

# Co-operative Hybrids<sup>1</sup>

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## **Abstract:**

There is growing interest in the extent to which third sector organisations are being transformed into hybrid forms of organization. Researchers focus attention on some of the ‘hybridisation’ processes that lead to the development of what is often recognised as a major new hybrid organisation: the social enterprise. One of the most notable examples of this is the social co-operative model in Italy which is “hybridised” in two respects: firstly in adopting a multi-stakeholder governance structure (in contrast with the single stakeholder structure more typical of co-operatives), and secondly in terms of using multiple resources (state, market, social capital).

But for many years we have also witnessed other hybrids forms of co-operatives develop, particularly in the agricultural co-operatives sector where we have seen changes (for example in voting rights) moving the form closer to that of private business. And in the consumer co-operatives and workers co-operatives sectors we have seen other patterns of hybridisation. Sometimes this functions at the multi-organisational level where we have seen the growth of holding structures when a co-operative grows and diversifies by developing a line of business which is a wholly owned subsidiary of the co-operative, using a conventional company structure.

This paper attempts to explore the development of some forms of co-operative hybrids, and how they may be considered as adaptations from the “ideal type” of co-operative as represented by the ICA principles. The paper begins by examining some of the literature on hybrids in the third sector/social economy. It builds on early work by scholars on co-operative hybridisation (Monzon Campos, Spear, Thomas and Zevi, 1996; Spear, 2007), and on recent work by scholars on hybrids in the third sector including social enterprise (e.g. EMES Network’s research: Laville and Nyssens, 2001; Evers, 2005 and 2007; Spear, et al, 2008; and Billis, 2010). The paper goes on to examine in some depth the adaptations to the co-operative form in a number of countries (mainly European), noting the drivers of hybridisation, and the patterns of adaptation that are apparent. The paper then discusses the co-operative “ideal type” and proposes three broad types of hybrids: the manager controlled co-operative, the business co-operative, and the public/welfare service co-operative. It concludes by reflecting on the overall framework of organizational ideal types and hybrids, and considers whether a path-dependency perspective on the diversity of co-operatives might be a fruitful approach.

## **Introduction and Literature**

**Hybrids in the third sector/social economy:** There is growing view that many third sector organisations are being transformed into hybrid forms of organization. For example, researchers from the EMES Network (Defourny and Borzaga, 2001; Nyssens, 2006), focus attention on some of the ‘hybridisation’ processes that lead to

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the development of what is often recognised as a major new hybrid organisation: the social enterprise. One of the most notable forms of this is the social co-operative model in Italy which is “hybridised” in two respects: firstly in adopting a multi-stakeholder governance structure (in contrast with the single stakeholder structure more typical of co-operatives), and secondly in terms of using multiple resources (state, market, social capital).

**Social Enterprise:** EMES scholars have argued that social enterprises are hybrids of co-ops and non-profits; they have established a multi-dimensional approach with 9 criteria for defining the field of social enterprises, but these criteria are to be used as an ideal type. Thus some social enterprises will only fulfill some of the criteria. This means that (as in the third sector generally) there are a great variety of forms of social enterprise in any particular context.

Bode, Evers and Schulz (2006) regard the social enterprise hybrid as having 3 distinctive features (p237):

- Multiple goals
- Multiple resources
- Multi-stakeholders

But they also refer to the “hybridisation of goals, resources, and outputs”, when discussing the extent to which WISE can sustain this (p238).

It should be noted that the 9 EMES criteria defining social enterprise do not include multi-stakeholder structures or multiple resources, and that these latter features have emerged from empirical research on WISE, thus they may not be ideal-typical of other types of social enterprise, nonetheless they do warrant further discussion of the ideal typical nature of social enterprise.

A different kind of approach is adopted by Laville and Nyssens, one that is more concerned with “hybridisation” as an approach to ensure the distinctive character of social enterprise by managing diverse sources of resources. In a Polanyian analysis, Laville and Nyssens, (2001) developed a positive view of hybridisation (p326/7, 2001). They argue that social enterprise can deliver collective benefits and resist isomorphism to remain autonomous by mobilising social capital via embedded solidarity networks, and combining that with other economic resources (from the state (redistribution) and from the market). In this view the relative lack of full cost recovery by Non-Profits may be seen as an indicator of compensating social capital creating a new dynamic for delivering collective benefits. This paper does not address this issue directly but more generally in a later section on resisting isomorphism; although we note that use of multiple resources has costs as well as benefits, and reducing dependency is not necessarily linked to more varied sources of resources.

**Third Sector Hybrids:** Billis (2010) adopts a similar ideal typical approach to characterize the public, private and third sectors. He identifies an ideal type for each sector, and characterizes a number of different hybrids which combine elements of each sector. Thus in this scheme social enterprise would be a hybrid of third sector and private sector – in contrast to the EMES view where it combines elements of two forms *within* the third sector. Contributors to Billis book go into considerable depth elaborating the different hybrid forms (in this scheme), their characteristics and their dynamics (supporting and changing them).

Billis (Chpt 2, 2010) describes the “membership association” as the ideal type of voluntary organisation:

“The association provides an equally elegant working definition of governance and operations. In this model people establish a formal organisation in order to resolve their own or other people's problems. These members then, through a process of private elections, elect committees and officers to guide the work of the organisation. The organisation may need additional volunteer labour to forward the “cause”. Other resources may also be sought and these are typically membership dues, donations and legacies. Work is driven; neither by the need to make a profit nor by public policies, but primarily by the association’s own agenda.

The distinctive characteristics of associations are the linkage and logical flow between its ownership by members, principles of governance, reliance on volunteer resources for its operational<sup>2</sup> work and principles of democratic membership accountability which together enable it to function as a robust and effective organisation. [.....]Nevertheless a sizeable percentage of this *formal/legal ownership* can be inactive. In reality they may have little interest or motivation to participate in any decision-making activities of business or government association.

Spear et al (2008) like Billis (2010) develop a path-dependency perspective on the processes of change and adaptation which third sector organizations undergo, and they emphasise the adaptation from ideal-types. And Brandsen, van de Donk, and Putters (2005) argue that hybridity and change are permanent features of third sector organisations, which struggle to manage tensions for example between institutional logics and logics of provision.

**Co-operative Hybrids:** For many years we have also witnessed other hybrids forms of co-operatives develop and become institutionalised (Monzon Campos, Spear, Thomas and Zevi, 1996; Spear, 2007). In many agricultural co-operatives we have seen some changes in voting rights to give more influence to larger members; we have also seen rule modification to accept financial members. And again in the agricultural sector we have seen hybrid forms develop where the co-operative is partially converted to a stock company to allow outside investment by private investors – this often leads to a gradual process of privatisation.

In the consumer sector we have seen hybridisation in the form of multi-stakeholder structures with staff as members e.g. in Eroski in the Mondragon complex (and this takes place in effect informally in other co-operatives where staff may be members as consumers). Similarly in worker co-operatives we have seen the Mondragon model with substantial employee ownership, and employee ownership which functions like co-operatives, and other models like the John Lewis model.

Also in many sectors we have seen the growth of holding structures where a co-operative grows and diversifies by developing a line of business which is a wholly owned subsidiary of the co-operative, using a conventional company structure.

Hybrids may emerge in two ways – most typically through the transformation of existing organizations, but also through the replication of such transformations and

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<sup>2</sup> Operational work may be defined as the work which the organisation was set up to achieve.

the creation of new hybrids – and this may become institutionalized in law e.g. the Italian social co-operative legislation (in 1991). This paper is concerned both with the former transformations, and the institutional changes which consolidate or facilitate the development of hybrids.

It is argued that there are two dynamics in the hybridisation process of existing organisations: *internal* and *contextual*. Internal factors like: oligarchic tendencies (the power of managers and staff dominance), decline in member participation, and the growth of ‘commoditised’ member relations; the tension between business and mission related activities (and their separation through for example trading subsidiaries, or board roles).

And the specific external context will have varying influence on the particular form of a hybrid co-operative structure. For example a co-operative moving into welfare service provision may be reshaped in similar ways to other major welfare providers like non-profit associations (Defourny, 2001), and become a social co-operative. And there is the influence of isomorphic pressures from either the state or the market (dominant organisational forms, etc.).

Scholars adopt different approaches to hybrids and hybridisation, frequently referring to the need for the hybrid to combine different institutional forms in a new structure, particularly where tensions between social and economic/business dimensions need to be managed. This paper draws on recent work by scholars of hybrids in the third sector (e.g. EMES Network’s research: Laville and Nyssens, 2001; Evers, 2005 and 2007). And it builds on early work by scholars on co-operative hybrids, as well as more recent work on third sector hybrids including social enterprises (e.g. Billis, 2010; Spear, et al, 2008). It attempts to clarify some of the forms of hybrids, and the issues underlying these hybrid forms. It examines the origins of the hybridisation, and some of the ways in which such organisations attempt to manage some of the tensions and challenges that lead to hybridity – particularly with regard to finance and membership. Finally the paper considers the extent to which hybrids are an inevitable response to sustained isomorphic pressure from the state and market or whether there are some hybrids which manage to sustain their distinctive co-operative identity in certain respects, as indicated by Aiken (2001).

### ***Forms of Co-operative Hybrids***

This section of the paper examines different types of adaptations of the co-operative form away from the ICA “ideal type” (see Appendix A) across a number of countries (mainly European). It looks in particular at institutional changes, but also considers other trends in practices that have become particularly pronounced. Firstly there have been a number of adaptations towards a more economic business model of co-operatives through adaptations of membership, and finance; secondly there have been some trends which increase managerial control; then on the other hand, there have been some developments in a different direction which strengthen the inclusive dimension of co-operatives through multi-stakeholder structures, and more mutualistic financial adaptations; finally at the multi-organisational level, there have been on the one hand a business driven adaptation towards holding structures, and on the other hand a mutualistic association between co-operatives – the consorzi or grupos (local federal structure).

Note that in Europe there was a wave of reviewing activities, and revisions to legislation in the 1990s in order to address financial and competitiveness problems that co-operatives appeared to be confronting.

The following types of adaptation are considered:

#### **Membership Adaptations**

- Changes in voting rights:
- Transactions with non-members
- Restrictions on the openness of membership
- Extent of capital investment by members

#### **Financial adaptations**

- Openness to Financial members
- Partial adoption of stock company models
- **Financial instruments:** Issuing of shares/bonds on the market
- **Financial instruments:** Differentiating shares (and voting rights):

#### **Managerial control**

- Decline in member participation
- Separation of membership and business structures and issues.
- Governance deficiencies
- Control by staff and managers
- Mission and process drift

#### **But there are also different patterns of adaptation**

- Broadening membership to multi-stakeholder model
- Asset lock and capitalisation of collective reserves

#### **And beyond the unitary organisation: the multi-organisational level:**

- Holdings
- Consorzi

#### **Drivers and brakes on such developments - the paper also notes factors that lead to such adaptations, in particular the following:**

- Adaptations to accommodate heterogeneity of membership
- Adaptations to expand the market or to manage uncertainty in demand or to capture benefits for the few (members/managers).
- Adaptation to raise capital and motivate members financially
- Adaptations to raise finance (or improve manager rewards)
- Adaptation to increase management control
- Adaptations to be more inclusive and access new welfare and public services markets

- Mutualist adaptations to access finance
- Adaptations for growth, diversification, and sustainability

## **Membership Adaptations**

### **\* Changes in voting rights:**

A number of countries have seen changes to voting rights to give more influence to members having larger transactions with the co-operative. In France since 1953 the SCOPs have the possibility of differential voting rights proportional to the length of service; and the Banques Populaires could allocate voting rights in proportion to invested capital. And although the principal of one member one vote is the norm, it is often accepted that, for example in France, “some co-operatives “may adopt different rules”” (Chomel and Vienney, 1996). And this seems to be been adopted by some agricultural co-operatives - and in the Basque and Catalan autonomous regions there is provision in the 1992 co-operative legislation to allow voting to be based on the level of co-op trading activity of the member (Monzon Campos, 1996). And in Belgium since 1991 associates (such as employees) may cast up to 10% of the votes.

[Adaptation to accommodate heterogeneity of membership]

### **\* Transactions with non-members**

The importance of the membership dynamic in the reproduction of co-operative relations has been emphasised by Stryjan, (1989). But there has been a general trend to increase transactions with non-members in many countries, for example although in the 1947 French legislation trading with non-members was forbidden, this provision could be waived; and after the 1970s in France this trend developed further, allowing more and more trading with non-members -- particularly consumer co-operatives, worker co-operatives and co-operative credit institutions (Chomel and Vienney, 1996). In the Mondragon worker co-operatives as the pressure for work flexibility has increased, so have the number of part-time/casual non-member workers; this has become such an issue that they are considering differential member rights for these workers.

In Italian co-operatives legislation, a principal of predominancy in relation to such issues has become established (Fici, 2010):

“The condition of predominancy must be analytically documented in the “integrative note” to the balance sheet, by underlining the following parameters (see art. 2513, c.c.):

- a) in consumer co-operatives, sale proceeds from members consumption must be superior to 50% of total sale proceeds;
- b) in worker co-operatives, labour costs for members jobs must be superior to 50% of total labour costs;
- c) in production co-operatives, manufacturing costs for goods and services provided by members must be superior to 50% of total manufacturing costs. “

A similar principle applies to agricultural co-operatives in relation to the proportion of goods supplied by members.

This predominancy principle is linked to limiting the self-interested tendency for restrictions on the **openness of membership** (ICA Principle 1); so that members

secure more benefits for themselves – for example in consumer co-operatives where the dividend is shared only amongst members, or worker co-operatives where more flexible work arrangements (casual, part-time, temporary) are readily accepted as a way of managing uncertainty.

[Adaptations to expand the market or to manage uncertainty in demand or to capture benefits for the few (members/managers).]

#### \* **Extent of capital investment by members**

In some co-operatives, for example in the UK, there has been an emphasis on nominal capital stakes in a co-operative; this is seen as egalitarian, and consistent with the principle of openness of membership. [Note: raising finance via existing members with little capital of their own, frequently takes place indirectly in the start-up phase of a new co-operative via sweat equity]

This may be contrasted with changes to co-operative legislation in parts of Europe to allow more member investment into a co-operative. And the Mondragon co-operatives emphasise the importance of a substantial capital stake by members in order to strengthen the motivation and improve the financial stability of the co-operative. This Mondragon model with substantial capital investment by the member is similar to employee ownership models which have developed across Europe and the USA - some of which function like co-operatives.

The New Generation Agricultural Co-operatives also make a virtue out of a high level of capital investment by the member -- see box below:

#### **1. What is a New Generation Co-op?**

A co-operative is a legally incorporated business arrangement that provides for the control of the business by its membership. A new generation co-op (NGC) is a type of co-operative that uses a system of delivery rights and obligations to encourage business loyalty and provide a form of vertical integration. NGC's are particularly suitable to ventures involved in value-added agricultural processing and marketing.

Based on a model first used in California, NGC's emerged and flourished in the mid-western US in the 1990's. Since that time, all three Canadian Prairie Provinces have introduced new laws or modified existing legislation to allow for NGC's. [Alberta's Cooperatives Act](#), (effective on April 2, 2002) defines NGC's in sections 422 to 429.

There are some key attributes of NGC's that are consistent with all co-ops: NGC's are controlled by their membership using the principle of one member, one vote

Earnings are distributed to the members based on patronage.

- The board of directors is elected by the membership.

However, there are several characteristics of NGC's that differentiate them from traditional co-ops:

- NGC's may issue designated shares which carry delivery rights and obligations.
- Individuals (members and non-members) may hold higher levels of equity through the purchase of investment shares.
- Membership may be restricted to designated share holders.

- In Alberta, NGC's are applicable only to agricultural ventures, and the word "co-op" or "co-operative" does not necessarily have to appear in the name of the venture.

In general, New Generation Co-ops are typified by restricted, project-oriented enterprises which require significant investments from their members, and a membership which strives for increased profits and return on capital through this investment.

From Alberta Provincial Government website:

[http://www1.agric.gov.ab.ca/\\$department/deptdocs.nsf/all/bmi6646](http://www1.agric.gov.ab.ca/$department/deptdocs.nsf/all/bmi6646)

[Adaptation to raise capital and motivate members financially]

### ***Financial adaptations***

There have been several financial adaptations to the co-operative form and use of the stock company model, mainly to access finance, but also possibly to reward managers.

\* **Openness to Financial members:** we have also seen rule modification to allow financial members in a number of countries in Europe during the 1990s.

In Italy, the 1992 reforms raised limits on members' social capital, and allowed financial members to have up to 33% of voting rights, and up to 49% of seats on the board.

In France the 1992 Act allowed co-operatives to issue shares up to 35% of the capital base; and voting rights amongst financial members were proportional to capital owned.

In Spain, the 1995 Law allowed co-operatives to raise equity up to 33% of capital employed, with a limit of 35-45% of votes for financial shareholders (depending on region); and there was no limit on the return of dividends.

However as Fici (2010) notes these financial members have not originated outside the co-operative world, but instead have been sympathetic to its values and principles.

\* **Partial adoption of stock company models:**

In the agricultural sector we have seen hybrid forms develop where the co-operative is partially converted to a stock company to allow outside investment by private investors. Initially this may provide majority control by the original members, but over time increasing investments from outside financial shareholders have led to their dominating the new structure – see for example Kerry Group in Appendix C. [The most recent co-operative to consider this kind of strategy is Fonterra, the New Zealand agri-food co-op with 10,500 members and a turnover of \$8bn.]

\* **Financial instruments: Issuing of shares/bonds on the market:**

Apart from the above adaptations to raise finance (opening to financial investor members and using a stock company model to raise finance through share issues), there have been increasing attempts to raise finance from members -- through shares or loans, for example in the Italian 1992 legislation (Zevi, 1996). And it is also possible to issue non-voting preference shares to sympathetic supporters in many countries; and there has been increasing use of this device, for example in the UK.

And there is considerable interest in new financial instruments that can mimic flexibility of share capital, such as 'patient' capital which allows some flexibility in repayment (Brown, 2004; Mendell and Nogales, 2009).

**\* Differentiating shares (and voting rights):**

When co-operatives adopt stock company structures, one of the strategies that has been seen is to differentiate between the voting rights on types of shares -- with the co-operative members maintaining control through their ownership of the class of shares with substantially more votes. An example of this was the Saskatchewan Wheat Pool, a co-operative which used a stock company structure to access capital on the stock market; it had Class A shares with voting rights (non-tradeable, only for members) and class B shares( tradeable preference shares listed on the Toronto stock exchange). After some difficult years due to poor commodity prices, there was pressure for consolidation in the sector, and in 2007 it eventually took over Agricores United, changing to a conventional corporate structure - now trading under the name Viterra.

[Note that similar differentiated shares have existed in the *voting* shares of some of the largest publicly quoted companies, for example it used to be the case that the telecoms company Ericsson was controlled by Investor (vehicle for the Wallenberg family) and Industrivarden which together had 50.2% of the votes with only 5.9% of the capital.]

[Adaptations to raise finance (or improve manager rewards)]

***Managerial control (Iron law of Oligarchy)***

These are generally not so much legal changes, as trends in co-operative practices.

**Decline in member participation.**

Spear (2004) provided considerable evidence that user based co-operatives (consumer co-operatives and credit unions) frequently have a very low level of member participation at AGMs (in the range 2% to 5%).

**Separation of membership and business structures and issues.**

Kai Blomqvist and Sven Ake Bok (1996) document a series of changes to Swedish consumer co-operatives that can also be seen in other user based co-operatives in other parts of the world. Gradually in the second half of the 20th century the status of members declined until they were only regarded as “significant” customers among others. And as a consumer protection legislation increased, and consumer protection agencies increased their activities, so co-operatives allocated fewer resources for general member/consumer policies. This resulted in declines in the following activities: consumer research units, magazines and weeklies for consumer debate, consumer information and education, member relations. In this way membership has become a more marginal area of activity, and the co-operative identity has considerably reduced significance to the consumer.

**Governance deficiencies**

Brazda and Schediwy described an astonishing decline in democratic governance of Konsum Austria (a large consumer co-operative) during the 80s and 90s. Eventually “the board of the co-operative consisted entirely of professional managers with the general director of the president”. Its eventual failure is perhaps not surprising. Spear

(2004) provides a theoretical analysis of why co-operative boards have less capacity to control managers than stock company boards. Various co-operative codes of governance have attempted to address governance deficiencies but the issue remains to be fully addressed. And Fici (2010) describes 3 systems of governance under Italian Co-operative law, including a dual system (which is not the most common) but which considerably limits member control (p19).

### **Control by staff and managers:**

There is considerable theoretical and practical evidence that supports the view that many co-operatives are run by managers rather than members e.g. Meister, Michels' "Iron law of Oligarchy", Cornforth et al, 1989. This is facilitated by the ease with which staff and managers can become members in a wide range of co-operatives -for example in France, legislation in 1972 allowed employees to become members in agricultural co-operatives.

### **Mission and process drift**

Cornforth et al, 1989 showed how co-operative values and practices can degenerate over time due to isomorphic pressures from private markets which combine with oligarchic tendencies to change the organisation. This trend undermines the co-operative membership dynamic.

### **[Adaptation to increase management control]**

## ***But different patterns of adaptation: a different type of hybrid model***

### **\* Broadening membership to multi-stakeholder model**

The social co-operative model in Italy may be considered to be "hybridised" in adopting a multi-stakeholder governance structure (in contrast to the single stakeholder structure more typical of most co-operatives. This could be interpreted as isomorphic with the voluntary/non-profit sector.

Other examples include public service co-operatives in the UK such as for managing leisure facilities which have developed multi-stakeholder structures (e.g. Greenwich Leisure).

Entering welfare and public services markets may require adapting structures and practices to achieve legitimacy. This may require using NEDs (non-executive directors) with contracting expertise, and may require mechanism like municipality representatives on the board, etc. Some new social co-operatives may be spun out of state provision, and a key challenge is developing these organisations for market challenges and culture change – moving away from bureaucratic processes and structures, and reconfiguring and balancing powerful interests like trade unions, professional staff and managers against users' interests. In such markets there has also been changing orientations towards users – from **users** as citizens engaging in municipal democracies to users as consumers, but with increasing interest in developing new forms of user participation – on boards, via consultative mechanisms, etc - for example in the UK Section 11 of the Health and Social Care Act (2001), requires organisations to involve and consult patients and the public in decision making about the operation of the National Health Service. Developing appropriate mechanisms to involve users is often said to be a priority, but notoriously difficult to achieve; staff involvement is easier but still a challenge (particularly at lower levels in

the organisation), requiring supporting policies from recruitment and induction onwards.

In the consumer sector we have seen some examples of multi-stakeholder structures with staff as members e.g. in Eroski in the Mondragon complex.

[**Note:** multi-stakeholders may exist in an undifferentiated form – e.g. savings and loans mutuals with savers and lenders as two undifferentiated types of members; however there may be some issues of heterogeneity of membership that need addressing, since in this case the ease of entry of new savers to become members facilitated demutualisation.]

We can also note the use of volunteers within social co-ops.

**[Adaptations to be more inclusive and access new welfare and public services markets - Multi-stakeholder hybrids]**

#### **\* Asset lock and indivisible collective reserves**

On the other hand, some financial adaptations are more consistent with traditional co-operative values and principles. Thus in the UK after the wave of demutualisations in the 1990s, legislation was changed to make this more difficult; and new legislation for the social enterprise -- the community interest company – (which has a co-operative version) has an asset lock so that on dissolution of the organisation the assets pass to another social enterprise.

Contributions to indivisible reserves are an important part of any co-operative's financial stability; but fiscal measures to support this have been challenged by the European commission. There appear to be different national practices on whether co-operatives can capitalise these reserves in order to raise finance.

**[Mutualist adaptations to access finance]**

### ***Beyond the unitary organisation: Multi-organisational structures: Holdings and Consorzi***

In many sectors we have seen the growth of holding structures where a co-operative grows and diversifies by developing a line of business which is a wholly owned subsidiary of the co-operative, using a conventional company structure. But the alternative, more co-operative solution to the issue of growth is the federal structure (local or sectoral) and this has also increasingly been recognised.

**Holdings** - holding structures, where the co-operative takes whole or partial ownership of capitalist structures (subsidiaries or joint ventures), allows it to replicate capitalist globalisation strategies. The holding structure of subsidiaries offers some advantages by helping to find a way round the strategic limitations of the co-operative form. It allows co-operatives to acquire businesses and dispose of them more easily; but the form of payment (which would often be non-share based) is less advantageous for co-operatives; and the lack of co-operative values and practices in such structures eliminates some of the competitive advantage of co-operation (however the UK Co-operative Bank (a subsidiary of the consumer Co-operative Group) has shown that it is possible to demonstrate ethical values in its product/services). A further disadvantage from the point of view of co-operation is that holding structures are often less accountable to members, and members (or their representatives on boards)

have less influence of activities of subsidiary companies. However this issue may be addressed through changes both to governance (and related codes of practice) and reporting/accounting standards and practices.

**Federal structures** are fairly common amongst co-operatives and in some ways parallel the corporate holding structure of conventional businesses, but since there are no ownership rights control is much weaker. Nonetheless federal structures may overcome some of the growth and size weaknesses that co-operatives face. They do this by joint marketing, joint buying and providing central services. Under Italian law (Fici p20) 3% of profits should be contributed to mutual funds administered by co-operative federal bodies.

At the local level we see such federal structures in Italy – “consorzi”, and in Spain – “grupos”; both of these are supported by legislation. This raises the question about the most appropriate unit of analysis of such a multi-organisational structures: either an organisation within a network or a federal network of organisations?

**[Adaptations for growth, diversification, and sustainability]**

### ***Discussion/Analysis***

There are two dynamics in the hybridisation process of existing organisations: internal and contextual. Internal factors like: oligarchic tendencies (the power of managers and staff dominance), decline in member participation, and the growth of ‘commoditised’ member relations; the tension between business and mission related activities (and their separation through for example trading subsidiaries, or board roles).

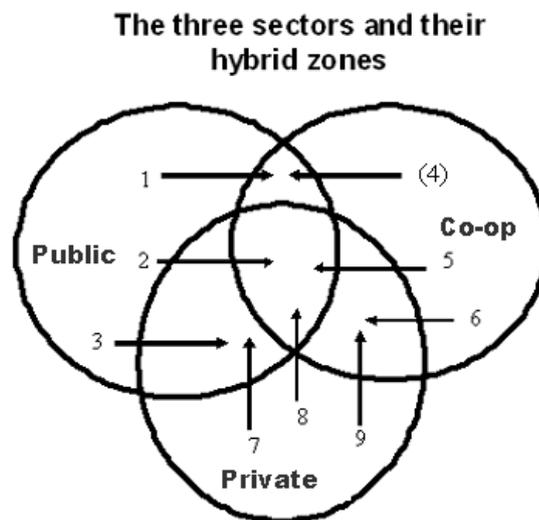
And the specific external context will have varying influence on the particular form of a hybrid co-operative structure. For example a co-operative moving into welfare service provision may be reshaped in similar ways to other welfare providers like non-profit associations (Defourny, 2001) – and become a social co-operative. And there is the influence of isomorphic pressures from either the state or the market (dominant organisational forms, etc.). And isomorphism can be driven by pressures linked to the dominant model such as private business in the market, but also can be linked to the state and third sector (non-profit) forms of organisation in quasi-markets. And there may be isomorphic pressure within a sector, for example through mimetic or coercive processes from for example federal bodies.

However the various trends noted above represent hybrid adaptations in different directions: some shifts towards the market, and some shifts towards the state and third sector in new quasi-markets (e.g. social co-operatives in the welfare and work spheres).

### **Co-operative variations around an ideal type**

In their analysis of governance in social enterprise, Spear et al (2008) adopted a *path dependency approach* to analyse the issues that different kinds of third sector organisations faced as they moved from different origins into social enterprise type activities. In a similar way different co-operative hybrids may be seen as emerging from different paths. However in this case the starting point conceptually is the co-operative ideal type specified by the ICA co-operative identity statement together with its principles – this clearly represents an ideal type of member controlled democratic trading organization (see Appendix A). Adapting Billis diagram (2010), and drawing on the above analysis of types of adaptations of the co-operative form,

both in terms of institutional changes and practices, this shows the paths taken by different co-operative hybrids. [Note type 4 represents partnership arrangements between co-ops and the public sector – more typical of certain countries where the co-op sector is state protected and carries out some state policy.]



This paper contends that there is one ideal-type of co-operative – the democratically controlled mutual co-operative (Fici terminology, 2010) - which fits with the ICA co-operative identity statement, and that there are three broad types of hybrids:

- Manager controlled co-operatives (mutual, but member participation and governance weak) (this type can apply to the co-operative ideal type as well as any of the other hybrids)
- Business co-operatives (emphasise strong business orientation, manager controlled, membership restriction, and financial adaptations; etc). (No 6 in diagram).
- Public/welfare service co-operatives (adaptations to membership to access public/welfare service markets) (No 5 in diagram).

### **The Co-operative ideal-type**

Co-operatives emerge from different historical and contextual developments, so it is not surprising that there is diversity in the way in which they become institutionalised nationally. And attempts to establish some kind of international isomorphism through the international federation the ICA and the EU will have some influence, but some degree of diversity will inevitably remain. It is also interesting to note that the international ideal-type as represented by the co-op principles has developed historically.

Co-operatives generally vary in the extent to which they embrace the different principles; thus open membership is rather circumscribed in many worker co-operatives; many co-operatives are not particularly focused on co-operation with other co-operatives; many have fairly low member participation; many do not invest in

member education; many are heavily influenced by the state; thus in effect the co-operative form may be seen more accurately as an ideal type where the 7 principles are achieved by actual co-operatives to varying degrees in practice. [And it is important to note that this “ideal-typical” approach has some limitations, with regard to the relative importance of the different principles and their evolution, cf. Draperi (2010)].

Thus for example co-operation amongst co-operatives can remain a lofty ideal, either because of extreme competition in markets, an economic preference for more appropriate partners, or because of inward looking co-operatives, or because of low trust and a lack of common identity in a specific community or region.

A third factor in the variation of co-operatives around the ICA ideal type is that legislation, its interpretation, and its regulation is applied differently in different countries with distinctly different legal traditions (e.g. case law vs Napoleonic). For example in Italy ICA Co-operative Principles 5&7 are not enshrined in the legislation (Fici), and there are also regional variations – the Mondragon co-operatives have 10 principles which diverge slightly from the ICA model – see Appendix B.

Other countries which have no specific legal frameworks for co-operatives (such as UK and a number of other countries) generally have legal structures designed for third sector (or social economy) organisations. In the UK, these are Industrial and Provident Societies or Companies limited by Guarantee; they are very flexible structures and could readily be drafted to accept co-operative principles. Various federal bodies provide model rules/constitutions for those interested in using these legal forms – and are thus key institutions in constructing co-operation in such countries; and in this way co-operative principles become embedded in the specific legal framework adopted. But the basic requirements of the law would only fit with 2 of the co-operative principles: Democratic Member Control, and Autonomy and Independence. And there are more radical adaptations, such as the ICOM model rules for collective worker co-operatives, where management is often conducted collectively through a weekly general assembly.

## **Conclusion**

This paper has described a number of forms of adaptation of the co-operative form: membership adaptations, financial adaptations, and management control adaptations; there have also been some adaptations at the multi-organisational level: consorzi or local federations, and holding structures. These adaptations have been developed to adjust the co-operative form to market changes and entry into new markets. The paper argues that some of these adaptations have led to hybrids, whilst other adaptations have been innovative solutions within the co-operative tradition. The paper argues that these adaptations may be usefully conceptualized as adaptations from an ideal type of co-operative – the democratic member controlled trading organisations. The paper adopts a path dependency approach to describe how certain adaptations lead co-ops to follow a path to form 3 broad types of hybrids:

- Manager controlled co-operatives (mutual, but member participation and governance weak)
- Business co-operatives (emphasise strong business orientation, manager controlled, membership restriction, and financial adaptations; etc.)

- Public/welfare service co-operatives (adaptations to membership to access public/welfare service markets).

The paper concludes by noting that the co-operative ideal type may have a number of variations (e.g. national/regional/historical) but still retain its essential democratic member controlled ideal form.

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## ***Appendix A: Statement on the Co-operative Identity***

### **Definition**

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

### **Values**

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

### **Principles**

The co-operative principles are guidelines by which co-operatives put their values into practice.

#### **1st Principle: Voluntary and Open Membership**

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

#### **2nd Principle: Democratic Member Control**

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

#### **3rd Principle: Member Economic Participation**

Members contribute equitably to, and democratically control, the capital of their co-operative. At least part of that capital is usually the common property of the co-operative. Members usually receive limited compensation, if any, on capital subscribed as a condition of membership. Members allocate surpluses for any or all of the following purposes: developing their co-operative, possibly by setting up reserves, part of which at least would be indivisible; benefiting members in proportion to their transactions with the co-operative; and supporting other activities approved by the membership.

#### **4th Principle: Autonomy and Independence**

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

#### **5th Principle: Education, Training and Information**

Co-operatives provide education and training for their members, elected representatives, managers, and employees so they can contribute effectively to the

development of their co-operatives. They inform the general public - particularly young people and opinion leaders - about the nature and benefits of co-operation.

**6th Principle: Co-operation among Co-operatives**

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

**7th Principle: Concern for Community**

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

Ref: ICA website: <http://www.ica.coop/coop/principles.html>

## ***Appendix B: Basic Principles of the Mondragon Co-operatives of Spain***

- Open Admission,
- Democratic Organisation,
- Sovereignty of Labour,
- Instrumental and Subordinate Nature of Capital,
- Participatory Management,
- Payment Solidarity,
- Inter-co-operation,
- Social Transformation,
- Universality
- Education.

### **Brief Comment comparing Mondragon and ICA principles:**

Mondragon principles 3 and 4 (Sovereignty of Labour and Instrumental and Subordinate Nature of Capital) may be seen as elaborations of the ICA 3rd Principle (Member Economic Participation) in the context of worker co-operatives.

Mondragon's 5<sup>th</sup> Principle (Participatory Management) goes a little beyond the ICA's 2nd Principle (Democratic Member Control) and its 4th Principle (Autonomy and Independence) in specifying internal systems of participation by workers in management, albeit in a rather constrained manner and mainly via the general assembly and social council.

Similarly Mondragon's 6<sup>th</sup> Principle (Payment Solidarity) establishes a more solidaristic principle for management remuneration than that envisaged in the ICA 3<sup>rd</sup> Principle (Member Economic Participation).

Mondragon Principle 7 (Inter-co-operation) goes beyond the ICA Principle 6 (Co-operation among Co-operatives) in specifying sectoral groupings (grupos).

Mondragon Principles 8 & 9 (Social Transformation and Universality) provides a strong commitment to the general interest and the social economy as well as to values consistent with those of the ICA Co-operative Identity; but they do appear to go beyond the ICA 7th Principle (Concern for Community).

## **Appendix C: Kerry Group Case**

Kerry Group is a successful, publicly traded, multinational corporation with some 41m. shares. It is a leading player in the global food industry, with operations in fifteen countries across four continents; most of Kerry Group's Euro 24.12 billion turnover are now outside Ireland. It operates through three separate corporate entities: Private Dairy Processor, Dairy Co-operative, and Public Company. It was formed as a private company in 1972, by a mix of private, public and co-operative shareholders financed an IR£800,000 dairy processing facility in Co. Kerry, for manufacturing milk protein (casein) for export to the U.S.A. When Ireland joined the European Community in 1973 pressure for the merger of many small dairies in Ireland intensified, and Kerry acquired the State owned milk processing company and its creameries, and linked up with six independent co-ops to form the Kerry Co-operative Creameries Ltd (Kerry Co-op) which began trading in January 1974 with the original private company as its subsidiary. Thus Kerry began as the smallest of Ireland's six major agricultural Co-operatives and for the next 5 years expanded its milk business profitably, and acquired some independent dairies.

But in 1979 Kerry county was selected as a pilot area for a bovine disease eradication scheme, and milk production was depressed due to wet summer weather in 1979 and in 1980; at the same time it was engaged in a major capital expenditure programme on its processing plant. This crisis provoked a realisation that it would need to reduce its reliance on dairy products and diversify into more 'value added' activities. In 1980 it developed a five year corporate plan with research and development and international expansion priorities. Its development of the organisation and substantial graduate recruitment programme gave it substantial capabilities for an acquisition programme. The Co-operative diversified into the convenience meat products business and into beef processing, and opened US and UK headquarters. Kerry continued its diversification programme higher value-added areas of the food business, but it lacked the capital required to fund the level of growth commensurate with its strategy.

In 1986 shareholders of Kerry Co-operative approved their Directors' recommendation that Kerry Co-op should seek additional financial investors and change its structure to facilitate this. It was the first to make such a change within the Co-operative sector in Ireland. It formed a Public Limited Company (Kerry Group plc) and the majority of its 90 shares were issued to the Co-operative. Later a public offering of shares was made and they were listed on the Dublin stock exchange. Higher growth was then achievable through acquisitions. It acquired Beatreme in 1988 which gave access to world markets. Since then Kerry's food ingredients business has grown rapidly, and it has broadened its technologies with acquisitions in the UK, France, Italy, Germany, the Netherlands, Poland, Hungary, the USA, Canada, Mexico, Brazil, Australia, New Zealand and Malaysia.

The co-op currently hold a 23.8% holding in Kerry Group plc, but there is increasing pressure to convert their class A shares to plc shares.