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co:operative development scotland

A comparative analysis of co-operative sectors in Scotland, Finland, Sweden and Switzerland

Author: Johnston Birchall, November 2009

HIE
Highlands and Islands Enterprise
Iomairt na Gàidhealtachd 's nan Eilean

Scottish Enterprise

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CO-OPERATING FOR GROWTH

WHO WE ARE

Co-operative Development Scotland is a subsidiary of Scottish Enterprise. We have a Scottish-wide remit to '***promote and facilitate the development of co-operative enterprises'.***

Co-operatives are businesses, owned and controlled by their members, which are set up to meet a common need. There are a range of models, including producer, consumer and employee owned businesses. Co-operative models are relevant to all sectors. Within Scotland, a specific priority is to support the growth of the food & drink, tourism, forestry, renewable energy and creative sectors via promoting greater co-operation. In addition, promoting employee ownership as a business succession option is a priority.

WHAT WE DO

CDS offers expert advice on the development of new co-operatives and employee-owned enterprises. In addition, we support existing co-operatives that wish to grow and develop their business. Our support is integrated to the mainstream assistance available from Scottish Enterprise, Highlands & Islands Enterprise and the Business Gateway.

CDS provides advice on:

- **Assessing co-operative opportunities**
  - feasibility studies
  - ownership models
- **Choosing an appropriate structure**
  - company registration options
  - trust structures & share plans
- **Financing the business**
  - specialist & mainstream sources
  - tax efficient business transfer
- **Developing a co-ownership culture**
  - membership agreements
  - member participation & communications

FOREWORD

Co-operating for the benefit of Scotland

As I write, we are in the grips of a global recession that has the potential to dramatically change the way we think about doing business. With their proven success across the world, can co-operative business models offer a better way of doing business and creating wealth?

At Co-operative Development Scotland (CDS), we strongly believe this to be the case, and there has never been a better time for Scotland to capitalise on these proven, but under-represented business models.

Research clearly shows there is considerable scope to generate sustainable economic development by embracing collaborative business models. This is particularly the case in the current climate – where the benefits of co-operation are known to reduce risk, enhance productivity and release wider social, personal and economic benefits.

Ivan Broussine and Sarah Deas

Given the debate about the competitiveness of smaller countries, we wanted to explore the co-operative sectors in three of Europe's most successful economies – Sweden, Switzerland and Finland – and to consider the implications for Scotland.

Ivan Broussine, Chair

Co-operative Development Scotland was established as a subsidiary of Scottish Enterprise, in response to a ministerial directive. CDS has a Scottish-wide remit to 'promote and facilitate the development of co-operative enterprises'.

As well as supporting new and growing co-operatives, our role extends to helping traditionally-structured businesses to consider alternative models of ownership and operation, such as employee buyouts. CDS's brief also includes awareness raising, research and policy influence. International benchmarking and feasibility studies are therefore undertaken to assess new market opportunities.

This research paper is one of a growing volume of intelligence assessing the opportunity for co-operative businesses in Scotland. It will play an important role in setting the context of our future work and in shaping the resultant strategy.

Sarah Deas, Chief Executive

Author profile

Johnston Birchall is a Professor of Social Policy at the University of Stirling. He is interested in the potential for membership-based associations to meet their members' needs in ways that avoid the excesses of state bureaucracy and market competition. Working with Richard Simmons on a series of ESRC-funded projects, he has explored themes such as what motivates people to participate in user groups and co-operatives, how users ' voice' can be heard in public services, and under what conditions co-operatives in developing countries can reduce poverty. He is currently advising the UN on co-operative responses to the global crisis. Here are some of his books: *Co-op: the People's Business* (Manchester UP, 1994); *The International Co-operative Movement* (MUP, 1998); *The New Mutualism in Public Policy* (Ed, Routledge, 2001); and *Co-operatives and the Millennium Development Goals* (ILO, 2004).

Acknowledgements

The author would like to thank Gillian Kirton (Co-operative Development Scotland) for overseeing the project, Sarah Deas (Chief Executive of CDS), Hugh Donnelly (Director of the Co-operative Education Trust for Scotland), Martin Meteyard (member of the CDS Advisory Board), Iain MacDonald (Director General of the International Co-operative Alliance) and Maria-Elena Chavez Hertig (Deputy Director, ICA) for comments on the whole report. The ICA also provided the Global 300 statistics. The Advisory Board of CDS contributed with thoughtful comments and discussion on the report as a whole. The following people gave generously of their time to comment on individual chapters:

Robin Stewart, Hollis Smallman (both on CDS Advisory Board), Gerard Hill (Co-operative Group) and Juhani Lehto (Pellervo) commented on Chapter 2, James McKillop (ABCUL) and Ray Donnelly (CDS Advisory Board) on Chapter 3, Susan Small (West Whitlawburn Housing Co-op), Gun-Britt Mårtensson (HSB Sweden), Jamie Ballantyne (TPAS Scotland) and David Ogilvie (Scottish Federation of Housing Associations) on Chapter 4. Paul Phare (Energy4All) and Tapani Koppa (Helsinki University) commented on Chapter 5, Richard Simmons (Stirling University) and James Proctor (Supporters Direct) on Chapter 6, and Yohanan Stryjan (Sodertorns Hogskola) and Victor Pestoff (Ersta Skondal Hogskola) on Chapter 7. Jerker Nilsson (Swedish University of Agricultural Science), Juhani Lehto (Pellervo) and James Graham (Scottish Agricultural Organisation Society and CDS Advisory Board) commented on Chapter 8, Jon Harman (Seafish Authority) on Chapter 9, Hugh Donnelly (CETS) and Shimelles Tenaw (Helsinki University) on Chapter 11. Hagen Henry (International Labour Organisation) provided some interesting material on co-operative law and taxation.

EXECUTIVE SUMMARY

This study compares co-operative sectors in Scotland with those of three similar sized countries: Switzerland, Sweden and Finland. The economic contribution of co-operatives in Scotland has historically been below that of these comparable European countries. The study asks why the comparator countries are so much more successful, what we can learn about how to do co-operative development, and which of the success factors are replicable in Scotland. It aims to help Co-operative Development Scotland to understand the determinants of success, make informed decisions on how to promote the co-operative sector, and advise policy-makers about what works.

Chapter 1 provides a typology of co-ops derived from stakeholder theory that results in three main types - consumer, producer and employee-owned - and a definition of a co-operative as: *a business organisation that is owned and controlled by members who are drawn from one of these three types of stakeholder, and whose benefits go mainly to these members*. These are broken down into sub-types, each of which is given one chapter.

A brief comparison of the geographies and histories of each country follows. They are similar in size of population, level of economic development and topography, and all but Switzerland are in the European Union. However, their histories are very different. A review is made of some academic theories that may help to explain the differences in level of co-operative development:

Historians point to big issues such as nationalism, ethnic homogeneity and high levels of literacy as explanations.

- Sociologists offer social capital theory – high levels of trust, networking and mutual aid - which is a useful way of summarising positive conditions for cooperative development. They also point to background conditions such as involvement in associations, social homogeneity, egalitarian social structures and economic equality
- Economists expect market failures to lead to co-operation, while political scientists are concerned with incentives and the 'collective action' problem.
- Co-operative theories point to: the need for a supportive environment; an organisational design that put the interests of members first; homogeneity among members that keeps down the costs of ownership; effective ways of ensuring voice and loyalty; and the ability to network and form business clusters.

Chapter 2 shows how, in all three countries, in the late 19th century *retail consumer co-operatives* followed the British model and built up large numbers of local societies and powerful wholesale and manufacturing arms. Also, as in Britain, from the 1960s onwards there was a painful transition to a centralised group structure that could compete with the multiples. Now, in Sweden, there is one large co-operative retail group, KF, which has 51 co-ops in membership, with a combined membership of over 3 millions, and a 21% market share. The Finnish movement is in two conglomerates, the Tradeka Group with 370,000 members, and S-Group that has 1.6m members and a 40% share of the grocery market. In Switzerland, two retail societies dominate: Co-op Suisse and Migros, the latter being originally a private company donated by its owner to the consumers. They have a market share of 17% and 32% respectively, which makes co-operatives dominant in the market with 52%. In Britain, there has been a steep decline from a market share of 12% in the 1950s to under 4%, with a recovery led by the Co-operative Group to around 8%. In Scotland, there are just three societies left, one transnational (Co-operative Group), one national (Scotmid) and one local (Clydebank), plus some interesting community retail co-ops in rural areas that are serviced by Co-op Group. The Finnish S-card and the Co-operative Group's dividend card have much in common; the future may lie with large national groups that can meet the competition while finding new ways to make membership relevant. The area committee structures of Co-operative Group and Scotmid have the potential to keep them democratic and accountable while remaining very large.

Chapter 3 describes the bewildering variety of *consumer co-ops in financial services*, and shows how often several types will be found existing alongside each other in one country. In Switzerland and Finland the Raiffeisen model of co-operative banks was adopted. Now the Raiffeisen Group is the third biggest in Switzerland, with a 19% market share in savings and a 14% share of the mortgage market. In Finland, OP-Pohjola Group is Finland's largest financial services group, with over 30% of domestic loans and deposits and 25% of domestic non-life insurance. Sweden and Scotland missed out on this development, and have a more disparate set of banking and insurance co-operatives. Folksam, an offshoot of the retail co-operative sector, is one of the largest insurance companies in Sweden. In Scotland there is a disparate set of financial co-ops and mutuals, some trading UK wide and only a few based in Scotland. However, from the 1980s onwards a new credit union sector began to be developed; there are 115 credit unions with a combined membership of around 250,000, £200 millions in savings and £150 millions in loans. The global banking crisis may lead to greater co-operation between these and the older institutions to strengthen co-operative financial alternatives in Scotland.

Chapter 4 provides a typology of the different types of *consumer co-operatives in housing,* on a continuum from non-equity to full equity models. In Switzerland, private renting is the dominant form of tenure, and housing co-ops take a non-equity form; there are 1500 of them with 160,000 members, and they make up 5% of the stock. In Sweden, co-ops have been enshrined in law as the preferred form for apartment ownership; they take a full equity form, with 18% of the stock and 750,000 apartments. In Finland, 63% of the stock is owner-occupied; housing companies are considered part of this sector, and account for around half of it. They are like the Swedish co-ops but own only some apartments in a mixed system of apartment block ownership. In Scotland, during the 1980s and 1990s housing co-ops flourished briefly as an alternative to local authority housing on existing estates, but recently have been assimilated to a much larger community housing association sector; there are only 15 non-equity co-ops and three tenant management co-ops left. Still, a new form of equity-sharing co-op could be a useful way of bridging the affordability gap in owner occupation.

Chapter 5 discusses the conditions under which *utility co-operatives* are chosen over public or for-profit forms, finding that in several countries governments have preferred them in delivery of rural water, electricity or telecoms. It finds that in Finland rural water and electricity co-ops are common. The largest telecoms co-op has demutualised, but 27 local telephone associations form the Finnet Group, which has a mobile phone network, a market share of 18% of the fixed telephone lines, and employs 2000 people. There is not much to say about Sweden and Switzerland, but in Denmark the rural electricity network is consumer-owned. Here, strong and persistent government support for renewables and a general preference for consumer ownership mean 150,000 families are members of wind-energy co-operatives, owning well over 3000 turbines, and 23% market share. Co-ops are also predominant in district heating; in 2001, of the 430 district heating companies 85% were co-operatives. In Scotland, the utility industry is dominated by either private or public companies, with not much room left for co-operatives. However, there are four co-operatives through which consumers can invest in wind farms and more planned, and this is a model that could also be applied to other kinds of renewables.

Chapter 6 makes no comparisons with the other countries, but describes two types of *leisure services co-operative* in Scotland; the old working men's clubs that are in decline, and the new supporters' trusts that are growing strongly. There are 35 of the latter, 25 of which have taken a financial share in their football club, and 14 of which have a supporter on the board. The development agency, Supporters Direct, is being funded by the EU to apply the model in Europe. This is one type of co-operative that Scotland can export to our comparator countries.

Chapter 7 describes the conditions under which governments encourage co-operatives to supply *public services*. It finds that in Sweden parents have been given vouchers to spend on alternative forms of pre-school provision and schooling; parent-owned child-care co-ops and parent-led independent schools have resulted, providing genuine choice but, within a highly regulated system, not increasing inequality (they cannot top up fees and schools cannot select on grounds of ability). In Scotland, as part of the process of contracting out local government services, several leisure trusts have been set up. Sporta, the organisation that represents trusts, lists 19 in Scotland. These are multi-stakeholding and have a non-distribution constraint so are better seen as social enterprise than co-ops. In England, the Co-operative Group and the Co-operative College are involved in promoting co-operative schools; there are 10 in process of being formed, and the UK Government's Schools Secretary has said he wants to aim for 100 over the next two years. This model could be applied in Scotland, but as in public services more generally, the main precondition for development of co-operative alternatives is political will.

Chapter 8 analyses *producer co-ops in farming and forestry*. It begins by providing a typology of four types that have evolved to meet the needs of a rapidly changing and globalising industry. In our three comparator countries, co-operation has resulted in some very large, transnational farmer-owned agri-food businesses. In Switzerland, after a century of uninterrupted growth, farmers have almost completely gained control of the value chain through two organisations: the national federation FENACO, and the dairy company Emmi. Sweden was late getting started in agricultural co-operation, but now has similar large agri-food businesses such as Arla Foods (the largest milk and dairy company in Europe) which is owned jointly with Danish farmers, and Lantmännen, a huge agricultural co-operative focusing on all aspects of arable farming. Sweden also has forestry co-operatives; around 88,000 family forest owners cooperate in five regional associations organized as producers' cooperatives. Agricutural co-operatives were established early in the 20th Century in Finland and again the sector is dominated by a few giant co-operatives; the Valio Group is Finland's largest milk processor, while Atria is Finland's second largest meat producer and HK Ruokatalo is an international food company operating in nine countries. The forestry co-operative, Metsäliitto, is the 10th largest producer of forest industry products in the world, and Europe's largest wood producer.

In Scotland, by the 1930s there were some large regional supply societies, but marketing societies became part of a system of state marketing boards that effectively made co-operation unnecessary. From the 1980s onwards the sector began to grow, and now the 75 member co-operatives of the Scottish Agricultural Organisation Society that have 44,000 members, and a total throughput of nearly £1.4 billion. The biggest are Firstmilk and Grainfarmers that handle a large part of the collection and marketing of milk and grain respectively. There is a wide range of different types of co-op that reflect the diversity of the industry and the wide range of farming needs. The report concludes that it is too late to expect Scottish farmers to capture whole industries as they have in our comparator countries. Instead, they can form joint marketing groups, or work with agri-food businesses in partnerships.

Chapter 9 turns to *producer co-operatives in fishery*. Because the comparator countries are not very relevant, it contrasts Scotland with Norway. In Norway, all marketing of catches is organised through six co-operatives. According to the Norwegian Raw Fish Act, they have an exclusive right to do all first-hand marketing of fish and shellfish. In Scotland, the ownership structure of the industry in Scotland is complex; the majority of boats are owned by local family partnerships, but they may only hold a majority share with fish selling companies, banks and other investors holding the rest. The supply of inputs or 'chandlery' is mainly done by the fish sellers. The first sale in the marketing of the fish is to the fish selling companies, but processing is carried out by the companies, two producer organisations, and independent processing companies. This intertwining of producer and outside investor-ownership makes it difficult to see how the fishermen can increase their control over the value chain. There are nine official fishermen's producer organisations (POs) that market catches, manage the fish 'quota' arrangements, and implement the EU price support scheme for fish. Then there are 20 fishing co-ops and the trade association, Seafood Scotland. The report suggests that, following the example of Norway, it should be possible to move towards a more co-operatively based system in which the producers gain more of the benefits. However, the complicated ownership structure of the industry will make this difficult.

Chapter 10 explores a less well recognised category of co-operative, in *retailer supply and shared services*. Kesko is the largest trading company in Finland, comprising some 2,400 independent retailer-shareholders who operate nearly 2,700 stores and have 30% of the market. With more research, other examples could be found, and the report suggests that there is great potential in shared service co-ops for the growth of small businesses in Scotland.

Chapter 11 focuses on *employee-owned co-ops.* It begins by summarising evidence that employee ownership provides a range of efficiency gains over conventionally owned firms. In Sweden employee ownership is low compared with the European average, but a network of 25 co-operative development agencies promotes worker co-ops and has around 500 in membership. Switzerland is nearer the average for European countries for employee ownership, but it provides no statistics on the numbers of worker co-ops. Employee ownership arrived recently in Finland and tends to be for high and middle management much more than for employees. However, the Finnish experience of labour co-ops is potentially of greater interest to Scotland. These are a fascinating combination of job seekers club, employment agency and training agency in which unemployed people become members; in 2001 they provided work for 3300 full time and 4400 part time members. Support for them is part of public policy.

While there are figures for employee ownership in the UK, it is disappointing that these cannot be disaggregated for Scotland. However, the UK is joint first in Europe along with France, having been developing employee shareholding for 25 years. There are more than 50 wholly or largely employee-owned co-ops listed for Scotland. The largest tend to be ones that were successful companies that were sold to their employees in a managed buyout; there are nine of these, the largest being John Lewis Partnership and Tullis Russell. Then there are businesses that were set up as worker co-ops – wholly owned and tending to have a more direct involvement of workers in day to day decision-making in the business. Edinburgh Bicycle Co-op is the largest, and there are at least three more with a turnover of more than a million pounds, including two wholefood wholesalers and a fair trade marketing and distribution co-op. After this come a wide range of co-ops in sectors such as child care, social care, crafts, and professional services.

The *conclusion* to the report summarises reasons why co-operative sectors in our comparator countries have been so successful, looking first at the environment for co-operative promotion in general, then looking at the factors that led to success in each sector. They began by drawing on deep 'pools' of social capital, using bonding capital to found co-operatives and bridging capital to make sure there was a supportive environment. In each sector, different combinations of economic incentives and government support worked to create strongly integrated co-operative businesses. However, after the liberalisation of the 1990s, and under the pressures of global competition, they are tending to structure themselves more and more like conventional investor-owned businesses.

In Scotland, consumer co-operatives drew on the bonding social capital generated by the industrialised, urbanised working class of the central belt. However, other forms of consumer-owned co-operative never got going because the space they would have filled was taken by other types; savings banks instead of co-operative credit banks, council housing instead of housing co-ops, statutory water boards and electricity boards instead of rural utility co-ops. Early attempts to develop farmer co-operatives met with mixed success because the Highland clearances, combined with the lack of land redistribution in favour of smallholders, had resulted in an unequal class system of large landlords and small farmers that made it difficult to engage farmers' common interests in co-operative development. The fateful decision to set up statutory marketing boards in the early 1930s effectively killed off the marketing co-ops. Liberalisation in the 1980s brought them back on the agenda, but the result has been that, while in our comparator countries primary producers enjoy a higher return, Scottish farmers are selling at the most unprofitable stage in the value chain. Consumers still have the benefits of networks of small co-operative stores, and the future may well be with the growing numbers of small co-operatives in renewable energy, social care, leisure services, digital inclusion. With the world banking crisis, there are opportunities for credit unions, and a new co-operative banking sector might emerge to replace the discredited investor-owned banks.

Chapter 1: INTRODUCTION

This study compares co-operative sectors in Scotland with those of three other countries; Switzerland, Sweden and Finland. The study came about because the Scottish Government was interested in comparing Scotland with other similar-sized countries in Europe that are economically successful and competitive. The three countries chosen for the study are well known global success stories; the OECD estimates that in GDP per capita Switzerland comes 5th, Sweden 10th and Finland 13th (the UK comes 15th). The World Economic Forum finds Switzerland 2nd after the USA in global competitiveness, with Sweden 4th and Finland 6th (the UK is 12th). [1] They combine high levels of economic output with an enviable lifestyle: Switzerland is top in the world for life expectancy, with Finland and Sweden not far behind.[2] The World Economic Forum, meeting at Davos in 2007, highlighted that much of their prosperity was based on co-operative businesses.[3]

If these countries were very different from Scotland the explanation for their success might be simple, but they are of a similar size in land and population, are at a similar level of economic development, and apart from Switzerland are all members of the European Union. This turns the question of why Scotland has such a low level of co-operative business activity into a puzzle. If we were to solve this puzzle, we would be able to answer some key questions about the prospects for co-operatives in Scotland:

- What is the size and extent of each co-operative sector in Scotland compared with the comparable sector in each of the other countries? What accounts for the differences?
- What can we learn from the experience of more successful co-operative sectors about how to do co-operative development?
- Which of the success factors are replicable in Scotland, and which are not? Are there good reasons why Scotland cannot follow the example of more successful sectors in these other countries?
- What has been the role of governments in promoting co-operatives? How important has it been compared with other growth factors? What can Scottish Government learn about how to create a supportive environment for co-operatives?
- Where are the opportunities for growing the co-operative business model in Scotland?

More specifically, the research will enable Co-operative Development Scotland to:

1. have a better understanding of the determinants of success of cooperative sectors in other European countries
2. make informed decisions on how to further grow the contribution of the co-operative sector in Scotland
3. advise economic policy makers within the Scottish Government of our findings; and
4. help influence and shape public policy in Scotland. [4]

The structure of the report is quite straightforward. In the rest of this introductory chapter we provide: a typology of the different types of co-operative on which to base the analysis; a general comparison of each of the four countries; and a discussion of the main academic theories concerning what makes co-operatives more or less successful at different times and places. Following the typology introduced below, each chapter considers a 'genus' of co-operative within one of three 'classes': consumer, producer and employee ownership. Chapters 2 to 7 consider different types of consumer-owned co-ops, Chapters 8 to 10 different types of producer-owned co-ops and Chapter 11 considers employee-owned co-ops. Each chapter ends with a conclusion concerning what we have learnt from the comparison of countries. Finally, Chapter 11 tries to draw lessons from the kind of enabling environment provided for co-ops in each country.

How to classify co-operatives

The diversity of types of co-operative can be confusing, and so we start with a simple classification with which to structure the report. Apart from the investors of capital, there are three main stakeholders in a business: its consumers, the producers who supply inputs to or take the outputs from the business, and its employees. In a co-operative, usually one of these other stakeholders is put at the centre of the business. This gives us three classes: consumer co-ops, producer co-ops and worker co-ops.[5] The advantages of co-operating are obvious; it is a way of channelling the value added from the business to one of these stakeholders rather than to investor-owners or to 'middlemen'.[6] Consumer co-ops provide people with consumption goods at the lowest possible price and with a guarantee of good value, and so make their income go further. Producer co-ops enable self-employed people and family businesses to gain the strength in numbers they need to survive in the market. Worker co-ops provide people with an income, but also are a way of gaining control over the conditions under which they labour, providing what the International Labour Organisation calls 'decent work' . A simple definition of a co-operative follows: it is a business organisation that is owned and controlled by members who are drawn from one of these three types of stakeholder, and whose benefits go mainly to these members.

This classification enables us to list all the different types of co-op, in the same way that scientists identify individual genera within a class, and species within a genus (see Table 1). If a new species of co-operative were to evolve, we ought still to be able to fit it into one or other genus or class. Also, if a co-operative allows some non-coop ownership by investors or government, or has some of the features of a co-op and some of another type, it can usefully be called a hybrid. [7] In this report, we will not be going through all the types in the same amount of detail, because some do not appear much in our comparator countries and there is more information available on some types than others.

Table 1.1: A suggested typology of co-operatives

CLASS	GENUS	SPECIES	HYBRIDS
CONSUMER CO-OPERATIVE	General retail	Food, non-food, white goods, clothing	Jointly owned business (eg Migros subsidiary)
	Specialist retail	Pharmacy, funerals, travel, garage services	
	Financial Services	Banking, assurance, life insurance	
	Housing	Continuing housing co-op, self-build co-op	Community housing association
	Health and social care	Health insurance, user-owned health or social care provision	Foundation trusts (England)
	Utilities	Electricity, water, telecoms	Joint ventures with local govt
	Leisure services	Supporters' trusts, working men's clubs	Leisure trusts (England and Scotland)
	Public services	Child care co-ops, co-operative schools, health centres	Public benefit companies with consumer representation
PRODUCER CO-OPERATIVE	Primary producer: farming, fishery, forestry	Supply of goods, services or credit (input), marketing (output), processing (value added)	Joint producer-investor owned business
	Retailer (wholesaling supply)	Supermarkets, hardware stores, pharmacy	Jointly owned business with wholesalers
	Shared services for self-employed, small businesses and professionals	A wide variety, including taxi drivers, artisans, market traders, dentists	
EMPLOYEE-OWNED (WORKER) CO-OPERATIVE	Continuum from labour-only coop to complex conglomerate	A wide variety of sectors	Employee share-ownership schemes

A general comparison of the four countries

There are several different types of business organisation: investor-owned, family-owned, partnerships, membership-based (co-operatives and mutuals) and so on. It makes sense to compare a type of business organisation in one country with the same type in another, to find out under what conditions it has been chosen over other types, and whether or not it has proved to be enduring and successful. If the countries chosen are similar in some important respects, this cuts down the variation between them and makes it more likely that real chains of cause and effect can be identified. Scotland has these features in common with Finland, Switzerland and Sweden. They have a similar sized population: Scotland has 5.1 million, Switzerland 7.5 million, Sweden 9m and Finland 5.2m. They are all comparatively rich, industrialised countries with a high GDP per capita[8]: in 2005 Sweden's was $32300, Finland's $32700, and Switzerland's $35300. The UK had a GPD per capita of $33.300, and Scotland was estimated to be slightly lower at around $30,000.[9] They all have a high life expectancy of around 80 years, with very low population growth, high literacy and high income levels. Their demographic structure is similar, with low birth rates and an ageing population (though Scotland has a slightly lower life expectancy of around 77). All but Switzerland are in the European Union. They all have substantial wilderness or mountainous regions, with arable land making up only 11% in Scotland, 10% in Switzerland, 6% in Sweden and 6.5% in Finland.

However, their histories are quite different. All three are sovereign nations whereas Scotland is part of Britain and the UK. Finland had always been dominated either by Sweden or Russia; it was a sovereign grand duchy of the Russian Empire until gaining independence in 1917. It was only in 1892 that Finnish was recognised as an equal official language alongside Swedish. However, this did not stop the Finns from being the first nation in the world to achieve universal suffrage; in 1906 both men and women got the vote for the national parliament. Also, a strong nationalism developed. There was a brief civil war in 1917 in which the 'whites' and the 'reds' fought along similar lines to the civil war in Russia, but here the whites won and so Finland remained outside the communist bloc. Finland fought off two attempts by the Soviet Union to invade its territory during the Second World War. It has always had a free market economy, but was reliant on the economic relationship with the Soviet Union and in 1992, after the Union collapsed Finland went through a severe recession. It joined the European Union in 1995, since which it has had one of the highest growth rates among OECD countries.

Sweden used to have an empire, but in the nineteenth century lost most of it and entered into a union with Norway that lasted until they parted company in 1905. Since 1814 Sweden has been at peace, preferring to remain non-aligned and neutral under a constitutional monarchy. It industrialised early in the twentieth century, specialising in steel-making, ball bearings, wood pulp and matches. After the Second World War, with a high level of prosperity, and a long period of social democratic party dominance in politics, Sweden developed its famous welfare state. From 1976 onwards conservative governments were also sometimes in power, and attempted to cut back the welfare state and high levels of state spending. Like Finland, Sweden experienced a sharp recession in the early 1990s, and in 1995 joined the European Union.

Since 1848, the Swiss Confederation has been a federal state with relatively autonomous cantons, but the history of some of the cantonal governments goes back 700 years, making them the world's oldest republics. It is extremely decentralised, with only defence, trade and legal matters being the responsibility of the federal government. Like Sweden, Switzerland managed to remain neutral during the world wars, and so its economic history has been one of uninterrupted economic growth. Unlike Sweden, its population is very heterogeneous both in religion and language, and it is doubtful whether it would have held together under a more centralised government. Chemicals, engineering, the food industry and banking have been among its most successful economic sectors, but it has chosen to remain outside the European Union. None of these generalisations help much in explaining why the level of co-operative enterprise in all of these countries is so high.

What explains the differences?

Is it possible to explain these differences by reference to an overarching theory that identifies the conditions for co-operative development? There is no one theory, but different academic disciplines may each provide part of the answer. Historians tend to emphasise the importance of nationalism, ethnic homogeneity, social equality, or high levels of literacy among the populations that were first exposed to the idea of co-operation. In this way, they describe what we might call 'fertile ground' for co-operation. They are also able to trace the relationship between economic forces and co-operative development. Consumer co-operation, for instance, followed in the wake of more general industrialisation, beginning in Britain and then spreading across Northern France and Germany, proving popular among urbanised, working class populations but not developing well in more cosmopolitan areas such as seaports or capital cities or in rural areas. Agricultural and credit co-operation tended to follow the emergence of new markets, and appealed most to small, owner-occupier farmers rather than tenant farmers or large landlords.

However, the problem is that such high level causes are difficult to pin down, and we can always find examples that argue against the theory. For instance, ethnic and political divisions have been cited to explain the slow development of agricultural co-operation in Ireland as compared to Denmark.[10] Yet, at the time co-operative development began, Finland also had deep divisions; between the Swedish and Finnish speaking populations and between 'social democratic' and 'neutral' movements. This did not seem to slow down development but produced separate but equally strong co-operative movements. The pattern of landholding has been cited to explain why farmers take to co-operation; the assumption is that small farmers need co-operatives more, and that land reform to create smallholdings is a necessary precondition for co-operative development. Yet in late nineteenth century German agricultural co-operation took hold among large farmers as well as small.[11]

Also, it is difficult to distinguish cause from effect. For instance, the very high level of co-operative development reached in Denmark by the end of the 19th century can partly be explained by the high level of education due to the folk high school movement[12]. Yet in Finland, while credit unions spread quickly during the early 20th century, it was only *after* they were set up that local people became educated and their levels of understanding of financial matters improved. [13] We have to give up asking 'what caused what?' and realise that complex forces have been at work historically that interact as part of a systemic movement towards, or away from, co-operative development.

There is a more systematic way to create plausible explanations, through the idea of social capital; the higher the social capital the more likely co-operative development is to take place. Robert Putman illustrated this in a study of North Italy, showing that a high density of associational life (including co-operatives) is associated with high levels of social capital that go back several hundred years. [14] The idea is a simple one; it is a set of shared norms that encourage co-operation between people, what we might call a 'propensity to co-operate'. It includes a general expectation that if one co-operates others will too. It also includes a willingness to reward co-operative behaviour with social approval, and to use sanctions against un-co-operative behaviour so as to avoid 'free-riding' by people who want the benefits of co-operation without contributing. There are several indicators that can be used to measure the level of social capital: the general level of trust in others, the level of participation in civic institutions, the density of informal networks, level of membership of formal associations, and so on. [15]

There are two types of social capital, bonding and bridging. Bonding means having strong local networks with people who are like each other, while bridging means having networks that reach beyond a local community or class to people who are unalike but together may have more power to affect change. In order to work well, it is said that both types need to be present. For instance, in Finland at the end of the nineteenth century both were in abundance; there was a class of small farmer-foresters who had much in common, and were convinced to co-operate by a group of middle-class intellectuals who reached out to them with a strong message underpinned by a common sense of national identity. [16]

What causes high levels of social capital? One cause is *associational involvement*; participating in a club or association makes people more prepared to reciprocate and trust others. It also equips them with the skills they need to run organisations, and so forming and sustaining co-operatives becomes easier. In Switzerland the first producer co-operatives built on some ancient types of association such as the 'fruitieres' for cheese-making. In all our comparator countries, including Scotland, consumer co-ops formed part of a wider set of mutual aid associations such as friendly societies and trade unions. Another cause is *social homogeneity*. People are more likely to trust and have common interests with people who are like them. This does not mean a whole nation needs to be homogeneous, though it is said that co-operatives in Finland have benefitted from a strong sense of nationalism.

Communities are needed that are high in bonding social capital. If they are self-confident enough to have bridging social capital, their co-operatives can bridge divides. However, it is notable that in Sweden farmers who support the Centre Party have very little in common with urban consumers who support the Social Democrats, and so the producer and consumer co-operatives have remained quite separate. In Finland, similar political divides have produced two distinct consumer co-operative movements, and so on.

Another cause is *egalitarian social structures*. Societies that are low in social capital are often also strongly hierarchical and have a legacy of exploitation; Southern Italy has the Mafia, southern states of the USA have a legacy of slavery and racism, and so on. Not only do such societies score low in social capital but they actively undermine most forms of social capital.[17] In such regions, there are plenty of examples of co-operatives working to heal divides and create new social capital, but it is hard going. Our comparator countries are well known for egalitarian social structures that go a long way back in their history; they were among the first to come out of the old feudal system of land tenure, provide universal education, and extend voting rights. Scotland has a much more mixed history; strongly egalitarian in the industrial lowlands, but with a feudal system in the Highlands and Islands. During the nineteenth century, while a strong and successful consumer co-operative system was being founded in the towns and cities, much of the indigenous population of the rural areas were being forcibly evicted to make way for tenant sheep-farmers.[18] It is no wonder that a producer co-operative sector took so long to emerge, and that rural co-operative banks were not even tried.

A related cause is *economic equality.* Where people are equal, they have similar interests and can more easily agree on common goals, and there are not many examples of co-operatives that have in membership people with widely different needs and resources. In contrast, economic inequality has been found to have a close negative correlation with social capital at all levels, from the nation state to the village.[19] Our comparator countries are known for being among the most equal in terms of income, and for developing strong welfare states that do not just protect those who fall into poverty but also actively redistribute incomes.

Whatever its causes, social capital is remarkably persistent over time. When it is measured across different regions of the USA, the differences correspond closely to the differences in social capital in the nations from which their ancestors came. The area around Minneapolis and St Paul's – that shows up on most measures as the area of highest social capital in the USA - was populated with 'high trust Scandinavians'. As David Halpern notes 'Something has persisted over several generations'.[20] Also, Scandinavian countries still show up as having the highest level of social trust in the world. While the levels of social capital in the USA, Australia and Britain are declining, they are said to be rising in Sweden. While all developed nations are becoming more individualistic, in Sweden they have managed to create a 'solidaristic individualism'. Many Swedes would disagree, arguing that their society is undergoing fundamental changes away from the kind of corporatist welfare state that used to be a benchmark for civilised society. Still, on a graph of 'national trust' compiled by the World Values Survey, Sweden and Finland (plus their neighbours, Norway, the Netherlands and Denmark) come out way ahead as 'high and rising trust' societies, with Switzerland and the UK described as 'moderate but falling trust' societies.[21] Why should social capital be so persistent over time? Game theorists have shown that there is an 'ecology' of co-operation; over time societies reach a stable equilibrium of co-operative behaviour. Some, like our comparator countries, stabilise at a very high level of co-operation, others at a lower level. That stability then tends to persist over generations.[22]

None of this explains why people's propensity to co-operate should take a particular form. To explain the rise and fall of particular co-operative sectors we need more economic explanations. Economists point to the impetus to co-operate that comes from market failure. If primary producers are cut off from emerging markets, they will tend to organise themselves in transport and marketing co-ops. If they are forced to rely on private traders for the purchase of inputs or provision of credit, or to sell to 'middlemen' who are in a monopoly position, they are also likely to take action to remedy the situation. Similarly, if consumers are forced to pay high prices for adulterated food, and are locked into credit-based relationships with small retailers, again they will welcome the chance to provide for themselves on terms that eliminate the 'middlemen'. [23] In Sweden and Finland, in the 1920s farmers and consumers took collective action against cartels that were charging them monopoly prices for a whole range of products from fertilisers to light bulbs. Market failures also include gaps in the market where an important good is not provided by anyone, and this explains the rapid growth of credit co-operatives in Switzerland and Finland in the early 20th century. It also explains why they did not interest people in Scotland, because here there were already alternatives such as savings banks and building societies, and commercial banks had already developed to a stage where they were willing to lend to small businesses.

Of course, even when there is market failure, people will not always organise co-operatively, and some other theory is needed to explain how they get over the 'collective action' problem. Political scientists are interested in what circumstances lead to collective action, since a 'rational actor' theory predicts that unless there are personal incentives people will not act together. [24] Birchall and Simmons have compared individualistic and collectivistic motivations to participate in co-operatives, and found that people are a lot more collectivistic in their attitudes than 'rational actor' theorists will allow. Their mutual incentives theory predicts that, when people are asked to participate in organisations that represent their interests, they will be motivated by shared values, shared goals and a sense of community, as well as by more personal incentives. [25] The more people are motivated by these three collectivistic incentives, the more likely they are to participate. If this theory were applied to our three comparison countries, we would point to the collectivistic incentives provided by a nationalist movement in Finland under Russian rule, or the strong farmers' political party in Sweden, or the strongly decentralist tradition in Switzerland, to explain the high levels of participation in co-ops.

Are there other, specifically co-operative theories that might be used to explain differences between countries? The most influential may be Attwood and Bhaviskar's theory of 'a conducive environment for co-operatives'. Developed in India in the 1980s, their work shows that co-ops tend to flourish when there is a sympathetic government, and a cultural and legal environment that supports co-operative development. The passing of co-operative laws in Sweden and Finland at the turn of the 20th century, and their promotion by people such as Hannes Gebhard who founded Pellervo Society and was part of a politically influential 'social elite', explain quite a lot about the early development of co-operation. [26] However, the theory is contradicted by a large study of Indian agricultural co-ops undertaken in the early 1990s by Tushaar Shah. India is a federal country, and unique in having different co-operative environments; different laws and attitudes by government, different attitudes to leadership and entrepreneurship in each regional state. What Shah found was that there were co-operative failures even in states where the environment was good and some successful co-ops even where it was bad. Where co-ops were successful they helped shape their own environment, so that government was not strong enough to take them over or interfere in their running. [27] This is as true of Britain as it is of Finland; the development of the Rochdale-based consumer movement in the nineteenth century preceded legislation, and sympathetic politicians were merely asked to make the way clear for new developments such as limited liability and wholesaling. [28] In Finland, the political power of the small farmer guaranteed a favourable climate throughout, and restricted the power of its rivals, the large forestry owners.

Shah's explanation for co-operative success and failure looks inside a co-operative at the 'design principles' on which it is built, particularly within its governance structure. He identifies three conditions for success:

1. the purpose of the organisation is central to the members
2. the governance structure ensures patronage cohesiveness
3. the operating system finds competitive advantage in the relationship with members

Under these conditions, co-ops will not only survive but will be replicated by people who are in similar circumstances and want to gain similar advantages for themselves. They will take the organisational design that works in one place, try it out in another place and modify it as necessary. This hints at an evolutionary theory of co-operation, in which forms that work survive and are replicated, while others – no matter how hard they are promoted by governments – will fail.

Shah's theory complements Henry Hansmann's theory of ownership. This theory predicts that business types will survive if their governance costs are lower than those of other types; the more homogeneous the interests of members the more likely the survival.[29] If the costs of ownership are higher than the transaction costs of entering into market relations, then the latter will be chosen and a co-operative form will not survive. In addition, Hansmann brings in market failures to explain why people sometimes choose co-operatives even though the costs of ownership are relatively high; it is because the alternatives – such as entering into market relations with a private monopoly - are even more costly.

Albert Hirschmann's hugely influential theory of exit, voice and loyalty has never been applied systematically to co-ops, even though he says his generalisations apply 'largely – and at times principally - to organisations that provide services to their members'.[30] He predicts that the ability of a firm to avoid what he calls 'organisational slack' (underperformance and a tendency to decline) depends on the particular combination of ability to exit, willingness to exercise voice and degree of loyalty among its customers. In co-operatives, customers who are also its owner-members tend to exercise voice rather than exit, because leaving the co-op is too costly. They also tend to become loyal and so are reluctant to leave even when the co-op is under-performing. However, if co-ops are not able to demand patronage, and their members only have a token membership share, exit is made much easier. We can expect that successful co-ops will demand a significant financial investment from members that they cannot easily get back, and will reward them for loyalty, as well as providing plenty of opportunities for them to exercise their 'voice'.

These theories tend to remain at the level of the primary co-op, but of course one of the strengths of co-ops is that they network together and so gain market power that they would not have otherwise. Stephen Smith has studied business clustering in co-operatives, and analysed the success of the Mondragon co-operative system in Spain. He shows how a co-operative sector grows and becomes self-sustaining through developing its own supporting institutions such as savings banks, research and development companies, training institutes and so on.[31] Birchall and Simmons' recent study of co-operatives in Tanzania and Sri Lanka compares features of co-ops and their competitors – private traders, NGOs, government initiative - that give them comparative advantages and disadvantages.[32] They use the concept of organisational comparative advantage as a way of summarising insights from all the above theories, believing that:

1. no one theory is sufficient to explain success and failure in co-operatives
2. there is no substitute for gathering lots of information about a particular sector and trying to understand it from a variety of standpoints
3. sometimes one theory will work better than another
4. theories stand or fall by their plausibility in explaining what is going on, and by their usefulness in helping us to understand how to make co-operatives work better

Table 1.2 lists the theories, what they say about the conditions under which co-operatives can thrive and the kinds of outcomes they predict.

Table1.2: Theories that explain why co-operatives succeed or fail

TYPE OF THEORY	CONDITIONS FOR CO-OPERATION	OUTCOMES
SOCIAL HISTORY	Solidarity derived from nationalism or political party, high level of general education, political enfranchisement, land reform, substantial equality of condition	The ability to create solidary institutions that are well governed and command allegiance. A preference for mutual over charitable forms of organisation
ECONOMIC HISTORY	Formation of new classes (eg urban working class, small farmers). Expanding market society, dependence on money income, and need to access markets. Lack of competitors or threat of monopoly among competitors	Strong need among people in same market position to co-operate. Commitment to economic co-operation because alternatives either do not exist or are threatening to the livelihoods of people who have weak market position.
SOCIOLOGY	High levels of social capital, both bonding and bridging	Resources available to 'invest' in membership organisations and networks, with assurance of success and mutual benefit
ECONOMICS	Market failures – threat of monopoly, power of 'middlemen' or lack of markets. Low barriers to entry, weak competitors	The co-operative difference and co-operative advantage in business
POLITICAL SCIENCE	The collective action problem is overcome, through selective incentives and sanctions against 'free riders'.	Organisations are created and members recruited who have incentive to participate in governance
MUTUAL INCENTIVES THEORY (BIRCHALL AND SIMMONS)	People do respond to collectivistic incentives: sense of community, shared values and goals	Co-operatives achieve high levels of participation, and can develop a member participation strategy
SUPPORTIVE ENVIRONMENT THEORY (ATTWOOD AND BHAVISKAR)	Presence of promoters, good legal and fiscal environment. Govt support but respect for autonomy of civil society	Development of co-operatives unfolds in stages, with strong, autonomous organisations created
THEORY OF CO-OPERATIVE DESIGN AND EVOLUTION (SHAH)	Design principles are discovered that put the member at centre of the business. These are replicated	Strong co-operative sectors emerge that command loyalty of members and maintain member focus over time
THEORY OF OWNERSHIP (HANSMANN)	A stakeholder will take ownership if this combats market failure, and/or if the costs of ownership are low. The more homogeneous the owners the lower the costs	Cooperatives are only be found in some sectors and at some times, because they need a homogeneous group of members with common interests
THEORY OF VOICE (HIRSCHMANN)	If the cost of exit is high, members will exercise voice instead. Loyalty raises the costs of exit and promotes voice	Co-ops that foster loyalty through patronage refunds, give opportunities for voice, and demand financial commitment from members will survive

Now we proceed to the more detailed study of each co-operative sector in the four countries.

Chapter 2: CONSUMER CO-OPERATIVES: RETAIL

Introduction

In contrast to other sectors where the initiative came first from our comparator countries, retail-based consumer co-operation is very much a British invention, with Scottish pioneers being in the forefront long before the Rochdale Pioneers codified the 'official' version with their Rochdale principles. Here the order of development is – Scotland first, the other countries second and with some conscious copying of the British model. The important starting point is not really when the first retail society started[33] but when a wholesale society was first set up to service the growing retail movement: in Scotland in 1868, Switzerland 1890, Sweden 1899 and Finland 1904. These are very old businesses by any standards, and so we can expect radical changes to have taken place in their management and organisational structure. The first phase of their history lasts from the above dates to the 1950s, with common lines of development in all four countries; retail societies become strong enough to set up a wholesale, which then goes into manufacturing, farming and importing of basic commodities. The sector grows rapidly, particularly in times of war and economic depression, building loyalty among members through being locally owned and controlled and providing regular dividends on purchases. At the core of their business are a large number of small food stores, but societies also branch out into other areas of retailing, and at national level even start their own banks and insurance societies. Sometimes they flirt with the more fashionable end of the market in department stores, but more often than not they are not very good at it and lose money; their provision of good quality, staple goods is what members value the most. Then comes a time of crisis in the 1950s and 1960s when changes in retailing technology and growing competition from multiple stores lead to a rapid loss of market share.

At first, co-ops are ahead of the field, opening self-service stores and supermarkets, but then they become seriously challenged by the competition. A fatal weakness occurs when, with falling profit margins they decide to give up paying dividend to members and shift to giving all customers a discount, usually in the form of bonus stamps. In this way they undermine the relationship between membership and governance and, as they begin to merge and form larger, regional units, they become more and more remote from their members. [34] There then begins a long and often dismal struggle to persuade local societies to merge and form regional societies or even one national society, to divest themselves of their wholesaling and manufacturing businesses which by now have become a liability, and to reshape themselves along similar lines to the multiples, who do not go as far up the supply chain but use their buying power to gain advantages over manufacturers.

One consequence of the struggle to survive is the withdrawal of co-operative societies and private traders from more remote areas where sparse populations and long distribution chains mean they tend to make a loss. [35] Sometimes this galvanises the local population to keep a store open by running it themselves. They may choose to register it as a consumer co-op, a charity or some kind of community business, but in each case it represents a new start for the idea of consumers providing for themselves.

At this point, we pick up the story in each country. If we were looking at France, the Netherlands or Belgium we would be talking about decline and eventual bankruptcy of the co-operative movement (with a few small societies continuing to exist, serviced by private wholesalers), if Germany we would be talking about a successful restructuring ruined by false accounting and fraud, if Austria about the emergence of a national society that then went bankrupt. [36] Happily, the story in our three comparator countries is a much more positive one from which we can learn a lot.

Consumer Co-operatives: Retail - Switzerland

The consumer co-operative sector in Switzerland developed independently alongside the British movement but then its leaders consciously decided to adopt Rochdale principles, and by 1904 it had 204 societies with their own wholesale and general union. By the early 1960s there were 468 primary societies with over 2000 shops and four million members. From then on the story is similar to that of Scotland, with the move to regional warehousing, closure of 500 small shops, resistance to mergers and a switch to stamps and a low price policy. However, the Union of Swiss Consumer Co-operatives (USC) took a tougher line than did the UK Co-operative Union, threatening weaker societies with expulsion from the union and the wholesale if they did not merge: by 1983 it had succeeded in its aim of reducing the number to 40. Also in contrast to Scotland, the group was disciplined, as early as 1960 adopting a single logo and placing its members' stores under the Coop brand. By 1965, USC had begun to develop its first national sales strategy and rolled out its first television advertising campaigns. From the mid-1970s, in contrast to other countries, it began a period of strong growth, increasing its market share from 9% to 12%. Like the CWS it was a pioneer of honest labelling and stopped promoting tobacco, and it kept open loss making shops in remote areas. As well as the continued reorganization of its distribution and purchasing operations into a centralized structure, it changed its name to Coop Schweiz[37]. In 2000 it sold off its travel business focusing more on its core business of food and consumer goods and launching its own range of organic and fair trade products.[38] By 2001, it had merged the remaining 14 regional societies into one: it had succeeded in transforming itself from a decentralised, local society-based union into a unified national retailer. With over two million members, and a market share of around 17%, it is one of the top consumer co-ops in Europe.

Its strong performance can be accounted for partly by the need to compete with another consumer co-op, Migros. This was started in 1925 by a complex character called Gottlieb Duttweiler who, despite being a talented entrepreneur, genuinely admired co-operative values (his father had been a co-op manager). He began with the idea of selling just six basic foodstuffs at low prices to householders who, in those days, did not have ready access to markets of any kind. At first he sold only coffee, rice, sugar, noodles, coconut oil and soap from trucks that went from one village to another, then he moved into more conventional retailing, but still with low prices being his main strategy. He built a large retail chain then turned it into a non-profit, and then in 1940 into 12 regional co-ops grouped into a federation. Unencumbered by the decentralised structure of USC, it was able to expand rapidly, by 1952 having 120 self-service shops and opening its first supermarket. He continued to campaign for low prices, and by the 1960s Migros had become a massive conglomerate, producing its own products, and owning its own bank and an insurance company. Although it did not give the traditional co-op dividend, it specialised in low prices and in giving back profits through extensive adult education activities.

Migros has continued to grow, diversifying into hotels, fitness centres, garden centres and other kinds of retailing, until now it has over two million members, over 80,000 employees, and a market share in retailing of 32%. It also has Switzerland’s fifth largest bank, and has set up a similar organisation in Turkey. In January 2007, Migros acquired a majority stake in Denner Discount, merging the largest and third largest food retail chains in Switzerland.

So which is the more co-operative in practice, Coop Schweiz or Migros? Some critics claim that Migros has lost touch with its founder's ideals. They say that the cooperative is not governed democratically by its members as was once envisioned by Duttweiler, and that too much control is exercised by the executive board. [39] On the other hand, members continue to follow their founder’s ideals by refusing to sell alcohol. The fact that Migros profits go into low prices and adult education activities rather than a dividend to members reflects its unique history as a company that was given to the consumers by its founder. It can be seen to be more co-operative in functioning than Coop Schweiz. ‘Coop’ has consistently been criticised for appointing managers who have no co-op background and have little regard for co-operative principles. It has a more centralised, less democratic structure than Migros, and critics point out that it has only rediscovered its co-operative nature very recently.[40] Finally, it is interesting to note that the success of both co-operatives is due in part to their need to compete against each other.

Consumer Co-operatives: Retail - Sweden

In Sweden, the situation is simpler, with one consumer co-operative sector represented by its federation, KF, founded in 1899. In contrast to other European consumer co-operative movements, it benefitted from not having been destroyed or weakened by the Second World War, and so from the 1950s it became the most dynamic and innovative movement, introducing self-service, supermarkets and frozen foods and beginning structural reorganisation. In 1957 there were 637 societies, but by 1970 the number had fallen to 232, the number of shops reduced from 7400 to 2700. As a result, its market share increased to 18% and membership to over 1.6 million households. Yet the mid-1970s were a time of crisis, with a costly expansion into town centre department stores that did not work, and a stagnating market share. KF’s aim of getting down to 20 societies was not being achieved. By the mid 1980s it was still among the top 10 companies in Sweden, but the worst performing. In 1986 of the 142 co-op societies 40% were in deficit; as in other countries, this was a cushioned decline, based on the use of built-up reserves. Then KF took most of the societies into a new Co-operative Retail Group, with the kind of disciplined business organisation they needed to survive. By the end of 1993, there were still 102 societies but the discipline had worked; its market share had begun to rise. [41] It now has 51 co-ops in membership, with a combined membership of over 3 millions, and a 21% market share. Like other co-operative consortia, it has a complex structure, with a retailing arm, Co-op Sverige running the supermarket chain, and several subsidiaries in real estate, bookshops, home entertainment, environmental engineering and so on. Like the Finnish S-Group, it has a bank (MedMera Bank), whose membership card is crucial for the relationships with members and for providing an extensive reward scheme. In 2007 for example, members received 7.7 million reward vouchers with a redemption value in discounts of around SEK 465 million.*45%.*

In 1999, together with its Danish and Norwegian counterparts (FDB and NKL) KF founded Coop Norden, a pan-Scandinavian co-operative that, in 2002 took ownership of the whole system. The merger did not work and in 2007 it was split up again into its three country parts, and reduced to a buying group. The reasons why it did not work are unclear, but the press blamed KF for being the weakest link in the chain. Even though the transnational development of retail chains is now common, perhaps for three independent co-operative movements this was a merger too far.

Consumer Co-operatives: Retail - Finland

In Finland, the history of consumer co-ops is hard to grasp, until we recognised that until recently there were two distinct movements and a third independent large primary society. The two movements were the politically neutral SOK and the social democratic E-movement, and the society was Elanto based in Helsinki. In the 1960s, SOK was branching out into hotels and department stores, and successfully streamlined its structure, but by 1967 it was still in deficit; like other movements across Europe, it was held back by a social conscience, keeping open loss making shops in rural areas. From 1970 onwards it began to subsidise ailing co-ops, using the massive reserves it had built up in the good times. The numbers reduced from 178 to 32 regional societies, plus 45 small societies that refused to join. By the late 1980s, only two of the regionals were in a satisfactory state; there was still the ebbing away of reserves and sale of real estate to hide the losses, both familiar to consumer co-ops elsewhere. In the late 1980s, however, SOK and the societies managed to turn the group around through becoming the S-group. Their 'S-strategy' included formation of regional societies, separating business into different chains each with a specific concept, and the introduction of the S-etukortti (S-bonuscard - this suited the Finnish mentality as they were early accustomed to bank-cards). The S-bonuscard made it possible to gain bonuses in all cooperatives within the S-group all over the country, including hotels and restaurants. From the beginning of the 1990s the group started to make positive results and by 1997 it had 23% of the retail market.

Meanwhile, the E Movement also embarked on a drastic strategy of modernisation and shop closures, but its wholesaler, OTK, failed in an initiative to promote department stores. By the mid 1960s, it was the familiar story, with some societies running at a loss and parochial rivalries preventing mergers. The political ties of the E movement were an obstacle to closer ties between the two sectors, preventing a merger between the two wholesalers, SOK and OTK. In 1983, 39 regional co-ops joined OTK to form Co-op Finland (EKA), which instantly became the third biggest company group in Finland. However, by the early 1990s OTK was bankrupt and only saved by a government refinancing programme.

By 1998, the two groups still had a 35% market share between them, plus Elanto that remained independent. In 2005, the OTK-group (now known as Tradeka Corporation) formed a limited company of all retail stores and then sold over 80% of the shares to a Swedish investment company, leasing the stores back. It remains a co-operative with 370,000 customer members, owning a large owner of hotels and restaurant and giving bonuses through its E-card in the retail stores. [42]

In 2002 Elanto merged with the 'S-Group'. Altogether, the new unified group has retail sales of nearly Eur10 billion, including Eur8 billion retail sales of the coop enterprises. 16 local and 22 regional co-operatives are included, and at the end of 2006 they had 1.6 million members and 34,000 employees. In 2006 it paid Eur232 million to consumers in bonuses, and had a 40% share of the grocery market in Finland. What is the secret of its success? One element is the S-Etukirtti card, which is not a loyalty card but a genuine membership card that covers S Group's whole range of services and acts as an umbrella brand. It is a bonus card and also a debit card, and it earns bonuses not just with the Group but with partner organisations who want to gain access to its (now) 1.7 million customer members. The extent of the business is very wide; it includes the Agrimarket chain for farm inputs, machinery and grain marketing, the motor trade run by an SOK subsidiary and 13 regional coops, the S-Rautamarket chain for hardware, a restaurant chain and the Sokos and Radisson SAS hotel chains, 20 dept stores and the Emotion chain of speciality stores. The ABC chain, run by the regional co-ops, is the fastest growing service station store and fuels chain, and it is backed up by a wholly owned oil purchasing company that guarantees supply. The S Bank opened in 2007, and took more than Eur100m in new deposits in the first month and over Eur1bn in three months. It is a 'national phenomenon', the first and only retailer-operated bank in Finland. [43]As expected, in its core business of the supermarket trade, S Group is now the market leader.

Consumer Co-operatives: Retail - Scotland

In Scotland, the picture is one of decline and partial recovery. The 1960s were not a good time for retail co-ops; the decade began with 165 societies, and by 1969 there were 120. Their share of the retail sector declined from 17.6% to below 13%, while that of the multiple chains rose above 30%, and in 1969 they began to cut the link with their members by ceasing to give dividend and giving discount through trading stamps. The decline continued. There were several reasons, including large shifts of population due to slum clearance and the building of new towns, but the main reasons were that the multiples were building supermarkets much faster, and the vertical integration of small, locally based retail societies into wholesale and manufacturing (through the Scottish Co-operative Wholesale Society -SCWS) had become a disadvantage. In 1968, the UK Co-operative Union declared that its aim was to reduce the numbers of societies from nearly a thousand down to 50 regional societies in Britain; five of these would cover Scotland. A Liaison Committee of the Scottish Section of the Co-operative Union and the SCWS responded with a plan for three major regions based on Glasgow, Edinburgh and Dundee. The Committee complained that societies were much too slow to merge, and that when they did merge weaker ones were dragging down the stronger. They forecast that if this continued 'the strong and viable societies of today could be the weak and uneconomic societies of tomorrow'. [44] The forecast proved correct, and now there are only three societies left in Scotland; one local, one national and one trans-national. Market share in the UK as a whole has declined from 11% in the 1950s to under 4%, but now with the takeover of Somerfield by the Group it has risen dramatically to around 8%.

UK Co-operative Group is probably the largest consumer co-operative in the world, with 2.5m members, 87,000 employees and 4300 retail outlets and a cluster of businesses that include food retail, pharmacy, funerals, travel, farming, banking and insurance. In food retailing it is the fifth largest in UK, with over 2500 stores and an investment programme in store improvement of over £500m. In pharmacy, it is the third largest in the UK with over 800 outlets and the dispensing of 53m prescriptions per year. In funeral services it is the number one provider with more than 800 funeral homes. In travel, it is the largest independent agency with over 400 high street agencies plus call centres and online services. It is the largest farmer in Britain, farming over 70,000 acres in England and Scotland. It has strong market positions in banking and insurance (that we describe in more detail in Chapter 3) and it is growing quickly, having recently bought the Somerfield chain and agreed a merger with the Plymouth and South West society. [45] The Group also provides essential services to other co-operative societies, running a joint buying group (Co-operative Retail Trading Group) that supplies nearly all consumer co-operatives in the UK, which increases their buying power considerably. Its rebranding of stores into the 'Co-operative' brand is offered to these societies, as is its dividend card; independent societies just choose how much dividend to give to their own customers.

What contribution does the Group make to the Scottish economy? Its turnover for Scotland in 2007 in food, pharmacy, travel and funerals, was £629m. Adding in the £123m turnover of the old Lothian, Borders and Angus Society that merged recently with the Group, this gives a total of £752m. Out of a total for the UK of £9.4bn this makes Scotland's share 8%. Its share of the financial services business is higher at 14%. [46] Following the merger last year with the second largest group, United Co-operatives, Co-operative Group has reorganised from nine down to seven regions including 'Scotland and Northern Ireland'. The new region will have a Northern Ireland Council and nine area committees in Scotland. [47] Elections to the area committees have recently been held, and they have proved to be popular; many of the places have been contested, and 61 new members have been elected. The committees have a geographically-based structure so that members represent particular districts within an area, and the Group is looking to promote more localised member involvement.

At the other end of the scale, Clydebank is the only co-op in Scotland not merged into a national or regional co-op. It is not a member of Co-operatives UK, though it is a member of the Co-operative Retail Buying Group so it gets the advantage of the whole sector's buying power. It has six food stores, and a turnover of £16.2m (2007 figures).

Scottish Midland (Scotmid) is a Scottish Co-op, owned, governed and managed in Scotland. Despite its regional-sounding name it trades throughout the country. It was formed in 1981 out of the merger of two very old societies, St Cuthbert's and Dalziel, and with 3750 staff, it is one of the largest retailers in Scotland. There are three parts to the business: Scotmid Food, Scotmid Funerals and Semichem. Scotmid Food has around 130 retail outlets, and the funerals business is also quite large. Semichem was an existing business bought in 1995, and it has over 120 stores throughout Scotland and Northern Ireland offering low prices on health and beauty and household purchases. Scotmid also has a Property Department, which has an extensive portfolio of commercial and residential properties throughout Scotland. In other words, it is a conglomerate of businesses, some longstanding, some acquired. In the year ending in January 2008, it had a turnover of £378millions, operating surplus was £6.7 millions, pre-tax profit was £3m and its asset base £96m.[48] In the next few years it plans a £30m capital programme in the Food Division, and so is in a strong position and its board remains committed to remaining Scottish and independent. Scotmid is a champion of fair trade products, and has completed phases 1 and 2 of a new membership strategy that has seen 3000 new members signed up, and a new magazine mailed out to over 40,000 members. A questionnaire shows that interest in a dividend card among members is inconclusive, so for the moment it does not intend to introduce a card. Currently, elections to the board are through area committees, but a constitutional review of the structure and rule book has been undertaken and direct elections to the Board from members may result. The name may also be changed to reflect the Society's national identity.

The current situation can be read in two ways. On the one hand, the UK consumer co-operative sector could be seen to be moving inevitably towards amalgamation into one UK-wide co-operative, with societies such as Scotmid and some regional English societies such as Lincolnshire and Midcounties resisting the trend. On the other hand, the prospects for independent regional societies are better than they have been for a long time, since they can buy through the Co-operative Retail Trading Group and can, if they wish, adopt the common UK-wide brand. Some of them have an innovative member relations strategy as well as being strongly-performing businesses. From a Scottish perspective, it is a pity that the Scottish region of Co-operative Group is no longer an independent region but is now part of a region shared with Northern Ireland. However, in the past the Northern Ireland business was managed by the Scottish region of CWS so in historical terms the change is not all that significant.

In Scotland the idea of local consumer ownership has been revived in an unexpected way. During the 1970s, the Highlands and Islands Development Board helped develop several community co-operatives. They were modelled on an Irish type of rural community co-operative designed as a multi-purpose organisation owned by members of a community and providing for a wide range of needs, with weaker businesses being subsidised by the stronger;. In their governance they were what we would now call multi-stakeholder co-ops. Hansmann's theory of ownership would predict that they would not survive because the costs of ownership would be too high; the interests of members would be too diverse and there would either be conflict or a falling off of participation. Also, the conventional wisdom among rural developers is that multi-purpose co-ops are not a good idea because if one part of the business fails it can jeopardise the rest. There is also a lot of evidence from developing countries that single purpose co-ops succeed much better. In this case, what happened was that they gradually let go of everything other than the core business of community retailing, and so became more like conventional retail co-ops, with a much stronger retail focus.

There are now 12 community retail co-operatives in Scotland. They are small, and only seven have a turnover of more than £100,000, the largest being around £680,000. However, in the context of small rural communities their impact is significant. Ten of them have become corporate members of the Co-operative Group (and two more are in process of joining), which allows them access to the national buying power of its Co-operative Retail Trading Group (CRTG). [49] As members of the Group, they receive an annual dividend based on their purchases and can participate in the Group's governance. Some now provide a dividend or other incentives to members, recognising that member loyalty is important and cannot be guaranteed just by being members of a 'community'. They are also joined in a Community Retailing Network that gives them a horizontal grouping in which they can learn from and support each other.

It is not yet possible to compare these community retail co-operatives with similar co-ops in our comparator countries as we do not have enough information. However, this will soon be remedied by an EU Northern Periphery Programme project on Retailing in Rural Areas. It is a big project, to be delivered by partners in Finland, Faroe Islands, Ireland, Greenland and Scotland. Sweden and Norway will be associate partners and a Canadian partner is being sought. [50] The project will answer the important question of what business format is most effective in keeping small rural stores open. What we do know is that Sweden provides a range of grants for small shopkeepers, administered by local government; there are grants for 50% of the cost of investment, a cover up grant to meet temporary losses in revenue, and a grant that covers 50% of the cost of deliveries to customers. [51] In England and Wales, community-owned village stores are being promoted by the Plunkett Foundation, which estimates that there are 151 community owned stores in England and 6 in Wales. [52] Compared to Scotland, the emphasis is more on volunteering and community ownership; more than half the shops have chosen the legal form of a community enterprise rather than an explicitly co-operative form. There is a chance here for the Scottish co-ops to lead the way towards a more business-like and more explicitly consumer co-operative model. Finally, Swedish consumer co-operatives have taken the Scottish experience and begun to emulate it with their own small co-operative stores; a rare example of Scandinavian co-operators learning from us!

Conclusion

Consumer co-operatives were founded and became successful in all four countries for much the same reasons. The Rochdale model provided a tried and tested design, promoters were available to ensure a supportive environment, and there was high social capital among the emerging urban working class. Economic incentives were clear; an urbanising population needed supplying with basic goods, and the co-ops had the business advantage of being able to pay a dividend on purchases and, through vertical integration, to keep down the costs of supply. It helped create a modern retail market, but stopped competitors achieving monopoly power. After a long period of stable growth, conditions turned against the co-operative as a business form; increased competition, a shift from vertical integration to large national chains led to falling profits, and with the giving up of dividend the rationale for consumer co-operation became unclear. In all these countries the restructuring process was painful and included business serious failures. The factors that had previously made for success now slowed down change; the bonding social capital that had created loyalty to local societies prevented mergers and meant a loss of much of the capital that had been built up over previous generations.

In some countries the restructuring process was handled better than in others, but the result has been much the same; in Sweden one, and in Finland and Switzerland two, national conglomerates have survived and started to increase their market share. There are some differences. Commentators say that in Finland there is still a great deal of loyalty towards the 'co-op', underpinned by a nationalistic desire to support Finnish businesses. [53] The situation in Sweden is more like that in the UK; shoppers are less loyal and inclined to shop more pragmatically. In Switzerland, it was a stroke of luck that the owner of Migros decided to convert it to a co-op as a ready-made and dynamic business concern. It is said that Coop Suisse has benefitted from strong competition with Migros.

So what are the prospects for retail consumer co-operatives in Scotland? If the Scottish CWS had had more vision in responding to the regionalisation debate of the late 1960s, we could have had one national co-operative society for Scotland by now. Still, as we have seen in tracing the history of consumer co-ops in our comparator countries, they have all been facing the same dilemmas, and have all restructured in similar ways to meet the challenges of competition. The main difference is that in the process Scotland has almost completely lost its local societies, which is why the new community retail co-ops are so interesting. However, they are found mainly in remote areas where there is no competition and are unlikely to be replicated in large numbers. The future of the idea of customer-ownership may not lie so much with local societies as with a nationwide co-operative, with its area committee structure and its information-laden and technologically sophisticated dividend card.

Chapter 3: CONSUMER CO-OPERATIVES: FINANCIAL SERVICES

Introduction

In Table 1.1, financial co-operatives appear as a form of consumer co-op, providing a range of financial services – savings, loans, mutual assurance against accidents, life insurance, pensions and so on. Also, supply co-ops for primary producers are identified as providing credit among other inputs to the production process. This explains why co-operative banks and insurance societies are so often a crossbreed[54] between a consumer co-op and a farmer co-op. Rabobank for example, is still regarded as primarily an agricultural bank (the world's largest) but half of the population of the Netherlands are said to bank with it as customers. Similarly, Co-operators, the largest Canadian multi-product insurer which was started by Saskatchewan Wheat Pool and is owned by co-ops and credit unions, provides a mixture of individual and farm insurance. In the UK, NFU Mutual started off insuring farmers but branched out into general assurance. Occasionally there are pure forms, such as CoBank in the USA that just lends to farmers and CUNA Mutual that just lends to credit unions. However, most financial services co-ops are a mixture, because it is hard to keep apart the needs of people as producers and as consumers.

There is a bewildering variety of financial co-ops, and often several types will be found existing alongside each other in one country. To understand why, we have to appreciate how the banking system has developed over time. Before the industrial revolution and the development of a modern, market-based society there were really only two types; the private bank for the rich and the mutual aid society for the poor. Neither was what we would recognise as a formal organisation. The first was a set of private arrangements between investors, merchants and manufacturers. The second was a simple club that provided either mutual savings and credit or mutual insurance against illness and death. Out of this, in the late 18th century came the *friendly societies* in Britain, and similar mutual health insurance societies throughout continental Europe. The friendly societies have gone through some twists and turns over the 20th century, first being co-opted to provide compulsory health insurance, then sidelined in 1948 by a national health service, but surviving and re-emerging as a small but interesting mutual insurance sector; there are two friendly societies still based in Scotland. Another form that began to be tried out early in the 19th century was the local *savings bank*, set up as a non-profit with trustees. Unfortunately, in an age before effective state regulation, these proved to be vulnerable to fraud and many collapsed. Some survived and continued until recently they were merged with the Trustee Savings Bank (which was then sold off by a Conservative Government). In France, the banks went in the other direction; in the 1990s the Caisses d'Epargnes converted to a co-operative form and so can be counted as co-operative savings banks. The Airdrie Savings Bank is thriving, but is the only one left in Scotland.

Alongside these co-operative developments, around the turn of the 19th and 20th centuries there emerged in several countries a sub-sector of large, commercial *mutual insurance societies* that had nothing much to do with the co-operatives but took a mutual form because at that time conventional investor-owned insurance societies had become discredited. In order to overcome the mistrust of consumers, promoters of insurance products chose a mutual model, and some already existing investor-owned companies deliberately converted to a mutual form. For instance, Standard Life was set up as a conventional company in 1825 and then converted in 1925 to a mutual form. Recently most of these have now demutualised again; Standard Life demutualised in 2006.

Then we come to *co-operative banks proper*. In the 1860s, two German social entrepreneurs, Raiffeisen and Schultze-Delitsche invented the rural and urban co-operative banks. Their models spread rapidly all over continental Europe. It was taken up early in the 20th century by Desjardins in the Quebec region of Canada, from where it spread to the rest of Canada, the USA, and then as the 'credit union movement' all round the world (eventually, in the 1980s reaching Scotland). There are differences between the Raiffeisen and credit union models, and they each have their own international organisations (World Council of Credit Unions and Raiffeisen International), but for our purposes they can be seen as equivalents.

Banks specialising in attracting savings to lend for house purchase began in the late 19th century in Britain, when the first permanent *building societies* were founded. Previously, building societies were temporary arrangements by groups of people wanting to build their own homes, and they dissolved when the last member was housed. The invention of the permanent society that continued to attract new members and revolved its funds was a major innovation. The American savings and loans society was a similar invention, and the Swedish and Norwegian housing co-ops can be seen as a combination of building society and ownership co-op. Despite many demutualisations, we can still include some in our list for Scotland.

Another form that emerged in the evolution of consumer co-operatives is the *consumer co-operative bank* set up to service both retail societies and their members. Practically all the countries where consumer co-operatives gained a hold developed their own bank, including the UK. Similarly, where farmer co-operatives have been strong enough, or governments have taken charge of founding a new bank for farmers, *farmer-owned co-operative banks* have emerged.[55] There is one example of a partly-*employee-owned co-operative bank* – the Caja Laboral in the Mondragon system in Spain. [56]

This completes our listing of the different types of financial services co-op. Now we can go on with some confidence to describe the situation in our comparator countries.

Types of financial mutual/co-operative

1. Friendly society/mutual health insurance society, arising out of mutual aid
2. Savings bank converted to co-operative form
3. Mutual insurance society, arising out of commercial decision to take a mutual form
4. Co-operative credit bank/credit union, based on the Raiffeisen, Schultze-Delitsch and Desjardins models
5. Mutual savings and loans specialising in recycling of funds for house purchase (in UK called building societies)
6. Co-operative banks as offshoots of consumer, producer and employee co-op sectors

Consumer Co-operatives: Financial Services - Switzerland

Switzerland is the home of private banks for some of the richest people in the world. Yet the Raiffeisen system is also firmly embedded; the national Raiffeisen Group is the third biggest in the country, with a 19% market share in savings and a 14% share of the mortgage market. It encompasses 367 local banks and 1155 banking points in a 'totally co-operative structure'. It has grown significantly. In 1950 it only had 95,000 members. By the mid-1990s it had nearly half a million members and more than a million customers, and now has 1.5 million members and 3.2 million customers. In 2008, it earned a gross profit of 883m Swiss francs, (down 8.4% on the year before, but still one of the best ever results), and created 450 new jobs. [57] It has an Aa1 risk rating, and so we can be confident that it will ride out the storm that international banking is in at the moment.

Switzerland also has two mutual insurance societies. Mobiliar is the oldest private insurance company in Switzerland, having been founded in 1826. It has 1.3 million policy holders, and a leading position in the market. On its website it makes much of its mutual status, arguing that this makes it 'conflict-free' (meaning life policy-holders do not have to share profits with investors). Pax Holding is the mutual organised holding of Pax Life Insurance, with 150.000 members. It also makes the most of its co-operative status, admitting all individuals and organisations that take out a contract of assurance as members. Each member has only one vote, and through a series of electoral districts they elect an assembly of delegates to Pax Holding.

Consumer Co-operatives: Financial Services - Finland

Like Switzerland, Finland benefitted from the spread of the Raiffeisen banking system; the great Finnish reformer, Hannes Gebhard was acquainted with the system and adopted it. He looked forward to land reforms that would enable small farmers to buy their farms but he understood that a reorganisation of the credit system was necessary first. However, in Finland at the beginning of the 20th century incomes were so low that there was no hope of self-financing through members' savings, so a central bank Okobank was set up to channel loans to the farmers. In its early years it was closely tied to government, with state financing and a yearly subsidy, and it played a very important role in the modernisation process. Members underwent a comprehensive training programme in the fundamental principles of banking which laid the foundation for effective member control. [58] In 1903 there were 8 credit co-ops, by 1928 there were 1416; they played a decisive role in carrying out the land reforms of the 1920s and dominated the market in agricultural credits for small farmers. By the end of the 1930s co-ops had acquired the majority of share capital in Okobank. After the Second World War, the province of Karelia was lost to the Soviet Union and half a million people had to be resettled; again this was achieved through state loans distributed by the co-operative banks. [59]

Since then, there have been enormous changes in organisational form, with banking and insurance being grouped in complex conglomerates that seem to have managed both to keep a base in local co-operatives, a national federation and several subsidiaries, some of which have been floated on the Finnish stock market and involve substantial outside shareholdings. Take Okobank for instance. It took over a large insurance company, Pohjola, and eventually was able to offer the whole range of banking and insurance services. In 2008 Okobank became the OP-Pohjola Group, Finland's largest financial services group, with over 30% of domestic loans and deposits and 25% of domestic non-life insurance. It is made up of the independent member cooperative banks and the Group's central institution, renamed OP-Pohjola Group Central Cooperative, and its subsidiaries and closely related companies. The largest of these is the Pohjola Bank, an investor-owned company listed on the stock exchange which has 30,000 shareholders. Despite this mixed ownership structure, the Group declares that its guiding ideology is the cooperative movement. It has over four million customers in Finland, 1.2 million of whom are owner-members of the cooperative banks. The Group has over 12,000 employees, and assets of Eur65.7 billion.

Is there still a role for the *local* co-operative banks? It seems so, because there are 228 of them; they are independent, local deposit banks engaged in retail banking for household customers, small and medium-sized businesses, agricultural and forestry customers and the public sector. They are grouped in 16 regional federations whose main task is to elect people to the supervisory board of the Group. Also, in addition to the OP Group, there are still around 40 completely independent co-operative banks.

Finland also has a Local Insurance Group that was set up by Pellervo to meet the insurance needs of farmers. It consists of 84 insurance associations that own a Local Insurance Mutual Company and a Federation. The Local Insurance Group is Finland's fifth biggest non-life insurer in terms of premium income, with a market share of 8.5% of Finnish direct insurance income. The Group has 530,000 customers and almost 1,800,000 policies, and is the market leader for farm insurance. There is also a separate group in Swedish speaking areas. Finally, there is the Tapiola Group. This started in 1857 as an insurance mutual, and now has four insurance companies, an asset management company and a bank; it has an 8.3% market share in deposits. It is not afraid to argue for its mutual status, and includes members in governance through advisory committees and elections to a supervisory board.

Consumer Co-operatives: Financial Services – Sweden

Like Scotland, Sweden missed out on the original spread of the Raiffeisen co-operative banks. Here, banking is dominated by commercial banks and savings banks (some of which have converted to investor-ownership). Compared to 31 commercial banks and 57 savings banks, there are just two small co-operative banks. The reason is not difficult to find; for historical reasons, savings banks have filled the same market niche that co-operatives might have done. It is a different matter with insurance. Although a pure form of co-operative insurance is not allowed in Swedish law, this has not stopped two large insurers from taking a 'customer-owned' form. First, Folksam was founded as part of the cooperative and labour movements in 1908, and it still offers group insurance to trade unions and sports associations. With 4 million customers and 3300 employees, it now insures every second home and person and every fourth car in Sweden. It is also one of Sweden's largest investment managers, with SK200 billion in assets. [60] Second, there are local insurance associations, one for each of the 24 Swedish counties that come together in the Lansforsakringar (LF) or County Insurance Group. 'LF Group' is the market leader in non-life insurance with a market share of 30%. It has 10% of the life insurance and pensions market, because it also owns its own bank, has 3% of banking. Like other large co-operatives facing the pressures of globalisation (but more accurately, Europeanisation), it is expanding from its home base and establishing operations in Latvia and Lithuania.[61]

Consumer Co-operatives: Financial Services – Scotland

Scotland has a disparate set of financial services co-operatives that, because their historical trajectories have been very different, do not seem to have much in common. First, there is one very large financial service co-operative that, historically speaking, can be seen as a by-product of the consumer co-operative sector. The wholly owned subsidiary of the Co-operative Group, Co-operative Financial Services consists of the Co-operative Bank, its Smile internet bank, and Co-operative Insurance Society, soon to be augmented by a merger with Britannia Building Society.[62] CFS's operation is UK wide but, as noted in Ch.2, 14% of its business is in Scotland. For most of its existence, the Co-operative Bank was merely a banking department of the Co-operative Wholesale Society, and it did not gain bank status until the 1980s. Then, under the inspiring leadership of Terry Thomas, a rediscovery of co-operative values began that led to it becoming rebranded as an 'ethical bank' that would not invest in unethical companies. Its growth since then has been steady, and it has gained a reputation for innovations; it was the first UK bank to offer free banking for personal customers, the first to launch an internet bank (Smile), and so on.

Until recently the Co-operative Bank and Co-operative Insurance Society (CIS) were not very well integrated either with each other or with the Group's other businesses. The merger into Co-operative Financial Services under one chief executive is part of a longer process of trying to provide banking and insurance in a more integrated way as part of the Group's 'family of businesses'. Also, customers of co-operative financial products did not used to be able to be members; because the banking and insurance arms were wholly-owned subsidiaries of Co-operative Group, customers had to gain membership through the retail consumer co-operative in order to have any sense of ownership. Now, they can join the Group through any of its businesses. In 2008, customer satisfaction expressed as 'extremely' or 'very satisfied' with the products and services was up, at 64.4% of customers, compared to 62,5% the year before. CFS and its constituent parts are used to being awarded a wide range of awards and commendations. It was named 'business of the year' in the Business in the Community Awards 2008.

How well is CFS coping with the global banking crisis? In 2008 its retail business grew by 20%, its corporate business by 16%. Its gross profit (before tax, dividends to members and so on) was £470m, down from the £155.4m of 2007. [63] The insurance business has seen a drastic reduction in working capital from £1009m to £573m, as a result of falls in equity markets. However, the Financial Report for 2008 declares that the contrast in performance between CFS and many of its competitors shows the strength of the co-operative model.

The second type, historically speaking, is a by-product of a representative body of farmers who decide to meet their own needs for mutual insurance. Again it consists of just one example, NFU Mutual. It began in 1910 as the Midlands Farmers Mutual Insurance Society, set up by the Stratford upon Avon and District Farmers Union. Then it became a UK-wide farmer-insurance mutual. However, in the 1980s it opened its business to non-farmer customers, and now there are 420,000 farmers and 450,000 non-farmer customers. It is doing well; in 2007 its general insurance premiums grew by 3.4% to nearly £900m, and its life business grew by 20% (to £53.4m Annualised Premium Equivalent). In 2009 it expects to give £85m as a bonus to its customer-members of up to 10% of premiums.[64]

Third, there is insurance from two friendly societies, Liverpool Victoria, and Scottish Friendly Assurance. They are the inheritors of a long tradition of friendly societies that, before the welfare state was set up in the late 1940s, had a much larger role in providing social insurance. Liverpool Victoria is the largest friendly society in Britain. It started in 1843 as a burial society, collecting 'penny policies' among poor people through door to door collectors. Now it offers a range of savings, investments and insurance products, has 1.13 million members, over 3500 staff, and assets of £700 million. Although profits on its with-profits policies fell from 7% in 2007 to nearly minus 18% in 2008, its good asset ratio should enable it to weather the storm of the current banking crisis. Based in Bournemouth, it does not have a significant Scottish presence, though it does business in Scotland through online sales and intermediaries. [65] The Scottish Friendly is the only genuinely Scottish society remaining. Founded in 1862 as the City of Glasgow Friendly Society, it took over the Scottish Friendly in 1992. It has over 500,000 policyholders and assets under management of over £704 million.[66]

Fourth, there are the remaining building societies that have not demutualised. Five of these are UK wide: the Britannia, Leeds, Newcastle, Skipton and Yorkshire. There are only three Scottish societies, and the largest of these, the Dunfermline, is to be taken over by the Nationwide. This leaves the Scottish Building Society and the tiny Century society. The Scottish Building Society began in 1848 as the Edinburgh Property Investment Company, changing its name in 1929. Based in Edinburgh, it does not really encourage customers from outside Scotland, requiring that English potential customers have £1000 in a savings account first. It is very small by building society standards, with 56 staff and six branches, and it made a profit of £1.1m in 2008, with a balance sheet growth of 14%. How well is it coping with the global financial crisis? With arrears running at a third of the average for the UK sector, and with a capital ratio of 9%, it looks set to weather the crisis quite easily. The reason is not far to find; it has remained a traditional kind of building society, raising 87% of its funding from individuals and only 13% on wholesale markets, and with 90% of its loans secured against residential property.[67] The Century Society was established in 1899 as the New Edinburgh Investment Building Society. It is the smallest building society in the UK, with assets of £22m (2007 figures). With only one head office and no branches, it operates mainly through brokers and intermediaries.[68]

Finally, there is a comparative newcomer to Scotland - the credit union sector. In many parts of the world, this sector is well established; there are over 77 million members in 49,000 credit unions in 96 countries, they have $988 billions in savings and $848 billions in loans. [69] In the USA, Canada and Australia over a quarter of the population are in membership. However, in Scotland this form was introduced only around 20 years ago, and there are 115 credit unions with a combined membership of around 250,000, £200 millions in savings and £150 millions in loans, and around 5% of the population in membership. Most are small, and set up deliberately to enable those who are financially excluded to gain access to savings and loans facilities that are under community control. Some are employee-based and these tend to be larger. The top 10 in Scotland have a combined membership of around 100,000 and assets of £147 millions. While most offer basic savings and loans, four now offer the Credit Union Current Account and four also offer mortgages (both provided by the Co-operative Bank), and the apex organisation ABCUL is hoping to set up a central services organisation to develop unions' capacity to offer more products and services. [70] The sector has been growing rapidly over the last decade, with assets, loans and savings more than doubling, and membership growing by 227%.

Because of the proven ability of this form of financial co-operative to combat social exclusion, the Scottish Government has given considerable support. There are small grants to help unions expand, provide new products and improve organisational capacity. There is access to the Enterprise Fund for large grants, and £250,000 set aside from the £12m Third Sector Enterprise Fund to offer established credit unions between £2500 and £25,000 to build their capacity, capability and financial sustainability.

New UK legislation is planned for 2009 that will: widen the 'common bond', allowing more flexibility over who unions can provide services to; will allow them to pay interest on savings instead of just offering a dividend; and enable them to provide services to corporate members such as community organisations and social enterprises. According to one academic assessment, credit unions in Britain are at an unstable phase of development. They are somewhere between the 'nascent' stage where unions are run by volunteers, dependent on financial help from local governments and focused on helping the poor in run down metropolitan areas, and the 'transitional stage' where they hire paid employees, being to offer a range of services and attract middle income members. The movement in Britain has been held back by fragmentation caused by rivalries between competing trade organisations and by lack of interest among the general population, *not* by lack of a supportive environment. In fact, legislation has often been in advance of the developmental stage the movement has reached. [71] However, these judgements were made several years ago; the credit union sector in Scotland is now growing rapidly into the 'transitional' stage, but with a long way to go before it is 'mature'.

Conclusion

In Switzerland, the tried and tested Raiffeisen model was copied and, with little competition from other types of bank, it rapidly filled an important market niche. In Finland, government commitment was needed to achieve the same result, and it was forthcoming because the government recognised that a co-operative banking system was necessary to achieve land reform. In Sweden and Scotland other types filled the organisational space co-operative banks might have filled, but then in the 1980s, in Scotland a conscious attempt was made to import the Canadian credit union model to fill a gap in the market for the financially excluded.

The current situation in Scotland has come about through historical accident and – in the case of the credit unions – a deliberate attempt at financial deepening aimed at the 'unbanked'. The lesson from Switzerland and Finland is that if you want to enjoy a developed co-operative financial services sector you have to start a hundred years ago. On the other hand, there is plenty of banking and insurance business being done in Scotland by co-operatives and mutuals; it is just not very well connected up. The lesson from the Raiffeisen movement is that the attempt to grow a movement from below through credit unions will only succeed when it begins to provide mainstream banking and insurance business as well as helping the financially excluded.

However, with the conventional, investor-owned banking sector in crisis and widespread revulsion among customers at the behaviour of the bankers, now is the time to promote the ethical and risk-averse alternative. Co-operative and mutual financial services providers might come together to emphasise the 'co-operative difference'. Their continued support for the credit union movement is crucial. If the different parts of the co-operative and mutual sector can be connected up, eventually they might found a new co-operative banking system. However, from a Scottish point of view it is a pity that the main players are UK-wide businesses that have Scotland as only one region.

Chapter 4: CONSUMER CO-OPERATIVES: HOUSING

Introduction

Before we begin to compare Scotland with the other countries, we need to be clear about the different types of housing co-op. The literature on co-operative housing is often confused, comparing different types that have no real relation to each other. First, there is the distinction between house-building co-ops and permanent housing co-ops. *House-building co-ops* are more or less formal ways in which people mutually build housing which then becomes owner-occupied. They are more applicable in countries where land values are low and development planning does not restrict permission to build, but local authorities such as Lewisham have developed them in conjunction with a self-build method provided by an architect, Walter Segal.[72] The sites are small and the outputs of housing are very low[73], and so they may be only of passing interest. Generally, in Scotland a combination of high land values and low building costs (using timber frame construction) have made self-build unattractive; the savings are not all that great. Also, the market is dominated to an unusual extent by large developers. In our three comparison countries there is a lot of self-build by individuals, but no information can be found on co-operative forms.

P*ermanent housing co-ops* vary on a continuum between full equity and non-equity, which correspond to owner-occupation and renting. In a full equity co-op, people buy a share that is equal to the value of the apartment they are buying, and entitles them to membership in the co-op and a 'right to occupy' their individual home. When they leave, they can sell their share at market value. In a non-equity co-op, people pay a nominal amount for a membership share, are allocated a home on the basis of need, and then rent from the co-op; when they leave they only get their nominal share back. In between are various levels of limited equity co-op that attempt a compromise between affordability and increase in market value; when they leave, members receive a payment based on some kind of formula that revalues the original share. Full equity co-ops are the main form of apartment ownership in New York, and they are also popular with retired people in schemes throughout the USA. Co-ops in Sweden and Norway are also of this type. Limited equity co-ops are also important in New York, formed by tenants in the 1980s to take over blocks abandoned by private landlords. Though they are open to people on low incomes, they rely on voluntary labour to renovate the blocks, and so reward members with a modest increase in their equity stake when they leave. [74] In Britain, non-equity co-ops have been the norm, and can be regarded as a form of tenant-controlled social rented housing linked to the much larger housing association sector. [75]

A *full equity co-op* has advantages over individual owner-occupation in multi-dwelling blocks. When people live in apartments, it is in the nature of the building that they share responsibility for common parts such as the roof, drainage systems, stairways, and so on. Different countries have very different legal systems to deal with this issue; England splits the responsibilities between a freeholder and leaseholder, but this solution proved so unpopular that residents who want to gain control over their building now have some rights to buy and each own a share in the freehold. [76] In Scotland, the system of 'feuhold' applies, but the law has been revised and responsibility between the residents is shared; there is no longer any 'superior feuholder'. The rights and obligations of apartment-owners are set out in common law, and in burdens set out in title deeds, but because of the unclear nature of the relationship a recent Act (Tenements Act, 2004) has introduced a Tenant Management Scheme. This will be a default management scheme, making up for deficiencies in title deeds, and defining as 'scheme property' the parts of a tenement held in common. Crucially, the Act establishes that when the deeds are silent about how decisions should be made, there will be majority voting; this should make it easier for residents to manage their block. Arguably, it would be much easier if Scotland were to adopt the Swedish solution and make all apartment blocks co-operatives.

A *limited-equity coop* has advantages in making housing affordable for people who cannot afford to buy in the open market. Members collectively pool their borrowing, which usually makes a mortgage cheaper, and in a multi-occupied block they make savings on the costs of management and maintenance. They build up an equity stake, which helps them get on the 'property ladder', but this is limited so that new entrants can afford to become members. If sufficient collective capital is retained, new members can buy a basic share while the co-op pays out the departing member from reserves. There have been two attempts at promoting this kind of co-op in Britain. In the Edwardian era, tenant co-partnerships built around 20 garden suburbs, but they were superseded by the rapid expansion of council housing after the First World War. In the 1960s, co-ownership was developed and proved quite successful until in the 1980s members got the 'right to sell' and most of the estates converted to owner-occupation. [77] A new attempt is being made by CDS Co-operative Housing Services in London to develop 'mutual home ownership' schemes in which a community land trust owns the land, a housing co-op takes a lease and develops it, and individual members then get the right to occupy. In England, the implementation of this idea has been held up because it is feared co-op members may be able to use the leasehold reform legislation to buy out a co-op and convert to owner-occupation. A new law is needed exempting land trusts from this before the idea can get going, but if it does prove viable, this new form of tenure will have no trouble attracting large amounts of funding. [78] In Scotland, the legal system is different and so there should be fewer impediments to development of this kind of limited equity co-op.

A *non-equity co-op* has advantages over renting from a 'social' or private landlord. The relationship between landlord and tenant is an inherently unequal one, since the 'exit costs' are usually greater to the tenant than to the landlord. One way to deal with this problem is through laws that provide some protection to the tenant. Another is to promote non-profit landlords that have a social purpose. Even then, it can be argued that the experience of being a tenant exacerbates the sense of powerlessness of people who are already socially excluded. The experience of being on a tenanted estate with other people who are also disadvantaged can, paradoxically, lead to a loss of control by the landlord, so that nobody has any power and the use value of the home and its environment deteriorates. Under these circumstances a tenant co-operative is an attractive option. However, not all tenants want the responsibility of collective ownership, and so in Britain another form has developed; the *tenant management co-op.* Here the tenants collectively act as the landlord's agent, and are given a budget to manage and maintain their estate.

Consumer Co-operatives: Housing - Switzerland

Armed with these important distinctions, we can now begin to analyse Scotland in relation to our comparator countries. In Switzerland, only 35% of the housing stock is owner-occupied, and around 65% rented. 57% of the landlords are private individuals, and 22% institutional investors. The rest are a mixture of local authority, non-profit, public utility and co-operative ownership, and the co-operative sector makes up just over five percent of the stock. Most of its growth has been in the postwar period and it has benefitted from a steady government policy to provide low-interest loans and mortgage guarantees to non-profit providers. There are 1500 housing co-ops with 160,000 members. They make up one apartment in 20 in Switzerland, with concentrations of one in five in Zurich and Bienne (Biel). As public utility companies they have been eligible for low-interest loans provided by a government-backed bond co-operative, and as a comparatively old sector they benefit from having paid off substantial parts of their mortgages[79]; they claim their rents are around 20% cheaper than the average. [80] How would we categorise them? They are non-equity co-ops, but in the context of Swiss society where almost everyone rents, the lack of an equity build up is not so important. Their own literature says they are for people on 'modest' incomes but are emphatically not social housing.

Consumer Co-operatives: Housing - Sweden

In Sweden, there is a large public housing sector that has 20% of the housing stock, some 830,000 dwellings. It houses 1.4 million people through 300 housing companies. The co-operative housing sector is only a little smaller, with 18% of the stock and 750,000 apartments. It goes back to 1923, when HSB, a combined savings bank and housing co-operative developer, was founded. Its way of working is to act as a 'mother' to 'daughter' societies, setting them up and then, through regional associations, offering management services to the local societies. Prospective 'tenant-owners' have to save with the savings bank before becoming eligible for a co-op apartment, and so the whole system of building, managing, and financing a co-operative is contained in the one organisation. In 1929 a similar organisation, OBOS, was set up in Norway. In the 1940s, the other big co-operative development agency, Riksbyggen, was founded by building trade unions, initially to provide work but then to act in the same way as HSB, offering membership to 'daughter' co-ops and managing the queue for housing through savings; in 1993 it opened a separate savings bank. [81] Between them, these two organisations have 75% of co-operatives in membership, with the other 25% being independent. HSB has 540,000 members, of whom 360,000 are tenant-owners and the rest are waiting for a home. There are 3845 co-ops in membership of the 33 HSB regional societies, while Riksbyggen has 170,000 tenant-members, 1700 co-ops and 35 delegate bodies.

The nature of co-operative ownership changed fundamentally in 1969, when shares were deregulated and members were allowed to sell them on the open market; co-operatives moved from being limited equity to full equity, and are now regarded as a form of owner-occupation. A similar story can be told of co-operatives in Norway. If a bill that is currently under consideration is passed by Parliament, people will be able to own new apartments as owner-occupiers. If the right to convert existing co-ops to owner-occupation were also granted the sector could shrink dramatically, but there is an agreement among political parties that owner-occupation can only apply to new buildings.

Consumer Co-operatives: Housing - Finland

In Finland, according to some accounts there are no co-ops, just housing companies. However, from another point of view the housing companies can be considered a truncated form of full equity co-op. It is all rather complicated. 63% of the housing stock is owner-occupied; housing companies are considered part of this sector, and account for around half of it. Privately rented dwellings account for 17 % (mostly owned by individual landlords), and social housing for 16%. Housing companies are incorporated as stock companies, and as in Sweden one buys a share in the company that gives the right to occupy the dwelling; the cost is generally 15% of the value of the home. In return, the company manages the building but there is mixed tenure, with owner-occupiers and renters all in the same building; in this respect it is more like a condominium. The advantages of investing in a housing company are that the company takes out 85% of the loan, with dwellers paying loan interest according to the number of shares they own, and also paying a management fee on a cost recovery basis. Most companies are small, and their shareholders get representation on the board just like in a co-op. Housing company shareholding is regarded as in between owning and renting, and in that respect it is like a limited equity co-op. Also, while the Swedish form of housing co-op developed as a social movement and the Finnish form was always more speculative, the deregulation of the Swedish form has made them much more alike. The main difference is that the mixed tenure of Finnish multi-occupied blocks dilutes the idea of co-operation further.

Consumer Co-operatives: Housing - Scotland

In Scotland, the predominant form is the non-equity type; there are 15 of these, registered as a 'social landlord' and occupying a small niche in the social housing sector, along with community housing associations and local authorities. Their origins are in a policy that began in 1988, when Glasgow City Council decided to transfer some of its hard to let estates to the tenants. At that time, Glasgow was the biggest landlord in Europe with 180.000 homes, and some of its peripheral estates had become almost unmanageable. The solution was to transfer around 30 estates to their tenants, who could choose whether to set up as a co-op or a community housing association. Consequently, Scottish coops tend to be larger than their English counterparts. The largest, Tenants First in Grampian region has 1223 homes, though this is an amalgamation of six former co-ops that still keep some independence by having their own management groups within the parent co-op.[82] The average is nearer to 250 homes. They are part of a much larger sector of community housing associations. The difference between the two forms is small, except that the governance structure of the associations is wider, with local people allowed to be members who are not tenants. In a co-op, only tenants can be members, though others can be co-opted on to the board.

There has been unintentional discrimination against co-ops that has seen many of them convert to conventional housing associations. It began with the repeal of section 54 of the 1988 Housing Act that allowed housing associations to claim a grant that reimbursed them for the tax liability on their surpluses. It applied to non-charitable associations because charities were already exempt from paying the tax. The phasing out of the grant began in 2002, and associations then began to apply for charitable status that exempted them from paying corporation tax. Co-operatives were not eligible for charitable status because they were set up to benefit their members rather than the wider public.[83] However, recently the public benefit test was applied to one large co-operative, West Whitlawburn and it succeeded in becoming a charity. In doing so, it was estimated that it would save £150,000 over the next three years in tax relief, rate reductions and VAT reclaims.[84] But in the meantime, faced with the threat of being taxed on their surpluses most of the co-ops have converted to association status.

A similar story can be told of Scotland's tenant management co-ops (TMCs), a sector that has been virtually destroyed because of the unintended consequences of policies designed to benefit the dominant housing association sector; there are now only three left, all in one local authority area, South Lanarkshire. The first TMC was set up at Summerston in 1977 by Glasgow City Council, and by the early 1990s there were 29 of them, managing over 9000 properties. By 1999 they had reduced to 20, some giving up due to the effects of the 'right to buy', a few being wound up through mismanagement or a falling off of interest among the tenants. [85] When the Council's housing stock was transferred to a new Glasgow Housing Association, arrangements were made for the stock to be managed by 63 local housing organisations that have a majority of tenants on the committee but are set up on the charitable housing association model. Glasgow's TMCs then decided to wind up as the new system provided opportunities for tenants to be involved, but in a different way.

There are good reasons why we should promote the co-operative form in Scotland more vigorously, and with conviction. Several evaluations have shown how co-ops outperform housing associations across a range of indicators, providing a real difference in the management of hard to let estates among some of the poorest people in Britain. [86] In Scotland, the regulatory results from

Communities Scotland clearly show the benefits of community ownership through the co-operative model. They tend to take a wider role than housing associations in regenerating their communities, and are more likely to join up the physical and the social needs of their communities. The fully mutual model exempts co-ops from tenants' right to buy' their homes, thus preserving the stock for social rented housing. It can also be argued that the broader governance structure of associations provides less incentive for tenants to get involved. Also, studies have shown that ownership co-ops are more successful than management co-ops in meeting their members' needs and aspirations. [87]

In addition to these non-equity co-ops, in Scotland there are three 'intentional communities' whose members share a large house, and six co-ops that want to build ecological housing but have so far had little success. It is a pity that those who want to live an alternative life style and try out new, more sustainable ways of living cannot get started, but there are no development agencies geared up to helping them realise their dreams.

There is a large and persistent affordability gap for those who are not eligible for social housing but cannot afford to own their own home, and this could be filled by a new form of limited–equity co-operative that is similar to co-ops in Sweden and Norway.[88] The design is complex, involving a community land trust that owns the land and, by not passing on the 'planning gain' (the increase in value from obtaining planning permission for housing) makes the housing more affordable. Then a housing co-operative leases the land and takes out a mortgage to fund the building of the scheme. Finally, the individual members of the co-operative pay a rent that covers costs and also ensures that if they leave they get a bonus based on some formula that takes into account their contribution to paying off the mortgage and/or the rise in house values.[89] This idea has been well worked out, and funders are keen to invest but there is a question mark over whether co-op members would be able to use leasehold reform legislation to buy the freehold of their homes. Legislation may be needed to exempt community land trusts from the existing law. In Scotland the law is different and so developing the idea should be easier.[90]

Conclusion

Housing co-ops tend to vary in character from one country to another. To a much greater extent than other types of co-operative, they depend on government housing policies for their right to exist. They fit into national housing markets that have their own dominant forms of tenure, distinctive legal structures, and policies for ensuring affordability. For these reasons, it is difficult for promoters to take a design from one country and make it work in another. In Sweden, co-ops are the dominant form of ownership for apartment blocks, in Finland part of a more mixed investment system, in Switzerland a minority part of the majority form which is renting. In Scotland, they are a minority tenure within another minority (housing associations), and are seen as part of the 'social' sector aimed at those who can least afford to buy in a predominantly owner-occupied market.

What are the prospects for co-operative housing in Scotland? Unless they develop their own distinct identity, *non-equity co-ops* will continue to suffer from being assimilated to a much larger community housing association sector whose legal form, governance structure and ethos are very similar. However, stock transfers from local authorities who have not yet transferred provide opportunities for new co-ops to emerge. In England a community gateway model (and in Wales a community mutual model) of housing transfers has opened up the options for tenants to include a variety of types of transfer agency, including housing co-ops. Currently, there are four gateways in England and two community mutuals in Wales. If this model were transferred to Scotland it would bring a fresh impetus to co-operative development. T*enant management coops* are not given much attention, and a new attempt to publicise them as one option among others would be timely. In relation to *limited equity co-ops* there are opportunities for new development along the lines of the community land trust/housing co-op model, and pilot schemes should be encouraged. The Commission for Co-operative Housing is coming to Scotland in May 2009 to take evidence and to make recommendations for the future, and its members will want to make sure that the particular problems faced by co-operative housing in Scotland are fully understood.

Chapter 5: CONSUMER CO-OPERATIVES: UTILITIES

Introduction

A utility is a service that is needed by almost everyone, and so is often called a public utility – it provides a public good rather than a club good. It is not necessarily provided by the public sector, though because of its importance to the public interest it is almost always closely regulated by governments. The most important utilities are in energy provision and telecommunications, water provision and sewage treatment, waste collection and recycling, environmental management and pollution control, roads provision and transport. They produce the fundamental means of life and so there is an intense debate about who should provide them, with some arguing that only governments can ensure their quality and availability to the public, others that private for-profit companies can run them more efficiently provided they are properly regulated.

Within this either-or debate the cooperative option is often overlooked, yet it is a tried and tested model; in the USA, under the New Deal of the 1930s, utility co-operatives were founded that supply almost all the electricity and telephone systems for rural areas. At the same time, and for much the same reasons, Finland developed water co-operatives and telecommunications, and Denmark developed a network of consumer-owned electricity co-ops. Denmark is leading the world in wind power, much of which is provided by consumer co-ops, and so in this chapter we go slightly outside our three comparator countries to include Denmark along with Finland. There is not much information available on Switzerland, but there are interesting new developments in car sharing and solar power. Sweden will appear later when we consider farmer-owned biomass and biogas co-ops.

In energy provision, there are three options for co-operatives to enter the market. The first is to get in early and create the entire electricity generation and distribution network as the electricity co-ops did in rural USA, Finland and Denmark. The second option is, once the grid is in place, to generate electricity and sell it into the grid. As a recent report puts it 'This distributed form of power generation means that projects must be located in many more 'back yards' – both urban and rural'. [91] Wind and hydro are the main methods.[92] The third option is to generate energy via local sources of power such as wind, hydro, biomass and biogas, and to use it locally in district heating systems, avoiding the need for long distance transmission. The second and third options can overlap through combined heat and power plants that both provide heat for districts and electricity for the grid. All three options have the advantage of distributing the benefits to communities through co-operative ownership.

Consumer Co-operatives: Utilities – Switzerland

Switzerland's utilities – electricity, gas and water supply – are very fragmented. Many municipalities supply all three. In some cantons and cities, a single vertically-integrated company is responsible for the entire supply chain, while in other cantons supplies are secured by a variety of companies. For instance, the electricity market has around 900 companies involved, including 7 generation and transmission companies and approximately 80 producers. It is around 80% publicly owned, with the rest held by private companies. The main form of generation is by the harnessing of water power: 57% of electricity is generated by 538 hydro-power plants. Then comes nuclear energy with 39%. Renewables such as biomass and solar power account for very small amounts.

Co-operatives do not seem to be involved in mainstream utility provision, but there is a co-operative for disposal of radioactive waste, NAGRA that has in membership a mix of government bodies and generating companies. To find examples of co-ops in renewable energy we have to look at solar power. There are around 50 solar energy co-ops that provide an opportunity for consumers to invest. Some, like Solargenossenschaft Aadorf, are also developing small hydro-power schemes.[93] They are not very well documented, and it would be very useful if someone from Scotland were to do a study visit to find out more about these developments.

Car sharing co-operatives began in Switzerland and Germany during the 1980s, as a way of enabling people to cut down on their car use and make better use of resources. One example is Mobility, a Swiss car sharing co-operative that provides over 2200 vehicles at 1000 stations throughout Switzerland. It has 80,000 customers, including more than 2100 businesses (business car sharing increased by 25% in the last year, and now generates 22% of the turnover). Members of the co-operative can book online and use various types of credit and ID cards to gain access to the vehicle without having to use keys. The idea has spread throughout Europe, and there are several such co-operatives in Canada and Australia. Again, it would be a good idea if this option could be explored for Scotland.

Consumer Co-operatives: Utilities - Finland

Finland has some electricity co-ops within a decentralised and mainly private system of generation in which 120 companies operate 550 power plants, and a system of retail supply in which 70 companies compete for customers. It also has one wind energy co-op in the Aland Islands. [94]However, its particular contribution in co-operative utilities is in telecoms and water. The Telecoms company, Elisa Oyj was founded in 1882 as a mutual, and it soon became dominant in the rural telecoms market. However, it was demutualised in 2000. The remaining 27 local telephone associations banded together in the Finnet Group, which has a mobile phone network called DNA Finland. It has a market share of 18% of the fixed telephone lines, and employs 2000 people. It would be interesting to find out more about whether, in such a rapidly expanding, volatile and competitive market, consumer-owned telecoms companies are still viable.

In water supply, as in most developed countries Finnish local government has taken responsibility for providing water and sewage facilities to urban areas. However, because the rural areas have sparse populations, there is a long tradition of self-help, with consumer co-ops being founded a hundred years ago. As well as 400 municipal utilities, there are 902 co-operatives. [95] Some are quite large, serving more than 10,000 people, and they are not confined to rural areas; local government relies on co-operatives to supply small towns. They began by supplying water but many have expanded to sewerage and waste water treatment. [96]

Consumer Co-operatives: Utilities - Denmark

In Denmark as in Finland and Sweden, co-operatives dominate the agri-food sector, have a high presence in the retail consumer sector, and are major players in financial services. We might profitably have chosen to make it one of our comparator countries, except that in some respects it is very different from Scotland. It is a densely populated, low-lying country with an export-led farm sector and, unlike the other countries in our comparative study it has no mountains or wilderness areas. We might expect electricity distribution to have an element of co-operation, and we would be right; like the USA in rural areas the networks are owned by the consumers. Despite liberalisation of the market in 2002, suppliers continue to have a monopoly; a large part of the price of electricity consists of energy taxes, and so suppliers cannot really compete on price as they do in the UK, and have to compete at the margins on service quality. It helps, therefore, that the co-operative model guarantees accountability to consumers, has price transparency and a non-distribution rule that means profits are returned to consumers in lower prices.

Denmark has invested heavily in energy technology over the last 25 years, and its knowledge and manufacturing expertise are now being exported; the sector is worth 5.5% of total exports. [97] It has pioneered energy taxation, designed to reduce CO2 emissions and support renewable forms of energy, and the result is that renewables now supply 20% of the country's electricity. The electricity grid has hundreds of small-scale distributed generators, using wind power and a range of fuels such as wood, straw, biogas and bio-oil. Denmark leads the world in wind power, and co-operatives have played a surprisingly large part in its development. The idea is not new; even in the 1930s there were 30,000 windmills, some of which were producing electricity and so when modern turbines began to appear they were not seen as controversial. Local communities became involved, on the principles that they should own their own power source, and then when schemes became larger and moved offshore ownership was opened up to the whole population. [98] Between 1978 and 1994 co-ops had over 50% market share, but this has now fallen to around 23% as landowners and larger investors have entered the market. By 2004, no new wind farms were being planned because of a cut in subsidies. Still, the sector is here to stay: 150,000 families are members of wind-energy co-operatives, owning well over 3000 turbines.

Denmark is also a world leader in district heating networks. They now account for over 50% of space heating, and allow cheaper, low grade fuels than gas or oil to be used. The decision was made 30 years ago to invest in district heating rather than individual connections to natural gas networks. [99] From 1986 onwards, the emphasis was put on combined heat and power plants which were more efficient and allowed for fuel flexibility; natural gas, biogas, woodchip, straw, bio-oil and even solar thermal can be used, and excess heat from power stations can be circulated to city heating grids. In order for the new system to work, local authorities were given the power to force consumers to connect to the system, and this was counterbalanced by a commitment to the consumer control and price transparency that co-operatives provided. Of the 430 district heating companies in 2001, 85% were co-operatives, but they only account for 37% of the heat sales because the larger ones are owned by local authorities. [100] They are, however, recognised as being more efficient and responsive to consumers than the local authority district heating systems.

Consumer Co-operatives: Utilities – Scotland

In Scotland, the utility industry is dominated by either private or public companies, with not much room left for co-operatives. In water supply, there is one national public company, Scottish Water that recently amalgamated out of three regional bodies. The idea that it might convert into a consumer-owned mutual has been explored recently, but has proved politically controversial. In electricity supply, there is a privatised system of energy utilities dominated by large, transnational, investor-owned companies, competing for customers under a system of public regulation. This creates barriers to the entry of new players in the market.

However, when it comes to new forms of energy such as wind power the barriers to market entry are not so insuperable and some co-operatives have emerged. In the UK, the key support organisation for co-operatives is *Energy4All*, a not for profit association owned by the co-operatives that it creates. It has developed several co-operatives on an asset-ownership model pioneered by the Baywind Co-operative in Cumbria. Its Scottish branch has four wind co-ops in development. The first to be completed was Boyndie Wind Farm Co-op, established in 2005 to purchase a share of a wind farm that was already being developed. The share launch raised its target of £730,000, and profits from the sale of the green electricity produced are distributed to members through an annual payment. Preference for joining the scheme is given to people living in the area to maximise the economic benefits to the local communities. [101] The Isle of Skye Renewables Co-operative raised a similar sum in order to buy into the Ben Aketil Wind Farm, near Dunvegan on the Isle of Skye. Great Glen and Kilbraur have been successfully launched, and have both raised over £1 million.

Energy4All aims to create a national Scottish Co-operative 'Caledonia' that will invest in suitable renewable energy projects which are unable to raise sufficient funds themselves, and will become a national Scottish renewable energy co-operative. This makes sense, as many people in urban areas (and in rural areas that do not have wind farms) may want to invest in renewables. Also, as wind farms begin to be developed offshore, a national investment co-operative will make a lot of sense.

The co-operative model is competing with an alternative development trust model. For instance the Tiree Development Trust is developing one wind turbine on the island of Tiree, using National Lottery money to fund it and intending to dedicate the profits to community development. Six communities in Orkney are also intending to install one turbine each. The Fintry Development Trust in Stirlingshire has bought one turbine in a 15 turbine wind farm, and is also dedicating the profits to the community. They are supported by a development agency, Community Energy Scotland that is funded by the Scottish Government and Highlands and Islands Enterprise. However, the problem with the development trust model is that it depends on public funding for equity, so the size of projects tends to be relatively small compared to what a co-op can achieve. The co-op can raise capital directly from people willing to become shareholders.

The main constraint to the development of the sector is a lack of available risk capital to develop wind farms and other renewable projects. Government support is needed. The co-operative projects that currently exist rely on developers who are willing to forego future profits to the community, and landlords who are willing to take on the development risks and sell their project to the community. Some regional development agencies in England are willing to assist the co-op model by funding the development stages, but this has not yet happened in Scotland.[102] One interesting example shows how co-operation between co-operatives can also help in the development process. In 2005, the Co-operative Group led the development of an eight-turbine wind farm on one of its farms at Coldham in Cambridgeshire. The joint venture with Scottish Power generates some 38.5 GWh per year – enough to power over 9,000 UK homes, and saving an estimated 36,000 tonnes of carbon dioxide being released into the atmosphere each year.[103] This kind of project could usefully be developed in Scotland.

There are also some fascinating new developments that could be the start of a whole class of 'renewables co-operatives'. For instance, Scottish Woodfuels is a producer co-operative processing and marketing wood products on behalf of several independent producers. Scottish Bioenergy is a team of experts who build, sell and operate photo- bioreactors used in the cultivation of algae, cyanobacteria and other micro-organisms. The reactors consume carbon dioxide gas from industrial processes and produce oil and proteins. So far they have installed a micro-reactor at the Glenturret Distillery in Crieff, and are now in phase two of the project. Renew Services is a shared services co-operative energy service company for local authorities, registered social landlords and other community stakeholders. Established in 2008 by the Ore Valley Housing Association and Fife Council the organisation has received support from (among others) Co-operative Development Scotland and The Co-operative Group. It specialises in combined heat and power schemes, microgeneration and energy efficient housing. Renew has a planned £80m development programme over the next

4 years which includes the development of a scheme for an 800 home development in Fife. Edinburgh Community Energy Co-operative Ltd was also formed recently with the support of Co-operative Development Scotland. It gives Edinburgh residents a vehicle to promote and develop renewable energy in the city. The Outer Hebrides Energy Co-operative, (Eco-Heb), is an energy co-operative set up to ensure local people gain the maximum benefit from renewables developments in the Western Isles. It is made up of five community-owned companies and aims to help members build green power schemes and retain benefits such as construction jobs and future revenue from electricity.

Finally, it might be thought that in a fiercely competitive market there is not much room for co-operative development of communications such as mobile phones and internet provision. One recently launched scheme has proved this to be wrong. [104]New homes are being built for the West Whitlawburn Housing Co-operative that will have fibre optic cables installed giving next generation broadband access. A communications co-operative *Whitcomm* is being set up that will provide TV, phone and internet services at reduced costs compared to major providers. In the context of a low income community 60% of whom are reliant on housing benefit to help pay their rents to the co-operative, this is a major step towards 'digital inclusion'. It will also enable the housing co-operative to offer computer courses and a community portal to improve access to voluntary and statutory services in their own homes. It is expected that this model will spread to other socially and digitally excluded communities.[105]

Conclusion

The supply of public utilities depends, particularly in rural areas, on government deciding to supply it or making sure someone else supplies it. Until the recent fashion for privatisation to for-profit companies, it used to be accepted that because of the potential of monopoly, only public or co-operative ownership would prove acceptable. In Denmark and Finland this meant backing consumer co-ops, effectively giving them a monopoly to build and supply the network. This is a classic case of a restricted market in which the advantages go to whoever gets there first. Liberalisation of markets has complicated this, but there is still a preference in these countries for consumer ownership. In Scotland, public ownership was chosen first and, in electricity, gas and telecoms but not in water, it has given way to a regulated private for-profit system in which it is difficult to see how consumer ownership can be achieved.[106]

Why are Denmark and Finland so far ahead of Scotland in energy co-operatives? First, their citizens have been used to the idea of consumer co-ops supplying utilities, particularly in rural areas, and the same model seemed a natural one to use in developing new sources of energy. Their governments have put in place policy frameworks providing 'comprehensive and sustained support' for renewables over the last 25 years, and co-ops have been supported within these policies. [107] Second, investment has been made in district heating schemes that are a natural monopoly, and so consumer ownership has been chosen as a necessary way of safeguarding consumers' interests. Third, trade associations having the character of secondary co-operatives have been crucial in promoting renewables; for instance the Danish Association of Wind-power Guilds for wind power, and the Federation of Swedish Farmers for biomass. Fourth, local authorities have provided a supportive planning system for renewables. Fifth, the opportunity to build consumer ownership into new wind farms has led to greater support from local communities for planning approvals. Sixth, co-operative development agencies have supplied detailed support, including provision of model rules for new types of co-op. Lastly, some primary co-operatives on the producers' side have been large enough to develop new ventures, for instance bringing together industry stakeholders to develop the biomass supply chain. It is the combination of all these supports that is crucial; together they provide an enabling environment, sustained over a long period of time. [108]

We have to admit that in Scotland the constraints are formidable. Since the electricity industry is dominated by private trans-national corporations, all we can hope for here is that small scale community-based wind and hydro generators will be encouraged by the regulator to connect to the grid, perhaps along the lines of the Swiss solar and hydro power co-operatives. Second, there are no district heating systems to encourage use of renewable fuel supplies such as biomass and biogas, and so transport costs to power stations will be higher. Third, the wind sector tends to reflect the wider energy industry, being dominated by a few large players in a highly competitive environment that has high barriers to market entry. Here, consumers cannot capture the value added further up the supply chain, but they can be encouraged to invest in new wind farms through co-ops that give them a stake in the business. Finally, the Whitcomm Co-operative shows that even with all the constraints innovative thinking, along with co-operation between co-ops, can result in new types of communication co-operative being formed and – hopefully – replicated.

Chapter 6: CONSUMER CO-OPERATIVES: LEISURE SERVICES

In provision of leisure services, co-operatives shade into the related category of associations. Basically, an association that provides services to its members through trading is a co-operative. An association that provides services to a broader 'community' and for whom membership is not a requirement is more of a charity. One that has a membership but does not trade, such as a village hall association, remains simply a voluntary association. Our comparator countries all have a large, thriving associational sector based on the idea of membership, but they are not seen as co-operatives. For once, it is the UK and Scotland that provide some interesting co-operative models.

In Scotland there are two types of leisure providing association that we might consider as co-operatives (leisure trusts, which are only quasi-cooperative, will be considered in the next chapter on public services). [109] First, there are the working men's clubs. These provide a social venue for their members and, though they also have broader aims they trade in a serious way in alcoholic drinks; until 2004 they had their own Federation Brewery (which they sold to Scottish and Newcastle). They are non-profit distributing, but it could be argued that this conforms to co-operative principles; like other consumer co-ops they provide their product as near as possible to cost price, and like water utility co-ops they return the surplus not in dividend on purchases but in lower prices. The Club and Institute Union (CIU) estimates there are around 2500 of these in the UK. They are concentrated in the North of England but there are some in Scotland. They tend to shade into other forms such as miners' welfare societies and institutes which have broader (and in the case of the institutes, loftier) aims. The sector has been in decline since the 1970s, when there were more than 4,000 affiliated to the CIU, and the remaining 2,500 clubs have seen membership halved in the last 20 years. Some clubs, such as Bethnal Green in East London, have managed to shed their old-fashioned 'cloth cap' image, but most are struggling. The ban on smoking has made things even worse. In December 2007 a poll by the *British Institute of Innkeeping* and the *Federation of Licensed Victuallers' Associations* found that overall revenue was 7.3% down as more men opted to drink at home where they could also smoke. [110] This raises the question of whether this once proud movement should be supported and helped to modernise, and another question about who might take on this task.

The other type of leisure co-operative is the supporters' trust, of which there are 35 in Scotland. They are mainly supporters of football clubs but two are related to rugby clubs, and their structure would suit any commercial sports club that has supporters and is investor-owned. The idea is for supporters to buy shares in their club, and then pool the voting rights that come with these to the trust which will then be able to represent them. If supporters buy enough shares they can, in this way, eventually take over the club and even own it outright. The trust movement has grown rapidly over the last few years. The national body representing them, Supporters Direct (SD), has a Scottish branch that provides the following figures. In Scotland, over £2 million has been invested into football over five years. Morton, Clyde, Clydebank, Dundee, Raith Rovers and Falkirk remain as viable football clubs due to interventions from their supporters through the supporters' trust model. 25 trusts have taken a financial share in their football club, and over 300 board members have been attracted to volunteer due to the advice and support of SD and the strength of the supporters' trust model. 14 football clubs have appointed a supporter to their board due to their work with supporters' trusts.

The future of SD is uncertain, as it depends on continued financial support from the Scottish Government (or alternative public sources). Yet its success has led the European football governing body, UEFA, to engage SD to conduct research to determine how to apply the supporters' trust model into other countries.[111] There is no reason why the idea should not be exported to other countries, and similar models that have been tried elsewhere (such as the German model in which supporters own 51% of a club) should be examined to see if they have advantages.

Chapter 7: CONSUMER CO-OPERATIVES: PUBLIC SERVICES

Introduction

In the UK, as in Scandinavia, it used to be thought that public services had to be provided by public organisations such as local authorities or quasi-governmental organisations, and that services provided by the voluntary sector or co-operatives would gradually be taken over and made 'public'. In Britain, this assumption first became questioned in the 1970s, when community organisations that were resisting clearance of older housing in favour of rehabilitation turned not to local authorities but to housing associations and co-ops to do the work. [112] Then, under a Conservative government in the 1980s, a policy of splitting the purchaser of services from the provider was followed, so as to inject an element of market competition into public services. Social care services were contracted out, council housing began to be transferred to the housing association sector, health authorities were split into purchasers and providers with health trusts gaining partial autonomy, schools were encouraged to become independent trusts, and so on. [113] Then, under New Labour the emphasis shifted to partnership between the public sector and independent providers, but with no going back to the old monolithic public sector. A similar process began in Sweden in the 1990s, though it was resisted by social democrats who saw it as a step on the road to privatisation. The result has been a patchy picture, with local governments being resistance to change but with some areas of opportunity being opened up for other providers including co-operatives.

In our three comparator countries, those opposing reform could point to one factor that is not present in Britain; the local authorities that provide services are generally much smaller. In Scotland there are 32 local authorities in a single tier system, with limited powers to tax citizens through council tax. The largest has 600,000 inhabitants, the smallest 20,000. In Finland there are 415 local authorities with wide tax raising powers through a local income tax. The Finnish welfare state is mainly based on municipally produced services. Local authorities take care of primary and specialised health care, social services such as day care for children, and education services. Because the country is sparsely populated, there are 81 local authorities with less than 2,000 inhabitants, and 173 with 2,000–6,000, and so they have to work together in consortia to provide services such as general hospitals.[114] Reform is on the agenda to reduce the numbers of authorities so their populations average 20-30,000, but not to contract out their services. The national co-operative federation, Pellervo, lists 83 social, health and welfare co-ops, but we need to know more about them before we can determine how important they are. Switzerland has 23 cantons that are autonomous on all matters except foreign affairs, national security, customs, communications, and monetary policy. They have their own constitutions and laws, public services, education, welfare and justice systems. At a lower level still are 3000 communes that are the basic units of local government. Information is hard to find, but we have not found any trend towards contracting out of services.

Sweden has a two tier system of 290 municipalities and 20 county councils that levy local income tax. The counties, which are much larger, provide health care and the municipalities social services and education. As in Finland, they overcome their small size with joint committees; for instance, the education service is provided by 80 local federations. Here, the commitment to a universal welfare state has meant 'a virtual public sector monopoly on both the provision and the distribution of welfare services'. [115] However, in 1991 a Conservative government was elected and, amid an economic crisis, reforms were carried out that resulted in a 'window of opportunity' for co-operatives. The window was not open for long; the decentralised system of local government slowed down the pace of reform, and a powerful backlash soon brought a social democratic government back to power. It is difficult to explain the reluctance to contract out services to co-operatives, since in many other areas of Swedish life formal membership organisations are well entrenched. A more detailed comparison will now be made between Sweden and Scotland.

Consumer Co-operatives: Public Services - Sweden

The two main areas of co-operative development in Sweden have been in child care and the education system. Child care co-ops began in the early 1980s, and were given a boost by the decision of local governments began to switch from being a monopoly provider to giving parents vouchers so they could choose who to go to for child care.[116] By 1995, helped by the network of co-operative development agencies, there were around 1300 child care co-operatives owned by parents and 129 owned by employees. [117] It is difficult to find statistics on the current situation, but the child care co-ops have continued to be popular, helped at the beginning of this century by a standardisation of fees and grants across local authorities, so that financial incentives are the same for all providers. Under these equal conditions, parent co-ops have proved superior to municipal, non-profit and for-profit providers on a range of indicators. In particular, they encourage participation by parents to a much larger extent than the others. Interestingly, staff in parent co-ops are as satisfied with their influence as are the staff in worker co-ops. [118]

Co-operative schools came about in a similar way, when in 1992 the Swedish Government gave a general right for all parents with children in the compulsory age-range (7-16) and upper secondary age range (16-18) to choose their child's school. At the same time, the funding for each pupil was decoupled from the local authority budget and given to parents as a voucher. This meant they could choose to send their child to an independent school. A general right was also given for anyone to open an independent school, which meant parents were able to start their own co-operative schools. There are limits to what they can do: new schools have to be approved by central government, they cannot ask for top-up fees, and selection on the grounds of academic merit is not allowed. The sector has grown from 90 'seven to sixteen' schools and 57 'upper' schools in 1992, to 585 and 266 respectively in 2005. They make up 12% of the 7-16 schools and 33% of the upper schools. During the same period, the number of municipal schools decreased by 252. In 2007 there were 600 applications to open new independent schools, and so the trend is towards greater diversity and independence. [119] The new schools can be run as for-profit companies, non-profits or co-ops (we are still trying to find out the proportion of independent schools that are parent co-ops). [120]

Will this trend towards co-operative provision continue? According to a leading academic writer, Sweden has 'now reached a historic juncture where a greater role for citizen participation and the third sector provision of welfare services is fully possible'. [121] The challenges of an ageing population, austerity in public finances and a growing democratic deficit, have all contributed to the change of mood. Co-operatives are no longer seen as a 'private' alternative but as a way in which service users can gain membership and some control over the services they receive.

Consumer Co-operatives: Public Services - Scotland

In Scotland, since the Conservatives began their splitting of purchaser from provider in the 1980s, there has been a great deal of contracting out of services. A few providers are consumer or worker co-ops, but most are either for-profits or part of an amorphous social enterprise sector that contains a variety of organisational types. In Sweden and Finland, the voluntary or third sector has a quite different character than it has in the UK. There is a strong preference for organisations that incorporate citizens as members rather than as recipients of charity. [122] Scotland has a long tradition of non-profit provision that has this charitable rather than co-operative ethos, though the ethos is changing, with demands being made by service users for more say. [123] As part of the process of contracting out local government services, several leisure trusts have been set up. Sporta, the organisation that represents trusts, lists 19 in Scotland, alongside 77 in England and 17 in Wales. These have a multi-stakeholder membership, including workers and sometimes service users alongside local government representatives. However, they are hedged about by constraints such as non-profit distribution and charitable status and so are better classified as social enterprises than co-operatives.

A little more is happening in England, where some of the consumer co-operative societies have been experimenting with provision of welfare services. The Midcounties Co-operative Society runs six children' nurseries alongside its more traditional divisions of food, funerals, motor trade, travel and so on. The West Midlands Society used to run three nursing homes on an interesting multi-stakeholder co-operative basis (with the Society, staff, residents and carers in membership) but they proved difficult to manage and, on the merger with Midcounties, they were sold off. The Co-operative Group and the Co-operative College are involved in promoting co-operative schools; there are 10 in process of being formed, the College is working with nearly 60 other potential trusts, and the UK Government's Schools Secretary has said he wants to aim for 100 over the next two years. [124] Unlike the Swedish schools, they are multi-stakeholder co-ops in which parents, pupils, staff and the wider community can become members. Also, they will be less independent because they are to remain part of the local authority sector (though they will have more control over the curriculum and discipline policy). [125]

There are other ways of looking at co-operation in education. As well as co-operative schools there are *school co-operatives*, student-owned co-ops that provide services within the school or otherwise encourage them to set up a business. Such school co-ops are common in developing countries such as Sri Lanka. The UK Co-operative College has set up 300 Young Co-operatives encouraging young people to form co-operatives to sell fair trade products, and this scheme is to be extended into schools. The College is also working with schools to develop curriculum materials that enable students to understand better the co-operative business option. The Co-operative Education Trust Scotland is doing similar work, setting up Young Co-operatives in schools and youth groups.

There are good prospects for a move by co-operatives into provision of public services. The public expenditure constraints that will be faced by governments in the aftermath of the recent bailout of investor-owned banks will lead to a renewed search for value for money alternatives. However, the problem for co-operatives that venture into public services is that public policy shifts can render them suddenly uncompetitive, even irrelevant. Take for example the co-operatives set up a few years ago by general practitioners to provide out of hours services. With a renegotiation of the GP contract and the introduction of the round the clock NHS 24 service, such services in Scotland quickly became unnecessary. In England there are a few left, notably the South East London out of hours co-op (SELDOC) that still provides cover from 8am to 8pm. Similarly, the introduction of statutory community health partnerships in Scotland made the GP-led community health co-ops unnecessary. The movement from one type of provider to another can go in both directions; from public to independent provision or from independent back to public.

Conclusion

The provision of public services by co-operatives is heavily dependent on public policy. There has to be political will to allow it to happen. If the will is there, it will be a growth area for co-operatives in Scotland. However, unlike in Sweden where both child care and parent-owned schools take a single stakeholder form, the growth may be more in multi-stakeholder organisations like the leisure trusts that have a semi-cooperative character and are registered as public benefit societies.[126] This would not matter much, except that if stakeholding is too widely drawn, and the idea of membership is played down in favour of charitable status, we may miss the opportunity to put service users and employees at the centre of the service. We have noted already how the housing co-operative sector shades into, and is dominated by, the housing association sector. However, multi-stakeholding can be made to work, provided there is a strong commitment to membership. In Italy, since the early 1990s social co-ops have provided almost all the social care services funded by local authorities. The law requires that all stakeholders – staff, service users and carers – become members. It is a complete contrast to the eclectic mix of non-profit, for-profit, church-based, social enterprise – and occasionally co-operative – provision in the UK. It is a rejection of both the idea of profit-making in social services and of charity in favour of the idea of inclusive membership.

Finally, there is one simpler alternative. The Swedish employee-owned child care co-ops, and some examples of home care co-ops in Britain and the USA, show that there is much potential for worker co-ops to provide care services on a contractual or fee-for-service basis. [127] Anywhere that local government is contracting out, there is potential for employee ownership, but it seems particularly useful in care services where, in for-profit companies, the quality of care and the commitment of the workforce cannot always be guaranteed. For new co-ops to be formed there needs to be more encouragement; specialist help from co-operative development agencies, and perhaps a bias on the part of public bodies towards consumer and worker co-ops in procurement. There also has to be an ongoing commitment by the purchaser to price the service so that the co-operative is not forced out of business, as has happened to some care co-ops in America. In order to avoid self-exploitation by the workers or a lowering of the quality of care, this form of co-operative depends heavily on a fair contract with the purchaser of the service.

Chapter 8: PRODUCER CO-OPERATIVES: FARMING AND FORESTRY

Introduction

Usually, primary producers are separated into farming, forestry and fishing. There are good reasons for keeping them together. First, they are all involved in creating value in an uncertain encounter between humans and the natural world that depends on climate and topography and that, because it is only partially under human agency, carries risks. Second, they all need inputs to their production in the form of tools, seeds, feeds, fertilisers, nets, machinery and so on, and, because the transforming process takes time, they also need inputs of credit to provide cash flow. They also need insurance to lessen the risks, though some of the uncertainties they face are uninsurable. Then, when the product has been created, they need to have it collected, put it through some basic processing and then marketed. If they are very well organised, instead of marketing their products right away they can extend their control along the value chain, transforming the product further and so capturing more of the realisable value. The columns in Table 2 set out these stages in the production process. Fishers are different in one respect; they simply hunt and catch the product in the wild, and so they face the added uncertainty that comes from dipping into a 'common pool resource' that can easily be over-used and degraded. [128] Farmers and foresters have a lot in common; in Sweden and Finland they are not separate types of producer, but small farmers who also own and manage forests. They share the same co-operative heritage, and the national-level businesses they have created have an overlapping membership and similar characteristics. Also, while it is common to include fish farming co-ops as fishery, they have a lot more in common with livestock farmers, since they rely on inputs of feed and of new stocks, they have to manage their stock, and harvest them when they have matured.

In the past, there was one uniform type of producer co-operative that conformed to the ICA principles of open membership, one person one vote and a limited return on capital. Under the pressures of globalisation and competition from transnational agri-food corporations, there have been profound changes in the co-operative business form, and several new types have emerged. Jerker Nilsson argues that 'organisations must reflect the characteristics of their business environment in their organisational structure'. He extends the co-operative form to cover majority ownership and control as well as full ownership, as long as this does not affect the fundamental principle of member benefit which he argues is 'non-negotiable'. His typology identifies four new types:

1. participation shares co-ops – outside investors are allowed into ownership through taking up a limited number of shares without voting rights
2. co-operative with subsidiary – both co-operative and outsiders invest in a separate company
3. proportional tradable shares co-ops – the co-op sells delivery rights to the members, requiring them to provide capital in proportion to the delivery rights that they buy (also known as a 'new generation co-op') .
4. PLC co-operatives – the co-op floats on the stock market but farmers remain in majority ownership and control.

Types 1 and 2 can be further grouped into 'external-investor', and types 3 and 4 into 'member-investor' co-ops. In Table 2 we simplify this a little, because there is not much difference in practice between a co-op that allows external investors into a ring-fenced part of the co-op or sets up a subsidiary that has external investors. [129] The resulting table sets stages in the value chain against types of co-operative, and suggests which type might suit co-ops that specialise in a particular stage. Armed with these basic distinctions, we can now begin to compare primary producer co-ops in Scotland with the three other countries. One more point should be borne in mind; even the distinction between countries is no longer as obvious as it was, since some of the farmer-owned co-ops are now transnational between Scandinavian countries.

Table 1.3: Organisational models by stage in the value chain (after Nilsson)

Type of co-op **Value chain**	*traditional*	*External investor (participation shares or co-op with subsidiary)*	*Member-investor – proportional tradable shares (New Generation Co-op - NGC)*	*Member-investor - PLC with primary producers in majority/control*
Manufacture of inputs eg seeds, fertiliser, animal feeds	Yes, if low tech	Yes, if needs greater investment	No, but possible	Yes, if large scale and/or complex
Supply of inputs eg seeds, feeds, credit, insurance, livestock	Yes – not much capital needed	Yes, when combined with processing/sale	No – better to keep separate	Yes when combined with processing/ sale
Inputs to enhance production eg machinery rings, extension services, stock breeding	Yes,	Yes, as traditional	Yes, as part of supply contract	Yes, as part of supply contract
Marketing, inc transport, cleaning, basic processing	Yes, if agency type	No – investors not needed	No – proportional shares not needed	No – investors not needed
Added value processing and sale	Not likely – not enough capital	Yes, if trad co-op wants to capture value	Yes- this is the main focus of NGCs	Yes, especially if complex agric-food

Producer Co-operatives: Farming and Forestry - Switzerland

In Switzerland, three quarters of the farmed area is devoted to meadows and pastures, as both climate and terrain make most of the country unsuitable for crops; cereals and vegetables are limited to the lowlands and only about one third of farms are engaged in crop production. Despite the popular image of Switzerland as a land of cows, pig-farming is even more important. Switzerland is a country of small farmers; in 2005 the size of the average farm was 16.7 hectares (41.27 acres), up from 11.5 (28.42 acres) in 1990. There is a marked trend towards fewer and larger farms, and only about four per cent of the working population is employed in agriculture and forestry. The number of farms where farming is the main source of income continues to fall. More than two thirds of farms receive income from non-agricultural sources, since farming alone is insufficient to cover daily needs. Alternatively, they are looking to boost their income with exotic crops like melons, or unusual animals, like ostriches, yaks, bison or highland cattle, or they are going into farmyard holidays or even llama trekking. The growing gap between farming and industrial incomes is discouraging young people from going into agriculture. By 2005 some 11% of all farms had been awarded the organic symbol, and organic farming is particularly popular in mountain areas. Of all European countries Switzerland, along with Austria, has the highest proportion of usable land given over to organic farming.

The modern idea of cooperative societies found sympathetic understanding from farmers who were used to co-operating in traditional ways in alpine dairy cooperatives, which had spread from the mountain areas into the lowlands during the 19th century as milk and cheese cooperatives. The idea of agricultural co-ops came from Germany, with the credit-bank based societies of Raiffeisen. The first modern agricultural cooperative was established in 1874 in Elsau, and it evolved later into the (still-existing) Association of Agricultural Cooperative Societies of East Switzerland, which is considered the pioneer of cooperative associations. Now, after a century of uninterrupted growth, farmers have almost completely gained control of the value chain through two organisations: a national federation FENACO, and the dairy company Emmi. Fenaco is a group of companies that was founded in 1993 from the merger of six co-operative societies; it has 59,000 farmers in membership via 450 local 'Landi' co-operatives, and it works along all stages of the value chain, from inputs such as fertiliser, animal feeds, farm and dairy machinery, to processing of cereals, fruits, vegetables, wines, eggs and meat products into finished products that it then labels under several valuable brand names. Like other successful agricultural co-ops, it has also shifted sideways into consumer co-operative territory, with petrol stations and supermarkets. It still has a traditional co-operative structure, even though it has six divisions for different parts of the business that are busy acquiring companies and going into joint ventures.

While Fenaco boasts on its website of serving its 'societaires', EMMi is a shareholder-owned company that nowhere mentions that it is owned mainly by farmers. It started in 1907 as the Central Switzerland Milk Association, but in 1993 became Emmi AG, with a group structure separating the associational from commercial activities. This is a quite common tactic for co-operatives and mutuals that wish to compete on a level playing field with their competitors. In 2004 it went one stage further and floated on the stock exchange. It is impressively big, employing 3350 people, and in the first half of 2008 achieving a turnover of SF1.3bn - but is it still farmer-owned? It is worth looking at its current ownership structure in detail. Its largest shareholder is Central Switzerland Milk Producers (ZMP) with 52.1% of the shares. This is followed by a group of fund managers who have 9.5%, and then by two more co-operatives who have 4.7% and 3.6% and a welfare foundation that has 1.7%. That leaves just over 28% owned by other shareholders.[130] So yes, it is still essentially farmer-owned and controlled.

Producer Co-operatives: Farming and Forestry - Sweden

Sweden is similar to Switzerland in some important respects. Only about 7% of the land is cultivated, mostly in the southern plains, and the rest is covered by forests, mountains, marshlands and lakes. Only two percent of people are economically active in farming, forestry, hunting, and fishing, contributing two percent of GDP. Modern farming, including fertilization and mechanization, make high yields possible although soils are generally poor and the cold climate renders the growing season much shorter than elsewhere in Europe. On the other hand, the cold winters stop infestations of many crop pests that plague farmers in warmer countries, and the long days during the summer months make the growing period intensive and allow production of high quality potatoes, berries and vegetables. The arable land is mainly concentrated in the level lands of the south, where most of the larger farms are located. The north is mainly pasture land with small farms. Most farms are family businesses, and part-time employment, supplemented by income from other sources, has become increasingly common. In densely-forested Sweden, farming and forestry are often combined, and just over 70 per cent of the farming enterprises are so called 'combination' businesses.

Traditionally important sectors such as dairies have declined in the 1990s compared to grain and vegetable production, but livestock and animal products remain among the main commodity items. Other crops include wheat, barley, oats, rye, potatoes, and sugar beets. In 1961 Sweden had 233,000 agricultural holdings. Since entry into the EU in 1995, the trend to larger farms has accelerated, and by 1998 the number had decreased to 85,600. With ever bigger investments in machinery and equipment, farmers have tended to specialize in fields such as grain, milk production and pig rearing.

Sweden was late getting started in agricultural co-operation. CR Fay, writing in 1938, said that because the Southern farms were large and marketing was easy, it was 'neither a spontaneous nor a wholly successful movement'; he was assuming that it is in the small-farm economies that co-operation is most needed. [131] Yet on the supply side there was every reason to co-operate: at that time Sweden faced persistent problems of monopoly and price-fixing by companies that could exploit Sweden's distance from world markets. In the 1920s a farmers' national wholesale and the consumer wholesaler KF joined together to oppose a cartel by selling fertilizers, and they set up a joint company to manufacture lime. From a Finnish agricultural cooperative they bought the rights to make an innovative new crop - silage. From 1927 agricultural credit unions began, and by 1934 70,000 farmers had become members. On the marketing side, government support had to be offered to milk farmers to get them to begin a National Association of Swedish Dairies, but eventually 90% of dairy farmers belonged. Fruit growers and egg marketing coops also began in the 1930s and they expanded rapidly.

In contrast to Britain where, in the 1930s, (as we shall see below) farmer co-operation gave way to state marketing boards, in Sweden voluntary co-operation remained the norm. Fay notes 'the state merely rounded off the work of voluntary co-operation'. It may have been because the co-operatives were so strong that the state felt it unnecessary to intervene except in protecting farmers against cheap imports. For instance, the co-operative dairies controlled 75% of the milk volume and were capable of guaranteeing prices within the home market without state intervention. [132] After the price collapse of 1930, instead of co-ops giving way to state marketing boards, co-op federations took control in farm credit, dairy, forestry, eggs, meat and fruit, presided over by a strong National Union of Swedish Farmers.

During the 1990s, the deregulation and increased competition brought in by EU membership led to a great deal of consolidation among farmer co-operatives. Now, like the Swiss farmers, the Swedes are members of just a few giant co-operatives. Arla Foods is a dairy co-operative jointly owned with Danish farmers, formed in 2000 in a merger between Sweden's Arla and Denmark's MD Foods. The company is the largest milk and dairy company in Europe, eighth largest in the world, with nearly 16,000 employees and well known brands such as Lurpak and Anchor butter. In 2008 its revenue was nearly 50 billion Danish kroner, 60% of which was earned outside Sweden and Denmark. It is owned by nearly 8000 Danish and Swedish farmers in roughly equal proportions, and they are represented through 50 districts and 7 regional councils on a 140 member board of representatives. Its main purpose is to provide the best price possible for the farmers' milk. It does this through a two-stage payment system that distributes profits from dairy processing and marketing back to the farmers. Profit is important but it is the milk price paid to farmer-members that is its 'bottom line'; in 2008 they were paid 2.82 DKK per kilo, compared with 2.47 in 2007.

The United Kingdom is now its largest market, accounting for 27% percent of sales. Sweden accounts for 21% and Denmark for 19%. Other EU countries add 18%, but the company also has worldwide sales. Fresh milk products are the company's largest product segment with 46% of sales, followed by cheese with 25% of sales, and butter and powdered milk products with 13% each.[133] This is, by any standards, a massive achievement. It means Swedish and Danish farmers benefit from profits made worldwide by a company that goes as far along the value chain as it can.

Lantmännen is an agricultural co-operative focusing on arable farming. It is owned by over 40,000 Swedish farmers who are either direct members or members of 25 local associations that are in membership. [134] Its main task is to supply members with seeds, fertiliser, plant protection and feed, as well as receiving, storing, refining and selling what the farmers cultivate. It also sells machinery for agriculture, forestry and contracting, sells agricultural buildings, and until recently had extensive retail operations. Founded in 1905, in 2006 it had a turnover of $4.8bn, and like Arla it goes a long way along the value chain. Lantmännen has operations in no less than 19 countries, with a focus on the markets around the Baltic Sea. However, not all its businesses are uniformly successful; last year it sold its retail chain as it was making heavy losses.

Swedish Meats is a specialist food processor owned by 17,400 farmers (around three quarters of the livestock farmers in Sweden). With a $1,5bn turnover, and 4700 employees, it is responsible for the majority of livestock slaughtering in Sweden, and is the market leader in cut and processed meat production. Every year two million pigs, 350,000 heads of beef cattle and 150,000 lamb and sheep are processed. Recently, the Finnish meat and poultry processing firm HK Ruokatalo Oyj bought up the entire issued share capital of Swedish Meats; assuming that SM is an external-investor co-op, this must mean that SM remains partly Swedish farmer-owned but that the Finns have taken a dominating equity share. As part of the deal, HK Ruokatalo Group's largest shareholder LSO Osuuskunta (a farmer co-op) has agreed on a stock swap. All this means that, like the dairy industry, the meat processing industry in Scandinavia is becoming more and more integrated.

Sweden also has forestry co-operatives; around 88,000 family forest owners cooperate in five regional associations organized as producers' cooperatives, owned and managed by the members of each association. By far the largest is Södra Skogsägarna (Southern Forest Owners), which has a turnover of $3.7bn and whose members own 50% of the privately held forest in Southern Sweden. Södra's major strength is in paper pulp production, where it is one of the world's largest firms and the world's largest exporter, while the other four forestry co-operatives have only saw mills, which require much less investments.

In contrast to these giant co-operatives, recent developments in renewable energy have provided opportunities for farmers to get together at a more local level. One such development is production of coppiced willow which is processed into woodchips and then used as a fuel in district heating plants. Lantmännen has helped develop the market, creating a specialised subsidiary, Agrobränsle AB, to develop willow as a biofuel crop; turned into woodchips, coppiced willow is fed into district heating (and combined heat and power) plants. There are 15 farmer-owned heating plants and around 40 more in which farmers have a stake. Local authority owned district heating companies contract with the co-ops to supply hot water under contract, and where farmers have been unable to raise enough capital their own federation has come in as an investor, taking a 50% stake. Some of the farmer co-ops are new generation co-ops, with shareholdings being proportionate to the amount of crop farmers guarantee to supply. Together, they contribute around 1% of Sweden's fuel requirements. [135]

Producer Co-operatives: Farming and Forestry - Finland

Farming conditions in Finland are similar to those in Sweden, though it is even more Northern, and the climate even more severe (cereal yields are only half of those produced in Central Europe). The competitiveness of Finnish agriculture also suffers because of the large size of the country and sparseness of its population; maintaining life in the rural areas is difficult. The majority of farmers are in dairy, pork or cereals (barley, oats, wheat and rye), and they also derive additional income from forests. Potato is the most important specialised crop. Peas, carrots, onions, cabbages and certain other vegetables grow outdoors in the summer, while tomatoes, cucumbers and potted lettuce and herbs are grown in greenhouses round the year. Like Sweden and Switzerland, this is a country of small farmers; the average arable area is 31.5 hectares, plus 46 hectares of forest. Family farms predominate, but the number of farms is decreasing by more than three per cent a year. Like Switzerland, there is a strong emphasis on organic farming; over seven per cent of the arable land is organic. Like the Swedes, they have to diversify their incomes; every third Finnish farm practices some other business activity. The most common of these is machine contracting, but farms also engage in tourism, food and catering services, wood and forest based activities, care services, heat production, fur farming and horse husbandry.

Agricutural co-operatives were established early in the 20th Century, as a result of the work of Dr Gebhard who set up Pellervo Society in 1899 to promote them. In 1901 he had a cooperative law passed, and by 1902 there were 15 consumer coops and 28 coop creameries. By 1903 there were 189 co-ops, of which 24 were credit banks. Between 1904 and 1917 four coop wholesales began: SOK for the consumer coops and the other three to meet the needs of farmers. Hankkija was founded as a farm wholesale co-operative, while Valio was set up as a dairy central co-operative for exporting butter (and later cheese).

By the 1930s, Valio was already a major enterprise, owned by 100,000 farmers, and with a talented director of research who developed a new method for preserving silage (he later won the Nobel Prize for chemistry)! Labor was a purchasing co-operative for the Swedish-speaking farmers of Finland. The history was complicated, as splits occurred between social democratic and neutral co-ops and Swedish and Finnish speakers. The consumer and producer movements were much less well integrated than in Sweden, and encroached on each other's territory; they were more an intertwining of institutions than a partnership. However, the impulse to co-operate was so strong that these undercurrents seem to have made the movement more complex without apparently weakening it. In terms of social capital, there must have been enough bridging capital to compensate for the inward-looking effects of too much bonding social capital. The growth curve that began at the start of the century has continued for a surprisingly long time. Almost all the Pellervo companies founded at beginning of the 20th Century have survived two world wars, Cold War isolation, and the challenges of competition within the EU. [136]

By the 1930s, after a radical land reform in which farmers were able to buy their farms with help from the credit co-ops, 51% of the forest area belonged to them, and 40% belonged to the state, with only 7.5% belonging to commercial companies. Finnish farmers were fortunate in having this second source of income that helped smooth out the fluctuation in earnings from farming, and this partly explains why they, like the Swedes but unlike the British, did not go in for state marketing boards. Cooperation in forestry began with the setting up of Osuuskunta Metsäliitto (Forest Owners' Cooperative) during the 1930s, in order to organise the joint sales of roundwood for export. At first it was a conventional company owned by the forester-farmers through their Central Association of Agricultural Producers, but in 1948 it was turned into a Forest Owners' Co-operative with 50,000 members. It grew rapidly in all parts of the wood products industry, adopting a co-operative with subsidiary structure; Osuuskunta Metsäliitto the co-operative, and Metsäliitto Selluloosa Oy a joint-stock company. In contrast to this giant co-operative, over the last 20 years small forestry co-ops have been formed to exploit the waste products of the industry, turning residue from sawmills and brushwood left after logging into wood chips. As in Sweden, these are sold by the farmer co-ops to local authorities for use in heating plants. Pellervo lists 72 energy co-ops, many of which are of this type.

Now, as in Switzerland and Sweden, the sector is dominated by a few giant co-operatives, particularly in dairy and meat. The Valio Group is Finland's largest milk processor, a traditionally structured co-operative processing 82% of the raw milk taken in by Finnish dairies. It is owned by 22 dairy co-ops[137], with nearly 11,000 farmers in membership. It has subsidiaries in several European countries, and its international business accounts for a third of its turnover. There are five meat processing co-ops in Finland,[138] the largest being Atria. It is Finland's second largest meat producer (after HK Scan), an international food-processing company that employs 5900 people, and had a turnover of Eur1.27 million in 2007. It is listed on the Helsinki stock exchange, but it remains a plc type co-operative as its largest shareholder is one of the other Finnish meat processing co-ops, Itikka Osuuskunta, and most of the members of the administrative council are farmers. HK Ruokatalo (now known as HK Scan[dinavia] with the takeover of Swedish Meats), is an international food company with operations in Finland, Estonia, Latvia, Lithuania, Russia and Poland. Its turnover in 2008 was nearly

Eur2.3bn, and it has 10,000 employees. It manufactures and markets meat, processed meat and convenience foods, and, though it operates in nine countries, considers its 'home market' to be Finland, Sweden, the Baltics and Poland; in 2008, sales were Sweden 50.0%, Finland 31.4%, the Baltics 7.1% and Poland 11.5%.[139] As if this were not enough, there are two more large slaughterhouse co-ops in Finland; Järvi-Suomen Portti Osuuskunta and Atria Oyj.

The forestry co-operative, Metsäliitto has grown massively since Finland joined the EU. The Group's turnover amounts yearly to approximately Eur8.4 billion and it employs some 30,000 people. Like the large farmer-owned agri-food businesses, it is based in Finland but active throughout Europe and markets its products worldwide. Its companies include: M-real[140] that produces a wide range of paper and packaging solutions; Finnforest that focuses on mechanical wood processing and building systems; Botnia that manufactures chemical pulp; Metsä Tissue that produces quality tissue paper products and baking and cooking papers; and other companies specialising in biofuels and forest management. The Group is now the 10th largest producer of forest industry products in the world, and Europe's largest wood producer, and it is still owned by the forest owners, all 130,000 of them.

Producer Co-operatives: Farming and Forestry – Scotland

At first glance, farming in Scotland looks similar to farming in our comparison countries. It is a small but high value commercial sector but with a wider agri-food industry dependent on it; it has an output worth £2 billion a year, has around 67,000 people directly employed in the industry (5 per cent of the rural workforce)[141] but with a further 250,000 jobs connected to it. This is despite the fact that Scotland is also a mountainous country in which only a small proportion of the land is really productive. Like the other countries, most (85%) is classed as a Less Favoured Area of the EU, and like Finland and Sweden, it faces a gradual decline in EU subsidies that particularly affects hill farmers. Like the other countries, it has very mixed farming; sheep farming in the northwest and the south, with larger cereal farms concentrated in the east. The agricultural land in Scotland is mainly only suitable for livestock farming with 5.3million hectares used for this purpose, and only 0.6 million hectares in the east of Scotland farmed for the production of crops. Beef farming takes place throughout Scotland, but is particularly common in the south west, which also has the bulk of the dairy industry.

As in the other countries, farm incomes are going down. The average net farm income for 2005/06 is estimated to be £10,000. [142] Subsidy is 31% of output, rising to 49% in sheep farming. Farm incomes for 2007 show that upland sheep and cattle farmers are worst off, but that cereal and dairy farmers are doing quite well. Between 1990 and 2003 the numbers of owner occupiers on farms fell from 29,000 to 28,000. The number of spouses working on Scottish farms went up from just under 12,000 in 1990 to just over 14,000 in 2003, the number of full time workers fell from over 37,000 to under 28,000, and the number of part time and seasonal workers increased from under 30,000 to over 36,000. The search for alternative sources of income, and for diversification of farm incomes, is a familiar story. One bright spot is aquaculture which is growing by 10% a year and accounts for half of Scotland's food exports. It employs 2000 people directly and a further 4500 in support activities. [143] However, in contrast to our other countries, the development of farmer co-operation is inhibited by the lack of homogeneity of interests between farmers; there is a mixture of types of farm, a variety of farm sizes, and a mix of tenures between owner-occupiers and tenant farmers. According to Hansmann, this predicts a high cost of governance, because farmers would have too many different interests; farmer co-ops will therefore not be chosen over other organisational forms. [144]

The history of farmer co-ops in Scotland begins early but takes time to get going. Promotion began as early as 1868 when Edward Owen Greening founded the Agricultural and Horticultural Association, but by 1900 there were only seven distributive societies and five small agricultural productive societies. There was a lack of charismatic promoters to compare with Horace Plunkett in Ireland[145]. Then in 1900 the Agricultural Organisation Society was founded in England, and it promoted supply societies: 145 were set up in England and Wales and 31 in Scotland. In 1905 the Scottish Agricultural Organisation Society (SAOS) separated from its parent society and began to have more success, but nothing came of attempts to stimulate inter-trading between agricultural and consumer societies. The 1908 Smallholdings Act led to a considerable number of new societies being formed among small farmers, but they were represented not by SAOS but by a separate Scottish Smallholders Association. It set up a subsidiary Scottish Central Marts with its own shops for sale of smallholders' produce, and a Scottish Central Land Bank and a Scottish Insurance Society for livestock. However, in the postwar slump of 1923 the movement collapsed. CR Fay, who was able to watch its progress, did not think much of it. He called it a 'rebel authority' that when it collapsed 'carried most of the deadwood of the co-operative movement'.[146] In 1924 the English AOS died, but the SAOS lived on, and as Fay notes 'was ready to participate in the forward movement which became possible as conditions improved in the middle 1920s'. By 1926, there were 150 supply societies, 17 creameries, plus some egg, meat and auction societies.

Writing in 1938, Fay described three large supply societies with wide areas of operations, based in Aberdeen, Fife and Leith, and predicted there would soon be five or six large regional societies, with their own manufacturing plants, covering the whole of Scotland. On the marketing side he found a successful Scottish Wool Growers' Association and a Milk Agency, but noted that the Agency did not work well: farmers who remained outside it were better off since those inside had to bear the costs of surplus milk and administration. In our comparator countries, co-operative cheese and butter making solved these problems, providing an outlet for surplus milk, and profits to offset administration and collection costs. However, in Scotland the government committee that investigated the problem blamed 'recalcitrant minorities' for the weaknesses of the Agency and recommended that it be protected against their lack of co-operation.[147] In 1931 a Milk Marketing Board was set up, and in 1933 legislation made it possible for other marketing societies to transform themselves into statutory marketing boards. Soon these boards were operating in most sectors, guaranteeing minimum prices and deficit payments. Farmer efforts then switched to support for the National Farmers' Union which gave them the political clout they needed in relation to the boards.

From then on, supply co-ops were the only growth area. From the 1980s onwards, the marketing boards began to be disbanded and farmers were exposed to the market. Supply co-ops found it difficult to survive in a consolidating sector dominated by national and multi-national firms; many failed and were sold off or went out of business. In England, where there was no national promotional body such as SAOS to remind farmers of the co-operative advantage, demutualisation became fashionable. On the advice of legal and financial advisers over a period of 15 years around half the co-ops in England were demutualised. In Scotland, SAOS held the line until, by 2000 there began to be a resurgence of interest in farmer co-ops.[148]

Now, SAOS statistics show an impressively large sector; its 75 member co-operatives have a total throughput of nearly £1.4 billion, and shareholders' funds of £94.5m.[149] There are 44,000 members, but these include multiple memberships by farmers that together have a crucial impact on their ability to thrive in an increasingly risky and uncertain market.[150] In order of size of throughput, there are two seriously large co-ops, Firstmilk (£602m) and Grainfarmers (£371m) that handle a large part of the collection and marketing of milk and grain respectively.[151] First Milk is the largest dairy farmer co-op in the UK, with 2600 members, formed out of the denationalisation of the Milk Marketing Board. It has 16% of Britain's milk, and a cheese production capacity acquired from Dairy Crest. Grainfarmers is also the biggest and is set to become even bigger with a merger with Centaur, the other biggest farmer owned grain co-op in UK. They are to become 'Openfield', with 20% of the grain market, handling four million tons of grain a year. It will also be the third biggest supplier of seed and fertilizer inputs in the UK. There will be 7000 farmers in membership, linking up with farmer-owned storage businesses that supply 900,000 tons of grain. It has long term supply contracts with customers, and works on the committed grain principle, with farmers agreeing in advance how much they will grow. In an attempt to keep in touch with its members, it is to set up a farmer council to advise the board. Interestingly, for such a large company it has only £20m in shareholder capital; in a company that mainly organises the sale of produce to agri-food companies, the traditional co-operative is probably still the best option. If it went into processing in a big way, it might need to evolve into one of the other types.

Next comes Agricultural Central Trading, which is a UK-wide agricultural supply co-op. It began in the 1960s with a small group of farmers joining together to buy their farm inputs, and has grown into a company with a turnover of £63 millions, and 10,000 farmer shareholders who receive an annual Loyalty Bonus on all their purchases. Then come a wide range of different types of co-op that reflect the diversity of the industry and the wide range of farming needs. The biggest recent success is in promotion of machinery rings, of which there are now 10 in Scotland. These are one of the simplest forms of co-operation, requiring almost no capital and acting as an agency to bring buyer and seller together, but they can have a dramatic effect on farm incomes.

One way to understand the current situation is to see co-operation working on three levels.[152] At the first level farmers are co-operating with their neighbours, sharing a machine or an employee, or even farming more than one farm as one unit. Then at the next level there are regional co-ops operating machinery and labour rings, grain and potato stores, and farm requisites. Then at the top level there are the co-ops that take a strategic position in the market such as First Milk, that are vertically integrated and adding value through processing.

SAOS has received government support since 1920, and this has helped it to promote and safeguard producer cooperation. It has identified two growth points: development of the local foods market, and greater integration into the supply chain. It has just received a £1m grant from the Scottish Government to strengthen supply chain collaboration. It is interesting to note that Co-operative Group is also part of that supply chain, not just in its role as retailer but as a farmer supplying potatoes and strawberries from its Scottish farms. There is scope here for inter-sectoral collaboration.

Finally, there is an interesting postscript to this description of farmer co-ops in Scotland. The Swedish/Danish dairy co-operative, Arla Foods, has bought several dairies in Britain including a plant at Lockerbie and a half share in a dairy at Inverness. It is ironic that Scottish dairy farmers are supplying milk that supports the price paid to Swedish and Danish farmers for *their* milk. However, the number of farmers supplying to Arla in its home countries has contracted by 6% in 2008, and the company needs more farmers to become members. In May 2008, the Arla Foods Milk Partnership (which delivers about 80% of the milk to Arla in the UK) began to offer members of AFMP membership in an investment company, Arla Milk Partnership Ltd. This company in turn will hold a 7% share in Arla Foods UK plc. Farmers will pay a levy on milk of 1p ler litre, in order to become shareholders. It is a complex scheme but it will result in British farmers gaining a stake in Arla's UK operation. Finnish farmers are also being given a membership stake in their branch of the business.

Conclusion

The lesson from Sweden, Switzerland and Finland is that if you want to build a farmers' co-operative sector that can take on the world, do it early and do it well.[153] In our comparator countries, co-operative development began early, towards the end of the 19th century just as markets for agricultural produce were opening up. The question of rural poverty and under-development attracted a lot of attention, and talented and well-connected promoters such as Gebhard put co-operation on the agenda. At the same time, farmers got the vote and began to exercise a lot of political power. Because of this, governments supported co-operative development even against private interests; for instance, in the 1920s, the Finnish government legislated to limit the amount of forest private companies could own. In these countries, farmers had a high level of social capital, fuelled by nationalist sentiments in Finland, and a tradition of mutual aid in Switzerland, and in Sweden a tradition of local self-reliance (though here, according to CR Fay, who was a close observer, co-operatives took a lot longer to get going). Farmers were committed to federating at local, regional and national levels, and their federations had (still have) a dual character, having in membership both individual farmers and co-operatives.

From the postwar period onwards, success can easily be explained by the fact that they already had large, complex businesses that had captured much of the value both forward and backward in the production chain. All they had to do was to seize the opportunities provided by (in Scandinavia) EU membership, and the opportunities opened up in Eastern Europe. They have not been afraid to dilute co-operative principles somewhat by allowing investor-participation, either in the co-operative or in its subsidiaries, and through a long course of acquisitions, mergers and growth have become dominant in their industries. The question now is whether farmers can hold on to ownership; these international agri-food groups portray themselves as conventional investor-owned companies, and sometimes it is only by looking at their lists of owners that one can see that farmers are the majority owners.

In Scotland, the promising developments in agricultural marketing that began in the 1920s were choked off by development of statutory marketing boards in the 1930s, though on the supply side co-ops were able to develop into strong regional businesses. Now there is a wide range of co-ops, mainly quite small, engaging in useful work in every sector, but it is too late to expect them to go further up the supply chain and capture whole industries as they have in our comparator countries. Instead, they can form joint marketing groups, or work with agri-food businesses in partnerships that achieve the same purpose of guaranteeing that their outputs will sell and will fetch a good price. Most are too small to have enough capital to fund acquisitions and joint ventures; farmers have enough calls on their capital just enabling their own businesses to be successful. However, the case of Arla shows that Danish and Swedish farmers are willing to give a share of ownership in a transnational agri-food business to Scottish farmers. This opens up new possibilities for Scottish co-operatives.

Chapter 9: PRODUCER CO-OPERATIVES – FISHERY

Introduction

All over the world, the fishing industry is in decline, caused by over-fishing and pollution. The prospects for fishing co-operatives are therefore not good, and in the countries where co-ops are very strong – Korea and Japan – the best that can be said is that they are helping to make the decline easier on the fishers and their local economies. However, fishing is still big business, and the same opportunities are there for primary producers to be exploited by middlemen who create monopolies in supply of equipment and marketing of the catch. This is a particular problem in developing countries such as Sri Lanka, where fishing co-ops are weak and are unable to influence the prices obtained.

Producer Co-operatives: Fishery - Switzerland, Finland, Sweden and …Norway

Our comparator countries are not much help here. Switzerland is land-locked and just has some lake fishing. Finland is restricted by being in the Baltic, where pollution restricts catches and the main industry is catching herring and sprat to turn into animal feeds. Fishing employs only 6000 people and contributes only about 0.1% of GDP. The industry in Sweden is dominated by a small number of large companies located on the Swedish west coast, many of which have been bought by or merged with Norwegian or Icelandic companies that wanted to get access to the EU market. Only 4,000 people were employed in the sector in 2003 and it contributed 0.2 per cent to GDP. To get a sense of where Scotland could be, we might look at Norway. Here, all marketing of catches is organised through six co-operatives. According to the Norwegian Raw Fish Act, they have an exclusive right to do all first-hand marketing of fish and shellfish. The operational area of each organization is related either to geographic area and/or to the species for marketing. [154] In addition to the marketing functions, the sales organizations also have important control functions in protection of marine resources. The first hand marketing value of fish and shellfish is approximately NOK6 billions, and 90 % of all fish and shellfish is exported. This is how the system works; the co-ops offer fishermen and buyers a number of services directly related to trading, sales and settlements, they can make direct mutual agreements in regard to supply, catches can be put out for auction on a modern electronic auction system, or longer-term contracts can be made. Of course, this only covers fish marketing. The real value is further along the chain in fish processing and export, and here we would have to go to Canada, Korea and other countries to see how co-ops can capture a larger part of this value for fishers.

Producer Co-operatives: Fishery - Scotland

Scotland has 8.6% of the population of the UK but lands 69% of the fish (441,000 tons worth £370 million). This is worth 1% of Scottish GDP, while fish landed in the UK as a whole are worth only 0.1% of GDP; the industry is literally ten times more important to Scotland than to the UK. [155] It provides direct employment for around 20,000 people and indirect employment for another 28,000. Restrictions imposed by the Common Fisheries Policy have been severe and employment in the industry has declined by 40% in the last decade, with early retirement and resettlement of fishers being manage the decline. However, the level of investment in new vessels continues to grow, and substantial sums have been invested recently in onboard quality improvements. There has been significant uptake of the Seafish Responsible Fishing Scheme which provides accreditation, and an upward trend in vessels switching to more environmentally friendly types of gear. In addition, the fish processing industry in Scotland accounts for around half the UK total. It is in a healthy state, making up for the decline in catches by using imported fish, though some commentators think it is in need of branding and marketing improvements if it is to reach its full potential.

There are three sectors. The pelagic sector includes fish living in the upper layers such as herring and mackerel. This industry survived a crisis in the 1970s when fishing was stopped altogether, it has been modernised, and is now profitable with 33 boats based in the North East and Shetland. The shellfish sector includes prawns, shrimps, lobster, crabs, and molluscs. It is also profitable but is approaching capacity and in need of modernisation. It is based all round the coast. The third sector is demersal, including sea bottom fish such as cod and haddock, and based in the North East and Shetland. This sector has seen a collapse in profitability, with cod and haddock now making up only 40% of the catch. The response has been government grants to decommission boats, but this means money passes from the government to banks, as boats are bought on debt finance; some commentators think a debt service moratorium would be better.

The ownership structure of the industry in Scotland is complex. In contrast to the rest of the UK, the vast majority of boats are owned by local family partnerships, but they may only hold a majority share, with fish selling companies, banks and other investors holding the rest. The cost of the vessel includes its license, catch quota, and 'days at sea' permission. The UK Government allowed quota and days at sea to be traded in an open market. In consequence, some of the quota and days at sea are owned by fishermen, some by producer organisations, and some by the fish selling companies. The supply of inputs or 'chandlery' is mainly done by the fish sellers. The first sale in the marketing of the fish is to the fish selling companies, but processing is carried out by the companies, two of the producer organisations, and independent processing companies. This intertwining of producer and outside investor-ownership makes it difficult to see how the fishermen can increase their control over the value chain.

Scottish fishermen have their own Scottish Fishermen's Federation to represent their interests, and this is made up of eight regional and specialised associations. They co-operate commercially through nine regional fishermen's producer organisations (POs) that are recognised by the EU as 'producer organisations'. Although these are created by EU statute, they can be seen as genuine co-ops, being governed by boards made up of active fishermen. They vary in size, the type of fleet segment making up the membership, and the stocks targeted. Three of the largest, the Scottish Fishermen's Organisation, Shetland FPO and North East Scotland FO, have a combined turnover in excess of £160 millions. [156] The largest is the Scottish Fishermen's Organisation (SFO) which has 300 active vessels in membership and operates two processing factories. Then comes Shetland Fish Producers' Organisation that has all the larger Shetland vessels in membership, and holds a significant share holding in white fish and pelagic processing companies within the islands. They are all members of the UK Association of Fish Producer Organisations.

The main functions of the 'POs' are to market catches, to manage the fish 'quota' arrangements, and to implement the EU price support scheme for fish. Seafood Scotland explains it this way: because fishing is unpredictable, imbalance between supply and demand is inevitable, so the EU guarantees minimum revenue for fishermen by setting guidance prices for a number of species. POs may take fish and shellfish products off the market when prices fall below these, and compensate their members. They are most effective in managing pelagic species, where effort is concentrated on single species and relatively short fishing seasons, and fleet landings can be staggered to meet the market need. [157] However, in practice they manage the quota, and only the Scottish and Shetland POs achieve the wider goal of buying and selling fish so as to create an orderly market. [158]

In addition to the POs, there are currently 20 fishing co-ops and the trade association, Seafood Scotland. The largest of the co-ops is the Scottish Shellfish Marketing Group, a co-op with 19 mussel farms, and 6 oyster farms in membership and a £6.3 million turnover. The second largest is Eyemouth Fishermen's Mutual that provides supplies to fishers and markets fish, with a turnover of £4.7 million. The rest are small, locally based co-ops that provide inputs or marketing, but do not go far along the value chain.

The industry has been the subject of much analysis and there is no shortage of suggestions for its improvement. A recent Commission on fishing in Scotland suggests there is need for a fishing industry finance corporation to even out the fluctuations in earnings. [159] The system of shared ownership and skipper owners needs to be reconsidered in favour of a more corporate system that can raise capital and buy quotas. There needs to be a more cohesive structure to the representation of fishing interests, and the Scottish Fishermen's Federation and other bodies should come together to represent the industry more effectively.

In contrast, the interim report of a Scottish Government consultation is concerned not to let ownership of the industry pass out of the hands of fishermen and local communities to more commercial interests. It wishes 'to ensure that fishing rights remain accessible to traditional fishing communities with high levels of fishing dependence', and says 'we do not believe in privatising fishing rights because of the inherent risks involved to our many fishing communities'. It recommends that a Scottish quota and licensing system be introduced that will grant stewardship rights to users and maintain the link between vessel licenses and quota, thus preventing the use of quota as a 'speculative asset'. It wants to encourage smaller vessels to join a producer organisation. The report says "*POs are a central element of Scotland's fishing communities and are recognised as being Scottish through a variety of objective criteria*." [160]

They should continue to manage quota and assist in delivering future management measures promoted by the Scottish Government. However, the Government also proposes that their governance be improved to make them more accountable and transparent to their members, and to have non-executives on the board. In the replies made to the Government's consultation on the proposals, there was also broad recognition of the importance of POs, and of the Government's proposals to improve their governance.

Support is provided to the producer interest by Seafish, a non-governmental public body financed by a levy on all fish landed and imported. Founded in 1981, it has the capability to form and provide co-funding to co-ops. Two have been formed by Seafish: Seafood Scotland and a similar organisation in the SW of England. Seafood is a trade association founded to meet the needs of the Scottish Industry by doing marketing, promotion, and reputation management. Its members are other associations such as the Scottish Fishermen's Federation, the Whitefish Producers Association, and all of the POs.

Support is also being provided by another co-operative. In 2008 the Co-operative Group pledged support to UK fisheries looking to pursue sustainability through an accreditation scheme called Marine Stewardship Council certification. It is committing £200,000 over two years to enable fisheries all over the world to achieve certification and then to be eligible to supply the Group while meeting its stringent criteria for responsibly sourced fish products. This support has so far benefitted fishers in South Africa and Alaska, and could be applied more extensively in Scotland.

Conclusion

There is a lot of support for the producer interest in Scotland. The Scottish Government and the EU accept that fishermen should be involved in such fundamentals as quota allocation and fish marketing and processing. The Seafish Board has the power to promote co-ops, and the UK's largest consumer co-operative is supporting sustainable fishing. The largest POs are involved in fish processing. All of this hints at the possibility of a more co-operatively based system in which the producers gain more of the benefits from the industry. However, we have noted how difficult it is to disentangle the producer and commercial interests. In a highly developed producer-driven sector such as can be found in Japan or Korea the boats are owned by co-operatives, and fishermen capture much of the value right through the supply chain, but this may be too ambitious a target for Scotland. However, the example of Norway shows how a fishing industry can be organised in the interests of the fishers through co-operatives that control the marketing process.

Chapter 10: OTHER TYPES OF PRODUCER CO-OPERATIVE: Retailer supply, shared services

Retailer supply

One common form of co-operation that is often overlooked is that between independent retailers who band together to provide wholesale services and common branding and marketing services. Often these groups were set up early in the 20th century explicitly to meet the competition from consumer co-ops. Now, some are very big businesses. The Edeka chain is the largest retailer in Germany, Intermarche is big in France, Conad in Italy, and there are several large retail groups in the USA. Groups are also strong in hardware in the USA, and in pharmacy all over Europe. There are complications though. Some have floated on the stock market and so have a mixed ownership structure, including independent store owners, larger retail chains and wholesalers. They tend to operate through franchises, and their members have to accept the discipline of the group. This raises the question of who holds the power in a franchise; it could be argued that because the relationship is unequal it is better if franchisees collectively own the franchisor. Some groups are wholly owned by the retailers, some wholly owned by the wholesalers, and some are mixed. Londis used to be retailer owned but they sold out to a group of wholesalers. The Spar Group is the world's biggest retail chain, and its ownership varies from one country to another. In Finland, the consumer co-op SOK is now the majority shareholder in Spar, which makes sense as SOK (the S-Group as it is now known) can supply independent retailers as well as consumer co-op stores. Spar Scotland is wholly-owned by the wholesaler, CJ Lang, and retailers enter into a franchise agreement to gain access to the Spar brand. In 2006, the Co-operative Group and Spar entered into an alliance in which they agreed to pool their 'own label' volumes and jointly purchase from suppliers.

Of our three comparator countries, Finland is the most interesting. Here, Kesko is the largest trading company in Finland. It is the parent corporation of the K-Group, comprising some 2,400 independent retailer-shareholders who operate nearly 2,700 stores specializing in groceries, leisure goods, and consumer durables. It was founded in 1940 out of four wholesalers that were themselves an amalgamation of several more, and its history in the postwar period mirrors that of the consumer co-ops in that it had to reorganise the industry radically in order to survive. In 1960, shortage of capital led it to go 'public' and become an investor-owned company, but its governance remained under the control of its retailer members. In this respect it mirrors some of the larger agri-food co-ops. Like the consumer co-operatives, it then divested itself of its manufacturing arms, diversified out of food into other consumer sectors, and began to concentrate on retailer development; during the 1990s it created four retailer chains for different sized stores. Kesko now has around 30% of the market in Finland.

More work could be done to identify similar retailer co-ops in Switzerland and Sweden, but this might not add much to our knowledge. The important question is whether this sector should be left to itself or whether more retailer-owned franchises should be promoted in Scotland. The balance of power between franchisors and franchisees is a legitimate concern for anyone wishing to promote small business. Here, as in farming, the co-operative form has demonstrated its effectiveness in shifting the balance decisively towards the small producer.

Shared services for self-employed and small businesses

There are seven taxi co-ops listed for Scotland. If the drivers are self-employed and share the cost of organising their work through an office, then they can be classified as shared service co-ops. If the drivers are employees then they are worker co-ops. The point is a fine one and on its own is not very important, except that it opens up another category of co-operation; there is great potential in shared service co-ops for the growth of small businesses. They have been recognised as a large part of the co-operative sector in Germany and Japan. [161] In developing countries they are beginning to be recognised as the only way of supporting workers in the informal economy. [162] In order to make a comparison with our three countries we need to do the kind of research that is beyond the scope of this report. However, we do know that of the new co-operatives developed in Finland during the last decade, 331 are marketing co-ops and 98 purchasing co-ops, suggesting that producer co-ops are developing not just in the traditional areas of farming and forestry but also among small businesses. [163]

In Sweden, the 25 co-operative development agencies have 'collaboration between small businesses in marketing' and 'company collaboration' as part of their remit. [164]

Conclusion

The recognition that retailer-owned or part-owned wholesale chains are themselves a kind of co-op raises the question of what sort of relationship it might have with the consumer co-operative sector. We have noted how Spar and the Co-operative Group have formed a buyers' alliance; this does not mean that the Group supplies Spar stores, as the consumer co-operative group does in Finland. A hundred years ago these two types of co-operative saw each other as competitors, and small shopkeepers would sometimes run quite vitriolic political campaigns against the 'co-op'. Now, faced with competition from a few huge multiple chains, they may have more in common than they thought. During the 1980s, the Co-operative Group (or CWS Retail as it was then) experimented with franchising some of its stores to family businesses and even a worker co-op. [165] Although at the time it proved controversial, this idea of co-operative franchising might be revived.

Similarly, the idea of shared service co-ops for small businesses and self-employed people is an unfamiliar one in Scotland that deserves further attention. Some case studies of successful co-ops would be useful. The International Labour Organisation is promoting them in the informal economy in developing countries, [166]and local economic development agencies in the developed world often promote them without realising they are a type of producer co-operative.

Chapter 11: EMPLOYEE-OWNED CO-OPERATIVES

Introduction

Employee-owned co-ops are usually referred to as worker co-ops, but there are good reasons why we should use the longer, if less inspiring, term. First, producer-owners such as farmers, transport operators and small businesses are also workers, but they are not employees. Second, like the farmers who increasingly have a stake in agri-food co-ops that have converted to investor-ownership, employees often have a stake in the business but are not outright owners. Arguably, the flexibility this brings in terms of ability to raise capital and move quickly into new areas of business is necessary in a rapidly globalising age. The important principle may not be ownership but control; provided the farmers keep a majority shareholding their interests are safeguarded. The same kind of argument could be made that the 50% threshold in employee-ownership is more significant than the number of wholly employee-owned businesses. Alternatively, advocates of worker co-ops say nothing less than complete ownership will ensure that workers are in control.

There is compelling evidence that employee ownership provides a range of efficiency gains over conventionally owned firms. However, it does this in closely held companies rather than in ones that have a wide set of owners, and only when combined with participatory management.[167] Studies find higher organisational commitment and identification with the company. Productivity improves by an extra 4-5% in the year as ESOP is adopted, and this higher productivity level is then maintained. Employee ownership is also associated with greater employment stability, faster growth and higher rates of firm survival. There is more evidence that the impact of the credit crunch is less drastic for ESOP companies, because they have less need for credit.

Employee Owned Co-operatives: Sweden

In Sweden employee ownership is low compared with the European average; the global percentage of capital held by employees in large companies is 1.35% compared with 2.35% in Europe. However, 94% of large companies have some kind of share ownership scheme. [168] The employee stake is growing, with 33% of large companies launching new employee share plans in 2007, but only 17% of employees have ownership stakes compared with a 26% average for Europe. It is clear that this kind of stakeholder participation is not linked to the traditional co-operative movement in Sweden, otherwise we could have expected the very high densities of member ownership associated with the farming and consumer sectors.

A network of 25 co-operative development agencies has been promoting worker co-ops since 1985; in 1994 they formed their own association. Together they have 85 members of staff and 862 members, who include local government, co-operatives, trade unions and associations. Their total turnover is Eur 6.7 million (2005 figures), half of which comes from central government, half from local and regional sources including their members. Together they support the startup of between 200 and 400 new co-ops each year. There are around 500 co-ops in membership of the Association, most of which are worker co-ops. However, it is difficult to distinguish worker from other types such as consumer, producer or multi-stakeholder co-ops; since 2002 the emphasis has been on developing social economy organisations more generally, and the starting point is not a particular form of business but current public issues and needs. [169]

Employee Owned Co-operatives: Switzerland

Switzerland is nearer the average for European countries, with the global percentage of capital held by employees being 2.75% compared to the average of 2.35%. 86% of large companies have a share ownership scheme. Like Sweden, Switzerland is quite new to the idea of employee ownership. There are some worker co-ops - Swiss Financial Services is an employee owned investment company, that has $42 billion in assets under administration – but statistics for the sector as a whole are not available.

Employee Owned Co-operatives: Finland

Compared to other European countries, employee ownership looks recent in Finland and tends to be for high and middle management much more than for employees; it is number three in Europe for stock option plans. Considering the global percentage of capital held by employees in large companies, Finland is low with 1.59% compared to the 2.35% average, but 98% of large companies have some form of share ownership scheme. However, the dynamics are good; 39% of Finnish large companies launched new employee share plans in 2006/7. The proportion of employee owners amongst all employees is as low as in Sweden, at just 17%.

The Finnish experience of labour co-ops is potentially of greater interest to Scotland. Finland suffered badly from a deep recession after the breakup of the Soviet Union; a large part of its export market was lost. Then, when Finland joined the EU in 1995 there was the impact of deregulation of markets. Unemployment, which had been around 3% in the late 1980s, rose to over 20%. The numbers of employee-owned co-ops soared to around 1400, of which 1230 were labour coops. They are a fascinating combination of job seekers club, employment agency and training agency. Unemployed people become members. The co-op then finds them temporary work, renting out their labour by the day or hour like a private employment agency. They operate mainly in construction and office work, but also in computer services, accounting, cleaning, social services, and maintenance work. In 2001 they provided work for 3300 full time and 4400 part time members. They were initiated by local associations of unemployed people, and funded by a state slot machine association. They are dependent on grants from the Labour Ministry that provides 80% of set up costs, and have support from nine regional co-operative development agencies and the co-op federation, Pellervo. Support for them is part of public policy. [170] With a new recession biting, and unemployment rising rapidly, there are obvious points of contact with the current situation in Scotland.

Employee Owned Co-operatives: Scotland

While there are figures for employee ownership in the UK, it is disappointing that these cannot be disaggregated for Scotland. The good news is that the UK is top in Europe (along with France), having been in the field for the last 25 years. The global percentage of capital held by employees is low, at 2.33% (compared with 4.03% in France), but it is growing rapidly; 42% of companies launched new schemes in 2007. UK is number one with Ireland in having 99% of large companies offering employee share ownership schemes. Perhaps this is one way in which, with the help of Co-operative Development Scotland, Scotland can build upon this strong record and surpass the UK as a whole.

There are more than 50 wholly or largely employee-owned co-ops listed for Scotland. The largest tend to be ones that were successful companies that were sold to their employees in a managed buyout. John Lewis Partnership is a huge retail chain that was given to the workforce by its founder, and has a turnover of £605 millions. The Tullis Russell Group was bought out by employees in 1994 and has around 800 employee-owners. WL Gore is a specialist manufacturer of polymer-based products such as Goretex; it has a staff of more than 8,000 across 45 countries. In Scotland it has a 426-strong workforce, spread across two sites in Livingston and one in Dundee. It began as a family business, but after a few years employees get 10% of their salaries in shares; in this way the company has become 90% employee-owned. Martin Currie is an equity manager that has $25 bn in management and, like Swiss Financial Services is wholly owned by its 49 employees. Scottish Woodlands is predominantly an employee owned company with ninety percent of its equity held by its staff and directors. The company's annual sales exceed £44 million, and its core business is forest management and timber harvesting, but with a growing presence in utilities, landscaping and renewable energy. Highland Home Carers and Stewartry Care are examples of employee-owned companies providing care for people in their own homes. Loch Fyne Oysters and Woollard and Henry are also good examples of thriving businesses that were sold to their employees by the original owners, the first on the death of an owner, the second on the owner's retirement.

Then there are businesses that were set up as worker co-ops – wholly owned and tending to have a more direct involvement of workers in day to day decision-making in the business. Edinburgh Bicycle Co-op is the largest, with a turnover of £9.7 millions which for a specialist retailer is very high. It also is a very successful business that has grown beyond Scotland: it has five outlets, in Aberdeen, Edinburgh, Gateshead, Leeds and Manchester. There are at least three more with a turnover of more than a million pounds, including two wholefood wholesalers (Green City and Highland) and a fair trade marketing and distribution co-op (Equal Exchange). After this come a wide range of co-ops in sectors such as child care, social care, crafts, and professional services.

Why are there so many small co-operatives? One reason is that they tend to thrive in niche markets where dedication, specialist knowledge and attention to detail are needed, and these are all complemented by employee control. Another reason is that their members want to work in small, more intimate settings. A less positive reason is that there may be disincentives to growth because a common ownership structure does not reward individual entrepreneurialism. Here, expertise in creating share incentive plans and internal share markets in co-ops is vital to the growth of the sector in Scotland; new share initiatives at Edinburgh Bicycle Co-op, Tullis Russell Group and Loch Fyne Oysters are good examples. [171]

Chapter 12: CONCLUSION

What is it about our three countries, Finland, Sweden and Switzerland, that has made them so co-operative? Before modern co-operative movements emerged these were mainly rural societies, with decentralised governments and a dense network of informal mutual aid institutions at village level. Put another way, they had very deep pools of social capital on which the new co-operatives could draw. It was not just bonding social capital but bridging; social movements and political parties led by urban elites tended to recruit the rural population as supporters, and in return gave them influence over government policies. In these countries, free education and political enfranchisement came early compared to other countries. Land reforms led to the formation of a 'sturdy peasantry' of small farmers, while in the towns industrialisation and urbanisation came much later than in Britain, giving artisans time to preserve their way of life and adapt to modern conditions, in the process creating their own co-operative institutions. What followed was a combination of enabling co-operative laws that recognised co-operative principles, and taxation rules that recognised their right to distribute surpluses not as profit but as a return to members. [172] Governments, particularly in Finland and Sweden, were interventionist and sometimes went beyond support for co-ops to legislate against their competitors, for instance when, in the 1920s in Finland, commercial forest owners were restricted in the amount of land they could own.

Looking at each sector in more detail we can identify the reasons why co-operatives began early, developed strongly and gained such leadership in so many market sectors. In the *retail sector*, in all three countries (and also in most of Europe) governments passed enabling laws and then tended to leave the co-operatives alone; they grew quickly through using the Rochdale 'dividend' system, and vertically integrating along the lines that the English and Scottish CWS's had shown to be so effective. They did not need much more support from government. In the *financial services* sector, in Finland and Switzerland (though not Sweden, which was more like Scotland in this respect) co-operative banks copied successful German models, and grew into a national network that was regulated sympathetically and given a lot of government support. In housing, the Swedish (and Norwegian) governments legislated co-operatives into a virtual monopoly position in apartment housing, and the 'mother and daughter' system of savings bank/housing co-op ensured rapid growth. Similarly, in *utilities* in Finland (and Denmark) consumer co-operatives were seen as the natural choice for rural areas, and were given special status in law. In the *farming and forestry* sector, promoters in all three countries were able to build on successful Danish and German co-operative models. Governments encouraged farmers to organise, provided farm credits and extension services, limited the competition from private interests, and from the 1930s onwards engaged in protectionist policies that guaranteed prices and incorporated marketing co-ops and farmer's apex organisations as part of a 'corporatist state'.

With liberalisation of markets in the 1990s, both consumer and producer co-ops have had to consolidate, to expand aggressively into transnational markets, and to meet the competition head on by using complex company structures, sometimes floated on stock markets, that make them almost indistinguishable in practice from investor-owned businesses. Where new co-operative laws have been enacted, these have tended to make the co-operative business model more similar to that of investor-owned businesses. [173] The trend is all towards a level playing field, but with the danger that the distinctive nature of co-operatives will be ignored or misunderstood. On the other hand, these older, well-established businesses are capable of looking after their own business environment without specific support from governments.

In contrast, there is a whole range of new co-operatives emerging – in employee ownership, provision of social care services, renewable energy, and so on – that need a strong and comprehensive support structure if they are to survive. The example of Danish wind farms is instructive, as is the Finnish labour co-op and the Swedish biomass co-op. Here, government funding has been needed, along with specialist co-operative support agencies. In the energy sector, the market has had to be skewed through taxes and incentives so that new forms can begin to emerge. In the education and child care sectors in Sweden, governments have used vouchers to enable parents to form co-operatives, providing funding at the same time as letting service users take control of provision. The relationship between government and co-operatives has been a contentious one, particularly at local government level. The right combination of support, regulation and letting go of control is difficult to achieve.

Industrialisation and urbanisation came much earlier to Scotland than to our comparator countries. The form they took – a central belt dominated by large-scale factory production, mining and heavy industries – made it possible for a working class to emerge that created their own vertically integrated retail co-operative sector. However, other forms of consumer-owned co-operative never got going because the space they would have filled was taken by other types; savings banks instead of co-operative credit banks, council housing instead of housing co-ops, statutory water boards and electricity boards instead of rural utility co-ops.

Early attempts to develop farmer co-operatives met with mixed success. One reason was that, despite the superficial similarities with the other countries it was different in some crucial respects. In rural areas, the Highland clearances, combined with the lack of land redistribution in favour of smallholders, had resulted in an unequal class system of large landlords and small farmers that made it difficult to engage farmers' common interests in co-operative development. Farmer co-ops began to get going after the First World War, but the fateful decision to set up statutory marketing boards in the early 1930s effectively killed off the marketing co-ops. Liberalisation in the 1980s brought them back on the agenda, but after two generations farmers no longer knew about the co-operative way of doing business. Luckily, the Scottish Agricultural Organisation Society was still promoting co-operatives, and in the last few decades has been patiently rebuilding a farmer-controlled sector from the ground up.

The result has been that, while in our comparator countries primary producers enjoy a higher return from their businesses, Scottish farmers are selling milk and cereals at the most unprofitable stage in the value chain, in some cases to the agri-food businesses owned by farmers in Sweden, Denmark and Finland! On the other hand, Scottish farmer co-ops are highly successful in meeting the more immediate needs of the farmers, and the example of Arla Foods shows that it is possible for Scottish farmers to buy into transnational farmer-owned businesses.

Consumers in Scotland still have the benefits of networks of small stores owned by the Co-operative Group and Scotmid. We ought to be able to build on this success. On the other hand, the future may well be with the growing numbers of small co-operatives in renewable energy, social care, leisure services, digital inclusion and so on, which need support from organisations such as Co-operative Development Scotland. They are so diverse they defy neat classification, but in an economy in recession they could be the way forward, particularly if we are able to learn more detailed lessons from co-operative development agencies in Sweden and the labour co-operative sector in Finland.

With the investor-owned banking sector in global meltdown, now is also the time to value the co-operative and mutual financial service sectors. The report suggests that if the credit union sector in Scotland can be strengthened by partnerships with the building societies and the Co-operative Bank, some kind of co-operative banking sector might emerge to fill the credibility gap the bankers have left wide open.

This report has been structured in such a way that it presents the different types of co-operative in separate chapters. The advantage of this is that we can begin to understand the nature and potential of each type, but the disadvantage is that we miss the bigger picture. One of the co-operative principles is 'co-operation between co-ops', and all through the report we have noted opportunities for different types of co-operative to work together for their mutual benefit. To do this, they have to know about each other and appreciate the underlying similarity in their values derived from the idea of membership. One of the aims of the report is to contribute to this wider understanding, but more work needs to be done now to identify ways in which co-operatives can co-operate together both within Scotland and between Scotland and the other countries.

What is the main message of the report? It is that co-operatives are not just for the poor; some of the richest countries in the world depend heavily for their success on co-operative businesses. Neither are co-operatives for the rich; in these successful countries it is the small business-people, the farmers and the low to middle income consumers who benefit most from co-operative membership. Unlike other forms of business, co-ops both generate wealth and spread it around more equally. In the midst of a recession caused by a banking crisis fuelled by short-termism, self-seeking and greed, this must be a hopeful message. If we want to strengthen the Scottish economy, and help it to ride out the world recession, one way to begin would be by maximising the potential of the co-operative type of business.

GLOSSARY

ABCUL: Association of British Credit Unions Ltd is the main trade association for credit unions in Britain who provide information, representation and training to their members.

AFMP: The Arla Foods Milk Partnership facilitates the procurement of milk from farmers in Scotland, England and Wales for Arla Foods UK Plc

Bonding social capital: the value attributed to social capital that has been formed by homogenous groups.

Bridging social capital: the value attributed to social capital that has been formed by heterogeneous groups.

CETS: The Co-operative Education Trust Scotland is a charitable education trust dedicated to the promotion of co-operation and co-operative enterprise

Consumer co-operatives: a co-operative enterprise owned by its consumers for their shared benefit.

Co-operative: "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"[1]

CDS: Co-operative Development Scotland was launched by the Scottish Executive in 2006 to promote the development of successful co-operative enterprise across Scotland. It is a Scottish Enterprise subsidiary, with its own Advisory Board.

CFS: The Co-operative Financial Services is the insurance, investments and banking arm of the Co-operative Group.

CIS: The Co-operative Insurance Service, the insurance arm of the CFS.

Co-operative banks: Co-operative banking is both commercial and retail banking that is structured using co-operative principles.

Co-operative business: see Co-operative.

Co-operative Group: UK based co-operative business run by its members to meet their common aspirations and goals. The world's largest consumer co-operative.

Co-operative sectors: co-operative enterprises exist in many economic sectors. In Scotland co-operative sectors include; Food & Drink, Tourism, Forestry, Renewable Energy, Creative industries, Housing, Retail, Agriculture & Fishing, Sport and Finance.

Co-operative societies: a co-operative with a specific theme e.g. farmers or electricians.

Credit union: a co-operative financial institution run and owned by members. Seeks to provide credit on reasonable terms to its members.

CRTG: The Co-operative Retail Trading Group is a national buying group which serves the needs of over 3000 food stores in the UK.

CWS: See Co-operative Group.

Development trust model: a form of community enterprise that is typically owned and run by its members and tend to operate in disadvantaged areas. They work with a wide variety of partners and use trade and assets to bring about social and economic benefits to the wider community.

District heating systems: a heating system which is run from a central boiler and has the capacity to heat a large number of homes upon a specified grid.

Employee owned co-operatives: a democratically run co-operative whose shares can be owned wholly or in part by its employees.

Energy4All: Owned by the co-operatives it assists, Energy4All is a co-operative formed in 2002 to expand the number of renewable energy co-operatives in the UK.

[1] http://www.ica.coop/coop/principles.html

ESOP: An Employee Stock Ownership Plan is a variation on an employee benefit plan and is principally designed to invest in employer stock.

Friendly society: a mutual organisation comprised of people who come together for a common financial or social purpose with examples including co-operative banking and insurance.

GDP: a measure of performance and the total market value of all goods and services produced in an economy.

HSB Sweden: A Swedish co-operative housing association.

ICA: The International Co-operative Alliance was founded in 1895 and is a non governmental, independent organisation which represents, unites and serves co-operatives worldwide. ICA has 228 members from 88 countries representing some 800 million individuals worldwide.

ILO: The International Labour Organization is a UN agency that brings together governments, employers and workers of its member states to promote decent work throughout the world.

KF: Kooperativa Förbundet is a Swedish co-operative union which specializes in groceries.

Market failure: an instance whereby a market fails to allocate resources efficiently.

Mutual insurance society: see friendly society.

NAGRA: The National Co-operative for the Disposal of Radio-Active Waste.

NFU Mutual: The National Farmers Union Mutual is a UK registered mutual insurance group owned by its policy holders.

NKL: A Norwegian co-operative retailing company.

OECD: The Organisation for Economic Co-operation and Development is an international organisation that helps governments tackle the economic, social and governance challenges of a globalised economy.

Pellervo: Economic research institute based in Helsinki that focuses on regional economic development and regional policy, the problems of co-operative and small and medium size enterprises.

Producer co-operatives: a co-operative enterprise made up of producers who co-operate in areas of production.

Risk capital: capital that is designated for high risk investments.

Rochdale based consumer movement: the Rochdale based consumer movement refers to an early consumer co-operative called the Rochdale Society of Equitable Pioneers who formed the basis upon which modern day consumer co-operatives were established.

Rochdale principles: a set of ideals for the operation of co-operatives laid out by the Rochdale Society of Equitable Pioneers forming the basis of modern day co-operatives.

SAOS: Scottish Agricultural Organisation Society is a development organisation owned by its membership, which is made up of businesses constituted in accordance with co-operative principles

SCWS: The Scottish Co-operative Wholesale Society, founded in 1868, specialised in manufacturing, transport, banking and insurance.

Seafish Authority: A Non Departmental Public Body that works across all sectors of the seafood industry to promote good quality, sustainable seafood.

SELDOC: The South East London Doctor’s Co-operative is a GP co-operative that provides out-of-hours General Medical Services to its GP members

SFHA: The Scottish Federation of Housing Associations is owned by its membership and exists to support the work of housing associations and co-operatives in Scotland by providing services, advice and good practice guidance.

SFO: The Scottish Fishermans Organisation helps with the marketing of Scottish Fish and management of fisheries subject to quotas.

Social capital: a concept used in social science which refers to the value of social networks and contacts.

Social landlords: private sector, not for profit institution that helps provide affordable accommodation.

Statutory marketing boards: a marketing board that is concerned with marketing the products of its members and keeping the price of the products stable.

Supporters Direct: An industrial and Provident society, funded by the football stadia improvement fund, who provide advice to trusts on how to organise and acquire a collective shareholding in their clubs on a not-for-profit basis for re-investment.

UEFA: The Union of European Football Associations is the administrative body that controls European football.

Worker co-operatives: a co-operative organisation whose shares are owned wholly by its workers. A worker co-operative would not trade its shares publicly.

ENDNOTES

[1] World Economic Forum (2008) *Global Competitiveness Report*

[2] Figures from Organisation for Economic Co-operation and Development (2008) *OECD in Figures*

[3] World Economic Forum, Davos (2007)

[4] Aims as set out in the project brief

[5] There are also multi-stakeholder co-ops that complicate this typology further. Mondragon's Eroski is a worker-consumer owned grocery chain, and Italy's social co-ops have workers and those cared for in membership. It is likely that this form will grow, particularly among social care co-ops.

[6] According to Hansmann, an investor-owned business is also a type of co-op, of investor-members, but this is a formal point and does not take into account the inherent difference between ownership by absentee investors and by those who make direct use of the business. Hansmann , H (1996*) The Ownership of Enterprise*, Cambridge, Mass: Harvard University Press

[7] However, the borrowing of terms from natural science can be pushed too far, because in nature most hybrids such as the mule or liger are sterile.

[8] Figures from OECD for 2005

[9] More recent figures from the IMF and World Bank show wider gaps between them, with GDP per capita in Finland of around $46.700, Sweden $49000, Switzerland $57000 and the UK lagging behind with $45500. Another statistic from the World Bank puts UK GDP per capita at $40,180 Scotland's at 95% of this at $38.573, making it 19th in the World Bank tables.

[10] See Cole, GDH (1944*) A Century of Co-operation*, London: George Allen and Unwin

[11] Fay, C (1925, 3rd ed) *Co-operation at Home and Abroad*, London: PS King and Son

[12] See Birchall, J (1997) *The International Cooperative Movement*, Manchester: Manchester University Press

[13] Kuustera, A (1999) *Niche of Co-operative Banking in Finland during the first half of the Twentieth Century*, Pellervo

[14] Putnam, R (1994) Making Democracy Work: Civic traditions in modern Italy, Princeton UP

[15] Putnam, R (2000) *Bowling Alone*, New York: Simon and Schuster

[16] Pellervo (2000) *The Pellervo Story*, Helsinki

[17] See Halpern, D (2005*) Social Capital*, Cambridge: Polity Press, p269-271

[18] Prebble, J (1963) *The Highland Clearances*, Penguin

[19] Halpern (2005) 271-2

[20] Halpern (2005) 268

[21] World Values Survey figure, on p217 of Halpern (2005)

[22] See Axelrod, R (1984) *The Evolution of Co-operation*, New York: Basic Books

[23] Birchall, J (1994) *Coop: the People's Business*, Manchester: Manchester University Press ----- (1997) *The International Cooperative Movement*, Manchester: Manchester University Press

[24] Olson, M (1971) *The Logic of Collective Action*, Cambridge Mass: Harvard University Press

[25] Birchall, J and 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*, 42.4, 487-515

[26] Kuisma, M, Henttinen, A, Karhu, S, Pohls, M (1999) The Pellervo Story: a century of Finnish Co-operation 1899-1999, Pellervo Federation, Ch.1 by Kuisma, M 'We have no Rockefellers, but we have cooperatives'

[27] Shah, T (1996) *Catalysing Co-operation: design of self-governing organisations*, New Delhi: Sage

[28] See Birchall, J (1994) and for a more detailed account Cole, GDH (1944) *A Century of Co-operation*, George Allen and Unwin

[29] Hansmann (1996)

[30] Hirschmann A (1970) *Exit, Voice and Loyalty*, Cambridge Mass: Harvard University Press, p3

[31] Smith, S (2003) 'Network Externalities and Cooperative Networks: A Comparative Case Study of Mondragon and La Lega With Implications for Developing and Transition Countries' ch. 8 of Laixiang Sun (ed) *Ownership and Governance of Enterprises*, Basingstoke: Palgrave/Macmillan

[32] Birchall, J and Simmons, R (2008) *Final report to the ESRC: Co-operatives and Poverty Reduction project*, ESRC Non-governmental Public Action Programme, September

[33] We can always find early co-op shops – the Zurich Consumverein was set up only four years after the Rochdale Pioneers society in 1848.

[34] For a full history of this era in several countries, see Brazda, J and Schediwy, R (eds, 1989) *Consumer Co-operatives in a Changing World*, Geneva: International Co-operative Alliance

[35] This is more true of our comparator countries and of England and Wales than it is of Scotland. Here, the Co-op has continued to be well represented in rural areas and its decline has been most marked in the towns and cities

[36] See Brazda and Schediwy, as above

[37] In French, Coop Suisse

[38] It has just begun to re-enter the travel business with the launch of ITS Travel Co-op

[39] Critics have their own website, SORGIM, which is Migros spelt backwards

[40] Information from Maria-Elena Chavez Hertig

[41] A similar situation occurred in Norway, with 400 societies accepting the discipline of a single buying group, NKL which provided standard ranges and a corporate image.

[42] Information provided by Juhani Lehto of Pellervo Confederation of Finnish Co-operatives

[43] S-Group *Annual Report* for 2006

[44] Kinloch, J and Butt, J (1981) *History of the Scottish Co-operative Wholesale Society*, CWS p 394

[45] Figures from Co-operative Group website

[46] Figures from Gerard Hill, Regional Secretary of Scottish Co-op

[47] Following the merger with Lothian, Borders and Angus Co-operative Society, the ninth area covering this Society's old trading area is currently a steering committee, but it will eventually become a full area committee.

[48] Scotmid (2008) *Annual Review and Summary Financial Statement*

[49] See Calderwood, E and Davies2008) *The impact of community co-operatives on shopping behaviour in rural communities*, Institute for Retail Studies, Stirling University

[50] The Community Retailing Network is one of the partners

[51] Norway has a similar system of subsidies

[52] Quoted on the Plunkett Foundation rural shops project website

[53] Comments by Jerker Nilsson

[54] not a hybrid – we are reserving this term to describe blends of co-op/non-co-op types of ownership

[55] One twist in this story is Credit Agricole in France; set up by government to lend to farmers, it had a national fund owned by government, and regional and local funds owned as a co-operative by 4.5 million members. In 1988 the national fund was 'mutualised' by being converted into part of the co-operative

[56] It also has representatives from the Mondragon system as a whole

[57] Raiffeisen Group press release

[58] Kuustera, A (1999) *Niche of co-operative banking in Finland during the first half of the Twentieth Cent*ury, Pellervo

[59] Kuustera, A (1999)

[60] See website, folksam.se

[61] See website, lansforsakringar.se

[62] Subject to a vote by Britannia members

[63] Co-operative Financial Services Financial Report 2008

[64] NFU Mutual Annual Report 2007, and website nfumutual.co.uk

[65] See website, lv.com

[66] See website, scottishfriendly.co.uk

[67] See website, scottishbldgsoc.co.uk

[68] There is also one example left of the old savings bank sector. The Airdrie Savings Bank is not really a mutual as it is governed by self-appointed trustees; it should really be seen as a non-profit, but it has a mutual ethos, seeing its 60,000 customers as 'members'.

[69] 2007 statistics from World Council of Credit Unions website, woccu.org

[70] Figures from Association of British Credit Unions website, abcul.org

[71] Sibbald, A, Ferguson, C and McKillop, D (2002) 'An examination of key factors of influence in the development process of credit union industries', *Annals of Public and Co-operative Economics*, 73.3, 399-428

[72] Some of the schemes were for people on low incomes who built their own homes and then rented them from a housing association. Needless to say, the incentives for doing so are weak, and we can predict that there will not be many such 'self-build for rent' schemes.

[73] 50+ houses in Lewisham between 1979 and 2000

[74] For a case study see Birchall, J (2003) *Rediscovering the Co-operative Advantage*, Geneva: ILO

[75] For an early treatment of the subject, see Birchall, J (1988) *Building Communities: the Co-operative Way*, London: Routledge

[76] They also have a choice of 'commonhold' which is a kind of co-operative, but the legislation has not been much used

[77] See Birchall's chapter in Conaty, P, Bendle, S, Birchall, J and Foggitt, R (2003) *Common Ground – for Mutual Home Ownership*, New Economics Foundation

[78] Lord Graham of Edmonton has tabled an amendment to the new Housing and Regeneration Bill going through the UK Parliament.

[79] Co-ops benefit from ageing – like individual owner occupiers they pay off their mortgages and, as long as they do not have high refurbishment costs, benefit from low outgoings

[80] Federhabitation (2007) *Les coopératives de construction d'utilité publique en Suisse*, found on ica.coop website

[81] Riksbyggen website -in 2004 there were 26,000 members of the savings association

[82] A small Glasgow co-operative, Fourwalls, is about to transfer to Tenants First and the figure of 15 co-ops reflects this

[83] A similar problem exists for credit unions. A distinct not-for-profit form needs to be recognised alongside charities

[84] Information from Susan Small, manager at West Whitlawburn

[85] See Scott, S (2000) 'The people's republic of Yoker', in *Journal of Co-operative Studies. 33.1*

[86] See Rodgers, D (2001) 'Housing co-operatives' in Birchall (ed) *The New Mutualism in Public Policy*, Routledge

[87] Simmons, R and Birchall, J (2007) 'Tenant participation and social housing in the UK: applying a theoretical model', *Housing Studies*. 22.4, 573-595

[88] For the latest statement of this argument see Rodgers, D (2009) *New Foundations: unlocking the potential for affordable homes*, London:
Co-operative Party

[89] Conaty, P, Bendle, S, Birchall, J and Foggitt, R (2003) *Common Ground – for Mutual Home Ownership*, New Economics Foundation

[90] A feasibility study has been drawn up by Servite Housing Association for a shared-equity housing project

[91] Urban and Economic Development Group, (2004) *Co-operative energy: lessons from Denmark and Sweden*, Report of a DTI Global Watch
Mission (UEDG)

[92] Though the preference for renewables is not necessarily built into the co-operative model of ownership; in Finland one electricity co-op has four small nuclear power stations

[93] Swissolar.ch

[94] Information provided by Tapani Koppa of Helsinki University

[95] Pellervo figures, 2008

[96] Pietila, P, Katko, T and Hukka, J (2007) *Public-private Partnerships in Finnish Water Services*, CESifo DICE Report

[97] 2004 figures from the Urban and Economic Development Group report

[98] UOp cit, ch.3 'Denmark: community owned wind power

[99] A 1979 Heat Supply Act required local authorities to prepare heating plans

[100] Urban and Economic Development Group Report, ch.4

[101] See Energy4.co.uk/scotland

[102] Information from Energy4All

[103] http://www.co-operative.coop/ethicsinaction/climatechange/climate-change-projects/our-wind-farms/

[104] Mention should also be made of the Phone Co-op, a consumer co-op providing low cost telephone and broadband tariffs. Though based in England, it has some Scottish members

[105] The scheme has received funding from the Co-operative Group

[106] However, the example of Welsh Water shows that, when a for-profit company finds it cannot make enough profit it may be prepared to sell its assets on. Welsh Water is a kind of quasi-mutual that has a restricted membership but acts in the interests of consumers.

[107] Urban and Economic Development Group p6

[108] However, there are signs that liberalisation of energy markets under EU regulations and the cutting of price subsidies have led to a slowing down in development of renewables.

[109] There are three leisure trusts providing services with an annual budget from local government. These will be discussed in the next chapter, under public services

[110] Figures from the CIU website

[111] See Supporters Direct (2008) *What is the feasibility of a Supporters Direct Europe*? Report prepared for UEFA

[112] For a longer account of this trend, see Birchall, J and Simmons, R (2004) *User Power*, London: National Consumer Council

[113] See Pollitt, C and Birchall, J (1998) *Decentralising Public Service Management*, London: Macmillan

[114] See Finland *Project to Restructure Local Government and Services*, website

[115] Stryjan, Y and Wijkstrom, F (1996) 'Cooperatives and non-profit organisations in Swedish social welfare', *Annals of Public and Co-operative Economics,* 67:1, 5-37

[116] On the other hand, as Yohanan Stryjan points out, the imposition of uniform prices meant they lost their competitive edge

[117] As above, p13

[118] Vamstad, J (2007) *Governing Welfare: the third sector and the challenges to the Swedish Welfare State*, Osterdsund PhD thesis no 37. Stryjan also points out that in a study he conducted in the early 1990s, *parents* with children in worker-cooperative day-care were

actually more satisfied with their (formally nonexistent) influence on the kindergartens operation than were parents in consumer/parent-cooperative ones.

[119] Cowen, N (2008) *Swedish Lessons: how schools with more freedom can deliver better education*, London: Civitas

[120] Neither the independent schools federation nor the government department have figures on this

[121] Pestoff, V (2009) 'Towards a paradigm of democratic participation: citizen participation and co-production of personal social services in Sweden', accepted for publication in *Annals of Public and Co-operative Economics*

[122] Pestoff, as above

[123] See Birchall, J and Simmons, R (2006) *Our Say*, National Consumer Council

[124] Wintour, P (2008) 'Balls to set out vision of 100 schools becoming co-operative trusts', *Guardian* sept 11th.

[125] Dept for Children, Schools and Families (2009) *Co-operative Schools: making a difference*

[126] They register either as Industrial and Provident societies for general benefit, or as companies limited by guarantee but with similar public benefit features – a non-distribution c onstraint, charitable status, multi-stakeholding and a ban on asset distribution on winding up the company.

[127] For a case study in the USA, see Birchall, J (2003)

[128] See Ostrom, E on common pool resource problems

[129] Nilsson, J (2001) 'Co-operative organisational models as a reflection of the business environment', in Birchall, J (ed, 2001) *The New Mutualism in Public Policy*, Routledge.

[130] Emmi *Annual Report*, 2007

[131] Quoted in Birchall (1997) p81

[132] Fay, C (1938) *Co-operation at Home and Abroad*, Vol 2, London: Staples Press

[133] Figures from Arla's *Annual Report 2008*

[134] The number of farmer-members has been variously quoted as 42,000, 44,000 and 49,000

[135] In Denmark the picture is similar. Farmer co-ops manage the fuel supply chain in biomass fuels, owning the majority of the 120 straw and woodfuel district heating plants. They also own over 20 large scale digester plants that treat slurry and use it to create methane. These account for over 80% of biogas production.

[136] See Kuisma (1999)

[137] One report says 40 dairy co-ops

[138] HK Ruokatalo Group's owner LSO Osuuskunta, Atria's owners Itikka Osuuskunta, Pohjanmaan Liha and Lihakunta. Fifth is non-incorporated Järvi-Suomen Portti Osuuskunta

[139] HK Ruokatalo *Annual Report* 2008

[140] South-African Sapp bought Graphic Paper activities from M-real last September.

[141] Scottish Government figures for 2008. SAOS claims 8% of the workforce

[142]NFUS.org.uk Farming Facts, accessed 20.11.08

[143] Royal Society of Edinburgh (2004) I*nquiry into the Scottish Fishing Industry*

[144] Hansmann, 1996

[145] GDH Cole, in his history, say simply 'There was no Plunkett in Britain'

[146] Fay, C (1938) p251

[147] See Scottish Agricultural Organisation Society (2005) *Centenary Edition Newsletter*, Summer

[148] In England, the founding of the English Farming and Food Partnerships has helped resurgence in what it calls 'farmer controlled businesses'. In the last two years the sector has grown by a third and the lasgest 30 FCBs have a combined turnover of more than £3.9bn. See EFFP website www.effp.com

[149] 2006 statistics from SAOS website, www.saos.co.uk

[150] See Scottish Agricultural Organisation Society (2002) *Farmers Co-operating*, Newbridge

[151] Statistics from Co-operative Development Scotland database

[152] Information from James Graham at SAOS

[153] Had we looked at Denmark the lesson would have been even more dramatic

[154] Samwirke website

[155] Seafood Scotland (2006) Scottish Seafood Industry Statistics. The 69% is by volume, but by value it is 59.7%

[156] Figures from Seafood Scotland website

[157] Text from Seafood Scotland website

[158] Information from Jon Harman of the Seafish authority

[159] Royal Society of Edinburgh *Enquiry into the Scottish Fishing Industry*, 2003

[160] Scottish Government (2009) *Safeguarding our fishing rights: the future of quota management and licensing in Scotland*

[161] See Birchall (1997) but the information is sketchy and is now out of date

[162] See Birchall (2001) *Organising Workers in the Informal Sector: a Strategy for Joint Co-operative-Trade Union Action*, Geneva: International Labour Office

[163] Figures from Pellervo, dated June 2008.

[164] Coompanion (undated*) Cooperative Development in Sweden*

[165] See Birchall. J (1988) *Save Our Shop: the fall and rise of the small co-operative store*, Manchester: Holyoake Press

[166] Ref to Stirling Smith's booklet, and my own research into informal economy

[167] National Center for Employee Ownership (2009) *Employee ownership and corporate performance*, note on www.nceo.org/library/corpperf.html

[168] Annual Economic Survey of employee ownership in Europe, 2007

[169] Slup.se website explains

[170] Birchall (2003), pp48-51

[171] See Co-operative Development Scotland (2008) *Securing Employee Happiness: the benefits of employment within an employee owned business*

[172] This is a complex issue which takes more space than we can allow here – see Henry, H (2008) 'Specific taxation of co-operatives' income: a necessary element of an efficient Co-operative Law', conference paper to EURICSE seminar: *The co-operative enterprise between national taxation and the European market*

[173] Henry, H (2008) 'The Finnish Co-operative Law', conference paper to the *Droit Compare Cooperatif*, University of Luzembourg.

C:DS

co:operative development scotland

Co-operative Development Scotland
Spectrum House, 1a North Avenue,
Clydebank Business Park, Glasgow.
G81 2DR

Telephone: 0141 951 3055

Website: www.cdscotland.co.uk

E-mail: info@cdscotland.co.uk

HIE
Highlands and Islands Enterprise
Iomairt na Gàidhealtachd 's nan Eilean

Scottish Enterprise