Revolution.

¹ After Venezuela (where around 15,000 cooperatives are estimated to be active), Cuba has the second highest number of cooperatives relative to its population in the Americas.

C. P. Harnecker (✉)
Silver Spring, Maryland, USA
e-mail: camila.pineiro.harnecker@gmail.com

Nevertheless, cooperatives promotion policies in Cuba have generally been about equality, collective democratic decision-making over shared resources, and solidarity within rural communities and nationally; rather than just serving utilitarian purposes such as easier and more affordable access to inputs and credits, or the ability to enjoy the advantages of larger-scale production and commercialization. Cooperativization in rural communities in '60s, '70s, and '80s was part of integral land reform processes that aimed at providing dignified living standards to rural populations. More recently, cooperativization beyond agriculture has been about overcoming structural problems of the Cuban economy, while recognizing the advantages of cooperatives as a socioeconomic organizational model more aligned with the values of equality, solidarity, and social justice that have guided the revolutionary process.

As a result of these public policies and the wider cultural context, Cuban cooperatives' governance systems have certain features that set them apart from their counterparts in other countries. The frequency of general assemblies is often monthly, rather than quarterly or yearly, and there are other spaces for even more frequent deliberation. General assemblies also have broader mandates than is typical elsewhere, including election of managers and approval of annual production plans, to name but a few. In most cooperatives, there is no clear division of roles between boards of directors and management. Managers as well as administrative workers are generally included as members. In agricultural cooperatives, farm workers who do not own land but contribute their labor in (land or) business units collectively owned by the cooperatives, are encouraged to join as members. Also, by law, worker cooperatives have strict requirements to include workers hired permanently as members.²

² For non-agricultural co-ops, a wage laborer can be hired for up to three months in a year, and the total number of hired workers cannot be more than 10% of the total number of co-op members (Law Decree 47/2021, Article 81). Following this initial three-month period, the co-op has to offer membership or a "trial membership", which can last for no more than 9 months, after which the co-op cannot continue to hire the person (Law Decree 47/2021, Article 30). For agricultural co-ops, the trial membership period is 90 days and it is stated that work should be done by members, and that wage labor is for temporary work for a limited time only—although the precise time period is not established explicitly (Law Decree 365/2018, Article 46; Decree 354/2018, Articles 54 and 55).

The findings shared in this chapter are based on the systematization of case studies of six Cuban cooperatives in agriculture, industry, and services, which are producer or worker cooperatives, and which have dissimilar ages and membership sizes. Cooperatives were chosen purposely for their democratic and effective governance structures, practices, and culture, while also seeking a variety of organizational forms, origins, and experiences; the location of case study co-ops in or near Havana was decided upon due to logistical constraints.

Common humanistic and participatory traits found in these cooperatives' governance systems are consistent with the humanistic and participatory ethos of the Cuban revolution, which is also analyzed in this article. The latter, coupled with evidence from other empirical investigations of cooperatives and ideology and culture in socialist Cuba, serves to infer humanist and participatory governance in these and other Cuban cooperatives. It is important to note that, while this research focused on identifying the main commonalities and differences among governance systems in select Cuban cooperatives, it did not seek to identify all factors that have led to these particularities.

8.2 A Brief Overview of Cuban Cooperatives

In Cuba, cooperatives only really emerged after the triumph of the Revolution in 1959 (Nova, 2013, p. 279). Very few self-proclaimed cooperatives existed before the Cuban Revolution (Matías, 2010; Fernandez Peiso, 2005), and a few more de facto insurance mutuals or cooperatives formed mostly by European migrants provided services to those groups in the main cities (Vigil Iduate, 2014). Despite the mentioning of cooperatives in the 1940 Constitution—a result of a very short-lived progressive government—they were never legislated.

Like previous progressive governments in the region (Cardenas in Mexico; Arbenz in Guatemala; Vargas in Brazil) and subsequent ones (Velasco in Peru; Perón in Argentina; Allende in Chile; and others), the young Cuban revolutionaries saw in cooperatives great tools for economic and social justice. The promotion of cooperatives—in agriculture and beyond—was announced very early on, in the “Moncada

Program” that guided the first revolutionary measures after its triumph in 1959 (Castro, 1975). Agricultural cooperatives were first created as part of the two Agrarian Reform laws during the first years of the Revolution (1959–61).

Different Types of Cooperatives in Cuba

1. **Credit and Services Cooperative (Cooperativa de Crédito y Servicios—CCS)** since 1960

producer cooperative of private farmers (member farmers own and work their land independently)

2. **Agricultural Production Cooperative (Cooperativa de Producción Agropecuaria—CPA)** since 1975

worker cooperative of farmers and administrative staff (members own & work land collectively)

3. **Basic Unit of Cooperative Production (Unidad Básica de Producción Agropecuaria—UBPC)** since 1993

worker cooperative of farmers and administrative staff (members work collectively in land obtained from the state *in free usufruct*)

4. **Non-agricultural Cooperative (Cooperativa No Agropecuaria—CNA)** since 2013

generally *worker* but can also be *producer cooperative* outside of agriculture

Several other pseudo-cooperatives or cooperative-inspired organizations, as well as probably genuine cooperatives also, were short-lived during the first years of the Revolution.³ But three distinct types of agricultural cooperatives have expanded in different “waves” (Valdés Paz,

³ For example, worker cooperatives in the sugarcane industry (Sp. “cooperativas cañeras”) and consumer cooperatives or community cooperatives in retail (Sp. “tiendas del pueblo”). Also important to note is that, second-tier, territorial-based agricultural cooperatives were experimented with briefly in the 1980s.

2009a; Matías, 2010). Unlike in other socialist countries where collectivization was to a significant degree imposed from above, in Cuba it was largely a voluntary undertaking as a result of the humanist consciousness developed by the Cuban population thanks to the revolutionary leadership and the people's revolutionary practice. These cooperativization waves also made economic sense to most farmers and workers.

In the 1960s, farmer associations were incentivized to convert into producer cooperatives named Credit and Services Cooperatives (“Cooperativas de Crédito y Servicios”, or CCSs) in order to increase their access to credit and services from new and stronger state institutions. In the second half of the 1970s and into the 1980s, during the Revolution's “institutionalization” period that resulted in a new Constitution (1976) and cooperative legislation more aligned with state-centric socialism, Agricultural Production Cooperatives (“Cooperativas de Producción Agropecuaria”, or CPAs) were promoted as a more advanced form of (worker) cooperative organization, and land reform beneficiaries—many already organized in CCSs—were encouraged to form or join CPAs in order to benefit from larger-scale, more industrialized production (Nova, 2013).

In the 1990s, after the fall of the socialist block—together with more than two-thirds of Cuba's trade, including agricultural input imports and produce exports—big state farms were divided into smaller areas that were assigned to employees to self-organize as worker cooperatives named Basic Units of Cooperative Production (“Unidades Básicas de Producción Cooperativa”, or UBPCs) that would acquire state land in free usufruct (Lopez Labrada, 2013). While these emerged as hybrid businesses or pseudo-cooperatives, legal norms have recognized them as autonomous cooperatives since 2011, as part of the ongoing reform process (Villegas Chádez, 2017; Piñeiro, 2014).

Despite several calls—mostly from the academy and since the late 1980s—to promote cooperatives in other economic activities beyond agriculture, it was not until 2012 when “non-agricultural” cooperatives (“Cooperativas No Agropecuarias”, or CNAs) were legislated for; even if with an “experimental character” and with a period of “evaluation and pause” since 2017 (Piñeiro, 2018b). Finally, in August 2021, as part of a

package for self-employed workers and micro, small, and medium enterprises (MSMEs),⁴ CNAs were legislated for as a permanent—not just experimental—business form.⁵

This long overdue opening to worker and producer cooperatives beyond agriculture was a result of the recognition in key Party and National Assembly (broadly consulted and consensuated) documents—Guidelines and Conceptualization (PCC, 2021)—that cooperatives are to play a key role in the new Cuban socioeconomic model, second to state/public enterprises. Cooperatives are finally understood as autonomous from state interference, as is the practice in most countries—while also representing a more socialized or socialistic form of organization than private enterprises, due to co-ops’ democratic ownership and decision-making, and therefore their social orientation. Consequently, cooperatives ought to receive preferential treatment, or “positive discrimination”, from the state; and state transfer of economic activities should prioritize this organizational form (Piñeiro, 2014, 2016).

Therefore, cooperatives in Cuba have evolved from being confined to agriculture with limited autonomy from the state, to being able to exercise any (non-fundamental⁶) economic activity without state subordination. However, too many operational constraints remain in place, and the legal framework and institutional ecosystem needed for cooperatives to thrive still has not been established in Cuba, despite being partly referenced in the Guidelines themselves (Piñeiro, 2020a,b; Fajardo García & Moreno Cruz, 2018). In fact, Fig. 8.1 shows how—for reasons discussed elsewhere (Piñeiro, 2018a; Matías, 2010)—the number of

⁴ See *Gaceta Oficial* No. 94 Ordinaria published on August 19, 2021. <https://www.gacetaoficial.gob.cu/sites/default/files/goc-2021-o94.pdf>

⁵ Between January 2013 and March 2014, 498 proposals for CNAs were authorized and, of them, around 439 CNAs were created; 421 existed in September 2021; five new CNAs were created in the last three months of 2021 (<http://www.onei.gob.cu/node/14684>). Since the establishment of the new legislation for CNAs in September 2021, 36 CNAs have been approved—together with 2,276 private enterprises and 49 state/public MSMEs—representing 1.52% of the 2,361 total new businesses (<https://www.mep.gob.cu/es/node/3>).

⁶ “Fundamental” activities are reserved for state enterprises (PCC, 2021, p. 16, 19, 23). “The fundamental means of production in the Model are those that facilitate the socialist State to conduct economic and social development. Its specific composition is determined by the conditions existing in each period” (PCC, 2021, p. 27). Currently, energy, communications, mining, import/export, education, and health are sectors considered fundamental in this sense.

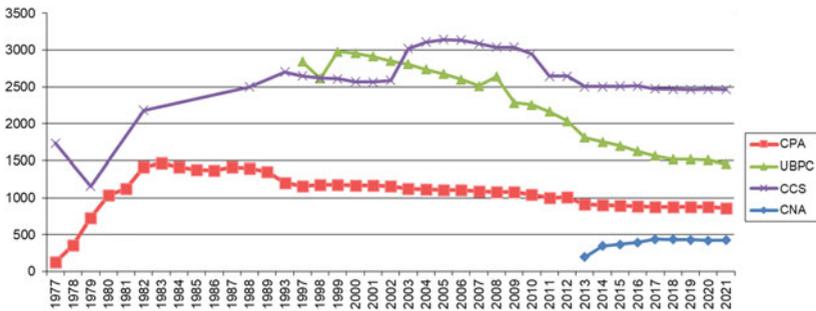


Fig. 8.1 Evolution of cooperatives in Cuba (Source author, based on National Statistics and Information Office (ONEI) and Piñeiro [2014])

UBPCs and CPAs worryingly continues to decline,⁷ and that CNAs were promoted only briefly. All this occurs at the same time that both Cuba’s dependence on food imports and on hard currency from tourism, and the need for socially oriented enterprises that provide decent employment opportunities and needed goods and services, continue to increase (Torres, 2021).

At the close of 2021, the national employment contribution of Cuban co-ops, considering both members (532,100)—shown in Table 8.1 as 11.5% of Cuba’s active workforce—and non-members (around 200,000, mostly hired by CCS members) was 15.8% of total employment. This accounts for 47.3% of total non-state employment. Cuban cooperatives accounted for only 1.1% of 462,826 total non-state businesses, including “self-employment” (“Trabajador por Cuenta Propia”—TCP). It is important to note that, since the legislative package for self-employed workers, MSMEs, and CNAs was established in September 2021, 40 new CNAs have been approved, representing 1.6% of the 2,563 total approved new non-state enterprises (MEP, 2022)—a higher percentage that suggests the potential for growth of the cooperative sector in Cuba.

⁷ 24 UBPCs and 3 CPAs were dissolved annually up to 2011 (Piñeiro, 2018a). CCS numbers go slightly up and down mainly based on mergers and splits of existing CCSs; although in general CCSs seem to be in better health than UBPCs and CPAs, many are affected by the massive inflow of new farmers who have received land in usufruct since 2008 and are required to establish a relationship with CCSs.

Table 8.1 Key data about different types of cooperatives in Cuba

	# of co-ops*	# of co-op members**	membership % of Cuban active workforce	% of Cuban ag. land***
CCS	2,463	373,841	8.1	37.5
CPA	863	38,776	0.8	7.9
UBPC	1,459	102,283	2.2	23.1
CNA	426	17,200	0.4	n/a
Total	5,211	532,100	11.5	68.5

Source Elaborated by author based on data from: * December 2021 (ONEI 2022) ** December 2019 (ONEI, 2021a and MINAG, in Figueredo & Sifonte, 2019) *** 2017 MINAG in ONEI (2021b); data for CCS includes around 30,000 independent or not associated farmers

Graph 2 illustrates that, while the vast majority (91.8%) of Cuban cooperatives are active in agriculture, they are also active in services, construction, industry (48.4%, 15.7%, and 11.6% of Cuban non-agricultural co-ops, respectively), and other sectors.

Figure 8.2 also shows, within each economic sector, the approximate percentage of Cuban co-ops that have been created out of existing state farms or business units. In agriculture, all UBPCs (or 30% of all agricultural cooperatives) have emerged from the division of state farm areas. Outside of agriculture, 70% of approved non-agricultural cooperatives originated from conversions of state business units. Of all Cuban co-ops, *34% have originated as conversions of state enterprises.*

Another important feature of Cuban cooperatives to note is that, in all UBPCs and most CNAs, buildings or land are leased from state institutions. Some CCSs and CPAs have also acquired land in free usufruct to be labored collectively. UBPCs, CPAs, and CCSs own equipment, while some CNAs rent the most capital-intensive equipment (e.g., buses, heavy machinery, etc.) from the state.

There is no data on Cuban cooperatives' contribution to national GDP. It is known that Cuban agricultural cooperatives produce 70–80% of most crops, even though Cuba is very far from self-sufficiency in most crops that could be produced in the country. This is mostly due to lack of access to inputs, production support services, and capital; as well as the absence of a coherent agricultural system that provides

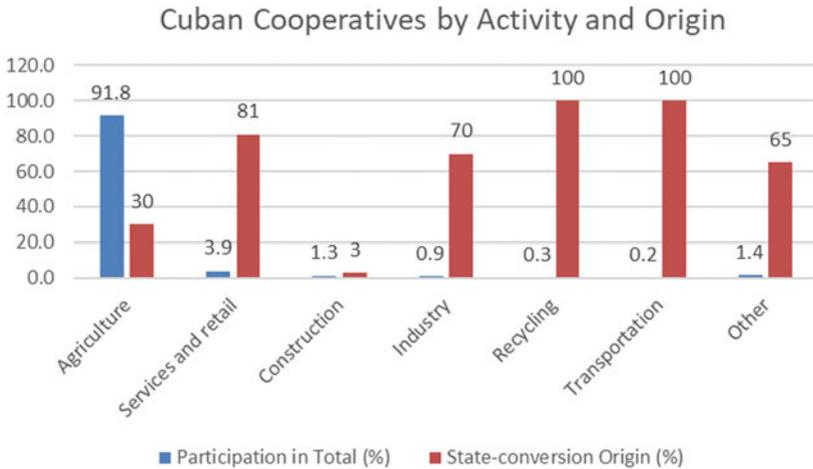


Fig. 8.2 Cuban cooperatives by activity and origin (Source author, based on ONEI [2022] and others)

member farmers with the operational autonomy to organize in higher-tier cooperatives to secure needed inputs and services, and to add value via processing and more effective marketing of their production. Beyond dignified employment and badly needed goods and services, cooperatives also contribute significantly—and disproportionately, given their small numbers—to public budgets at the local and national level. According to National Statistics and Information Office (Oficina Nacional de Estadísticas e Información—ONEI) data at the close of 2016, 360 cooperatives provided incomes (advances⁸ and patronage) to their members that were 10 times the national average salary, but also contributed in total taxes the equivalent of 70% of those member incomes, or 50% of their surpluses. These cooperatives, despite their total employment amounting

⁸ These are the “anticipos societarios” or “anticipos”, which reflect the fact that members are not in a wage or dependent relation to an employer. As ICA-AP & CICOPA (2019, p. 87) explain: “In many Spanish-speaking countries, the concept of ‘anticipo’ is used to emphasise the characteristics of worker-members as the self-employed. Anticipo means the advance payment to worker-members, executed on a regular basis during a business year, which is calculated by anticipating the total amount of annual profits expected. However, as a scheme jointly established by pooling income from all activities conducted through the cooperative, the anticipo is also a way to guarantee a certain level of job security and income so that it may be considered as a kind of wage or salary”.

by comparison to only 0.7% of the total employment provided for by state enterprises, contributed 4% of the total amount in municipal governments' budgets for local development (Piñeiro, 2020a, p. 9–10).

In regard to the Cuban cooperative legal and regulatory framework, it is important to note that legislation for agricultural cooperatives (Law Decree 365/2018, and Decree 354/2018 laying out the General Rules) was established in May 2019, finally unifying and standardizing norms for all three types of agricultural co-ops mentioned above. Therefore, Cuban cooperative legislation is now divided in two: one legal regime for producer and worker cooperatives in agriculture (as just mentioned), and another for mainly worker, but also producer, cooperatives outside of agriculture (Law Decree 47/2021).⁹

Along with Haiti and the United States (at the national level), Cuba is one of very few countries in the Americas still without a General Law of Cooperatives that allows for the creation of other classes of cooperatives (consumer cooperatives, including savings and credit financial co-ops; multistakeholder cooperatives; and second/third-tier cooperatives) and that establishes the main institutions of the cooperative support ecosystem required for cooperatives to expand and consolidate. The General Law of Cooperatives, which was announced in 2015 by the then Cuban President Raul Castro, and which has since been restated in the latest version of the Guidelines, is expected to be passed in 2023. This will also establish for the first time a multi-sectoral institution in charge of promotion and supervision of cooperatives in Cuba.

8.3 The Cuban Revolution's Humanistic Ethos and Cooperatives

Before we discuss humanistic governance systems and practices in Cuban cooperatives, it is important to grasp the Cuban Revolution's humanistic ethos and ideology. Cuban revolutionary leaders fought against the

⁹ Analysis of the Cuban co-op legislation is beyond the scope of this paper. See Fernandez Peiso (2020).

US-supported dictator, Fulgencio Batista, not only to re-establish democracy, but also to build a more independent and just nation. They were mainly inspired by National Hero, José Martí, and his ideas of equality, social justice, and solidarity (Castro, 1975; Rodriguez, 2018). Martí was a pioneer of humanism in the Americas (Vitier, 2021 [1975]; Guadarrama, 1997; Holmes, 1980), and his statement defending “a cult toward the full dignity of men [and women]” has been maintained as central to the revolutionary ethos and has guided both the 1976 and 2019 Constitutions.

The men and women who led the Cuban Revolution came out of the mountains and urban underground struggle with a close, practical experience living with, or being part of, the historically marginalized communities, which marked their commitment toward social justice, human dignity, and emancipation (Guevara, 1960). In addition to Martí’s humanistic legacy, they were infused by Latin American Marxists such as Julio Antonio Mella, Carlos Mariategui, and Anibal Ponce.¹⁰ Fidel Castro’s and Che Guevara’s understanding of socialism drew directly from Karl Marx and these Latin American Marxists, rather than just from USSR manuals; and thus humans’ full development or emancipation was the final goal of the Cuban Revolution from its outset (Vitier, 2021 [1975], p. 113–149, 154–6; Lowy, 1997). “Through his [Che’s] contributions, revolutionary Cuban society embraced a distinctively humanistic ethos despite the efforts of others to imbue it with a dogmatic, cold scholasticism” (Kronenberg, 2009, p. 2).¹¹ Therefore, Cuban revolutionary leaders, academia, and people, in the first decades of the Revolution, quickly transcended bourgeois humanism—which focusses on human beings as individuals in the abstract, separated from society and their social relations—and embraced instead a socialist or proletarian humanism that understands human beings as social beings marked by the social relations in which they go about their daily lives; and that consequently acknowledges the need for radical emancipation

¹⁰ Argentinian Marxist Anibal Ponce’s *Bourgeois Humanism and Proletarian Humanism* (1st edition in 1935) and *Education and Class Struggle* were published in Cuba in 1961–2, as per Che’s suggestion, and greatly influenced Che’s conception of the “new men [and women]” (Massholder, 2018).

¹¹ For an example, see Guevara (2005).

in practical and not just discursive terms (Vitier, 2021 [1975], p. 134; Guadarrama, 1997; Limia et al., 1997; Veltmeyer & Rushton, 2012, p. 119–150).

For those who reduce the Cuban revolutionary process to an authoritarian one that resulted in a totalitarian or even dictatorial state, it is difficult to acknowledge how much humanism permeates the Cuban revolution's ideology and praxis. Despite the fact that the late USSR socialist discourse of state-centered socialism did make significant inroads in Cuba (Guadarrama, 1997), since Cuba depended so much on the USSR for its own survival vis-à-vis US imperialism and blockade, the Cuban Revolution kept trying to find its own path. Cuba's high scores in the Human Development Index¹² show the Cuban governments' commitment to creating the basic conditions in which men and women can fully develop, such as universal quality education, health, social safety, dignified employment, culture, etc., without which there cannot be true democracy (Aldeguería, 1993). In the context of a very powerful US-funded "Cuba regime change industry" and the most comprehensive and long-lasting system of sanctions worldwide that any country has had to endure (imposed extraterritorially by the most powerful nation on the planet),¹³ these achievements only serve to demonstrate Cubans' determination to pursue humanistic goals that put people at the center of public policy (PCC, 2021). This context should also serve to understand of the limits of Cuba's political system and political rights, which should not be seen as an abandonment of democracy and individual freedom.¹⁴

The Cuban society has strived toward an alternative to capitalism as well as to state socialism and market socialism. Cuba's independence in regard to USSR foreign policy and conscious efforts—while not always fully successful—to avoid Stalinist practices, as well as hesitation to adopt

¹² After Costa Rica (0.810), Panama, Uruguay, Argentina, and Chile (0.851), Cuba ranks #70 worldwide, with a HDI score of 0.783; Cuba has maintained a similar value since 2010. <https://hdr.undp.org/en/countries/profiles/CUB>

¹³ See OXFAM (2021) for a report on the impact of the US "embargo" or "blockade", and Whitney (2016) and Armstrong (2011) for information about the US "democracy and human rights promotion" programs that seek to impose regime change in Cuba via continued funding of NGOs.

¹⁴ For a nuanced analysis of the Cuban political system and democracy in Cuba, see Valdés Paz (2009b, 2020).

the Vietnamese or Chinese economic models, show that Cuban leadership, intellectuals, and people expect the Cuban Revolution to be guided by and to materialize the values of equality, solidarity, justice, and democracy, which can be summed up in human dignity (Limia et al., 1997; Veltmeyer & Rushton, 2012).

Although diminished and reprioritized by the crisis of the 1990s after the fall of the socialist camp, these values continue to live on in Cubans' ethical aspirations, as evidenced in an empirical study conducted in 2013: "The virtues that were stated as the most admired ones were sincerity and generosity and the most intolerable defects were selfishness and deceitfulness, whereas the most perceived values were solidarity and justice and the perceived anti-values were selfishness and double-standard" (Amaro Cano, 2014, p. 10).

Against all odds, the most emancipatory or transformative tendencies of the Revolution have not died and have recently regained some public attention. President Miguel Díaz-Canel has embarked on the revitalization of public programs that seek to address the needs of Cubans in situations of vulnerability, where citizens are seen as protagonists of their own transformation and that of their communities. According to Díaz-Canel, these social programs "are the social base of the Revolution, they are programs that demonstrate the true humanist vocation of the Revolution. [... It's] a gigantic but urgent task that has to do with the growth of Cubans not only in the material dimension, but also in the spiritual one" (Perera, 2022). In the midst of one of its major economic crises,¹⁵ and not without contradictions resulting from very limited policy options, and undoubtedly with many shortcomings, Cuba's socialism continues to be about advancing social justice and human development.

This humanistic ethos and ideology that predominates in the Cuban society has resulted in a public policy and cultural framework from which Cuban cooperatives and their members do not escape. Cooperative legislation decisively asserts equal rights among members, substantive

¹⁵ Resulting from the current global crises, the Covid-19 pandemic, US government increased economic warfare against Cuba, delays in implementing the economic reform started in 2008, and problems arising from implementation of monetary and price policies. See Torres (2021) and Rodriguez (2021).

participation in democratic decision-making, and precludes exploitation of permanent wage labor by cooperatives.¹⁶ In addition to formal norms, ideologies suggest what is perceived as right and wrong, establish values, social norms, and thus regulate attitudes and behaviors. This is very much the case in Cuba with the radical revolutionary ideology reaching—with varied but consistent overall success—most societal spaces (Machado 2004). While Cuba's state-centric socialism limited the expansion and consolidation of cooperatives as well as workers' participation in the management of public enterprises, and even though private capitalistic (based on wage-labor and individual interests) enterprises have grown at a greater speed in the last decade,¹⁷ the social relations that dominate in Cuba are still not capitalistic but largely those marked by cooperation, social commitment, sustainability, and humanism—national and community solutions are still better regarded than individual ones (Hanon, 2019).

Consequently, Cuban cooperatives generally embed formal and informal norms consistent with humanistic and emancipatory values; even though many face serious organizational deficiencies and over-formalization of their democratic processes resulting from internal and external dynamics (García Ruiz, 2021; Matías, 2010). All cooperatives have been promoted as means for members to both improve their working and living conditions, and also to contribute to their communities and nation (Piñeiro, 2016, 2014, 2020a; Nova, 2013; Matías, 2010; Valdés Paz, 2009a).

Humanist values are easier to put into practice by members within their cooperatives when they are widely shared by all those who work, either manually or intellectually. All workers deserve to participate in decision-making in their workplaces, and so managers and their management teams ought to also be members. Humanist values can also be

¹⁶ See Law Decree 365/2018 and Law Decree 47/2021.

¹⁷ TCP was expanded in 2009 and allowed to evolve from self-employment to private businesses, while only around 500 cooperatives beyond agriculture were authorized in 2013–2014 and their membership growth was limited in 2017. Consequently, from 2007 to 2020, employment in the private sector has grown from 14.6% to 21.6%, while in cooperatives it has grown from 10% to 11.5% (ONEI, 2021a).

better operationalized when technical and graduate education is available to all, and where there is no idealization of formal education because tacit or practical knowledge is also highly valued. Consequently, humanistic organization thrives when it is recognized that cooperative members can and should have the skills and knowledge to be effective members of boards and management, and when management teams are considered workers whose interests are not intrinsically in conflict with those of other members.

In their study of a rural municipality in central Cuba with five tobacco cooperatives (CCSs and CPAs), Bono and Loopmans (2021, p. 28) concluded with precision that: “Cuban cooperatives have been able to develop their expansive mechanisms of solidarity as a result of the country’s socialist political economy, which diminishes competitive pressures and explicitly supports solidarity. Our study reveals that the reverse is also true and that cooperatives are crucial ‘cogs’ for the nation’s solidarity system”. They argue that agricultural cooperatives in Cuba have a social and political embeddedness in that they are part of a national food distribution system to satisfy social needs, and of formal and informal norms based on societal values of solidarity—both reciprocity and care for each other; i.e., humanism. Unlike in other countries, Cuban cooperatives are less exposed to degeneration from the market logic that erodes democratic decision-making, reinforces top-down management, permits hiring labor permanently, and increases members’ income differentials (Piñeiro, 2016, 2009).

Cuban cooperatives don’t just “receive” top-down solidarity, but also “produce” bottom-up solidarity—they are “a center for localized solidarity in communities and villages” (Bono & Loopmans, 2021). They have played an important role, alongside other social organizations and institutions (schools, neighborhood organizations, politics, media, etc.) in fostering solidarity and humanism. Their governance systems are marked by this, and all important decision-making—except for elections—is generally carried out on a consensus basis through the monthly general assembly, which also has the power to elect and dismiss the board of directors, management, and the executive committee (Bono & Loopmans, 2021).

8.4 Findings Related to Humanistic Governance from Six Case Studies

What follows are the results from the systematization of six case studies conducted by the author using the cooperative governance case study guide developed by the editors of this volume.¹⁸ These cooperatives were chosen purposely for their democratic and effective governance structures, practices, and culture, while also seeking a variety of organizational forms, origins, and experiences. Co-ops located in Havana or in nearby provinces were decided upon due to logistical constraints. Interviews and focus groups were conducted between December 2020 and March 2021, when mobility restrictions were in place due to the Covid-19 pandemic.

Table 8.2 summarizes the characteristics of case study co-ops. The six cooperatives are of different types or classes (producer, worker, or multistakeholder), in varied economic sectors (agriculture, industry, and services), and have dissimilar age, membership size, and composition. For more information on these cooperatives, please refer to the forthcoming case studies.¹⁹

Some of the main features of the six studied cooperatives' governance structures and practices are summarized in Table 8.3 and are expanded upon below.

8.4.1 Governance Bodies

In all studied cooperatives, the executive body of the General Assembly (GA) is known as the “Junta Directiva”²⁰ or *Board of Directors (BD)*, and it is comprised of members elected by the GA, among them: president

¹⁸ This case study guide was developed as part of the “Governance in Cooperatives—Participatory, People-Centred, Democratic” multi-year project, grounded in research and focused on elevating the understanding and practice of governance in cooperatives. <https://www.smu.ca/academics/sobey/co-operative-governance-research-project.html> [Editors' note: the case study guide is available on request from the editors of this volume].

¹⁹ To be published as part of the ICCM Working Paper & Case Study Series. <https://www.smu.ca/iccm/researchandpublications/workingpaperandcasestudyseries/>

²⁰ The current legislation for CNAs, passed in 2021 as part of the legislative package for MSMEs, refers to the GA executive body as “Consejo de Administracion” instead of “Junta Directiva”.

Table 8.2 Key descriptive information about the case cooperatives

	CCS	CPA	UBPC	CNA1	CNA2	CNA2
co-op type	producer (+ worker)	worker	worker	worker	worker	worker-producer
economic sector	agriculture	agriculture	agriculture	textile industry	construction	professional services
created in	1979	1983	1998	2013	2013	2014
conversion	no	no	Yes	yes	yes	no
members	406	325	49	67	254	110
women	23%	19%	59%	89%	7%	61%
youth*	25%	26%	30%	30%	19%	38%
province	Artemisa	Artemisa	Artemisa	Havana	Matanzas	Havana
2019 sales	3 M CUP	17 M CUP	15 M CUP	29 M CUP	25 M CUP	42 M CUP
2020 sales	2 M CUP	22 M CUP	16 M CUP	20 M CUP	23 M CUP	65 M CUP

* Under 35

(i.e., board chair), secretary, key management personnel, and members in charge of the most important work areas or departments of the cooperative. BD sizes vary from seven (including two in a non-voting, advisory capacity) to 11 members. Because legislation requires cooperatives to designate a president, a vice president, and a secretary of both the GA and BD, most case study cooperatives have assigned the vice president position to the person in charge of coordination of the main productive activity of the cooperative; while, in some cases, the vice president is a key person in management.

In agricultural cooperatives, BD meetings are generally held monthly, but in one case study they are held weekly. In non-agricultural co-ops, BD meetings are held from monthly to quarterly. In all cases, a BD meeting takes place right before GAs (see frequency of GAs below), to finalize accountability reports to the GA and proposals for decisions to be taken by the GA.

The studied non-agricultural cooperatives—unlike the agricultural ones—have a “Consejo de Administración” or *Management Council (MC)*, because CNA legislation suggests the establishment of a MC in addition to a BD for cooperatives with memberships bigger than 60. Two of the three studied CNAs do find it useful to have a MC so that the BD can concentrate on: (1) strategy, (2) monitoring management,

Table 8.3 Main governance organizational structures and practices in the studied cooperatives

Co-op	governance bodies	CEO role	GA and BD terms	GA frequency	other spaces for participation	Co-op education	member surplus distribution	other stakeholders
CCS	GA + BD + SC	vice "pres."	5 years	monthly	ANAP BO; "organizers" visit members, for communication	in GA, no EC	based on patronage	ANAP, PCC, FMC, UJC
CPA	GA + BD + SC	vice pres. = prod. director + econ*	2.5 years	monthly	ANAP BO; monthly mtgs per work area, for information	in GA, no EC	egalitarian, unless sanctioned	ANAP, PCC, FMC, UJC, local government
UBPC	GA + BD	shared by two prod. directors, one is vice "pres."	5 years	monthly	weekly mtgs per work area, for consensus building	in GA, no EC	egalitarian, for those meeting performance goals	CTC, PCC, FMC, UJC, local governments
CNA1	GA + BD + MC + EMC + SC	manager, participates in BD	5 years	quarterly	biweekly mtgs with all; weekly check-in with work teams, for communication and coordination	all the time, HR is EC	based on results	PCC, CTC

Co-op	governance bodies	CEO role	GA and BD terms	GA frequency	other spaces for participation	Co-op education	member surplus distribution	other stakeholders
CNA2	GA + BD + MC + EMC + SC	manager, participates in BD	5 years	quarterly	monthly mtgs per work area, for consensus building	all the time, EC	egalitarian, for those meeting performance goals based on results	PCC, UJC, CTC, local governments
CNA3	GA + BD + [E]MC + SC	manager, participates in BD	5 years	quarterly	"coordinators" lead work teams, for consensus building	all the time, pres. leads EC		CTC, ANEC

GA—General Assembly; BD—Board of Directors; MC—Management Council, EMC—Expanded Management Council; SC—Supervisory Committee; EC—Education Committee; ANAP—National Association of Small Farmers; ANAP BO—ANAP "Basic Organization" or Nucleus; CTC—Cuban Labor Union; PCC—Cuban Communist Party; UJC—Cuban Communist Youth; FMC—Cuban Women's Federation; ANEC—National Association of Economists and Accountants.
 * "Económico" in Spanish, similar to a "treasurer"

(3) guiding other committees in charge of social, non-business-related activities.

MCs are basically management teams and can include a head of the council (who could be considered as the manager or CEO), a quality supervisor, an accountant, a human resources manager, as well as marketing and logistics personnel. In all of these cooperatives, the president also participates in the MC in a non-voting, advisory capacity, and consciously tries to avoid monopolizing the meetings. The MC size in these three cooperatives was five, five, and 15 persons; the latter being larger because the cooperative (CNA3) has 10 decentralized work teams, and a representative of each work team also participates in the (expanded) MC.

Two non-agricultural cooperatives (CNA1 and CNA2) also have an *Expanded Management Council (EMC)*, which adds to the management personnel representatives or leaders from the main production areas or work teams, as well as the representatives who lead political and social organizations in the cooperatives (see below under “other stakeholders”). These governance bodies serve to open management discussions to a broader subset of members with different perspectives.

Legislation for both agricultural and non-agricultural cooperatives requires the establishment of a “Comité de Control y Fiscalización”, or *Supervisory Committee (SC)*. SC members—generally three—are elected in the GA among members who do not take part in any other governance or management body. Only one of the studied agricultural cooperatives stated that they did not have a SC, but had instead an internal control system and a BD member in charge of internal audits. In the other cooperatives, the SC plays an important internal auditing role and reports at every GA, or at least quarterly, which serves also to educate non-administrative members on administrative matters. As a CNA3 member stated:

We tried to have the same three members in [the] SC doing all the audits, but it did not work. We decided it was best to have one person [as] head [of] the SC, and have the other members rotate depending on the expertise required by the control tasks being carried out. They participate

[in a non-voting capacity] in every BD and MC meeting, and can look at any document anytime.

In CNA1, the plan for audits was decided at a GA, and the SC is used as a hands-on learning opportunity for young and new members. “SC members learn by shadowing external auditors; and, if it would not be so costly, we would contract an external audit annually too”, said a CNA1 member.

In addition to the GA, BD and SC, and the MC and MCE established in some cases, most cooperatives studied had structured other spaces for members to participate in decision-making, as can be seen in Table 8.3, and as explained below. Only one cooperative had an Education Committee (EC), as will also be analyzed further below.

8.4.2 CEO or Manager Role

In most cooperatives, the traditional CEO or manager role is not clearly assigned to just one person. As with all the administrative staff, the person or persons with a management role is/are cooperative members, and is/are elected by and accountable to the GA. In non-agricultural cooperatives with a Management Council (MC), the person in charge of the MC could be seen as the CEO, but management decisions are actually made collegially among MC members and the president also participates in the MC. Although in all three studied CNAs with MC presidents do not have the capacity to vote, they likely strongly influence MC decision-making process.

As mentioned above, none of the agricultural cooperatives studied have a MC. In two of these cooperatives, the person seen as serving as the manager is either the one who manages the cooperative’s finances or the one in charge of production. While in the other, which has two different main production lines (crops and cattle), there are two managers and one of them is the vice president of the BD.

In fact, in all but one of the studied cooperatives, the person who would best fit the CEO role is the vice president. The extent to which the president also serves a manager role—instead of just articulating

the interests of members vis-à-vis the management team—depends on his/her professional background and whether he/she has decided to allow other members to develop their management skills.

Therefore, in the studied cooperatives, there is an overlap and no clear division between the BD and management, whether the latter is a MC or just the person(s) leading the manager role. In all cases, people with management roles or heading the MC also participate in the BD with voting rights. As mentioned, when there is a MC, the president also participates in it, albeit on a non-voting, advisory basis. In all cases, management is elected by the GA, reports directly to the GA, and is also supervised by BD and SC. As explained below, it is important to note that all important strategic decisions, including in the production and management spheres, are made in the GA.

As the UBPC case study president put it: “We don’t have a ‘manager,’ we all manage different things”.

8.4.3 Terms for Positions in the Executive Governance Bodies

The terms for positions in governance bodies vary across cooperatives. While in some cases, the terms of service are for two-and-a-half years, in others they are up to five years. In all cases, there are no limits on serving consecutive terms, and members of the BD, and—when in existence—the MC, generally repeat several mandates. The only positions that rotate often are those in the SC, where participation of members with no management or leadership experience is encouraged.

8.4.4 Frequency of General Assemblies

In agricultural cooperatives, ordinary GAs are held monthly, lasting one to one-and-a-half hours; and—given their high frequency—case study co-ops do not typically require extraordinary GAs. In non-agricultural cooperatives, GAs were initially held monthly, but have since moved to quarterly meetings, lasting half a day or longer; they have also had several (up to five per year in one CNA) extraordinary GAs. In two of

the CNAs, the decision to move toward quarterly instead of monthly GAs was related to the cost of bringing together such a large number of members who work in different places. Cuban cooperative legislation establishes that GA must be at least quarterly in agricultural cooperatives and no less than twice per year in non-agricultural ones.

In all cases, GAs are not used just for decision-making, but also to: share information; gather feedback about strategies and plans; and educate members on their cooperative's governance system and main production processes, as well as on the cooperative identity. They are also used as a space to socialize and enjoy recreational time together. As the CCS president put it: "People are not just interested in economic or political matters, but also very much in social ones".

The high frequency of GAs is necessary in the studied cooperatives because all important decisions are taken in GAs concerning: election of all positions in governance bodies; admitting and removing members; changes in internal rules; accountability reports from governance bodies and production units or teams; production plans, budgets, and allocation of surpluses; compensation criteria; loans and credit lines; large procurements, large contracts, etc. Nevertheless, as explained below, the vast majority—if not all—proposals that are put up for vote at the GA are shared well in advance in other spaces for participation, in order to receive feedback and adapt the proposals if needed to achieve the broadest support possible.

8.4.5 Other Spaces for Participation

All studied cooperatives have established additional spaces—beyond the GA/BD/(E)MC/SC—for all members to participate in decision-making and serve different purposes: these spaces particularly encourage bi-directional communication, or consensus building prior to GAs. These opportunities for dialogue occur frequently (i.e., weekly to monthly), and in most cases they engage smaller groups, organized by work areas or teams.

When work is not "collective" (i.e., occurring simultaneously in the same space) and members work by themselves or in smaller groups or

work teams—such as in CCS, CNA2, and CNA3—team leaders or “organizers/coordinators” play a key role also in governance. These “organizers” serve to explain information and proposals provided by the BD, to receive feedback on same, and to allow members to raise any problems they may face or foresee related to operational, strategic, or any type of issues.

During the pandemic, even in cooperatives where work is largely collective—such as in CPA, UBPC, and CNA1—it was necessary to decentralize into smaller work teams. The ability to create or maintain these decentralized work teams allowed the studied cooperatives to continue to hold GAs, and to participatorily agree on strategies and measures to confront the economic crisis resulting from the pandemic. For example, in UBPC, a member commented that: “We did not stop having our monthly GA. We divided it into work teams, and us BD members held six GAs repeating the same [format] with each [team], until it was possible [again] to come all together”.

In addition to these smaller meetings of work teams, some of the studied cooperatives where work is largely collective had, or used to have before the pandemic, short (15–20 min) informational meetings with all members that generally happened during lunch or break times on a weekly or biweekly basis. These meetings mostly served to share recent developments and brief updates on economic indicators or a specific topic.

In most CCSs and CPAs, which are promoted by the National Association of Small Farmers (ANAP), there is—resulting from ANAP’s organizational work—an ANAP “Organo de Base” (ANAP OB) that serves a similar purpose to the “Consejo Social” (Social Council) in Mondragon cooperatives, i.e., a space where representatives of non-administrative members who are not team leaders can participate and provide joint membership feedback to the BD. A member of CCS explained: “We have the ANAP OB since 2015 and it has help us to learn more about our members’ needs and the services that we can provide to our members based on what other cooperatives do. Everything works like a clock thanks to the joint work of the BD, ANAP OB, and SC, always hand-in-hand and guided by the GA”.

In addition, another space for member participation was direct one-on-one meetings between the president and any member(s), which could happen spontaneously or in more structured ways. For example, as the UBPC president explained: “If someone has something she/he wants to talk about with me, they know they can find me in my office on Tuesday mornings. And I always stay in my office because it has proven an important space to engage with members”.

Lastly, the pandemic expanded a practice that had already started in some CNAs, which is to use closed social media groups (Telegram, WhatsApp, or Facebook) to share information and proposals, gather feedback, and coordinate decentralized work. These digital spaces have allowed for broader and permanent communication and dialogue on all issues related to the cooperatives.

Whether digital or in person, non-protocolary, regular, and informal communication has been key to the effectiveness of the studied cooperatives’ governance systems. As a member of CNA1 put it: “The fact that we as leaders and management communicate so fluidly and transparently among [ourselves] and with other members, and that everyone can communicate openly any ideas or concerns, results in... a sense of trust, no need to gossip or talk behind anyone’s back”.

8.4.6 Education Committee

Only one of the studied cooperatives, CNA2, had an officially established *Education Committee (EC)*, led by the president. This reflects the fact that cooperative education was not among the cooperative principles recognized in the legislation, at least until the latest legislation for agricultural and non-agricultural cooperatives was enacted in 2021.²¹ Nevertheless, the other two CNAs do have a member responsible for cooperative education and carry out training activities based on a plan informed by needs assessments. In these cases, the person in charge of education is the vice president (also GA secretary) and the administration member in charge of human resources, respectively.

²¹ See Piñeiro (2015) for a lucubration of the reasons why the cooperative education principle was not included.

In CNA2, the EC works as follows, one member explained: “We have a Committee for Education, Training and Communication that has [a] budget and a work plan based on needs assessment[s] and surveys, and [which is] agreed on [at the] GA.... It includes talks with experts on cooperatives, local development, and other topics.... We also see our radio broadcast and newsletter as important educational tools”.

CNA1 has focused training activities on young people, via formal training and in practice, to prepare for generational succession and facilitate youth leadership. Also, the cooperative has a member teaching in a technical school where they are hoping to attract graduates to join the cooperative.

CNA3 is more concentrated on everyday practical education, and has adopted a popular education paradigm and methods to advance cooperative values and practices among the membership. As one member explained: “Cooperative education is embedded in every training, meeting and communication. In all these activities, we address how issues are related to the cooperative model, always using popular education and learning-by-doing methodologies”.

It is important to note that while agricultural cooperatives did not officially have an EC or a person in charge of education activities, they did have trainings for members, including farm schools, and agreements with relevant technical schools in their municipality. Cooperative education occurred mainly during the GAs. As a member of UBPC explained: “Cooperative education is done in practice, in our meetings. In every GA, two or three articles of our bylaws are read and discussed, serving as reviews. When the heads of the collectives [work teams] provide their reports and the results are debated, they are providing training to themselves and others”. Therefore, it is recognized that cooperatives can be schools in and of themselves.

8.4.7 Distribution of Surplus Among Members

Cuban cooperative legislation establishes that members’ income—via advances and distributable surplus—should align with: the complexity, quality, and quantity/amount of members’ work in worker cooperatives;

or products/results from work (i.e., patronage contributed to the co-op) in producer cooperatives. Depending on the nature of their economic activities, membership composition, solidarity consciousness, and labor market competition, cooperatives may choose more or less egalitarian arrangements.

In both agricultural worker cooperatives studied (CPA and UBPC) and CNA2, distribution of surpluses was egalitarian (i.e., based on time worked)—conditional upon fulfilling production plans or commitments—and not based on differential market or state valuation of contribution. This demonstrates that humanism is well embedded in these cooperatives, where it is recognized that although the results of different work are valued differently by markets and/or state plans (i.e., have different sale prices), this is not an indication of the true value of their work and the effort and skills put forward by members. Indeed, a member of UBPC expressed that:

We are equal. Our [member] guard's work is as important as that of a technician. We need everyone, and the idea is that everyone contributes their best. It is known that the products from our mini industry have higher prices than those crops that are used to produce them and that truly require more strenuous work in more difficult conditions.

Like with many other agricultural producer cooperatives around the world, CCSs are formed by family farms with different production capacities and contributions to the cooperative, and member compensation is based on their patronage, i.e., how much product they contribute to the cooperative. This CCS has also two areas of land in free usufruct from the state, and a mini-industry where member workers contribute their labor to the cooperative and are compensated similarly.

In CNA1 and CNA3, surplus was distributed among members using the same proportion as applied to advances—based on their work complexity, results (measured in number of units, volume, or services), quality (per evaluation by quality supervisor and/or clients), and hours worked. CNA1 had started with an egalitarian distribution but, with change of president and management in 2017, later decided to change to

an arrangement that is expected to provide more incentives for productivity. CNA3 board members expressed that not all members have enough solidarity consciousness yet to adopt an egalitarian distribution.

It is important to note that, in all cooperatives, there are equitable pay ratios among memberships of a maximum 1:3 differential between the lowest and highest incomes. This was the case for the most part even before the passing of the new legislation that requires it; although in one cooperative it was closer to 1:5 before they had to adjust.

Also, in all cooperatives, all members benefit from goods (food and personal items) and services (transportation to work) provided to members for free or at cost price, in egalitarian ways. And some benefit distribution is based on member needs, such as housing construction or repairs.

8.4.8 Participation of Other Stakeholders

In all the studied cooperatives, organizations representing broader social interests were present via their membership, and in most also within their governance structures. In agricultural cooperatives, nation-wide peasant or labor organizations played a key role in their inception and have continued to be ingrained in their governance structures. Elected representatives of the nucleus²² of these social and political organizations (farmer associations, labor unions, political party, and mass organizations) are generally invited to BD meetings as non-voting participants.

In CCS and CPA, most members belong to ANAP, an organization that represents the interests of small farmers vis-à-vis state institutions and society, and has been—for the most part—consulted for policies and legislation related to farmers. In most CCSs and CPAs there is an ANAP nucleus with elected members from the cooperative, which serves a dual role—representing members' interests internally vis-à-vis the cooperatives' leadership, and externally vis-à-vis the state. In UBPC, since members don't own land individually or collectively, ANAP is not present. In UBPC, depending on their main crop, the respective

²² A "nucleus" of a social organization is like "branch" or "local union" for unions, that brings together a small subset of the social organization members.

branches of the national labor union, Cuban Workers Central (Central de Trabajadores de Cuba—CTC), play a similar role to ANAP, and the cooperative secretary is the secretary of the CTC nucleus.

CTC did not play a role in the creation of CNAs (non-agricultural cooperatives). As CTC has reached out to CNAs to have members join, CNA members have gradually increased their participation in the CTC; and when enough members decide to join the CTC, a nucleus is formed within the CNA. In those CNAs that don't have a CTC nucleus, CTC-affiliated members can continue to be active in their previous nucleus or another one nearby. All studied CNAs had CTC nuclei.

In most Cuban cooperatives, depending on the number of members who decide to join the Cuban Communist Party (Partido Comunista de Cuba—PCC), there might be a PCC nucleus; otherwise PCC members participate in nuclei in other workplaces; similarly with the Union of Communist Youth (Union de Jóvenes Comunistas—UJC), which is the PCC youth organization, and the Federation of Cuban Women (Federación de Mujeres Cubanas—FMC), which articulates and represents the interests of youth and women, respectively, vis-à-vis the state and society.

Political organization and consciousness are particularly important for agricultural cooperatives, where their food production and other activities are not expected just to provide income and improve living and working conditions of farmers, but also to serve their local communities and feed the whole nation. Agricultural products sold by cooperatives to the state (for social consumption; i.e., food used in schools, hospitals, and distributed to all Cuban families via the rationing system) are generally at prices well below market prices, so it requires a strong social consciousness for agricultural cooperatives and member farmers—particularly in CCSs—to produce for wider social consumption and not just of their local communities. Also, agricultural cooperatives are the heart of many rural communities: providing the main employment option, food for public institutions, social services such as recreational centers to members, and even electricity or water in some cases (Piñeiro, 2014, 2016).

While in CNA political organization is not as widespread as in agricultural co-ops, as CNAs have consolidated, PCC and UJC nuclei have emerged. Certainly, this was the case in the studied CNA. Two of them had a PCC nucleus and, of these, one had a UJC nucleus too. The other CNA case, which provides professional business support services, had instead a nucleus for the National Association of Economists and Accountants (*Asociación Nacional de Economistas y Contadores—ANEC*).

It is important to note that, while these social organizations are nationwide and half of the studied cooperatives did not have clear links or communication channels with local governments, social responsibility or commitment to the development of the local communities (*Co-op Principle 7—Concern for Community*) was well alive in all studied cooperatives. All had partnered with or sponsored several public service institutions in their locality, such as schools, neighborhood clinics, orphanages, hospices, parks, and took on maintenance and some provisioning of these social institutions. Some of the studied cooperatives with activities in construction (*UBPC and CNA2*) had even built, at their own expense, social institutions such as a grocery store and a medical laboratory (where Covid-19 tests were processed).

Both agricultural and non-agricultural cooperatives contribute with scientific research projects and teaching at local universities and education centers. Also, they try to reduce their environmental impact and help clean natural spaces in their vicinity. During the pandemic outbreak, all of them delivered food and medicines to people at higher risk and provided support to health personnel in their community.

In fact, the *UBPC* case has gone beyond agriculture and for nearly a decade has been part of a public program to produce construction materials for local government housing construction projects at a very low financial margin. In alliance with the Ministry of Labor, they also employ recently released incarcerated people to support them with their reintegration into society.²³

²³ These are non-members who could become members. By law, because they are not involved in the main activity of the co-op, they can be employed permanently.

CNA2 received the “Humanism, Sensibility and Solidarity” award from the National Union of Health Workers in December 2021, recognizing their contribution to fighting the pandemic, which included building a molecular biology laboratory in record time, nearly 1,000 blood donations from co-op members, and the remodeling of health community clinics (Perdomo, 2021). Its website reads that the co-op’s “main mission is to place the human being at the center of our actions”.

8.5 Concluding Remarks

In general, Cuban cooperatives’ governance systems are based on “network governance” structures (Pirson & Turnbull, 2011), where boards and management teams—when they exist as separate structures—as well as other governance bodies, are—by law—elected by and accountable to general assemblies. Internal articulation and oversight of members’ interests are decentralized—it is not only the task of boards or supervisory committees (which must report to every general assembly), but also of social organizations’ nuclei, work teams, and every member.

Direct participation of all members in the most important strategic decision-making via general assemblies and other smaller and/or less formal spaces, as well as consensus building via deliberation in those spaces, are critical components of Cuban cooperatives’ governance systems. General assemblies are held very frequently (either monthly or quarterly; more often than requirements established in legislation), and the time and resources used in these meetings is not seen only as costs of participation, but expenses needed to build community—and therefore trust, shared purpose, and closer linkages—among members.

Cuban cooperatives’ humanist governance is also made evident in that every human being who permanently contributes labor power or the fruits of her/his labor, whether manual or intellectual, has the right to become a member of the cooperative. The law establishes strict limits to hiring wage labor and sets a procedure for non-member workers’ eventual inclusion in cooperatives’ membership. The socialist humanist ethos

engrained by the Cuban revolution, coupled with low levels of competition in most economic activities in Cuba, makes most cooperatives see these limits not only as viable but in full alignment with their values.

True humanism is also about equity and equality, and therefore Cuban cooperatives strive to reciprocate members' different contributions without creating unfair differences in income among them. In the studied cooperatives, the compensation and income distribution range was around 1:3 max, which is in line with legislation but in most cases predated it. In half of the studied cooperatives, distribution of surpluses was egalitarian; though this is not legislated for, so it shows humanism is well engrained in these cooperatives.

In Cuban cooperatives, equality and solidarity is valued not only within cooperatives, but also in relation to the surrounding communities and nation. Cooperatives in Cuba contribute to social security and pay taxes on sales and net revenues at a higher rate than cooperatives in many other countries; albeit at a lower rate than do Cuban private businesses. These contributions to national and municipal budgets are seen as warranted in order to sustain universal provision of basic goods and services by the state. Cooperatives' social responsibility goes well beyond paying taxes and generating decent employment. They directly address community and broader social needs via their main activities (e.g., food production, construction, etc.) and/or via philanthropic activities (Piñeiro, 2020a).

Therefore, the studied cases of Cuban cooperatives serve to further knowledge about humanistic governance systems based on a shared sense of equality, trust, and solidarity among members, which is reflected in the design of governance structures and processes, including income distribution criteria and everyday social and socio-ecological coexistence practices. These are governance systems where structures and processes are participatory, where equality and solidarity reach beyond membership, and where cooperatives see themselves as key actors of social transformation.

These cooperatives exemplify the main *stewardship theory* precepts: that managers can act as stewards of the organization; that boards' main role is not just to control management but to add value or improve its decision-making through dialogue; that there can be a partnership

between boards and management to collaboratively make the best decisions for the organization and its members (see Cornforth, 2004; Melé, 2004). As stewardship theory recommends (Davis, 1998), in Cuban cooperatives, managers are generally part of boards, and in many cases are deputy to the president/chairman; furthermore, they are co-op members, which indicates joint ownership and control rather than the separation of ownership and control presupposed by agency theory (see Cornforth, 2004).

Indeed, in the studied cooperatives, these humanist management or governance—in cooperatives these terms should ideally be used and practiced interchangeably (Novkovic & Miner, 2015)—precepts are taken further. When a management council exists in addition to a board of directors, there is overlap between both bodies. The manager role is generally shared by more than one person. Board and management team members are also members of the cooperatives.

While there is no clear division between boards and managers, the general assembly has greater control of the most important strategic decisions, including some that are not customary for the general assembly to decide upon in other countries, such as the appointment of managers and the management teams, the distribution of surpluses, and the annual production plan and budget. Also, governance structures are more horizontal in Cuban co-ops, since the board of directors and/or the management council—when there is one—include representatives from all work teams or areas.

Because of this overlap between boards, management teams, and autonomous work teams in Cuban cooperatives, the challenge commonly identified in the governance literature of the board “rubber-stamping” management proposals is only really relevant in Cuban co-ops where the general assembly rubber-stamps board proposals. And here is where additional spaces for participation beyond the general assembly play a key role in discussing board proposals, identifying problems, and raising concerns. Without considering these spaces, it might appear as though the members at general assemblies don’t challenge board suggestions and that there are no issues to be raised. It should also be noted that Cuban democratic culture is to build consensus and avoid conflict as much as possible. Therefore, in most cooperatives studied, decisions

made at the general assembly had generally been previously and extensively discussed in the different spaces for deliberation, which are not only comprised of subgroups of the membership, but in some cases also the entire membership.

While having a close relationship, or no clear separation, between the board and management can help avoid damaging “defensive spirals” and internal conflict, it creates other challenges simultaneously (Cornforth, 2004). It is important to make space for strategic planning and to not get bogged down with operational issues. In addition to the general assembly, other structures and socialized internal control by all members must ensure that the board and management are responding to evolving members’ interests. These are dynamic tasks where Cuban cooperatives in general could do better, though the studied cooperatives demonstrate that it is possible to make advances; this successful adaptation in line with the co-op identity is thanks to widespread, high levels of education and self-confidence among most members.

Not all of these findings about governance systems in the studied cooperatives can be generalized to all Cuban cooperatives. However, since many of their characteristics result from either legislation or a national humanist ethos, or a combination of both, it can be inferred that most other Cuban cooperatives *with relatively mature governance systems* shared them. Moreover, other studies of Cuban cooperatives (Bono & Loopmans, 2021; Valle Ríos et al., 2020; Piñeiro, 2015) corroborate these findings, suggesting that Cuban cooperatives generally share many of these identified humanist governance organizational precepts and practices.

References

- Aldeguería, J. (1993). Cuba: Orientación humanista de su desarrollo económico-social. *Problemas del Desarrollo*, XXIV (94), Julio-Septiembre, 191–207.
- Amaro Cano, M del C. (2014). An approach to consensual ethical values of the Cuban society. *Educ Med Super*, 28(1) ene.-mar. http://scielo.sld.cu/scielo.php?pid=S0864-21412014000100006&script=sci_arttext&tlng=en
- Armstrong, F. (2011, December 25). Time to clean up U.S. Regime-change programs in Cuba, *Miami Herald*.
- Bono, F., & Loopmans, M. (2021). Spatializing solidarity: Agricultural cooperatives as solidarity transformers in Cuba. *Rural Sociology*, 86(4), 809–836. <https://doi.org/10.1111/ruso.12386>
- Castro, F. (1975)[1953]. *La Historia me absolverá*. La Habana: Editorial de Ciencias Sociales.
- Cornforth, C. (2004). The governance of cooperatives and mutual associations: A paradox perspective. *Annals of Public and Cooperative Economics*, 75(1), 11–32.
- Fajardo Garcia, G. and Moreno Cruz, M. (coords.) (2018). *El cooperativismo en Cuba. Situación actual y propuestas para su regulación y fomento*. CIRIEC-España. <http://ciriec.es/?descargar-publicacion=2238>
- Fernandez Peiso, L. A. (2020). El asunto cooperativo en Cuba. Perspectivas *Deusto Estudios Cooperativos*, 15, 17–34. <https://dec.revistas.deusto.es/article/download/1802/2192/>
- _____. (2005). “El fenómeno cooperativo y el modelo jurídico nacional. Propuesta para la nueva base jurídica del cooperativismo en Cuba” Tesis presentada en opción al grado científico de doctor en ciencias jurídicas (Doctoral Dissertation). Cienfuegos Universidad de Cienfuegos.
- Figueredo, O. and Sifonte, Y. J. (2019, May 29). Normas jurídicas para las cooperativas agropecuarias: ¿El despegue necesario? *Cubadebate.cu*. <http://www.cubadebate.cu/especiales/2019/05/29/normas-juridicas-para-las-cooperativas-agropecuarias-el-despegue-necesario/>
- García Ruiz, J. G. (2021). El problema agrario en la actualización del modelo cubano: La asalarización y el mercado de trabajo en el sector agropecuario. *Anuario Facultad De Ciencias Económicas y Empresariales, Santa Clara*, 12, 393–417.

- Guadarrama Gonzalez, P. (1997). Humanismo y socialismo en la óptica del pensamiento marxista en América Latina. *Estudios Avanzados*, 11(30), 357–383.
- Guevara, E. (1960, October 8). Notes for the Study of the Ideology of the Cuban Revolution. *Verde Olivo*. <https://www.marxists.org/archive/guevara/1960/10/08.htm>
- Guevara, E. (2005)[1965]. Socialism and Men in Cuba. In *The Che Reader*. Auburn: Ocean Press. <https://www.marxists.org/archive/guevara/1965/03/man-socialism.htm>
- Hanon, I. (2019). Workers' Participation: The challenge of Cuban socialism. *Socialism and Democracy*, 33(1), 88–111.
- Holmes, Z. A. (1980). "The political thought of José Martí: A humanist among the positivists". A paper for the requirements of a master's thesis at the University of Texas at El Paso. <https://www.proquest.com/openview/431b15c591c15aaf23edb606a852b93e/1?pq-origsite=gscholar&cbl=18750&diss=y>
- Hyungsik, E. (2017). *Cooperatives and employment: Second global report*. CICOPA.
- Hyungsik, E. and Terrasi, E. (2017). *Industrial and service cooperatives: Global report 2015–2016*. CICOPA.
- International Cooperative Alliance Asia and Pacific (ICA-AP) & International Organisation of the Industrial and Service Cooperatives (CICOP) (2019). *Cooperatives in industrial and service sectors in the Asia-Pacific region: Models, work and employment, ecosystem and public policies*. https://coops4dev.coop/sites/default/files/2019-10/APRWO%20Report%2012-10-2019_.pdf
- Kronenberg, C. W. (2009). Manifestations of humanism in revolutionary Cuba: Che and the Principle of Universality. *Latin American Perspectives*, 36(2), 66–80.
- Limia David, M., Machado, D., Pupo, P. R., & Rodríguez, P. P. (1997). Ideología e ideales en la Revolución cubana. *Revista Contracorriente*, 10(4), 120–142.
- Lopez Labrada, A. (2013). The UBPC: A way of redesigning state property with cooperative management. In C. Piñeiro (Ed.), *Cooperatives and socialism: A view from Cuba* (pp. 292–316). Palgrave.
- Lowy, M. (1997). Che's revolutionary humanism. *Monthly Review*, 49(5), 1–7.
- Machado Rodriguez, D. L. (2004). Problemas del papel de la ideología en la transición socialista cubana. https://www.nodo50.org/cubasigloXXI/congreso04/machado_300604.pdf
- Massholder, A. (coord.) (2018). *Aníbal Ponce: Humanismo y Revolución*. Buenos Aires: Cuadernos de Sofia.

- Matías González, A. (2010). Ensayo crítico sobre el cooperativismo agrícola en Cuba. In *Observatorio de la Economía Latinoamericana*. <https://www.eumed.net/cursecon/ecolat/cu/2010/amg.htm>
- Melé, D. (2004). *Understanding Humanistic Management*. *Humanist Management Journal*, 1, 33–55.
- Ministerio de Economía y Planificación—MEP (2022). Ministerio de Economía y Planificación aprueba nuevas mipymes y cooperativas no agropecuarias. *Cubadebate.cu* http://www.cubadebate.cu/noticias/2022/03/24/ministerio-de-economia-y-planificacion-aprueba-nuevas-mipymes-y-cooperativas-no-agropecuarias-_pdf-6
- Nova, A. (2013). Agricultural Cooperatives in Cuba: 1959–Present. In C. Piñeiro (Ed.), *Cooperatives and socialism: A view from Cuba* (pp. 279–291). Palgrave.
- Novkovic and Miner (Eds.) (2015). *Co-operative governance fit to build resilience in the face of complexity*. International Co-operative Alliance. <https://www.ica.coop/en/media/library/cooperative-governance-fit-build-resilience-face-complexity>
- Organización Nacional de Estadísticas e Información—ONEI (2022). Organización institucional. Principales Entidades, Diciembre 2021. <http://www.onei.gob.cu/node/14684>
- _____. (2021a). Anuario Estadístico 2020: Empleo y Salarios. http://www.onei.gob.cu/sites/default/files/07_empleo_y_salario_.pdf
- _____. (2021b). Anuario Estadístico 2020: Agricultura, Ganadería, Silvicultura y Pesca. http://www.onei.gob.cu/sites/default/files/agropecuario_2020_0.pdf
- OXFAM (2021). Right to Live Without a Blockade. The impact of US sanctions on the Cuban population and women’s lives. <https://webassets.oxfamamerica.org/media/documents/bp-cuba-blockade-women-250521-en.pdf>
- Partido Comunista de Cuba—PCC (2021). *Conceptualización del modelo económico y social cubano de desarrollo socialista y Lineamientos de la política económica y social del Partido y la Revolución para el período 2021–2026* <http://media.cubadebate.cu/wp-content/uploads/2021/06/documentos-partido-cuba.pdf>
- Perdomo, J. (2021, December 6). Distinguen humanismo de la CNA Sancof. *Trabajadores*. www.trabajadores.cu/2021/12/06/distinguen-humanismo-de-la-cna-sancof

- Perera Robbio, A. (2022, February 8). Valora Díaz-Canel necesidad de revitalizar programas sociales impulsados por Fidel. *Cubadebate*. <http://www.cubadebate.cu/noticias/2022/02/08/valora-diaz-canel-necesidad-de-revitalizar-programas-sociales-impulsados-por-fidel-video/>
- Piñeiro Harnecker, C. (2009). Workplace democracy and social consciousness: A study of Venezuelan cooperatives. *Science and Society*, 73(3), 309–339.
- _____. (2014). Las cooperativas en Cuba. In M. A. Font y M. González-Corzo (Eds.), *Reformando el Modelo Económico Cubano* (pp. 63–82). New York: Bildner Center for Western Hemisphere Studies, City University of New York.
- _____. (2015). Nuevas cooperativas cubanas: logros y dificultades. In various authors, *Miradas a la Economía Cubana: Análisis del Sector No Estatal* (pp. 51–61). La Habana: Ed. Caminos.
- _____. (2016). Cuba's cooperatives: Their contribution to Cuba's new socialism. In C. Durand (Ed.), *Moving beyond capitalism* (pp. 184–194). Routledge.
- _____. (2018a). “Desempeño Socioeconómico de las Cooperativas No Agropecuarias: Contribución de sus Principales Determinantes. Estudio de Casos”. Doctoral Thesis. University of Havana.
- _____. (2018b). Cooperatives in Cuba's new socio-economic model: What has been done and what could be done? In S. Novkovic & H. Veltmeyer (Eds.), *Co-operativism and Local Development in Cuba. An Agenda for Democratic Social Change* (pp. 179–196). Boston: Brill.
- _____. (2020a). Las cooperativas no agropecuarias y su contribución al desarrollo local. Propuesta de medidas para materializar sus potencialidades. *Economía y Desarrollo*, 164(2) http://scielo.sld.cu/scielo.php?script=sci_arttext&pid=S0252-85842020a000200010
- _____. (2020b). Las cooperativas en la reforma reanudada. Propuestas generales para la Ley General de Cooperativas. In R. Betancourt & J. Gomez (Eds.), *La Economía Social y Solidaria en Cuba: fundamentos y prácticas para el desarrollo socialista* (pp. 115–132). La Habana: Ed. Acuario. <https://medium.com/la-tiza/las-cooperativas-en-la-reforma-reanuda-propuestas-generales-para-la-ley-general-de-cooperativas-2ab8400dd5e7>
- Pirson, M., & Turnbull, S. (2011). Toward a more humanistic governance model: Network governance structures. *Journal of Business Ethics*, 99(1), 101–114.
- Powell, K. (2008). Neoliberalism, the special period and solidarity in Cuba. *Critique of Anthropology*, 28(2), 177–197.

- Rodriguez, J. L. (2021). La Economía Cubana en 2021: Entre la pandemia y el bloqueo. II and III *Cubaperiodistas.cu*, September 20 and 22. <https://www.cubaperiodistas.cu/index.php/2021/09/la-economia-cubana-en-2021-entre-la-pandemia-y-el-bloqueo-ii/> and <https://www.cubaperiodistas.cu/index.php/2021/09/la-economia-cubana-en-2021-entre-la-pandemia-y-el-bloqueo-iii/>
- Rodriguez, P. P. (2018). José Martí en Fidel Castro. In J. Saxe-Fernandez (coord.), *Yo Soy Fidel: Pensamiento y legado de una inmensidad histórica*. Buenos Aires: CLACSO.
- Torres, R. (2021). Cuba: el contexto socioeconómico en 2021. https://www.american.edu/centers/latin-american-latino-studies/upload/Torres_Cuba-el-contexto-economico-en-2021.pdf
- Valdés Paz, J. (2009a). *Los procesos de organización agraria en Cuba 1959–2006*. La Habana: Fundación Antonio Núñez Jiménez de la Naturaleza y el Hombre.
- _____. (2009b). *El espacio y el límite: estudios sobre el sistema político cubano*. La Habana: Ruth Casa Editorial-ICIC Juan Marinello.
- _____. (2020). “El ojo del canario es el poder revolucionario” Paper presented a the workshop Problemas y desafíos de la democracia socialista en Cuba hoy, Instituto Cubano de Investigación Cultural (ICIC) Juan Marinello, La Habana, December 9.
- Valle Ríos, D., & Figueroa González, J. M. (2020). Percepción social de los socios sobre las Cooperativas No Agropecuarias en Cuba. *Deusto Estudios Cooperativos No.*, 15, 119–144.
- Veltmeyer, H. & Rushton, M. (2012). *The cuban revolution as socialist human development*. Leiden-Boston: Brill.
- Vigil Iduate, A. (2014). Las mutuas y cooperativas de seguro en Cuba. Un pasado histórico, una base legislativa propia y una proyección futura. *Revista XXX-RIS Bogotá (Colombia)*, 40(23), 61–77.
- Villegas Chádez, R. (2017). El perfeccionamiento de las UBPC y el relanzamiento del cooperativismo dentro del proceso de actualización del modelo económico cubano. *REVESCO. Revista De Estudios Cooperativos, No.*, 124, 215–229.
- Vitier, C. (2021) [1975]. *El Sol del Mundo Moral*. La Habana: Ed. Bachiller.
- Whitney, W. T. (2016, September 28). Cuba: US regime change still on. *Guardian* (Sydney), No. 1750, 8.

Open Access This chapter is licensed under the terms of the Creative Commons Attribution-NonCommercial-NoDerivatives 4.0 International License (<http://creativecommons.org/licenses/by-nc-nd/4.0/>), which permits any noncommercial use, sharing, distribution and reproduction in any medium or format, as long as you give appropriate credit to the original author(s) and the source, provide a link to the Creative Commons license and indicate if you modified the licensed material. You do not have permission under this license to share adapted material derived from this chapter or parts of it.

The images or other third party material in this chapter are included in the chapter's Creative Commons license, unless indicated otherwise in a credit line to the material. If material is not included in the chapter's Creative Commons license and your intended use is not permitted by statutory regulation or exceeds the permitted use, you will need to obtain permission directly from the copyright holder.





9

From Theory to Practice: Social Capital in Agricultural Cooperatives in Flanders, Belgium

Stefanie Friedel  and Frédéric Dufays 

9.1 Introduction

Amplified by the ongoing Covid-19 pandemic, cooperative enterprises have gained scholarly attention as they possess certain characteristics that help to overcome crisis-related challenges (Billiet et al., 2021; Schneiberg, 2021; Wulandhari et al., 2022). Their resilience has been explained mainly by the risk-averse economic characteristics pertaining to their organizational model where members simultaneously own, use, govern, and control the cooperative enterprise (Mamouni Limnios et al.,

S. Friedel (✉) · F. Dufays
KU Leuven, Leuven, Belgium
e-mail: stefanie.friedel@kuleuven.be

F. Dufays
e-mail: frederic.dufays@uliege.be

F. Dufays
University of Liège, Liège, Belgium

2018; Novkovic, 2008). While the main scholarly focus lies on cooperatives' performance, longevity, and governance (Camargo Benavides & Ehrenhard, 2021), the social logic endorsed by cooperatives is increasingly studied through topics such as member participation (Birchall & Simmons, 2004; Buang, 2021; Morfi et al., 2021), trust (Hatak et al., 2016), networks (Fonte & Cucco, 2017; Morfi et al., 2021), social values of cooperatives (Forney & Häberli, 2017; Nilsson, 1996), or their concern for the community (Ajates Gonzalez, 2017; Girard & Langlois, 2009).

Social capital theory has been increasingly used to study these social-logic components of cooperatives in various industries (Bianchi & Vieta, 2020; Lang & Roessl, 2011; Saz-Gil et al., 2021; Stoop et al., 2021; Valentinov & Iliopoulos, 2021; Wulandhari et al., 2022). Applying social capital to cooperatives, arguably a “special, social capital-based, type of organization” (Valentinov, 2004, p. 10) with its democratic governance structures, networks, and shared norms, reveals close interrelatedness with cooperatives' values and principles (ICA, 2015). In our understanding, this adds up to the pragmatic use of the concept of social capital for cooperatives, which are navigating today's complex world in search of practical solutions to enhance the cooperative identity and engagement of their members.

To investigate how agricultural cooperatives bring social capital into practice, we are building on Leana and Van Buren (1999) who define organizational social capital “as a resource reflecting the character of social relations within the organization, realized through members' levels of collective goal orientation and shared trust” (Leana & Van Buren, 1999, p. 540). Next to trust and internal social relations, our study also explores external social relations between organizations and with the local community, as well as the influence of rules and norms, utilizing specifically the framework of the three dimensions of social capital as identified by Putnam (1993) and further recognized by Ostrom and Ahn (2003), i.e. (i) *trust* and trustworthiness, (ii) *networks*, and (iii) *norms and rules*. We therefore ask: *How does organizational social capital manifest through its three dimensions across the different types of agricultural cooperatives?* Arguably, the three dimensions—in particular the under-researched element of norms and rules—seem to largely overlap with

the specificities of the cooperative model and its principles (ICA, 2015), foremost building on aspects of democratic governance and humanistic management (Melé, 2003; also see Novkovic and McMahon, Chapter 2 in this volume), an important link which will be further discussed toward the end of this chapter.

A particularly captivating setting for this study appeared to be Flanders, the Northern, Dutch-speaking part of Belgium, since a variety of farmer cooperatives has developed there. Traditional, large producer cooperatives coexist next to newly emerging cooperatives with a considerably more heterogeneous member base (De Moor et al., 2019; Spijker et al., 2020). These cooperatives are grouping farmers of different agricultural subsectors in the same small producer cooperative, or bring together different stakeholders of the food value chain in so-called multi-stakeholder cooperatives (Ajates Gonzalez, 2017; Gray, 2014; Michaud & Audebrand, 2019): these consist in the Flemish agricultural context mostly of producers alongside customers and employees of small grocery retailers, but also food processors, suppliers, and supporters. Cooperatives' organizational social capital was investigated by using semi-structured interviews across two main topic sections of the interviews. We first collected organizational viewpoints on the importance and manifestations of social capital across the dimensions of trust, networks, and rules and norms in all cooperatives under study, and then explored the cooperatives' democratic governance practices. The variety of outcomes was compared, resulting in a matrix that couples the dimensions of social capital with the subtypes of agricultural cooperatives and their "lived" democratic governance. In presenting the results of this study and discussing their scientific and practical relevance, we elaborate more on the linkages pertaining to humanistic or ethical management and governance practices (Melé, 2003; Pastoriza et al., 2008; Pirson, 2017; Von Kimakowitz et al., 2011).

First, a general overview of social capital theory and its dimensions is discussed, with a special focus on the organizational level and the diversity of the cooperative agricultural sector. Next, the setting of this study in the specific context of Flanders, Belgium is described in more detail, as well as the decisions and procedures concerning sampling and the collection and analysis of the empirical data. After exploring the results

and developing a matrix of the dimensions of social capital in different types of agricultural cooperatives, a general conclusion on the role of social capital in agricultural cooperatives is drawn. Finally, the results are discussed in light of humanistic management theory, together with relevant implications for both scholars and practitioners.

9.2 Social Capital in Agri-Food Cooperatives

9.2.1 Social Capital: A Complex Concept and Its Dimensions

Various definitions of social capital coexist (Christoforou & Davis, 2014), but are commonly referring to the notion of social relationships, oftentimes linked to positive interpersonal outcomes. Ascribing various sources, effects, and dimensions to social capital (e.g. Adler & Kwon, 2002; Bourdieu, 1986; Coleman, 1988; Nahapiet & Ghoshal, 1998; Ostrom & Ahn, 2003; Putnam, 2002), for our study on cooperatives we are specifically drawn to the meso-level, i.e. “organizational social capital”. This concept was coined and developed by Leana and Van Buren (1999) “as a resource reflecting the character of social relations within the organization, realized through members’ levels of collective goal orientation and shared trust” (Leana & Van Buren, 1999, p. 540). In larger conventional firms, high social capital is connected to intense corporate social responsibility (CSR) practices (Lins et al., 2017) and higher profitability (Tsai & Ghoshal, 1998), both explained through the building of trust among stakeholders and investors. Moreover, Pastoriza et al. (2008) discuss how the concept of humanistic management could allow a broader understanding of the types of organizational design, dynamics, and “ethical” managerial practices that create and foster social capital.

Across the different conceptualizations of social capital, related concepts such as trust, reciprocity, networks, norms, civil society, collective action, and cooperation are considered as sources, or outcomes, of social capital (Adler & Kwon, 2002). This study acknowledges this fundamental theoretical discussion but is foremost interested in the *depth*

of the dimensions of social capital and their relationship to humanistic management in cooperatives. Recognizing different approaches to the concept (see also Woolcock, 1998; Nahapiet & Ghoshal, 1998), we use in this study the framework of Ostrom and Ahn (2003) that synthesizes Putnam's (1993) three primary dimensions of social capital: (i) *trust* and trustworthiness; (ii) *networks* within and beyond one's own group; and (iii) formal and informal *rules and norms*.

i. *Trust*

Trust is generally considered as one key element of social capital (Adler & Kwon, 2002). Distinguishing between the individual and organizational level, Leana and Van Buren (1999) reveal different types of relationships within and among organizations, i.e. *dyadic* trust relationships between individual employees or members, other *internal* trust relationships between the organization and its members, and between the organization and its *external* partners, such as other organizations. Moreover, Leana and Van Buren (1999) further the distinction of trust introduced by Ring and van de Ven (1992), referring to *fragile trust* for vulnerable and therefore formalized trust relationships, as opposed to *resilient trust* for moral norms-based, less formalized, longer term and more equal trust relationships. Comparably, Hatak et al. (2016) discuss the difference between *maxim-based* trust and *norm-based* trust in their study on emerging social enterprises within the cooperative sector (so-called "third-party-focused cooperatives" as opposed to "member-focused cooperatives"), arguing that the shift from member-focus to community-focus in cooperatives also leads to a shift of the main coordination mechanism, i.e. from the traditional maxim-based trust on the basis of relation-specific reciprocity to community-focused norm-based trust on the basis of generalized reciprocity. Likewise, in a study of members' trust in the management of a large US-farmer-owned marketing cooperative (Morrow et al., 2004), a distinction is made between *cognitive* trust based on rational thinking about expectations of the other party, and *affect*-based trust, which relies more on feelings of shared values and belonging.

Concludingly, trust as a dimension of organizational social capital can be understood as either fragile, based on maxims and cognitive processes at the individual level, largely between internal stakeholders, and needing to be supported by rules or contracts to ensure reciprocity, or as resilient trust, which is based on shared norms and affect, and largely benefits external groups and more indirect stakeholders, such as the community.

ii. *Networks*

Somewhat comparable to the distinctive forms of trust, scholars have elaborated on different types of networks within and among organizations. As discussed by Saz-Gil et al. (2021), the type of social capital allows for a first distinction: They link *internal* networks with other members to “bonding social capital”; whereas both internal and external networks with similar, *like-minded stakeholders* are referred to as “bridging social capital”; and *external* networks with other groups are seen as “linking social capital”. This distinction can be compared to the seminal work of Granovetter (1973) who identified dense social networks with a “closed” structure where members are linked through a few “strong ties”, as opposed to more “open” networks where members have more diverse connections through “weak ties”.

To link networks explicitly to active stakeholder engagement—one of the basic characteristics of humanistic management (Pirson, 2017)—we draw on Kujala et al. (2022) who synthesize the different components of stakeholder engagement into three categories, i.e. moral, strategic, and pragmatic. Particularly the moral/strategic distinction seems to be relevant for our discussion of network relationships: *Moral* stakeholder engagement is characterized by reciprocal, voluntary relationships and good intentions toward stakeholders. To the contrary, *strategic* stakeholder engagement is based on instrumental resource contributions, aimed to improve the performance of the organization, and to a much lesser extent being concerned about the stakeholders’ well-being.

Applying this to our study, we can make a distinction between cooperatives that have strong internal networks based on reciprocity, as opposed to cooperatives with more informal and loose ties,

resulting in rather altruistic, open networks. Arguably, the latter type of network relations seems to be rather moral, while the former is more strategic/instrumental in nature.

iii. *Rules and norms*

Rules and norms as a social capital dimension are discussed to a somewhat lesser extent in the literature on cooperatives, as compared to other social capital dimensions, despite their high relevance and complementarity with trust and networks. Unwritten norms concerning the organization's "culture", and how employees are treated or actions are conducted, often exist unconsciously. Besides, written rules such as used in an organization's statutes, internal regulations, contracts with partners, or charters on organizational aspects such as decision-making processes, represent attempts to formalize this organizational culture and to secure an equal balance of benefits and costs pertaining to reciprocity aspects in internal and external relationships and networks.

9.2.2 Empirical Research on Social Capital in Agri-Food Cooperatives

Empirical research on cooperatives in various industries shows that for members to participate, in addition to individual member benefits, a shared identity plays a crucial role (Birchall, 1999; Birchall & Simmons, 2004; Nelson et al., 2016; Novkovic, 2021). In that light, social capital theory underlines the importance of the social attributes—such as cooperative culture, trust, member engagement (Verhees et al., 2015)—of agricultural and food cooperatives as a means to create a social network of support by bringing together farmers with colleagues and/or consumers. Owing to its generally large cooperative share, the agricultural sector is probably the predominant setting in which social capital in cooperatives has been investigated. However, a sort of dichotomy characterizes most of the extant literature that either grants particular interest to social capital in traditional, large producer cooperatives with a homogenous member base (e.g. Deng et al., 2021; Nilsson et al., 2012), or exclusively considers the more recently emerging multistakeholder cooperatives in

rural contexts (Girard & Langlois, 2009; Michaud & Audebrand, 2019), often rooted within the larger movement of Alternative Food Networks (AFNs, see Goodman et al., 2014). Overall, social capital seems to be an important factor in the emergence, performance, and longevity of rural and agricultural cooperatives (Saz-Gil et al., 2021; Schneiberg, 2021). While the generation and benefits of social capital have been studied in various cooperative settings, albeit in a still fragmented manner, its dimensions pertaining to democratic governance have so far not been explicitly studied in cooperatives, especially not across different types of agricultural cooperatives.

The extant scholarly work discusses various aspects of organizational social capital in cooperatives in the context of agriculture and rural communities. Many studies using a social capital lens are investigating *traditional, member-focused producer cooperatives*, relying largely on “demographic” characteristics of cooperatives such as size, age, or geographical proximity. For example, Nilsson et al. (2012) conclude that growing cooperatives often lose social capital due to decreasing trust by the members in the cooperative (mainly toward the management). Likewise, Feng et al. (2015) find statistical evidence in Swedish agricultural cooperatives for the proposition that smaller cooperatives tend to have higher social capital, as investigated through expressions of members’ involvement, trust, satisfaction, and loyalty. The authors explain this by focusing not only on the geographic proximity but also on the social connections between members and management, which fosters social capital. Deng et al. (2021) study different stages of the lifecycle of farmers’ cooperatives, concluding that social capital prevails at higher levels during the foundation stage, but decreases after expansion, which leads to strategic disadvantages over time if not countered by adapted cooperative governance structures.

Another larger body of scholarly work employing social capital theorizing within the agri-food sector increasingly focuses on collective action in a territorial context such as certain rural areas, where cooperatives coexist with a broader array of formal (oftentimes non-profit) and informal legal statuses (Tregear & Cooper, 2016). These *local, community-based initiatives* typically involve multiple stakeholders: farmers, consumers, and sometimes local third sector organizations and

the public sector. They can be situated within alternative food networks (AFNs—see Goodman et al., 2014), short food supply chains (SFSCs—e.g. Chiffolleau et al., 2019), the social and solidarity economy (SSE—see Utting, 2015) or, more broadly, social movements (e.g. Schneiberg, 2013). Oftentimes, these initiatives aim to establish a local alternative to capitalist market forces, and generally strive for more ecologically sustainable food production and fair prices for farmers, by building closer relationships between small-scale producers and consumers within the same community, thus providing a level of local autonomy from global food supply chains (Rakopoulos, 2014). They are mainly citizen-led; however farmers are closely involved, or even active founders, e.g. in several cases of community-supported agriculture (CSA) farms (Watson, 2020). Still, scholarly work applying social capital theory, and specifically focusing on formal cooperative enterprises that operate under these umbrellas, is still scarce.

Since social capital seems to be strongly intertwined with the social attributes of cooperatives, a number of more “structural” studies have focused on *governance structures* and related non-economic issues in cooperatives, e.g. member heterogeneity, democratic participation, trust, and network relationships. For example, Davis (2014) looks at the link between the extent of group homogeneity vs. group heterogeneity and different kinds of social capital and social identity. Also, the aforementioned study on maxim-based and norm-based trust in member-focused vs. third-party-focused cooperatives by Hatak et al. (2016), belongs to this category of studies.

However, an integrated view across different types and subsectors of agricultural cooperatives is still lacking, especially with regard to explicitly studying the three key dimensions of social capital as developed by Putnam (2003) and Ostrom and Ahn (2003), i.e. (i) trust, (ii) networks, and (iii) rules and norms in their complementarity. Therefore, our study aims to investigate the following research question: *How does organizational social capital manifest through its three dimensions across the different types of agricultural cooperatives?*

Moreover, the interwovenness of social capital with the cooperative principle of member participation, especially with regard to the farmer-members’ position in the democratic governance practices of their

cooperatives, yields interesting research potential with regard to humanistic management principles such as stakeholder engagement, solidarity practices, and human dignity and well-being (Pirson, 2017).

9.3 Context and Methodology of the Study

9.3.1 The (Cooperative) Agricultural Sector in Flanders, Belgium

Our empirical setting is Flanders, the Dutch-speaking, densely populated Northern region of Belgium.¹ In 2020, nearly 36,000 active farms were registered in Belgium, cultivating nearly 1.4 million hectares of land, about 44.5% of the land mass of Belgium. In the Northern part, farms tend to be more specialized, producing mainly meat, grains, animal fodder, fruit, vegetables, and potatoes. In the last forty years, the sector has lost 68.3% of the farms through market concentration among other factors, while the mean farm size has increased from 12.5 to 38 hectares (Statbel, 2021). In the margins of agricultural cooperation, a recent surge in the popularity of fair trade and local sustainable food has coincided with a back-to-the-land movement and alternative food initiatives (Spijker et al., 2020) such as CSA (community supported agriculture), aiming to increase consumption of organic and local produce. Consequently, several small, very regionally-based producer cooperatives have emerged over the last decade, where farmers of several subsectors unite to directly market their products together through “short food supply chains” (Chiffolleau et al., 2019). Generally, their foundation has been stimulated or initiated by agricultural support organizations that receive subsidies within the second pillar of the European Common Agricultural Policy (CAP). Besides this, local citizen-led initiatives have emerged, where consumers and farmers join forces in multistakeholder cooperatives (Ajates Gonzalez, 2017; Levi, 1998). In most of these cooperatives,

¹ The Walloon and Brussels regions of Belgium were not considered due to differing policy frameworks.

local farmers play a significant role, either as founders (in CSA initiatives) or board members (in a number of small-scale food retail cooperatives).

9.3.2 Sampling Strategy

Starting by inventorying legally registered cooperatives across the entire agri-food sector in Flanders, we kept the focus on the human food value chain, therefore excluding horticultural, animal fodder production, and shared machine use cooperatives. We considered large multinational producer cooperatives only if their head office was in Belgium and if most of their farmer-members were operating in Flanders. Likewise, citizen-led multistakeholder cooperatives (mainly cooperative grocery shops) were only included if farmer-members had sufficient influence in the governance structures.

To ensure the diversity of the cases, a total of 31 eligible cooperatives involving farmers were identified by selecting at least one representative cooperative in regions where similar cooperatives existed in terms of subsector, size, and type. To categorize the sample, we developed a comprehensive typology based on existing literature (Bijman & Hanisch, 2020; ILO, 2020) and conducted extensive desk research supported by three interviews of apex organizations and key informants in the agricultural cooperative sector in Flanders. (This typology will be explained in detail in Sect. 9.4.1.) After contacting all 31 cooperatives, our final sample consisted of 26 cases (equaling a nearly 80% positive response rate) studied through a total of 23 semi-structured interviews. Most respondents were founders, board members, and managers, and were interviewed by the lead author of this chapter. Two respondents were board members of two of the case cooperatives, sharing insights on both. Moreover, three cooperatives within the sample have been studied indirectly through the expertise of the support organization that initiated their foundation and is still involved in the board of directors. In two cases, two or three board members of the same cooperative participated in the interview. Table 9.1 provides an overview of the final sample.

Table 9.1 Collected data: Sample size by type of organization

Abbreviation	Type of organization	# investigated (declined/ non-response)	# of interviews
SP	Support and apex organizations	3 (0)	3
PO	Producer organizations large producer cooperatives, # of members 100–1200, with >1 employees and externally hired, non-farmer management	9	8
PC	Producer cooperatives Smaller producer cooperatives, # of members <100, max. 1 employee	7 (3)	5
MSC	Multistakeholder cooperatives farmer-initiated	10 (2)	10
	Total	26 (5)	26

9.3.3 Data Collection and Analysis

From October 2020 until March 2021, 23 interviews with founders, board members, and executive managers were conducted online using video-calling software, due to the second wave of the Covid-19 pandemic in Belgium. Interviews were transcribed verbatim and coded in several rounds using Nvivo software, moving from in vivo codes to overarching categories and themes. To verify results, archival and secondary data such as the cooperatives' bylaws, official websites, and social media accounts were studied. Given the exploratory character of the study, we adopted a grounded theory approach (Gioia et al., 2012) in trying to find linkages between the three dimensions of social capital (i.e. trust, networks, and rules), and in linking these to the principles of humanistic management and governance.

Several steps have been undertaken in the analysis of the data. First, an overview of the different types and subtypes of agricultural cooperatives in Flanders was developed by identifying characteristics of “typical cases” in each category. Second, each cooperative's interpretation of each of the

three dimensions (i.e. trust, networks, and rules) of social capital was collected and compared to actual manifestations in daily practice. Third, a matrix was developed to link these three dimensions to the different types of agricultural cooperatives, and this matrix was linked in turn to practices of humanistic management principles and, in particular, the cooperative principle of democratic governance.

9.4 Results: Dimensions of Social Capital in Different Types of Agricultural Cooperatives

9.4.1 Overview of Types of Agricultural Cooperatives

Analyzing the data, several “typical cases” emerged within each type of agricultural cooperatives: (a) large producer organizations; (b) small, regionally bound producer cooperatives; and (c) farmer-initiated multi-stakeholder cooperatives, which are discussed subsequently.

a. *Large producer organizations (PO)*

The first type is characterized by a large membership base, i.e. from 100 up to 2,000 farmer-members, who are active within the same subsector (for example, dairy or fruit and vegetables). Therefore, the membership base is relatively homogenous, although in recent years many of these PO-s set up a small organic stream alongside their conventional producer-members.

- The first subset of these producer organizations are traditional cooperatives (*PO-t*) that are primarily a fusion of several smaller cooperatives whose origins can be traced back to the 1920s, resulting in relatively large management structures that consist mainly of external (non-farmer) employees.
- The second subset are cooperatives active in service provision (*PO-s*)—for example, financial advice and contracting. These typically operate with only one or two externally hired staff or managers

and have been founded quite recently (i.e. after 2015) in a variety of agricultural subsectors (e.g. dairy, fruit, or meat production). These cooperatives challenge the standard practice within traditional producer cooperatives by not collecting the products themselves, but instead providing solely information services for farmers regarding the evolution of market situations and prices, resulting in the provision of futures markets or price swaps, and an improvement of the individual farmer's bargaining position with potential buyers.

b. *Small producer cooperatives (PC)*

This type also consists of farmer-members only but is distinct from the first type in that these agri co-ops are more recently founded and smaller in size (i.e. less than 100 members), and with hardly any external (non-farmer) management.

- *PC-t*: The first subtype of small producer cooperatives could be viewed as a younger and smaller version of the aforementioned PO-t subtype. Both are more traditional in terms of purpose and functioning, and are active in one single subsector (in the Flemish context, meat production or dairy); but this subtype has been founded much more recently, i.e. since the 2000s, and is much smaller in size, i.e. up to 100 members. Therefore, management structures are limited to only one employee, and the board of directors, consisting of farmers only, has greater decision-making power in daily decisions. Their production outputs can be either organic or conventional.
- *PC-r*: The second subtype is characterized by much more heterogeneity, i.e. a collective of regional farmers of multiple subsectors, with a total of between ten and maximum 30 members. In the Flemish context, the foundation of these cooperatives has been initiated by support organizations and subsidized largely within the rural development pillar of the CAP (Common Agricultural Policy of the European Union); therefore, they are region-based and operate very locally in collaboration among each other and through small local retailers, as well as operating a shared webshop.

Oftentimes membership is limited to only one or two farmers per subsector (e.g. dairy, fruit, meat, etc.) to diminish internal competition.

iii. *Farmer-initiated multistakeholder cooperatives (MSC)*

Most cooperatives of this type are initiatives striving for ecological and social sustainability by providing mainly organic produce to the local community. Oftentimes these cooperatives are emerging out of individual farms that operate within community-supported agriculture (CSA), ensuring a fair price for the farmer and sharing the risk of crop failure with the consumers. These cooperatives are strongly rooted in an alternative ideology set against industrial farming and the power of large retailers. Most have been founded in the last decade, except for one pioneering organic farm whose activity can be traced back to the 1980s. However, one single case is different, in that it emerged from a conventional dairy producer cooperative and transitioned to an MSC only recently, by including both the producers from diverse sectors, such as fruit, vegetable, and meat production and consumers as additional member categories with board representation.

9.4.2 Manifestations and Interpretations of the Three Dimensions of Social Capital

Trust

The first dimension was analyzed based on the distinction between a fragile or cognitive trust and resilient, affect-based trust. As analyzed by Leana and Van Buren (1999), fragile trust relationships rely on the willingness to be vulnerable, as transactions can be unpredictable in terms of benefits and costs, resulting oftentimes in strongly formalized contracts between individuals and/or organizations. However, if the links between an organization and its members are stronger and based on shared moral norms and values, resilient trust is at the forefront, where benefits and costs are believed to be equal in the longer term. Empirical literature

shows that trust, and therefore internal social capital, diminishes over time in large cooperatives (Deng et al., 2021). This can be explained by the findings of Hatak et al. (2016) who explain that member-focused cooperatives rely on traditional maxim-based trust, requiring formal contracts and control.

Indeed, most accounts of trust in large producer cooperatives in our sample showed how *fragile* trust was and how dependent on cognitive processes or control mechanisms.

The farmers who we work with, actually they like to keep control themselves, over the sales purchases and the negotiations. Also because they do not really trust the collective. (PO7, manager)

There is trust, yes. I think that we have a very good board where there is a lot of trust towards each other. This has also been said in the evaluation of how our board of directors is functioning. (PO4, board member)

Trust is important, almost the basis, I would say, not only within the Board or towards the members, also to our big shareholder.... in the beginning, there was a lot of distrust. But trust grows because you get to know each other better. And you prove at certain moments that your intentions are good. But without this trust, I think it [the cooperative] cannot last long. (PO8, board member)

Most striking was the absence of trust between the board of directors and the members (and vice versa) in a very large producer cooperative that just overcame a crisis.

We suddenly had 700 members present at our online meeting last Friday. ‘You [the board members] snatch money out of everyone’s pocket’, and then they look at you, like: ‘But you guys are large [i.e., produce large quantities] and you are on the Board, most likely you are among the ones who get high bonuses!’ ... There were questions asked via the chat.... We [the board members] knew beforehand that we wanted to ask the questions ourselves to make it a bit interesting and to keep it a little bit human. I don’t think the farmers could ask questions themselves. (PO2, board member)

Two likewise experienced board members of two different large producer cooperatives made quite contrasting small confessions that show the difference between *cognitive and affect-based trust* as empirically studied in a large farmer cooperative by Morrow et al. (2004), where cognitive trust is based on rational thinking about expectations of the other party, whereas affect-based trust relies more on feelings of shared values and belonging.

So we are member of the cooperative, because my parents and parents-in-law have been members of the cooperative, so you don't fully think it through at that moment when you become a farmer yourself. Now I would definitely think about it. (PO3, board member)

Being part of a cooperative, I think for most farmers it is more economic than social. You got two kinds of members: real hardliners, who say it has to be pure business, without any unnecessary details; and the emotions have to stay outside. I am a bit more of the second kind, I think: without emotion, there is nothing. (PO8, board member)

The latter quote refers partly to the second type of trust, i.e. *resilient trust* that is based on affect and shared norms, which was generally much more outspoken in the MSCs in our sample. For example, a pioneering CSA farm shared that:

Trust plays a very important role for us.... I find this really important that we only sell products with an organic label, even the Demeter label. But actually our customers do not ask for it, they trust the cooperative. (MSC/CC2, manager)

I think that trust is automatically present if business goes well, then it's easier to have trust in the Board. But actually we are sort of a group of friends among ourselves. Therefore, trust builds automatically. (MSC19, board member)

Generally the MSCs in our sample, which can be equated to “third-party focused cooperatives”, seem to operate through norm-based trust relationships, as distinguished by Hatak et al. (2016). According to the authors, the shift from member-focus to community-focus in cooperatives also leads to a shift of the main coordination mechanism, i.e. from

the traditional maxim-based trust on the basis of relation-specific reciprocity to community-focused norm-based trust on the basis of generalized reciprocity. Likewise, Bauwens and Defourny (2017), in their discussion of the difference between mutual and public benefit, identify how strong social identification with the cooperative and stronger ties between members seems to be linked to public benefit, and arguably, increased social capital.

Networks

These prevalent types of trust seem to be linked to the different types of networks we distinguished in the discussion of our theoretical framework. The cooperatives under study seemed to have quite a clear focus on either *internal/closed* or *external/open networks*, following the understanding of Saz-Gil et al. (2021) and Granovetter (1973). Predominantly, large producer organizations were internally focused, comparable to “member-focused cooperatives” (Hatak et al., 2016), as for example, a manager confessed:

Except for the meat company who is our shareholder, we do not have so many contacts outside the cooperative actually. (PO8, manager)

Most cooperatives of this type just have strong links with a large, quite monopolistic Flemish farmers’ association. On the contrary, the majority of MSCs are active in external networks within the cooperative ecosystem (i.e. like-minded cooperatives and apex organizations), or even foremost concentrated on the local community, as “third-party focused cooperatives” in the understanding of Hatak et al. (2016). For example, a pioneering founder of a cooperative CSA farm viewed this community focus in broad terms.

Here, we have solidarity between farmers and participants ... between the farmers, [and] there is also a non-profit connected to our farm where we provide some social work and education. But solidarity happens on so many levels, even in ecological aspects: solidarity with future generations, with nature, with the planet and the climate. (MSC 9, founder)

Arguably, cooperatives with strong internal networks are often characterized by reciprocal expectations, foremost aiming for one's own benefits. On the contrary, in external networks with more open, loose structures, more general shared values prevail that do not require formalized reciprocity. This distinction is also made in the rare empirical literature discussing network relationships of cooperatives in depth. For example, Gherardi and Masiero (1990) distinguish between (1) altruistic, non-reciprocal relationships with the local community; (2) beneficial relationships with partners such as the local council and trade unions; (3) reciprocal relationships among cooperatives for trade and scaling advantages; and (4) relationships with the cooperative associations or apex organizations, mainly to represent their own primary co-op interests. In terms of stakeholder engagement (Kujala et al., 2022), these different forms of relationships can be classified in terms of *strategic or instrumental networks*, as opposed to *moral networks* that are more open-ended and based on altruism. In our sample, large producer cooperatives seem to tend toward strategic relationships, driven by the cooperative members' economic self-interest.

Many of our members are also member of the farmers' association and subsector associations, this is for sure an added value. For me it is even indispensable to go forward as a cooperative.... Often they are ready to use their personal network or that of their association to help the cooperative. (PO4, board member)

Also in small producer cooperatives, the strategic internal network seems to play an important role, since the individual farmers are balancing their interests as self-entrepreneurs with the interests of the cooperative, as the following quote illustrates:

If someone wants to join the cooperative, we check if there is added value of the existing supply of products. In [region 1], there are four to five dairy farmers, but they are not competitive. Also two beer brewers in [region 2], that principally works. But they shouldn't become seven of course.... It is mainly the attitude of the farmers themselves, whether they want new members to join or not. (apex organization employee on PC1 and PC2)

The distinction between reciprocity-based internal networks and other-regarding moral networks also emerges from the work of Baldassarri (2015) on Ugandan producer cooperatives, where the first form appears to prevail. On the contrary, MSCs in our sample tend to explain their open network relationships in moral terms.

We do have several of these collaborations with preferably organic farms around here. Besides, there is a living community for people with mental disabilities in the next village.... They can come here, we sometimes go there to share our experience. We also have a strong network with our immediate neighbors, who get their veggie boxes delivered by us instead of having to pick them up at the depot like the others. We are also on good terms with the local government, and deliver fruit to a primary school. We really want to be anchored and be part of our community. This is also why we decided to allow customers as shareholders into the cooperative [as separate membership categories].

... We are also an official green care farm, this way we developed a connection to the social institution here in our municipality. (MSC 11, board member)

Rules and Norms

As the third dimension of social capital, rules and norms have been investigated in the cooperatives under study. We distinguished between formal statutes, internal regulations, and unwritten norms that seem to make up the organizational culture that influences decision-making processes in each cooperative. Generally, respondents showed a lower level of awareness of this social capital dimension and shifted rapidly toward more tangible governance processes. Therefore, we first analyzed arguably the most important democratic instrument of cooperatives, the *annual general meeting (AGM)*. Literature shows that large traditional cooperatives are generally characterized by small percentages of members being present at the AGM. Since our interviews were conducted throughout the second wave of the Covid-19 pandemic, national lockdown measures had impacted the organization of AGMs profoundly. Throughout the data, a clear distinction appeared between large producer organizations

on the one hand, and multistakeholder cooperatives on the other hand. The latter tried hard to include as many members as possible to join, by postponing until physical meetings were still possible (e.g. MSC1, MSC19) and they also thought hard about making the information accessible also to ordinary members.

Our AGM was scheduled in spring, full lockdown times. Since we had just started with new member categories, we had to rewrite our statutes fundamentally. It is a lot to explain to the members, which we really wanted to do physically. This is why we waited until summer when we were allowed to rent a huge location. (MSC19, board member)

How can you make an AGM interesting for the members, in times of corona[virus], on- and offline, but also in general? I want to take more time to think about this. (MSC7, founder)

On the contrary, large producer cooperatives tended to omit the physical AGM and used written procedures and online meetings instead—e.g. PO3, PO4, PO where few members besides the board were present.

We did our AGM digitally, yes. I have to say there was less presence. Anyways the AGM is something the members do not long for. I have to be honest to admit that our AGM is quite formal and strict.... Before covid, about 30 to 40 people came [out of 200 active farmer-members], I think this time there were about 25, but keep in mind that the board members are included here. (PO4, board member)

This year, this couldn't be done due to covid, so we just did it through a written procedure, by email and proxies. In the end the other board members and I got proxies to accept the yearly accounts.... In a normal year, about 50 people including us board members come to the AGM [out of 1200 members], but everyone gets a booklet with all the accounts. This is boring indeed. (PO3, board member)

Interestingly, the second subtype of producer organizations, those delivering advice and financial services to their members, seemed to find a middle way.

We always try to adapt our AGM to a more social concept, with a festive reception for example. Actually, this is our only meeting that is not only about information. Normally about 40 percent of the members join. This year with corona[virus], we could not find a solution and just hosted a Zoom meeting ... But as soon as corona[virus] allows, we will organize a new AGM, with food and drinks for the members. (PO7, manager)

Besides the AGM, the *composition of the board* is of vital importance for democratic decision-making in cooperatives, especially if multiple stakeholders are involved. For example, in MSC 19, consumer-members are represented in every part of the cooperative's governance structures (e.g. the three different boards for dairy, meat, and fruit, as well as the overarching board). However, in large producer cooperatives, representation seems to be less equal, as rules and procedures for candidates of the board are quite strict, favoring clearly large producers.

There is a certain minimum turnover, you have to fulfill the delivery obligation and unique membership. These are the most important criteria, and then you have to get through the control procedure done by an accountant. (PO1, manager)

Also, the extent to which members are involved in *decision-making procedures* differs as much as the existence of *internal rules* defining these. In many MSCs, due to high trust levels in a small group, strict rules seem less important. However, some stress the importance to have them in times of conflict and therefore put tremendous thought into crafting the statutes and internal regulations.

We thought about this collectively, meeting initially with about 30-40 families in groups to hear what they thought, and in the end we wrote our mission statement with seven people and decided to found a cooperative.... We decided to go for an accredited cooperative, so every member has one vote, not tied to the number of shares, so there is a safeguard that a single person cannot take everything into his hands.... Members of the cooperative will now discuss with the participants of the CSA what they want to pay to be able to harvest their vegetables, and what wage the farmer should receive. (MSC2, founder)

Whereas members are oftentimes fully involved in these decisions, the following quote illustrates the contrary: in traditional cooperatives, individual connections tied to the production size of a farmer-member might play a role in important decisions on prices and contracts within a cooperative.

Years ago, the price was always set by the auction clock, everyone got the same price for the same product. But today the larger and more important producers try to sell directly to the known retailers, with a contract price, and the cooperative is merely an administrative middleman. The biggest problem is that decisions are actually taken by just a few people, who are very close to the executive level of the cooperative, and there is hardly any position [for ordinary members] as it happens in the CEO's office and no one else is there. (PC5, founder, on PO3, where he is also a member)

9.4.3 Matrix of Dimensions of Social Capital in Different Types of Agricultural Cooperatives

Bringing together the insights into the characteristics of typical cases within each of the different types of agricultural cooperatives, and how they reflect upon the three dimensions of social capital, we could draw some general conclusions, which are summarized in a matrix (Table 9.2).

It appears that the two subtypes of large producer organizations, i.e. large traditional producer cooperatives (PO-t) as well as large service-providing cooperatives (PO-s) are mostly overlapping in terms of their social capital dimensions. They are characterized by high levels of fragile trust and their network relationships are quite closed, focusing on internal and rather strategic relationships. Consequently, they need extensive written rules and contracts to ensure that collective agreements are followed in a reciprocal manner, resulting in a relatively low level of organizational social capital. Strikingly, they keep to their closed networks and regard other cooperatives as competitors, missing out on mutual support. Some of these large cooperatives sometimes do not follow the strict rules themselves (e.g. taking decisions favoring farmers with large production quantities), therefore arguably eroding their cooperative spirit.

Table 9.2 Matrix of social capital dimensions in different types of agricultural cooperatives

Type of cooperative		PO-t	PO-s	PC-t	PC-r	MSC
Dimension of social capital						
Trust	-Fragile-cognitive	High	High	High	High	Low
	-Resilient-affective	Low	Low	High	High	High
Networks	-Internal/closed	High	High	High	High	Low
	-External/open	Low	Low	Low	High	High
	-Strategic	High	High	High	High	Low
	-Moral	Low	Low	High	High	High
Rules	Importance of written rules and procedures	High	High	High	High	Low
Organizational social capital		Low	Low	High	High	High

Notes PO-t: large traditional producer organizations
 PO-s: large service-providing producer organizations
 PC-t: small homogeneous traditional producer cooperatives
 PC-r: small heterogeneous regional producer cooperatives
 MSC: farmer-initiated multistakeholder cooperatives

Strikingly, multistakeholder cooperatives (MSCs) founded by farmers seem to exhibit the exact opposite pattern, with strong resilient and affective-based trust levels, quite open and moral network relationships without immediate reciprocity expectations, and consequently a low need for written rules and procedures.

The smaller producer cooperatives, both of the traditional and the regional subtypes, seem to occupy a middle position. The former leans more toward the large producer organizations, whereas the latter has some elements of resilient trust and networks based on moral principles. This could be explained by the fact that they are still comprised largely of conventional farmer-members, known for their self-entrepreneurial attitude that disallows extensive collective action. However, since they have strong bonds with each other due to a shared subsector or region, at

the same time resilient trust and moral networks seem to be present. This is true for those cooperatives that operate in quite stable economic situations but becomes more difficult (self-regarding) as soon as survival becomes their main concern. In this instance, a charismatic leadership figure that is well-immersed in cooperative ideology seems to also strengthen the social capital of the organization.

9.5 Discussion

This chapter aimed to identify how organizational social capital manifests through its three dimensions, i.e. trust, network, and norms, across the different types of agricultural cooperatives and how such manifestations relate to humanistic management and governance. Through our study of agri-food cooperatives in Flanders, Belgium, we could distinguish between three main types of agricultural cooperatives, which exhibit various patterns of social capital. Our results contribute to theory by 1) highlighting diversity among cooperatives from a social capital perspective, and 2) sharpening the analysis of humanistic management and governance principles in cooperatives by looking at the link with the various social capital configurations in agri-food cooperatives. We also identify some implications for practice.

9.5.1 A Diversity of Cooperatives

Our findings highlight that cooperatives, even within a single sector of activity and sometimes among a same category of cooperatives (in this case, producer cooperatives), are diverse from a social capital perspective. While the heterogeneity of cooperatives, despite embracing shared principles and values, has been described at length with numerous attempts at typologizing this diversity (e.g. Chaddad & Cook, 2004; Eum et al., 2020), most studies adopting a social capital perspective focus on a specific type of cooperatives or consider cooperatives as a homogeneous population.

We identify three main types of agri-food cooperatives along with three patterns according to which social capital manifests therein. They are first distinguished by the type of cooperatives, namely producer vs. multistakeholder cooperatives. They differ also in terms of size and age. Because the patterns of social capital are fundamentally different among these three types of agri-food cooperatives, the extent to which previous studies on the social capital of cooperatives can be generalized should be questioned. Our study provides therefore an opportunity to get a more fine-grained and complex view of social capital in agricultural cooperatives.

9.5.2 Linking Social Capital Features with Humanistic Management and Governance Principles

It appears from the results that in our sample of agricultural cooperatives, all three dimensions of social capital can be linked to the principles of humanistic governance, in particular with stakeholder engagement due to the strong overlap with the cooperative principles and, in particular, democratic governance practices. As apparent from the section on rules and norms (see Sect. 9.4.2.3), there seems to be a difference between times of economic well-being and times of conflict or crisis. This is to say that respondents of both producer and multistakeholder cooperatives argued how formal rules would be taken for granted, or not fully drafted, as long as everything went smoothly. However, they both stressed the importance of well-crafted bylaws and internal regulations if a crisis or conflict arose in their cooperative.

That being said, the most important factor for both social capital and humanistic management and governance seems to be a genuine interest in the well-being of the members, resulting in actively engaging them in daily practices such as transparent information sharing, consulting them, or employing co-decision practices. In that sense, there is a clear divide visible in our sample between traditional and authentic team leadership styles. The first, employed mainly by externally hired managers and

long-serving board members in large cooperatives, can result in cooperatives tending toward governance practices of traditional investor-owned firms, whereas the latter ensures more ethical/humanistic practices, in some cases by using deep democracy methods to include their multiple stakeholders equally.

Finally, there seems to be a connection between high levels of social capital in agricultural cooperatives and strong cooperative identity (Davis, 2014), combined with “lived” cooperative principles such as democratic governance. Fundamentally, the dimension of trust serves as a necessary condition for strong internal networks, and therefore the cooperative identity, to form. Moreover, social capital seems to accelerate even more if the cooperative succeeds in developing morally based relationships in external networks, mobilizing an external, third-party-regarding focus (Hatak et al., 2016). Lastly, the dimension of rules and norms appears to operate as a regulator: in economically prosperous times, the dimension of trust seems to suffice; however, by scaling up or when experiencing crisis and conflict, rules come more to the forefront, sometimes with the consequence that increasing control can lead in turn to subsiding trust levels. However, since trust is a prerequisite for social capital and active member engagement, transparency, and co-decision opportunities can diminish in this situation, and, with them, the cooperative identity of the organization.

9.5.3 Limitations and Future Research

Like any study, this chapter is not without limitations. The data collection took place at a unique moment in history, namely a lockdown due to the Covid-19 pandemic. This meant that data collection was almost exclusively conducted through video calls, which can result in less engagement by the respondents in comparison to face-to-face interviews. Also, the limited territory studied in this research has implications for the generalizable value of the study. Future research in other geographical contexts, with a different agricultural landscape, will help to confirm the proposed typology and the links between social capital and humanistic governance. Finally, generally, only one respondent was interviewed per

cooperative due to the overarching focus on the entire cooperative food value chain and therefore the need to explore a high variety of cases. To keep personal bias error to a tolerable minimum, each respondent was encouraged to speak both from an organizational and a personal point of view; and interview data has been carefully triangulated with secondary sources such as bylaws, official websites, and social media outlets of the cooperatives. More insights could perhaps be obtained in future research by interviewing diverse stakeholders within a small number of exemplary cases of each type of the studied cooperatives.

This study also sets the path to future research on the exact mechanisms as to how cooperatives, and in particular those embracing a clear focus on sustainable agriculture, can leverage their transformational potential in relation to the global environmental and social challenges of the sector. In our understanding, the cooperative identity (Novkovic, 2021) could indeed be an anchor point to provide more legitimacy to those cooperatives that live up to the cooperative principles and values.

Enhancing the legitimacy of cooperatives, in general, could also be furthered by research focusing on their social capital, especially with regard to the spillover effect (Adler & Kwon, 2002) for local communities in rural areas. In that regard, further research could focus on the specific role of cooperatives in the social and solidarity economy (SSE), and underline the importance of democratic governance practices in bonding, bridging, and linking their social capital.

9.5.4 Implications for Practice

This study provides four major insights and contributions to managers, board members, and members of cooperatives in the agricultural and food sector.

Firstly, this study shows the diversity of agricultural cooperatives by comparison of different subtypes in terms of sector, age, size, and member homogeneity, thus providing clearer guidance for practitioners for positioning their cooperatives in the field and possibly (re)formulating their mission and vision statements.

Secondly, the study raises awareness of the importance of social attributes and the different dimensions of social capital for the well-functioning of the cooperative. A first step to realizing change for a stronger humanistic approach to management and governance is presumably a conscious effort to think and talk about current daily practices of trust, networking, and norms and rules, by investigating where a cooperative can be situated on the spectrum of fragile/resilient trust, strategic/moral networks, and weak/strong democratic practices in making decisions and defining rules.

Thirdly, through creating awareness, this study also provides anchor points to increase cooperatives' social capital: namely by fostering trustful relationships with internal and external stakeholders as a foundation for moral/affect-based networks, with norms and rules that are ideally co-crafted through democratic processes. After all, the underlying goal of many cooperatives, especially those that identify with the social and solidarity economy, is the well-being and dignity of people and planet—and humanistic management and democratic governance practices seem to be a promising path to increasing trust and networks and, therefore, social capital within a cooperative and among like-minded organizations.

Lastly, by creating conscious, supportive networks of cooperatives, their business and governance model can be more easily justified and legitimized in contact with local and national governments and policymakers, thus contributing to the overall resilience of cooperatives as important actors within an alternative, transformative economy (Mair & Rathert, 2019).

References

- Adler, P. S., & Kwon, S.-W. (2002). Social capital: Prospects for a new concept. *The Academy of Management Review*, 27(1), 17–40.
- Ajates Gonzalez, R. (2017). Going back to go forwards? From multi-stakeholder cooperatives to open cooperatives in food and farming. *Journal of Rural Studies*, 53, 278–290.
- Baldassarri, D. (2015). Cooperative networks: Altruism, group solidarity, reciprocity, and sanctioning in Ugandan producer organizations. *American Journal of Sociology*, 121(2), 355–395.

- Bauwens, T., & Defourny, J. (2017). Social capital and mutual versus public benefit: The case of renewable energy cooperatives. *Annals of Public and Cooperative Economics*, 88(2), 203–232.
- Bianchi, M., & Vieta, M. (2020). Co-operatives, territories and social capital: Reconsidering a theoretical framework. *International Journal of Social Economics*, 47(12), 1599–1617.
- Bijman, J., & Hanisch, M. (2020). *Understanding the heterogeneity among agricultural cooperatives* (Working Paper. CIRIEC—International Centre of Research and Information on the Public, Social and Cooperative Economy). Liege, Belgium. <https://www.ciriec.uliege.be/wp-content/uploads/2020/12/WP2020-13.pdf>
- Billiet, A., Dufays, F., Friedel, S., & Staessens, M. (2021). The resilience of the cooperative model: How do cooperatives deal with the COVID-19 crisis? *Strategic Change*, 30(2), 99–108.
- Birchall, J. (1999). What makes people participate in cooperatives? Towards a theoretical model. *Journal of Rural Cooperation*, 27(1), 3–15. <http://ageconsearch.umn.edu/record/62041/files/1999-27-1-3.pdf>
- Birchall, J., & Simmons, R. (2004). What motivates members to participate in co-operative and mutual businesses? *Annals of Public and Cooperative Economics*, 75(3), 465–495.
- Bourdieu, P. (1986). The forms of capital. In J. Richardson (Ed.), *Handbook of theory and research for the sociology of education* (pp. 241–258). Greenwood.
- Buang, M. (2021). Systematic review of member's participation in the co-operative governance: What has been studied. *International Journal of Engineering and Advanced Technology*, 10(6), 135–140.
- Camargo Benavides, A. F., & Ehrenhard, M. (2021). Rediscovering the cooperative enterprise: A systematic review of current topics and avenues for future research. *VOLUNTAS: International Journal of Voluntary and Nonprofit Organizations*.
- Chaddad, F. R., & Cook, M. L. (2004). Understanding new cooperative models: An ownership–control rights typology. *Review of Agricultural Economics*, 26(3), 348–360.
- Chiffolleau, Y., Millet-Amrani, S., Rossi, A., Rivera-Ferre, M. G., & Merino, P. L. (2019). The participatory construction of new economic models in short food supply chains. *Journal of Rural Studies*, 68, 182–190.
- Christoforou, A., & Davis, J. (Eds.). (2014). *Social capital and economics: Social values, power, and social identity*. Routledge.
- Coleman, J. S. (1988). Social capital in the creation of human capital. *American Journal of Sociology*, 94, S95–S120.

- Dave, M. (2021). Resilient to crises: How cooperatives are adapting sustainably to overcome COVID-19-induced challenges. *International Journal of Rural Management*, 17(1). <https://doi.org/10.1177/0973005221991624>.
- Davis, J. B. (2014). Social capital and social identity: Trust and conflict. In A. Christoforou & J. B. Davis (Eds.), *Social capital and economics: Social values, power, and identity* (p. 15). Routledge.
- De Moor, T., Van de Velde, K., & Holemans, D. (2019). Wanneer burgers samen het heft in handen nemen (deel 1): Burgercollectieven opgericht in 2015 en 2016 van naderbij bekeken. *Tijdschrift Oikos*, 90(2), 66–87.
- Deng, W., Hendrikse, G., & Liang, Q. (2021). Internal social capital and the life cycle of agricultural cooperatives. *Journal of Evolutionary Economics*, 31(1), 301–323.
- Eum, H.-S., Carini, C., & Bouchard, M. (2020). Classification of cooperatives. A proposed typology. In M. Bouchard (Ed.), *Statistics on cooperatives: Concepts, classification, work and economic contribution measurement* (pp. 13–22). ILO.
- Feng, L., Friis, A., & Nilsson, J. (2015). Social capital among members in grain marketing cooperatives of different sizes. *Agribusiness*, 32(1).
- Fonte, M., & Cucco, I. (2017). Cooperatives and alternative food networks in Italy: The long road towards a social economy in agriculture. *Journal of Rural Studies*, 53, 291–302.
- Forney, J., & Häberli, I. (2017). Co-operative values beyond hybridity: The case of farmers' organisations in the Swiss dairy sector. *Journal of Rural Studies*, 53, 236–246.
- Gherardi, S., & Masiero, A. (1990). Solidarity as a networking skill and a trust relation: Its implications for cooperative development. *Economic and Industrial Democracy*, 11(4), 553–574.
- Gioia, D. A., Corley, K. G., & Hamilton, A. L. (2012). Seeking qualitative rigor in inductive research: Notes on the gioia methodology. *Organizational Research Methods*, 16(1), 15–31. <https://doi.org/10.1177/1094428112452151>
- Girard, J.-P., & Langlois, G. (2009). Solidarity co-operatives (Quebec, Canada): How social enterprises can combine social and economic goals. In A. Noya (Ed.), *The changing boundaries of social enterprises* (pp. 229–272). OECD Publishing.
- Goodman, D., DuPuis, E. M., & Goodman, M. K. (2014). *Alternative food networks: knowledge, practice, and politics* (1st paperback ed.). Routledge.
- Granovetter, M. S. (1973). The strength of weak ties. *American Journal of Sociology*, 78(6), 1360–1380.

- Gray, T. (2014). Historical tensions, institutionalization, and the need for multistakeholder cooperatives. *Journal of Agriculture, Food Systems, and Community Development*, 4(3), 23.
- Hatak, I., Lang, R., & Roessler, D. (2016). Trust, social capital, and the coordination of relationships between the members of cooperatives: A comparison between member-focused cooperatives and third-party-focused cooperatives. *Official Journal of the International Society for Third-Sector Research*, 27(3), 1218–1241.
- ICA. (2015). *Guidance notes to the co-operative principles*.
- ILO (2020). *Statistics on cooperatives: Concepts, classification, work and economic contribution measurement* (9789220331361). https://www.ilo.org/wcms/sp5/groups/public/---ed_emp/---emp_ent/---coop/documents/publication/wcms_760710.pdf
- Kujala, J., Sachs, S., Leinonen, H., Heikkinen, A., & Laude, D. (2022). Stakeholder engagement: Past, present, and future. *Business & Society*. <https://doi.org/10.1177/00076503211066595>
- Lang, R., & Roessler, D. (2011). The role of social capital in the development of community-based cooperatives. In M. Tuunanen, G. Cliquet, J. Windsperger, & G. Hendrikse (Eds.), *New developments in the theory of networks: Franchising, alliances and cooperatives* (pp. 353–374). Springer Verlag.
- Leana, C. R., & Van Buren, H. J. (1999). Organizational social capital and employment practices. *Academy of Management Review*, 24(3), 538–555.
- Levi, Y. (1998). Beyond traditional models: Multi-stakeholder cooperatives and their differential roles. *Journal of Rural Cooperation*, 26(1–2), 49–64.
- Lins, K. V., Servaes, H., & Tamayo, A. N. E. (2017). Social capital, trust, and firm performance: The value of corporate social responsibility during the financial crisis. *The Journal of Finance*, 72(4), 1785–1824.
- Mair, J., & Rathert, N. (2019). Alternative organizing with social purpose: Revisiting institutional analysis of market-based activity. *Socio-Economic Review*.
- Mamouni Limnios, E., Mazzarol, T., Soutar, G. N., & Siddique, K. H. (2018). The member wears four hats: A member identification framework for cooperative enterprises. *Journal of Co-Operative Organization and Management*, 6(1), 20–33.
- Melé, D. (2003). The challenge of humanistic management. *Journal of Business Ethics*, 44(1), 77–88.

- Michaud, M., & Audebrand, L. K. (2019). Inside out, outside in: “supporting members” in multi-stakeholder cooperatives. *Management Decision*, 57(6), 1382–1398.
- Morfi, C., Nilsson, J., Hakelius, K., & Karantininis, K. (2021). Social networks and member participation in cooperative governance. *Agribusiness*, 37(2), 264–285.
- Morrow, J. L., Hansen, M. H., & Pearson, A. W. (2004). The cognitive and affective antecedents of general trust within cooperative organizations. *Journal of Managerial Issues*, 16(1), 48–64.
- Nahapiet, J., & Ghoshal, S. (1998). Social capital, intellectual capital, and the organizational advantage. *Academy of Management Review*, 23(2), 242–266.
- Nelson, T., Nelson, D., Huybrechts, B., Dufays, F., O’Shea, N., & Trasciani, G. (2016). Emergent identity formation and the co-operative: Theory building in relation to alternative organizational forms. *Entrepreneurship & Regional Development*, 28(3–4), 286–309.
- Nilsson, J. (1996). The nature of cooperative values and principles. *Annals of Public and Cooperative Economics*, 67(4), 633–653.
- Nilsson, J., Svendsen, G. L. H., & Svendsen, G. T. (2012). Are large and complex agricultural cooperatives losing their social capital? *Agribusiness*, 28(2), 187–204.
- Novkovic, S. (2008). Defining the co-operative difference. *The Journal of Socio-Economics*, 37(6), 2168–2177.
- Novkovic, S. (2021). Cooperative identity as a yardstick for transformative change. *Annals of Public and Cooperative Economics*, 24(1).
- Ostrom, E., & Ahn, T. K. (2003). *Foundations of social capital*. Elgar.
- Pastoriza, D., Ariño, M. A., & Ricart, J. E. (2008). Ethical managerial behaviour as an antecedent of organizational social capital. *Journal of Business Ethics*, 78(3), 329–341.
- Pirson, M. (2017). *Humanistic management: Protecting dignity and promoting well-being*. Cambridge University Press.
- Putnam, R. D. (1993). *Making democracy work: Civic traditions in modern Italy*. Princeton University Press.
- Putnam, R. D. (2002). *Democracies in flux: The evolution of social capital in contemporary society*. Oxford University Press.
- Rakopoulos, T. (2014). The crisis seen from below, within, and against: From solidarity economy to food distribution cooperatives in Greece. *Dialectical Anthropology*, 38(2), 189–207.
- Ring, P. S., & van de Ven, A. H. (1992). Structuring cooperative relationships between organizations. *Strategic Management Journal*, 13(7), 483–498.

- Saz-Gil, I., Bretos, I., & Diaz-Foncea, M. (2021). Cooperatives and social capital: A narrative literature review and directions for future research. *Sustainability*, 13, 534.
- Schneiberg, M. (2013). Movements as political conditions for diffusion: Anti-corporate movements and the spread of cooperative forms in American capitalism. *Organization Studies*, 34(5–6), 653–682.
- Schneiberg, M. (2021). Organizational infrastructures for economic resilience: Alternatives to shareholder value-oriented corporations and unemployment trajectories in the US during the great recession. In K. K. Chen & V. T. Chen (Eds.), *Organizational imaginaries: Tempering capitalism and tending to communities through cooperatives and collectivist democracy* (Vol. 72, pp. 187–228). Emerald Publishing Limited.
- Spijker, S. N., Mathijs, E., & Parra, C. (2020). Grasping practices of self-reliance within alternative foodscapes in Flanders. *Agriculture and Human Values*, 37(3), 819–832. <https://doi.org/10.1007/s10460-020-10021-z>
- Statbel. (2021). Kerncijfers landbouw 2021. Belgian government, department of agriculture & fishery. Belgisch statistiekbureau [Belgian Statistical Office]. Retrieved from <https://statbel.fgov.be/nl/nieuws/kerncijferslandbouw-2021>
- Stoop, E., Brandsen, T., & Helderman, J.-K. (2021). The impact of the cooperative structure on organizational social capital. *Social Enterprise Journal*, 17(4), 548–565.
- Tregear, A., & Cooper, S. (2016). Embeddedness, social capital and learning in rural areas: The case of producer cooperatives. *Journal of Rural Studies*, 44, 101–110.
- Tsai, W., & Ghoshal, S. (1998). Social capital and value creation: The role of intrafirm networks. *The Academy of Management Journal*, 41(4), 464–476.
- Utting, P. (2015). *Social and solidarity economy: Beyond the fringe?* Zed Books Limited.
- Valentinov, V. (2004). Toward a social capital theory of cooperative organisation. *Journal of Cooperative Studies*, 37(3), 5–20.
- Valentinov, V., & Iliopoulos, C. (2021). Social capital in cooperatives: an evolutionary Luhmannian perspective. *Journal of Evolutionary Economics*, *Forthcoming (accepted for publication)*.
- Verhees, F. J. H. M., Sergaki, P., & Van Dijk, G. (2015). Building up active membership in cooperatives. *New Medit*, 14(1), 42–52.
- Von Kimakowitz, E., Pirson, M., Spitzack, H., Dierksmeier, C., & Amann, W. (2011). *Humanistic management in practice*. Springer.
- Watson, D. J. (2020). Working the fields: The organization of labour in community supported agriculture. *Organization*, 27(2), 291–313.

- Woolcock, M. (1998). Social capital and economic development: Toward a theoretical synthesis and policy framework. *Theory and Society*, 27(2), 151–208.
- Wulandhari, N. B. I., Gölgeci, I., Mishra, N., Sivarajah, U., & Gupta, S. (2022). Exploring the role of social capital mechanisms in cooperative resilience. *Journal of Business ReseArch*, 143, 375–386.

Open Access This chapter is licensed under the terms of the Creative Commons Attribution-NonCommercial-NoDerivatives 4.0 International License (<http://creativecommons.org/licenses/by-nc-nd/4.0/>), which permits any noncommercial use, sharing, distribution and reproduction in any medium or format, as long as you give appropriate credit to the original author(s) and the source, provide a link to the Creative Commons license and indicate if you modified the licensed material. You do not have permission under this license to share adapted material derived from this chapter or parts of it.

The images or other third party material in this chapter are included in the chapter's Creative Commons license, unless indicated otherwise in a credit line to the material. If material is not included in the chapter's Creative Commons license and your intended use is not permitted by statutory regulation or exceeds the permitted use, you will need to obtain permission directly from the copyright holder.





10

The Governance of Multistakeholder Cooperatives in Mondragon: The Evolving Relationship among Purpose, Structure and Process

Oier Imaz, Fred Freundlich, and Aritz Kanpandegi

10.1 Introduction

The governance of cooperative firms is characterized by cooperatives' particular conception of the business enterprise. This conception is based on membership, democracy in formal decision-making processes, and humanistic and pro-social purposes regarding work and management practices, roles in the community and sustainability. Co-ops, as a consequence, tend to reject the profit-maximizing, investor-oriented logic

O. Imaz (✉) · F. Freundlich · A. Kanpandegi
LANKI Institute for Cooperative Research, Faculty of Humanities and
Education, Mondragon Unibertsitatea, Eskoriatza, Spain
e-mail: oimaza@mondragon.edu

F. Freundlich
e-mail: ffreundlich@mondragon.edu

A. Kanpandegi
e-mail: akanpandegi@mondragon.edu

of conventional firms. Theorizing about conventional corporate governance is dominated by agency theory, and new institutional economics and transaction cost approaches, and these carry with them particular organizational and behavioral assumptions about the predominance of material incentives and control-based hierarchies for achieving corporate goals (Novkovic and McMahon, Chapter 2 in this volume). Company goals themselves are conceived exclusively in terms of shareholders' short-term economic interests. Given the differences between cooperative and conventional conceptions of the firm and its roles and purposes, theory about the governance of cooperative firms also differs markedly from the mainstream theories of governance mentioned. Alternative conceptual approaches to governance are oriented around the idea of *stewardship* and *pro-sociality* and the theories' behavioral and organizational assumptions are correspondingly quite distinct from conventional ones: motivation can derive from stakeholders' commitment to cooperatives' explicit humanistic purposes, and co-op members' goals—which might be partially economic, but also social or environmental—can be achieved by participatory processes in relatively non-hierarchical structures (ICA, 2015; Imaz & Eizagirre, 2020; Novkovic and McMahon, Chapter 2 in this volume; Sacchetti & Tortia, 2016). Though large-scale, systematic comparisons are not available, there is substantial evidence that cooperative governance is significantly different not only in theory but also in practice (Birchall, 2014; Eckart, 2009).

It is important to keep in mind, however, that the cooperative universe is quite varied and our thinking about governance should carefully consider this diversity. There are many different kinds of cooperative firms and, in recent years, the multistakeholder cooperative (MSC) has come to compose an important part of this universe, and its importance seems to be growing (Novkovic, 2020). Traditionally, co-ops have had only one particular kind of member; in credit unions, the customer-depositors have been the only type of member; in worker co-ops, it has been the people who work in the firm; and similarly in consumer, agricultural and other kinds of cooperatives. MSCs distinguish themselves, as their name suggests, as cooperatives comprised of more than one kind of member. A technology research and development (R&D) co-op,

for example, might have workers as members and also allied companies and/or customers as members. Many combinations of members are possible, but whatever these might be, MSCs present a distinct set of circumstances in which cooperatives' governance bodies must manage their dual social and business priorities amidst the challenges posed by multiple internal and external forces (Pirson, 2017; Pirson & Turnbull, 2011; Sepulveda et al., 2020).

This chapter seeks to bring MSCs more fully into discussions among scholars and practitioners about cooperative governance, in particular, as they might be informed by a well-known case of cooperative enterprise, the Mondragon Corporation in the Basque Country of Spain. Mondragon is generally perceived as a complex of *worker* cooperatives with a few notable MSC exceptions, but, as we will see, this perception is not accurate. MSCs are numerous and consequential in Mondragon. Given the extent and variety of the MSC phenomenon in Mondragon and the importance of MSCs and their governance complexities to the cooperative movement in general, our purposes in this chapter are to (1) detail the overall picture of multistakeholder cooperatives in Mondragon and try to classify them in a meaningful way; (2) examine exploratory data from questionnaires, interviews and public documents on the issues and challenges that have arisen in these cooperatives as regards their purposes, structures, processes, and dynamics over time (Eckart, 2009); and (3) discuss their possible meaning for the Mondragon experience and MSC governance more generally.

Our chapter will proceed as follows. First, since our theoretical framework, as briefly outlined above, relies on Novkovic and McMahan in Chapter 2 of this volume, we will not repeat it here, but will proceed directly with a brief description of the research context—the Mondragon Cooperative Experience (MCE). Next, the chapter will describe the methods used to collect data and address our research questions. Then, we will present our results, followed by a discussion of how they relate to prior research as detailed by Novkovic and McMahan. Finally, we offer concluding reflections, pinpoint the study's limitations, and consider how future work might deepen our understanding of MSCs and their governance for both research and practice.

10.2 The Research Context—The Mondragon Cooperative Experience (MCE)

This research project was carried out in the Mondragon cooperative group, also known as the Mondragon Corporation, or simply Mondragon, a tightly integrated network of cooperative enterprises founded and headquartered in the Basque Country of Spain. The Basque Country, *Euskadi* in the Basque language, is a semi-autonomous, political-administrative region of just over two million people on Spain's north-central coast, bordering France.

Founded in 1956, Mondragon today consists of 95 cooperative companies and 138 affiliates and subsidiaries on four continents with a total workforce of nearly 80,000 (Corporación Mondragon, 2021). Mondragon companies' total revenue in 2020 was €12.2 billion, about 40% from advanced manufacturing firms, slightly more from retail and allied enterprises, and the rest from finance and knowledge businesses. The Group's history, functioning, and many of its challenges have been described and debated extensively elsewhere (Altuna Gabilondo, 2008; Barandiaran & Lezaun, 2017; Basterretxea et al., 2019; Bretos & Errasti, 2017; Freundlich et al., 2013; Kasmir, 1996; Ormaechea, 1999; Ortega, 2021; Whyte & Whyte, 1991); hence, here we offer only a summary.¹ Even in summary form, the group's history clarifies its founding social purposes, and the reasons many of its foundational multistakeholder cooperatives were created. We can also see a number of the changes it underwent in response to the evolving political-economic and cultural environment, suggesting challenges for MSC governance that we address in later sections.

¹ The summary here is based on these sources, unless otherwise noted; hence they will not be cited repeatedly throughout the section.

10.2.1 The Roots of the Mondragon Cooperative Experience

The MCE begins with the arrival in Mondragon of a newly ordained priest, José María Arizmendiarieta, in 1941. He was a determined proponent of Catholic Social Doctrine (Azurmendi, 1984; Molina, 2005), which, beyond formal religious practice, called on believers to do *good works* in their community and to put into practice the values of solidarity, hard work, and mutual responsibility. In the context of the poverty, repression, and division in the Basque Country during the immediate aftermath of the Spanish Civil War (1936–1939), these beliefs led the priest and, soon, his followers to focus their efforts on community organizing and education. In 1943, with local help, he started a small vocational-technical school, though he also continued to pursue all manner of community educational activities outside the classroom, with youth and adults, until close to his death in 1976.

The priest developed a certain following in the town, particularly among young people, and they became the nucleus of the future cooperative experience as his critical thinking turned toward the economy and the values and practices of conventional business.² Five young men were among his closest disciples and by the early 1950s they had begun to work in the large industrial company that dominated the local economy, the *Unión Cerrajera*. They grew dissatisfied with the firm and, after their proposals for reform were rejected, they decided, in discussions with the priest, to embark on their own venture, one whose nature would reflect their general purpose of integrating business into a broad, pro-social approach to human and community development. Thus, in

² It is interesting to note that while Arizmendiarieta viewed conventional capitalist business as excessively materialistic, individualistic and exploitative, he was equally, if not more, critical of the socialism of his day (Azurmendi, 1984; Molina, 2005). He saw it as overly collectivist and centralized, authoritarian, dehumanizing, bureaucratic and, of course, anti-religious. To his mind, it negated individual freedom, even individuality itself, diminishing individuals in the fulfilment of their responsibilities as well as in the exercise of their rights. It upset, on the opposite extreme to capitalism, what he viewed as this essential balance between the individual and the community, between the rights and responsibilities of each with respect to the other.

1955–1956, these five followers of Arizmendiarieta and roughly twenty others created *ULGOR*, the first enterprise in what was to become the Mondragon cooperative group.

Within a few years, twenty-some people grew into hundreds (and later thousands), and the few, simple products initially manufactured evolved into a broad range of standard domestic appliances. In the late 1950s, friends, and acquaintances of the founding group, generally inspired or advised by Arizmendiarieta, followed suit, creating two other worker cooperative manufacturing firms.

10.2.2 The Consolidation and Expansion of the Model: Inter-Cooperation

The next phase of Mondragon's development, beginning in the 1960s and 1970s, involves what became one of its most distinctive features, and is especially crucial for the topic of multistakeholder cooperative governance. During this period, the Mondragon cooperatives initiated what is known in local parlance as “inter-cooperation”—formal and substantial cooperation among Mondragon cooperatives. Inter-cooperation in the MCE is multifaceted, involving a multitude of inter-firm organizations and policies. Below, we will present a summary; here, though, we attend to its first, specific facet in the economic sphere, that is, the creation in 1959 of the group's first multistakeholder cooperative enterprise, a bank called *Caja Laboral Popular* (today, *Laboral Kutxa [LK]*), whose members consisted of two stakeholder groups—Mondragon cooperative firms and the work force of the bank itself. This multistakeholder organization played an absolutely vital role in the development of the Mondragon cooperatives, particularly during their first generation.

This period is also characterized by substantial growth in the number of industrial cooperatives and worker-members. Business, technical and financial support came from the initial cooperatives, *Caja Laboral* and other institutions they jointly created. By 1980, the group had expanded to 18,733 worker-members in 96 cooperative organizations (*Caja Laboral Popular*, 1986). The cooperative called *Eroski*—mainly a chain of supermarkets—also deserves special mention since it came

to account for roughly half of Mondragon's economic activity in later years. It was created in 1969 as a consumer co-op, but in the mid-1980s converted itself into an MSC: half its governance bodies consisted of worker-members and half of consumer-members. It grew substantially over the next 20 years and became the largest cooperative in the group,³ though it weathered a major economic crisis and restructuring that started in the Great Recession in 2009 and lasted several years.

That Mondragon's first cooperative companies were created in the late 1950s, and 1960s turned out to be a stroke of good luck in several ways, as the Spanish economic context was, in general, a very positive one in this early period in Mondragon's history. During the late 1970s and especially in the 1980s, though, the general business environment became problematic as a whole for the first time in the co-ops' history. While there have certainly been sustained periods of economic boom for the co-ops since then, overall, operations have only become increasingly challenging over the decades due to the march of globalization and ever more competitive and volatile international markets.

The Mondragon cooperatives adapted to their evolving context in different ways, both at the level of the individual firms and at the level of the whole group. Inter-cooperation has been a vital part of this adaptation, and MSCs have played key roles, but the challenges have been and continue to be many and varied. The overall work force has grown in recent decades, but growth has been markedly slower in general terms, and there have been moments of contraction. In the face of intense global competition, often with large multinationals, the co-ops dedicated a larger and larger portion of their resources to strengthening and innovating their existing operations and smaller portions to creating new cooperatives. Investment focused on internationalization, both to reach

³ It is important to underline that *Eroski's* history as a cooperative is complex. Its rapid expansion, starting in the late 1980s, was based mostly on creating or acquiring conventionally owned subsidiaries, thus only 8,000–9,000 of its over 40,000 employees were worker-members by 2007. The company initiated a substantial shared ownership and *cooperativization* program for its subsidiaries in the late 1990s and again in 2006–2008, but it was forced to long-term pause due to serious financial troubles during and after the Great Recession (Arando et al., 2015; Freundlich et al., 2013).

new markets and to lower production costs (and is now quite substantial⁴), and on new technology, as firms sought to specialize in highly tailored, high-value-added products and services.

The group also restructured itself “as a group” several times during its history, endeavoring to better meet business and cooperative needs. In early configurations, the co-ops were grouped by region and overall group governance took place in the formal bodies of the *Caja Laboral* as all the co-ops were formally associated with it. By the mid-1980s, however, spurred especially by Spain’s entrance into the European Economic Community, co-op leaders concluded that the group needed new and different coordinating arrangements outside the structures of a bank; hence, the co-ops jointly created the Mondragon Cooperative Congress in 1984 as their umbrella governance structure. Its first formal session was held in 1987, and it immediately began to discuss re-organizing the regional subgroups. In 1991, a new structure was created—the Mondragon Cooperative Corporation—based on a new organizing principle: business sector. The regional subgroups were largely (though not fully) replaced by sectoral ones, and corresponding governance and management bodies were created for the sectoral groups and for the group as a whole. With relatively minor adjustments, these structures delimit the organization of the Mondragon Corporation of today. They are described in more detail in the next section and pictured in Fig. 10.2.

This history, while greatly condensed and, by necessity, having largely left out any number of major processes and milestones,⁵ still fulfills our objective here. It lays out the basic contours of the context of Mondragon’s development. This will help us understand MSCs and their governance in the Mondragon group—their original social purposes,

⁴ A large majority of Mondragon firms’ 138 affiliates and subsidiaries are manufacturing operations in foreign countries which, in 2020, employed over 14,000 people. These operations have caused controversy among cooperative activists, academics and many Mondragon members, but it is not our issue in this chapter.

⁵ These include the Great Recession and responses to it, the bankruptcy of the largest industrial cooperative, Fagor Home Appliances, increasing internationalization, the milestone Congress of 2016 and many others.

their diversity, and their evolution in the face of challenges posed by increasingly competitive markets, changing regulatory regimes, and broad social and cultural trends.⁶

10.2.3 Multistakeholder Governance(s) in the Mondragon Cooperative Experience

Several dimensions of Arizmendiarieta's and other founders' thinking led to their giving primacy to the worker cooperative form (Azurmendi, 1984; Ortega, 2021). The first cooperative business in the Mondragon experience was a worker cooperative, as were the businesses that immediately followed. Dozens of worker cooperatives were created in subsequent decades, and most Mondragon cooperatives today are worker cooperatives. Mondragon is generally known among researchers and practitioners in the cooperative sector as a *worker* cooperative experience. Therefore, our point of departure for assessing the governance structure and decision-making processes in the MCE and its MSCs is the standard Mondragon worker cooperative.

In worker cooperatives, control, by law, rests with the full body of worker-members. Ultimate control of the company is democratic; decisions are made based on the principle of one worker-member, one vote. In short, worker-member democracy structurally enacts the primacy of labor over capital in the governance of worker cooperative enterprises. However, in practice, the relationships between labor priorities and business priorities, and democratic ownership and professional management, are always challenging ones, and in Mondragon, they remain a matter of concern (Azkarraga et al., 2012).

In the case of the MCE, one response to this challenge has been a fairly strict separation of business management and democratic membership in two distinct sets of structures in the firm. "Management" refers

⁶ Other major challenges exist, as well. The introduction of shared ownership structures and processes in overseas subsidiaries is one we have already mentioned. The content of work and its increasing capital intensity is another. The evolution of broader cultural values and practices in the direction of greater individualism and leisure around the West, even around the world, toward greater materialism and individualism is still another. See Freundlich et al. (2013), Azkarraga et al. (2012), Basterretxea et al. (2022), and Bretos et al. (2020).

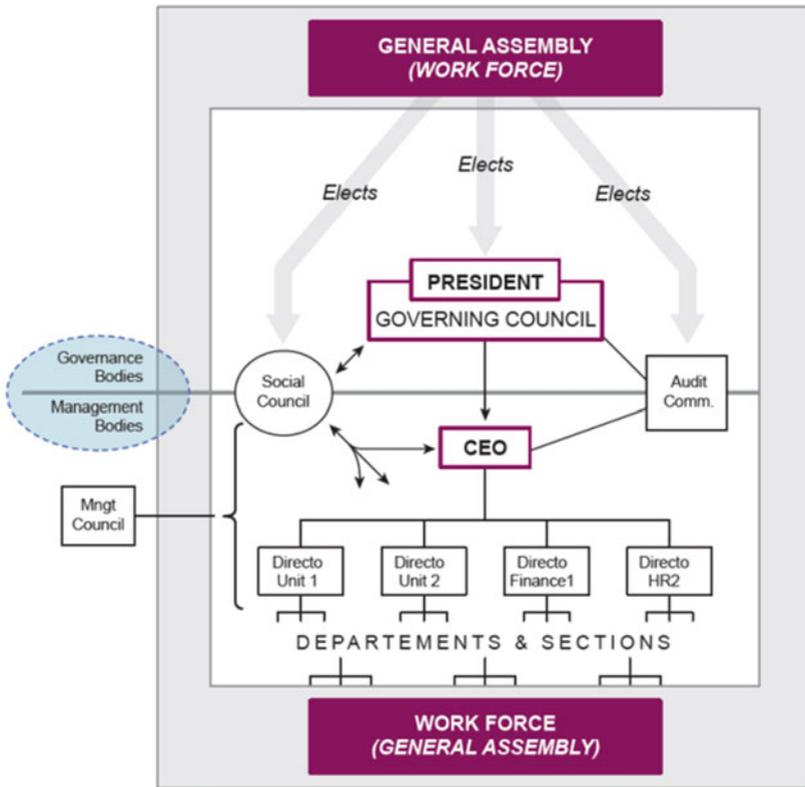


Fig. 10.1 The structure of a Mondragon worker cooperative⁷ (Source Freundlich [2015])

to the coordination of a company’s day-to-day, month-to-month operations, through its business units, departments, sections, etc., under the direction of the firm’s senior management body (see below). “Democratic membership,” on the other hand, refers to the governance side of the company; it is comprised of the firm’s elected governance and other bodies that ultimately oversee the management of the company: the General Assembly, Governing Council, Social Council, and Audit Committee. In these bodies, worker-members exercise their rights and

fulfill their responsibilities through democratic rule. These structures are depicted above in Fig. 10.1

The General Assembly (GA) is the highest authority in the company, and it is composed of all cooperative members. The Governing Council (GC) and its President are elected by the General Assembly and the GC is legally responsible for the fate of the cooperative. It represents the General Assembly and is the highest authority in the firm when the General Assembly is not in session. The GC appoints the firm's senior manager, who is prohibited from simultaneously serving on the GC, and it must approve that person's choices for the senior management body, called the Management Council (MC). This Council is the senior operations management body mentioned above and, again, it plans for, coordinates, and directs the company's daily activity. The MC

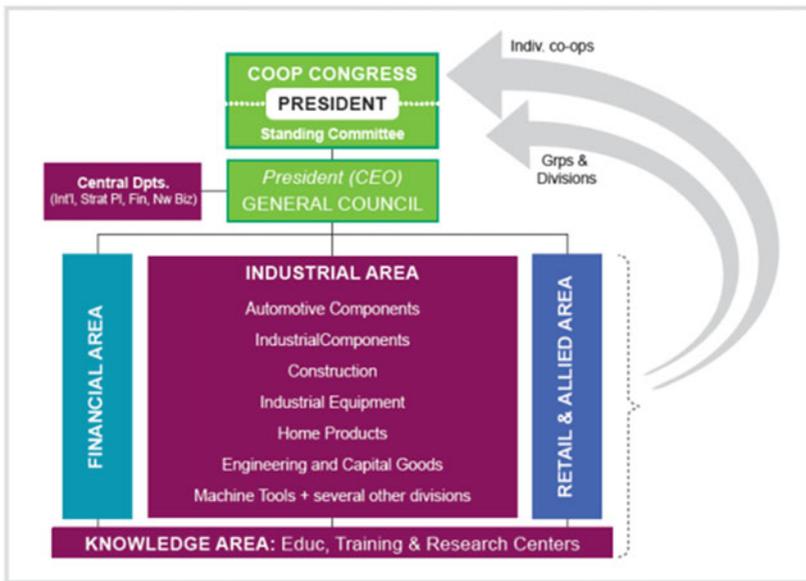


Fig. 10.2 The structure of the Mondragon Corporation (Source Freundlich [2015])

⁷ Note that although the figure might suggest the GA directly elects SC members, SC members are nominated by work area and the GA ratifies their nomination.

has substantial autonomy in its management of the firm, although it acts under the supervision of the Governing Council, to whom it reports at least monthly and by whom any or all of its members can be dismissed. Another body, the Audit Committee, required by law for co-ops of over 100 members, is also elected by the General Assembly. It is composed of three members who are responsible for guaranteeing “sound management,” that is, compliance with company by-laws, rules, and regulations, and approving the annual closing of the company books. Finally, the Social Council (SC) is a consultative body representing the members vis-à-vis governing and management bodies. It is not mandatory but is recommended for larger co-ops. It is composed of worker-members, nominated by work area (approximately one for every 25–30 members), and nominations are approved by the General Assembly. Its functions are to advise the GC and MC on issues affecting members and to ensure multidirectional communication among members and co-op bodies. The issues it addresses often have a less strategic impact than those that would be take-up by the GC or are local to a particular work area, but the SC is consulted and can offer its views on any question that might arise in the co-op. Together, these bodies make up the basic structure of the standard worker cooperative in the Mondragon group. Over time, this basic structure became defined in law almost in its entirety, though co-op internal regulations can differ in significant ways.

We have described the internal organization of standard, individual worker co-ops in the Mondragon group. In later sections, we will discuss multistakeholder cooperatives, but it is also crucial here to underscore the *group*; it is essential for understanding Mondragon in general and also for understanding its MSCs. The Mondragon group is not merely a loose collection of individual firms; it is a complex of firms that form an integrated network. And the network—the Mondragon Corporation—is itself a large, multistakeholder cooperative organization. This structure has been described in detail previously (Freundlich, 2015), so, again, here in Fig. 10.2, we offer a summary.

As outlined in the figure, Mondragon firms are organized into four broad areas—industry, retail and allied, finance, and knowledge—and, within the industrial area, into thirteen divisions. Mirroring individual co-op governance, each of these areas and divisions has its representative,

democratic governance bodies, and appointed management structures, as does the overall network. The group as a whole is governed by the Mondragon Cooperative Congress, made up of 650 representatives from all the co-ops in the group, the number of representatives for each firm is calculated in indirect proportion to its size, such that the largest few firms cannot dominate voting. A Standing Committee and its President form, in effect, the governing council for the group, and it is the highest governing authority in the group when the Congress itself is not meeting in formal session. The Standing Committee is not elected directly from Congress, however, but rather from the elected governing councils of the Areas and Divisions. The Standing Committee appoints the Mondragon group's senior manager—the President of the General Council—and must approve of the President's choices for other members of this General Council, which is made up of the Vice Presidents/Directors of the Corporation's Areas and largest Divisions, as well as the Directors of its key staff departments, including Finance and Management & Social Affairs.

It is important to emphasize in a cooperative context that the General Council does not have traditional executive authority over Areas and Divisions and their member co-ops. General Council members are senior figures with long trajectories in the group and certainly have significant influence, but final authority rests within the individual cooperative companies. They voted in their General Assemblies to join the Corporation and can vote to leave at any time. Further, the General Council's role is decidedly not to supervise the operations of the many cooperative firms, but rather to provide (and generate multilevel discussion about) general strategic orientation and a series of services to the Areas and Divisions and their member companies. For example, it initiates and coordinates a strategic reflection process every four years that involves all co-ops; it oversees and promotes inter-cooperation to support co-ops in difficulty, stimulate co-op-to-co-op business collaboration and complement new investment; it provides tools to help the co-ops manage risk, develop new businesses, promote organizational development and pursue social transformation initiatives, etc.

In summary, the governance structure of the corporation is an inverted conglomerate, or as Freundlich et al. put it, “[u]ltimately, Mondragon's

management structure is that of a traditional conglomerate turned on its head” (Freundlich et al., 2009). This arrangement implies that its governance is defined by dynamics of ongoing communication, persuasion, and negotiation, not by supervision or executive control from the top. Ultimate authority lies at the “bottom,” with the individual cooperative companies and their worker-members. The Corporation’s central management body has very limited capacity to enact policies on its own. The network is composed of its cooperatives and, as we can see, these many and different stakeholders are closely linked in a variety of ways.

10.2.4 The Missing Link: Individual Multistakeholder Cooperatives in the Mondragon Cooperative Experience

We can conclude from our description up to this point that Mondragon should be broadly characterized as a mixed worker and multistakeholder cooperative experience. Along with its “standard” worker cooperatives, the group is composed of a diverse set of stakeholders, and all of them come together, each with its share of voice and votes, in the Corporation’s layered, multistakeholder governance bodies. There is a missing link in this chain, however, that we will discuss here: the case of “individual” multistakeholder cooperatives in the Mondragon cooperative experience. These cooperatives are directly linked to the development of inter-cooperation mechanisms within the Mondragon group; they are, in their origins, cooperatives created or supported by other cooperatives in order to provide for the basic needs of the cooperatives themselves or their surrounding community. Most of these multistakeholder cooperatives fuse in their governance structures the receptors of their services (for example, consumers in consumer co-ops, students in education co-ops) together with worker-members, shaping a distinct kind of co-op within the MCE.

Despite Mondragon’s worker-co-op emphasis, recall that multistakeholder cooperative initiatives emerged in Mondragon in the group’s earliest years and assumed a variety of centrally important roles. The

vocational school umbrella body was effectively a multistakeholder organization starting in the 1940s. Then, and crucially, as mentioned previously, only three or four years after the first industrial worker cooperatives were created in the mid-to-late 1950s, one of Mondragon's most important multistakeholder experiences was initiated, as these co-ops joined forces and gave birth to a cooperative bank in 1959, the *Caja Laboral Popular* (today *Laboral Kutxa [LK]*). Though the Caja was, and LK is, in legal terms, a credit union, it is important to note that, unlike in conventional credit unions, individual consumer-users were not members in its early decades; rather other cooperatives of the group were members, along with the bank's workers. The users who had majority control in its governance were *the cooperative firms* that created it (together with other worker cooperatives that joined or were created by the Mondragon group in subsequent years). While the organization certainly did provide financial services to private consumers, that was not its principal purpose; its main mission was to gather in one entity as substantial a portion of the community's financial resources as possible to support the creation and consolidation of worker cooperatives.

Multistakeholder cooperative development continued apace with the development of the Mondragon group. Another multistakeholder vocational school, that later gave rise to *Mondragon Unibertsitatea's Faculty of Business* (today and hereinafter, "*Enpresagintza*"), was formed in 1960. Further on in the 1960s, Mondragon added an MSC that became centrally important to the group, *Lagun Aro*, a social security organization (i.e. for health insurance, pensions, and related benefits). It was born as a service inside the bank but became an independent cooperative-like mutual organization in 1967. As in *Caja Laboral*, *Lagun Aro's* governance bodies combined workers and users, though, again, users were and remain today the cooperative firms, not individual consumers-beneficiaries, and its by-laws assign the controlling voice to the user stakeholder group. *Ikerlan*, a technology research and development cooperative, was founded in 1974 and its governance bodies included workers

and users-customers.⁸ The *Eroski* retail chain, as we saw earlier—the largest single contributor to Mondragon business activity by the early 2000s—began as a straightforward consumer cooperative, but converted into a multistakeholder company involving consumer- and worker-members in equal portions in its governance bodies. *Mondragon Unibertsitatea* was founded in 1998, in essence, as a multistakeholder cooperative consisting mainly of other multistakeholder cooperatives—its Faculties.

Indeed, multiple MSCs have been formed in recent decades covering a diverse range of business and support activities. While there has been a significant amount of scholarly treatment of a variety of aspects of the Mondragon Cooperative Experience, little attention has been paid to this particular, and important, type of cooperative in Mondragon. In this chapter, we aim to begin to fill this gap by describing in detail the purpose, governance structure, and decision-making processes of MSCs in the MCE, and how they evolved over time in response to external as well as internal challenges.

10.3 Multistakeholder Cooperatives in Mondragon Cooperative Experience: A Case Study

Most cooperatives that make up the Mondragon Cooperative Experience, as mentioned, fit the standard model of a worker cooperative. However, as we have also pointed out, a good number of them are, indeed, multistakeholder firms, and many of these are significant in various ways. By focusing on these cooperatives, we seek to understand: (i) What is the extent of multistakeholder cooperativism in the MCE? What is its nature and purpose? (ii) How do the nature and purposes of MSCs in the MCE take shape in the relationship among different stakeholders? What are their governance structures? (iii) How has the

⁸ The user-customer members were initially Mondragon cooperative firms, though, later, conventional firms were also admitted into this stakeholder group.

relationship among Mondragon's MSCs' purpose, structure and processes evolved in response to internal and external dynamics?

10.3.1 Methods

We responded to these research questions using a variety of methods in four phases. First, we reviewed publicly available documents, Mondragon co-ops' internal documents and our own databases in order to establish the ownership-membership structure of all the cooperatives within the Mondragon group, and to identify the MSCs among them. We identified 21 different MSCs.

Second, for those co-ops initially identified as MSCs, we returned to the sources described above and analyzed them through more specific lenses, that is, according to different factors indicated in the theoretical framework as relevant for understanding the structure, processes and dynamics of governance in cooperative firms (outlined by Novkovic and McMahan, Chapter 2 in this volume).

Third, we distributed a 19-item questionnaire⁹ to the 21 selected cooperatives to refine our description of their governance structures and processes. The profile of respondents is varied, but we sought senior managers or members of governing bodies. The 21 MSCs responded to the questionnaire, though the level of detail provided differed substantially. Follow-up email correspondence and phone calls and inquiries with the Mondragon headquarters' Department of Management & Social Affairs contributed additional information.

Finally, to begin to approach the more complex and potentially varying dynamics of the relationship between purpose, structure and processes of governance, and nuances regarding the meaning of transformations that have taken place, we conducted a series of in-depth interviews with key informants in high-ranking positions within these cooperatives—either members of their governing councils or senior

⁹ The questionnaire form is available from the authors upon request.

managers. A total of five interviews were conducted, most of them virtually, in the Spring and Summer of 2021. These interviews were recorded and their contents were reviewed and coded with ATLAS.ti 9.0.

10.3.2 Results

We organize our results here in two sections. First, we present a summary of our most basic findings including; the number of MSCs, their evolution, distribution by areas, size, and purpose. Second, we analyze the structure of these MSCs including; legal form, ownership structure, and decision-making bodies.

Basic Data: Incidence, Evolution, Distribution, Size and Purpose

The Mondragon group is composed of 95 cooperatives (Mondragon, 2021). Of these, 83¹⁰ have a vote in the Mondragon Cooperative Congress and, to date, we have determined that 21 of them are MSCs.¹¹ We can see, then, that over *one-quarter* of all cooperatives in the Mondragon Cooperative Congress are multistakeholder firms. These include two of the largest three cooperatives in the group (*Eroski* and *Laboral Kutxa*¹²), and a number of the most symbolically important co-ops in terms of the history of the MCE, firms such as *Lagun Aro* (social security) or *Ikerlan* (technology R&D) and others. Simply put, MSCs represent a quantitatively substantial and qualitatively significant part of the MCE.

Historically, the creation of the first multistakeholder organization of the MCE precedes even the first industrial cooperative. It dates back

¹⁰ The official number is 95, for example, on the corporate webpage. However, the typology of firms included in the group is varied. Therefore, for the sake of clarity, we took as a reference the number of cooperatives that have a vote in the Mondragon Cooperative Congress.

¹¹ This number is provisional insofar as it is the outcome of several interpretive decisions that affect the course of the investigation.

¹² *Eroski* is mainly a chain of supermarkets and *Laboral Kutxa*, a cooperative bank / credit union.

to 1948, with the foundation of a local non-profit, umbrella association—the League for Education and Culture. On the other end of the spectrum, the newest MSC was created as recently as 2012, with the transformation of *Maier Ferroplast*, an industrial firm in the automotive sector, into an MSC. In between these two dates (1948–2012), we find MSCs in all phases of the development of the MCE: in the creation and expansion period (1959–1975); the phase of industrial restructuring (1975–1990); and the consolidation and internationalization period (1990–2012) (see Table 10.1).¹³

In terms of Mondragon's four areas, 9 MSCs are in the Industrial Area (43%), eight in the Knowledge Area (38%), two in the Finance Area (9%), and one in the Retail Area (5%) and, finally, one is for the staff of the Corporation's central offices (5%) (see Table 10.1). All cooperatives in the Knowledge and Finance areas are MSCs and the largest MSC (*Eroski*) is in the Retail Area. Of the nine in the Industry Area, note that only three (*Ederlan Tafalla*, *Maier Ferroplast*, and *Loramendi*) are manufacturing cooperatives strictly speaking. Five of the other six are situated in the area's Engineering & Business Services Division. The sixth, *Ideko*, is a machine tool R&D firm in the Machine Tool Division.

In terms of size, 17 MSCs of the 21 have fewer than 500 workers, and 8 of them have fewer than 100 workers. *Mondragon Unibertsitatea*, the smallest, has only 9 workers,¹⁴ while *Eroski*, the supermarket and retail chain, is by far the largest with 11,255 workers in the co-op. The mean size of the MSCs listed is 830 workers, due to the distorting effect of *Eroski*. The median is much lower, at 309 workers. With regards to worker-members, we can see that the mean size of MSCs (206 workers-members, excluding *Eroski*) is slightly lower than the mean size for the group (214). Also, the average percentage of the total work force

¹³ We have taken as the year of creation, the year in which an enterprise was officially registered as a cooperative. We have made an exception in those cases in which, although full cooperativization came later, this did not affect the definition of the original purpose of the organization (i.e. *Ikerlan*, *Ideko* or *Lagun Aro*).

¹⁴ This number could be misleading. The four faculties of *Mondragon Unibertsitatea*, taken together, have over 700 employees, but each is a separate MSC and they come together to form the MSC that is *Mondragon Unibertsitatea*. The number nine represents the number of workers in the University President's office and related support staff who coordinate the four faculties.

Table 10.1 Multistakeholder cooperatives in Mondragon in chronological order by name, founding year, employment, percentage of worker-members in the workforce, Mondragon Area designation* and sector

Co-op	Year	Size***	Worker-member (%)	Area	Sector
MGEP	1948	450	70	Knowledge	Higher education
Laboral Kutxa	1959	2089	81	Finance	Finance (banking)
Enpresagintza	1960	125	55	Knowledge	Higher education
Alecop**	1966	89	93	Industry	Education services
Lagun Aro Services	1967	72	86	Finance	Social security services
Eroski	1969	11,255	74	Retail	Retail food
Ikerlan	1974	360	50	Knowledge	Technology R&D
HUHEZI	1976	119	63	Knowledge	Higher education
Lea Artibai Ikastetxea	1976	59	81	Knowledge	Post-secondary vocational education
Politeknika Txorierrri	1979	46	61	Knowledge	Higher education
Mondragon lingua	1981	200	22	Industry	Language services
Ideko	1986	112	70	Industry	Technology R&D
Mondragon S. Coop.	1991	50	92	Corporate offices	Business services
Mondragon unibertsitate	1997	9	66	Knowledge	Higher education
Ategi	2001	22	77	Industry	Purchasing services
Osarten	2001	48	60	Industry	Health & safety services
Arizmendi	2003	237	64	Knowledge	Primary & secondary education

(continued)

Table 10.1 (continued)

Co-op	Year	Size ***	Worker-member (%)	Area	Sector
GSR	2003	1000	50	Industry	Eldercare services
Loramendi	2003	150	83	Industry	Foundry
Ederlan Tafalla	2008	700	60	Industry	Auto components
Maier Ferroplast	2012	235	60,8	Industry	Auto components

*The Mondragon Corporation's firms are organized into four areas: Industry, Retail, Finance, and Knowledge, see Sect. 10.2

** This co-op was created principally to provide work-study opportunities for students in order to help them finance their studies. Its products and services have varied over the decades

*** Total work force of the co-op, excluding subsidiaries

(excluding subsidiaries) who are workers-members (68%) is modestly lower than that of, for example, the industry area overall (75.9%).

In terms of their “foundational purpose,” all the MSCs studied have a common baseline: they were founded to serve other Mondragon cooperatives, or their communities, or the wider society. However, differences arise regarding their understanding of the relationship between the cooperative, the community and the wider society, as well as their understanding of how to serve them. Examining the list on these bases, we have clustered the 21 cooperatives into three main groups¹⁵:

- a. Service to other cooperatives & inter-cooperation: These are multi-stakeholder cooperatives that were founded by existing co-ops in the group to provide themselves and future co-ops with key services (six co-ops in the sample¹⁶). In this group, we include cooperatives that were created to strengthen or promote the expansion of the cooperative movement, and such as *Laboral Kutxa* (banking), as well as others that provide a series of services, such as Mondragon S. Coop. (the

¹⁵ The definition of the groups, as well as the assignment of a particular cooperative to a group is not objective and definitive in many cases as it depends, mainly, on the authors' interpretations.

¹⁶ *Mondragon S. Coop., Laboral Kutxa, Ategi, Ideko, Ikerlan and Osarten.*

corporate offices' staff for coordination and business services), *Osarten* (health, safety, and well-being) or *Ategi* (purchasing). These co-ops provide much of the foundation of inter-cooperation in Mondragon, the network. They are co-ops in which many, if not all, the group's co-ops participate/contribute and from which all benefit. The services they provide and their governance structures serve to integrate and coordinate Mondragon as a network.

- b. Service to the community: Here, we placed cooperatives that were founded to provide useful services to the broader, local community (11 co-ops¹⁷). Their founders were variously community members/potential users and existing co-ops. In this group, we include, mainly, education cooperatives, but also *Lagun Aro* (social security) and *Eroski* (supermarkets) because they were created to respond to a vision, or a need, of cooperative members in the MCE and their neighbors in the community.
- c. Services to other cooperatives or the community by pursuing business opportunities: In this category, we find cooperatives that were founded to serve worker-members and/or specific cooperatives by pursuing new business (four co-ops¹⁸) through the creation of a new cooperative (GSR—elder care) or the transformation of conventional companies into cooperatives (*Ederlan Tafalla*, *Loramendi*, *Maier Ferroplast*). In some cases, protecting local employment was a central part of the motivation.

At first glance, the most prominent group, in terms of the number of cooperatives and work force, is the one whose co-ops aimed at serving the community. However, if we exclude *Eroski*, by far the largest cooperative in the Mondragon group, the MSCs whose purpose is inter-cooperation, that is, serving other cooperatives, represent the largest portion of the MSC work force (43%). Moreover, this balance has evolved over time. The purpose of serving the community was more prominent among MSCs founded in the early period of creation and expansion of the MCE

¹⁷ *Arizmendi*, *Enpresagintza*, HUHEZI, *Lea Artibai Ikastetxea*, MGEP, MU, *Politeknika Txorierrri*, *Eroski*, *Lagun Aro*, *Mondragon Lingua* and *Alecop*.

¹⁸ *Ederlan Tafalla*, *GSR*, *Loramendi* and *Maier Ferroplast*.

(five out of seven are from that period), though the “service-to-other-co-ops/inter-cooperation” orientation was also central in this period. This service-to-the-community motive becomes dominant among MSCs created in the context of the industrial crisis and restructuring in the late 1970s and 1980s. All four MSCs aimed at pursuing new business opportunities date to the consolidation and internationalization period (1990–2012).

Structure

The term *structure* refers to the main formal organizational bodies and the ownership arrangements (Eckart, 2009) that are legally defined in the by-laws of the cooperatives: are there basic structures that characterize this group of cooperatives? What are the main organizations and organizational bodies involved? What is their ownership structure? To respond to these questions, we have analyzed the legal form, ownership structure, and main decision-making bodies in the MSCs in Mondragon.

Legal Form

MSCs in Mondragon take a variety of legal forms¹⁹ (see Table 10.2). Although it is the standard in the full MCE, only two cooperatives took the form of a worker cooperative: *Mondragon Lingua* and *Alecop*. *Alecop* provides consultancy and equipment in the technical education sector. *Mondragon Lingua* provides language services including interpretation, training, and translation. The most numerous group is composed of education cooperatives (HUHEZI, MGEP or *Arizmendi*, for example). They are non-profit primary/secondary or post-secondary educational institutions and “integrated cooperatives”; namely, they integrate into their ownership structure, workers, users, and “collaborators” (other co-ops). Next in terms of prevalence are mixed cooperatives. A mixed

¹⁹ The legal form was found in the official Cooperative Registry, the official documentation archive for cooperative firms of the Basque Government.

Table 10.2 Mondragon MSCs by the cooperative's legal structure

Legal form	Cooperatives
Second degree	<i>Ikerlan, Mondragon Unibertsitatea, Ideko, Osarten</i>
Consumer	<i>Eroski</i>
Credit	<i>Laboral Kutxa</i>
Education	<i>MGEP, Enpresagintza, HUHEZI, Lea Artibai Ikastetxea, Politeknika Txorierra, Arizmendi</i>
Mixed	<i>Ederlan Tafalla, Maier Ferroplast, Mondragon S. Coop, Loramendi, GSR</i>
Services	<i>Lagun Aro Services, Ategi</i>
Worker cooperative	<i>Alecop, Mondragon Lingua</i>

cooperative allows for the participation of a minority of “investor-members,” with limited governance rights, that is, members whose right to vote in the general assembly, according to the Basque Cooperative Law (2019) “may be determined, exclusively or preferentially, based on the capital contributed” (art. 155/2019). The law allows for these members to be physical persons or legal persons, but in Mondragon’s case they are always legal persons—organizations—either other cooperatives from the group or the group’s venture capital fund. The greater an investor member’s investment, the greater its formal voice in governance bodies, but investor-members are prohibited from exercising majority control regardless of the size of their investment relative to the total equity in the firm.

The 2nd-degree cooperative is another legal form adopted by a number of our MSCs. Four of them use this legal structure: *Ikerlan, Mondragon Unibertsitatea, Osarten*, and *Ideko*. This kind of cooperative’s membership is composed, at least in part, of other cooperatives of any kind. Usually, these are the co-founding cooperatives and often other cooperatives join later. In Mondragon, there is also always a specific membership class for workers. *Mondragon Unibertsitatea*, for example, is a second-degree cooperative made up of its four different faculties, three of these, autonomous education cooperatives, and one, a foundation. Several of its staff members are also worker-members. Finally, apart from the consumer and credit cooperatives, *Laboral Kutxa* (banking) and *Eroski* (supermarkets and other retail stores), the remaining cooperatives are, in legal terms, *service cooperatives*. A service cooperative is a particular

legal form defined as a cooperative constituted to facilitate, guarantee or complete the business or professional functions, the activity, or the operational results of its members who may be professionals or enterprises, regardless of their legal form (art. 127 and 128/2019).

Ownership Structure

The legal form of the Mondragon MSCs can be explained at least in part by the sector in which the MSCs operate. This is obviously the case for education, credit, and consumer cooperatives. Similarly, the ownership structure and control rights are defined, to a certain extent, by the legal form; consumer cooperatives include consumer-members, and service cooperatives include user-members. However, deviations from this general rule inform the way in which Mondragon's MSCs have tried to adapt the ownership structure of their cooperatives in relation to their purpose, history, etc. For example, all the cooperatives in our study include worker-members, as mentioned, regardless of their legal form, area, or sector of operation. This is also the case for the credit and consumer cooperatives; both include worker-members, which is only very rarely the case in other consumer and credit cooperatives around the world.

This, we believe, reflects the primacy of labor that permeated Mondragon's founders' thinking (Ortega, 2021), and is an attempt to mirror in this key respect the "standard model" in Mondragon, that is, the industrial worker cooperative. Indeed, this is the principal finding regarding the ownership structure of Mondragon MSCs; the figure of the worker-member is the only one common to all of them. All Mondragon co-ops have a specific class of membership for workers-members. The ownership structure of MSCs is, in significant ways, also organized around the core figure of the worker-member, even though, in most cases, they do not have majority status in governance bodies.

Besides worker-members, the most common membership category is the "collaborating-member" (17 out of 21 MSCs include this category). Collaborating members are organizations with an interest in supporting

Table 10.3 Legal form, percentage of worker-members, and types of members by MSC

Name	Legal form	Collab. members	User, legal ²⁰	User, physical	Investor, legal	Investor, physical
Ikerlan	2nd degree	Yes	Yes	No	No	No
Ideko	2nd degree	Yes	Yes	No	No	No
Mondragon Unibertsitate	2nd degree	Yes	No	No	No	No
Osarten	2nd degree	No	Yes	No	No	No
Eroski	Consumer	No	No	Yes	No	No
Laboral Kutxa	Credit	Yes	Yes	Yes	No	No
MGEP	Education	Yes	No	Yes	No	No
Enpresagintza	Education	Yes	No	Yes	No	No
HUHEZI	Education	Yes	No	Yes	No	No
Lea Artibai Ikastetxea	Education	Yes	No	No	No	No
Politeknika Txorierrri	Education	Yes	No	Yes	No	No
Arizmendi	Education	Yes	No	Yes	No	No
Mondragon 5. Coop	Mixed	Yes	Yes	No	Yes	No
GSR	Mixed	No	No	No	Yes	No
Loramendi	Mixed	Yes	No	No	No ²¹	No
Ederlan Tafalla	Mixed	Yes	No	No	No ²²	No
Maier Ferroplast	Mixed	Yes	No	No	Yes	No
Lagun Aro Services	Services	No	Yes	No	No	No
Ategi	Services	Yes	Yes	No	No	No
Alecop	Worker cooperative	Yes	No	No	No	No
Mondragon Lingua	Worker cooperative	Yes	No	No	No	No

the MSC's activity, who are often not direct, continuous users. In for-profit cooperative enterprises, collaborating members consist of local businesses, primarily but not exclusively Mondragon co-ops. In non-profits, usually education co-ops, collaborating members, in addition to

²⁰ "Legal" refers to legal entities and "physical" refers to actual physical persons (users, students).

²¹ The questionnaire completed by this cooperative referred to investment providers (*Mondragon Investments*) as collaborators.

²² See note 21.

local businesses (co-op and other), also generally include local public institutions, one or more local foundations, and Mondragon Corporation central offices. In Table 10.3, we summarize these and related data in order to have a more clear and more complete picture of membership categories and their frequency in Mondragon MSCs.

The next most common is the “user-member”²³ category (13 out of 21 MSCs include user-members). Credit, consumer, and education cooperatives include physical persons (customers-depositors, consumers, and students or their parents, respectively) as users in their ownership structures, while the rest (second degree and service cooperatives) include only legal persons (organizations) as user-members. For example, user-members in the MSC service cooperatives *Osarten* (health, safety, and well-being) and *Ategi* (purchasing) consist of several dozen cooperative customers. In these service co-op MSCs, non-cooperative companies can generally be customers, but they cannot become members. In these MSCs, cooperatives that are customers take part in the firm’s ownership structure as users, not as collaborating members as in other MSCs, for example, second-degree or education cooperatives.

Finally, some MSCs reported “investment providers” among their members, but all of these refer to Mondragon co-ops or Mondragon group investors, generally through *Mondragon Investments*, a venture capital fund created by the Corporation.²⁴ Indeed, only three out of 21 MSCs reported investment providers in their ownership structure: GSR, *Mondragon S. Coop.* and *Maier Ferroplast*. However, *Mondragon Investments* is included as a collaborating member (not an “investment provider”), participating in the governing council of at least, to our knowledge, three other cooperatives: *Ategi*, *Loramendi* and *Ederlan Tafalla*.²⁵

²³ User-members refer here to consumers in a consumer cooperative (i.e. *Eroski*), students in an education cooperative (i.e. HUHEZI) or cooperative firms in a service cooperative (i.e. *Ategi*) but NOT to workers in a worker cooperative. In this sense, the use of this term differs from the use of the concept of ‘usership’ by other authors in this volume.

²⁴ This entity’s funds come from initial and annual investments made by Mondragon cooperatives as an obligation that arises from belonging to the Mondragon group.

²⁵ To date, the authors have not been able to uncover in a definitive way, the reason for this difference.

In addition, almost half of the MSCs in this study include more than one kind of member other than the worker-members in their ownership structure. For example, in the case of research centers *Ikerlan* or *Ideko*, the Mondragon Foundation and the Engineering Faculty (MGEP) of *Mondragon Unibertsitatea* (MU) are collaborating members. *Ikerlan* includes, also, *Laboral Kutxa*, and *Ideko* has other collaborating entities (i.e. ZEISS or RUFIN). In both cases, though, these co-ops also have user-members consisting of Mondragon cooperatives and other local businesses in the case of *Ikerlan*, and cooperatives of the Danobat Group (Mondragon's machine tool division) in the case of *Ideko*.

Overall, besides a worker-member category in all cases, we can say that the ownership structure of MSCs in the MCE is characterized by heterogeneity. Variety is high and it is difficult to identify patterns. However, if we look at the concrete entities taking part in the ownership structure of Mondragon MSCs, either as users or collaborators, we can identify one other noteworthy regularity, the centrality of other Mondragon cooperatives and/or corporate-level or group-level superstructures. For example, the FAGOR Group²⁶ participates in the governing council of nine MSCs, and the ULMA Group in five. Moreover, Mondragon corporate structures take part in the governing council of 10 MSCs out of the 13 that reported the participation of external entities in their governing councils.

Governing Councils and General Assemblies

The balance of power between the different stakeholders in the main governing bodies of Mondragon MSCs reflects the heterogeneity of their ownership structures, though their legal form provides a template from which to approach their composition. For example, worker-members do not hold a majority position in the governing bodies of most MSCs. User-members hold strong, at times majority, positions in the governing

²⁶ The FAGOR Group is a regional subgroup within Mondragon consisting of several industrial co-ops in and around the town of Mondragón. The ULMA Group is a similar structure in the nearby town of Oñati.

bodies of service and consumer cooperatives. Finally, overall, collaborators are not insignificant but not majoritarian. Besides, each MSC's composition reveals the particular path the co-op chose to advance its purpose in combination with its perceptions of how best to manage internal and external circumstances. As we can see, differences are considerable within each legal category and reflect co-ops' different understandings of the role and function of the various stakeholders participating in their ownership structures (see Table 10.4) and, likely, leaders' and advisors' experience with, or perceptions of, the governance of other MSCs. Given the lack of clear patterns beyond the ones mentioned, these understandings and perceptions seem idiosyncratic to some significant degree.

To begin, in eight MSCs (*Ategi*, HUHEZI, *Politeknika Txorierrri*, *Enpresagintza*, MGEP, *Arizmendi*, *Eroski*,²⁷ *Maier Ferroplast*.²⁸) no stakeholder group has a majority in the general assembly or the governing council; an agreement among two or three different stakeholder groups is necessary for decisions to be made. Most of them are education cooperatives where, together with students (users) and staff (workers), equal weight is given to collaborating entities; mainly other cooperatives, but also, for example, public institutions. In *Ategi*, user-members (cooperatives) and collaborating members (*Laboral Kutxa* and *Mondragon Investments*) have equal influence and, similarly, in the case of *Eroski*, consumers and workers each hold half of the votes in the general assembly and the governing council.

In 13 of them, user-members hold more than half of the votes in the general assemblies and the governing councils (*Osarten*, *Laboral Kutxa*, *Lagun Aro Services*, and *Mondragon Unibertsitatea*) and worker-members hold a similarly strong position in the governing bodies of *Mondragon Lingua*, *Alecop*, GSR, and *Loramendi*. Indeed, these latter four are the

²⁷ In *Eroski*, the GC President is, by unwritten rule, a user/consumer member and has a tie-breaking vote.

²⁸ In *Maier Ferroplast* the distribution of votes is equal (33.3% each) among workers, collaborators, and investor-members in both the General Assembly and the Governing Council. However, both collaborators and investment providers in this case refer to the same entity, MAIER S. COOP., the parent co-op as described earlier.

Table 10.4 Percentages of different categories of members of Mondragon MSCs' General Assemblies (GAs) and Governing Councils (GCs) by MSC legal structure

Coop	Kind	Worker-members		Collaborating members				User-members		Investing-members	
		GA (%)	GC (%)	GA (%)	GC (%)	GA (%)	GC (%)	GA (%)	GC (%)	GA (%)	GC (%)
<i>Ikerlan</i>	2nd degree	45.0	33.0	3.0	20.0	51.0	46.7				
<i>Ileko</i>	2nd degree	40.0	40.0	10.0	10.0	50.0	50.0				
<i>Mondragon Unibertsitate*</i>	2nd degree	2.6	0.0	18.3	29.3						
<i>Osarten</i>	2nd degree	24.0	18.0			76.0	82.0				
<i>Average</i>		27.9	22.8	7.8	14.8	44.3	44.7				
<i>Eroski</i>	Consumer	50.0	50.0			50.0	50.0				
<i>Average</i>		50.0	50.0			50.0	50.0				
<i>Laboral Kutxa</i>	Credit	33.0	33.0	8.0	8.0	59.0	58.0				
<i>Average</i>		33.0	33.0	8.0	8.0	59.0	58.0				
<i>MGEP</i>	Education	33.3	33.3	33.3	33.3	33.3	33.3				
<i>Enpresagintza</i>	Education	33.3	33.3	33.3	33.3	33.3	33.3				
<i>HUHEZI</i>	Education	33.0	33.0	33.0	33.0	33.0	33.0				
<i>Lea Artibai</i>	Education	45.0	43.0	25.0	29.0	30.0	28.0				
<i>Ikastetxea</i>											
<i>Politeknika Txorierr</i>	Education	33.3	33.3	33.3	33.3	33.3	33.3				
<i>Arizmendi</i>	Education	35.0	35.0	30.0	30.0	35.0	35.0				
<i>Average</i>		35.5	35.2	31.3	32.0	33.0	32.7				
<i>Mondragon S Coop</i>	Mixed	30.0	43.0	1.0		25.0	28.5	43.0	28.5		
<i>GSR</i>	Mixed	64.0	57.0					36.0	43.0		

Coop	Kind	Worker-members		Collaborating members		User-members		Investing-members	
		GA (%)	GC (%)	GA (%)	GC (%)	GA (%)	GC (%)	GA (%)	GC (%)
<i>Loramendi</i>	Mixed	60.0	60.0	40.0	40.0				
<i>Ederlan Tafalla</i>	Mixed	26.0	41.6	49.3	41.7			24.7	16.7
<i>Maier Ferroplast</i>	Mixed	33.3	33.3	33.3	33.3			33.3	33.3
<i>Average</i>		42.7	47.0	24.7	23.0			27.4	24.3
<i>Lagun Aro Services</i>	Services	37.0	33.0			5.0	5.7		
						63.0	67.0		
<i>Ategi</i>	Services	10.0	25.0	45.0	37.5	45.0	37.5		
<i>Average</i>		23.5	29.0	22.5	18.8	54.0	52.3		
<i>Alecop</i>	Worker cooperative	66.7	80.0	33.3	20.0				
<i>Mondragon Lingua</i>	Worker cooperative	70.0	80.0	30.0	20.0				
<i>Average</i>		68.3	80.0	31.7	20.0				
Overall average		40.0	43.0	24.0	22.0	27.0	27.0	5.0	5.0

*Mondragon Unibertsitatea does not report collaborating members and user-members as such but refers to other member cooperatives holding 79% of the votes in its General Assembly and 71% of votes on its Governing Council

only ones in which worker-members hold a majority vis-à-vis, other stakeholder groups.

Heterogeneity is the main feature of other cases. Either one group has a majority but only in one governing body (*Ederlan Tafalla*, *Ikerlan*, and *Mondragon S. Coop.*) or one stakeholder group has a plurality, but not a majority and cannot make decisions on its own (*Ideko* and *Lea Artibai Ikastetxea*). In the case of *Ederlan Tafalla*, for example, worker-members share voting power equally with collaborating members in the Governing Council, but not in the General Assembly, and the *Mondragon S. Coop.* case is similar. Worker-members have a plurality in the governing council (43%) followed by collaborators and investment providers, each with 28.5%. However, this balance shifts in the case of the general assembly where it is the investor-members who have 43% of the votes. Again, we cannot detect clear patterns, beyond the minimal ones discussed, and believe, in each case, arrangements are idiosyncratic, responding to the different financial and market circumstances extant in each case, along with personalities and decision-makers' perceptions of previous MSC experiences in the MCE.

Other Decision-Making Bodies

Besides the General Assembly and the Governing Council, several MSCs reported the existence of complementary bodies that play important roles in governance decision-making. Among these are Audit Committees, Executive Committees, Collaborators Committees, and/or Social Councils.

The Audit Committee and the Social Council are defined by law (see Sect. 10.2 and Fig. 10.1). All Social Councils, by law, and most Audit Committees, are composed exclusively of worker-members. Most of the MSCs in this study must have an audit committee since they have over 100 members, but two cooperatives with fewer members report having one (*Alecop* and *Osarten*). Fifteen out of 21 MSCs report having a Social Council. Less common are the other two bodies reported by certain MSCs in our sample: the Collaborators/Users Committee and the Executive Committee, explained below.

Alecop, *Eroski* and MGEP refer to a specific committee for users or collaborators. In the case of *Alecop*, our MSC questionnaire reports the existence of a joint representative council of collaborating members and worker-members that seems to parallel the role of the Social Council. Both types of members are present on its Audit Committee, although with different weights (66% worker-members and 33% collaborating members). *Eroski* also reports the existence of a consumer (i.e. user) council in parallel to the Social Council, and both play a similar consultative/advisory role among user-members, the Governing Council and the Management Council. Finally, in MGEP (the Engineering Faculty of MU), together with the Social Council, user-members (students) also have their own representative body in the form of a student council.

One-third (7 out of 21) of Mondragon MSCs report having an executive committee (*Ikerlan*, *Ideko*, *Ederlan Tafalla*, *Mondragoan S. Coop.*, *Politeknika Txorierri*, MGEP, and *Enpresagintza*). In most cases, it is composed mainly of worker-members who also serve on the Governing Council, although user and collaborator Governing Council representatives also take part, to a certain extent, in the cases of MGEP, *Enpresagintza*, and *Ikerlan*. Overall, the definition of the Executive Committee's role is somewhat varied—although a number of study participants emphasized its connection to work and management decision-making in relation to internal matters of particular interest to its worker-members relative to collaborating or user-members.

10.4 Discussion: Processes and Dynamics of Governance in Mondragon MSCs

In the previous sections, we have described multistakeholder cooperative in the Mondragon Cooperative Experience (MCE). First, we laid out the basic contours of the experience. We wanted to understand how MSCs emerged in the MCE and we defined their nature and original purposes. Next, we described in detail how different MSCs accommodate different stakeholders in their structural setup and how these arrangements articulate decision-making processes. However, while the structural arrangements of Mondragon MSCs speak to their origins,

how these arrangements address present challenges and how they might affect the future of the Mondragon cooperative experience remain open questions. Here we begin an analysis of these issues. By necessity preliminary, our analysis is based on interview results and written responses to open-ended items on the questionnaire.

To begin, our interview respondents suggested that MSCs' structural setup remains in place to fulfill their original service role. For example, the respondent from *Eroski* underlined the role to serve its users by providing a fair price for a quality product with trustworthy service *aimed at educating* its consumers to live healthier lives. *Ategi* stressed its service role as encouraging, in parallel to its business operations, *the value of inter-cooperation* among cooperatives in the group. The respondent from *Laboral Kutxa* emphasized that the organization "is not an end in itself, it is an instrument that aims to promote the Mondragon Cooperative Experience" (LK). In other words, most interview participants frame their business operations and governance arrangements in terms of instruments for achieving a greater end.

However, it is important to note that most respondents also recognize that this service role has evolved over time in response to changes in their external and internal contexts. In the case of *Laboral Kutxa*, for example, the service role to other cooperatives remains, but its operationalization has been modified by external pressures, mainly evolving banking regulation that sought what regulators perceived to be better risk management. *Eroski's* conception of its purpose also has changed, but in this case in response to both internal pressures to attend to worker concerns and to enhance GC and management effectiveness.

Laboral Kutxa (est. 1959) was developed to provide financial, technical, and social services to other cooperatives and is a foundational pillar of the Mondragon Cooperative Experience itself. Though formally a credit union, it might have been more accurately described in its first generation as a cooperative development finance organization. Today, however, the share of its loan portfolio in Mondragon cooperatives is, by law, strictly limited and cooperatives currently represent only 4% of

its lending business.²⁹ To maintain its service role to the group despite these lending restrictions, *Laboral Kutxa* arrived at a legal agreement with the group to donate/invest funds annually in other Mondragon financial entities. All Mondragon co-ops share this obligation, but LK's obligation is 15 percentage points higher than in any other cooperative in the group.³⁰ Still, it is important to emphasize that banking regulators do not permit LK to make Mondragon co-ops its primary customer base.

Eroski's case is different, not surprisingly, showing evolution in governance due to internal as well as external forces, and in this case not regulatory ones. It was created in the 1960s out of a merger of several small consumer cooperatives. Therefore, in the beginning, its governance structures were composed exclusively of consumers. The merger had a dual purpose: first, to assist the stores (the original consumer co-ops) to build a new management infrastructure that would provide business expertise to address shared problems, and thus, second, to serve the community, as supermarket consumers. However, internal pressure from workers and managers and other Mondragon institutions to create a membership category for workers led to a major debate in the early 1980s, and *Eroski's* General Assembly decided to alter its own governance structures to include worker-members. In addition to philosophical claims about the primacy of labor in Mondragon firms, the argument was that consumers would be better served by a work force of worker-members than of ordinary employees.

In both cases, LK and *Eroski*, purpose evolves and adapts in response to external or internal pressures. However, adaptations can be interpreted to be more consistent or less consistent with their cooperative nature. For example, with respect to the inclusion of the worker-member in the ownership structure of *Eroski* or *Laboral Kutxa*, in both cases, our respondents argued that other cooperatives that operate in their sectors are, at some level, their natural model. They explain that other credit

²⁹ The regulator considers the Mondragon corporation as a single entity in terms of risk concentration; thus, the regulatory framework establishes that the bank can only share risks with co-ops in the Mondragon group up to an amount equivalent to 25% of its equity. In practice, this means only 4% of *Laboral Kutxa's* loan portfolio can be with cooperatives in the group.

³⁰ All co-ops in the group, through a Mondragon Cooperative Congress decision, obligated themselves to dedicate a portion of their post-tax profits to various Corporation support funds and other organizations.

or consumer cooperatives rarely if ever include worker-members in their ownership structures. However, in the case of *Eroski*, “[i]t was natural, because of the context of the Mondragon cooperatives” (*Eroski*). And in Laboral Kutxa: “The workers are members, and this comes from the model of the industrial worker cooperative; that is, if we are working from a model that is based in the local environment, we are looking for replication [of that model] in the sector” (LK).

In both cases, changes in the ownership structure based on a close relationship with other cooperatives in the group promoted adaptations to help them maintain their original purposes, enhancing diversity and inclusiveness in their governance bodies. In other words, both present interesting examples of *congruent isomorphism* in response to external or internal challenges affecting their capacity to hold true to their original purpose.

However, this is not necessarily always the case, and perhaps especially when business needs and social/cooperative purpose pull possible responses to external pressures in opposing directions. In the case of *Ederlan Tafalla*, for example (but among others), our respondent remarks that the mixed cooperative legal form originally adopted was intended to be transitory.³¹ The structural change from conventional firm to mixed cooperative provoked a more profound transformation than expected toward the cooperative culture and values of the workers. However, after the cooperativization began, the firm experienced a number of financial crises and these have thus far precluded the fulfillment of the original purpose of the operation—full transformation of the structure to a worker cooperative.

In the literature, this kind of practice is defined as *non-congruent isomorphism*, meaning the tendency to mirror conventional practices that do not meet cooperatives’ standards and thus contribute to cooperative degeneration. Isomorphic pressures and degeneration can be countered, though (Bretos et al., 2020), with processes that reach beyond

³¹ Recall the history of *Ederlan Tafalla*. The Mondragon automotive components co-op, *Fagor Ederlan*, together with the FAGOR Group (a Mondragon regional subgroup) and *Mondragon Investments*, bought a failing conventional firm, *Victorio Luzuriaga*, intending to make a transition over time to a standard worker cooperative. Though many years have passed, the transition has not fully taken place.

formal governance bodies and out into social-communicative relationships (Stacey & Mowles, 2016).

Responses to these degeneration dynamics are shared among many cooperatives and focus on value regeneration through cooperative identity education. For example, in *Lagun Aro*, our interviewee described the lack of disposition among worker-members to volunteer as candidates for election to governance bodies, and how this speaks to their lack of understanding of their duties and responsibilities as members of a cooperative. The respondent at first refers to new members in this connection, but then also comments on the veterans in the co-op and next underlines, “We are working on that. Okay, we don’t have ‘natural born cooperators’, but we will work so that they become cooperators. There, we are doing a lot, we do training... we are going to hold mini-ADITUs³² for our members” (LA).

Further, most of our informants speak about the challenges that accompany the complexity of their structure and how these affect the normal workings of governance processes, although most of them, overall, seem to believe that governance processes function adequately. A potential explanation here speaks to other factors that address the relationship issues that arise between different stakeholders. Our respondents refer to a set of unwritten rules that facilitate the handling of tensions resulting from an imbalance in the representation of the different interests in a particular decision at the Governing Council of the cooperative. For example, in the case of *Ederlan Tafalla*, interviewees explain that, given the critical economic situation of the cooperative in 2010, they increased the company’s equity capital through additional contributions from worker-members. Still, the way the stakeholders “put together majorities” for these decisions did not correspond to *Ederlan Tafalla*’s actual structure. In this case, given that those most directly affected were *Ederlan Tafalla*’s worker-members, the other stakeholders in the governance bodies, concretely, *Fagor Ederlan* and *Mondragon Investments*, decided not to take part in the decision-making process.

³² ADITU is an intensive, eight-month graduate certificate in cooperative enterprise and cooperative identity offered by *Mondragon Unibersitatea* to Mondragon co-op members each year.

Indeed, these unwritten rules are leading to structural changes affecting the definition of decision-making processes. In the case of *Ederlan Tafalla*, concern about the need for a particular governance space to tackle issues exclusively or mainly of interest to worker-members explains the creation of complementary bodies—in this case, the Executive Committee—as part of the structure of governance of the MSC (see description of this body in section “[Other Decision-Making Bodies](#)”). But this strategy is not exclusive to *Ederlan Tafalla* and, roughly, similar patterns are reported by *Eroski*, *Ategi*, *Enpresagintza*, *Lagun Aro*, and *Laboral Kutxa*. In short, in all these MSCs, the different stakeholders understand which of them is most affected and, accordingly, but informally, they decide which of them should have the final word in a particular decision.

These measures—namely, education, unwritten rules, scaffolding bodies—and the resulting division of labor on what are effectively governance decisions, show how MSCs in Mondragon try to balance power dynamics among the different actors in their governance structures. In this sense, they represent a tailored solution to a problem that is particular to MSCs. In the standard industrial worker cooperatives of the group, there is no need for these measures since only one stakeholder group is involved. Interestingly, some respondents suggest that it might be useful to extend this discussion on what different stakeholders’ roles, perspectives, and contributions, etc., might add to other (single-stakeholder) cooperatives as a potential measure to help them address one of their main challenges, the expertise dimension of the so-called governance trilemma (Basterretxea et al., [2022](#); Birchall, [2014](#)).

Regarding the balance between expertise and representation, specific difficulties in Mondragon have been identified in previous research. For example, the *Good Cooperative Governance Guide* (2019), published by the Department of Management & Social Affairs of the Mondragon Corporation addresses the need to balance expertise, voice, and representation to deal with the complexity of decision-making. It suggests a potential solution through the inclusion of independent, outside governing council members. However, almost no Mondragon cooperative makes use of this figure and, when asked for the reasons, the

answer can be summarized by a reluctance to “let outsiders arrange our furniture” (LANKI, 2019).

In MSCs, on the contrary, this option is valued, and our respondents, again, also suggest it as a potential yardstick for rethinking the governance model of Mondragon cooperatives in general. In the case of *Laboral Kutxa*, all candidates for the Governing Council need to fulfill knowledge and competency criteria defined by banking regulatory authorities. This condition is not exclusive to financial entities. Similar processes are described in *Lagun Aro* or *Eroski*, though they are not as stringent. All our respondents acknowledge that this measure challenges a fundamental principle of cooperative governance regarding representation: that each and every member of the cooperative has the right to be elected to the cooperative’s Governing Council. However, when asked about non-worker-members’ contributions from the perspective of the cooperative governance model, all our respondents emphasize the positive contribution of expert, independent members to the governance of these cooperatives.

In *Eroski*, for instance, our respondent suggests that the social dimension of governance is better guaranteed by including user/consumer-members as, in a sense, “independent” board members, “independent” in the sense that they do not have nearly as full or direct an interest as worker-members do. *Eroski* has about a million user/consumer-members. This is more or less half of the entire population of the Basque Autonomous Community and makes the organization of the election process and ensuring representativeness challenging. Our respondent believes the company is keenly aware of the representative gap regarding users in the Governing Council, “There is a flaw there. It does not represent consumers.” To bridge this gap, their strategy is more focused on developing *soft* mechanisms of participation to give voice to consumers, rather than creating formal mechanisms to enhance user/consumer-member representation. The co-op has also established certain specific criteria aimed at guaranteeing that user/consumer-members play a genuinely independent role on the Governing Council and are highly sensitive to the cooperative nature of the firm. We asked about the possibility of compensating user/consumer-member GC representatives for their GC work in order to help ensure they have sufficient time for

it. Our respondent emphatically rejects this option because, if there is compensation, there is a potential conflict of interest; user/consumer-members on the Governing Council might no longer feel as free to contribute in an independent way. The interviewee also emphatically emphasized that the independent (i.e. user/consumer) members need to be members of other cooperatives of the group, to help guarantee a high level of understanding of the implications for GC work of the cooperative nature of the firm.

Laboral Kutxa appears to exhibit a roughly similar pattern. The inclusion of independent members does not respond here to a perceived representativeness gap, but a pragmatic need. Other cooperatives provide senior managers to act as independent GC members who fulfill criteria established by banking regulators for membership on the GC of a bank. Our respondent defends this as a good measure to avoid conflict where worker-members on the GC have to decide on matters concerning their particular interests. He further stresses that diverse points of view make the decision-making process richer and, therefore, more effective. In other words, as in the case of *Eroski*, in *Laboral Kutxa*, respondents underscore the practical necessity of overcoming a purely representative logic; the contribution of skilled, “independent” board members is highlighted as a virtue, but the firms also value their strong links to the cooperative model, helping to ensure their governance work is carried out from a cooperative perspective.

10.5 Conclusions

In this chapter, we aimed at responding to three main sets of research questions:

- i. What is the extent of multistakeholder cooperativism in the MCE? What are its nature and purpose?
- ii. How do the nature and purposes of MSCs in the MCE take shape in the relationship among different stakeholders? What are their governance structures?

- iii. How has the relationship among Mondragon's MSCs' purpose, structure, and processes evolved in response to internal and external dynamics?

Our investigation has led us to respond to the first question in two ways. First, it is clear that MSCs represent a quantitatively and qualitatively significant part of the MCE. It is quantitatively significant insofar as MSCs make up roughly a quarter of the cooperatives in the group and represent a substantial part of the total number of worker-members in the MCE. They are a qualitatively significant part of Mondragon because they are distributed among all four of Mondragon's different business areas, are dominant in three out of four, and include some of the most symbolic cooperatives from the perspective of the genealogy of the Mondragon cooperative experience itself.

Second, all MSCs have a service role in common. In other words, they were not created only (or mainly) as profit-oriented enterprises, in line with classic cooperative principles (ICA, 2015; Novkovic & Miner, 2015), although, the orientation of this service role changes from co-op to co-op (or among categories of co-ops) and over time. We have identified three groups: those whose purpose is serving the community; those whose purpose aims at helping other cooperatives; and, finally, those whose purpose is to serve working people and particular co-ops through facilitating the pursuit of a business opportunity and creating or maintaining employment.

Regarding the second question, nature and purpose find their place in the structural arrangements of these cooperatives. Indeed, this group of multistakeholder co-ops is very heterogeneous, but all MSCs, without exception, have a specific, formal stakeholder category for worker-members. In a significant sense, worker-members are the central figure for all Mondragon MSCs. This centrality, more obvious in certain cases (mixed and worker cooperatives, for example) than others (credit and consumer cooperatives), speaks to their membership in the Mondragon group and their relationship to its standard model, the worker cooperative.

Further, the most common stakeholders, *other than* worker-members, are cooperatives in the Mondragon group (as user-members) and

Mondragon corporate structures (as collaborating members). Only in education, credit and consumer cooperatives do individual persons have votes as user-members. Together with the centrality of the worker-member, this second feature common to Mondragon MSCs—*Mondragon-ness*—speaks to the close ties among cooperatives in the group, to the general notion and practice of networked inter-cooperation that dates back to the group's founding era and explains the original impulse behind the creation of most of these cooperatives.

Finally, we have seen that, although the service role of Mondragon MSCs remains, it appears that how it is defined in terms of purpose has evolved in response to internal and external influences. We have also found these dynamics affect not only MSCs' purpose but, inevitably, also their governance structures and processes. For example, changes in the membership structure of the cooperative can be explained as a consequence of congruent isomorphism among cooperatives sharing a common purpose, though not a common business. External influences can also push governance processes toward greater inclusiveness, even when congruent isomorphism follows a business-oriented logic. Hence, changes in the ownership structure of cooperatives can result from congruent isomorphism among cooperatives sharing a common purpose, or among co-ops sharing a common business.

Further, MSCs do not differ markedly from other worker cooperatives in the group in terms of the well-known, (non-congruent) isomorphic-degenerative dynamics that can negatively affect their governance processes. Again, though, there are dynamics specific to particular MSCs that, in our view, could help MSCs in general address this kind of governance issue. For example, we have found that scaffolding bodies, in terms of structure, and unwritten rules regarding the process, show MSCs seeking to balance the power dynamics among the different stakeholder groups taking part in their governance structures. Moreover, we have suggested a number of these measures could help conventional single-stakeholder co-ops in the group manage well-known governance dilemmas.

According to the protagonists of our MSC story, this is a path worth exploring, although somewhat distant from current discussions of governance in the Mondragon group. Still, in these regards, we think the

importance of Mondragon MSCs and their distinctive features could provoke discussion of the implications of multistakeholder governance for other cooperatives in the network. These cooperatives were obligated to include other stakeholders in their governing bodies, because of internal and/or external pressures, and thus, in a sense unwittingly, they became an arena of experimentation that even its protagonists recognize might have been difficult to create otherwise. Further, as cooperatives with worker-members, and as central players in the Mondragon network, these MSCs provide a model that is close enough to the group's standard co-op model that, again, they could eventually bring the standard co-ops closer to a real debate about governance and multistakeholder issues, one that currently might sound a bit esoteric in most worker cooperatives.

In order to encourage these cooperatives to re-examine this experimental path, however, more thorough research is needed. First, we need to compare the most basic features of Mondragon MSCs regarding structure and process with non-MSCs. Finding common trends regarding structures and decision-making processes among non-MSCs might facilitate a more nuanced characterization of MSCs in the Mondragon group. Second, we must enhance our understanding of governance dynamics within MSCs. Our findings cannot be extrapolated, given the most in-depth research thus far has only covered the points of view of one or two cooperatives from each of our purpose categories and only with a very limited number of participants. Enhancing the corpus of interviews on which our analysis is based is critical to aspire to more robust and potentially generalizable conclusions. Further, it would be important to extend this inquiry into MSC governance dynamics, for example, to the members of non-MSCs who take part in the governance of MSCs. They would provide a natural opening for inquiry and be a rich source of data to further these analyses for scholars and practitioners alike.

References

- Altuna Gabilondo, L. (2008). *La experiencia cooperativa de Mondragon: Una síntesis general*. Instituto de Estudios Cooperativos LANKI.
- Arando, S., Gago, M., Jones, D., & Kato, T. (2015). Efficiency in employee-owned enterprises: An econometric case study of Mondragon. *Industrial & Labor Relations Review*, 68(2), 398–425.
- Azkarraga, J., Cheney, G., & Udaondo, A. (2012). Workers' participation in a globalized market: Reflections on and from Mondragon. In *Alternative work organizations* (pp. 76–102). Springer.
- Azurmendi, J. (1984). *El hombre cooperativo: Pensamiento de Arizmendiarieta*. Caja Laboral Popular, Lan Kide Aurrezkoa.
- Barandiaran, X., & Lezaun, J. (2017). The Mondragón experience. In J. Michie, C. Borzaga, & J. Blasi (Eds.), *The Oxford handbook of mutual, co-operative, and co-owned business* (pp. 279–295). Oxford University Press.
- Basterretxea, I., Heras-Saizarbitoria, I., & Lertxundi, A. (2019). Can employee ownership and human resource management policies clash in worker cooperatives? Lessons from a defunct cooperative. *Human Resource Management*, 58(6), 585–601.
- Basterretxea, I., Cornforth, C., & Heras-Saizarbitoria, I. (2022). Corporate governance as a key aspect in the failure of worker cooperatives. *Economic and Industrial Democracy*, 43(1), 362–387.
- Birchall, J. (2014). *The governance of large co-operative businesses* (pp. 1–120) [Research study]. Co-operatives UK.
- Bretos, I., & Errasti, A. (2017). La viabilidad de las cooperativas en la globalización: Presiones degenerativas y nuevas estrategias de regeneración en las cooperativas multinacionales de Mondragón. *GEZKI, Revista Vasca De Economía Social*, 14, 103–127.
- Bretos, I., Errasti, A., & Marcuello, C. (2020). Is there life after degeneration? The organizational life cycle of cooperatives under a 'grow-or-die' dichotomy. *Annals of Public and Cooperative Economics*, 91(3), 435–458.
- Caja Laboral Popular. (1986). *Caja Laboral Popular, 25 años* (Caja Laboral Popular).
- Corporación Mondragon. (2021). *Informe annual 2020*. Corporación Mondragon.
- Eckart, M. (2009). *Cooperative governance: A third way towards competitive advantage*. Südwestdeutscher Verlag für Hochschulschriften.

- Freundlich, F. (2015). Governance in Mondragon. In S. Novkovic, & K. Miner (Eds.), *Co-operative governance. Fit to build resilience in the face of complexity* (pp. 64–70). International Cooperative Alliance-ICA.
- Freundlich, F., Grellier, H., & Altuna, R. (2009). Mondragon: Notes on history, scope and structure. *International Journal of Technology Management & Sustainable Development*, 8(1).
- Freundlich, F., Arando, S., Gago, M., Jones, D. C., & Kato, T. (2013). Institutional innovation in Mondragon: Context, shape and consequences. In J. L. Klein (Ed.), *Pour une nouvelle mondialisation: Le défi d'innover* (Towards a new globalization: The challenge of innovation) (pp. 235–254). Presses de l'Université du Québec (Social Innovation Series).
- ICA-International Cooperative Alliance. (2015). *Guidance notes on the co-operative principles*. International Cooperative Alliance.
- Imaz, O., & Eizagirre, A. (2020). Responsible innovation for sustainable development goals in business; an agenda for cooperative firms. *Sustainability*, 12(17), 6948.
- Kasmir, S. (1996). *The myth of Mondragon: Cooperatives, politics, and working class life in a Basque town*. SUNY Press.
- LANKI. (2019). *Gobernantza marko berritua—Implementazio ikerketa-ekintza* (pp. 1–26). Gipuzkoako Foru Aldundia.
- Molina, F. (2005). *José María Arizmendiarrjeta: 1915–1976*. Caja Laboral.
- Novkovic, S. (2020). Multi-stakeholder cooperatives as a means for jobs creation and social transformation. In B. Roelants, H. Eum, S. Esim, S. Novkovic, & W. Katajamäki (Eds.), *Cooperatives and the world of work* (pp. 220–233). Routledge.
- Novkovic, S., & Miner, K. (2015). *Co-operative governance fit to build resilience in the face of complexity*. International Cooperative Alliance.
- Ormaechea, J. M. (1999). *La experiencia cooperativa de Mondragon ante los nuevos retos sociales*. Jornadas Internacionales.
- Ortega, I. (2021). *La contribución de los fundadores de Mondragón al pensamiento cooperativo* (Doctoral Thesis). Faculty of Business, Mondragon Unibertsitatea.
- Pirson, M. (2017). *Humanistic management: Protecting dignity and promoting well-being*. Cambridge University Press.
- Pirson, M., & Turnbull, S. (2011). Toward a more humanistic governance model: Network governance structures. *Journal of Business Ethics*, 99(1), 101–114.

- Sacchetti, S., & Tortia, E. (2016). The extended governance of cooperative firms: Inter-firm coordination and consistency of values. *Annals of Public and Cooperative Economics*, 87(1), 93–116.
- Sepulveda, L., Lyons, F., & Vickers, I. (2020). Implementing democratic governance and ownership: the interplay of structure and culture in public service social enterprises. *VOLUNTAS: International Journal of Voluntary and Non-Profit Organizations*, 31(3), 627–641.
- Stacey, R., & Mowles, C. (2016). *Strategic management and organisational dynamics: The challenge of complexity to ways of thinking about organisations* (7th ed.). Pearson.
- Whyte, W. F., & Whyte, K. (1991). *Making Mondragon: The growth and dynamics of the worker cooperative complex*. Cornell University Press.

Open Access This chapter is licensed under the terms of the Creative Commons Attribution-NonCommercial-NoDerivatives 4.0 International License (<http://creativecommons.org/licenses/by-nc-nd/4.0/>), which permits any noncommercial use, sharing, distribution and reproduction in any medium or format, as long as you give appropriate credit to the original author(s) and the source, provide a link to the Creative Commons license and indicate if you modified the licensed material. You do not have permission under this license to share adapted material derived from this chapter or parts of it.

The images or other third party material in this chapter are included in the chapter's Creative Commons license, unless indicated otherwise in a credit line to the material. If material is not included in the chapter's Creative Commons license and your intended use is not permitted by statutory regulation or exceeds the permitted use, you will need to obtain permission directly from the copyright holder.





11

Networking, Governance, and Stakeholder Engagement of Financial Cooperatives: Some National Case Studies

Ermanno C. Tortia  and Silvia Sacchetti 

11.1 Introduction

This chapter will study the network organization of financial cooperatives (FCs) and illustrate the most prominent experiences in terms of network structure, governance, and stakeholder engagement. Based on existing literature, it considers the case of Rabobank in The Netherlands, Desjardins Group in Canada, and Cassa Centrale and ICCREA in Italy.

E. C. Tortia (✉)

Department of Economics and Management, University of
Trento, Trento, Italy

e-mail: ermanno.tortia@unitn.it

S. Sacchetti

Department of Sociology and Social Research, University of
Trento, Trento, Italy

e-mail: silvia.sacchetti@unitn.it

The need to investigate the network organization of FCs stems from the coordination patterns observable since their origins in the late nineteenth and early twentieth centuries. FCs were conceived as local or community banks, which could often operate only in their home municipalities. Moreover, they were usually anchored in different territories, so the overlap between their operations was limited. The local character of FCs and their embeddedness in the community differentiated them from commercial banks.

Competition among FCs was avoided in most cases, as it was considered incompatible with the nature, values, and purpose of this type of institution. Instead of competition, a process of spontaneous cooperation and networking among the different local FCs has been observed since their inception. Cooperative networks, in most cases, became more structured and formalized over time, leading to the formation of one or a small number of networks at the national level, which enabled FCs to coordinate with each other, increase their market share, and respond in unison to external challenges. Coordinated development was also accompanied by the creation of a group of FCs that had a common point of reference in a central institution, such as a central cooperative bank having a pivotal role in the group. In other cases, a more decentralized and less formalized network was preferred, in which FCs still interacted cooperatively, but without the creation of a central institution to serve as controller and lender of last resort, and without stringent constraints on mutual aid and control. In any case, spontaneous inter-organizational cooperation seems to be inscribed in the behavioral predispositions of FCs, although the regulation of intra-network relations proved to be a complex undertaking that did not develop without difficulty. This places FCs in sharp contrast to the expansion and marketing policies of commercial banks, which are instead driven by competition, profit, and market share maximization.

Networks of cooperative banks were studied as examples of progressive degrees of integration among atomized organizations pursuing common goals and seeking coordination both to pool resources and to achieve economies of scale. From this perspective, networks were instrumental in reducing the risk of internal contrasts and competition in the same credit and deposit market. Desrochers and Fischer (2005) classify different

types of cooperative bank networks according to the degree of integration. Three categories are identified: (i) atomized systems (no or very low integration) in which FCs act completely autonomously and networks are based on spot contractual relationships; (ii) consensual networks (medium level of integration), in which network arrangements are usually formalized in terms of alliances that reduce supply costs but can generate collective agency costs and contractual failures in terms of decision-makers' (managers') spending preferences and appropriation risks. This group includes consensual networks where participation is voluntary and where collective choices require horizontal coordination among partner organizations since a monitor and central decision-maker are usually absent or lack executive decision-making power; (iii) partner cooperatives merge and become members of a single organization. Contractual relationships are internalized and become part of the governance structure. This standardizes procedures, reduces coordination costs, achieves economies of scale in service production, and reduces procurement costs, but can generate significant organizational costs due to appropriation risks and spending preferences. Included in this group are strategic networks, such as Cassa Centrale and ICCREA in Italy, or the Desjardins Group in Canada, in which a central organization functions as a hub that ensures the standing and solvency of all member organizations conducting production activities and, at the same time, is charged with making strategic decisions. Also included are mergers in the narrow sense, in which all member organizations merge into one larger organization, such as Rabobank in The Netherlands (Desrochers & Fischer, 2005; Hennart, 1993; Novkovic & Holm, 2012).

The most crucial dimensions in the process of integrating networks from atomized systems to consensual and strategic networks to mergers are the pooling of resources and the separation of strategic and operational management and control. The former phenomenon shows the potential of integration in terms of coordination, standardization, and reduced procurement costs; but, at the same time, it increases organizational costs in terms of the cost of suboptimal and opportunistic choices.

The formalization and centralization of a network also imply the separation of strategic and operational choices, as the former is increasingly assumed by a central decision-maker, while the latter continues to be decentralized and left to member organizations (Desrochers & Fischer, 2005).

Other authors focus instead on cooperative values and the history of mutual benefit among cooperative banks as a guiding principle that can inform the creation of public value generated for communities by cooperative banks (Novkovic & Holm, 2012; Ramboarisata, 2009; Sacchetti & Tortia, 2016). Sacchetti and Sugden (2003), in particular, discriminate between networks in which coordination is based on authority and command-and-control principles, and networks based on mutual dependence, in which instead participants have access to strategic planning and are self-managing. These are two extremes on a continuum where FCs' networks can be positioned according to the level of inclusion of participating banks in strategic planning. Low inclusion means that there is little cooperation and that the authority of a single participant prevails in setting the coordination of resources and the direction of the network. High inclusion, on the other hand, means that coordination is cooperative and participants share common values and goals and give each other rules that allow joint and mutual access to strategic decision-making.

Sacchetti and Tortia (2016) apply this network approach to networks created by cooperative enterprises and identify different types of participants. In particular, a cooperative participating in a network can take on different roles. First, we consider the role of "inter-actor", when commitment is based on reciprocity, mutuality, and shared control of strategic direction and resource allocation. This role is consistent with cooperative values. Second, a cooperative can be part of a network as a "recipient", when decisions are not participatory and the cooperative conforms to strategic and/or operational decisions made by the network center. Third, we consider an additional role: that of "director", when the main cooperative or the second-level coordinating level of the network assumes control without introducing cooperative governance mechanisms, but

rather adopts command and control over other network members or recipients. This type of solution is based on the exclusive use of strategic decision-making power and is clearly at odds with cooperative values (Sacchetti, 2015).

In this chapter we illustrate network characteristics using formal networks orchestrated through a central bank with the aim of pooling resources, realizing economies of scale, introducing new centralized services, and improving the economic, environmental, and social sustainability of cooperative members' activities. On the other hand, centralization is not a necessary solution, and different countries have followed different paths. For example, centralization and formalization have been achieved in both The Netherlands (Rabobank) and Italy (Cassa Centrale Banca Group and ICCREA), but at very different speeds. While Rabobank was already a centralized network with one central bank in the 1970s and this centralization and unification process was completed in 2015, in Italy, the same process only started in 2015 and was completed in 2020 (Groeneveld, 2015). Illustrating the examples, we consider the degree of inclusion in strategic planning to assess whether networks are coordinated in cooperation rather than by authority.

11.2 The Network of Cooperative Banks in The Netherlands and Rabobank

Rabobank in The Netherlands represents a nationally integrated cooperative bank model. It was created in 1972 as a result of the unification of two separate networks of local financial cooperatives (LFCs). The new unified network was significantly centralized, as Rabobank assumed all central monitoring functions, developed information technology, and marketing networks, and acted as a lender of last resort for member cooperatives. The main function of the network is mutual support among member banks. All banks in the network provide financial support to member banks in financial difficulties. Mutual support is usually sufficient to solve the financial problems of member banks. However, in the most difficult cases, there is direct intervention from the parent bank, Rabobank (Cotugno, 2010).

11.2.1 Network Governance

The governance of the cooperative network evolved in tandem with the goals of member banks and the increasing formalization of network relationships, which eventually led to the complete unification of the network in 2015 under a unified corporate identity. Since its establishment in 1972, Rabobank has been characterized by a dual governance structure in which local banks represent the first tier and Rabobank Netherlands (RN) represents the central banking unit (Groeneveld, 2015). During RN's development period, the 1980s and 1990s, governance became increasingly formalized and centralized because of the need to issue financial instruments such as bonds to finance the group, as neither customer deposits nor internal funding was sufficient to achieve adequate capitalization and reserves. In an internal debate on Rabobank's cooperative identity in the mid-1990s, demutualization and transformation into a commercial bank was also considered, because the unification and centralization of the 1970s had wiped out cooperative values from the RN. In the end, the cooperative identity was retained to diversify the Dutch banking system and preserve the participatory and local character of the bank.

The issuance of financial instruments by RNs, particularly saleable member certificates, which still counted as core Tier 1 capital without voting rights, was again accused of diluting participation rights and democratic governance. This danger was perceived but overcome when the group was able to collectively coordinate and agree on the need to achieve financial sustainability through the growth of financial markets. The result of the process of building integrated governance was a high degree of risk sharing, internal supervision, and regulation. Internal interrelationships and linkages have helped to create a fluid environment in which capital stocks can be accumulated and cash flows circulated seamlessly. The local character of the bank has been preserved, however, as LFCs still operate primarily within their home communities (Groeneveld, 2016). The last step toward centralization and formalization of the LFC network took place in 2015. Following the replacement of the Dutch Central Bank's external oversight with that of the European

Central Bank in November 2014, further systematization and rationalization of internal regulation, administrative procedures, and financial flows were proposed to counter the increasing costs of reviewing and complying with European regulation and stricter capital and liquidity requirements. The LFC network, which historically had the RN as a central service provider or delegated supervisor, was to be replaced by a single bank controlled by the RN.

The new governance structure required reformulation of the statutes and regulations of member LFCs, which no longer operate as independent legal entities, although they keep their own accounts. The RN's delegated supervision of LFCs and internal clearing rules have been replaced by a simplified advisory structure that does not hybridize different structures at the grassroots and central governance levels. Rabobank continues to operate as a decentralized organization of LFCs based on cooperative principles. LFCs act in local communities and are directly represented in Rabobank's central governance bodies. The main goal of the new governance structure was to better meet financial markets requirements, European Central Bank (ECB) supervisory regulations (especially bail-in requirements), and to improve Rabobank's cost efficiency by reducing regulatory and compliance costs (Groeneveld, 2015). The reform was approved by member LFCs in December 2015 and came into effect in January 2016.

11.2.2 Stakeholder Engagement

Rabobank's main stakeholders are its member LFCs and their members, employees, customers, and the local community. Given the strongly rooted nature of the bank and its ties to local communities in The Netherlands, it is important to seek a better understanding of stakeholder engagement processes. Given the agricultural origins of the bank, the inclusion of smallholders is critical and involves strong interdependencies and uncertainties, perhaps even conflicting stakeholder interests. Smallholders and customers must be included in food value chains, and Rabobank has a central role in meeting their expectations and responding to their social and economic goals (Blok et al., 2013). Achieving

sustainability and economic independence for smallholder farmers is hindered by several problems, including low productivity and product volumes, variable quality, high transaction costs, and limited access to upstream and downstream markets. Overcoming these problems requires the implementation of a complex combination of different financial and organizational instruments, and may require the involvement of multiple stakeholders. Rabobank, both in The Netherlands and in other countries, including developing countries, has activated partnerships with farms, NGOs, and government organizations. Rabobank's Corporate Social Responsibility (CSR) Department and Ethics Committee are responsible for social and environmental sustainability, e.g., in terms of reputation with stakeholders and especially in dealing with employee requests regarding internal and external policies (Jagersma, 2009; Spitzeck & Hansen, 2010). Local stakeholders participate in the development of internal guidelines for sustainable lending, asset management, and customer engagements. In the case of strategic ethical issues, an ethics committee, chaired by Rabobank's CEO, provides advice. In addition to ordinary administrative procedures, RN can intervene in sustainable development projects through the Rabobank Foundation, established in 1974, an independent nonprofit organization that provides financial and technical support to external stakeholders to achieve social inclusion. These projects aim to improve the financial and economic position of members and partners, especially in terms of capitalization, creditworthiness, access to finance, governance, and organizational structure. Specialized curriculum training programs are also implemented (Groeneveld, 2016).

RN supports its stakeholders' projects, but also oversees important social issues in its member organizations: for example, working conditions, corruption issues, and environmental impact. Consequently, CSR in RN implies that stakeholders and member organizations are treated by RN in full compliance with national and international legislation, without exploiting the bank's bargaining power in any way to reduce stakeholder welfare. Responding to stakeholder needs requires promoting sustainability and economic independence by overseeing the proper functioning of member and customer supply chains and business operations. In addition, communication plays a central role in

meeting stakeholder expectations. The efforts of Rabobank Foundation and Rabobank's CSR and development departments are complementary in connecting producer members and integrating them into value chains (Blok et al., 2013; Bulsink, 2017).

11.3 The Desjardins Movement in Canada

The Canadian Desjardins movement of credit unions (or *caisses populaires*) was created in 1900 by Gabriel-Alphonse Desjardins, who followed the European model of *volksbanken*, introduced in Germany in 1850 by Hermann Schulze-Delitzsch. Because Desjardins remained in close contact with many of the founders of the European cooperative movement throughout his life, he was also influenced by the models of the Raiffeisen credit union in Germany and the Luzzatti people's bank in Italy. The first *caisses*, later renamed *Caisses populaires Desjardins*, had about 130 founding members, whose number increased to about 720 after only one year (Sanchez Bajo & Roelants, 2011). Desjardins credit unions developed from the beginning as a network of FCs, whose number in Québec grew from zero to 187 in 1920, with 30,000 members and total assets of more than C\$6 million. Another 24 were created in Ontario and nine in the United States.

In the early decades of the twentieth century, a network of *caisses* on a regional basis was foreshadowed. In 1920, the first second-tier cooperatives were created as "regional unions", with supervisory and control functions (Bajo & Roelants, 2011). In the following decades, Desjardins reached maturity and growth, especially in the 1960s and 1970s. By 1960, the network included 1227 *caisses* and had 1.2 million members, with assets of C\$1 billion. The phase of greatest expansion occurred in the 1970s. Assets rose to C\$11.5 billion in 1979, and the range of services offered was greatly expanded. During the same period, regional unions strengthened their capacity to provide services to local *caisses*, especially in the areas of administration, education and training, and financial services.

The group's central administration strengthened its powers and responsibilities in coordinating training and accounting. In 1981, the

Caisse Centrale Desjardins (CCD) was created. It responded to the liquidity needs of individual *caisses* and other organizations affiliated with the group. The CCD created an extensive international network of relationships with other similar groups in different countries (Bajo & Roelants, 2011). In addition, a first wave of mergers and consolidations was observed in the 1980s. In the 1990s, inter-company services and alliances among *caisses* were strengthened to improve penetration in industrial credit markets and led to the creation of Corporate Financial Services (CFE). The clustering of business centers enabled improved skills and support for entrepreneurs through professional training and partnerships.

The 1990s saw new organizational innovations. The establishment of regional unions and the central federation had already exerted a strong push toward network integration. New central governance issues emerged and became increasingly important due to increased competition in the sector. In the same years, a new network reform occurred that led to greater integration. The debate between centralization and decentralization was about maintaining a flexible, effective, and resilient system while preserving democratic decision-making and involvement of grassroots organizations. Voting systems were reviewed, seeking to maintain the representativeness of local co-op networks without overriding the democratic principles of the International Cooperative Alliance (ICA). Local networks are embedded in regional cooperative networks and in some cases are considerably different in size.

During the same period, there was a new wave of mergers and acquisitions (M&As), with the number of *caisses* reducing from 1,275 to 800. The pace of integration into a formalized, more centralized network has increased over the past 50 years, but it still consisted mainly of lateral partnerships, meaning that individual member institutions remained small, regardless of the size of the network (Desrochers & Fischer, 2005). In 2003, the Desjardins network in Québec had more than 1,000 member institutions with a total of more than 5 million shareholders/customers. In addition, a major new reform of the network and its governance was implemented in the early 2000s. The reform aimed at simplification, cost reduction, and better coordination within the network. The second-tier structure was eliminated and, after long and

controversial debates and voting, a single federation with 16 regional offices was introduced. The new regional networks were allowed to consider new mergers, which took place according to democratic procedures and led over time to a drastic reduction in the total number of *caisses* (Bajo & Roelants, 2011).

The strength and resilience of the Desjardins Group are demonstrated by its financial condition immediately after the global financial crisis (Birchall, 2013). In 2009, Desjardins was the leading financial institution in the Canadian province of Québec and the sixth largest in Canada, with assets of just under C\$200 billion. Its Tier 1 capital ratio for 2009 was 15.8%, of which 83.7% consisted of unremunerated capital reserves, and increased to 16.13% in 2010. In 2009, the Group ranked 26th among the 50 safest financial institutions in the world. In Québec, it held 44.2% of savings, 45.3% of agricultural loans, 39.6% of mortgage loans, 27.3% of commercial and industrial loans, and 23.4% of personal loans (Bajo & Roelants, 2011). It employed 39,000 workers in Québec and 42,000 across Canada, ranking among the top 20 largest employers in Canada (Bajo & Roelants, 2011).

In 2017, the Desjardins Group consisted of 293 local credit unions that operated 1,032 branches and had more than seven million members and customers in Québec and Ontario. More than twenty branches of the Group offered products and services related to property insurance, venture capital funds, and brokerage. The Group was also active as a development banking agency in more than 30 developing countries (Desrochers & Fischers, 2005). Desjardins International Development (DID) is an international development organization that strengthens the culture of the cooperative network, leverages available tools and resources for development projects and demonstrates the importance of cooperation in developing countries. It employs permanent consultants with the goal of responding to the demands of local financial cooperatives. Fundraising campaigns and mediation between local contributions and investment projects have significantly reduced transaction costs and failures in local credit markets (Cruz et al., 2015).

In recent years, the Desjardins Group has been configured as a continuously developing and integrated cooperative network to ensure sustainable financial services, owned, and administered by its members,

as well as a network of complementary financial organizations that strive to achieve competitiveness in their business sectors and that are still controlled by their member cooperative organizations. Key financial figures for 2020 show that the Desjardins Group has assets of C\$397 billion. It achieved surplus earnings before member dividends of C\$2.9 million (+21.6%), net loans and acceptances outstanding of C\$ 230.8 billion (+9.0%), assets under management of C\$ 91.3 billion (+17.8%), a Tier 1A capital ratio of 21.1% of total risk-weighted assets, and member dividends of \$ \$387 million (+17.3%). The institution employs 53,783 employees and has about 7.5 million members. In terms of social and environmental sustainability, the Group records C\$514 million redistributed to members and the community, C\$250 million for 2016–2024 from its community development fund (GoodSpark), 127 projects for sustainable communities, and \$1.21 billion invested in renewable energy infrastructure (Desjardins, 2021).

11.3.1 Network Governance

Throughout this process, which lasted several decades, the size of the individual *caisse populaire* remained remarkably small compared to, for example, credit unions in the rest of Canada and the United States. On the other hand, the total size of the Desjardins network in Québec is remarkably large, exceeding, for example, the size of all credit unions in Ontario, even though the total size of the Ontario province's economy is larger than that of Québec (Desrochers & Fischer, 2003). The network structure of the Desjardins movement, according to Desrochers and Fischer's (2005) taxonomy discussed earlier, can be placed between consensual and strategic. While regional-level networks preserve their horizontal and diffuse structure, they have built over time central agencies, and developers of products and services that serve the entire group and can assume strategic importance given their unique experience and vision within the group. Thus, while the grassroots FCs deal primarily with day-to-day operations and relationships with individual members and customers, the central agencies provide primarily strategic guidance.

Local FCs appear to have reached, but not significantly exceeded, the minimum size that allows them to be active operational partners in the alliance. Reaching minimum size is critical to increasing the range of products available to members.

Continuous consolidation processes have occurred among the smaller network members, although no large *caisses* have been created and the network has maintained its local roots. Mergers were designed to sustain local ties and increase coordination within networks (Desrochers & Fischer, 2005). The Desjardins group has evolved into a strategic network in which central nodes provide various managerial services and functions to the central banks of the group. Among these functions, leadership and monitoring are particularly important. Strategic alliances between cooperatives and central nodes pool resources and use them as hybrid forms of ownership to achieve common goals. This is done both at the individual level, with reserves accumulated by individual *caisses*, and at the network level, for example, with the lender of last resort function provided by the group's central bank. A sophisticated governance structure has been developed in which each individual cooperative in the network participates in a system of common resources and risk sharing.

11.4 Cooperative Banks in Italy: Cassa Centrale and ICCREA

The first Italian cooperative banks emerged in the northeast of the country, in the regions closest to the German-speaking countries (Veneto, Trentino, South Tyrol, and Friuli), in the last decades of the nineteenth century. They mainly associated producers in rural areas as a reaction to the agrarian crisis of 1882–1883 and the spread of usury. They closely followed the banking model of Friedrich W. Raiffeisen in the Rhineland. The first Rural Bank (RB) was founded by Leone Wollemborg near Padua (Loreggia) in 1883 and associated 32 members. The original RBs were very close to their communities, as they were based on ethical principles of solidarity and followed the doctrine and social action of the Catholic Church (see Pope Leo XIII's 1892 Encyclical "Rerum Novarum"). By 1888, the Federation of Rural Banks and Similar

Enterprises included 51 Rural Banks. The most urgent need in rural areas was to combat usury, which affected many producers whose access to credit was rationed by commercial banks. Second, Italian agriculture needed to increase its capital intensity in a substantial way and significant investment had to be devoted to this goal. The goal was to modernize agriculture and rural areas and support the growth of the country's nascent industrial sector (Catturani & Stefani, 2016).

By the end of the century, there were more than 900 RBs nationwide, of which 775 were Catholic-inspired. RBs also began to spread outside the northeastern regions. In 1909 the National Federation of Rural Banks was founded in Brescia, while the Italian Federation of Rural Banks was reconstituted in 1917 at the end of World War II with functions of group representation and protection, promotion and improvement of member banks, and technical and financial support structure. To be more effective, the Rural Banks were grouped into local federations. The National Federation can be seen as the predecessor of the Italian Federation. In 1919 an important split occurred: the Catholic cooperatives separated from the League of Cooperatives (Laga-Coop, socialist-inspired) to form the Italian Confederation of Italian Cooperatives (ConfCooperative, Catholic-inspired), which included the Italian Federation of Rural Banks.

After World War I, high inflation, unemployment, weakening liberal government, and problems of governance and internal politics challenged the very existence of the *Casse Rurali*, whose structure was still young and financial health still weak (Zamagni, 2006). After more than 20 years of decline and restrictions imposed by the fascist regime, in 1946 the democratic Catholic movement reconstituted the Confederation, and in 1950 the National Federation was recreated. In the following decades (between 1964 and 1975) local federations were recreated and strengthened. They had a role of regional and interregional representation, protection, and technical assistance (Cafaro, 2017). In 1963, ICCREA (*Istituto di Credito delle Casse Rurali e Artigiane*), the central banking institution of all RBs, was created. In addition, the Central Guarantee Fund was established as the main instrument of protection for Rural Banks (Catturani & Stefani, 2016).

The new banking law passed in 1993 (*Testo Unico Bancario*, Legislative Decree 385/93) was a keystone in the institutional evolution of RBs. It loosened previous limits on credit specialization and expanded the geographical area of activity, which remained, however, strongly delimited at the local level. The new name of Cooperative Credit Banks (BCCs, *Banche di Credito Cooperativo*) was introduced throughout the country, with the exception of the provinces of Trento and Bolzano, where they retained their traditional names (Rural Banks and Raiffeisen Banks, respectively). BCCs were authorized by the new law to offer all types of financial services and products to their members, who needed no longer be producers residing only in rural areas. The strong link to localities is demonstrated by the legal constraint requiring BCCs to allocate at least 95% of credit exposures to their geographic area and to assume at least 50% of credit exposures to cooperative members.

Since the reform, some BCCs have been liquidated, transformed into commercial banks, or merged and acquired. The first wave of M&As corresponded to a process of persistent growth in size and economic weight. From 1999 to 2014, the number of Italian BCCs fell from 531 to 376, while in the same period the number of members increased from 558,000 to 1.2 million and the value of assets increased from 77 to 240 billion euros (Catturani & Stefani, 2016). In 1997, the Cooperative Banks Deposit Guarantee Fund replaced the Central Guarantee Fund. The new banking law had the effect of weakening the previously marked differences between BCCs and commercial banks while maintaining localism. In addition to continuing to provide small loans to local farmers and artisans in rural areas, they began to compete with commercial banks and mutual banks (Popular Banks) in providing credit to households and small businesses in urban areas.

Over time, the central banking institutions in the group developed small subsidiaries that aimed to provide advice and technical services to member banks, while second-tier networks at the regional level supported individual banks in increasing efficiency and becoming more competitive. The result of this process was the formation of national and regional networks of BCCs, but these remained significantly decentralized compared to Rabobank in The Netherlands or Desjardins in Quebec. Since the financial crisis of 2007–2008, BCCs in Italy have

shown remarkable stability and have been able to maintain or even increase their previous lending levels due to their lower involvement in the subprime crisis and less intensive use of derivatives and other structured financial instruments. In addition, mutualism and cooperative goals meant that BCCs continued to provide credit and services to their members to avoid their bankruptcy and loss of valuable assets. This positive trend was interrupted by the sovereign debt crisis that hit Italy in 2011. Rising taxation and falling consumption affected the social groups most strongly linked to BCCs (middle-income groups). The decline in aggregate consumption in the economy between the end of 2011 and 2014 had particularly damaging effects, as it led to bankruptcy risks for many small and medium-sized enterprises and a sharp increase in nonperforming loans, which had the effect of reducing the actual amount of assets held by BCCs. During this period, the number of BCCs undergoing insolvency proceedings increased and there was a new wave of mergers and acquisitions. In 2015, the national government initiated a new legal reform.

Prior to the reform, BCCs were completely legally independent banks, but at the same time, they were strongly interconnected through a voluntary network composed of two interdependent but not hierarchically ordered structures: an associative network (the national and local federations) with economic, social and political representation functions; and a second-tier banking structure that provides financial products and services. On the associative side, BCCs have been organized into 15 local federations that provide non-financial services (internal audit, compliance, information systems, and anti-money laundering), all of which are in turn affiliated with a national federation (Federcasse). Some local federations may also provide advice on governance and strategy (Catturani & Stefani, 2016; Tarantola, 2011). Financial services are provided by two second-tier central banking institutions, ICCREA in Rome and Cassa Centrale Banca in Trento, which have clear economic and financial functions as they develop economies of scale and scope, product differentiation, and economic efficiency.

The need for greater integration, mutual protection against adverse events, and better access to financial markets (including stock markets) were considered crucial by the government and legislators to ensure the

financial sustainability of BCCs in the long run. The reform aimed to structurally change the network of BCCs which, prior to the reform, was predominantly a non-integrated system created on a consensus basis with the goal of mutual support based on cross-guarantee schemes.

11.4.1 The Reform Process in 2016

The reform project was initiated in 2015 and came into effect in 2016 under the impetus of the negative effects of the sovereign debt crisis and a substantial increase in nonperforming loans, including as a result of EU Directive 36/2013 and Regulation 575/2013. The Italian government allowed BCCs to submit independent proposals on how to reform cooperative banks, and the government stepped in to oversee the reform process and propose changes to the Federcasse proposal. The final reform draft was passed by Parliament in April 2016.

Due to the focus on traditional retail banking, the sector had structural weaknesses related to capital requirements for bank efficiency. These weaknesses exposed BCCs to cyclical trends in the real economy, increasing the risks of losses and liquidity crises during downturns. The rigid cost structure, based on traditional banking conducted through branches spread throughout the territory and its local characterization, exposed BCCs to specific adverse events affecting individual or localized banking institutions. The lack of direct access to financial markets, particularly external equity markets, that can recapitalize struggling BCCs, has been increasingly felt as an insurmountable obstacle to BCC's survival and expansion. The need to streamline governance was also highlighted, as closer coordination among BCCs and mutual crisis relief mechanisms were not sufficiently integrated into the governance structure. This could have led to individual BCC defaults that could have been avoided and could have endangered an entire group of financially integrated BCCs. The reform proposal called for, on the one hand, increasing capital levels and a balanced redefinition of the capital structure of BCCs and, on the other hand, opening up to operational forms that could diversify activities and hedge risks—all while respecting their mutualistic nature (Pagani, 2016). The cross-guarantees were to become

structural and led to a scheme to mutualize the debt of BCCs undergoing bankruptcy proceedings, while at the same time centralized power of control, intervention and restructuring was given to central banking institutions on an increasing risk basis.

The reform introduced an integrated Cooperative Banking Group (CBG), which would replace federations at the local level and may be established at the national level. Law 49/16 characterizes the CBG as an instrument of integration among banks that maintain their predominant mutuality. The first distinguishing feature is the presence of a parent company established in the form of a joint stock company, while the group members maintain the form of FCs. The majority of the parent company's capital, the minimum amount of which is 1 billion euros, is held by the BCCs belonging to the group. The subsidiary banks can express an opinion and evaluation of the parent company's performance and, at the end of the term of office given to the directors, they can revise the composition of the corporate bodies if the parent company has not achieved the strategic objectives that the CBG had set for itself. The parent company must issue a "cohesion contract" detailing all aspects of governance and finance not defined by law. The contract must be signed by all member BCCs. The contract governs the mutual duties and responsibilities, common rights, and protections arising from the group membership of the individual entities and the parent company, ensuring that business models are consistent with cooperative and land protection principles.

The number of groups to be established was left unspecified and based on the self-organization of BCCs in the national territory. The reform had three main pillars: (i) each CBG would be centered on a central banking institution or group parent company established as an investor-owned (commercial) bank. The BCCs in each group would have been members of the parent company. The parent company would have had access to financial markets like all other banks, with the only constraint being that its control (at least 51% of its shares) would be retained by the member BCCs. Each parent company would have had a minimum capital of €1 billion and at least 500 members; (ii) protection against financial distress of individual BCCs was addressed in an integrated manner on the basis of a mutual assistance rule based on an increasing

risk criterion. The CBG provides protection against insolvency risk to all members. It must intervene with its own funds deposited with the parent company to rescue any affiliate in financial distress. Upon intervention, the central bank must assume the liabilities of the subsidiary, if necessary, and is authorized to restructure its assets and liabilities to make it financial sustainability. When this proves impossible, the central bank may decide on the liquidation or forced takeover of the troubled subsidiary by other subsidiaries in better condition. It may also decide on the merger of two BCCs. Intervention should be strictly limited to cases of distressed affiliates, while in all other cases individual BCCs retain their full autonomy; (iii) governance can be restructured and integrated to enable BCCs in difficult conditions to regain organizational efficiency and effective decision-making. While prosperous BCCs retain their full autonomy, the increasing risk rule implies that, in the event of financial difficulties, the governance and especially the board of BCCs can be commissioned and changed by the parent company. In more general terms, all affiliated BCCs are free to select suitable candidates to be democratically elected as members of the board of directors and other corporate bodies, but the list of candidates must be approved by the central institution. The parent institution is also in charge of coordinating the BCCs in the group (Felicetti, 2020; La Torre, 2020; Poli, 2019).

11.4.2 The Creation of Two Strategic Networks: Cassa Centrale Banca and ICCREA Banca

The exact number of nationwide groups was the subject of intense debate for several months after the law was passed in 2016. While ICCREA, which was already the central banking institution for all Italian BCCs, proposed the creation of a single national cooperative group that would own a significant share of the credit market (BCCs as a whole account for about 10% of the credit market in Italy), Cassa Centrale, which traditionally was the second-largest financial institution and was also responsible for providing most non-financial services (ICT and back

office, leasing, consumer credit, real estate, insurance, asset management), preferred to remain true to its cultural and regional identity in the northeast of the country, where BCCs had spread in the first stance in late nineteenth century. Other hypotheses of additional CBGs were aired, but they did not make it through the process of gathering enough member BCCs or a billion euros in capitalization. In the end, two groups were created and issued their respective cohesion contracts, to be signed by all member BCCs, in 2019.

The Cassa Centrale Group has 71 member banks: Cooperative Credit Banks, Rural Banks, and Raiffeisen Banks, with a total of 1,484 branches throughout Italy, 11,450 employees, and about 450,000 members. The parent company's branches throughout the country are located in Trento, where the headquarters are also located, Udine, Padua, Brescia, Cuneo, Bologna, Rome, and Bari. Capital strength, low risk, and an efficient organizational model are the key characteristics of this group, which has a CET (Common Equity Tier) 1 Ratio of 20.9%, a coverage ratio (coverage of impaired loans) of 66%, and a net profit of 307 million euros in 2021. Cassa Centrale Banca's stated goals are to sustainably promote the welfare of members in the areas in which it operates, growth and innovation, and a strong relationship with the local community. Autonomy and capital strength are the characteristics considered most conducive to efficiency, adaptability, and resilience (Birchall, 2013; Cassa Centrale, 2022).

The governance model adopted by Cassa Centrale is a traditional one, based on the distinction between the board of directors, with strategic and supervisory functions, and the board of statutory auditors, in charge of monitoring and supervising compliance with the law and the bylaws, compliance with the principles of proper administration, and the adequacy of the organizational, administrative, and accounting structure. The statutory audit is entrusted to an external and independent auditor, in accordance with the relevant statutory provisions.

The ICCREA Cooperative Banking Group has 130 affiliated BCCs (including 39 in the North, 47 in the Center and 44 in the South), with a total of 2,529 branches throughout the country, 824,610 cooperative members and more than 3 million customers. It manages and coordinates group companies and centralizes services related to key governance

and control functions; it also supervises and manages banking, financial, and service activities for affiliated BCCs (ICCREA, 2021).

Maintaining strong ties with the respective territories of member cooperatives is one of ICCREA main stated objectives. To this end, the financial resources raised by member BCCs are almost entirely deployed in the same places where they were created, with the aim of supporting long-term economic and social development. The effort to achieve a strong capital base has resulted in capital reserve ratios above the required minimum. The CET 1 Ratio is 16.4%, while from December 2017 to June 2021, the stock of impaired (or nonperforming) loans (NPLs) was halved from about 17.5 billion to about 8.3 billion. The reported net income is 400 million in the first half of 2021, up from 122 million in the first six months of 2020. Net commissions grew by 50 million in 2021, generating revenues of 650 million euros. The financial and social sustainability model pursued by the group meant that 84% of its loans in 2021 went to support families and small and medium-sized enterprises, while 41 million euros were disbursed to support 15,837 territorial initiatives. More than 99% of its suppliers are Italian. In terms of environmental sustainability, the group has reduced climate-changing gas emissions into the atmosphere by 17.43% in 2021 compared to 2019, and the use of electricity from renewable sources accounts for more than 72% (it was 64% in 2019). In terms of indirect impacts, the group has contributed to the EMTN (Euro Medium Term Notes) program through the issuance of Green and Social Bonds. Financial support to local businesses, the adoption of circular economy principles, and promotion of the well-being of the group's employees through welfare, inclusion, and diversity policies are among the main objectives in pursuing sustainability goals (ICCREA, 2021).

11.5 Discussion and Conclusion

Analysis of three cases of financial cooperative networks in three different countries (The Netherlands, Canada, and Italy) revealed some important elements that seem to be common and create similar evolutionary patterns among different nations, and historical and institutional

contexts. These common elements appear especially important. The first concerns local embeddedness, cooperation, and relational intensity: (i) a strong degree of local rootedness, in that their action is always locally anchored and aims at the improvement of socio-economic conditions in their close range of action, involving actors (small businesses, households, communities, and local governments) who, as a rule, act in networks of interpersonal relationships in the territory in which they are located. In this sense, FCs can be said to be an integral part of local development processes driven by endogenous factors (Borzaga & Tortia, 2009; Capello, 2015); (ii) horizontal personal and organizational coordination prevails over vertical relationships, as FCs not only create networks among themselves, but are embedded in broader networks of local actors that most often do not have central or stronger nodes, but are instead complex, multilateral, and decentralized. The personal dimension, which is often quite marginal in traditional banking systems, gains in importance following the paradigm of relational banking. Tacit knowledge and trust may be dominant, according to the relational paradigm (Aoki & Dinç, 1997; Cornée et al., 2018); (iii) FCs follow development patterns informed by cooperation rather than competition. Although competition among FCs is observed sporadically, dominant evidence shows that FCs seek horizontal coordination through cooperation with other institutions that have similar goals even in the context of market exchanges. Cooperation is based on common values, but also on instrumental and substantive rationality, as it can lead to mutually beneficial outcomes, while the small size and local nature of FCs prevent them from achieving significant economies of scale and large market shares. Cooperative pacts, both formal and informal, are used to pursue common network goals and also to acquire needed services, either from common providers or by producing within the network.

The second important element emerging from the case studies is a clear evolutionary trend of cooperative networks becoming more formalized and integrated over time. This process took place first in The Netherlands (Rabobank), but has also been observed in Canada (Desjardins) and Italy (ICCREA and Cassa Centrale). The trend toward integration can be explained in neo-institutionalist terms. The need to make network-specific investments in new financial services, tools,

and digital technologies, for example, is a powerful incentive for FCs to seek forms of greater integration in governance and production. In addition, integration and formalization help reduce contract failures, risks and costs, as simple contracts or informal relationships are replaced by increasing elements of centralized administration (Hennart, 1993; Williamson, 1975). Integration does not only have positive effects. Administrative structures can be costly and burdensome, and their governance can encounter difficulties and breakdowns due to inability to make collective decisions effectively (Hansmann, 1996). However, the observed tendency to seek integration seems to show that the benefits outweigh the costs and that CFs have found this evolutionary pattern almost inevitable. On the other hand, it should also be added that banking regulatory frameworks at the national and international levels have strongly favored integration to support the financial sustainability of FCs and reduce the risks borne by their customers, especially depositors.

A third important observation concerns the presence of a central banking institution in all the networks analyzed, which plays a pivotal role in serving the member banks with the production of financial services, acts as a lender of last resort, but also carries out monitoring and control activities, in some cases including sanctions and restructuring of the members' governance. It can intervene to safeguard customers from financial risks taken by member banks. The functions of the central institution prove vital to the survival and expansion of the entire network, and a relentless process of strengthening both financial and control functions is observed in all networks.

As a final comment, we emphasize that the FC networks studied in this chapter all involve a transition from a consensual network to a strategically oriented and integrated network, as hypothesized by Desrochers and Fischer (2005). In all cases, the initial creation of FCs in the late nineteenth and early twentieth centuries largely represented spontaneous choices and behavioral patterns, in which membership and cooperation are voluntary but deliberately sought, leading to an important degree of internal coordination and agreement among affiliates. Spontaneous coordination is formalized step by step and eventually results in a greater degree of integration and the creation of common structures, administered organizations, and central institutions of control. Although the

network still retains important elements of decentralization and independence (affiliate banks are free to conduct their activities independently), control and strategic direction are increasingly assumed by the central institutions and their agencies, which identify basic choices and instruments common to the entire group. This thesis seems to be supported in several respects by the theory of the emergence of strategic networks in cooperative banks (Desrochers & Fischer, 2005), and also by the emphasis on the importance of horizontal networks where horizontal coordination is still the dominant feature of cooperative action even in the financial sector (Sacchetti & Tortia, 2016). However, this may not necessarily be so for all networks when regulatory overload is observed and central control and sanctions replace horizontal interaction.

References

- Aoki, M., & Dinç, S. (1997). *Relational financing as an institution and its viability under competition*. WP 011/97, Stanford University. <https://ideas.repec.org/p/wop/stanec/97011.html> [Accessed 27 October 2022].
- Bajo, C. S., & Roelants, B. (2011). The Desjardins Cooperative Group: A financial movement for Québec's development. In C. S. Bajo & B. Roelants (Eds.), *Capital and the debt trap* (pp. 152–175). Palgrave Macmillan.
- Birchall, J. (2013). *Resilience in a downturn: The power of financial cooperatives*. International Labour Office, International Labour Organization, Geneva. https://www.ilo.org/empent/Publications/WCMS_207768/lang-en/index.htm
- Blok, V., Sjaww-Koen-Fab, A., & Omta, O. (2013). Effective stakeholder involvement at the base of the pyramid: The case of Rabobank. *International Food and Agribusiness Management Review*, 16(Special Issue A), 39–44.
- Borzaga, C., & Tortia, E. C. (2009). Social enterprises and local economic development. In A. Noya & E. Clarence (Eds.), *The changing boundaries of social enterprises* (pp. 195–228). OECD.
- Bulsink, E. A. M. (2017). *The creation of legitimacy for internationalization in a cooperative bank* (Master thesis). Faculty of Economics & Business, University of Groningen.

- Cafaro P. (2017). Credito cooperativo ieri: un profilo di lungo periodo. In, M. C. Cardarelli (Ed.), *Nuove opportunità e sfide per le banche di credito cooperativo: la riforma del 2016*. Atti del Convegno (Lecce, 16–17 December 2016). Turin, IT, Giappichelli, pp. 6–21.
- Capello, R. (2015). *Economia regionale. Localizzazione, crescita regionale e sviluppo locale*. Il Mulino.
- Cassa Centrale. (2022). *Annual financial report 2021 Financial Year*. Cassa Centrale. Credito Cooperativo Italiani, Trento. <https://www.cassacentrale.it/en/investor/annual-financial-report-2021-financial-year>
- Catturani, I., & Stefani, M. L. (2016). Italian credit cooperative banks. In S. Karafolas (Ed.), *Credit cooperative. Institutions in European countries* (pp. 149–168). Springer Nature.
- Cornée, S., Fattobene, L., & Migliorelli, M. (2018). An overview of cooperative banking in Europe. In M. Migliorelli (Ed.), *New cooperative banking in Europe* (pp. 1–27). Springer Nature.
- Cotugno, M. (2010). Cooperative banking in The Netherlands: Rabobank network. In V. Boscia, A. Carretta, & P. Schwizer (Eds.), *Cooperative banking in Europe. Case studies* (pp. 107–128). Palgrave Macmillan.
- Cruz, L. B., Delgado, N. A., Leca, B., & Gond, J.-P. (2015). Institutional resilience in extreme operating environments: The role of institutional work. *Business & Society*, 55(7). <https://doi.org/10.1177/0007650314567438>
- Desjardins. (2021). *2020 annual report*. Desjardins Group, Lévis, QC, Canada. <https://www.desjardins.com/ca/about-us/investor-relations/desjardins-group-annual-report/index.jsp>
- Desrochers, M., & Fischer, K. P. (2003). Theory and test on the corporate governance of financial cooperative systems: Merger vs. Networks. CIRPÉE, Centre interuniversitaire sur le risque, les politiques économiques et l'emploi. WP 03- 34. https://papers.ssrn.com/sol3/papers.cfm?abstract_id=448982 [Accessed 27 October 2022].
- Desrochers, M., & Fischer, K. P. (2005). The power of networks: Integration and financial cooperative performance. *Annals of Public and Cooperative Economics*, 76(3), 307–354. <https://doi.org/10.1111/j.1370-4788.2005.00281.x>
- Felicetti, R. (2020). Il gruppo bancario cooperativo alla luce dei recenti sviluppi. Un caso di tensioni irrisolte con i principi di corporate governance e di scarsa attenzione agli interessi nazionali? *Banca Impresa Società*, 29(2), 249–288.

- Groeneveld, H. (2015, September). *Governance of European cooperative banks: Overview, issues and recommendations* (Working paper). <https://www.mk-bedrijfsoverdrachten.nl/wp-content/uploads/2015/12/>
- Groeneveld, H. (2016). Rabobank before, during and after the credit crisis: From modesty via complacency to fundamental steps. In S. Karafolas (Ed.), *Credit cooperative. Institutions in European countries* (pp. 169–190). Springer Nature.
- Hansmann, H. (1996). *The ownership of enterprise*. Harvard University Press.
- Hennart, J.-F. (1993). Explaining the swollen middle: Why most transactions are a mix of “market” and “hierarchy”. *Organization Science*, 4(4), 529–547.
- ICCREA. (2021). *Reports and consolidated and separate financial statements at December 31, 2020*. Istituto Centrale delle Casse Rurali ed Artigiane (ICCREA), Rome. <https://www.iccreabanca.it/it-IT/Pagine/bilanci.aspx>
- Jagersma, P. K. (2009). The strategic value of sustainable stakeholder management. *Business Strategy Series*, 10(6), 339–344.
- La Torre, M. (2020). *Risk in banking developing a knowledge risk management framework for Cooperative Credit Banks*. Springer Nature.
- Novkovic, S., & Holm, W. (2012). Co-operative networks as a source of organizational innovation. *International Journal of Co-operative Management*, 6(1), 51–60.
- Pagani, E. (2016). La riforma del credito cooperativo in prospettiva comparata. *Banca Impresa Società*, 25(2), 203–236.
- Poli, F. (2019). Co-operative banking in Italy. In *Co-operative banking networks in Europe. Models and performance* (pp. 295–346). Springer Nature.
- Ramboarisata, L. (2009). Cooperative values as potential hypernorms. Evidence from large cooperative banks. In J. Hooker, J. F. Hulpke, & P. Madsen (Eds.), *International corporate responsibility series. Volume 4, A survey of international corporate responsibility* (pp. 209–228). Philosophy Documentation Center. https://www.pdcnet.org/icr/content/icr_2009_0004_0209_0228
- Sacchetti, S. (2015). Inclusive and exclusive social preferences: A Deweyan framework to explain governance heterogeneity. *Journal of Business Ethics*, 126(3), 473–485.
- Sacchetti, S., & Sugden, R. (2003). The governance of networks and economic power: The nature and impact of subcontracting relationships. *Journal of Economic Surveys*, 17(5), 669–692. <https://doi.org/10.1046/j.1467-6419.2003.00209.x>
- Sacchetti, S., & Tortia, E. C. (2016). The extended governance of cooperative firms: Inter-firm coordination and consistency of values. *Annals of Public and Cooperative Economics*, 87(1), 93–116.

- Spitzeck, H., & Hansen, E. G. (2010). Stakeholder governance: How stakeholders influence corporate decision making. *Corporate Governance*, 10(4), 378–391.
- Tarantola, A. M. (2011, December 9). *Il Credito Cooperativo del domani: sviluppo, efficienza e solidarietà*. Presentation XIV National Congress of Cooperative Credit.
- Williamson, O. E. (1975). *Markets and hierarchies: Analysis and antitrust implications, a study in the economics of internal organization*. The Free Press.
- Zamagni, V. (2006). *L'impresa cooperativa italiana: dalla marginalità alla fioritura*. XIV International Workshop of Economic History: “Imprese cooperative e consorzi di cooperative: successi e fallimenti”, University of Helsinki.

Open Access This chapter is licensed under the terms of the Creative Commons Attribution-NonCommercial-NoDerivatives 4.0 International License (<http://creativecommons.org/licenses/by-nc-nd/4.0/>), which permits any noncommercial use, sharing, distribution and reproduction in any medium or format, as long as you give appropriate credit to the original author(s) and the source, provide a link to the Creative Commons license and indicate if you modified the licensed material. You do not have permission under this license to share adapted material derived from this chapter or parts of it.

The images or other third party material in this chapter are included in the chapter's Creative Commons license, unless indicated otherwise in a credit line to the material. If material is not included in the chapter's Creative Commons license and your intended use is not permitted by statutory regulation or exceeds the permitted use, you will need to obtain permission directly from the copyright holder.



Part III

Dynamics and Change



12

Decades of Radical Self-Management at a Venezuelan Cooperative: Institutional Distinctiveness and Ideology

Aurélie Soetens, Benjamin Huybrechts,
and Ignacio Bretos

Where there is a job to be done,
man is by nature an organizational animal.
He is also an ideological one.
(Carlisle & Manning, 1994, p. 701)

A. Soetens (✉)

HEC Liège, University of Liège, Liège, Belgium
e-mail: aurelie.soetens@mailfence.com

B. Huybrechts

IESEG School of Management, University of Lille, CNRS, UMR
9221-LEM-Lille Economie Management, Lille, France
e-mail: b.huybrechts@ieseg.fr

© The Author(s) 2023

S. Novković et al. (eds.), *Humanistic Governance in Democratic Organizations*,
Humanism in Business Series,
https://doi.org/10.1007/978-3-031-17403-2_12

12.1 Introduction

Cooperatives have always lived on the edge of established categories, disrupting and disorganizing prevailing cultural, political, and institutional arrangements on the basis of alternative practices organized around normative values like democracy, autonomy, participation, equality, and solidarity (Jaumier, 2017; Kokkinidis, 2015; Parker et al., 2014). At the same time, these organizations have to thrive in an increasingly competitive and globalized capitalist economy that imposes significant challenges to the preservation of their distinctive social values and collectivist practices (Bretos et al., 2020; Narvaiza et al., 2017). In this context, it is crucial to explore how cooperatives and other participatory organizations deploy different strategic resources to gain legitimacy in their field while at the same time nurturing their distinctiveness from dominant institutional field arrangements. Indeed, we still know relatively little about “[*h*ow, and especially *why*, some of these organizations work and are successful in keeping their character as democratic organizations over many years” (Diefenbach, 2019, p. 559).

Institutional theorists contend that radical distinctiveness is generally avoided in favor of “legitimate distinctiveness” (Navis & Glynn, 2011) or “optimal distinctiveness” (Zhao et al., 2017), i.e. a balance between conformity and distinctiveness in which organizations frame their activities in a way that is “as different as legitimately possible” (Deephouse, 1999, p. 148). However, cooperatives that rely on radical forms of self-management do not content themselves with lying at odds with their environment, but they also actively defy widespread social norms, rules, and expectations, and make a virtue of such defiance (Oliver, 1991).

Studies relying on institutional theory have revealed the possibilities of resistance to dominant institutional forces (Lepoutre & Valente, 2012; Marquis & Lounsbury, 2007; Pache & Santos, 2010; Schneiberg,

I. Bretos

Department of Business Organization and Management, University of Zaragoza, Zaragoza, Spain

e-mail: ibretos@unizar.es

2013). However, while these studies emphasize how alternative practices can be strategically leveraged to resist environmental pressures towards conformity, little is still known about the ideological foundations of such practices. This is surprising since ideology is a key strategic asset to enact and preserve alternative organizational practices (Kunda, 2006; Rothschild-Whitt, 1979). In the case of self-managed organizations, such practices are rooted in strong ideals of collectivism, egalitarianism, and autonomy (Kokkinidis, 2015) which, when disregarded—for example, because of the need for greater efficiency and economic consolidation—drive the organization towards degenerative patterns and the loss of their distinctiveness (Meister, 1974; Simons & Ingram, 1997).

Therefore, it appears crucial to investigate how ideologies help resist dominant institutional patterns and preserve alternative organizations' distinctiveness over time, and in particular how such ideologies emerge and endure through time. This chapter thus addresses the following research question: *How is an ideology created, protected, and reproduced within a participatory organization in order to maintain its institutional distinctiveness over time?*

To answer this research question, we draw on an in-depth ethnographic study of Cecosesola, a long-lasting Venezuelan second-tier cooperative. Cecosesola workers have developed and nurtured a radical organizational ideology that has allowed them to sustain a set of distinctive norms and practices organized around self-management over several decades. In this way, Cecosesola has successfully preserved its institutional distinctiveness against prevailing organizing models and patterns in the field.

Our study makes a threefold contribution. First, we contribute to a key debate within institutional theory, concerning how alternative organizations resist institutional pressures towards conformity. We coin the term *institutional distinctiveness* to describe the process through which alternative organizations make a virtue of nurturing their distinctive organizing patterns and deliberately shield them from the influence of dominant institutions. Second, we contribute to the literature on organizational ideology by unveiling the conditions under which a radically distinctive ideology may be created, sustained, and reproduced over time within the boundaries of a participatory organization. We illustrate how

creating and reproducing a radical ideology can be the foundation for institutional distinctiveness. Third, we add to discussions about the challenges that cooperatives face to preserve their participatory practices, and the strategic resources that can be mobilized to address such challenges, by unveiling how the development of a strong organizational ideology contributes to protecting workplace democracy against external and internal forces towards erosion and preventing degeneration.

The chapter is structured as follows: the next section provides the theoretical framework of the research. The third section introduces the case studied, and details the data collection and analysis methods. The fourth section accounts for the main findings. In the final section, we elaborate on our theoretical contributions, and also discuss the limitations of our study and some promising avenues for future research.

12.2 Theoretical Background

12.2.1 Legitimacy, Institutional Distinctiveness, and Organizational Ideology

Legitimacy is considered a central concept in institutional theory, as it “provides a linkage between the organizational and societal level of analysis” (Dowling & Pfeffer, 1975, p. 131). Legitimacy refers to the congruence between an organization’s social values, models of organizing and practices, and the norms of acceptable behavior in the larger social system in which it is embedded (Gulbrandsen, 2011). Accordingly, legitimacy is frequently described as a critical survival factor for organizations (Kraatz & Block, 2008), as it provides the organization with “social acceptability and credibility” (Scott, 2001, p. 58).

Institutional theorists typically suggest that organizations developing organizing patterns that deviate from “normal” and socially expected ways of doing business pay a high price for their difference (Gulbrandsen, 2011; Huybrechts et al., 2020). The “liability of newness” (Aldrich & Fiol, 1994) is even higher for unconventional organizations that must struggle to secure social acceptance, support, and justifications for their activities (Meyer & Rowan, 1977). The literature also argues that

organizations departing from prevailing organizational templates face economic, cognitive, and social challenges as innovation increases risks, requires more reflexivity, and reduces legitimacy (Phillips et al., 2000). Finally, organizations situated across or outside established category boundaries face an illegitimacy discount as their purpose cannot be easily captured by external audiences (Zhao et al., 2013; Zuckerman, 1999), who lack the shared understandings and interpretations of what is expected from such organizations (Suddaby et al., 2010).

To compensate for the lack of legitimacy, organizations nurturing institutional distinctiveness need to reproduce an internal system of social processes and obligations that take a rule-like status within the organization (Meyer & Rowan, 1977), as well as collective cultural frames that define the desired outcomes and approve the means to achieve them (DiMaggio & Powell, 1991). In that regard, ideology is a key strategic asset on which organizations can rely to guide workers' actions and mindsets towards continuously challenging prevailing norms for action and rules of conduct, and developing a radical form of alternative organization.

Ideology is the articulated and coherent system of ideas that help to make sense of the social reality faced by a collective. It is a subset of culture that refers to meanings that are self-conscious and authoritatively articulated, as opposed to other subsets which fall under common sense, tradition and "taken-for-grantedness" (Geertz, 1973). Ideology includes ideas about what outcomes are desirable and how those can best be achieved (Simons & Ingram, 1997). It "portrays the company as a morally sound, organic, undistinctive community and defines a member role founded on the internalization of appropriate beliefs and emotions along with abstract and rather ambiguous behavioral prescriptions" (Kunda, 2006, p. 218). It is a system of ideas that, in addition to being a guide to understanding, thinking and feeling, is also a clue to action (Kunda, 2006; Wilson, 1973). In sum, ideological beliefs involve both a social critique *and* a proposed solution, in the form of an alternative social order and prescribed attendant individual and collective behavior (Fine & Sandstrom, 1993).

Organizational beliefs and behaviors which are critically infused by ideology play a key role in the selection of strategic goals and the adoption, legitimation of, and support for the specific organizational practices designed to achieve those goals (e.g. Brown, 1985; Goll & Zeitz, 1991; Tilcsik, 2010; Ven & Verelst, 2008). In particular, ideology emerges as an important resource for alternative organizations to be less influenced by external constraints and to neutralize potential threats that could compromise the maintenance of their distinctiveness. For instance, Simons and Ingram (1997) found that the degree of kibbutzim's adherence to their distinctive Zionist-socialist ideology substantially determined the ability of these organizations to preserve their alternative practices and resist isomorphic pressures from the capitalist environment. Meanwhile, Scott (1967) concluded that organizational practices sustaining work integration of blind people in sheltered workshops were replaced by practices prioritizing commercial goals and employment of sighted workers, as the distinctive ideology of these organizations gradually diluted in the context of growing discrepancies between official and operative goals in an increasingly competitive setting.

In addition, nurturing a shared, distinctive ideology in alternative organizations is crucial to "calm internal dissensions" and "present a united front to the world" (Kanter, 1968, p. 502). Ideological coherence is particularly relevant during periods of organizational change, in which ideological sensemaking is central to re-assuring stability and attenuating fear for the future (Maclean et al., 2014). To achieve such ideological coherence, organizations can first mobilize specific recruitment procedures, which require the definition of membership conditions and duties (Battilana & Dorado, 2010; Rothschild-Whitt, 1979). They can also set up education and socialization processes (Chen, 2009; Lalich, 2004), which can be performed in specific training centers (Basterretxea & Albizu, 2011) or through informal mechanisms such as self-managed teams (Sausser, 2009). Ideological coherence may also be achieved through normative control and collective discipline, that is, by setting up a "mental cage, made up by cultural material" (Kärreman & Alvesson, 2004, p. 160) which binds actors to a specific social system and ensures their compliance with and commitment to its ideology.

Participatory organizations, as organizations that embody alternative practices based on values such as democracy, autonomy, and solidarity, and are generally embedded in adverse institutional settings, form a rich setting to examine how the creation and reproduction of a radical ideology can help alternative organizations maintain their institutional distinctiveness over time.

12.2.2 Participatory Organizations

Participatory organizations are defined here as organizations relying on advanced forms of worker participation including involvement in ownership and return rights on the profits, and formal participation in decision-making (Defourny et al., 1985). Participatory organizations, such as worker cooperatives, differentiate themselves from traditional businesses in several ways. They rely on a set of distinctive organizational values and practices such as voluntary and open membership, democratic member control, preference for reinvesting profits within the project, and strong anchoring in the local community (Leca et al., 2014; Cheney et al., 2014). They usually develop team and family-like work practices, which encourage mutual trust, social capital, and belonging (Dufays et al., 2020; Saz-Gil et al., 2021). In addition, the community feeling experienced by workers within participatory workplaces may be reinforced by distinctive language and style of dress, communal work effort, sharing of personal goods with the community (Kanter, 1968), “we-consciousness” (Blumer, 1953), as well as “we-comfort” (Kärreman & Alvesson, 2004). All these elements lead participatory organizations to orient their members towards a shared identity (Nelson et al., 2016) rooted in a commonly defined and distinctive ideology (Kunda, 2006).

Such distinctive ideology and its attendant practices are, however, difficult to maintain over time due to both internal dynamics and external pressures pushing participatory organizations to prioritize financial concerns at the expense of democratic governance (Bonin et al., 1993; Bretos et al., 2020; Latinne, 2014; Meister, 1984; Miyazaki, 1984; Potter, 1891; Simons & Ingram, 1997). Participatory organizations also face pressures for increased hierarchization, specialization of roles and

tasks, and commensurate salaries and working conditions, conveyed by external actors such as public authorities, the educational system, the media, but also often by the workers themselves (Battilana et al., 2018; Pansera & Rizzi, 2020; Vieta, 2020).

Extant research has highlighted several factors allowing participatory organizations to preserve their alternative practices and prevent their degeneration over time. These include the enactment of countervailing discourses emphasizing democracy, social transformation, and community development (Barros & Michaud, 2020; Eikenberry, 2009); the reinforcement of broad-based participation both at the shopfloor and strategic management levels (Bretos & Errasti, 2017; Storey et al., 2014); the updating and institutionalization of cooperative education and training (Basterretxea & Albizu, 2011); the permanent requirement for accountability and the engagement of external stakeholders in dialog and action (Narvaiza et al., 2017; Ramus & Vaccaro, 2017); the use of sortition to select worker representatives in major decision-making bodies (Pek, 2021); as well as the overt critique of managers and the use of schoolboy humor to undermine their credibility and limit their claims to authority (Jaumier, 2017).

It is also argued that the establishment of formal networks and alliances provides participatory organizations with critical resources to protect their distinctiveness (Pansera & Rizzi, 2020). For instance, the creation of a network allowed European renewable energy cooperatives to overcome legitimacy challenges and institutionalize their alternative practices through various actions involving criticism of the extant parameters of the institutional field, conciliation between members' rules and practices, and effective communication of the advantages of such alternative practices towards external audiences (Huybrechts & Haugh, 2018; Huybrechts et al., 2020). Similarly, the setting up of the Mondragon federation prompted the spread of cooperatives in the Basque Country and played a key role in ensuring the member cooperatives' adherence to a set of collectively defined principles and values organized around democracy, autonomy, education, and social transformation (Bretos et al., 2020).

In sum, participatory organizations must struggle to preserve their institutional distinctiveness—that is, to maintain the boundaries that

isolate them from the pressures of the external environment—and to reproduce their distinctive organizational practices and values over time. While extant studies have revealed different practices and strategies to resist pressures towards conformity, there is a dearth of research about the role of organizational ideology in shaping and sustaining such type of resistance. Our case study of Cecosesola aims to theorize the internal and external work that participatory organizations and their workers may undertake to create and reproduce a specific radical ideology allowing these organizations to preserve their institutional distinctiveness over time while securing an acceptable degree of legitimacy in the institutional field.

12.3 Methods

12.3.1 Research Context

Cecosesola is one of the wider reaching, more radical, longer lasting, and yet little researched participatory organizations in the world.¹ Cecosesola was created in 1967 as a second-tier cooperative providing administrative services to its affiliated co-ops and cheap funeral services to the members of those co-ops. Cecosesola functions at the same time as a second-tier co-op gathering 29 cooperatives (including worker co-ops, producer co-ops, and multistakeholder co-ops) and almost the same number of community-based organizations, and as a primary worker co-op gathering 629 worker-members (in 2014). The whole Cecosesola network today produces, transforms, and retails food; provides health, credit, and funeral services; distributes home appliances; and organizes community education activities. Some organizations incorporated in the Cecosesola network develop a single activity (e.g., agricultural production, or food supply), but most of them are active in different sectors at the same time, including the Cecosesola worker co-op itself. The entire network consists of around 20,000 members, among which around 18,700 are

¹ Cecosesola has received the Right Livelihood Award 2022, for developing an alternative societal model that supports its community and members in all aspects of life.

consumers; 1,000 are workers; and 300 are producers. Health, funeral, and credit and savings services are accessible to the members only, while the food supply is available to the whole community. Member organizations are managed independently, but maintain close ties with the Cecosesola network.

This study centers on the Cecosesola worker co-op itself, whose 629 worker-members spread as follows: the Cecosesola food markets (539); the Cecosesola healthcare center (68); the Cecosesola funeral home (19); and the rest provided credit, sales, administrative, and education services (13). Membership is a necessary condition to work at the Cecosesola co-op. For its workers, Cecosesola is a way to collectively respond to the community's needs, by providing them with access to basic goods and services at a low price. Cecosesola's goal is also to trigger a "communitarian, economic, cultural and social transformation", through "respect, solidarity, equity, criticism, responsibility, commitment, communication, transparency and honesty" (Cecosesola, 2002, Article 2). The Cecosesola co-op is entirely self-managed by the workers, who rely on practices anchored in these core values, such as regular job rotation, consensus-based decision making, equal salaries—the salary being an advance payment of future revenues, called *anticipo*—and equal working conditions. Hierarchy is formally absent and coordination is performed in groups and in rotation, providing workers with a holistic vision of, and strong identification with, the cooperative.

12.3.2 Data Collection and Analysis

Organizational ethnography, as "the art of exploring the complexities of everyday organizational life through immersion" (Ybema & Kamsteeg, 2009, p. 103), is a research method particularly suited to elucidate "how organizations are socially and materially constructed through activity and effort" (Nicolini, 2009, p. 120). This method empowers the researcher the examination of the entire process of ideological formation, from the conception of the ideology to its enactment and workers' responses (Kunda, 2006).

The first author spent four months working at the Cecosesola co-op, at the end of 2014, performing a wide variety of tasks, from cooking and cleaning to visiting producers and controlling the quality of fruits and vegetables. She participated in 225 hours of sectoral and cross-sectoral meetings, taking field notes summarizing meeting contents and registering exact quotes that illustrated Cecosesola's distinctive organizing pattern, and helped reveal the ideological foundations of the self-managed practices. She also stayed at four different workers' homes during the whole research period, which gave her access to a considerable amount of sensitive data regarding workers' underlying motivations and comprehension of self-management. Due to the relatively short time of her stay, she was not attributed a fixed role at the cooperative, but provided support within different sectors, in a rotative way depending on where she was needed most. In this way, she could hold a large number of informal conversations with workers of all ages, genders, roles, and seniorities. She registered part of those conversations in the form of exact quotes.

Through an abductive process, the authors actively tried to reach empirical material that enabled them to construct a new interpretive theory that would help resolve the surprise of the empirical phenomenon (Alvesson & Kärreman, 2007), i.e., the maintenance of radical self-management over several decades. Initial data from participant observation and field notes allowed the authors to identify 94 relevant organizational processes, tools, and activities enabling the maintenance of self-management. Next, and while considering data and theory in parallel, the authors collected additional data, from 2015 to 2021, drawing on a diversity of sources. In doing so, they pinpointed the ideological foundations of workers' actions. To clarify workers' efforts to sustain self-management over time, they organized the data around three dimensions: the emergence of an alternative organizational ideology; its protection against the backdrop of adverse external pressures; and its reproduction over time within the cooperative.

12.4 Findings

12.4.1 Emergence of an Alternative Organizational Ideology Guiding Workers' Actions

Trigger Point in the Cooperative's History

A key period in the life of the cooperative covers the incidents unfolding between 1974 and 1983. In 1974, Cecosesola's workers launched a cheap public transportation service. The cooperative successfully ran the bus service for a couple of years, and in 1979 it consisted of 300 workers. That year, however, the Municipal Council demanded that tariffs be aligned with other providers' fares, and, as Cecosesola's workers refused to comply, public authorities stopped paying the cooperative the subsidy due to every transportation company.

As a reaction, Cecosesola's workers called for a bus strike, started a public awareness campaign, and organized repeated protests. In turn, the Regional government initiated a propaganda campaign and extensively used the media to turn public opinion against the cooperative. The fight prolonged for some time, until one night in 1980 the local police arrested several of the workers and confiscated their facilities and buses. Cecosesola's workers continued demonstrating and mobilized the support of other cooperative units from across the country. Finally, they traveled to the capital to plead their case with Congress. A few weeks later, and 140 days after the bus seizure, a court order mandated the municipality to restore the buses to the cooperative.

In addition to this very publicized conflict with the local authorities, Cecosesola suffered an internal discord, equally covered by the media. Unsuccessfully demanding an increase in pay and the creation of a labor union, a small group of workers circulated stories about administrative irregularities. Benefitting from these workers' experiences in unions, and through their political connections, they soon embodied the role of informal leaders and people of influence within the cooperative. Although the independent audit informed of the "good organization and control" of the transportation service and the "good shape" of the buses, this internal contention created division inside the cooperative

and inspired public mistrust in the organization, further altering its relationship with key partners such as the Municipal Council and credit institutions.

By the time both internal and external struggles were settled, the buses were not in running order any longer and the cooperative had accumulated enormous financial losses. In addition, around 160 workers and 70 cooperatives had withdrawn from the Cecosesola network. As a consequence of this internal crisis, as well as the fight with external actors, the Cecosesola co-op went through an important process of organizational change. From then on, the remaining workers decided to exclusively rely on self-financing and to further deepen worker participation. Reflecting on their recent experience, workers concluded that successful participation required regular meetings and the construction of very strong social links. While the actual change in the bylaws only occurred in 2002, factually the workers abolished any form of hierarchy in 1983, turning the cooperative into a wide-scale experience of radical self-management. Concretely, they dissolved executory and supervisory boards, suppressed formal supervision and control functions, developed consensus-based decision making, implemented regular job rotation across the whole organization, and established equal salaries and working conditions for all.

However, they understood that simply creating new structures and working conditions wouldn't foster the desired behaviors, as they recounted later:

It seems like we were departing from the assumption that, by only decreeing trust along with a change of organizational structure and some equality in the pay assignments, we would be guaranteeing an important transformation in the behavior [of workers]. We were hoping that those conditions would be enough to foster the spontaneous and natural emergence of a being that would be solidary, participatory, responsible and socially engaged. At the beginning, everything seemed quite easy. The reality would be different. (Cecosesola, 2007, p. 71)

Defining the Ideology

The strengthening of the participatory practices came hand in hand with the reaffirmation of explicit core values and principles. Freitez (2012, p. 149) reported this process as such: “The transportation crisis also triggered, from a collective point of view, self-critique and a search for alternatives, as well as a process of change in members’ basic conception of organizational practices, transforming [the crisis] into an incentive for the construction of a different organization”.

On the one hand, workers started articulating a repeated and explicit critique of the dominant social order, and of traditional organizational forms, to justify the existence of their alternative organization. Decades later, workers still regularly compared during meetings, in organizational documents, and in communications with outsiders, their self-management experience to (undesired) cultural trends in society. Workers pointed out, for example, that “capitalism as much as communism are manifestations of the Western culture; a culture that moves with the intention to foster since childhood individualistic desires of accumulation of knowledge, power and wealth” (Salas, 2017). They also condemned traditional organizations’ practices and the unacceptable values that they convey:

Exactly as the consumerist society sells us the idea of a selfish, individualistic, and mainly irresponsible human being, it also proposes one single form of organization where there are directors and directed, where there is mistrust, where the authority comes from the role, where the responsibility for the most is delegated but in any case it is shared, where everybody tries to accumulate for oneself the biggest amount possible of information, knowledge, money, and ultimately personal power. (Cecosesola, 1990)

On the other hand, workers strengthened their participatory and egalitarian ideals. Exploiting both the fresh start of new activity and the perceived hostile environment, the workers defined explicit underlying values and motivations for their collective project, which are summarized in their current bylaws:

We declare that we commit to maintain Cecosesola as an organism of cooperative integration, dynamic, open, flexible and diverse; that its organization be the expression of the personal and communitarian processes of transformation. For this purpose, we commit to maintain and cultivate among associates the values of respect, solidarity, equity, criticism, responsibility, commitment, communication, transparency and honesty. (Cecosesola, 2002, Article 2)

Hence, Cecosesola's distinctiveness did not only express itself through participatory and egalitarian practices but also through the motivations underlying these practices. As a worker explained:

At the end, the aim of Cecosesola is our personal transformation and the transformation of the society. We want to connect with others. Our aim is not just to sell goods and services. (A worker at a meeting, August 27, 2014)

In summary, following a major turning point in the cooperative's history, the workers have implemented important changes in organizational practices towards a more radical form of self-management. Simultaneously, they have anchored this new and radically distinctive form of organization in entrenched criticism of the dominant order, and they have explicitly framed alternative values and motivations.

Operationalizing the Ideology

Given the newfound absence of hierarchy—and of written working rules and procedures—workers had to find a way to fill in this void of power, and operationalize the ideology into collective and individual behaviors consistent with the alternative social system that they aspired to create.

The workers, therefore, started using collective criteria, premised on mutual respect, which were the behavioral translation of the values and motivations underlying the desired practices. A collective criterion was, for example, to prioritize collective long-term benefits instead of individual short-term profits. Criteria were reevaluated regularly, usually following the apparition of a problem or crisis that can be internal to the organization (e.g., the uncovering of a theft) or external (e.g.,

the growing food scarcity in the country). They emerged consensually and were continuously reformulated during meetings that sometimes gathered more than a hundred workers.

Since they served as a guide map for workers' actions, collective criteria empowered the workers to make decisions, on the spot, either individually or in small teams, when facing the need for a decision. Workers would later inform, during their weekly management meeting, the other workers of the decisions taken. Ensuring coherence between operational decisions, and therefore individuals' and teams' actions, and collective criteria appeared essential to Cecosesola's self-management process. As such, attitudes not in keeping with the core values—e.g., individualistic behaviors—were severely criticized and condemned.

However, self-assessing the coherence between ideology and practices was not sufficient on its own to sustain Cecosesola's distinctiveness over time. The following two sections explain mechanisms that have enabled Cecosesola's workers to both shield their distinctive ideology from potentially hostile external influences, and to internally reproduce it over the years.

12.4.2 Shielding the Ideology from External Interferences

Despite what might be expected from the political context in Venezuela, the overall environment was consistently perceived as hostile by Cecosesola's workers. External actors (e.g., local government, competitors, and the media) repeatedly criticized the cooperative's existence and practices (Bastidas-Delgado, 2007; Freitez, 2012). Therefore, to be able to maintain their distinctive culture, the workers invested much effort in shielding the cooperative and its ideology from external threats. The cooperative thereby gained some legitimacy in spite of, and even because of, its distinctiveness. Firstly, the cooperative positioned itself early on as a significant socio-economic actor in the region, becoming "too big to fail". Moreover, workers developed a capacity for garnering rapid and effective support, and for using threats when necessary. Finally, Cecosesola reinforced its ideology through connection with like-minded

organizations, and communication on the advantages of their organizational model.

Becoming “Too Big to Fail”

Cecososola has benefitted since its creation from a strong regional and community embeddedness. Initially created to answer the community’s need for affordable funeral services, the cooperative then launched a transportation service whose schedules, routes, and frequencies were established together with community organizations. When the cooperative went bankrupt, in 1983, it was relaunched through an activity of itinerant trade of fruits and vegetables in the most underserved neighborhood of the city. Nowadays, the food markets are settled in the poorest areas of the city.

While addressing this unmet need, Cecososola grew exponentially, gaining significant economic weight and legitimacy as an organization at the local and national levels. Workers explained that they never had an interest in expanding further than necessary beyond the boundaries of the city of Barquisimeto, but that they “are willing to help [in] implementing cooperative markets in other places” (Escuela Cooperativa Rosario Arjona, 1990)—which they attempted (unsuccessfully) in Colombia, Bolivia, and Egypt. The cooperative regularly welcomed journalists, students, researchers, and anyone who was willing to know more about their experience, contributing to building their legitimacy both in Venezuela and in the rest of the world. In addition to such legitimacy-building, Cecososola also leveraged its economic weight to negotiate with external stakeholders, including multinational food suppliers and government agencies (for example, when in need of privileged access to scarce fertilizers), knowing that they could easily influence radio or television channels to support their viewpoint.

Moreover, the cooperative was aware of the significant impact it had on the community and constantly communicated numbers as well as positive qualitative impacts to the workers, the customers, as well as to the community at large. In a recent publication, they brought to the fore their “long story of communitarian empathy” by referring to a study

on Cecosesola's societal legitimacy that reported that 95 percent of the respondents sampled from the wider community said they would "help the cooperative if someone tried to harm it" (Cecosesola, 2021).

Garnering Support and Using Threats Towards Opponents

Thanks to its legitimacy and strong community embeddedness, a broader support network was built up over the years, and Cecosesola workers never hesitated to use it to neutralize external threats. Cecosesola workers always nurtured close ties with the community in which they were embedded and with the Venezuelan cooperative movement and did not hesitate to mobilize their support when needed. For example, in 2015, the government tried to impose a new tax law that would have negative consequences for self-managed cooperatives, particularly those relying on associated labor instead of subordinated employment. Cecosesola responded by mobilizing their workers and supporters and organizing public marches, petitions, propaganda in the (social) media, and orchestrated emails sent to public officers.

In addition, the workers nurtured close ties with politicians and other key stakeholders, which helped them to reinforce the legitimacy of their distinctive organizing patterns, or at least shield them from potential threats. For example, at the time of the Venezuelan constitutional change in 1999, Cecosesola's workers lobbied public officials to advance their own proposals for reform of the Cooperative Law; in particular, they argued for a cancellation of the obligation for cooperatives to form supervisory and executive boards.

They have also built a friendly relationship with representatives of multinational food suppliers, who observed the cooperative's healthy commercial relationships and valued its politics of maintaining low margins. In consequence, suppliers often tried to favor Cecosesola over other supermarkets when food shortages compelled them to choose between competitors.

Reinforcing the Ideology

Over the years, Cecosesola workers reinforced their ideology by connecting their experiences of self-management with those of established like-minded organizations from across the world, and by communicating the advantages of their distinctive organizational model—while also emphasizing overlaps with the government’s political program.

On the one hand, workers regularly reflected on their organizational model and their ideology by drawing parallels with other similar movements and thinkers, such as the Zapatista movement in Mexico or the Uruguayan ex-president José Mujica’s philosophy of life. Similarities and lessons to be drawn were discussed during internal meetings, and were also gathered into organizational publications or informal newsletters sent to their network of like-minded supporters.

Several times, a delegation of a few workers was sent abroad—e.g., to Europe and to the U.S.A.—to exchange experiences and practices with similar collective organizations, and to gather inspiration for solving particular problems that they faced (e.g., how to integrate doctors into a self-managed system requiring job rotation and equal salaries for all workers).

In addition, workers regularly insisted on the wider purpose of their work, and on the fact that “by creating a system of distribution of aliments, a funeral system, a health system, a financing system, [they] are fighting against speculation, reclaiming the right to enjoy a better quality of life” (Cecosesola, 2003, p. 60). When faced with legal threats or the need to negotiate with government officials, they engaged in legitimacy-building work by highlighting the overlaps with targeted parts of the government’s agenda, emphasizing for example that Cecosesola could “contribute to the true strengthening of the democratic system” (Cecosesola, 1998). As another example, in an open letter to government officials in the 2015 campaign against the new tax law, Cecosesola workers wrote: “How can we justify that a capitalist organization has priority over cooperatives whose activities fall within the objectives and the priorities of the Plan de la Patria?” When the Cooperative Law was modified in 2001, they highlighted that the old law had placed them

alongside “organizations of little significance, to be protected and supervised, without granting them any major role in the development of our society” (Cecosesola, 2002, p. 8).

12.4.3 Internally Reproducing the Ideology

Our findings show that pressures against the participatory and egalitarian system that Cecosesola’s workers have created were not only external but also internal, emanating from the workers themselves. To prevent further internal implosion or dilution of the ideology, the cooperative developed several mechanisms to internally reinforce the compliance with its distinctive ideology, allowing it to reproduce itself over the years and as some workers leave and new workers arrive: procedures for the transmission of the ideology to the workers; incentives for individual alignment with the ideology; and the maintenance of a strong collective discipline based on ideological prescriptions.

Transmission of the Ideology

The high turnover of workers required mechanisms for the transmission of the ideology to the incoming workers. First of all, a selection process at the point of entry was performed. New workers were recruited exclusively through mentoring, which implied that any new worker had to be introduced to the collective by an existing worker, who was in charge of this first step of the newcomer’s socialization with the ideology and the general functioning of the cooperative. Recruiting acquaintances was considered one among other vehicles for trust. When workers were questioned for their (mis)behavior, their mentors too, as they were held responsible for the behavior of their recruits, even up to several years later.

The mentoring system, a socialization course for new recruits, and intergenerational transmission of the history of the cooperative enabled new workers to understand the underlying logics of Cecosesola’s organization. The past struggles and the victories accumulated over the years, such as the bus seizure story, were kept vivid for new and existing

workers. The latter wrote about these struggles and kept newspaper articles from that period. During meetings, they regularly recalled the cooperative's past, and the fundamental values and motivations underlying their work at Cecosesola. They also readily explained them to people showing an interest in the cooperative (e.g. journalists, customers, politicians). In addition, workers constantly mentioned the fundamental values, motivations, and organizational purpose forming the cooperative's distinctive ideology. Some specific meetings were organized to reflect on their original *raison d'être*. The educative process was adopted by the workers as one of the main features of the cooperative.

However, ideological education was not always easy to carry out. At the main health center, the doctors were the only workers who did not participate in the overall self-managed dynamic. According to the other workers, because they held very specific technical knowledge and because they did not rotate roles within the organization (and thus never encountered the rest of the organization), doctors did not get emotional about the work performed at Cecosesola. Workers in the rest of the organization, by contrast, emphasized that the heart of their dynamic lay in the types of relationships they created with one another.

Individual Alignment with the Ideology

Equally important as the transmission was to ensure continuous alignment with the distinctive ideology. Alignment was secured by ensuring workers' identification with the distinctive process going on within the cooperative: their acceptance that the collective overrules private life: the strengthening of family ties; and the implementation of several pragmatic incentives.

Since the beginning, workers showed identification with Cecosesola's process and affection towards the cooperative. As they recall: some workers already displayed a certain "identification with the cooperative process, even though this was for affective reasons" (Cecosesola, 2007, p. 74). Still today, they regularly use love or matrimonial metaphors to describe their relationship with the cooperative. For example:

Between me and the food market, it is like a love story. But after a few years, the routine threatens. (A female worker, personal conversation, August 18, 2014)

It is like a couple [in a] relationship, if there is no communication, everything collapses. (A vegetable provider, personal conversation, August 22, 2014)

To work at Cecosesola, however, workers had to accept that the collective overrules the individual. Within the cooperative, there was very limited opportunity for privacy: tasks were always performed by teams and meals are taken together; workers spent a lot of hours at the workplace—from ten to fifteen hours a day—and had little opportunities for hobbies and leisure time with their families. Raising the subject of the long and hard-working hours was one of the only taboos within the cooperative. Often, non-work-related justifications were required. If workers arrived late at a meeting, or needed to leave early, they had to explain themselves in front of the whole collective. If they wanted a loan that exceeded their savings, they had to justify the purpose of the loan.

In addition, workers capitalized on strong family and friendship ties and worked to strengthen them. They took advantage of the Venezuelan culture of the “nuclear family”, and tried to enlarge this family circle to encompass the entire organization (Cecosesola, 2012). Interestingly, when talking to outsiders, workers used “we” statements. They also developed a specific vocabulary adapted to their work reality, and regularly and willingly dressed in Cecosesola t-shirts. Within the cooperative, there was no division by work roles (except for nurses and doctors), by gender, or by age. Everybody sat, worked, and ate with one another, and avoided forming stable sub-groups. The goal is for everybody to closely know everybody else.

The danger of someone that does not participate and that doesn't allow others to get to know them, that does not share information or relationships with others, is that if one day that person finds themselves in a shitty situation ... no one is going to defend them because they never worked to create trust, because others don't know them nor know what

they think of the organization. (A worker at a meeting, September 18, 2014)

Finally, the presence of several pragmatic incentives strongly contributed to individual alignment with the collective ideology, because these incentives encouraged workers to stay in the cooperative and continue benefitting from its many advantages. The benefits of working at the cooperative included: having stable employment and relatively good pay; having secure access to good and diversified food, cheap health and funeral services, and access to credit; or having children participating in leisure activities.

Maintenance of a Collective Discipline Based on the Ideology

Beyond directly acting on individual compliance to the ideological prescriptions, indirect alignment was also fostered through collective discipline. Collective discipline spurred workers' commitment because it relied on very strong peer pressure, along with public denouncement and collective trials in case of perceived incoherent behavior.

Cecosola's workers were clear about compliance to ideological prescriptions and commitment to the collective (including embracing behavioral changes), as well as the role of the collective in ensuring discipline. They explained that at the cooperative:

[Since] there is no hierarchy, then there is a power vacuum. And this vacuum here, nothing is filling it. We take care of this vacuum with collective discipline. And there is no necessity for bosses, we need to be the guardians of this discipline. (A worker at a meeting, September 18, 2014)

Perceived misconduct and misbehavior needed to be publicly denounced and were treated within collective trials. Workers found that, when denouncements did not happen on a regular basis, the consequences could be dramatic. For example, at the beginning of the fieldwork, a widespread slackening and generalized lack of mutual monitoring

allowed for a large amount of money to be stolen from the safety deposit boxes of the cooperative. Public denouncements and trials were justified by the fact that bad behaviors spread very rapidly, and that mistakes could be opportunities for improvement. Collective punishment could lead to the temporary (voluntary) exit of a worker, or even permanent exit when peer pressure became too strong because workers felt that the mutual trust had been irreparably broken.

12.5 Discussion and Conclusion

Based on our research findings, we propose several contributions to the literatures on institutional theory, organizational ideology, and worker participation.

Firstly, this research extends the notion of “institutional distancing” (Gray et al., 2015), a process whereby organizations “immunize themselves from sharing the frames and expectations of the field”, albeit “without directly challenging dominant norms or existing power relations” (Gray et al., 2015, p. 129; see also Lepoutre & Valente, 2012). One well-documented way of implementing such distancing is the “decoupling” process through which organizational practices are adapted to satisfy institutional prescriptions only in appearance (Meyer & Rowan, 1977). By contrast *we document a more explicit yet less documented avenue of distancing through the notion of “institutional distinctiveness”*. Institutional distinctiveness captures the process through which organizations make a virtue of their alternative organizing patterns, such as worker participation, and shield them from the influence of dominant institutions.

Institutional distinctiveness departs from the differentiation dynamics documented in the strategic management literature to gain a competitive advantage in the market (Chrisman et al., 2005). It is deeper, as it concerns the core organizational structure and ideology rather than products and services or processes (Wade-Benzoni et al., 2002). It is also more radical, as it does not seek to remain within the legitimately accepted set of organizing options and it is publicly advanced as a virtue. Finally, it is more persistent and far-going than punctual deviations described in

the literature (Battilana & Lee, 2014; Goodrick & Reay, 2011; Reay & Hinings, 2009). In addition, the notion of institutional distinctiveness departs from that of “symbolic and material immunity” (Lepoutre & Valente, 2012), as it encompasses the process of creating and allowing the distinctiveness of the organization, but also of sustaining it over time.

We highlight the creation and reproduction of a radically distinctive organizational ideology as a key pathway towards institutional distinctiveness. Understanding the emergence and maintenance of such distinctiveness is relevant as it largely feeds organizational diversity in institutional fields (Kondra & Hinings, 1998; Stiglitz, 2009). In addition, by studying the micro-level organizational processes that shape the positioning of a distinctive organization within its institutional context, we contribute to the scholarly shift from exploring institutional dynamics at the field level towards understanding the micro-level processes that feed macro-level dynamics (Lepoutre & Valente, 2012). Understanding how alternative organizations emerge and develop within hostile environments is relevant in the larger conversation about macro-level transformations, in particular towards more responsible forms of capitalism (Boltanski & Chiapello, 2005; King & Pearce, 2010).

Secondly, we contribute to the literature on organizational ideology by *unveiling the conditions under which a radically distinctive ideology may be created, sustained, and reproduced over time within the boundaries of an organization*. Although the consequences of ideology on the organization are well known (e.g. Brown, 1985; Stewart & Gosain, 2006; Tilcsik, 2010; Ven & Verelst, 2008), much less is known about its processes of its creation and maintenance.

The Cecosesola case study illustrates how a radically distinctive ideology, defined by explicit underlying values and motivations, may emerge in a moment of organizational crisis. It shows how ideology requires both continuous entrenched criticism of traditional organizational forms and surrounding institutional arrangements, as well as continuous framing (e.g., through the definition of shared criteria) to guide workers’ behavior and empower them to make individual decisions. Criticism and framing are both important if the organization wants to “become a quasi-institution in [its] own right” (Maclean et al., 2014, p. 546). In addition, the case study suggests

that ideology must be shielded both from external interferences and internal erosion. Protection from external forces can be achieved through strong embeddedness in the community and becoming “too big to fail”, as well as *informal* networking practices—as opposed to *formal* inter-organizational networking (Huybrechts & Haugh, 2018; Huybrechts et al., 2020; Pansera & Rizzi, 2020)—which can help reaffirm and preserve the distinctive ideology and practices, in particular, by getting inspiration and emotional support from alternative organizations and social movements that share similar values and visions of the world.

In parallel, protection from internal erosion can be achieved by effectively transmitting the ideology to new workers, ensuring continuous individual alignment with it, and maintaining a strong collective discipline. However, such “concertive control” (Barker, 1993), based on normative rules and values consensus, raises a number of ethical issues (Bourne & Jenkins, 2013). In this regard, collectivist commitment may fiercely punish individualistic behaviors and suppress dissident views (Chen, 2009). Contrary to the case of specialized workers who are harder to substitute, when no specific knowledge is required, the organization is free to define *members’ selves* for the workers themselves, with the consequence that workers cannot wallow into situations of ambiguity and alleviate identity tensions through ironic responses (see Kunda, 2006), because by doing so they would immediately be drowned by peer pressure and excluded from the group. Subtle mechanisms, such as peer pressure or mortification processes (Kanter, 1968) in which the greatness of the organization enhances the smallness of the individual, suppress individual interests (Polletta, 2002, p. 213) and deny workers private spaces (Kanter, 1968). By conveying a message that the self is appropriate and complete only when it corresponds to the model offered by the collective, such a system requires that the workers surrender to, and get totally involved with, the collective project, which in turn gives both meaning and direction to their lives (Kanter, 1968). Thus, a too radical organizational ideology reduces freedom of mind to entirely favor the collective’s interest (Alvesson, 1991), with the consequence that workers risk “becom[ing] both their own masters and their own slaves” (Barker, 1993, p. 433).

Thirdly, we also contribute to discussions about how participatory organizations may successfully preserve their democratic character over time (Diefenbach, 2019). In particular, *we shift away the traditional focus on economic and managerial analysis of the degeneration and regeneration dynamics* (Ben-Ner, 1984; Bonin et al., 1993; Latinne, 2014; Meister, 1984; Michels, 1915; Miyazaki, 1984; Potter, 1890) *to a more comprehensive understanding of micro-level practices both internal to the organization and at the interface between the organization and its immediate environment.*

Indeed, our case study illustrates that forces towards the erosion of the participation may also result from difficulties to develop alternative patterns from scratch, without any pre-existing organizational template and merely based on a continuous process of trial-and-error; or arise because of national or regional cultures and education systems, which condition workers' perceptions, embodied values, attitudes, and beliefs at the moment they enter the organization. In addition, we add to the debate about the different strategic resources and actions that participatory organizations can mobilize to sustain workplace democracy and prevent degeneration (e.g., Bretos et al., 2020; Jaumier, 2017; Narvaiza et al., 2017; Pek, 2021) by unveiling the critical role played by the creation and maintenance of a strong radical ideology that guides workers' behavior and actions. Finally, we also bring back the study of worker participation to local meanings and everyday experiences (Heras-Saizarbitoria, 2014; Jaumier, 2020). Too often, scholars have tried to "understand a dance by viewing snapshots of the action when you really need to be an observer of the whole process, or better still one of the dancers, to experience and understand the whole performance" (Johnstone, 2007, p. 101). By immersing into the daily experience of an extreme case of workers' participation, we challenge the long-lasting conception that participation is only feasible in small organizations with a stable and homogenous membership (Rothschild & Whitt, 1986).

To conclude, our analysis is subject to a number of limitations that open avenues for future research. First, we focused on one single

extreme case that enabled us to highlight advanced processes of ideological formation and maintenance in resistance to dominant institutional arrangements. Moreover, such processes unfolded in the very specific collectivist-socialist context of Venezuela, characterized by political centrality, judicial inefficiency, underutilization of markets, lack of information, large economic disparities, weak financial institutions, and deficient infrastructures in general. In addition, Cecosesola replicated the behaviors of most Venezuelan enterprises, such as the reliance on influential contacts within the government and the usage of cultural resources inherent to the national culture including strong family ties and collective identity (Berlin, 1996). The work around organizational ideology examined here should thus be considered in relation to the national ideological and institutional context in which it is embedded (Nelson & Gopalan, 2003).

Nevertheless, the study highlighted important barriers underlying the need for institutional distinctiveness even in a context appearing as favorable to workers' empowerment and participatory democracy (De la Torre, 2013; Zúquete, 2008). Future research should thus investigate how different types of institutional contexts encourage or discourage alternative organizational ideologies, and how this may influence the need for strategies towards institutional distinctiveness. For example, would the organization manage to *shield* itself as in the present case, or would it be forced to develop alternative strategies to avoid, or counter, institutional constraints? Likewise, would an organization nurturing another type of institutional distinctiveness develop similar patterns for protecting its distinctive practices against internal erosion and external pressures?

References

- Aldrich, H. E., & Fiol, M. (1994). Fools rush in? The institutional context of industry creation. *Academy of Management Journal*, 19(4), 645–670.
- Alvesson, M. (1991). Organizational symbolism and ideology. *Journal of Management Studies*, 28(3), 207–225.

- Alvesson, M., & Kärreman, D. (2007). Constructing mystery: Empirical constructing matters in theory development. *Academy of Management Review*, 32(4), 1265–1281.
- Barker, J. R. (1993). Tightening the iron cage: Concertive control in self-managing teams. *Administrative Science Quarterly*, 38(3), 408–437.
- Barros, M., & Michaud, V. (2020). Worlds, words, and spaces of resistance: Democracy and social media in consumer co-ops. *Organization*, 27(4), 578–612.
- Basterretxea, I., & Albizu, E. (2011). Management training as a source of perceived competitive advantage: The Mondragon Cooperative Group case. *Economic and Industrial Democracy*, 32(2), 199–222.
- Bastidas-Delgado, O. O. (2007). *La Autogestión Como Innovación Social En Las Cooperativas. El Caso De Las Ferias De Lara En Venezuela*. UNIRCOOP & CEPAC-UCV.
- Battilana, J., & Dorado, S. (2010). Building sustainable hybrid organizations: The case of commercial microfinance organizations. *Academy of Management Journal*, 53(6), 1419–1440.
- Battilana, J., & Lee, M. (2014). Advancing research on hybrid organizing: Insights from the study of social enterprises. *Academy of Management Annals*, 8(1), 397–441.
- Battilana, J., Fuerstein, M., & Lee, M. (2018). New prospects for organizational democracy? How the joint pursuit of social and financial goals challenges traditional organizational designs. In S. Rangan (Ed.), *Capitalism beyond mutuality? Perspectives integrating philosophy and social science* (pp. 256–288). Oxford University Press.
- Ben-Ner, A. (1984). On the stability of the cooperative type of organization. *Journal of Comparative Economics*, 8(3), 247–260.
- Berlin, M. (1996). Research note: Business environment and corporate culture in Venezuela. *Organization Studies*, 17(5), 843–855.
- Blumer, H. (1953). Collective behavior. In Barnes and Noble (Ed.), *Principles of Sociology* (pp. 167–222).
- Boltanski, L., & Chiapello, E. (2005). *The new spirit of capitalism*. Verso.
- Bonin, J. P., Jones, D. C., & Putterman, L. (1993). Theoretical and empirical studies of producer cooperatives: Will ever the twain meet? *Journal of Economic Literature*, 31(3), 1290–1320.
- Bourne, H., & Jenkins, M. (2013). Organizational values: A dynamic perspective. *Organization Studies*, 34(4), 495–514.
- Bretos, I., & Errasti, A. (2017). Challenges and opportunities for the regeneration of multinational worker cooperatives: Lessons from the Mondragon

- Corporation—A case study of the Fagor Ederlan Group. *Organization*, 24(2), 154–173.
- Bretos, I., Errasti, A., & Marcuello, C. (2020). Is there life after degeneration? The organizational life cycle of cooperatives under a “grow-or-die” dichotomy. *Annals of Public and Cooperative Economics*, 91(3), 435–458.
- Brown, L. H. (1985). Democracy in organizations: Membership participation and organizational characteristics in U.S. retail food co-operatives. *Organization Studies*, 6(4), 313–334.
- Carlisle, Y. M., & Manning, D. J. (1994). The concept of ideology and work motivation. *Organization Studies*, 15(5), 683–703.
- Cecosesola. (1990). *Gestión Solidaria*.
- Cecosesola. (1998). *El programa de Ferias de Consumo Familiar en Lara: La Educación a través de la producción y el consumo de alimentos*. Escuela Cooperativa de CECOSOLSA.
- Cecosesola. (2002). *Estatutos del Organismo de Integración Cooperativa*.
- Cecosesola. (2003). *Buscando una convivencia armónica*.
- Cecosesola. (2007). *Construyendo aquí y ahora el mundo que queremos* [Building here and now the world that we want]. Cecosesola.
- Cecosesola. (2012). *Reflexionando nuestro vivir*.
- Cecosesola. (2021). *Otro mundo posible*.
- Chen, K. (2009). *Enabling creative chaos: The organization behind the burning man event*. The University of Chicago Press.
- Cheney, G., Santa Cruz, I., Peredo, A. M., & Nazareno, E. (2014). Worker cooperatives as an organizational alternative: Challenges, achievements and promise in business governance and ownership. *Organization*, 21(5), 591–603.
- Chrisman, J. J., Chua, J. H., & Sharma, P. (2005). Trends and directions in the development of a strategic management theory of the family firm. *Entrepreneurship: Theory and Practice*, 29(5), 555–575.
- De la Torre, C. (2013). In the name of the people: Democratization, popular organizations, and populism in Venezuela, Bolivia, and Ecuador. *European Review of Latin American and Caribbean Studies*, 95, 27–48.
- Deephouse, D. L. (1999). To be different, or to be the same? It's a question (and theory) of strategic balance. *Strategic Management Journal*, 20(1), 147–166.
- Defourny, J., Estrin, S., & Jones, D. (1985). The effects of workers' participation on enterprise performance. *International Journal of Industrial Organization*, 3(2), 197–217.

- Diefenbach, T. (2019). Why Michels' 'iron law of oligarchy' is not an iron law – and how democratic organisations can stay 'oligarchy-free.' *Organization Studies*, 40(4), 545–562.
- DiMaggio, P. J., & Powell, W. W. (1991). *The new institutionalism in organizational analysis*. University of Chicago Press.
- Dowling, J., & Pfeffer, J. (1975). Organizational legitimacy: Social values and organizational behavior. *The Pacific Sociological Review*, 18(1), 122–136.
- Dufays, E., O'Shea, N., Huybrechts, B., & Nelson, T. (2020). Resisting colonisation: Worker cooperatives' conceptualisation and behaviour in a Habermasian perspective. *Work, Employment and Society*, 34(6), 965–984.
- Eikenberry, A. M. (2009). Refusing the market: A democratic discourse for voluntary and nonprofit organizations. *Nonprofit and Voluntary Sector Quarterly*, 38(4), 582–596.
- Escuela Cooperativa Rosario Arjona. (1990). *Gestión Solidaria*. Cecosolesa.
- Fine, G. A., & Sandstrom, K. (1993). Ideology in action: A pragmatic approach to a contested concept. *Sociological Theory*, 11(1), 21–38.
- Freitez, N. (2012). *El desarrollo del cooperativismo en el Estado Lara en el período 1958–2008: proceso histórico y tendencias*. Universidad Central de Venezuela.
- Geertz, C. (1973). *The interpretation of culture*. Basic Books.
- Goll, I., & Zeitz, G. (1991). Conceptualizing and measuring corporate ideology. *Organization Studies*, 12, 191–207.
- Goodrick, E., & Reay, T. (2011). Constellations of institutional logics: Changes in the professional work of pharmacists. *Work and Occupations*, 38(3), 372–416.
- Gray, B., Purdy, J. M., & Ansari, S. (2015). From interactions to institutions: Microprocesses of framing and mechanisms for the structuring of institutional fields. *Academy of Management Review*, 40(1), 115–143.
- Gulbrandsen, M. (2011). Research institutes as hybrid organizations: Central challenges to their legitimacy. *Policy Sciences*, 44(3), 215–230.
- Heras-Saizarbitoria, I. (2014). The ties that bind? Exploring the basic principles of worker-owned organizations in practice. *Organization*, 21(5), 645–665.
- Huybrechts, B., & Haugh, H. (2018). The roles of networks in institutionalizing new hybrid organizational forms: Insights from the European renewable energy cooperative network. *Organization Studies*, 39(8), 1085–1108. <https://doi.org/10.1177/0170840617717097>
- Huybrechts, B., Rijpens, J., Soetens, A., & Haugh, H. (2020). Building legitimacy for hybrid organisations. In D. Billis & C. Rochester (Eds.), *Handbook on hybrid organisations* (pp. 407–422). Edward Elgar.

- Jaumier, S. (2017). Preventing chiefs from being chiefs: An ethnography of a co-operative sheet-metal factory. *Organization*, 24(2), 218–238.
- Jaumier, S. (2020). Why does the study of alternative organizations (so badly) need anthropology? In R. Mir & A.-L. Fayard (Eds.), *The Routledge companion to anthropology and business*. Routledge.
- Johnstone, B. A. (2007). Ethnographic methods in entrepreneurship research. In H. Neegaard & J. P. Ulhøi (Eds.), *Handbook of qualitative research methods in entrepreneurship* (pp. 97–122). Edward Elgar.
- Kanter, R. M. (1968). Commitment and social organization: A study of commitment mechanisms in utopian communities. *American Sociological Review*, 33(4), 499–517.
- Kärreman, D., & Alvesson, M. (2004). Cages in tandem: Management control, social identity, and identification in a knowledge-intensive firm. *Organization*, 11(1), 149–175.
- King, B. G., & Pearce, N. A. (2010). The contentiousness of markets: Politics, social movements, and institutional change in markets. *Annual Review of Sociology*, 36(1), 249–267.
- Kokkinidis, G. (2015). Spaces of possibilities: Workers' self-management in Greece. *Organization*, 22(6), 847–871.
- Kondra, A. Z., & Hinings, C. R. (1998). Organizational diversity and change in institutional theory. *Organization Studies*, 19(5), 743–767.
- Kraatz, M. S., & Block, E. S. (2008). Organizational implications of institutional pluralism. In R. Greenwood, C. Oliver, K. Sahlin-Andersson, & R. Suddaby (Eds.), *The Sage handbook of organizational institutionalism* (pp. 243–275). Sage.
- Kunda, G. (2006). *Engineering culture: Control and commitment in a high-tech corporation* (Rev. ed). Temple University Press.
- Lalich, J. (2004). *Bounded choice: True believers and charismatic cults*. University of California Press.
- Latinne, A. (2014). *The Mondragon cooperatives. Workplace democracy and globalization*. Intersentia.
- Leca, B., Gond, J.-P., & Barin Cruz, L. (2014). Building “critical performativity engines” for deprived communities: The construction of popular cooperative incubators in Brazil. *Organization*, 21(5), 683–712.
- Lepoutre, J. M. W. N., & Valente, M. (2012). Fools breaking out: The role of symbolic and material immunity in explaining institutional nonconformity. *Academy of Management Journal*, 55(2), 285–313.

- Maclean, M., Harvey, C., Sillince, J. A. A., & Golant, B. D. (2014). Living up to the past? Ideological sensemaking in organizational transition. *Organization, 21*(4), 543–567.
- Marquis, C., & Lounsbury, M. (2007). Vive la résistance: Competing logics and the consolidation of U.S. community banking. *Academy of Management Journal, 50*(4), 799–820.
- Meister, A. (1974). *La participation dans les associations*. Editions Ouvrières.
- Meister, A. (1984). *Participation, associations, development, and change*. Transaction Publishers.
- Meyer, J. W., & Rowan, B. (1977). Institutionalized organizations: Formal structure as myth and ceremony. *American Journal of Sociology, 83*(2), 340–363.
- Michels, R. (1915). *Political parties: A sociological study of the oligarchical tendencies of modern democracy*. Batoche Books.
- Miyazaki, H. (1984). On success and dissolution of the labor-managed firm in the capitalist economy. *Journal of Political Economy, 92*(5), 909–931.
- Narvaiza, L., Aragon, C., Iturrioz, C., Bayle-Cordier, J., & Stervinou, S. (2017). Cooperative dynamics during the financial crisis: Evidence from basque and breton case studies. *Nonprofit and Voluntary Sector Quarterly, 46*(3), 505–524.
- Navis, C., & Glynn, M. A. (2011). Legitimate distinctiveness and the entrepreneurial identity: Influence on investor judgments of new venture plausibility. *Organization Studies, 36*(3), 479–499.
- Nelson, R. E., & Gopalan, S. (2003). Do organizational cultures replicate national cultures? Isomorphism, rejection and reciprocal opposition in the corporate values of three countries. *Organization Studies, 24*(7), 1115–1151.
- Nelson, T., Nelson, D., Huybrechts, B., Dufays, F., O’Shea, N., & Trasciani, G. (2016). Emergent identity formation and the co-operative: Theory building in relation to alternative organizational forms. *Entrepreneurship & Regional Development, 28*(3–4), 286–309.
- Nicolini, D. (2009). Zooming in and out: A package of method and theory to study work practices. In Sierk Ybema, D. Yanow, H. Wels, & F. Kamsteeg (Eds.), *Organizational ethnography: Studying the complexities of everyday life* (pp. 120–138). Sage.
- Oliver, C. (1991). Strategic responses to institutional processes. *Academy of Management Review, 16*(1), 145–179.
- Pache, A.-C., & Santos, F. (2010). When worlds collide: The internal dynamics of organizational responses to conflicting institutional demands. *Academy of Management Review, 35*(3), 455–476.

- Pansera, M., & Rizzi, F. (2020). Furbish or perish: Italian social cooperatives at a crossroads. *Organization*, 27(1), 17–35.
- Parker, M., Cheney, G., Fournier, V., & Land, C. (2014). *The Routledge companion to alternative organization*. Routledge.
- Pek, S. (2021). Drawing out democracy: The role of sortition in preventing and overcoming organizational degeneration in worker-owned firms. *Journal of Management Inquiry*, 30(2), 193–206.
- Phillips, N., Lawrence, T. B., & Hardy, C. (2000). Inter-organizational collaboration and the dynamics of institutional fields. *Journal of Management Studies*, 37(1), 23–43.
- Polletta, F. (2002). *Freedom is an endless meeting: Democracy in American social movements*. The University of Chicago Press.
- Potter, B. (1890). *The co-operative movement in Great Britain*. Longman.
- Potter, B. (1891). *The co-operative movement in Great Britain*. Swan Sonnenschein & Co.
- Ramus, T., & Vaccaro, A. (2017). Stakeholders matter: How social enterprises address mission drift. *Journal of Business Ethics*, 143(2), 307–322.
- Reay, T., & Hinings, C. R. B. (2009). Managing the rivalry of competing institutional logics. *Organization Studies*, 30(6), 629–652.
- Rothschild-Whitt, J. (1979). The collectivist organization: An alternative to rational-bureaucratic models. *American Sociological Review*, 44(4), 509–527.
- Rothschild, J., & Whitt, J. A. (1986). *The cooperative workplace: Potentials and dilemmas of organizational democracy and participation*. Cambridge University Press.
- Salas, G. (2017). *Reflexiones de fin de año 2016 (Personal communication)* [1 January 2017, Barquisimeto].
- Sausser, W. I. (2009). Sustaining employee owned companies: Seven recommendations. *Journal of Business Ethics*, 84, 151–164.
- Saz-Gil, I., Bretos, I., & Díaz-Foncela, M. (2021). Cooperatives and social capital: A narrative literature review and directions for future research. *Sustainability*, 13(2), 534.
- Schneiberg, M. (2013). Movements as political conditions for diffusion: Anti-corporate movements and the spread of cooperative forms in American capitalism. *Organization Studies*, 34(5–6), 653–682.
- Scott, R. A. (1967). The factory as a social service organization: Goal displacement in workshops for the blind. *Social Problems*, 15(2), 160–175.
- Scott, W. R. (2001). *Institutions and organizations* (2nd ed.). Sage.
- Simons, T., & Ingram, P. (1997). Organization and ideology: Kibbutzim and hired labor, 1951–1965. *Administrative Science Quarterly*, 42(4), 784–813.

- Stewart, K. J., & Gosain, S. (2006). The impact of ideology on effectiveness in open source software development teams. *MIS Quarterly*, 30(2), 291–314.
- Stiglitz, D. J. (2009). Moving beyond market fundamentalism to a more balanced economy. *Annals of Public and Cooperative Economics*, 80(3), 345–360.
- Storey, J., Basterretxea, I., & Salaman, G. (2014). Managing and resisting ‘degeneration’ in employee-owned businesses: A comparative study of two large retailers in Spain and the United Kingdom. *Organization*, 21(5), 626–644.
- Suddaby, R., Elsbach, K. D., Greenwood, R., Meyer, J. W., & Zilber, T. B. (2010). Organizations and their institutional environments—Bringing meaning, values, and culture back in: Introduction to the special research forum. *Academy of Management Journal*, 53(6), 1234–1240.
- Tilcsik, A. (2010). From ritual to reality: Demography, ideology, and decoupling in a post-communist government agency. *Academy of Management Journal*, 53(6), 1474–1498.
- Ven, K., & Verelst, J. (2008). The impact of ideology on the organizational adoption of open source software. *Journal of Database Management*, 19(2), 58–72.
- Vieta, M. (2020). *Workers’ Self-Management in Argentina: Contesting neo-liberalism by occupying companies, creating cooperatives and recuperating autogestión*. Brill.
- Wade-Benzoni, K. A., Hoffman, A. J., Thompson, L. L., Moore, D. A., Gillepsie, J. J., & Bazerman, M. H. (2002). Barriers to resolution in ideologically based negotiations: The role of values and institutions. *Academy of Management Review*, 27(1), 41–57.
- Wilson, J. (1973). *Introduction to social movements*. Basic Books.
- Ybema, S., & Kamsteeg, F. (2009). Making the familiar strange: A case for disengaged organizational ethnography. In S. Ybema, D. Yanow, H. Wels, & F. Kamsteeg (Eds.), *Organizational ethnography: Studying the complexities of everyday life* (pp. 101–119). Sage.
- Zhao, E. Y., Ishihara, M., & Lounsbury, M. (2013). Overcoming the illegitimacy discount: Cultural entrepreneurship in the US feature film industry. *Organization Studies*, 34(12), 1747–1776.
- Zhao, E. Y., Fisher, G., Lounsbury, M., & Miller, D. (2017). Optimal distinctiveness: Broadening the interface between institutional theory and strategic management. *Strategic Management Journal*, 38(1), 93–113.
- Zuckerman, E. W. (1999). The categorical imperative: Securities analysts and the illegitimacy of discount. *American Journal of Sociology*, 104, 1398–1438.

Zúquete, J. P. (2008). The missionary politics of Hugo Chávez. *Latin American Politics and Society*, 50(1), 91–121.

Open Access This chapter is licensed under the terms of the Creative Commons Attribution-NonCommercial-NoDerivatives 4.0 International License (<http://creativecommons.org/licenses/by-nc-nd/4.0/>), which permits any noncommercial use, sharing, distribution and reproduction in any medium or format, as long as you give appropriate credit to the original author(s) and the source, provide a link to the Creative Commons license and indicate if you modified the licensed material. You do not have permission under this license to share adapted material derived from this chapter or parts of it.

The images or other third party material in this chapter are included in the chapter's Creative Commons license, unless indicated otherwise in a credit line to the material. If material is not included in the chapter's Creative Commons license and your intended use is not permitted by statutory regulation or exceeds the permitted use, you will need to obtain permission directly from the copyright holder.





13

Transformational Resilience and Future-Ready Cooperative Governance Systems

Karen Miner

13.1 Introduction

Over the past decades and increasingly with each year that passes, the urgent need to build and rebuild healthy and strong social, economic, and environmental (SEE) systems amidst crises looming on multiple fronts is evident.¹ Today's test for governance adept at achieving sustainability of all organizations, including cooperatives, is the capacity to

¹ Various frameworks are referred to in this chapter, e.g. United Nations Sustainable Development Goals (United Nations, 2015), Planetary Boundaries (Steffen et al., 2015), Doughnut model (Raworth, 2017), World Business Council for Sustainable Development Vision 2050 (WBCSD, 2021). SEE is used as shorthand for social, ecological, and economic (SEE), and in some places it is spelled out for emphasis.

K. Miner (✉)

International Centre for Co-operative Management, Saint Mary's University,
Halifax, NS, Canada
e-mail: karen.miner@smu.ca

adapt, thrive, and survive in a tumultuous future. This chapter focuses on transformative resilience as a key ingredient and leverage point in cooperative governance systems.

Proof of the cooperative enterprise model's resilience in the face of a combination of social, economic, and environmental disruption (where economics may not be the source but will be implicated) is not well understood, tested, or researched. Additional research is necessary and important to our collective understanding of how the cooperative purpose and model fit in a complex and troubled world. This conceptual chapter starts the conversation and draws connections among complexity, resilience, the need for transformation,² and the design and execution of future-ready cooperative enterprise³ governance systems.

The chapter begins by framing the global SEE context, taking an integrative and holistic view—a view that should compel cooperatives to future-proof their model to face increasingly uncertain and difficult social, economic, and environmental realities. Next, the chapter takes the SEE orientation and applies a resilience lens, drawing on concepts, definitions, and sets of principles (Lewis & Conaty, 2012; Stockholm Resilience Centre, 2015; WBCSD, 2020). Connections are made between resilience and the cooperative enterprise model strengths and governance system advantages. The chapter concludes by suggesting that while cooperative governance systems are well enough understood in the context of relatively stable past and current socio-economic and ecological circumstances, *dynamic external forces* are a serious risk for cooperatives in the years to come. In the face of these forces, cooperatives that embrace the tenets of democratic, participatory, people-centered, and networked governance systems are aligned with transformational resilience capability and the increased likelihood of long-term survival.

² Transformability is explained as the “capacity to create a fundamentally new system when ecological, economic or social structures make the existing system untenable” (Walker et al., 2004, [no pagination]). See Novkovic and Simlesa, Chapter 14 in this volume for a discussion of the framing of transformation in the literature.

³ Enterprise governance to distinguish from global multi-partite governance efforts. This chapter's interpretation of enterprise governance does include inter-enterprise networking as this is a cooperative enterprise model strength.

13.2 Integrated Social, Ecological, and Economic (SEE) Worldview

For many decades, much has been written that highlights the interrelated nature of social, ecological, and economic systems (Hawken, 1993; Hawken et al., 1999; United Nations, 2015; Whiteman et al., 2013). For the most intractable of SEE problems, an integrated response requires collaboration and mobilization of business, government, civil society, households, and individuals. It is clear that solutions will not come from one level alone (e.g. coordinated global initiatives), and reliance on political mobilization and business sector transformation has been too slow. Actors at different levels (including individuals and organizations of all types) must be knowledgeable and take responsible action on complex, interrelated issues on the ground. While SEE systems are inextricably linked, it has proven difficult to create synergy between the needs of complex systems and action.

Immediate and urgent action is required to combat environmental disasters, social upheaval, and economic inequality. The eight Millennium Development Goals, and now the 17 United Nations Sustainable Development Goals (SDGs) coupled with a 2030 Agenda, have sounded the alarm on everything from poverty and equity to biodiversity loss and climate crisis (United Nations, 2015; United Nations General Assembly, 2000; UN Climate Change, 2021). While the assertion of the UN's 2030 Agenda is to leave no one behind, the reality is that effects are not equitably distributed. For example, the dominant capitalist economic system has consolidated and concentrated wealth and power into the hands of a few, and market, political and regulatory structures do not internalize myriad social, environmental, and economic externalities.

The connections between human activity (economic and social) and non-human ecosystems are indisputable, with the Planetary Boundaries framework⁴ providing the evidence of environmental distress across

⁴ Johan Rockström and 28 internationally renowned scientists identified the nine processes (and associated quantitative boundaries) that regulate the stability and resilience of the Earth system and within which humanity can continue to thrive into the future. The framework has generated enormous interest within science, policy, and practice. <https://www.stockholmresilience.org/research/planetary-boundaries.html>.

the nine identified global system processes. Four of the nine planetary boundaries have exceeded their safe operating space, signaling irreversible changes that affect not only ecological systems, but also economic and social systems (Steffen et al., 2015). Kate Raworth's (2017) doughnut model incorporates the planetary boundaries and builds in social boundaries, stating "[b]etween these two sets of boundaries lies an ecologically safe and socially just space in which all of humanity has the chance to thrive." The current levels of socio-ecological disequilibrium point to the pressing need for systemwide transformation to regenerative and distributive approaches, and the "[d]oughnut might act as a 21st century compass ... this century is likely to be the first in which humanity begins more fully to understand and appreciate the complex interdependence of human wellbeing and planetary health" (Raworth, 2017, p. 49).

The World Business Council for Sustainable Development (WBCSD) echoes these claims and, within its Vision 2050, urgently calls for leadership in the transformation of business to ensure that over nine billion people live well within the planetary boundaries by 2050 (WBCSD, 2021). In their words, the "transformations will depend on three critical strategic business mindset shifts: reinventing capitalism to reward true value creation, not value extraction; building long-term resilience; and taking a regenerative approach to business sustainability" (p. 81).

Leadership and action are required at all levels: individuals; communities; organizations; networks; locally; regionally; nationally; globally. From an economic and business perspective, a paradigm shift is required to move away from a model of business as usual, incremental change, and instrumental logic (e.g. business case based on return on investment and cost-benefit analysis). The cooperative enterprise model is well designed to build a healthy future for people and the planet, and they meet these expectations when their values and principles are applied deeply as outlined in the Statement on the Cooperative Identity (ICA, 1995).

13.3 Resilience in the Face of Complexity

‘Resilience’ is becoming a buzzword. Sometimes it is open to interpretation and sometimes it is simply wrong. (Walker, 2020, [no pagination])

Resilience is a term that has been used across disciplines, conferring varied meanings and applied to different contexts. Interest in resilience has exploded since the early 2000s, with increasing interest and research documented in scientific and organizational literature (Folke, 2016; Raetzke et al., 2021).⁵ Therefore, determining the best definition for a particular context can result in a confusing compilation of incompatible concepts and theoretical bases. A set of definitions is included here, all of which contain elements of complexity and the acknowledgment of the importance of ecological, social, and economic systems. Threads of these definitions will be carried through the rest of this chapter.

While the Anthropocene era started in the late 1800s (Crutzen, 2002), the twenty-first century is marked by the consequences of prolonged, unsustainable human-induced activities (economically driven) that are negatively affecting life-supporting planetary systems. Early natural science definitions of resilience did not provide much (or any) language to explain current circumstances in the business context. Scientific definitions of resilience started with a narrower concept of the term, associating it with bouncing back from disturbance and a return to the previous state (Holling, 1973); it was not yet about global system transformation given that complex, large-scale system disruptions were not accepted as inevitable in the 1970s. Increasingly, building on the early ideas of eminent scientists such as Holling, resilience definitions now make clear SEE connections, and frame resilience in a dynamic (not static) context. The Stockholm Resilience Centre defines resilience as “the capacity of a system, be it an individual, a forest, a city or an economy, to deal with

⁵ Folke (2016) states that “[t]he number of scientific publications on resilience in relation to the environment has during this period increased from some 250 to well over 6000 publications. The annual citations have jumped from less than 100 in year 1995 to more than 20,000 citations in 2015” ([no pagination]). A review article by Raetzke et al. (2021) found a similar upward trend with resilience research in organizations at the individual, team, and organization level, across various disciplines.

change and continue to develop. It is about how humans and nature can use shocks and disturbances like a financial crisis or climate change to spur renewal and innovative thinking” (2015 [no pagination]).

WBCSD’s Vision 2050 is an enlightened business view that is becoming more common in the wake of conscious capitalism (Mackey & Sisodia, 2013) and the move to “purpose beyond profit.” WBCSD’s vision requires business mindset shifts, one of which is building long-term resilience. As defined by WBCSD resilience focuses on conscious transformation with the goal of thriving for the long term, while acknowledging the need to anticipate, prepare, and adapt to changes. Vision 2050 is problematic in so far as a resilience mindset is required but also acknowledged as new and unfamiliar to many in business. That being said, the WBCSD framing of resilience is important as it positions resilience using language that can be understood by industry and enterprises, and it reinforces the critical importance of engaging business leaders in understanding resilience from different perspectives so that they are able to integrate human and non-human system dynamics in their business decisions.

13.3.1 Resilience Principles

The translation of resilience research and definitions into sets of principles helps in the sensemaking process and application of the principles in an industry or to an enterprise. The Stockholm Resilience Centre (SRC) has devised a set of seven *principles* for building resilience in socio-ecological systems, namely: maintain diversity and redundancy; manage connectivity; manage slow variables and feedbacks; foster complex adaptive systems thinking; encourage learning; broaden participation; and promote polycentric governance. These principles have significant overlap with Lewis and Conaty’s (2012) application of their own seven *principles* for achieving resilience in the cooperative context: diversity, modularity, social capital, innovation, tight feedback loops, overlap, and ecosystem services. And, the World Business Council for Sustainable Development (2020) proposes four key *attributes* for business resilience:

diversity, modularity, cohesion, and adaptability. There are similarities and differences among these sets of principles and attributes (see Table 13.1).

A comparison among three sets of resilience principles and attributes is helpful in making the connection between resilience with origins in

Table 13.1 Resilience definitions and principles

Stockholm Resilience Centre ⁶	Lewis and Conaty (2012)	World Business Council on Sustainable Development, Vision 2050 (WBCSD, 2021)
<p>Resilience definition: “The capacity of a system, be it an individual, a forest, a city or an economy, to deal with change and continue to develop. It is about how humans and nature can use shocks and disturbances like a financial crisis or climate change to spur renewal and innovative thinking” (2015 [no pagination])</p>	<p>Resilience definition: Drawn from science as “the amount of change a system can undergo (its capacity to absorb disturbance) and essentially retain the same functions, structure, and feedbacks” (p. 18)</p>	<p>Resilience definition: “A business’s ability to anticipate and prepare for change, then adapt to circumstances in the manner that provides the greatest chance of thriving over the long-term” (WBCSD, 2020, p. 6)</p>
<p>Resilience principles for social-ecological systems:</p> <ul style="list-style-type: none"> • Maintain diversity and redundancy • Manage connectivity • Manage slow variables and feedback • Foster complex adaptive systems thinking • Encourage learning • Broaden participation • Promote polycentric governance 	<p>Resilience principles for cooperatives:</p> <ul style="list-style-type: none"> • Diversity • Overlap • Modularity • Tight feedback loops • Ecosystem services • Innovation • Social Capital 	<p>Key Attributes of Resilience:</p> <ul style="list-style-type: none"> • Diversity • Modularity • Cohesion • Adaptability

⁶ See Hauge Simonsen et al. (2015).

complex natural systems (Stockholm Resilience Centre), using cooperatives (Lewis and Conaty), and current thinking in progressive sustainable business circles (WBCSD). Through the lens of the Stockholm Resilience Centre's principles, maintenance of diversity and redundancy, plus managing connectivity, are represented in diversity and modularity (WBCSD; Lewis and Conaty). Overlap and tight feedback loops in Lewis and Conaty are captured in SRC's principles of managing connectivity, slow variables, and feedback; these elements are not made explicit by WBCSD. Fostering complex adaptive systems thinking and encouraging learning show up well enough in adaptability (WBCSD) and ecosystem services and innovation (Lewis and Conaty). Broadening participation is amplified by WBCSD's cohesion attribute and the principle of social capital (Lewis and Conaty). Lastly, the promotion of polycentric governance only appears in the Stockholm Resilience Centre's set of principles. In the next section, the critical importance of all principles, and polycentric governance in particular, is discussed in the context of cooperatives.

13.4 Discussing Resilience and the Cooperative Model

Cooperative enterprises have proven themselves to be a long-lasting and resilient form of business (Merrien et al., 2021), and it is well understood that cooperatives adapt to unfavorable conditions for the economic and social benefit of members (i.e. co-op users who own, democratically control, and benefit from the organization). They weather economic downturns well (depending on the sector) (Pérotin, 2006), attributed to such factors as the intergenerational and long-term planning orientation of a cooperative (versus short-term profit maximization), employment stability (Navarra, 2016), networked structures and inter-cooperation principle (Jankovic et al., 2021), and the people-centered nature of the model.

What does putting the resilience lens on the co-op model tell us? Research to date on resilience and cooperatives has largely focused on economic disruption, downturns, and recessions, and resilience is

described most often in the response (i.e. coping and adapting) to economic risk and crisis (Birchall & Hammond Ketilson, 2009; Cooperatives UK, 2019; Lampel et al., 2014; Merrien et al., 2021; Monteiro & Steward, 2015; Parnell, 2001; Roelants et al., 2012; Sánchez Bajo & Roelants, 2011). The COVID-19 pandemic provided a rich testing ground for severe and prolonged economic consequences coupled with a health crisis, and ongoing research does continue to point to co-op enterprise model resilience (Merrien et al., 2021).

The economic crisis research has demonstrated that cooperative development is countercyclical in nature (Pérotin, 2006), with an increase in cooperatives being created and fewer layoffs (for worker co-ops in particular) during periods of economic disruption (Navarra, 2016), and the buildup of financial buffers such as reserves (Birchall, 2013; Birchall & Hammond Ketilson, 2009; Groeneveld & de Vries, 2009; Merrien et al., 2021; Sánchez Bajo & Roelants, 2011). Furthermore, co-ops embody structural advantages such as: long-term planning horizons, with co-ops being intergenerational entities; the networked structures of cooperatives, especially groups and federations with strong reserves; and the people-centeredness of co-ops, i.e. closeness to members and other strategic stakeholders (Birchall, 2017; Jankovic et al., 2021; Sánchez Bajo & Roelants, 2011).

Existing cooperative resilience research seems to fit within the organizational resilience literature (Duchek, 2020; Ruiz-Martin et al., 2018) and the Béné et al. (2012) view that, during a cyclical economic change where organizations desire stability, we can expect resilience (i.e. persistence) to be focused on absorptive capacity as the system aims to resume a stable state. It is reasonable to assume that cooperatives will continue to prove themselves to be resilient in times of economic crisis, and this experience is useful as we envision the model's strengths in the context of broader SEE challenges. The nature of an economic system disruption presumes an eventual return to stability, however prolonged the crisis period, thus leaning on coping and adaptation organizational capabilities, resources, and mechanisms. The strategic responses to potentially sudden, uncertain, and disastrous outcomes of unprecedented challenges and global system changes (e.g. permanent extreme weather) stretch beyond coping and adaptation (Linnenluecke & Griffiths, 2010). At the

other end of the resilience capacity spectrum, we find transformative capacity (e.g. see the 3-D resilience framework in Béné et al., 2012).

Resilience for this chapter is focusing on a high intensity of SEE change and uncertainty that necessitates organizations to respond with transformative capacity. This discussion is not focusing on the absorptive or adaptive resilience capacity needed for business continuity or robustness most often called upon in an economic (or similar) crisis, and typically viewed more narrowly through an economic lens. Here, resilience is set in the context of interrelated SEE system thinking, with a focus on the outside-in and inside-out connection between an organization (in particular, cooperative enterprise) and the macroeconomic, environmental, and social context (from local to global). This way of thinking is simultaneously focused on the organization as embedded within the SEE system (not existing apart from it), the organization as a healthy component of the system (active in positive transformation), and thus the value of the organization surviving (i.e. cooperatives as a model for resilience).

The following subsections discuss transformational resilience's alignment with specific features of the cooperative model (Miner & Novkovic, 2020; Novkovic & Miner, 2015), the cooperative network governance system, and the related governance structures, processes, and dynamics. See Fig. 13.1 for an overview of these perspectives.

13.4.1 Enterprise Model—Complexity Mindset and Purpose

Complex purpose coupled with a resilience mindset/worldview are the first tests of the cooperative model's alignment with the resilience principles related to complex adaptive thinking, valuing ecosystem services, and the management of slow variables.⁷ A cooperative cannot achieve a complex purpose without a resilience mindset, and vice versa. And while the ICA Identity Statement aligns well with an integrated SEE system

⁷ Resilience requires the management of slow variables where there is a long-time horizon and delay between cause and effect.

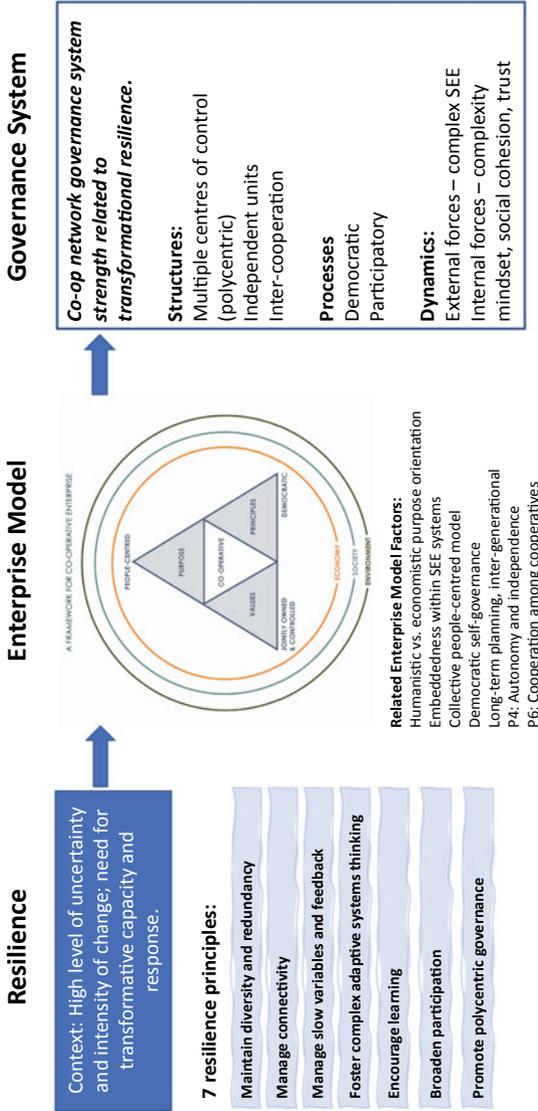


Fig. 13.1 Conceptual framework—linking resilience to the cooperative model and its governance system (Sources Resilience principles derived from Hauge Simonsen et al. [2015]; Enterprise Model reproduced from Miner and Novkovic [2020])

view—both implicitly and explicitly—not all cooperatives adhere to or act on a complex and future-ready purpose.

Cooperatives created to address a market failure or provide access to a market may choose to limit purpose to concern for member economic well-being and not see their purpose extending beyond economic benefit for members; these cooperatives do not naturally integrate SEE system transformation into their vision. This is a limitation when considering the current global challenges, and it is a failure to adhere to the complex purpose expectations of the Identity Statement.

Cooperatives that embrace a broader purpose (e.g. SEE injustices), including the desire for social, economic, and/or environmental transformation (Novkovic, 2018), have complexity embedded within “their DNA.” A cooperative adopting a complex purpose means that its members will be willing to accept, lead, and act with an integrated social, economic, and ecological worldview, to move from purpose to strategy and practice. It implies that the leadership of the cooperative has made the critical business mindset shift to long-term resilience thinking (WBCSD, 2021).

Amidst day-to-day business realities, competitive pressures, and other negative external forces, the long-term resilience mindset and related complexity (i.e. uncertainty, emergence, change) capabilities are essential ingredients. For cooperatives, this is the opposite of a silo approach; and it is more than a footnote to purpose, an input into strategy, or a disclosure exercise. Cooperatives are designed to push beyond baseline SEE expectations to include humane, just, and people-centered governance and management systems, and this broad cooperative perspective “suggests organizational commitment to total value creation, rather than just shareholder value, and includes equitable distribution of rewards to all key stakeholders” (Novkovic & Miner, 2015). This expansive understanding of purpose is a critical input into the justification and understanding of a cooperative model’s alignment with complexity and transformation.

13.4.2 Enterprise Model—Participation, Cohesion, and Social Capital

Compared to other organizational forms, cooperatives provide ample opportunities for broad participation, cohesion, and deployment of social capital, where the people-centered element of the co-op enterprise model is a nexus for discovering these resilience principles in action. As an association of people, coming together to meet common needs and aspirations, the cooperative model is designed to create a strong sense of collectivity (associationalism) based on the development of trust, reciprocity, and caring relationships.

Furthermore, governance systems are grounded in the collective ownership and democratic member control design principles, thus requiring participation, voice, and representation of members in governance and operations (particularly in the case of worker co-ops regarding the latter). The democratic governance processes and structures emphasize open communication and collaboration with members on all aspects of cooperative life, as members play a usership role coupled with co-op ownership, control, and benefit; and, members are place-based, being part of the community fabric surrounding the cooperative.

Most commonly, cooperatives have a single member category that can be homogeneous, thus requiring the operationalization of a people-centered approach if diversity is to be achieved. To achieve this diversity, cooperatives can also expand their membership to become more heterogeneous and/or ensure that all strategic stakeholders are built into the organization's systems of dialogue, engagement, and communication. Resulting participatory governance systems include structures and processes to engage members, and ideally a broader array of strategic stakeholders (e.g. employees, community, suppliers). This broader people-centered approach allows for a diversity of representation and perspectives, which may otherwise be missing if participation is limited to members.

The resilience expectation of broad participation is stronger in multi-stakeholder co-ops,⁸ as more strategic stakeholders are given voice and representation. The deepest and broadest participation of strategic stakeholders is possible through the multistakeholder cooperative structure, where multiple categories of membership (co-op “users”) are included; this is the preferred model when considering the best match to participation that confers a legitimate usership role, combined with ownership, control, and benefits roles for strategic stakeholders.

13.4.3 Enterprise Model—Long-Term Planning and Intergenerational Stewardship

Slow variables in resilience require that plans and actions recognize and integrate a delay between cause and effect. The best hope for cooperatives in terms of governing and managing slow variables rests in the model’s intergenerational stewardship and long-term planning horizon dimensions.

A cooperative is created by a group of members, implying a legacy of past members (at least for established cooperatives). These past members were the stewards for the current members, with intergenerational hand-off occurring naturally in cooperatives. The current members steward this intergenerational asset for themselves, but also to ensure that it exists to serve the future generations of members—through structures such as setting aside financial (indivisible) reserves to strengthen the co-op and for the benefit of future generations; repayment of membership capital at a nominal value; and the use of other deterrents to demutualization.

Contrary to the investor-owned firm, known for its short-term horizon tied to quarterly or annual profitability, the cooperative model plans for the long term. For example, current members are expected to

⁸ Classified by the nature of members’ interest in the cooperative enterprise, the multistakeholder cooperative form has “more than one type of member with significant involvement in the activity of the cooperative, and in which: more than one type of member is represented in the governance structure of the cooperative; and no type of member has a dominant position through a majority of votes in the governing body or an exclusive veto over decisions” (ILO, 2020, p. 19).

apply a long-term planning mindset to their governance of the cooperative to steer “the organisation in the right direction for the long haul; [governance] will be situation and context specific, driven by members, their needs, and the needs of the next generation of members” (Novkovic & McMahon, Chapter 2 in this volume).

While the long-term planning and intergenerational horizon are cooperative advantages contributing to resilience and ensuring the longevity of cooperatives, alignment with the intent of this resilience principle in the SEE context is applicable to cooperatives that embrace a complex purpose and transformational mindset. It is the current members’ role to recognize, govern, and manage member vulnerabilities, and in light of SEE system challenges (e.g. capacity to cope, adapt, and transform in response to climate change). It is incumbent on all cooperatives to turn their mindsets and shift their purpose in the direction of the complex world they are part of. The intergenerational nature of the cooperative model requires it.

13.4.4 Enterprise Model—Networks of Inter-Cooperation

Nested and inter-connected networks of people and organizations, at all levels, is a powerful component of the cooperative system, and one of the most convincing contributors to resilience from a cross-sectoral and local to a global perspective. Networks are so much a part of the cooperative approach that, according to Menzani and Zamagni (2010), “networking is not one opportunity among many others, but rather it is the *normal* way of operating as a result of their solidaristic dimension” (p. 122). These networks create connectivity, redundancy,⁹ modularity, and diversity—all resilience features—and contribute to reducing the risk of system collapse when faced with shocks and disturbances. The

⁹ Redundancy in resilience parlance is a positive characteristic. Two types of redundancy add strength to a system: 1) functional redundancy (more than one component able to perform a function) and response redundancy (components reacting differently to change or disturbances). See Hauge Simonsen et al. (2015).

cooperative system connects to these resilience features through Principle 6 (cooperation among cooperatives) and Principle 4 (autonomy and independence) as it is interdependence and independence that creates system strength.

In practice, Novkovic and Holm (2012) document five types of cooperative networks: (1) cooperatives themselves (as networks of individual members); (2) interorganization networks for a specific purpose (e.g. second-tier co-ops; or co-op federations); (3) supply chain networking with other co-ops; (4) membership in networks/associations for particular member services; and (5) multistakeholder complex networks, often outside the core area of co-ops' business. Brought together into a system, the five types of networks result in an integrated web of relationships and organizations across a diversity of membership types (producer, worker, consumer, and multistakeholder), and with representation across diverse sectors of the economy and society (e.g. food, finance, social services, energy, etc.). Furthermore, there is redundancy and overlap as memberships cross among cooperatives. At the local level, a member of a credit union may also be a member of housing, retail, energy, food co-op, and beyond. Beyond an individual member or cooperative, inter-cooperative solidarity is strong across the cooperative movement, whether that takes the form of, for example, the sector-wide coordination of purchasing for food co-ops; multi-sector membership in a national apex organization; or the social welfare systems in the Mondragon federated cooperative network structure.

The cooperative sector builds natural connections between and among cooperatives, with no limits on geography, presenting the opportunity for strategic multi-level linkages and coordination of solutioning (e.g. individual co-op, among co-ops, national apex, global apex). Cooperatives create networks of associations and federations (with local to global reach) to strengthen cooperative systems at all levels, while maintaining connections within and between sectors and types of co-ops. These overlapping governance structures and strategic relationships result in knowledge transfer, interdependencies among cooperatives, and opportunities for vertical cross-scale support and capacity (or horizontal, e.g.

inter-country). Principle 6 specifically addresses the vulnerability of a single cooperative, regardless of size, and makes all cooperatives stronger through the combining of micro, meso, and macro-level connections (Eum, 2012).

Cooperative Principle 4 (autonomy and independence) guarantees modularity at the micro level, and between and among cooperatives at various levels (e.g. a credit union is but one member of the regional structure to support credit unions; the regional level entity is a member of a national association; and from national to global associations and federations). This aspect of modularity is essential, and is supportive also of functional and response redundancy to avoid an overly connected system “susceptible to shocks that are rapidly transmitted throughout the system” (Lewis & Conaty, 2012, p. 20).

Collectively these diverse inter-connected, but also modular and redundant, structures at many levels create a supportive system. On the one hand, cooperatives are ready to respond collectively and democratically across sectors with existing participation and engagement structures and processes in place. On the other hand, this system of inter-cooperation is a contributor to and catalyst of the broad participation of members, as well as a mechanism to diffuse and share power at various levels and among a large group of people, which leads into a discussion of polycentric governance.

13.4.5 Network Governance—Polycentricity and Broad Participation

The promotion of polycentric governance and broad participation is resilience principles that are consistent with the tenets of cooperative network governance systems. Network governance is a core design principle of the cooperative governance system with participatory and distributed systems of governance viewed as superior to that of centralized, top-down (and more rigid) hierarchical structures. Novkovic and Miner (2015) underscore the resilience features of polycentricity and broad participation by stating that “all co-operatives should assess the opportunities to elevate their governance through the use of network

governance with multiple centres of decision-making and opportunities for engagement of members and other constituent groups” (p. 19).

Network governance will, when designed well, include (paraphrasing Novkovic & Miner, 2015): small independent basic units that also form part of the larger network, such as federations, industry networks, or solidarity networks; decisions that are made at the level closest to the basic unit (subsidiarity principle); multiple centers of control (polycentricity) in a nested structure and at various levels (e.g. boards, delegates, members, workers); participation of multiple stakeholders/constituents with control over their domain of expertise (e.g. workers councils; boards; delegates).

Drawing on Pirson and Turnbull (2011), Novkovic and McMahon (Chapter 2 in this volume) state that “human limitations necessitate a separation of governance powers through a variety of independent ‘control centres’ (multiple boards, in network governance), which operate as a system of checks and balances on organisational decision-making”. Hierarchical command and control systems fail because of centralized power and the difficulty of managing complexity, pointing to the need for subsidiarity and polycentricity (Turnbull, 2002). Polycentricity is emphasized also in Allen (2014) in the author’s discussion of democratic cooperative self-governance in the context of commonly held resources, based on the work of Vincent and Elinor Ostrom and their colleagues (Ostrom, 2010). Framing polycentricity as an advanced form of organizing, it is defined as “[m]any centres of authority, each acting concurrently and independently, sharing authority and responsibility for the results,” leading to an “*un*-centralised” system that “creates the opportunities for self-governance that people in a self-governing society could experience in their daily life” (Allen, 2014, p. 244). Polycentricity, as a result, is the possibility for “independent, co-ordinated, and cooperative actions” that “enable choice, self-determination, adaptation, and innovation” (p. 256).

Beyond the resilience principle of polycentric governance, network governance in cooperatives is also synergistic with other resilience principles—e.g. connectivity, diversity, redundancy, learning, feedback, and participation. Lewis and Conaty (2012) add to this line of thinking

by stating that “[r]esilience thinking requires us to expand our democratic repertoires and decentralize authority to act more powerfully. We need multiply the ways and means by which people can experiment, participate, and extend their collective capacity to become more self-reliant” (p. 27). Thus, we link back to how *resilience thinking* is required, combined with the enabling (networked) structures, while also crucially enabling participatory and people-centered processes.

Linking to the last section on inter-cooperation, network governance structures are created both within a single cooperative and at the various levels across the cooperative system. The result being an impressive “plethora of overlapping mixes of governing structures that weave various interests into a dense web of cooperation and solidarity” (Lewis & Conaty, 2012, p. 262). We find deeply networked governance structures in some individual cooperatives and systems of cooperatives. Best known is Mondragon’s federated network of worker and multi-stakeholder co-ops in the Basque Country of Spain (see Imaz et al., Chapter 10 in this volume). Networked governance often intuitively emerges and evolves in worker and multistakeholder cooperatives. We see other prominent elements of network governance when decision-making processes embrace the subsidiarity principle, such as with sociocracy (see McNamara, Chapter 5 in this volume). And, the bonds of a single apex board model of governance are broken where dual boards are required or normalized (usually a supervisory board supplementing a board of directors), or where an apex board is complemented by member councils and delegate structures. The common characteristics include the sharing of power among a larger group of members, and hence a wider and more diverse representation of perspectives.

13.5 Conclusion: Resilience Alignment to the Cooperative Model Is Not Enough

Organizations cannot insulate themselves from their context, a context that was at one time relatively simple and where externalizing social and environmental impacts was met with greater acceptance. Now, in a much faster-paced, globalized, and troubled world, individual organizations are

feeling the direct effects of a much broader context. This context is illustrative of the need for all organizations, including cooperatives, to bolster their resilience capacity and commit to delivering regenerative solutions to pressing and complex social, economic, and ecological problems.

The cooperative advantage in an uncertain present and future may stem from the enterprise model's alignment with existing resilience principles, as explored in the chapter. The cooperative organizational form is congruent or overlapping with many of the resilience principles, perhaps more so than other forms of business. As a result of this alignment, it is natural to assume that strong cooperatives (i.e. those that adhere deeply to the Identity Statement) will have a certain level of transformative resilience capacity due to the cooperative characteristics of complex purpose, embeddedness in place, member and community focus, long-term time planning and investment horizon, valuing multiple bottom lines, inter-cooperation, and broad stakeholder engagement. The strongest application of these characteristics results in future-ready enterprises that are supported by members willing to accept, lead, and act with an integrated SEE worldview; incorporating transformational resilience into long-term planning and intergenerational stewardship; and moving beyond vision to strategy and practice.

With an underlying purpose that is broader than that of investor-owned corporations, the cooperative model is predisposed to stretching beyond the (instrumental) business case logic. Governance of "known and controlled" factors, based on capable, smart, and informed business choices undoubtedly will continue to play a role, but a governance system based on rational direction setting and decision-making will not be sufficient to match the challenges of the twenty-first century. For cooperatives to excel amidst increasing uncertainty, unpredictable future states, and constant change, the resilience and complexity muscles must be a strong strand of cooperative governance DNA; they must be a mode of governance, not an add-on. The belief that cooperatives are suited to play a role in tackling unprecedented challenges must now be matched by cooperatives integrating complexity and systems thinking into their organizations, and retooling governance and management structures and processes accordingly.

That being said, a cooperative's success in adhering deeply to the enterprise model's framework and baseline characteristics is context specific. While the cooperative model has many relevant, aligned strengths with resilience, cooperatives in practice may or may not govern and manage well in the face of complexity. Cooperatives need to move quickly to build a complex SEE systems mindset and knowledge base within those persons tasked with governance and management roles. In other words, cooperatives must learn how to govern and manage amidst complexity, to be more resilient, to not repeat mistakes, and to learn from others.

References

- Allen, B. (2014). A role for cooperatives in governance of the commons. In S. Novkovic & T. Webb (Eds.), *Co-operatives in a post growth era* (pp. 242–263). Zed books.
- Béné, C., Godfrey-Wood, R., Newsham, A., & Davies, M. (2012). *Resilience: New utopia or new tyranny?—Reflection about the potentials and limits of the concept of resilience in relation to vulnerability reduction programmes*. Institute of Development Studies, Working Paper 405, Centre for Social Protection Working Paper 006. <http://www.ids.ac.uk/files/dmfile/Wp405.pdf>
- Birchall, J., & Hammond Ketilson, L. (2009). *Resilience of the cooperative business model in times of crisis*. International Labour Organization, Sustainable Enterprise Programme. http://www.ilo.org/wcmsp5/groups/public/---ed_emp/---emp_ent/documents/publication/wcms_108416.pdf
- Birchall, J. (2013). *Resilience in a downturn: The power of financial cooperatives*. International Labour Organization. https://www.ilo.org/wcmsp5/groups/public/---ed_emp/---emp_ent/---coop/documents/publication/wcms_207768.pdf
- Birchall, J. (2017). The performance of member-owned businesses since the financial crisis of 2008. In J. Michie, J. R. Blasi, & C. Borzaga (Eds.), *The Oxford handbook of mutual, co-operative and co-owned business* (p. 570–584). Oxford University Press.
- Co-operatives UK. (2019). *Co-operative business survival*. Research Report. <https://www.uk.coop/resources/co-operative-business-survival>
- Crutzen, P. J. (2002). Geology of mankind: The Anthropocene. *Nature*, 415, 23.

- Duchek, S. (2020). Organizational resilience: A capability-based conceptualization. *Business Research*, 13, 215–246.
- Eum, H. (2012). Quantitative analysis. In B. Roelants, D. Dovgan, H. Eum & E. Terrasi (Eds.), *The resilience of the cooperative model: How worker cooperatives, social cooperatives and other worker-owned enterprises respond to the crisis and its consequences* (Chapter 2, pp. 17–29). CECOP-CICOPA Europe. https://issuu.com/cicopa/docs/report_cecop_2012_en_web
- Folke, C. (2016). Resilience (Republished). *Ecology and Society* 21(4), Art. 44. <https://doi.org/10.5751/ES-09088-210444>
- Groeneveld, H., & de Vries, B. (2009). European co-operative banks: First lessons of the subprime crisis. *The International Journal of Co-operative Management*, 4(2), 8–21. <https://www.smu.ca/webfiles/IJCM-Vol-4-No-2-.pdf>
- Hauge Simonsen, S., Biggs, R., Schlüter, M., Schoon, M., Bohensky, E., Cundill, G., Dakos, V., Daw T., Kotschy, K., Leitch, A., Quinlan, A., Peterson, G., & Moberg F. (2015). *Brochure: Applying resilience thinking—Seven principles for building resilience in social-ecological systems*. Stockholm Resilience Centre. <https://www.stockholmresilience.org/>
- Hawken, P. (1993). *The ecology of commerce*. Harper Business.
- Hawken, P., Lovins, A., & Lovins, L. (1999). *Natural capitalism: Creating the next industrial revolution*. Little, Brown.
- Holling, C. S. (1973). Resilience and stability of ecological systems. *Annual Review of Ecology and Systematics*, 4(1), 1–23.
- ICA—International Cooperative Alliance. (1995). *Co-operative identity, values and principles*. <https://www.ica.coop/en/cooperatives/cooperative-identity>
- ILO. (2020). *Statistics on cooperatives: Concepts, classification, work and economic contribution measurement*. International Labor Organization, Geneva. https://www.ilo.org/wcmsp5/groups/public/---ed_emp/---emp_ent/---coop/documents/publication/wcms_760710.pdf
- Jankovic, I., Charbonneau, J., Duguid, F., El-Youssef, H., Fouquet, E., Guillothe, C-A., Merrien, A-M., & Novkovic, S. (2021). *Inter-cooperation as a resilience factor*. Social solidarity economy and COVID-19 (proposals for a global way out), CIRIEC–Costa Rica.
- Lampel, J., Bhalla, A., & Jha, P. P. (2014). Does governance confer organisational resilience? Evidence from UK employee owned businesses. *European Management Journal*, 32(1), 66–72.
- Lewis, M., & Conaty, P. (2012). *The resilience imperative: Cooperative transitions to a steady-state economy*. New Society Publishers.

- Linnenluecke, M., & Griffiths, A. (2010). Beyond adaptation: Resilience for business in light of climate change and weather extremes. *Business & Society*, 49(3), 477–511.
- Mackey, J., & Sisodia, R. (2013) *Conscious capitalism: Liberating the heroic spirit of business*. Harvard Business Review Press.
- Menzani, T., & Zamagni V. (2010). Cooperative networks in the Italian economy. *Enterprise and Society*, 11(1), 98–127.
- Merrien, A.-M., Charbonneau, J., Duguid, F., El-Youssef, H. Fouquet, É., Guillotte, C.-A., Jankovic, I., & Novkovic, S. (2021). *Literature review on co-operative resilience in times of crisis*. International Centre for Co-operative Management Working Paper and Case Study Series 05/2021. <https://www.smu.ca/academics/sobey/cme-working-paper-series.html>
- Miner, K., & Novkovic, S. (2020). Diversity in governance: A cooperative model for deeper, more meaningful impact. *Cooperative Business Journal*, Fall, NCBA Washington DC, 4–14. <https://ncbaclusa.coop/journal/2020/fall-2020/diversity-in-governance/>
- Monteiro, N. P., & Steward, G. (2015). Scale, scope, and survival: A comparison of cooperative and capitalist modes of production. *Review of Industrial Organization*, 47, 91–118.
- Navarra, C. (2016). Employment stabilization inside firms: An empirical investigation of worker cooperatives. *Annals of Public and Cooperative Economics*, 87(4), 563–585.
- Novkovic, S. (2018). The impact of cooperatives: Transformative, or just business? *The Cooperative Business Journal*, Fall, NCBA Washington DC.
- Novkovic, S., & Miner, K. (2015). Introduction. In S. Novkovic & K. Miner (Eds.), *Co-operative governance fit to build resilience in the face of complexity* (pp. 10–21). International Co-operative Alliance.
- Novkovic, S., & Holm, W. (2012). Co-operative networks as a source of organizational innovation. *International Journal of Co-operative Management*, 6(22), 51–60.
- Ostrom, E. (2010). Beyond markets and states: Polycentric governance of complex economic systems. *American Economic Review*, 100(3), 641–672.
- Parnell, E. (2001). *The role of cooperatives and other self-help organizations in crisis resolution and socio-economic recovery*. International Labour Organization. https://www.ilo.org/wcmsp5/groups/public/---ed_emp/---emp_ent/---coop/documents/publication/wcms_745892.pdf
- Pérotin, V. (2006). Entry, exit, and the business cycle: Are cooperatives different? *Journal of Comparative Economics*, 31(2), 295–316.

- Pirson, M., & Turnbull, S. (2011). Toward a more humanistic governance model. *Journal of Business Ethics*, 99(1), 101–114.
- Raetze, S., Duchek, S., Maynard, M. T., & Kirkman, B. L. (2021). Resilience in organizations: An integrative multilevel review and editorial introduction. *Group & Organization Management*, 46(4), 607–656.
- Raworth, K. A. (2017). Doughnut for the anthropocene: Humanity's compass in the 21st century. *Lancet Planet Health*, 1, e48–e49.
- Roelants, B., Dovgan, D., Eum, H., & Terrasi, E. (Eds.). (2012). *The resilience of the cooperative model: How worker cooperatives, social cooperatives and other worker-owned enterprises respond to the crisis and its consequences* (pp. 17–29). CECOP-CICOPA Europe. https://issuu.com/cicopa/docs/rep_orc_cecop_2012_en_web
- Ruiz-Martin, C., López-Paredes, A., & Wainer, G. (2018). What we know and do not know about organizational resilience. *International Journal of Production Management and Engineering*, 6(1), 11–28.
- Sánchez Bajo, C., & Roelants, B. (2011). *Capital and the debt trap: Learning from cooperatives in the global crisis*. Palgrave Macmillan.
- Steffen, W., Richardson, K., Rockström, J., Cornell, S. E., Fetzer, I., Bennett, E. M., Biggs, R., Carpenter, S. R., de Vries, W., de Wit, C. A., Folke, C., Gerten, D., Heinke, J., Mace, G. M., Persson, L. M., Ramanathan, V., Reyers, B., & Sörlin, S. (2015). Planetary boundaries: Guiding human development on a changing planet. *Science*, 347, 6223.
- Stockholm Resilience Centre. (2015). *What is resilience?* <https://www.stockholmresilience.org/research/research-news/2015-02-19-what-is-resilience.html>
- Stockholm Resilience Centre. (2022, April 25). *Planetary boundaries*. Stockholm Resilience Centre. <https://www.stockholmresilience.org/research/planetary-boundaries.html>
- Turnbull, S. (2002). *A new way to govern: Organisations and society after Enron*. New Economics Foundation. <https://neweconomics.org/2002/08/new-way-govern>
- United Nations. (2015). *Transforming our world: The 2030 agenda for sustainable development*. UN Publishing.
- United Nations Climate Change. (2021, September 2). *What is the United Nations framework convention on climate change?* <https://unfccc.int/process-and-meetings/the-convention/what-is-the-united-nations-framework-convention-on-climate-change>

- United Nations General Assembly (2000). *United Nations millennium declaration, resolution adopted by the General Assembly, 18 September 2000, A/RES/55/2*. <https://www.un.org/millenniumgoals/>
- Walker, B. (2020). Resilience: What it *is* and is *not*. *Ecology and Society*, 25(2), 11.
- Walker, B., Holling, C. S., Carpenter, S. R., & Kinzig, A. (2004). Resilience, adaptability and transformability in social–ecological systems. *Ecology and Society*, 9(2), Article 5. <http://www.ecologyandsociety.org/vol9/iss2/art5>
- WBCSD (World Business Council for Sustainable Business). (2020). *Building long-term business resilience, Vision 2050 issue brief*.
- WBCSD (World Business Council for Sustainable Business). (2021). *Vision 2050: Time to transform*.
- Whiteman, G., Walker, B., & Perego, P. (2013). Planetary boundaries: Ecological foundations for corporate sustainability. *Journal of Management Studies*, 50(2), 307–336.

Open Access This chapter is licensed under the terms of the Creative Commons Attribution-NonCommercial-NoDerivatives 4.0 International License (<http://creativecommons.org/licenses/by-nc-nd/4.0/>), which permits any noncommercial use, sharing, distribution and reproduction in any medium or format, as long as you give appropriate credit to the original author(s) and the source, provide a link to the Creative Commons license and indicate if you modified the licensed material. You do not have permission under this license to share adapted material derived from this chapter or parts of it.

The images or other third party material in this chapter are included in the chapter's Creative Commons license, unless indicated otherwise in a credit line to the material. If material is not included in the chapter's Creative Commons license and your intended use is not permitted by statutory regulation or exceeds the permitted use, you will need to obtain permission directly from the copyright holder.





14

Measuring Transformational Impact of Cooperatives

Sonja Novković and Dražen Šimleša

14.1 Increasing Pressure to Measure Sustainability Performance

Governance of a democratic organization is a system which steers it in the direction set out by the purpose envisioned by its members. Performance indicators are often used as “traffic lights” guiding the enterprise leaders in the right direction, making sure they execute its strategy. A lot has been written in the last few decades about business performance indicators that go beyond the financial statements, especially

S. Novković (✉)

International Centre for Co-operative Management, Saint Marys University,
Halifax, NS, Canada

e-mail: snovkovic@smu.ca

D. Šimleša

Ivo Pilar Institute of Social Sciences, Zagreb, Croatia

e-mail: Drazen.Simlesa@pilar.hr

as the sustainability agenda has come to the fore, and businesses have been identified as key stakeholders in securing sustainable economies and societies. External pressures to measure and report practices leading to sustainable business operations from the triple (economic, environmental, and social) perspective (Eklington, 2018) have led to an explosion of frameworks and metrics to deliver on the triple bottom line. Increasingly, sustainability is considered to be a sound business strategy (Whelan & Fink, 2016), with a massive drive for impact investing¹ adding pressure to measure and disclose the impact of business operations on the environment and society, quite aside from the financial outcomes.

Value creation, instead of value extraction, has become the mantra that shifts attention from shareholders to stakeholders as beneficiaries of business operations. Further, international accounting standards setting agencies, such as the ISSB (International Sustainability Standards Board, as a construct of IFRS—International Financial Reporting Standards) and EFRAG (European Financial Reporting Advisory Group, commissioned by the European Union) are creating sustainability standards and indicators for ESG (Environment, Social, Governance) reporting.

Social and solidarity economy (SSE) enterprises, including cooperatives, are not immune to these pressures, much as they seem not to need to prove anything to their members, as democratic, self-help organizations. Yet, partly due to isomorphism; partly regulation, standards setting agencies, and external societal pressures; and partly the distance of members from the operations, cooperatives are called upon to show what they are worth to their members and what they contribute to sustainable futures (see Herbert et al., 2016).

While democratic organizations in the social economy have always been recognized as “social” enterprises due to their associative nature, the new measurement wave has been fuelled externally by the rapid growth of interest in social entrepreneurship, social enterprise, and impact investing in recent years (Salathe Beaulieu, 2019). Cooperatives are not immune to such external pressures, particularly regulatory demands and the need to access social finance and patient capital. Further fuelled by

¹ <https://thegiin.org/impact-investing/>

the quest for legitimization of the cooperative model, as the leading model in a (ethical) values-driven economy contributing to the Sustainable Development Goals (SDGs), pushes cooperatives to report on their social and ecological impact.

For cooperatives, adherence to a well-defined Identity Statement (purpose, values, and principles) is claimed to be the driving force in achieving sustainable outcomes (Dale et al., 2013). Therefore, Key Performance Indicators (KPIs) and tools to assess adherence to the cooperative principles and values have also been developed (Brown et al., 2015).

Further, under the increasing pressure of climate change, government regulation, and consumer demands, businesses are either integrating sustainability into their business strategy or, in some cases, sustainability is becoming the strategy (Beishenaly & Eum, 2021; Whelan & Fink, 2016). The evidence suggests that many cooperatives do not produce sustainability reports; however, sustainable practices and contributions to SDGs are embedded in the purpose of cooperative businesses (Beishenaly & Eum, 2021).

We conjecture that cooperatives can be agents for socially just and equitable transformation toward sustainability, by means of their very structure and purpose. Cooperative governance is the key component in materializing this transformational role. To fulfill this role, what cooperatives measure and report will make a difference in their strategic direction.

In what follows we first address what is meant by “transformation” in the literature, followed by transformational characteristics of the cooperative model of enterprise. Environmental and social indicators fit for a transformation agenda are discussed in the next section, and some frameworks and examples conclude.

14.2 Transformation Toward Sustainability

Patterson et al. (2017) outline four complementary conceptual approaches to transformations to sustainability in the literature. They differentiate between: (i) the transitions approaches (socio-technical and

transitions management perspectives); (ii) social-ecological transformations; (iii) sustainability pathways; and (iv) transformative adaptation approaches.

The socio-technical transitions perspective explores societal changes as a multi-level process of disruptions forming multiple paths of change, while the transitions management perspective draws on systems thinking and the complex adaptive systems² nature of transition. The social-ecological systems approaches are also based on complex adaptive systems theory, but they highlight transformability as a key property of social-ecological systems, alongside resilience and adaptability (Patterson et al., 2017; also see Miner, Chapter 13 in this volume). Transformability implies the ability of the system to create a “fundamentally new system” when the existing one becomes unsustainable (Patterson et al., 2017, p. 6). Sustainability pathways, the third approach to transformation in the literature, is about the diversity of interests and challenges involved in the transformation. According to Patterson et al. (2017), this approach has been broadened by the “insights from social-ecological resilience thinking on planetary boundaries,” which frames transformations toward sustainability as navigating between the two thresholds: the minimum social foundations on the one hand, and the upper limit of planetary boundaries on the other (Raworth, 2017; Rockstrom et al., 2009; Steffen et al., 2015). Lastly, the transformative adaptation approaches advocate fundamental structural and paradigm changes to remove the root causes of unsustainable socio-ecological systems. Systemic causes of social vulnerabilities need to be addressed by social action for change (Patterson et al., 2017). To the latter point, it is increasingly being recognized that sustainability and social equity are not separable (Leach et al., 2018).

Of interest from the governance dynamics perspective we discuss in this chapter, Scoones et al. (2020) focus on the processes that drive transformation, and differentiate between exogenous drivers and deliberate social action. The latter approaches recognize social agency in three specifically diverse, but overlapping and complementary, ways: from instigating *structural* change, to *systemic* approaches, and the *enabling*

² This approach calls for collaborative visioning and a safe space for experimentation in order to shape transition processes (Patterson et al., 2017, p. 6).

approaches to transformation. Table 14.1 (Scoones et al., 2020, p. 68) describes these different and complementary lenses.

The applicability to the cooperative model of diverse ways to express deliberate social action spans the three interrelated areas (Table 14.1), in our view. As agents in the social economy, cooperatives often organize in order to affect the distribution channels and the supply chains, as well as address social and economic inequities. Their democratic character speaks to the deliberation processes in both their strategy and operations. Cooperatives are embedded in local communities, and aimed at empowering their members, by definition. Regarding systemic changes, we explore the effect of choosing the appropriate types of measures of success as a mechanism to instigate transformation.

14.3 Transformative Nature of the Cooperative Enterprise Model

Businesses are seen as key actors and necessary partners on the path to sustainability since they have been the main contributors to environmental degradation and social inequity. Transforming the purpose and *modus operandi* of business operations is therefore an integral, if monumental task on the road to “more sustainable and equitable global futures” (Patterson et al., 2017, p. 2). Underscoring that sustainability is a macro-level global issue in need of policy changes, coordination, and partnerships, we take a look at the cooperative model of enterprise and its broader networks (micro and meso levels) as a building block of sustainability from different interconnected perspectives (Scoones et al., 2020, Table 14.1 above). As an enterprise form with a radically different logic compared to an investor-owned corporation, cooperatives offer a transformative perspective on economic activity (see Novkovic, 2021).

Structurally, capital is not the controlling input, nor the residual claimant.³ Enterprise ownership is in the hands of the members who use the enterprise for work, or as consumers and/or producers (see

³This structural characteristic addresses the unsustainability of the corporate model with absentee investors whose sole pursuit is the highest return on their investment, and which

Table 14.1 Complementary approaches to processes of transformation to sustainability (Source reproduced from Scoones et al., 2020, p. 68)

Complementary lenses		Pros	Cons	Example
Approach	Definition/emphasis	Pros	Cons	Example
Structural	Fundamental changes in the way production and consumption are governed, organized, and practiced by societies	Highlights the prevalent economic and political processes and associated interests that serve to perpetuate current conditions	Lack of emphasis on environmental triggers and processes, individual agency, and the possibilities of incremental change; historical studies may downplay the role of complexity and serendipity	Emergent discourses on decarbonization or zero-or de-growth economic structures Mass social mobilization around climate change and economic inequity
Systemic	Intentional change targeted at the interdependencies of specific institutions, technologies, and constellations of actors in order to steer complex systems toward normative goals	Highlights interdependencies, connectivity across scale and geography, and the potential for non-linear shifts in system dynamics across scales. Emphasizes the role of ecological dynamics in social change and vice versa	Critiqued for de-emphasis of individual agency, power and politics, and/or overly managerial approach, glossing over differences in capacities, governance structure, and politics	Low carbon energy transitions, focusing on technology-centered developments, modulated by incentives and disincentives enacted in policy mixes

Complementary lenses			
Approach	Definition/emphasis	Pros	Cons
Enabling	Fostering the human agency, values, and capacities necessary to manage uncertainty, act collectively, identify and enact pathways to desired futures	Recognizes potential of human agents for collective action; explicitly addresses asymmetries in power and circumstances of social injustice	May neglect significant structural, political obstacles to social transformation; burdens those with greatest vulnerability with task of transformation
			Example Community-led environmental action; hacker/make spaces for grassroots innovation; communiting approaches to sustainable local economies

Novkovic & McMahon, & Novkovic et al., Chapters 2 and 4 in this volume, respectively). They depend on *usus-fructus* property rights with collective rights of disposal shared by the members through democratic control (ICA Guidance Notes, p. 39). The cooperative enterprise is therefore people-centered, jointly owned, and democratically controlled (Novkovic & Miner, 2015, 2019; Novkovic, 2021). Income distribution is linked to the contribution to operations of the enterprise, whose purpose is a broader provision of the common good and shared prosperity. Cooperatives often transform the distribution channels by staying local, using cooperative networks and supply chains, purchasing products at fair trade prices, and striking direct relationships with the suppliers and consumers. This relational logic deploys trust and reciprocity as key mechanisms of exchange (Zamagni, 2014).

From the “enabling” perspective (Scoones et al., 2020), cooperatives are grassroots organizations which often serve as tools for social movements to organize economic activity (Novkovic & Golja, 2015; Vieta, 2020). Collective action and democratic governance of cooperatives speak to the enabling structure of this enterprise form. Cooperatives are associations of people who engage in collective entrepreneurship to address their common needs, and, as such, enable individuals to address social and other injustices they face. They may also proactively seek to address ecological and climate injustice.

At the microeconomic level, then, cooperatives can contribute radical imagination and a different institutional logic to the transformation agenda, particularly as transformation includes “structural, functional, relational, and cognitive aspects of socio-technical-ecological systems” (Patterson et al., 2017, as cited in Scoones et al., 2020, p. 65), of which economic systems are a component part. Co-ops are perceived to be a multigenerational asset, rather than a profit-making commodity, turning the purpose of an enterprise on its head. Arguably, then, the indicators used to measure performance can serve as the “nudge” to steer the complex system toward normative goals.

is at the heart of most corporate unsustainable practices. Attempts to shift to “stakeholder capitalism” to address this pervasive issue have been more prevalent in recent years, with limited success at best (see Johnson, 2021, for example).

14.4 What Do Cooperatives Need to Measure?

To achieve the humanitarian, ecological and technological visions encapsulated in the SDGs, transformation will be required at multiple scales and organizational levels, and with deliberate normative steering. (Scoones et al., 2020, p. 66)

The humanistic economics and governance approach extended in this volume suggests that the purpose of cooperative enterprises is distinctly driven by their mission to advance human progress by meeting collective needs, instead of pecuniary incentives. Although financial capital is typically necessary to achieve this mission, it is not the strategic driver for cooperatives. Therefore, cooperatives (and social economy organizations more broadly) have the cognitive tools necessary to influence the functional, structural, and emancipatory transformation that is required in the global quest for “more sustainable and equitable global futures” (Patterson et al., 2017, p. 2).

A plethora of methods and models have been developed to direct businesses toward SDGs, including the adoption of sustainability as a strategy and the accompanying indicators to track progress. Among the first and more elaborate ones is the Global Reporting Initiative (GRI), whose founders imagined that measurement and reporting would have a significant transformative impact. However, it has become apparent that transformative change has not accompanied the increase in sustainability reporting (Bernard et al., 2015); on the contrary, inequalities and crises have expanded in recent decades. While the reasons for these disappointing results vary, they may include greenwashing, i.e. cherry-picking indicators to report on positive impacts while ignoring the negative; but, importantly, the incremental (rather than transformative) nature of the indicators predominates (Baue, 2019; Utting & O’Neill, 2020). Cooperatives need to be aware of these issues when designing the indicators to guide their sustainability strategy.

The question of measurement and KPIs is typically related to assessing progress toward delivering on a strategy, and changing behavior in

the process. Cooperatives contributing to an agenda for transformation toward sustainability need to develop context-based indicators (Baue, 2019; McElroy, 2015) in their sphere of influence. Due to the mounting pressures, cooperative legitimacy may be called into question unless they can demonstrate that they deliver on their values; therefore, appropriate indicators and measures can also assess “cooperative health” (Cook, 2018) and serve as tools for congruent isomorphism (Bager, 1994).

Besides measures of financial viability, sustainability indicators fall into two main categories—environmental and socio-economic—in order to select a pathway to sustainability which navigates between the planetary boundaries on the one hand, and meeting minimum social foundations on the other (Raworth, 2017). For cooperatives, sustainability indicators will address their structure and purpose, as well as account for the use of natural resources within the appropriate threshold.

14.4.1 Environmental Indicators

Ecological sustainability does not come naturally to any business, including cooperatives who are designed to address their members’ needs. Ecology therefore has to be a science-led global project, which would be integrated into all domains of human activity and impact. However, understood as a matter of ecological justice, sustainability is an integral part of cooperative values and principles. The cooperative advantage in the struggle to mitigate climate change may be the lack of pressure to treat sustainability as an externality and perceive it purely from the risk perspective. Rather, for cooperatives, environmental sustainability is a “values project.”

As for all enterprises, cooperatives need to address context-based sustainability within appropriate thresholds and allocations (Baue, 2019; Baue & Thurm, 2021; McElroy, 2015). In other words, thresholds are measures that “indicate availability of a resource, while allocations define ‘fair shares’ for individual players in any given local, regional, or global context” (Baue & Thurm, 2021, p. 245). The context—thresholds and allocations help to “navigate us back into the *safe and just operating space* between the thresholds of overshooting ecological ceilings and shortfalling social foundations” (ibid.).

Context-based environmental accounting seems to provide a tool for all sustainable businesses to follow (McElroy, 2015). What specific environmental indicators to use will depend on the nature of the business—an agricultural producer cooperative will have a very different impact on the environment than a worker cooperative daycare, for example. But each needs to understand what impact they do have, and draw a path to sustainable use of natural resources, or their regeneration.

14.4.2 Socio-Economic Indicators

While natural resource thresholds (maximum limits for environmental indicators) are a matter of scientific determination of the planetary boundaries (Rockstrom et al., 2009; Steffen et al., 2015), the thresholds of socio-economic foundations (the inner circle in Raworth’s “doughnut model”; see Raworth, 2017) are often a matter of values. In this sphere, cooperatives can define the benchmarks (i.e. minimum values for social thresholds) to set the economy on the path to sustainability—they can serve the “yardstick” role in the space of safe and just socio-economic foundations (Novkovic, 2021).

For this role to materialize, the purpose of a cooperative needs to be better understood from the perspective of change and transformation. With respect to the social foundations, cooperatives contribute to income equality and distributional equity; decommodification of labor, money, and land (fictitious commodities, according to Polanyi 1944), but also basic necessities such as housing, knowledge, and healthcare, for example (Novkovic, 2021). With democratic ownership and governance cooperatives distribute power, although they may be prone to isomorphism and oligarchic tendencies, and therefore need to measure and report their “democratic health.” Further, cooperatives promote human dignity, given their humanistic roots (Lutz, 1999; Pirson, 2017), and engage in the intergenerational transfer of wealth: a critical contributing factor for community development.

14.5 Measuring Transformational Impact

Tracing a path to sustainability ought to include thresholds to secure the provision of the common good. The carrying capacity of the planet is the outer bound of sustainable operating space (Raworth, 2017). Baue (2019, p. 19) credits Donella (Dana) Meadows with the insight that environmental indicators become sustainability indicators when they have a target, a timeline, or a limit. Reporting just a nominal value (quantity of water used; carbon footprint, etc.) does not provide context.

How much of the natural resource is allocated to each agent in the economy is a matter of context-based sustainability accounting (Baue, 2019; McElroy, 2015). The sustainability quotient (McElroy, 2008, as cited in Baue, 2019, p. 8) provides a way to assess sustainability by dividing the actual impact (e.g. carbon emissions) by a normative figure (a share of carbon budget allocated to a specific entity). The r3.0 Platform (r3-0.org) for accounting and reporting methods for sustainability formed a Global Thresholds & Allocations Council (GTAC) “to establish an authoritative approach to reporting economic, environmental and social performance in relation to generally accepted boundaries and limits.” Science-based limits to natural capital have been widely publicized, but allocations are a work in progress. At a minimum then, cooperatives as values-based businesses need to set targets to reduce harm to the environment, as well as engage in regenerative practices, as the context allows (for example, in agriculture).

On the socio-economic indicators side, cooperatives have a transformative role to play given their different purpose, structure, and governance. The implications of a cooperative people-centered structure, with joint ownership and democratic control, include comparatively better performance regarding longevity; employment stability; income equality; and productivity (Navarra, 2016; Perotin, 2016; Smith & Rothbom, 2014).

But besides the indicators uncovering cooperative structural characteristics,⁴ the foundational purpose of a cooperative form of organizing, which addresses the unsustainable practices in the specific socio-economic context, needs to be reported in order to “nudge” the system toward sustainable spaces. This foundational purpose is often rooted in social justice, and includes decommodification (of labor, land, money; food, shelter, knowledge); income equality and distributional equity; and promoting human dignity (Novkovic, 2021). Indicators which disclose the essence of cooperative purpose may provide the yardstick—a norm, or benchmark—for the social sustainability quotient. It is not just about what is measured, but what target is considered fair, just, and sustainable from the cooperative values-based perspective.

To highlight some indicators cooperatives can use—adjusting for their context—we take a look next at the Economy for the Common Good indicators. Many of those indicators are a good fit, since they consider the impact on multiple stakeholders and human dignity, with the common good as the overarching goal. The targets, however, are values-based, and vary with context (the industry; type of cooperative; geographical location; etc.).

14.6 The Economy for the Common Good (ECG) Indicators in Practice

The Economy for the Common Good and its measuring tool ECG Matrix 5.0 (see Fig. 14.1) is a relatively new approach to indicate transformational potentials in any enterprise. It rests on incentivizing the delivery of the common good, instead of financial gain to shareholders, and therefore on “repurposing” the economy. ECG was introduced after the latest global economic financial crisis at the end of the first decade of the twenty-first century, rising on the wave of criticism toward the neoliberal financialization of the economy. It was imagined not just as

⁴ Cooperatives are encouraged to assess their adherence to cooperative principles and values. A number of indicators and tools have been developed for that purpose (for a review, see Salathe Beulieu, 2019).

a metric tool, but as a new social movement that will offer a better economic model of development through the use of a more ethical and responsible approach and metrics (Felber & Hagelberg, 2017). Very often it was labeled as a system of cooperation, respect, and care for the environment and future—a holistic new system of contribution to the common good that should change the existing system based on greed and irresponsibility (Felber, 2015). The underlying purpose of economic activity is to create the common good, i.e. prosperity on a healthy planet.

ECG has been designed to act as a comprehensive and holistic measurement tool to test real contributions to the common good within the enterprise, but also in relation to the local community and more broadly to the society and the global level. Any enterprise that wants to pass through an ECG evaluation has to complete the Common Good Balance Sheet with the central synthesis point in their matrix: a table of the most important areas that are measured.

ECG Matrix 5.0 monitors the interrelated position of the most important stakeholders for an enterprise: suppliers, owners/financial support, employees, consumers/users, and business partners, and the social environment in relation to the four most important general values: human dignity, solidarity and social justice, environmental sustainability, and transparency and co-determination. It is important to emphasize that negative points can also be assigned for damaging practices, so an enterprise being evaluated might get a negative score if it violated workers' or human rights, acted in hostile ways in the market, had a detrimental effect on resources and ecosystems, or any other unsustainable behavior with negative outcomes. With this as its base, the ECG framework is quite suitable for the cooperative sector (Novkovic, 2018; Šimleša, 2015, 2020) and other values-aligned entities.

There is a clear overlap between the ECG values and the cooperative organizational values—self-help and self-responsibility; equality and equity; democracy and solidarity. While cooperative organizational values do not specify environmental sustainability, this is captured in personal ethical values and cooperative principles.⁵ We, therefore, take

⁵ Honesty, openness, social responsibility, and caring of others are cooperative ethical values, coupled with the Principle 7—Concern for Community, which refers to sustainable development (see ICA, 2015).

VALUE	HUMAN DIGNITY	SOLIDARITY AND SOCIAL JUSTICE	ENVIRONMENTAL SUSTAINABILITY	TRANSPARENCY AND CO-DETERMINATION
STAKEHOLDER				
A: SUPPLIERS	A1 Human dignity in the supply chain	A2 Solidarity and social justice in the supply chain	A3 Environmental sustainability in the supply chain	A4 Transparency and co-determination in the supply chain
B: OWNERS, EQUITY- AND FINANCIAL SERVICE PROVIDERS	B1 Ethical position in relation to financial resources	B2 Social position in relation to financial resources	B3 Use of funds in relation to social and environmental impacts	B4 Ownership and co-determination
C: EMPLOYEES, INCLUDING CO-WORKING EMPLOYERS	C1 Human dignity in the workplace and working environment	C2 Self-determined working arrangements	C3 Environmentally-friendly behaviour of staff	C4 Co-determination and transparency within the organisation
D: CUSTOMERS AND OTHER COMPANIES	D1 Ethical customer relations	D2 Cooperation and solidarity with other companies	D3 Impact on the environment of the use and disposal of products and services	D4 Customer participation and product transparency
E: SOCIAL ENVIRONMENT	E1 Purpose of products and services and their effects on society	E2 Contribution to the community	E3 Reduction of environmental impact	E4 Social co-determination and transparency

Fig. 14.1 ECG Matrix 5.0 2017 (Source Economy for the Common Good, 2017 www.ecogood.org/)

a look at some of the pertinent indicators in the ECG framework as an illustration of the types of transformative measures of strategic importance to cooperatives.

At a first glance, it seems like ECG's four general values defining their relations with the most important social actors within and outside of the enterprise are directly connected to the seven cooperative principles. Cooperative principles highly emphasize internal democratic processes and rights, responsibilities, and participation, which we can correlate with the ECG Matrix under the values of Human Dignity (C1 Human dignity in the workplace and working environment) and Solidarity and Social Justice (A2 Solidarity and social justice in supply chain or C2 Self-determined working agreements). For Employees as a stakeholder group human dignity in the workplace translates into measuring the achievement of "employee-focused organisational culture that is built on respect, appreciation and trust. People are considered to be the focus, and not a factor of production" (ECG Matrix 5.0 2022). Justice and equity as an integral part of cooperative values will show in the ECG's framework in the stakeholder group Owners and finance partners (for example B4 Ownership and co-determination); so, for many (worker) cooperatives, results for this section will be similar to those related to employees.⁶

The cooperative approach for the group Employees is even more evident under the value of Solidarity and Social Justice, where the focus is on self-determined working agreements, which means that an enterprise should strive for motivation, sense of security and wellbeing of the employees, and their participation in all important decisions, especially ones that are affecting them. The importance of participation and workers' inclusion in all information decision-making processes is even more pronounced under the value of Transparency and Co-determination.

Cooperative Principle 6—Cooperation among Cooperatives can be partly⁷ identified in the ECG approach through the stakeholder groups Suppliers and Customers and Other Companies, especially under the

⁶ Although we do note the worker membership logic that extends beyond ownership and into participation via the employment relationship (or "usership" in different types of cooperatives).

⁷ Partly, because Principle 6—Cooperation among Cooperatives includes creating associations and contributing to the cooperative movement; not just cooperative supply chains.

value Solidarity and Social Justice, where this box is presenting enterprise contributions in the fields A2 Solidarity and social justice in the supply chain and D2 Cooperation and solidarity with other companies. Cooperative Principle 7—Concern for Community, which validates cooperative behavior toward the external environment, is present in the stakeholder group Social Environment.

The ECG matrix is designed to test the contribution of any enterprise to the common good, through measures of impact on its external as well as internal stakeholders. It can therefore be seen not to align with the primary concern of cooperatives to meet the needs of their members. However, as people-centered enterprises, cooperatives cannot afford not to take care of the non-member suppliers, employees, or consumers; cooperatives which engage in solidarity with other cooperatives and SSE enterprises will achieve a higher score on the ECG evaluation. Sanchis et al. (2019) capture the closeness of the cooperative values and principles to the ECG framework, when they rightly note how ECG was designed from the start as a tool “whose purpose is to achieve full respect for human rights principles within companies worldwide and, thus, a more human [operation] of firms based on cooperation and the [pursuit] of general interest” (2019, p. 5–6).

How this looks in practice can be seen in the report entitled, *Businesses act for the Common Good and the SDGs* (Kasper & Hofielen, 2019). The authors present the correlation between ECG and 17 UN SDGs. Each intersection of a stakeholder group and general values is mapped onto the specific SDGs an indicator addresses. The following examples illustrate some ECG indicator applications.

As a first example of the application of ECG measuring and reporting, Fairmondo eG consumer cooperative is promoting fair trade products. Fairmondo eG operates as an online platform and helps consumers to find ethical products that may be fair-trade labeled, environmentally friendly, or reused (second-hand). The platform serves customer education purposes as well. Fairmondo directly supports the SDG Goal 12—Responsible Consumption and Production, the goal supported by the ECG indicators in the following boxes of the ECG matrix:

D3 Impact on the environment⁸ of the use and disposal of products and services

D4 Customer participation and product transparency

E1 The purpose of products and services and their effect on society

Fairmondo eG's Common Good Balance Sheet shows a high score in both the stakeholder Employees group, and the targeted Customers and Other Companies group.

Another example is a publishing cooperative *Taz* founded in 1978 in Berlin as a media voice of a progressive and politically active movement. Their work contributes to the achievement of the SDG Goal 13—Climate Action, because of their persistent and dedicated work on using recycled paper in the newspaper production, general use of climate-neutral printing materials, and a lower price of subscription for the online ePaper version. Their contribution to CO₂ saving was especially noticed from ECG matrix in the boxes:

A3 Environmental sustainability in the supply chain

B3 Use of funds in relation to social and environmental impacts

D3 Impact on the environment of the use and disposal of products and services

On a general level, cooperatives were mentioned in the report (Kasper & Hofielen, 2019) as one of the best cases for supporting the SDG Goal 17—Partnership for the Goals, because cooperatives are entities that respect equal participation and inclusion of all relevant actors around common issues, a goal that SDGs still seek to achieve.

ECG indicators and the matrix itself are deeply transformative tools, as they are measuring real business entities' contribution to a more just and fair, sustainable solidarity economy and society. These two examples illustrate the real ECG contribution to measurement of transformative potentials in the cooperative sector. It is a tool able to validate the manifestation of those potentials.

⁸ Note that ECG does not use context-based accounting (Baue, 2019), which we believe should be the next stage of development for environmental indicators.

At the time of writing (2022), several thousand enterprises, mostly from Europe, completed their Common Good Balance Sheet in different sectors: financial institutions, food producers, housing associations, hotels, cultural institutions, etc.; among them, many are cooperatives. Sanchis et al. (2019) examined the impact of the ECG reporting framework on a sample of 200 European enterprises who used it over an extended period of time, concluding that the exercise was beneficial for market differentiation and competitive advantage of the companies in the sample. More research is needed to fully understand whether this exercise is helping enterprises to achieve a just transition to a sustainable and fair system (changing behavior), or simply helping them to report what they already do anyway. In that sense, cooperatives may be able to show that adhering to the cooperative identity (values and principles) leads to sustainability (Beishenaly & Eum, 2021).

14.7 Discussion and Concluding Remarks

Many tools have been proposed and developed specifically to assess adherence to cooperative principles and values (Co-ops UK 2018; and the Co-op Index for worker cooperatives—Stocki et al., 2012—are examples). These are important tools that show the cooperative (structural) difference, address democratic governance, and identify a different socio-economic purpose of enterprise. On the other hand, there are many frameworks offering sustainability indicators, but not all of them are transformative, i.e. not all speak to the “structural, functional, relational, and cognitive aspects of socio-technical-ecological systems” (Scoones et al., 2020, p. 65). The usual measurement limitations and issues aside, transformative indicators ought to highlight the gaps and blind spots in corporate reporting (Utting & O’Neil, 2020); but they also need to push the boundaries and thresholds regarding what is “just” and what is “fair” and “equitable” when it comes to socio-economic indicators.

We highlighted the ECG framework because, while not completely overlapping, it is largely aligned with the cooperative point of view and values. It is the only framework to date to propose a shift in policy and the incentive structures from profits to the common good. That is the

key element for transformation to sustainability, in our view. However, when it comes to indicators, the thresholds and allocations approach in the context-based accounting (Baue, 2019; McElroy, 2008) ought to be explored together with the elements of the ECG framework if we want to capture real change.

We conjecture that the cooperative model is a transformative model of enterprise due to its radical structure and purpose. Assessing the ways in which cooperatives contribute to the SDGs and the Agenda 2030, Beishenaly and Eum (2021) include the cooperative nature as an enabling factor and a driver of sustainability. They highlight that the external environment also needs to be in place, from enabling policies to supporting networks and partnerships. Cooperatives then contribute significantly to the SDGs in all facets of their core activities (ibid.; Table 14.1).

But, can reporting on the right kind of measures and indicators speed up the process of transformation toward sustainability? In the sea of options, cooperative leaders need to be aware of their enterprise's areas of impact that contribute to transforming some of the "structural, functional, relational, or cognitive aspects" of the current systems. To influence a change of course toward sustainability, performance indicators ought to be used strategically to showcase performance, uncover isomorphism, and put a spotlight on unsustainable practices in particular contexts. Cooperative leaders also need to be aware of the developments in the field of measurement to adopt indicators that align with cooperative values and purpose and uncover transformative practices.

References

- Bager, T. (1994). Isomorphic processes and the transformation of cooperatives. *Annals of Public and Cooperative Economics*, 65(1), 35–54.
- Battilani, P., & Schroeter, H. G. (2011). Demutualization and its Problems. *Quaderni DSE Working Paper No. 762*. <https://ideas.repec.org/p/bol/bodewp/wp762.html>
- Baue, B. (2019). *Compared to what? A three-tiered typology of sustainable development performance indicators: From incremental to contextual to transformational*. UNRISD Working Paper 2019–5.
- Baue, B., & Thurm, R. (2021). Blueprint for a system value economy. In K. Klomp & S. Oosterwaal (Eds.), *Thrive: Fundamentals for a new economy* (pp. 231–248). Business Contact publisher.
- Beishenaly N., & Eum, H. (2021). How do cooperatives drive change? SDG Framework for cooperatives. ICA CCR Conference paper, Seoul, November.
- Bernard, S., Abdelgadir, S., & Belkhir, L. (2015). Does GRI reporting impact environmental sustainability? An industry-specific analysis of CO2 emissions performance between reporting and non-reporting companies. *Journal of Sustainable Development*, 8(9), 190–205.
- Brown, L., Carini, C., Gordon-Nembhard, J., Hammond Ketilson, L., Hicks, E., McNamara, J., Novkovic, S., Rixon, D., & Simmons, R. (Eds.) (2015). *Co-operatives for sustainable communities: Tools to measure co-operative impact and performance*. University of Saskatchewan Press. <https://ed.coop/unit/co-operatives-for-sustainable-communities-tools-to-measure-co-operative-impact-and-performance/>
- Burdin, G., & Dean, A. (2012). Revisiting the objectives of worker cooperatives: An empirical assessment. *Economic Systems*, 36(1), 158–171.
- Burdin, G. (2014). Are worker-managed firms more likely to fail than conventional enterprises? *Evidence from Uruguay*, *International Labor Review*, 67(1), 202–238.
- Cook, M. (2018). A life cycle explanation of cooperative longevity. *Sustainability*, 10(5), 1586. <https://www.mdpi.com/2071-1050/10/5/1586>
- Co-ops UK. (2018). *Key performance indicators: A framework and guidance for co-operatives*. https://www.uk.coop/sites/default/files/2020-10/KPI_report.pdf

- Dale, A., Duguid, F., Garcia Lamarca, M., Hough, P., Tyson, P., Foon, R., Newell, R., & Herbert, Y. (2013). *Co-operatives and sustainability: An investigation into the relationship*. ICA Report. https://www.ica.coop/sites/default/files/attachments/Sustainability%20Scan%202013-12-17%20EN_0.pdf
- DiMaggio, P. J., & Powell, W. (1984). The iron cage revisited: Institutional isomorphism and collective rationality in organizational fields. *American Sociological Review*, 4(2), 147–160.
- ECG (2017). *Workbook: Compact balance sheet 5.0*. The Matrix Development Team. https://www.ecogood.org/media/filer_public/5d/4d/5d4d17bc-156b-44ec-9115-fe6b37c63187/ecg_compact_balance_sheet_workbook.pdf
- Eklington, J. (2018). 25 years ago I coined the phrase “triple bottom line.” Here’s why it’s time to rethink it. *Harvard Business Review*. <https://hbr.org/2018/06/25-years-ago-i-coined-the-phrase-triple-bottom-line-heres-why-im-giving-up-on-it>
- Felber, C. (2015). *Change everything: Creating an economy for the common good*. Zed books.
- Felber, C., & Hagelberg, G. (2017). *The economy for common good: A workable, transformative ethics-based alternative*. Democracy Collaborative. <https://thenextsystem.org/sites/default/files/2017-08/FelberHagelberg.pdf>
- Herbert Y. (2015). Leadership in hegemony: Sustainability reporting and cooperatives. In Brown et al (Eds.), *Co-operatives for sustainable communities: Tools to measure co-operative impact and performance* (pp. 294–309). University of Saskatchewan Press.
- Herbert, Y., Foon, R., & Duguid, F. (2016). *Sustainability reporting for co-operatives: A Guidebook*. Sustainability Solutions Group for the International Cooperative Alliance. <https://www.ica.coop/en/media/library/sustainability-reporting-cooperatives-guidebook>
- ICA (1995). *Co-operative identity, values and principles*. International Cooperative Alliance. <https://www.ica.coop/en/cooperatives/what-is-a-cooperative>
- ICA (2015). *The guidance notes on the cooperative principles*. International Cooperative Alliance. <https://www.ica.coop/en/media/library/research-and-reviews/guidance-notes-cooperative-principles>
- Johnson, S. (2021, February 22). ESG investment favours tax-avoiding tech companies. *Financial Times*. <https://amp.ft.com/content/486afe00-5347-4f23-ab30-fb2ab901b2cb>
- Kasper M., & Hofielen, G. (2019). Businesses act for the common good and the SDGs. *Humanistic Management Practices*. <https://www.ecogood.org/businesses-act-for-the-common-good-and-the-sdgs/>

- Leach, M., Reyers, B., Bai, X., Brondizio, E. S., Cook, C., Díaz, S., Espindola, G., Scobie, M., Stafford-Smith, M., & Subramanian, S. M. (2018). Equity and sustainability in the Anthropocene: A social–ecological systems perspective on their intertwined futures. *Global Sustainability, 1*, 1–13. <https://doi.org/10.1017/sus.2018.12>
- Lutz, M. A. (1999). *Economics for the common good: Two centuries of economic thought in the humanist tradition*. Routledge.
- McElroy, M. (2008). *Social footprints: Measuring the social sustainability performance of organizations*. Ph.D. thesis, University of Groningen. <https://www.rug.nl/research/portal/files/13147569/DISSERTATION-2.pdf>
- McElroy, M. (2015). Science—vs. context-based metrics—what’s the difference? *Sustainable brands*. <https://sustainablebrands.com/read/new-metrics/science-vs-context-based-metrics-what-s-the-difference>
- Miner, K., & Novkovic, S. (2019). Power in purpose: Cooperatives and the sustainable development goals. *Cooperative Business Journal*, NCBA, Fall 2019, 26–35. <https://ncbaclusa.coop/journal/2019/fall/power-in-purpose/>
- Navarra, C. (2016). Employment stabilization inside firms: An empirical investigation of worker cooperatives. *Annals of Public and Cooperative Economics, 87*(4), 563–585.
- Navarra, C., & Tortia, E. (2014). Employer moral hazard, wage rigidity, and worker cooperatives: A theoretical appraisal. *Journal of Economic Issues, 48*(3), 707–726.
- Novkovic, S., & Golja, T. (2015). Co-operatives and the civil society: Potential for local co-operative development in Croatia. *Journal of Economic and Organizational Diversity, 4*(1), 153–169.
- Novkovic, S., & Miner, K. (eds.) (2015). *Co-operative governance fit to build resilience in the face of complexity*. International Cooperative Alliance. <https://www.ica.coop/en/media/library/cooperative-governance-fit-build-resilience-face-complexity>
- Novkovic S. (2018). The impact of cooperatives: Transformative, or just business? *The Cooperative Business Journal*, NCBA, Fall 2018.
- Novkovic, S. (2021). Cooperative identity as a yardstick for transformative change. *Annals of Public and Cooperative Economics, 93*(2), 313–336.
- Patterson, J., Schulz, K., Vervoort, J., Van Der Hel, S., Sethi, M., amp; Barau, A. (2017). Exploring the governance and politics of transformations towards sustainability. *Environmental Innovations and Societal Transitions, 24*, 1–16.
- Perotin, V. (2006). Entry, exit, and the business cycle: Are cooperatives different? *Journal of Comparative Economics, 31*(2), 295–316.

- Perotin, V. (2013). Worker cooperatives: Good. *Sustainable Jobs in the Community*. *JEOD*, 2(2), 34–47.
- Perotin, V. (2016). What do we really know about worker cooperatives? CoopsUK. <https://www.uk.coop/resources/what-do-we-really-know-about-worker-co-operatives>
- Pirson, M. (2017). *Humanistic management: Protecting dignity and promoting well-being*. Cambridge University Press.
- Polanyi, K. (1944 [2001]). *The great transformation*. Farrar & Rinehart [Beacon Press].
- Raworth, K. (2017). A doughnut for the anthropocene: Humanity's compass in the 21st century. *The Lancet*, 1(2), 48–49. [https://www.thelancet.com/journals/lanplh/article/PIIS2542-5196\(17\)30028-1/fulltext](https://www.thelancet.com/journals/lanplh/article/PIIS2542-5196(17)30028-1/fulltext)
- Rockstrom, J., Steffen, W., Noone, K., et al. (2009). Planetary boundaries: Exploring the safe operating space for humanity. *Nature*, 461, 472–475.
- Salathe-Beaulieu, G. (with M. Bouchard & M. Mendell) (2019). Sustainable development impact indicators for social and solidarity economy: State of the art. *UNRISD Working paper 2019–4*.
- Sanchis, J.R., Campos, V., & Ejarque, A. (2019). *Analyzing the economy for the common good model: Statistical validation of its metrics and impacts in the business sphere*. University of Valencia, Catedra EBC. https://web.eco-good.org/media/filer_public/df/f2/df21ffb-2ea7-4d92-9c47-c03eb3c8c50c/study-valencia.pdf
- Scoones, I., Stirling, A., Abrol, D., Atela, J., Charli-Joseph, L., Eakin, H., Ely, A., Olsson, P., Pereira, L., Priya, R., van Zwanenberg, P., & Yang, L. (2020). Transformations to sustainability: Combining structural, systemic and enabling approaches. *Current Opinion in Environmental Sustainability*, 42, 65–75.
- Šimleša, D. (2015) *Dobra ekonomija*, Vukomerić: ZMAG.
- Šimleša, D. (2021). *Priručnik za gradove - Razvoj društvene i solidarne ekonomije kroz javne politike*, Vukomerić: ZMAG.
- Smith, S. C., & Rothbaum, J. (2014). Co-operatives in a global economy: Key economic issues, recent trends and potential for development. In S. Novkovic & T. Webb (Eds.) *Cooperatives in a post-growth era. Creating cooperative economics* (pp. 221–241). Zed books.
- Steffen, W., Richardson, K., Rockstrom, J. et al. (2015). Planetary boundaries: Guiding human development on a changing planet. *Science*, 347(6223). <https://doi.org/10.1126/science.1259855>
- Stocki, R., Prokopicz, P., & Novkovic, S. (2012). Assessing participation in worker co-operatives: From theory to practice. In D. McDonnell & E.

- Macknight (Eds.), *The Co-operative model in practice* (pp. 119–133). The Co-operative Education Trust Scotland (CETS).
- UN (2015). *Transforming our World: The 2030 agenda for sustainable development*. United Nations. <https://sustainabledevelopment.un.org/post2015/transformingourworld/publication>
- UNEP (2021). *Facts about the climate emergence*. UN Environment Program. <https://www.unenvironment.org/explore-topics/climate-change/facts-about-climate-emergency>
- Utting, P., & O'Neill, K. (2020). *Corporate sustainability accounting: What can and should corporations be doing?* UNRISD.
- Vieta, M. (2020). *Workers' self-management in Argentina: Contesting neoliberalism by occupying companies, creating cooperatives, and recuperating autogestión*. Brill and Haymarket Books.
- Whelan, T., & Fink, C. (2016). The comprehensive business case for sustainability. *Harvard Business Review*. <https://hbr.org/2016/10/the-comprehensive-business-case-for-sustainability>
- Zamagni, S. (2014). Choices, incentives and co-operative organization. In S. Novkovic & T. Webb (Eds.), *Co-operatives in a post-growth era* (pp. 157–175). Zed books.

Open Access This chapter is licensed under the terms of the Creative Commons Attribution-NonCommercial-NoDerivatives 4.0 International License (<http://creativecommons.org/licenses/by-nc-nd/4.0/>), which permits any noncommercial use, sharing, distribution and reproduction in any medium or format, as long as you give appropriate credit to the original author(s) and the source, provide a link to the Creative Commons license and indicate if you modified the licensed material. You do not have permission under this license to share adapted material derived from this chapter or parts of it.

The images or other third party material in this chapter are included in the chapter's Creative Commons license, unless indicated otherwise in a credit line to the material. If material is not included in the chapter's Creative Commons license and your intended use is not permitted by statutory regulation or exceeds the permitted use, you will need to obtain permission directly from the copyright holder.



Index

A

affect-based trust [253](#), [263](#), [265](#)
agricultural cooperatives [7](#), [105–107](#),
[185](#), [210](#), [212–213](#), [223](#),
[250](#)
diversity of [276–277](#)
social attributes of [255](#), [257](#)
social capital in [250–258](#)
agricultural sector in Flanders,
Belgium [258–259](#)
active farms [258](#)
community supported agriculture
(CSA) initiatives [258–259](#)
data collection and analysis
[260–261](#)
dimensions of social capital
[263–273](#)
sampling strategy [259–260](#)
types of agricultural cooperatives

farmer-initiated multi-
stakeholder cooperatives
[263](#)
large producer organizations
[261–262](#)
small, regionally bound
producer cooperatives
[262–263](#)

Alecop [313](#), [316–317](#)

Alternative Food Networks (AFNs)
[256–257](#)

Arizmendi [313](#)

Arizmendiarrrieta, José María
[289–290](#), [293](#)

Ategi [311](#), [313](#), [322](#)

B

Bager, Torben [199](#)

Batista, Fulgencio [219](#)

Belgium cooperatives 7–8. *See also* agricultural sector in Flanders, Belgium
 Bounded Humanism 51
 Britannia Building Society 186, 195
 Burial Grounds Collective 124, 130, 137

C

Caja Laboral Popular (Laboral Kutxa [LK]) 290, 292, 299, 302, 305, 312–313, 318–319, 322–324
 Canadian Desjardins group 339–342
 assets of 342
 community development fund 342
 credit unions of 341
 employees and members 342
 network governance 342–343
 strategic network 343
 Cecocoesola worker co-op, Venezuela 129, 363, 369, 385
 alignment with ideology 381–383
 collective discipline and workers’ commitment 381–384
 goal of 370
 ideological foundations 370–371, 375–376, 379–386
 legitimacy-building 377–378
 network 369–370, 373
 organizing patterns 371
 protection from external threats 376–377
 public transportation service of 372
 as a second-tier cooperative 369

self-management practices 371, 373–376
 support network 378
 worker-members 370
 workers’ participation 373, 384, 387
 workers’ strike 372–373
 cognitive trust 253, 265
 collectivist/flat worker co-ops model 124, 129–130, 135
 call-and-response process 129
 consensus process 129–130
 decision-making in 129
 sub-groups 129
 Common Good Balance Sheet 440–441
 Communication Workers of America (CWA) 136
 community of co-op governance practice 197
 condemned isolation 48
 congruent isomorphism 320
 consumer cooperatives 6, 96, 147
 challenges 152–156
 in competitive industries 104
 democratic processes in 102–103
 expertise and representativeness in 155–156, 168
 in Finland. *See* S Group
 governance structure in 101–102
 member engagement and involvement 103
 members’ voice in 154–155
 participation in governing activities 153, 162–163, 166
 power and decision-making in 154, 158, 160

- tension between control and cooperation 153
- consumer rights 60
- cooperative banks 8–9, 186, 195, 199
- cooperative ecosystem 7
- cooperative governance 29–31, 82, 146
- challenges 5, 7
 - context-based 6
 - foundational assumptions 5
 - processes 6
 - structures 6
- democratic processes and structures 82–83
- dynamics
 - external forces 90, 94
 - hierarchical decision-making structure 91
 - internal forces 90–92, 94
- function of 88
- processes 88–90
 - channels of communication 89, 93
 - monitoring and control 89–90, 94
 - participation in decision-making 88–89, 93
- structures 84–88, 93–94
 - board of directors 85–86
 - committees and councils 86
 - executive team 87
 - general members' meetings 86
 - governance bodies 93
 - labour/trade unions 86
 - member facilitation 87
 - ownership rights and control 85, 93
 - rules and policies 87–88, 93
 - supplier/customer/community panels 86
- Co-operative Governance Expert Reference Panel 195
- The Co-operative Group 187, 195–197
- Cooperative Home Care Associates (CHCA) 124, 128, 137–138
- cooperative identity 31–32
- cooperative networks 8, 340, 351–352, 412
- Cooperative Retail Trading Group 197
- cooperatives 2, 64–65, 69–72
 - decision-related incentive problems 26–27
 - definition 19
 - definition of 69
 - dignity aspects for 65, 71
 - diversity of 273–274
 - dual nature of 146
 - income distribution 28–29
 - indivisible reserves 27
 - intergenerational stewardship in 27–28
 - measures and KPIs 431–433
 - members and membership 92
 - nature of member engagement with 96–97
 - ownership and control 19, 25, 27–29
 - purpose of 96–97
 - relations between members 28
 - situational variables impacting 92–97
 - tensions in 182
 - values and principles 69–71

- vision of 3
- Co-operatives UK 187, 195, 197
- Cooperative Wholesale Society (CWS) 185–186, 196
 - governance structure 196
- cooperativist humanism 3
- cooperativization in rural communities 210
- corporate governance theories 17–18
 - agency theory 23–27, 85, 182, 241, 286
 - behavioural foundations 22–24
 - differences in assumptions and characteristics 20, 21t
 - firm's purpose 24–27
 - humanistic theory perspective 19–20
 - modern property rights theory (MPRT) 25–26
 - stewardship theory 18, 25, 180, 182, 240–241, 286
- corporate social responsibility (CSR) practices 252, 338
- Cuba
 - Cuban society 219–220
 - foreign policy 220–221
 - in Human Development Index 220
 - humanistic ethos and ideology 218–221
 - political system and political rights 220
 - state-centric socialism 213, 219–222
- Cuban cooperatives 7, 209–218
 - by activity and origin 217
 - Agricultural Production Cooperatives (“Cooperativas de Producción Agropecuaria,” or CPAs) 213, 232
- Basic Units of Cooperative Production (“Unidades Básicas de Producción Cooperativa,” or UBPCs) 213, 230, 232
- Board of Directors (BD)/Junta Directiva 224–225
- CEO or manager role 229–230
- “Consejo de Administración” or Management Council (MC) 225, 228
- contribution to national GDP 216–217
- Credit and Services Cooperatives (“Cooperativas de Crédito y Servicios,” or CCSs) 213, 231–232
- distribution of surpluses 234–236
- Education Committee (EC) 233–234
- evolution of 214–215
- Executive Governance Bodies 230
- Expanded Management Council (EMC) 228
- General Assemblies (GA) 224, 229–231, 234
- governance systems 210
- humanistic governance systems and practices 218–223, 239–242
- lease of buildings or land 216
- legal and regulatory framework 218
- member participation in decision-making 231–233, 239

national employment
 contribution of 215,
 217–218
 “non-agricultural” coopera-
 tives (“Cooperativas No
 Agropecuarias,” or CNAs)
 213–216, 225, 228–229,
 231, 233–239
 solidarity in 223
 stakeholder participation 236–239
 Supervisory Committee (SC)
 228–29
 types 212
 types of 216
 Cuban Revolution 211, 219–221

D

danger zones 58
 Democracy at Work Institute
 (DAWI) 123
 democratic governance 82–83, 96,
 107, 145–146, 149, 153,
 165–169, 409
 governing body, structure and
 duties of 164–165
 power and decision-making in
 164–165, 167, 169
 democratic member organizations
 (DMOs) 4
 democratic/participatory governance
 29–30
 demutualizations 7, 88, 103,
 185–186, 199, 204
 Desjardins International
 Development (DID)
 341
 Díaz-Canel, Miguel 221

dignity, conceptualizations of 5,
 41. *See also* management
 conceptualizations of
 dignity
 conflicts and 60
 humanistic approaches 51–52
 kinds of knowing 42–50
 philosophical perspective 46–47
 psychological and biological
 perspective 47–48
 sociological perspective 47
 theological perspective 45–46
 understanding of oneself and
 world 45
 at work and of workers 44, 47
 doughnut model 400, 433
 dyadic trust relationships 253

E

Economy for the Common Good
 indicators/ECG Matrix 5.0
 435–442
 connection with cooperative
 values and principles
 438–441
 correlation between SDGs and
 439–440
 indicators 440
 values 436, 438
Ederlan Tafalla 311, 316–317,
 320–322
Enpresagintza 313, 317, 322
Eroski 290, 300, 306, 313, 317–320,
 322–324
 eudaimonia 51
 European Common Agricultural
 Policy (CAP) 258

European Parliamentary Labour Party (EPLP) 186
 experiential knowledge 42–43, 48
 external networks 254–255
 external/open networks 266–267
 external trust relationships 253

F

Fagor Ederlan 321
 Fairmondo eG consumer cooperative 439–440
 farmer-initiated multistakeholder cooperatives 263
 Federal Retail and Trading Services (FRTS) 195, 197–198
 financial cooperatives (FCs) 8, 95, 331–332
 central banking institution, role of 353
 competition among 332
 decentralization and independence 354
 evolutionary trend 352–353
 integration and formalization 353
 local embeddedness, cooperation, and relational intensity 352
 membership and cooperation 353–354
 Finnish consumer cooperative 6
 fragile trust 253, 264

G

General Law of Cooperatives 218
 Global Compact 60, 68
 Global Reporting Initiative (GRI) 431
 governance theory and practice 1, 81

 in cooperatives 2–4
 Green, Dame Pauline 186

H

holistic knowledge 42
 HUEHEZI 313
 humanistic governance 2, 83, 138, 178, 182–183, 194, 204–205, 252. *See also* Cuban cooperatives; Lincoln Cooperative Society, UK
 collective (associationist) version of 3

I

Ideko 308, 312, 317
 ideological coherence 366
Ikerlan 299–300, 302, 308, 312, 316–317
 Industrial Common Ownership Movement (ICOM) 186
 innovations in governance 9, 82, 101, 104. *See also* Cecococola worker co-op, Venezuela
 institutional distancing 384
 institutional distinctiveness 362–364, 384–385
 instrumental networks 267
 insurance cooperatives 181
 internal/closed networks 266
 internal networks 254–255
 internal trust relationships 253
 International Cooperative Alliance (ICA) 186, 340
 International Cooperative and Mutual Insurance

Federation (ICMIF)
186

International Organization of
Industrial and Service
Cooperatives (CICOPA)
122

investor-owned firms (IOFs) 146

isomorphism, congruent and
non-congruent 31

Italian Confederation of Italian
Cooperatives 344

Italian cooperative banks
Cassa Centrale Banca 349–350
Casse Rurali 344

Cooperative Credit Banks
(BCCs, *Banche di Credito
Cooperativo*) 345–349

ICCREA (*Istituto di Credito delle
Casse Rurali e Artigiane*)
344, 346, 350–351

reform project 2016, 347–349

Rural Bank (RB) 343–345

Italian Federation of Rural Banks
344

K

knowing, ways of
experiential knowledge 42–43,
48, 50

holistic knowledge 42

practical knowledge 49–50

presentational knowledge 43–44,
48, 50

propositional knowledge 42, 50

L

labour movement, in United States
127

Lagun Aro, 321–322

large producer organizations
261–262

legitimacy 364–365

Licensed Travelling Nurses (LVNs)
136

Lidbetter, Ursula 195

Lincoln Cooperative Society, UK 7,
177–178

balance between collaboration
and control 182

Board composition and
effectiveness 191

Board's responsibilities 188

colleague-members 198–200

committees 188–189

Community Champions Scheme
200

community development
healthcare theme 202

community engagement 201

community relations 183,
200–201

dividend payments 177

election and appointment to
Board 189

employment at 201

environmental strategy 203

governance processes 189–190

governance system of 178–180,
187–203

member governance approach
182

ICA values and principles 188

internal controls 189

- key performance indicators (KPIs)
 - 181, 194
- key to success 178
- local investment 202–203
- member engagement 191–192, 205
- members and outlets 177
- pattern of power and accountability 182
- redevelopment of Lincoln City Centre 202
- remuneration principles and policy 188–189
- reporting and performance indicators 192–193
- role in local economic development 201–202, 205
- stakeholder involvement 181, 198–203
- strategic goals 189
- succession planning 189
- Lincoln Co-op Rule Book 199
- local financial cooperatives (LFCs) 335–337
- Loramendi* 311, 313

- M**
- Maier Ferroplast* 311, 313
- management conceptualizations of dignity 51–52. *See also* dignity, conceptualizations of
 - common good and protection of interests of stakeholders 56, 62
 - external control mechanism 60–62
 - forms of enterprises 57–58, 62
 - in global corporations 60
 - human rights aspects 53, 56, 61
 - human social nature 54–55, 62
 - movements to defend dignity 57–58
 - organizational models 52
 - participation and creativity 55–56, 62
 - power relations and power distribution 59, 62
 - self-constraint 58–59, 62
 - of stakeholders 52
 - transformation 57–58, 62
 - universal knowledge of collective economic, social, and cultural rights 54, 62
 - values 60, 62
- Martí, José 219
- maxim-based trust 253
- member-owned business (MOB) 19
- MGEP 313, 317
- Moncada Program 211–212
- Mondragon Cooperative Corporation 8, 27, 287–288, 324–327
 - affiliates and subsidiaries 288
 - balance between expertise and representation 322
 - beginnings 289–292
 - co-ops in chronological order 304–305
 - evolution and phases of development 302–307
 - governance structure and decision-making processes 293–298
 - decision-making bodies 316–317

- Governing Councils and General Assemblies 294–297, 312–316, 323–324
 - Management Council (MC) 295–296
 - Social Council (SC) 296
 - Standing Committee 297
 - history 288
 - “individual” multistakeholder cooperatives in 298–300
 - inter-cooperation model 290–293
 - legal structure 307–310
 - Mondragon Cooperative
 - Experience, case study 300–302
 - multistakeholder cooperatives 293–298, 300–317
 - ownership structure 309–312
 - processes and dynamics of governance 317–324
 - restructuring 292
 - services 305–307
 - stakeholder groups 290
 - total revenue 288
 - Mondragon Investments* 311
 - Mondragon Lingua* 313
 - Mondragon S. Coop* 311, 316
 - Mondragon Unibertsitatea* 308, 312–313
 - Mondragon Unibertsitatea’s Faculty of Business (“*Enpresagintza*”) 299
 - Móndragon-USW Cooperative model 127
 - Mondragon S. Coop.* 317
 - moral networks 267
 - moral stakeholder engagement 254
 - multistakeholder cooperatives
 - (MSC) 8, 96, 183, 255, 258, 265–266, 286–287
 - conflict resolution in 110
 - democratic processes in 109
 - farmer-initiated 263
 - governance structure in 107–109
 - ownership and control 110
- N
- National Federation of Rural Banks 344
 - network governance 23–24, 182. *See also* Canadian Desjardins group; Rabobank Netherlands (RN)
 - patterns of 194–198
 - resilience principle 413–415
 - networks 254–255, 266–268, 272
 - of cooperative banks 332–333
 - formalization and centralization of 333–335
 - types of participants in 334
 - new generation cooperatives (NGC) 106
 - non-congruent isomorphism 320
 - norm-based trust 253
- O
- organizational beliefs and behaviors 366
 - organizational dignity theory 52
 - organizational ethnography 370
 - organizational forms
 - aspects of dignity 65
 - cooperatives 64, 69–71

private enterprises and family firms 63
 private limited liability companies 63, 66–67
 public joint-stock companies 63, 68–69
 organizational social capital 250, 252
Osarten 308, 311, 313, 316

P

participatory organizations 367–369
 patronage dividend 28
 People’s Food System 134
Politeknika Txorierrri 313, 317
 polycentric governance system 182, 185–187, 413–414
 goals-targets measurement systems 187
 patterns of 194–198
 practical knowledge 49–50
 predominancy principle 193
 presentational knowledge 43–44, 48
 private enterprises and family firms 63, 65–66
 private limited liability companies 63, 65–67, 123
 producer cooperatives 8, 96, 258
 annual general meeting (AGM) 268–270
 communication processes 105–106
 decision-making in 106
 decision-making procedures 270–271
 democratic processes in 105–106
 external developments, impact of 106–107
 governance structure in 104–105

large producer organizations 261–262
 network relationships 266–268
 small, regionally bound 262–263
 trust and trustworthiness 263–266
 propositional knowledge 42, 44–48
 public joint-stock companies 63, 65, 68–69
 difference between non-public companies and 68
 power relations 68
 programs and indices 68
 Pure Humanism 51–52

R

Rabobank Netherlands (RN) 335
 CSR in 338
 governance structure 336–337
 issuance of financial instruments 336
 stakeholder engagement 337–339
 supervisory regulations 337
 Rainbow Grocery Cooperative (RGC) 124, 131–132, 134–135, 137
 representative democracy 167
 resilience
 attributes for business 402–403
 in cooperative context 402, 404–417
 definitions of 401, 403
 in inter-connected networks 411–413
 intergenerational stewardship and long-term planning 410–411
 mindset/worldview 406–408

- in multistakeholder co-ops 410
 - opportunities for participation, cohesion, and social capital 409–410
 - principles 402–404
 - thinking 415
 - WBCSD framing of 402
 - resilient trust 263, 265, 272
- S**
- S-Corporation 123
 - Service Employees International Union (SEIU) 127–128
 - Service Employees International Union—United Health-care Workers West (SEIU-UHWW) 136
 - S Group 147
 - Board of Directors 148–151, 161–162, 168
 - CEO 148, 150
 - governance structure of 148–150
 - Members Council 148–150, 158–160
 - relation with SOK 147
 - Supervisory Board 148–149, 151, 160–161, 168
 - tasks of governing bodies 149–151, 157–162, 164
 - shared wellbeing 51
 - short food supply chains (SFSCs) 257
 - small, regionally bound producer cooperatives 262–263
 - social, economic, and environmental (SEE) systems 397–398
 - integrated response of 399–400
 - leadership and action 400
 - social and solidarity economy (SSE) 257, 276, 424
 - social capital
 - in agricultural cooperatives 250–258
 - collective actions 256
 - future research 275–276
 - dimensions of 7, 257, 263–273, 276–277
 - networks 254–255, 266–268
 - rules and norms 255, 268–271
 - stakeholder engagement 254–255
 - trust and trustworthiness 253–254, 263–266
 - relationship to humanistic management 253, 274–275
 - social capital theory 250–251, 255, 257
 - scholarly work of 255–258
 - sociocracy 91, 99, 123–124, 130–132
 - circle method 130–131
 - decision-making in 131
 - SOK 147
 - state-centric socialism 213, 219–222
 - Stockholm Resilience Centre 402, 404
 - supply chain governance 197–198
 - sustainability 424
 - indicators 441
 - environmental 432–433
 - socio-economic 433
 - standards 424
 - transformation towards 425–427
 - Sustainable Development Goals (SDGs) 187, 399, 425, 439–440, 442

Swedish agricultural cooperatives
256
systematic decision-making bias 23

T

Taz 440
third-party-focused cooperatives 253
transformation
 of cooperative enterprise model
 427–430
 measuring impact 434–435
 towards sustainability 425–427
transformative resilience 398

U

UK Co-op Governance Code 198
Unicorn Grocery Co-operative
 (UGC) 124, 131–132, 137
Union Cab of Madison Co-operative
 (UCC) 122, 124, 132–134,
 137–138
unionized worker cooperative 123,
 126–127
Universal Declaration of Human
 Obligations 61
Universal Declaration of Human
 Responsibilities 61
Universal Declaration of Human
 Rights 58, 60
US Federation of Worker Coop-
 eratives (USFWC)
 123
utilitarianist/individualist thinking
55

V

V
value creation 424
Venezuelan cooperative movement
378. *See also* Cecocesola worker
co-op, Venezuela

W

Webb, Beatrice 127
Webb, Sydney 127
worker cooperatives 6–7
 board of directors 126
 challenges 137–138
 collective bargaining agree-
 ment 86, 102, 124, 133,
 135–136, 138
 collectivist/flat model 124,
 129–130, 135
 conflict resolution in 132–137
 decision-making in 101, 123,
 125–132
 democratic processes in 99–100
 disciplinary system 136
 employment relation 100
 governance structure in 98–99,
 121–122, 124
 hierarchy in 126–128
 progressive discipline models 132
 social mission of 122
 solidarity of workers 135–137
 union cooperative model 123,
 126–128
World Business Council for
 Sustainable Development
 (WBCSD) 400
 Vision 2050 402
World Declaration on Worker
Co-operatives 122