

Review of International Co-operation

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**International
Co-operative Alliance**
Committee on
Co-operative Research

Review of International Co-operation

This issue of the Review is dedicated to the late historian and educator Ian MacPherson, whose passion for the co-operative model inspired generations of emerging researchers in his native Canada and around the world.

Editors

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Introduction

by Milford Bateman & Sonja Novkovic

This *Review of International Co-operation* is a very special one to introduce. It is the first academic peer reviewed version of the Review, featuring research from new and emerging scholars.

We launched the Young Scholars program of the International Co-operative Alliance Committee on Co-operative Research (CCR) at the global conference in Pula, Croatia in 2014, with welcome support from the International Summit of Cooperatives. It was a particular pleasure to witness the strong presence of up-and-coming researchers from across the globe, with some very exciting and interesting, high-quality presentations and papers. At least 40 young researchers attended the Pula conference and took part in what we hope will become a tradition.

This issue of the Review is another component of the renewed commitment to nurture and support students and young researchers in pursuing co-operative studies. It is our great honour to bring forward ideas and to be continuing the work we shared with Ian MacPherson, who passed away in 2013. Working tirelessly with youth in Canada and around the globe throughout his long career, Ian would have been very proud of our renewed effort to engage new scholars with the CCR network.

This volume includes peer-reviewed research papers by young scholars from Argentina to Bosnia, and from co-operative banks to recovered enterprises. The volume starts with Justin Ellerby's introduction of the emerging co-op researchers network that we hope will continue to grow, building on Justin's founding efforts. Research pieces follow.

The first research paper is by Mitja Stefancic and is based on an overview of his award-winning work on co-operative banks in Italy. The paper presents the results of his research in this area, and, among other, he discusses the size and scope of the co-operative banking sector in Italy, as well as their comparative efficiency and impact during and after the financial crisis. The author draws important policy implications that tend to support organizational diversity in the financial sector as a way of best ensuring its stability.

In the next paper, Camilla Carabini writes about Banca Popolare Etica- the Italian ethical bank. She asks a number of important questions, such as what differentiates this co-operative bank from the many others in Italy? How are its ethical principles applied and perceived internally and externally? Ethical banks consider social and ecological impacts of economic actions, rather than pure profitability. Carabini's study explores the most important successes achieved and challenges encountered in bringing this different economic model to life.

The next paper in this volume is contributed by Samira Nuhanović-Ribić, who uncovers member versus non-member dynamics in Bosnian co-operatives. Arising from the specificities of the Yugoslav self-managed system where co-operatives formed a part of a decentralised socialist model of economic democracy, followed by the civil war and a transition to capitalism, Nuhanović-Ribić found that some co-operatives in Bosnia were plagued by opportunism within the organization, and also between co-operatives and their external (non-member) suppliers.

Worker-recuperated enterprises in Argentina are the subject of Adrian Mengay's paper. He presents an analysis of the advances of the *empresas recuperadas por sus trabajadores* (ERTs) in their journey from occupations of the workplace, to worker-run co-operatives, and new communal forms of political and social production and reproduction. The paper discusses the economic, political, and legal issues involved in this conversion process, with a particular focus on the evolution of work organization and relationships in the democratization of decision-making.

Paola Raffaelli's paper is also on Argentina,

and involves a study of the Argentine Co-operative Graphic Network Federation that highlights the importance of networks to the survival of co-operatives. The Federation supports co-operatives by facilitating the distribution of resources and the sharing of knowledge. It also develops collaborative strategies, solidarity actions and supports self-management.

Akis Kleanthous and his co-authors examine the application of co-operative principles in credit unions. They question what are the perceptions regarding the practical applications of co-operative principles.

Lastly, Simon Berge and his co-author explore food co-operatives in Ontario, Canada. Presenting the evidence that co-ops in the study focus their operations on balancing community development with financial viability, the authors conjecture that co-operatives present a modern day agora: the focal point of community activity and social development.

This issue of the Review is devoted to the work of new and upcoming scholars in co-operative studies and we hope that it will be the first in a regular series of outputs dedicated to this theme. With the global economy still to recover from 2008 crash on Wall Street, with poverty and inequality having risen to heights not seen since the early 1900s, and with conventional investor-driven enterprises increasingly representing an unsatisfactory way of working and living in the new millennium, interest in the co-operative form of enterprise has been renewed both in practice and in research. We hope that today's generation of young scholars will take up the challenge to revisit the co-operative model and define new paths and trajectories to a better understanding of its forms, its relevance and its impacts.

Emerging Co-op Researchers Network

by Justin Ellerby

Conference brainstorming sessions are often both nursery and graveyard for any number of ideas that arise when people who don't see each other all the time share their mutual hopes and gripes. Fortunately, at one such occasion, when I breezily said, "**Someone** ought to..." Sonja Novkovic was there to say, "Yes, **you** should!"

The idea that did not languish in this case is the Emerging Co-op Researchers Network (<http://emergingcoopresearchers.wordpress.com/>), which has finally started to take shape as a website serving students at any level (and also not-yet-established practitioners) engaged in the sometimes-lonely pursuit of co-op knowledge.

Yes, lonely. Imagine (or remember) being the only person in your undergraduate business program, *including the faculty*, who actually knows what a co-op can mean to its members. Imagine trying to apply governance frameworks from a successful European dairy co-op to the context of Kenyan rural development, but having no one to talk to about it. The diversity of the co-op world is a tremendous strength, but the flipside can be fragmentation and isolation.

Funding to send students to far-flung conferences is scarce, and while these can be venues for starting conversations and putting faces to names previously seen on journal articles, in my experience they are rarely venues for intensive, sustained discussions. (Case in point: having been amazed to go to an international conference and find a graduate student from another country researching a topic very congruent to my own, I was then somewhat disappointed that, for both logistical and behavioral reasons, we could not find ways to collaborate besides sharing a very warm email exchange and a few references.)

Hence the ECRN, which integrates the functions of a Facebook with some of those of a wiki and a discussion forum. Perhaps the most basic element of the site is its "Groups," although we have repurposed the software such that they would be more accurately called "Things In Which People Have a Common Interest," or maybe "Nodes": so, yes, institutions and events, but also documents, theories, and recurring internships.

Through a small but international survey led by ECRN co-founder Erin Hancock, we found a lot of interest in the following features, already incorporated:

- Member profiles
- Opportunities (jobs, internships, scholarships, requests for research from co-ops themselves, etc.)
- Discussion forums
- Collaborative documents
- Multi-language support, including user-edited translations
- Search tools that cover all site content
- Depending on interest, forthcoming features may also include:
- A “Careers through Co-op Studies” page featuring FAQs and interviews with established co-op academics and practitioners telling their own stories of how they ended up turning their passion for co-op knowledge into their life’s work
- Course support so that students in courses at disparate locations can learn with and from each other
- Conference dissemination and support to bring the benefits, issues, and discussions at these events to a much broader audience
- An “open-source peer review” journal

Some of these items even suggest truly transformative opportunities. For example, I recently met two graduate students who are both dear friends to each other and close academic collaborators, and who have made tentative steps towards making co-operatives not just a subject of study, but a *means* of it: a co-operative epistemology that may offer unique possibilities of knowledge-production. (This approach may even have already been prefigured in the

work of the oft-cited economic geographers who worked and wrote under the joint *nom de plume* of J.K. Gibson-Graham, an associative process I suspect was somehow related to the content of their work on alternative conceptions of economies).

Lastly, I should clarify why I’ve mentioned practitioners here as a constituency. While the ECRN started from the concerns of academic students, it was pointed out in our exploratory conversations that practitioners are certainly builders and users of knowledge as well, and some of the functions of the site could be very useful to folks working within or for co-ops to develop, use, and share member surveys, organizational bench-marking, and other tools of applied knowledge. Such a common platform could be especially useful for individuals starting their careers as independent consultants or developers (including in areas where government support for co-op development staff and institutions has receded).

The life-course of Web-based communities can be wildly unpredictable; many flop without making a single ripple. The best, however, engender uses their developers may never have imagined. Reaching across disciplines, institutions, nations, and sectors, there is cause to hope that the ECRN will be not just an accessible resource, but a platform that engages more broadly, deeper, and utterly differently than what is outlined here.

So here’s to a continuously “emerging” community of co-op knowledge, for, to paraphrase Bob Dylan, “that which is not busy being born is busy dying”.

Co-operative Banks in Italy

by Mitja Stefancic

Abstract

The aim of this paper is to offer a list of key points on co-operative banks in Italy that can be of interest to scholars (economists, political scientists, organizational sociologists) on the one hand, and, on the other, to policy makers. The central part of the paper presents the outcomes from semi-structured interviews with scholars and operators in the sector with an aim to add substance to actual debates on co-operative banking in the aftermath of the financial crisis.

Co-operative banks in Italy are smaller, on average, than commercial banks. Nonetheless, they are organizationally quite efficient. Generally, they are neither as risky as commercial banks, nor

similar in their organization and business practices. Unfortunately, there seems to have been a lack of attention paid to the diversity in the banking industry on the part of the regulators, meaning that the specificities of co-operative banks have not been properly accounted for. The paper lists some arguments why some of the specificity of co-operative banks should be preserved, and, subsequently, why the regulation aimed at reducing systemic risk should not necessarily apply to them in its current format.

Keywords: Co-operative credit banks; Regulation; Compliance; Interviews; Combining qualitative and quantitative research methods.

1. Introduction

The recent global financial crisis forced a reassessment of financial intermediaries and operators in the financial markets, including those that operate in local markets only. The present contribution focuses on Italian co-operative banks. Despite gaining attention after the onset of the global financial crisis, these banks are still not well accounted for by economists and policy makers. Sometimes, however, the knowledge about these “alternative” banks is simply not communicated well enough and thus remains available to a small number of “experts” without reaching a wider audience.

The aim of this paper is to offer a list of key points on co-operative banks in Italy

that can be of interest to scholars (economists, political scientists, organizational sociologists) and policy makers willing to find out about their contribution to the Italian economy. Since the very beginning, the present paper, which originated from my Doctoral research, was informed by the financial crisis and its developments, particularly in the Mediterranean countries. The outcomes from this endeavour suggest quite clearly that different bank types reacted to the crisis differently, and that therefore such differences need to be recognised and fully understood by policy makers, who constitute the target readership of the present contribution.

Before embarking on the core parts of this research, it is important to start by briefly introducing the Italian co-operative banks, which can be divided into *banche di credito cooperativo* and *banche popolari*. The two groups have never been strongly integrated as they have often pursued autonomous paths of growth and development, often instigated by the regulators. One way they can be distinguished from each other is in terms of the networks to which they belong: as Desrochers and Fischer (2005) explain, the *banche di credito cooperativo* belong to the group of “tightly federated” co-operative banks, while the *banche popolari* can be classified as a loosely federated group. Nevertheless, it appears that the different paths and development strategies that have led to such different outcomes have greatly reinforced the category as a whole. For example, as observed by some economists, despite a reduction in the number of banks in the country, the market share of both groups of co-operative banks grew steadily in the period before the 2007 financial crisis, particularly at local levels (Alexopoulos & Goglio, 2009)¹.

2. Insights from an empirical analysis of co-operative banks in Italy

My past scholarly endeavours focused on both the governance specifics of Italian co-operative banks and on the performance of such banks. Through a comparative study on profitability and performance between different types of banks in Italy, results showed that Italian co-operative credit banks indeed operate differently than standard commercial banks (see Stefancic and Kathitziotis, 2011). Drawing on previous scholarly findings, I have tested the hypothesis that co-operative banks offset their lower profitability with a more efficient asset allocation policy. Specifically, the main hypothesis that has been investigated is whether Italian co-operative banks have more conservative policies and lower

The present paper, despite referring to co-operative banks in general, is based largely on co-operative credit banks (*banche di credito cooperativo*) as they remain closer to standard co-operative banks whereas large *banche popolari* often deviate from the ideal co-operative model in favour of a more business-oriented model that is often at odds with co-operative principles such as mutualism. I therefore assume that the readers may be interested primarily in truly co-operative banks – or, at least, those that approximate closely the ideal model of cooperation. The paper is structured as follows: Section 2 presents the main findings on the performance and efficiency of co-operative banks in Italy. Section 3 discusses the main outcomes from a number of interviews with top managers serving Italian co-operative banks and scholars focusing on co-operative banking in Italy. Section 4 provides a number of suggestions for policy makers with respect to co-operative banks and their regulation. Section 5 concludes.

riskiness of bank operations than commercial banks.

Different banking models have caused different reactions to the financial crisis and economic downturn. This suggests that comparing banks of different ownership types is a demanding task. Everything else equal, co-operative banks in Italy seem to be relatively more efficient than commercial counterparts. This result appears to be aligned with that of Ferri et al. (2010) and depart from the argument stating that mutual/co-operative banks are less efficient than commercial banks (see e.g. Rasmusen, 1988). The main findings of my empirical research are as follows:

- As expected, as a result of the crisis and the economic downturn, profitability has decreased in all types of banks in Italy.
- Co-operative credit banks tend to have a more efficient asset allocation policy, as shown by a higher Return on Average Assets Ratio (ROAA). They are profitable also when profitability is measured by somewhat “unfavourable” indicators such as the Return on Equity (ROE)² (e.g. Stefancic and Kathitziotis, 2011; Stefancic and Kathitziotis, 2014).
- By reference to standard efficiency indicators such as the cost/income ratio, which is obtained by dividing operating costs (e.g. administrative and fixed costs) by operating income, larger banks show economies of scale, yet co-operative banks show, in some cases, a significantly lower cost/income ratio than comparable commercial banks. This preliminary result would suggest that co-operative banks are organizationally more efficient, although it should be noted that organizational efficiency is a complex phenomenon that cannot be studied by cost/income ratio alone, and therefore further research on the topic is needed before drawing definitive conclusions.
- Customer deposits appear to have an effect on the cost/income ratio. This result suggests a critical reassessment of co-operative banks’ branch network policy, and, therefore, the following question should be posed: does a dense network of branches have unforeseen costs for the bank, particularly if it grows too large?
- With regards to credit quality, the crisis has significantly impacted on loan loss provisions as a share of gross loans, with a marked increase for all banks. The deterioration of credit has been less severe for co-operative credit banks (until year 2012), which confirms their more prudent lending policies.

3. Insights from semi-structured interviews

To further substantiate the above insights on Italian co-operative banks as well as to assess the impact of the new regulations, I conducted field research through interviews³. Despite not being applied very frequently in economics research, interviews have been useful in this case, yielding complementary information and several important insights (Wengraf, 2001; Gumesson, 2000)⁴. A number of interviewees were asked to give formal feedback on the new EU financial regulation (i.e. Basel III) and how compliance with it would affect co-operative banks. The interviewees

were selected on the basis of their expertise on the subject of co-operative banking and bank regulation. They were either top managers in Italian co-operative banks, senior officials in co-operative bank federations (Federcasse), or university professors, academics or scholars employed in specialised research institutes with a focus on co-operative banking (the candidates were contacted regarding an interview after a screening of academic CVs, related publications and participation at conferences on co-operative banking).

Semi-structured qualitative interviews were preferred to structured questionnaires due to the expectation of a lower response rate from the latter method (this problem has been evidenced or mentioned in similar research; see Panetta, 2004; Alexopoulos et al., 2013). The interviews were conducted mainly by phone. All but one were recorded using a voice recorder. One interview was conducted in written form, and provided by the author via email. All interviews except for one were conducted in Italian. One phone call was conducted in the Slovene language as the interviewee, although an Italian citizen living and working in Italy, belonged to the Slovene community in Italy and stated a preference for the Slovene language. As required by most of the interviewees, their comments are referred to anonymously in order to ensure their privacy.

3.1 Regulation

To summarize, the key points that emerged from the interviews on the topic of regulation were as follows:

- As a result of the crisis and following major changes in the banking industry, the new EU banking regulation and financial directives focus predominantly on the large commercial banks and not on small co-operative banks.
- The new regulatory framework does not account sufficiently for the different behaviour of co-operative banks, resulting from their business specifics, corporate goals, different size etc.
- Similarly, the international regulation does not take into account the prudential schemes that some co-operative banks have already

adopted – in the case of the Italian co-operative credit banks, the so-called Deposit Guarantee Scheme (*Fondo di garanzia*). A forced adoption of new prudential schemes would impose additional costs on these banks, thereby lowering their efficiency and profit-making ability.

- In line with the overall analysis, which shows that co-operative banks are on average well capitalised, the main threat to small co-operative banks in Italy does not stem so much from the new capital requirements as from the substantial costs of applying the new prudential regulations and from the costs of the personnel needed to perform these tasks (i.e. secure prevention of money laundering etc.) on a daily basis.
- There is a widespread belief that, in order to cut the costs of compliance with the regulations, and to correctly follow the procedures, smaller banks will need to merge at a local level.

The reactions to the adoption of the new regulations by the co-operative banks were mixed. While some interviewees saw the changes in the regulations as a positive stimulus towards preserving key assets (emerging from relationship lending) and securing competitive advantages at local levels, others stressed the threat of forced adaptation to commercial banking standards. A researcher focusing on co-operative banking and co-operative economics observed that co-operative banks were more and more frequently being obliged to 'behave very similarly to standard banks' and thus 'cannot fully pursue their distinctive corporate goals and social objectives'. Based on this argumentation, one can conclude that the expected drawbacks from such a homogenisation of the market could include a decline in

in the performance indicators of these banks (i.e. they may risk losing market share and suffering in the competition with both traditional banks and new players in the field of financial intermediation).

A professor of financial intermediation suggested that the regulatory landscape for Italian banks had changed substantially after the crisis. While, in the past, the regulation at the country level aimed at securing some of the advantages of local co-operative banks, the new, international standards deriving from the Basel III regulation were no longer as favourable to them. The changes tended to penalise co-operative banks somewhat – particularly small banks operating in local market niches. He argued:

“In the past, there was in my opinion quite a long period in which the domestic rules benefitted the co-operative credit banks by providing them with competitive advantages at a local level. I must say that these advantages were not always adequately exploited by small local banks, though. By contrast, the new regulation, as it is currently emerging, is focused primarily on large commercial banks. The regulation aims at consolidating the overall banking system, in order to strengthen the banking industry, and focuses on the systemic banks. As such, it is not favourable to co-operative credit banks... Co-operative credit banks are nonetheless well-equipped to tackle the crisis, particularly thanks to the robust instruments with which they manage risks and crisis periods, for example the Deposit Guarantee Scheme (*Fondo di garanzia*).”

One of the interviewees, who managed a co-operative credit bank in the North of Italy, argued that the new directives did not properly account for the specifics of such

banks. He stated:

“Traditionally, we are very strong in relationship banking, therefore our expertise is linked to a certain degree of common sense as most of the time we are working with ordinary customers – quite ordinary people, I would say. The new directives, which have been introduced recently or are under development, do not account for this fact. On the one hand, I understand the new rules and where they originate from. On the other hand, however, if I ask my boards or colleagues to follow them closely, and thus adopt a culture of technical expertise, I can see a big problem emerging. The regulation, as far as I know, does not distinguish between banks of different sizes and types. The directives aimed at preventing money laundering, or those aimed at securing the privacy of customers/clients, are exactly the same for small banks that operate, say, in the countryside, as they are for large international banks such as Unicredit⁵.”

There are some other issues related to the regulation of banks that have not fully emerged from the interviews, but that are nevertheless worth considering in future research. One such issue is particularly important for Italian co-operative banks: in the last years, the policy of the regulator has been focused on the promotion of competition among co-operative banks, and even within the group of the *banche di credito cooperativo*. Such policy may, however, have a negative impact on co-operative banks with unintended consequences. For example, as shown by a report on co-operative banks in the province of Trento (North of Italy), a limited competition among local co-operative banks is beneficial as it allows such banks to better use their financial resources, thereby preventing them from undertaking large risks (Barbetta et al., 2012).

3.2 Corporate governance and organization

One of the key weaknesses emerging from a survey on scholarly research focusing on Italian co-operative banks refers to the poor governance mechanisms in such banks (see, for example, Alexopoulos et al., 2013; and Stefancic, 2014). More specifically, even though managerial turnover is a common tool for disciplining top managers in all types of banks, it is weaker (i.e. less frequently applied) in co-operative banks even in the cases when performance is below the average. Furthermore, an important role in monitoring and disciplining managers in co-operative banks is performed by the board of directors. Control over managers is exercised primarily through two tools, namely: by setting limits on the lending activities as it is the responsibility of the board to decide on loans above a certain threshold; and, on the other hand, by providing incentives (mainly in the form of bonuses) to managers in order to maximise their efforts⁶. Nevertheless, a number of questions arise both in terms of the skills and ‘technical expertise’ possessed by the members of the boards to properly carry out such tasks, and with respect to the motivations of a person to embark on such a demanding role.

These findings, in turn, add substance to the argument that governance mechanisms in co-operative banks need to be updated and improved, as suggested by some scholars both in relation to Italian co-operative banks and equivalents in other countries (for example, Costa, 2007; Cornforth, 2004). Improvements might be difficult to implement, but nonetheless a need for change in this respect is quite clear. If nothing else, an increasingly global market clearly pushes for such a change.

Based on the interviews, here are some findings that – in this respect – should be of interest to scholars and policy makers alike:

- A key point often mentioned during the interviews is the need to preserve the advantages on the market. Co-operative networks need to be further strengthened to secure the advantages from the knowledge of the territory and the knowledge of the local economies in which these banks are located. Some interviewees suggested that co-operative credit banks that are too small to effectively compete on the market should – whenever possible – merge with larger ones operating in the same region. Although initially this may not be perceived as an advantage by the co-operative members themselves, this seems to be a viable solution to increase competitiveness and reduce costs. One interviewee also suggested the possibility for such banks to develop joint ventures with standard commercial banks, even though such strategy may be difficult to implement in practice.
- On the other hand, this should not impair the characteristic governance of these banks, which is assumed to be an expression of the territory. A top manager from a co-operative credit bank based in Trentino Alto Adige suggests the following:

“Co-operative credit banks need to preserve their efficiency and at the same time reduce costs. I believe that one way to achieve this is through mergers, in fact this is what already happened in some cases in the past. However, I should stress that, nonetheless, the governance structure in these banks should continue to be an expression of the territory in which

they are based and in which they operate. Otherwise, there is a risk that we may lose our specificities, thereby becoming more and more similar to the rest of the banking system.”

- The level of knowledge and the skills of top managers serving these banks need to be improved, and upgraded to an adequate level in order to be prolific in contemporary banking. A Professor of banking and finance, for example, argued: ‘I observe a lack of managerial skills in co-operative banks. You can find examples of this everywhere, even among the members of the board of directors: boards in these banks are often composed of people without the necessary skills and a proper understanding of how to effectively manage contemporary banking’. Due to the fact that co-operative banks, particularly small ones, have limited resources to invest in the education of top managers, it is advisable that the regional federations of these banks take on this duty.
- As it emerges both from the interviews and the research on managerial turnover, discipline mechanisms in co-operative banks are not always very effective. How could one improve disciplining mechanisms and the overall governance while retaining the

fundamentally democratic characteristics of the latter, and preserving the long-term objectives of co-operative banks’ business? One suggestion could be to set clear objectives for top managers at the very beginning of their election to top positions. Eventually, they could get re-elected for their mandates provided that these goals are met or, otherwise, only if they were re-elected by a qualified majority during the General Assembly. A qualified majority would require either a minimum percentage of members participating in the Assembly, or a higher share of votes needed (e.g. two thirds of votes). This would also strengthen the participation of co-operative members and give weight to their decisions on the bank.

"Some interviewees suggested that co-operative credit banks that are too small to effectively compete on the market should – whenever possible – merge with larger ones operating in the same region."

4. Suggestions for policy makers

Major differences exist between co-operative banks and commercial banks in terms of performance. Indeed, co-operative banks behave differently – that is, according to their specific business model, type of banking, principles and

business philosophy. Both the empirical research I have conducted over the last few years and the insights from the above interviews allow me to highlight some policy implications:

- Having assessed the differences between bank types, it seems reasonable to treat these diverse entities differently. One should avoid applying a regulation tailored to commercial banks that carry a systemic risk to the Eurozone to co-operative banks as well; co-operative banks are neither as risky as commercial banks, nor similar in their organization and business practices. Arguably, financial policy makers and regulators should focus on this point more thoroughly. On the other hand, however, they should acknowledge that larger co-operative banks and specific co-operative banking groups – particularly those operating through an international network of branches – do play a role in terms of systemic risk⁷.
 - High compliance costs may price co-operative credit banks out of the market, due to their lack of scope to reabsorb these costs through more efficient practices. Mergers between co-operative banks, as suggested in the interviews, may be the only viable option, yet one must keep in mind that the distinctive characteristics of co-operative banks are relationship banking and their strong bond with local communities, which would be weakened by mergers (e.g. co-operative members could feel disempowered and thus look for alternatives; the relationships between the bank and the customers could possibly weaken, and so on).
 - It can therefore be argued that the specificity of co-operative banks should be preserved, and that regulation aimed at reducing systemic risk⁸ should better account for their business practices that in part prevent them from carrying excessive systemic risks. Stated otherwise, the above-mentioned specificities should not be neglected as accounting for them would help regulators to design new measures to either reduce or better control for systemic risks.
 - Moreover, it should be kept in mind that co-operative banks are smaller, on average, than commercial banks. After controlling for differences in size and other structural differences, co-operative banks appear to be organizationally more efficient, with a lower cost/income ratio and therefore with fewer possibilities to further increase their efficiency.
- Finally, with reference to changes in the regulation particularly at the EU level, it can be suggested that the new regulations carrying increased compliance and personnel costs should be simplified for co-operative banks, or at least the burden of compliance costs should be eased. It may be advisable for small co-operative banks in Italy to strengthen and thus render more effective the mutual support mechanisms and resolution schemes that are already provided by the co-operative credit network. Conversely, it remains questionable whether these banks, which are already heavily regulated, should apply for bail-in tools (tools at disposal in case of unforeseen risks or potential failure of banks, designed so that tax payers are last in line to pay for the bills of a struggling bank) as suggested by the new EU directives (that come into force on January 1st, 2015, with the bail-in system to take effect from January 1st, 2016). In fact, should co-operative credit banks be forced to limit their ability to support local communities and economic agents, this might have unintended consequences such as additional credit rationing, less credit being offered to local firms, and the hampering of new entrepreneurial activities.

5. Conclusions

From the above interviews it emerges that there seems to have been a lack of attention paid to the diversity in the banking industry on the part of the regulators. The adaptation to the new directives is a painstaking task for small co-operative banks, which often lack adequate financial resources to adapt their operations and correctly follow the guidelines, and experts to carry out these tasks. In this respect, a possible suggestion for these banks is to search the labour market for young people with a good level of education and the ability to perform these tasks, and enable them to make use of the skills acquired through postgraduate education. Given the lower starting wages of young employees, the rather large pool of unemployed or underemployed youths with tertiary education in the field of banking and economics, and the current crisis in the Italian job market, this should be a rather achievable task (in case a bank is willing to employ new workforce)⁹.

The co-operative identity of these banks should be better accounted for by international financial policy-makers and preserved (as much as possible) by national regulators. Generally, both the interviewed managers serving co-operative banks and the interviewed scholars agree on the fact that the new regulatory frameworks are not well-designed for co-operative banks – particularly for small ones. While stressing the issue that current regulations are designed mainly with large, ‘systemic’ banks in mind, one of the respondents suggested that co-operative credit banks are nonetheless well-equipped to tackle the crisis, ‘thanks to robust instruments to manage risks and the crisis’, for example the Deposit Guarantee Scheme.

I should acknowledge the fact that the results mentioned above and the overall discussion are valid for the Italian banking market only: additional research focusing on co-operative banks from other European countries is needed in order to extend the suggested policies to the EU level. Furthermore, the overall picture for co-operative banks may look much bleaker in the coming years, particularly if the crisis will not be solved both at the regional levels and nationally. Nonetheless, substantial business implications can be derived and applied to those EU countries – particularly new member states – where the co-operative banking sector is not yet fully developed.

Appendix

Questions for the interview on co-operative banks

Object: Semi-structured interview for the research on corporate governance and the regulation of the Italian co-operative banking system

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In the questions listed below, I am seeking some professional comments and scholarly feedback on the key topics of my PhD research. Such topics, on which the interview will focus, refer to corporate governance in co-operative banking and the regulation of banks. In providing your arguments and feedback, you may want to refer to your experience as a manager in a co-operative bank, or to your empirical investigations and scholarly research in the field of co-operative banking. Answering these questions should take you somewhere between 20 and 40 minutes, depending on the length of your answers. Thank you in advance for your time and cooperation!

Q1. What, from your point of view, are the main challenges facing co-operative banks in Italy (particularly with regards to the co-operative credit banks – the ‘banche di credito cooperativo’)?

Q2. Is the bank regulation in Italy providing a level playing field for all banks regardless of their ownership structure, in particular for co-operative credit banks?

Q3. Has the regulation changed over the last few years? Or do you think that some changes will occur in the coming years or, if you prefer, that some changes are particularly important and, as such, unavoidable?

Q4. Do you expect the new regulations (e.g. Basel 3) to have an impact on these banks (for example imposing new limits on their operations, new prudential requirements, additional costs that may affect their performance, etc.)?

Q5. How do you think the developments in the regulatory framework for banks in Europe will affect local and mutual banks, in Europe and, in particular, in Italy?

Q6. What are the key characteristics of co-operative banks that regulators and policy makers in Italy should try to focus on in order to safeguard and promote co-operative banking for the coming years?

Q7. What aspects of the governance of co-operative credit banks need to be improved to enhance their performance and business strategies?

Q8. Research shows that managers in co-operative credit banks enjoy longer terms in top positions than in commercial banks. Is this consistent with your experience? What are your views on this issue?

Q9. (If answer to Q8 did not address disciplining mechanisms) My empirical research shows that managerial turnover in co-operative credit banks is lower even in cases of poor performance. What mechanisms could be implemented, in your opinion, to provide more oversight over co-operative credit banks' managers? (e.g., by emphasising the corporate culture, by providing co-operative members with new tools with which to discipline managers, or, perhaps, through better national regulation of such banks?)

In addition to your answers to the above questions, your comments on how effectively co-operative banks are reacting to the credit crisis in Italy would be much appreciated.

Notes

- ¹ It is not surprising, then, that the 1993 Italian Banking Act classifies both groups under the same category of the banche cooperative. A similar classification is adopted also by the EACB.
- ² Return on average assets (ROAA) is telling about how effectively a business is using the resources at its disposal. In other words, ROAA is a measure of profits relative to size. On the other hand, ROE is a standard measure of corporations' (e.g. banks') profitability, and is obtained by dividing net income with shareholders' equity.
- ³ Please note that an "interview guide" is available in the appendices. Whenever possible, questions were sent to interviewees in advance to allow them to prepare for the interviews. The guide was also used to ask questions verbally in the interviews.
- ⁴ For a survey on the developments in using different methods and combining quantitative and qualitative methods in economics refer to Starr (2014).
- ⁵ Unicredit S.p.A. is one of the largest credit groups in Italy and Europe. The bank, which has its headquarters in Rome and Milan, in fact operates internationally in more than 20 countries.
- ⁶ Bonus schemes in Italian co-operative banks are mainly related to the following objectives: increasing bank profits; improving the credit quality; increasing bank deposits and loans; increasing the number of cooperative members. For a further investigation refer to Alexopoulos et al., 2013. For an alternative account on the governance of financial co-operatives and banks consider Guerrero and Seguin (2008).
- ⁷ One can refer to recent problems in the Austrian cooperative groups, or those experienced by important groups such as Crédit Agricole (France) and Rabobank (Netherlands). For example, the rating of the Raiffeisen Group in Austria has been recently downgraded due to its overall limited loss-absorption capacity relative to its risk profile. Rating agencies have downgraded the credit rating of Crédit Agricole in 2012 as a result of the bank's exposure to increased market volatility and potential losses in the capital markets. Finally, the Dutch Rabobank had its outlook lowered some years ago as a result, for instance, substantial fines due to an involvement in rigging benchmark interest rates.
- ⁸ Basel III proposes a framework to reduce the risks posed by 'systemically important financial institutions'. For instance, the new framework contains measures addressing the reduction of the cyclical effects of Basel II together with the reduction of systemic risk. The recent financial crisis has shown the risks posed to the financial system from the failure of one large institution or the distress of counterparts. Yet, the new rules are not free from criticism. See the documents provided by the Bank of International Settlements (<http://www.bis.org/bcbs/basel3.htm>); guidelines and comments by PWC, 2011; and insightful comments available online, such as <http://www.risk.net/credit/analysis/1936514/basel-iii-tackles-systemic-risk-counterparty-risk>
- ⁹ See, for instance, the article by Caroleo and Pastore (2013), available at <http://www.lavoce.info/tropo-educati-per-lavorare/>

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Ethics in Co-operative Banks: The Case of Banca Popolare Etica

by Camilla Carabini

“Anthropology is the most humanistic of the sciences and the most scientific of humanities.”
- Alfred Kroeber

Abstract

This paper considers the findings of a recent ethnographic study of Banca Popolare Etica. The study explores the particular ethics that differentiate this bank from others with a focus on the main ethical principles summarized in its Statute: attention to non-economic consequences of economic actions; credit as a human right; sobriety and efficiency; transparency and participation. The study considers how the bank's ethics are experienced and

perceived by the employees, members and clients. The anthropological and ethnographic approach sheds light on how governance, member participation, core values and principles are actually understood and practiced by all the stakeholders.

Keywords: Ethical banking; ethical finance; transparency; co-operative banks; business anthropology

Introduction

There is a renewed interest in the co-operative model and discussion about its potential to contribute to financial stability and economic recovery in the post-global financial crisis period. This paper contributes to this discussion by reporting the findings of a recent ethnographic study on a particular co-operative and ethical bank, the Italian Banca Popolare Etica.

Among other contradictions of liberalism, the current recession resulted in the failure of the financial markets in allocating resources in the most efficient way (Acharya et. al, 2011). There are compelling arguments in favour of strengthening regulation of financial markets and rethinking the priorities that guide human economic activities. Unfortunately, since 2007, nothing has changed. No new regulations have been added to the financial markets, speculation has not diminished, nor have the astronomical bonuses of top

managers declined. Ethical banks offer a different approach to financing by questioning the basis of their activity: what is the bank's aim? Is it to make a profit? To benefit whom? And what limits should be imposed on the bank's activities? An ethical or alternative bank offers the same services of a commercial bank, but it finances activities that promote the common good. It is a bank that internalizes its own externalities, both positive and negative, and tries to get the greatest number of stakeholders to participate in its governance. Although it recognizes the necessity of creating a surplus by the end of the year, profit is not the main objective of the bank; it is merely a sign of economic sustainability. The philosophy that animates these kinds of social enterprises is that the wealth created is not only financial but also societal in the form of the social cohesion generated by the productive activity it supports.

The non-monetary value of money, an economy embedded in the society and production subjected to cultural values are topics that economic anthropology has studied for a long time. The economic anthropologist Karl Polanyi (2001) has claimed that the economy cannot be separated from the social life. On the contrary it is deeply embedded into cultural activities. Historian Edward Thompson (1978) used the term moral economy to explain how cultural norms and obligations forge production and consumption. As Booth (1994) summarizes: "All economies, including the near-to-pervasive-market economies, are moral economies embedded in the (ethical) framework of their communities." (p. 662).

Nowadays, even some economists, such as Ha-Joon Chang, are getting closer to

Banca Popolare Etica

The bank was born in 1998 to give credit to social businesses, fair trade and the third sector organizations that had difficulties getting loans from commercial banks.

The bank was founded in Padova (Padua), one of the richest cities of the Northeast of Italy. The context where its founders firstly promoted the bank, is not of secondary importance. Since the last decades of the 19th century, the Italian Northeastern region has been characterized by the expansion of co-operative banks inspired by the Raiffeisen model (Cafaro, 2012, p. 33). The cultural attitude towards a bank that develops strong relationships within its territory was therefore an already existing shared capital in those communities. Moreover, since the 1960s the Northeast has been one of the most productive and richest

this moral approach to economy. Chang's (2014) statement that "economics is a political argument" and that "it is not - and can never be - a science" as "there are no objective truths in economics that can be established independently of political, and frequently moral, judgments" (p. 451), is a perfect example of the embedded approach. Hart, Laville and Cattani (2010) call the Human Economy, an economy that should be "made and remade by people", that "should be of practical use to us all in our daily lives" and that is based on a "more holistic conception of everyone's needs and interests" (p. 5).

Banca Popolare Etica is part of this Human Economy, being the only banking institution that operates exclusively in the field of ethical and alternative finance in Italy.

regions in Italy thanks to the booming of micro and small enterprises that represent the typical and well known Italian business model.

In 1994, 22 non-profit organizations founded the "Co-operative for Banca Etica" (Calvi, 2011). They all shared a pacifist and non-violent ideology. Some of them were more inspired by communism, fighting for an egalitarian redistribution in society, while others were more linked to Catholic activism, or focused on fair trade and global economic imbalances. Many of those organizations participated at the Global Social Forum in Porto Alegre in 2001 and in the No Global demonstration against the G8 in Genova (Genoa) in the same year (Salviato, 2010). In 1994 the Co-operative for Banca Etica started to recruit volunteer members across Italy who initiated a massive fundraising

campaign that led in 1998 to the opening of the first Banca Popolare Etica branch in Padova.

Banca Popolare Etica is a popular bank constituted as a co-operative company limited by shares¹. Popular banks in Italy are characterized by some peculiarities². Firstly, the capital ownership cap imposes a limit where a member cannot own more than 50% of the capital. The second principle is mutuality, which establishes that the relative majority of shares must be owned by the bank's clients. Thirdly, there is the "one person, one vote" principle that guards the democratic decision-making process against discrimination on the basis of wealth. Finally, the bank reserves the right to choose its members on the basis of their agreement with the bank's mission.

Banca Etica currently operates with seventeen branches, 210 employees and 25 itinerant bankers³ across the country. It has a turnover of around €28 million, a balance sheet of €1.3 million and a Tier 1 capital ratio of 10.77% (2013 figures⁴). Banca Etica serves 39,317 clients, of which 31,227 are private customers and 8,091 are organizations. Its market share is of 0.05%. In 2013, it financed 8,902 clients, among which nearly 3,000 organizations, 70% of which belongs to the non-profit sector. In 2013, deposits increased to €888 million, maintaining a tendency of growth even in the years of crisis. On the other hand, €591 million have been granted as credit to members. Of these, more than 70% has been used for loans and mortgages, with an average loan size of nearly €66,000.

Over 70% of legal persons financed are in the nonprofit sector. Organizations must comply with some requirements in order to be eligible for financing. They

must undergo a negative screening: among other, they cannot be involved in the production and commerce of weapons⁵, have an evident negative impact on the environment, be involved in sex commercialisation, gambling or child labour abuses. The negative screening is followed by a positive one: the organization must operate in one of the sectors that the bank supports, such as the welfare system, international co-operation, biological farming, sports and culture, fair trade, renewable energy and social businesses. In the end, though, the members have the last word in deciding whether to finance an organization or not.

Since it is a co-operative bank, it is owned by its members. Social Capital reached in 2013 was €46.6 million with 36,815 members, of which 30,991 are individuals and 5,897 are legal entities. The linkages with the rest of the financial system shows that only 4.5 percent of the co-operative capital belongs to other banks (mainly co-operative banks), insurance and bank foundations. The members' general assembly is the sovereign decision-making body. Members elect the Board of Directors every three years through an electoral system based on an open list and preference votes. The Board is composed of 13 people who take decisions unanimously. A unique feature of the bank is the membership structure that allows regular communication between the directors and the members and allows them to participate in the governance of the bank. The Ethical Committee is also elected by the members' general assembly with the task of operating as a court of last resort for ethical disputes and offering support to members in defining ethical strategies for the bank.

Research and methodology

The ethnographic method describes a culture from the emic perspective; that means from the point of view of those who experience it. It is a descriptive analysis of how people act and interact between themselves and with the anthropologist. Observant participation, that is the principal methodology of ethnography, consists of participating in the daily life of a community. This makes it possible to analyse the widest variety of social interactions, the way people talk and listen to each other, what is said and in what contexts, in order to generalise a theory on the culture of that community.

“Ethnography usually involves the researcher participating, overtly or covertly, in people’s daily lives for an extended period of time, watching what happens, listening to what is said, and/or asking questions through informal and formal interviews, collecting documents and artefacts” (Hammerson and Atkinson, 2007, p. 3).

Business anthropology is the branch of economic anthropology that studies enterprises from a holistic perspective in order to understand the creation and diffusion of cultural aspects within it.

“...ethnography is a particularly valuable method of research because it problematizes the ways that individuals and groups constitute and interpret organizations and societies on a daily interactional basis” (Schwartzman, 1993, p. 3).

From studying everything that is done and said during working hours, especially relationships not strictly related to work, from the stories that are told and from the way meetings are conducted, the researcher can describe the processes that give life to an organization. Starting

from a micro level, from the relationships created in the work place, this method is effective to widen the analysis to a macro level of the company and the social structure.

Therefore, this study is not an analysis of the bank from an economic perspective. It is an analysis from the perspective of an economic anthropologist. The approach is holistic and takes into account the way people who gravitate towards the world of Banca Etica relate and behave. The anthropological method is the most suitable to study, analyze and compare the way people experience being part of a co-operative. In addition to the ICA principles and values that express the co-operative identity⁶, being part of a co-operative is also a sentiment, a feeling of belonging. Real participation in a co-operative is something that must change, however slightly, a person’s routine. Numbers alone are not able to measure a sense of involvement. Language and description are more appropriate ways to define this. There are many examples of co-operative enterprises where members do not really feel that they have such power within the co-op and this must be somehow taken into account.

The evidence reported in this study is based on six months of field work. The researcher spent two months in the bank branches and some weeks in other offices, shadowing employees in their day to day working life. Three national assemblies and more than 30 member meetings were attended, where the researcher interviewed and spoke to many other employees and members. Observation of daily practices, and the analysis of narratives and rhetoric shared

by people related to the bank, help to describe the ethics of Banca Etica.

Ethics are best described as a series of limits and norms that a person (or a group of people) set on their own behaviour. This definition helps to explain how Banca Etica can transform its ethics into a business model. This paper

considers the main principles declared in the bank's foundation Charter⁷ in order to show how they are put into practice and how they are lived and perceived by Banca Etica's stakeholders (the employees, the clients and the members). The research suggests that it is also the way people experience the bank that makes it ethical.

The Ethics of Banca Etica

When an organization asks for a loan, in addition to the credit worthiness evaluation conducted by the employees, it must undergo the socio-environmental audit taken on by the volunteer-members of the bank. As a co-operative bank, members are eligible to be volunteers. A volunteer has to verify on-site the social and environmental condition in which they work (the way they treat workers, the application of this principle means that profit is not the main objective of the bank. "The highest interest is for all" is the bank's motto. This means that savings have a social value and must be directed to the common good. There are four different practices that show how Banca Etica gives importance to the non-economic consequences of its economic actions.

Client screening

In order to join the Banca Etica network, you must be aware that you are choosing a bank that follows certain principles and it expects that its members follow them too (like transparency, legality, sobriety, respect for the environment etc...). Employees will ask many questions when they meet potential new client members to help to determine the client's knowledge and commitment to the bank's

ethos.

As Banca Etica does not advertise, the most common way by which people get to know about it is through word of mouth within the third sector networks. This behaviour is not only a way to build a trusting relationship with the client, but it also makes the management of that relationship easier in the future.

Investment screening and socio-environmental evaluation

Every organization financed by the bank is listed on the website, so that the information is available to the general public. This means that anyone can see that the bank's decision to finance a particular project is based on whether it is consistent with its Manifesto⁸. The bank's aim is to promote a civic economy that brings cultural, social and environmental development to local communities. Therefore, any project financed should respect these principles. This approach is not only valued by the bank, but also by its members.

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audit taken on by the volunteer-members of the bank. As a co-operative bank, members are eligible to be volunteers. A volunteer has to verify on-site the social and environmental condition in which they work (the way they treat workers, the level of democracy in their governance structure, the types of contract they propose to their employees, the number of women and disabled employed, their environmental policies and concern, their relationship with the local community etc...). As a social evaluator told me:

“It is like a marriage... When we evaluate an entity it is not an inspection but a dialogue, we have to be sure there are some values that keep us together. With no trust there can be no credit”. If evaluators find that the organization falls short in this assessment, the project will not be financed⁹.”

Some of the bank’s managers think that this procedure is too time-consuming and that the bank’s employees possess all the necessary tools to do the social screening rather than delegate the task to its volunteer members. However, many of the employees recognise this as one of the main roles of the members; it is a way to create networks.

“Even if sometimes the evaluation can be redundant, it is one of those things that demonstrate that Banca Etica is different from other banks: The fact that members have the possibility to influence even the bank's decisions!” (a bank member).

Campaign against speculative finance

Banca Etica is politically active in trying to impose more rigid norms on the financial markets. It promotes the 0.05 Campaign for a Tobin Tax on financial transactions

as a disincentive to speculative actions¹⁰. The bank relies on Etica Sgr, an investment management company (IMCO) that is 51% owned by Banca Etica. Etica Sgr has a very long and detailed screening process for investments. For all operations on the financial market, it promotes participatory finance based on shareholder engagement. Share purchases are based not only on potential dividends but also on the opportunity to build a constant dialogue with the financed firm, in order to advocate for social, environmental and governance issues¹¹. Etica Sgr has also been involved in shareholder activism with two big Italian energy and oil companies¹², supporting NGO campaigns against their exploitation of resources in African countries and abuse of human rights. Lastly, as Banca Etica refuses financial speculation, it does not propose any kind of derivatives or other risky financial instruments to its clients.

The work environment

The bank does not impose targets on its employees to open the most accounts per day or to sell the greatest number of products. Clients reported that they chose this bank “because in Banca Etica it looks like the client is more important than the bank...They try to suggest what is more convenient to you and not to them”.

An employee reported in an informal interview:

“[In the BIG bank where I used to work before] you are a number that must make numbers. If my client was an old lady and I knew that an insurance policy was not the most beneficial for her, I had to make her sign it anyway. In Banca Etica you are judged on other values:

I do not have to open the greatest number of bank accounts but I must do what I think is right. If a boy earns €500 per month, has a temporary job and wants to open a current account, I would tell him to get a prepaid account which is best for him. You can understand the quality of life that comes from this way of working. This means having freedom of thought and to be valued for what you are. This is priceless.”

However, this working philosophy is not structured and theorised within the bank and it still relies on the good will of each employee. This can have negative implications when an employee is not so motivated in his/her job.

Credit as a human right

Many people in Italy confuse the concept of 'ethical' with benevolent or charitable, and this is a source of frustration for many bank employees. “Sometimes people come in and expect a good bank that gives them money for free or that gives back high yields. But this is absurd. We are a bank, not a charity!”

As a multi-stakeholder enterprise, the bank tries to be fair and equitable but not charitable. It publicly refuses philanthropy as it is often used by big corporations to clean up their image after the social, cultural and environmental destruction that their big infrastructure has left behind¹³. Recent research (Altis 2014) illustrates what credit as a human right means for the bank: Banca Etica lends money to organizations that are considered risky by Basel regulations – mainly the third sector – but it lends it at an interest rate that is lower than the mean rate of the sector. Moreover, it makes almost no distinction between

them: the interest rate is the same from the North to the South of Italy.

Another important finding of the research is that 47% of the entities financed had received a refusal from at least one other bank before obtaining credit from Banca Etica. This means that other banks considered that investment either too risky or not very profitable. However, even if investing in the nonprofit and social business sectors seems not to be too lucrative, they are definitely not risky: in fact the non-performing loans rate of the bank is lower than the average of the sector.

A recent report of the Global Alliance for Banking for Values (2014) demonstrates how ethical and alternative banks, at a global level, have been over-performing the “Global Systemically Important Financial Institutions”: the percentage of activities dedicated to financing the real economy in 2013 was 76% for sustainable and ethical banks against only 40.3% for the competing GSIFIs.

For some employees, credit as a human right means giving everybody the right to explain their case for funding without feeling judged or patronized.

“To me credit as a human right means to free people from need and fear through credit. It means listening to the clients' needs. The other day a couple came in and asked for €8,000 to pay for their wedding. But they literally had no idea of how much it could cost them: they hadn't chosen the venue, the restaurant, the dress... Another bank would have just laughed at them. Instead, I listened to them, helped them understand they need some budget and at least some idea of the expenses. They came back a week later with some budget, we

assessed their financial situation, it was sustainable for them so why not? It is not my role to preach. If this is important to them then I try to help them.” (a bank employee).

Sobriety and efficiency

The sobriety principle is based on the avoidance of luxury and excesses. Mortgages finance only the first house, while credit for consumption is not given for the acquisition of luxury goods. The mission of the bank is to promote honest and simple standard of living and the bank pays great attention to be the first to give a good example.

A very strict rule within the statute of the bank is the limitation of a ratio of 1 to 6 between the highest and the lowest salary. The top manager’s salary in 2013 was €147,906; that is 5.34 times the lowest wage of €27,658. The salary paid for the 13 members of the board of directors was €335,000 in total. All salaries are published on the balance sheet and the office dedicated to relations with the members is always ready to respond to any question.

The sobriety principle comes along with efficiency. Being sober means to make good use of the resources that the members entrust to the bank. The bank has relied a lot on the fact that people choose it not because of the quality of the services they offer but for an ideological purpose. Many employees recognise that there is still room for learning from the big banks in terms of decreasing the cost/income ratio, streamlining the procedures and improving governance mechanisms. However, they question the term itself. “For me it is important to take care of the clients, to listen to them, their stories and

their problems. It is part of the bank’s mission. Of course it is a cost: probably in the same time I could have served two or three more costumers. But is that efficiency?”

Rethinking the concept of efficiency is crucial for all social businesses that want to operate within the global market: productivity cannot be reached at the expense of people’s well-being, job creation and social benefits¹⁴. A similar narrative goes on with the terms “personnel costs”. “As long as we consider personnel a cost, we are not bringing the change we hope for. The value of giving a job to someone cannot be summarized in the term cost”. From the employee’s point of view, in order to really transform the economic paradigm, the bank should undergo a lexical transformation: when a firm hires someone it does not only involve paying a salary, it also implies giving a person space to grow, provide training and learning opportunities, and a social environment that will inevitably impact the person’s life. And all these benefits should be valorised in the balance sheet.

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A similar critique is related to the concept of voluntarism. At the international level the term is too often defined as “unpaid work”¹⁵. This definition can lead to some misunderstandings. “The value and role of voluntarism is not just to substitute the market in the production of goods and services. Volunteers produce complex good (private and public), that in part cannot be assimilated to goods and services sold on the market [...] for example, social capital and relational goods” (Becchetti 2012, p. 94 - author’s translation).

In fact, when voluntarism is defined as a kind of job, it is being associated to the idea of exploitation more than to a gesture made for pleasure. That is the spirit that animates the members who take the socio-environmental evaluations, who organize events or give classes in the local schools in order to build and maintain relationships in their territories that support ethical finance. If volunteers may not be efficient in the classic meaning of the term, they are effective as they contribute in achieving the mission of the bank. Costs for customers are in line with the sector average, but it can be a little more expensive than other banks in terms of access, due to the low number of branches, and for an excessive wait to obtain information and get problems solved.

But people are ready to pay that price. The Italian economist Leonardo Becchetti (2012) refers to the “ethical premium” as that amount of money that savers are willing to spend (or gain less) in order to face the higher costs of an ethical and democratic organization. For most of the members and customers the idea of paying something more is a way to elevate their cause to a superior level. This attitude evokes the catholic spirit of

sacrifice: without sufferance, no honest objective can be achieved. I quote one customer: “We have to admit that Banca Etica is a little expensive... it is transparent, they are all good people, whatever, but it does not simplify your life... in the end, you know, we have to pay a price for standing on the right side.”

Transparency

Transparency is a common feature of all ethical banks¹⁶. Transparency about the origin of money is based on the rigid client screening conducted by the employees. Sometimes this can become a strong political action. In 2009, when savings collection was crucial because of the financial crisis, Banca Etica was the only bank that publicly refused any money coming from the tax shelter approved by Berlusconi’s government. Transparency is also in the destination of money. All organizations financed by the bank are listed on the website and all the companies chosen by the ethical investment funds of Etica Sgr are visible on the website. Funds generally only list the biggest ten companies they invest in.

Transparency is also about the way employees inform the clients: about the bank’s products, their costs, their risks and their disadvantages in a clear and explicit way. The impact of transparency on clients is reflected in their opinions: “I chose Banca Etica because it gives me the idea that they will not cheat me.”

The bank makes it clear that the money they used to finance social businesses and nonprofit organizations comes from the clients’ savings. That is one of the key messages of the financial education the bank promotes: to make people conscious of how every action they take

has wider consequences in the world. A volunteer member who gave a lecture on ethical finance at a secondary school explained:

“When we go to schools to teach financial education, we don't take the ‘this is right and that is wrong’ approach. We try to explain to the kids that when you deposit your savings in a bank, that money does not stay there sleeping but it is invested by the bank. You should ask your bank what it does with your money. Then if you prefer to have a high yield because you know your bank invests in the weapons industry, that is your choice, we do not judge it, but we want you to be at least aware of that.”

Transparency is also reflected in the way decisions are made, which leads to the last point.

Participation

The most remarkable characteristic of Banca Etica is the significant inclusion of the social base. Members are the real owners of the bank. Most of them do not decide to become members out of pure economic interest. The bank shares do not yield any dividend at the end of the year. People decide to become members because they want to support the bank and the bank gives them the means to do it. In fact, their participation is not limited to the Annual General Meeting: members have an important role in the bank's decision-making process.

Membership structure is unique within financial institutions (figure 1). The bank is divided into five areas (North-West, North-East, Center, South and Spain): each area votes for a Member Agent to represent members' interests for that

"Members are the real owners of the bank."

area. The Member Agent is the legitimate link between the social base and the bank: he or she participates in the Area Forum, a monthly assembly made up of: one member of the board of directors, the Top Area Manager, the Socio-Cultural Supervisor of the Area, and the Member Agent. These four people represent the four core groups of the bank on a regional level. Locally, members are organized into territorial groups, represented by a smaller group of three to eleven people (the “GIT” - Group of Territorial Initiatives). Territories can be created in cities where there are at least 200 members. They volunteer for the bank by meeting frequently (at least once a month) to organize events, assemblies, conferences and even provide financial education in schools. They are key actors who link the bank to the territories and one of the main recruiters of new clients through word of mouth. As mentioned before, some of them are social evaluators and are in constant contact with the branches or the itinerant bankers. Their role is to spread the word about ethical finance and responsible saving. Through the Area Forum, members can elaborate an integrated Area strategic plan, they can see the industrial plan and are updated monthly about the bank's results. When asked why they do it, they answered: “Because I think it is right”; “Because I meet people who share my ideals”; “Because it makes you feel that there is someone out there who thinks the same way you do.”

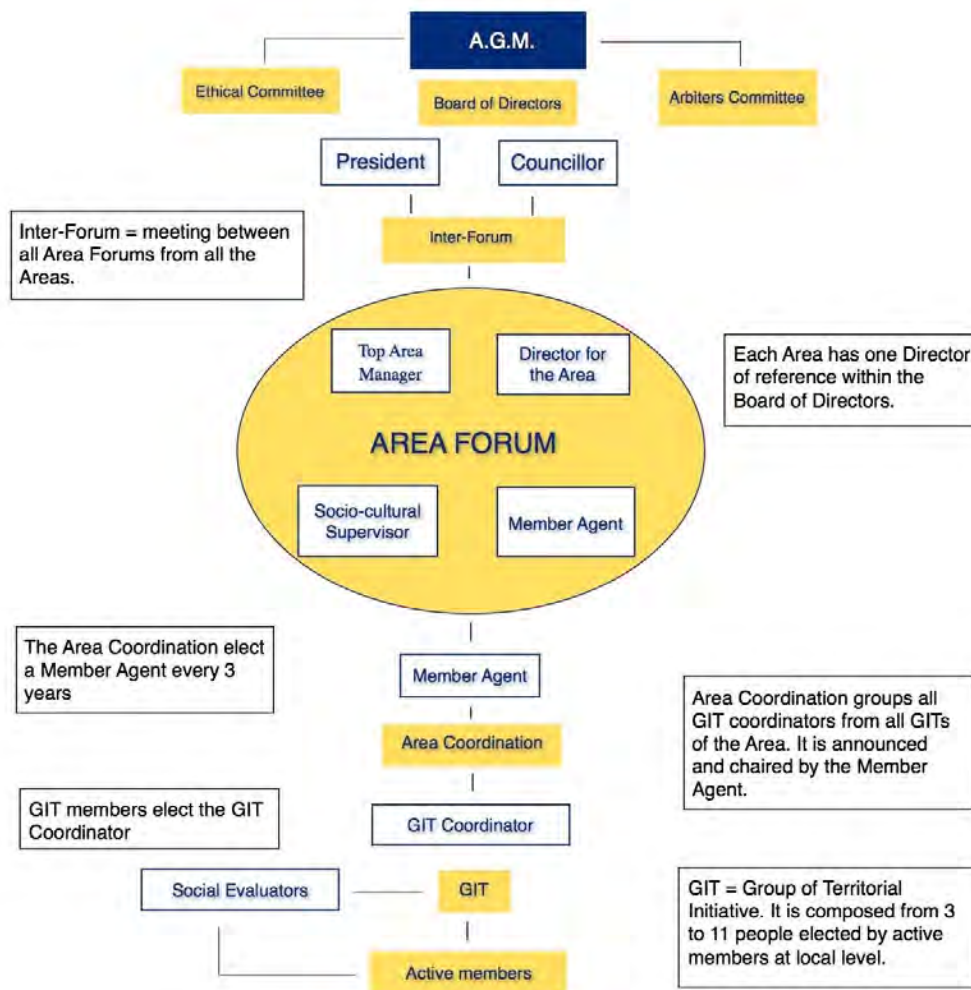


Figure 1: Associative diagram (Author's translation)

The common ideal is to fight inequalities that result from economic disadvantages. The biggest contemporary challenge for Banca Etica is to maintain a high level of inclusion and democratization while growing into a larger more structured institution. Without structure, excessive participation can lead to great confusion in relation to roles and responsibilities.

Conclusions

Banca Etica is a unique bank for five different reasons.

First, for its attention to the non-economic consequences of economic actions. Profit is not the aim of the bank, it is a positive by-product of its efficiency. If the bank works well, then it will make a profit, but the main objective is to help build a better economic society that also respects its social, cultural and environmental principles.

Second, for treating access to credit as a human right, which means on the one

hand financing the “unbankables”, but on the other hand promoting awareness that debt can be a trap and that people need to be educated so that they do not overextend themselves financially.

Third, for its rigid norms that impose a limit on the highest to lowest salary ratio at six to one.

Four, because of the transparency about the origin and destination of money, reached through client and investment screening and the publication of information on its website.

Finally, the bottom-up participation promoted by the bank, so that all stakeholders can take part in the decision making process. Members can decide whether or not to finance a project, participate in management meetings at the regional level and have a direct link to the board of directors. Only if citizens are involved can their awareness of the consequences of their individual consumer behaviour be improved and more responsible choices made. For these reasons, transparency and participation are key to Banca Etica's success.

However, Banca Etica is not a perfect model. The bank faces significant challenges and not all of them are easy to resolve. The bank needs to figure out how it can continue to grow without compromising its core ethics. It has to improve its innovation strategies, not only in products but especially in the management of its human resources. The bank needs to address a lack of clarity about its internal governance structures, otherwise atrophy and confusion about roles and responsibilities will threaten its objectives. Moreover, it needs to pay attention to how it can maintain and revive employees' and members' motivation. These issues are real and significant, but an exploration of solutions is beyond the scope of this article.

The aim of this paper is to highlight the distinctive characteristics of Banca Etica that are of primary importance for its employees, clients and members. In the aftermath of one of the most violent economic crises of recent times, many people feel disillusionment, mistrust and even rage towards the banking system. These emotional responses are a consequence of years of abuse by the big banks that have prioritized their own interests and shown a reprehensible inconsistency between their treatment of customers and their own behaviour in the marketplace. Citizens felt powerless and now are demanding more transparency and more participation. The wider dissemination of ethical banking principles throughout the financial sector may inform the improvement of standard practices throughout the entire financial sector. Ethnography can shed light on the level of members' involvement, clients' perceptions, employees' desires and all the sentiments that must be taken into account when striving for better management and governance of an organization. Anthropology provides a useful methodology to research what happens when ethical and co-operative principles are actually put into practise rather than treated as vague concepts that are used by banks as a marketing strategy. This experience is a measure of what really makes a bank co-operative and ethical.

Notes

- ¹ Both a *banca di credito cooperativo* (BCC) and a *banca popolare* are co-operative banks under Italian law. They both have to respect the mutualistic aim and the “one person, one vote” principles. However, the greatest difference between a *popolare* and a BCC is that the latter has territorial limits, i.e. that it must operate only in a restricted territory and can only open branches in bordering municipalities.
- ² In January 2015 the Italian Government approved an emergency decree that obliges popular banks, which have assets above €8 billion, to convert into joint stock companies; the reform affects only the 10 largest Italian popular banks, and therefore it does not apply to Banca Etica.
- ³ The itinerant banker is a key figure in the system of Banca Popolare Etica. Inspired by Yunus’s Grameen bankers in Bangladesh, he or she is a financial promoter who not only physically goes to the clients where there are no branches, but he or she also has to spread the culture and the principles of ethical banking while providing financial education.
- ⁴ All the factsheets and social balances of Banca Popolare Etica are available online <http://www.bancaetica.it/bilanci>
- ⁵ In 2014 Banca Etica has been the only Italian bank to be listed in the ICAN report as a credit institute that does not support nuclear weapon industry. Snyder, S. & van der Zeijden, W. (2014) “Don’t bank on the bomb. A global report on the financing of nuclear weapon producers ” is available at http://www.dontbankonthebomb.com/wp-content/uploads/2014/11/2014_DBOTB_full-web.pdf
- ⁶ www.ica.coop
- ⁷ Banca Etica Statute can be retrieved from (in Italian): <http://www.bancaetica.it/sites/bancaetica.it/files/sites/bancaetica.it/files/documenti/statuto.pdf>
- ⁸ The Political Manifesto of Banca Popolare Etica has been under a general review during last year. Members, employees and managers have met and discussed for months finalizing the new document that was voted at the Annual General Meeting on 24th May 2014. Retrieved from <http://www.bancaetica.it/chi-siamo/la-politica-del-credito-di-banca-etica/il-manifesto-di-banca-etica>
- ⁹ I came across some examples of projects that were not financed because the bank’s members found it inappropriate. This was the case of a photovoltaic solar system that was supposed to be built on agricultural land or a credit-line to a co-operative that members discovered was linked to the mafia. Unfortunately the members do not always have the time to complete the required evaluation. Very often organizations cannot wait for their availability if they are in need of credit. In 2013 only 219 social evaluation were conducted over more than 5 thousand credit-line supplied to organizations.
- ¹⁰ The campaign website can be retrieved at www.zerozerocinque.it
- ¹¹ In 2013 Banca Etica has been engaged actively in six Italian firms (Snam, Piaggio, Prysmian, Yoox, Indesit, Terna) and 9 foreign firms (Straumann, Carrefour, Sanofi, Intel, Tesco, General Mills, Conagra, Symantec, Cisco Systems).
- ¹² Shareholder activity has been conducted on Eni S.p.a. and Enel S.p.a.
- ¹³ “NO to the alibi of philanthropy to cover the damages made by finance, responsible from now.” It is the second of the 23 competitive advantages of Banca Etica. The complete document can be retrieved from http://www.bancaetica.it/sites/bancaetica.it/files/web/BLOG/dicembre/vademecum_23punti_nov13_corretto-11dic.pdf

- ¹⁴ An interesting analysis of how the term efficiency has changed in the last decade for U.S. Corporations is in Ho, K. (2009). *Liquidated. An Ethnography of Wall Street*. Cambridge and London: Duke University Press.
- ¹⁵ Please refer to ILO (2011). *Manual on the measurement of volunteer work*. Geneva, Switzerland, International Labour Office.
- ¹⁶ For a clear definition of ethical bank you see the European Federation of Ethical and Alternative Banks and Financiers: http://www.febea.org/sites/default/files/definition_ethical_bank-en.pdf

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When is a Co-operative not a Co-operative? Member vs. Non-member Dynamics in Agricultural Co-operatives in Bosnia and Herzegovina

by Samira Nuhanović – Ribić

Abstract

One of the principal historical justifications for agricultural co-operatives is to protect individual farmers from the opportunistic behaviour of other market participants, especially those higher up the agricultural supply chain. However, for a number of reasons, opportunistic behaviour also arises within co-operatives and between co-operatives and their external partners. By studying the member vs. non-member dynamics in 210 agricultural co-operatives in Bosnia and Herzegovina (hereafter Bosnia or BiH), this paper investigates how the nature of co-operatives' external relations affects their identity in Bosnia's transitional context. The main findings suggest that by relying too much on external non-member suppliers co-operatives create

and sustain a misalignment between the use of co-operative and benefits derived from it. A formal rather than substantive approach to applying co-operative values to internal structures and relations with external partners incites mutually opportunistic behaviour between co-operatives and their non-member suppliers. As a result, majority of Bosnia's co-operatives fall short of being the transaction-cost minimizing governance structure described in the New Institutional Economics literature, or the socio-economic organizations fully adhering to the principles and values of co-operation.

Keywords: co-operative identity, members' and non-members' benefits, co-operative objectives

1. Introduction

The recent trends of economic globalization along with the latest financial crisis have challenged the ability of many organizational forms, co-operatives included, to live up to the values that should underpin their organizational identity. In an attempt to preserve their economic viability co-operatives are increasingly forced to respond to competitive markets by altering their internal organizational arrangements often at the expense of their co-operative nature and traditional ownership structure (Reed, 2009; Chaddad and Iliopoulos, 2013).

Modifications in the co-operatives' property rights structures and resulting departures from the authentic co-operative model are often presented as a way of resolving the co-operative specific inefficiency concerns (Chaddad and Cook, 2004). However, unselective adjustments to the volatile environment that threaten to dilute organizational identity to the point of making it a formality may prove to be more detrimental to the identity of co-operatives than that of conventional firms.

In light of Chandler's (1972) argument that 'structure follows strategy' it is not difficult to see why this is the case: as a response to competitive pressures from their for-profit counterparts, co-operatives tend to adjust and approximate their strategies to those of conventional firms, shifting the strategic focus of co-operatives away from delivering both social and economic benefits to targeting mainly economic goals. Once the shift of strategic focus takes place, the inclusive and democratic governance framework of co-operatives becomes too costly to sustain within the new strategic scheme. Hence, the structure is adjusted as well, and often in a way that reduces the co-operative identity to only its economic dimension. However, different views in the literature suggest that in fact the opposite may also hold true for co-operatives (Van der Krogt et al., 2007), i.e. that their specific structure dictates the overall strategy they pursue with respect to their activities (Bijman and Iliopoulos, 2014). Indeed, if the road from structure to strategy is a two way street for co-operatives, it is legitimate to ask what degree of innovation introduced in internal structures and external relations will not jeopardize the essence of the co-operative enterprise.

So far the literature has examined an array of adjustments that can be made within the co-operative structures and among the stakeholders describing the resulting variations in arrangements of ownership and control rights. Bijman, Hanisch and Sangen (2014), for example, analyze how changes in the composition of co-operative governance structures affect the locus of decision-making power and control in co-operatives. They conclude that too much of an approximation to corporate governance structures in co-operatives may result in a

degeneration of the co-operative and, in particular, in a complete shift of control from members to an outside-of-membership entity usually represented by professional managers hired to ensure co-operatives' economic viability. This displacement of control blurs the view of co-operatives as exclusively member-driven enterprises.

Since the prevailing focus of the literature has been on the immediately visible changes in the composition of internal governance structures and resulting power struggles between various categories of member and non-member stakeholders, we have learnt much about the internal structural dynamics in co-operatives but not nearly enough about how internal structures and processes get shaped by relations co-operatives establish with their non-members, especially if such bonds can be described as iterative, intensive and carrying a degree of mutual dependency. Starting from the assumption that all co-operatives should at the very least be seen as member-driven organizations, this article examines how intensifying relations with non-members at the expense of building stronger membership commitment to the co-operative may be damaging to its identity in the long run. In line with that, two arguments are put forward.

The first argument is that there are multiple sources of co-operative identity, only some of which stem from the co-operative's particular ownership and governance structures, while others are to be found in processes practiced through these structures both internally and externally. Furthermore, if the overall approach to implementing co-operative values and principles through structures and processes is superficial ('formal')

rather than substantive, the co-operative will not only be prone to instances of internal opportunism but it will increase its dependency and consequently vulnerability to ever changing environment.

Secondly, since co-operatives are inherently embedded in the wider institutional context, their identity is not only altered by opening up co-operative structures to control-seeking non-members, but it is also shaped by the kind of relations co-operatives sustain with non-members who do not necessarily seek to gain control over structures and processes in the co-operative. This paper focuses on the latter. To that end, it looks into how the member vs. non-member dynamics in a sample of agricultural co-operatives in

BiH affects the functionality of their internal structures, their credibility as a business enterprise and the resulting risk distribution among co-operatives' various stakeholders.

The article is organized as follows. In section two, the sources of co-operative identity will be discussed with a specific focus on the membership dimension. In section three, basic characteristics of institutional environment and co-operative context in BiH will be explained, followed by section four where evidence on the member to non-member dynamics will be presented with the discussion of its implications to identity of BiH co-operatives. Section five contains main conclusions together with policy recommendations.

2. The sources of co-operative identity

Viewed in a wider social economy context, co-operatives belong to what may be termed 'socially-oriented firms' being primarily "mutual-benefit organizations that are usually controlled on an equal voting rights basis by different types of patrons (eg. producers, workers, consumers) or by a mix of them (multi-stakeholder co-operatives) (Borzaga, Depedri and Tortia, 2011:19). Because of the structural peculiarity that merges two distinct organizational types into one, namely entrepreneurial and associational (Michelsen, 1994), the content of co-operative identity depends, among other things, on the balance between economic and social role of co-operatives. As Stefano and Vera Zamagni write: "whenever one of these aspects is sacrificed to the other, the co-operative is denatured, losing its identity" (2010: 1). However, in addition

to keeping the balance between these two dimensions, co-operatives need to be aware of the values they project into their community. These values do not only come from balancing the economic and social aspects of co-operatives but also from the nature of their relations with external actors. To understand how these factors combine in shaping co-operative identity it is useful to review briefly the main reasons behind the emergence of co-operatives.

The literature points out that the emergence of co-operatives may be explained by two groups of factors, namely the demand-side and supply-side factors. The demand-side explanations suggest that co-operatives emerge as a response to either market or government failures or both. While this has indeed been validated by a number of real-life examples, Zamagni and

Zamagni (2010: 28-29) suggest that such explanations make a hidden assumption that if we were ever able to correct these failures, i.e. to decrease or at least control information asymmetry, significantly reduce the incompleteness of contracts and so on, there would be no need for co-operatives. They are much more in favour of the supply-side explanations which place the peoples' choice to have the freedom to govern rather than to be governed at the centre of understanding some peoples' preference for co-operatives (Zamagni and Zamagni, 2010). In other words, co-operatives emerge as a specific kind of enterprise that, in addition to providing economic and social benefits, also provide the users with direct control over the internal processes that bring about these benefits.

The New Institutional Economics (NIE) literature has also devoted a lot of attention to analysing co-operatives as a governance mechanism. The NIE explanations look at co-operatives through their transaction-cost minimizing lenses, arguing that under certain conditions having to do with characteristics of the transaction itself co-operatives may be an important transaction cost economizing mechanism (Williamson, 2004). Representatives of the property rights school, on the other hand, are quite critical of co-operatives' ability to perform efficiently in a highly competitive environment given the complexity of their internal ownership and governance structures and costs associated with coordinating heterogeneous interests of their patrons (Fama and Jensen, 1983).

However, in more general terms, it is "the stimulus of monopsony", as Hansmann (1996:136) puts it that most frequently justifies the emergence of agricultural

"this does not mean that co-operatives as enterprises are not susceptible to opportunistic behaviour arising from within their own ranks"

co-operatives in particular. There are sector specific reasons for this. Agriculture as an industry is at the same time intensive and constrained by natural factors that include both climatic conditions as well as perishability of goods produced. This makes farmers vulnerable to other market participants' behaviour who may misuse their position to either charge very low prices for goods delivered by individual farmers or refuse to buy goods altogether since there is an abundance of other suppliers. In this sense, co-operatives are formed to strengthen the market position of individual farmers through providing a collective bargaining mechanism, creating countervailing power and generally providing structure to often scattered productive activities of individual farmers (Valentinov, 2007; Tortia et al., 2013; Bijman and Iliopoulos, 2014). By performing all these functions, co-operatives either control the power of the middlemen or displace the middlemen completely, thus saving small farmers from exploitation (Hansmann, 1996).

Although they provide the structure that protects farmers against opportunistic behaviour from upstream and downstream contractors, this does not mean that co-operatives as enterprises are not susceptible to opportunistic behaviour arising from within their own ranks. On the contrary, opportunistic behaviour often emerges among

co-operative members and between them and managerial structures, a development that is often framed in the literature as being related to the inefficiency of the particular property rights structure in co-operatives (Fama and Jensen, 1983; Cook and Iliopoulos, 2000). Borgen (2004: 384) recalls some earlier contributions that have identified property rights approach and agency theory as appropriate lenses through which incentive problems in co-operatives can be identified and explained and he categorizes them into the investment-related problems (free rider, horizon, portfolio) and the decision-related problems (control, follow-up, influence-cost). Since all the incentive problems relate directly either to ownership or governance aspect of the co-operative structures, the analyses of opportunistic behaviour in co-operatives have somehow been kept within the co-operative organizational borders.

Iliopoulos and Valentinov (2012) provide a rare contribution that crosses that border by investigating the opportunistic behaviour of managers in Greek agricultural co-operatives that responded to political and power related incentives coming from the co-operatives' external environment. The instances of thus motivated opportunistic behaviour, as they contend, served to inflate the formal structures and numbers of co-operatives in Greece while decreasing their efficiency in providing benefits to the members. This article is insightful inasmuch as it points out that there perhaps could be a relation between too much focus on formal co-operative structures and instances of internally and externally motivated opportunistic behaviour.

opportunistic behaviour waters down co-operative identity and impairs co-operatives' ability to perform their core functions. This means that in defining co-operative identity we need to look beyond the balance of economic and social aspects within the co-operative structures and into the nature of relations co-operatives form with their long-term partners. There are actors in the market who may not be part of formal co-operative structures but who by maintaining intensive collaborative relations with co-operatives may sway the balance in one direction or another. Having a formal approach to co-operation without integrating co-operative values in internal and external collaborative processes may allow the imbalance to happen. In line with this thinking, we may speak of both primary and secondary sources of co-operative identity¹.

Primary sources of co-operative identity come from within the co-operative itself and refer both to its structures and governance processes practiced through them by all its members. Here, what shapes the co-operative identity stems directly from the ownership-governance-benefit axis usually identified by authors as the core of the co-operative enterprise (Dunn, 1988) and a distinct source of the co-operative difference (Novkovic, 2008). Secondary sources, on the other hand, come from outside of co-operative structures and refer to a collection of institutions, legal and physical non-members and relations co-operatives form to and with them in carrying out their activities. Novkovic (2008) specifically notes the importance of the co-operatives' role in promoting ethical business practices and aiding development of their communities.

Iterative and structurally supported

The interplay of both these sources in

shaping the co-operative identity can be either formal or substantive. Previous research findings report that although there is a proclaimed importance attached to integrating co-operative values and principles in the co-operative model, the reality documents less than adequate degrees of understanding and applying of co-operative principles in co-operatives (Novkovic, 2006). The formal approach to applying these principles and values both internally and externally implies that the co-operative itself has problems internalizing them, or is otherwise intentionally creating space for potential future opportunistic behaviour. Contrary to that, a substantive approach to applying co-operative principles and values both within the structures and towards the external environment implies a view of the co-operative as a long term strategic alliance among members.

As is visible from Figure 1, when a co-operative has a formal approach to its own internal structures and external relations (fields I and IV in the Figure) the repercussions are present along the ownership-governance-benefit axis. Although such a co-operative may legally exist under the co-operative name, its practices of, for example, restricted and closed membership, concentrated decision-making in the hands of few, lack of member participation, preferring political to institutional connections, all suggest that there exists a distortion in the overall perception of the co-operative identity.

Contrary to that, if a co-operative takes an approach that engages substantively and with utmost authenticity with the values and principles of co-operation and applies them consistently in its internal structures and external relations (fields II

and III in Figure 1), it actively defines both the contours and the content of its co-operative identity and allows it to develop in response to the changing environment. In doing so, it clearly promotes ethical business practices by building meaningful links with local public institutions and its upstream and downstream partners. To be able to sustain itself over time as a reliable coordination mechanism for members and a credible business partner to non-members, it treats trust among its various stakeholders as a productive resource therefore effectively reducing the space for opportunistic behaviour. This approach aligns behind the management concept of 'catalytic mechanisms' that Novkovic and Power (2005) borrowed to explain how co-operatives can balance their complex internal structures with the demands from the competitive environment.

"in defining co-operative identity we need to look beyond the balance of economic and social aspects within the co-operative structures and into the nature of relations co-operatives form with their long-term partners."

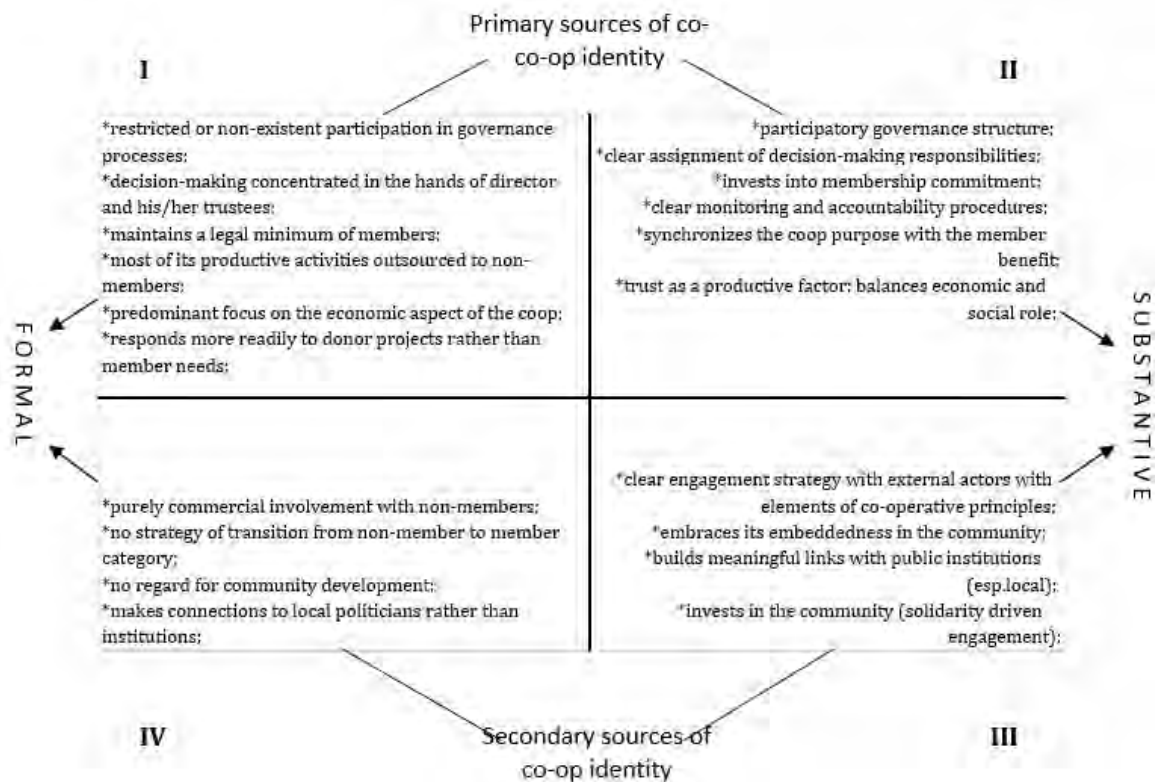


Figure 1: The sources of co-operative identity

Source: Own elaboration

The delineation between different sources of co-operative identity presented in Figure 1 is particularly useful for understanding where the crisis of the co-operative idea in transition and post-socialist countries comes from. In such contexts, where the introduction of the free market economy was not followed by the development of a constellation of important institutions, immediate market survival took precedence over building long term co-operative structures. In practice this meant that a considerable number of co-operatives were prompted to formally

adopt co-operative structures and principles, but their de facto behaviour was that of conventional firms. One co-operative dimension in which this is most clearly visible is that of membership and relation to non-members, including the motivation to start a co-operative, to participate in its structures and to share in the distribution of benefits. The sections that follow use the co-operative sector of Bosnia as an example where co-operatives' relations to their non-members have significantly affected their identity and purpose.

3. The context of Bosnia and Herzegovina

The Bosnian context is unique in many respects, its political structure being just one of them². It is a textbook example of a post-conflict and developing country's struggle with path dependencies in a volatile and unsupportive legal context. Bosnia's reliance on the agricultural sector for providing livelihoods to many rural families made reforms in the agricultural sector a priority item on the

country's development agenda. While any development oriented action by the government is limited by its own systemic deficiencies³, farmers on the other hand expect a greater involvement of the public sector in planning and supporting agricultural activities. However, given that economic history shows that such a pro-active engagement by the state is the most

effective way of promoting an economically and socially efficient agricultural sector (Chang, 2009), this demand makes much sense. In addition, history also shows that various forms of non-state collective institution, notably such as agricultural and financial co-operatives, have played a decisive role in the construction of almost all efficient agricultural systems (*ibid*; Amin and Bernstein, 1995). In such a context, ignoring the co-operative format in favour of hypothetical institutional arrangements involving purely market-driven for-profit institutions would be poor policy.

Nonetheless, the government in Bosnia tended to write off co-operatives as remnants of the past socialist regime, even though farmers appeared to be mainly risk averse and reluctant to meet the market alone. Additionally, the violent four-year war left Bosnian society almost completely devoid of person-to-person and person-to-institutions trust (UNDP, 2009). Difficult and poorly managed transition processes from war to peace and from socialism to market economy further solidified the lack of trust among Bosnian citizens.

This socio-political landscape is mirrored in Bosnia's co-operative sector, including the structure and activities of the three co-operative apex organizations. While reliable data on co-operatives are extremely difficult to come by, the activities that aspire to change this are accidental rather than systematic⁴. However, to farmers the co-operatives are still a mechanism that mitigates the shortcomings of family farming while building on its inherent advantages such as trust among the kin. Unfortunately, successful co-operatives in Bosnia develop and function not because of the institutional and policy environment but despite of it. The legal framework for the co-operative sector serves as a useful illustration.

The General Law on Cooperatives in Bosnia, adopted in 2003⁵, was the first state level law on co-operatives enacted in the post-1995 period. The General Law allows the entity governments to enact a more specific legislation which Republika Srpska (RS) did in 2008 when it passed the Law on Agricultural Cooperatives. However, some of its provisions are in direct conflict with provisions of the General Law on Cooperatives, specifically those related to the treatment of 'social property' in co-operatives. Brčko District has its own Law on Cooperatives which is also in contradiction with several General Law articles mainly related to auditing and the number of members necessary for the establishment of co-operatives.

Effectively, three different co-operative laws govern a very small geographical space of Bosnia and its rather modest co-operative sector. This leads to a paradoxical situation in which co-operatives from RS, for example, have to deliberately violate the state-level law if they wish to adhere to the entity level legislation. None of these laws is specific on the magnitude of collaboration that a co-operative can carry out with its non-members. This evident lack of legal clarity creates a specifically challenging context for co-operatives to deal with as will be illustrated in the sections that follow.

4. Institutionalizing opportunistic behaviour

Co-operatives are member-centred enterprises established to serve the needs of their members. However, a great number of agricultural co-operatives in Bosnia rely on non-members, or 'co-operants' as they are known in Bosnia, for most of their productive activities, thus making a co-operative an instrument used more by its non-members than by its members. While they extensively use the co-operative infrastructure to place their products on the market, co-operants neither have the decision-making and control rights in the co-operative, nor do they enjoy the eventual benefits arising out of those rights. Clearly, in co-operatives with very few members and many co-operants, those who use the co-operative most do not get to benefit at a comparable scale. Such a structure not only allows opportunistic behaviour both from the co-operative's and co-operants' side but it effectively undermines the substance of such co-operative enterprises.

The category of 'co-operants' is not exclusive to Bosnia's co-operative sector. It is to varying degrees found in the co-operative sectors of all of the former Yugoslavia's now independent countries (Golja and Novkovic, 2014; Ševarlić and Nikolić, 2012). It denotes a loose form of collaborative attachment to a co-operative, like an initiation phase towards full membership. During the quickly aborted 'collectivization' phase in the then Yugoslavia's development in the late 1940s, co-operative membership entailed giving away one's private property to local co-operatives. At the time, keeping the status of a 'co-operant' was considered a relatively good option for simply placing one's products on the market without being drawn into the co-operative structures and losing one's land to the co-operative. To this day, 'co-operants' remained a category of non-member suppliers who are free to collaborate with either private, public or co-operative enterprises. However, their road towards full membership appears to be rather slow. They are often conditioned by local co-operatives to serve as co-operants for a number of years before they are considered for membership. A recently published report on the co-operative sector in Serbia revealed the presence of a similar problem. It was found that 17% of members in a sample of 79 successful agricultural co-operatives had spent more than 20 years being co-operants before they became full co-operative members (Ševarlić and Nikolić, 2012). The new 2011 Law on Cooperatives in Croatia in its Article 34 encourages granting full membership to co-operants in line with the principle of openness (Golja and Novković, 2014).

Although this article does not deal with all aspects of the member/co-operant relationship, the mere numbers in both categories in a sample of 210 agricultural co-operatives in Bosnia suggest implications for governance processes and distribution of risks and benefits. In the sample examined, there is a considerable variation in numbers of contracted suppliers attached to any particular co-operative ranging from just five co-operants to a maximum of 3500.

Table 1. Number of members and co-operants in co-operatives formed before and after 1995⁶

Co-operatives founded	Number of co-operatives	Number of members		Number of co-operants	
		total	average	total	average
Before 1995	43	2926	68	7491	242
After 1995	167	4678	28	18225	168

Source: Author's database

As reported in Table 1, the total number of co-operants is far greater than the number of members in co-operatives formed before and after 1995. This appears to be the trend for the entire sample. To understand if there is any difference in the member/co-operant dynamics based on the size of co-operatives measured by the number of members, the whole sample was divided into different size categories as presented in Table 2.

Table 2. Members and co-operants in co-operatives classified by size and year of formation

Period co-op founded	Size categories based on number of members	Members		Co-operants	
		Number of co-ops	Total members	Number of co-ops with co-operants	Total co-operants
Pre-1995	Less than 10	9	54	7	284
	10 to 50	24	477	15	1954
	50 to 100	5	313	4	875
	More than 100	5	2082	5	4378
Post-1995	Less than 10	78	470	45	8773
	10 to 50	65	1253	48	5038
	50 to 100	13	836	10	767
	More than 100	11	2119	9	3647

Source: Author's database

As evident from Table 2, in a great number of small co-operatives (under ten members) most of the productive activities are provided by co-operants. The members, since there are very few, often merely coordinate the production of co-operants while at the same time enjoying the full benefits of membership. The category of members may imply both co-operative employees and agricultural producers but in this case it mostly refers to members who are agricultural producers since co-operatives report that they have very few full time employees⁷. Given the numbers, the largest volume of production usually comes from the co-operants and not from co-operative members.

Furthermore, the numbers in Table 2 and Table 3 explain yet another evident trend in Bosnia's co-operative sector, and especially among the post-1995 co-operatives, which is the preference for smaller size co-operatives with less than ten members. When the number of co-operative founding members was compared to the current number of members, it was found that for 117 co-operatives from the sample of 210 the number of members decreased or remained the same. Out of those 117 co-operatives, 20 were formed before 1995, while 97 were founded after 1995. In 108 co-operatives out of 210 examined, the number of co-operants is far greater than the number of members and has grown over the years.

Table 3. Number of members and co-operants for the whole sample

Size categories based on membership	Members		Co-operants	
	Number of co-ops	Total members	Number of co-ops with co-operants	Total co-operants
Less than 10	87	524	52	9057
10 to 50	89	1730	63	6992
50 to 100	18	1149	14	1642
More than 100	16	4201	14	8025

Source: Author's database

Based on the propositions put forward in the Figure 1 of Section 2, it is clear that many of the challenges associated with having a formal rather than substantive approach to applying co-operative values and principles are present among Bosnia's co-operatives. The preference of Bosnian farmers for smaller co-operatives, as well as trends related to the overall decrease in the number of members, both reflect a rather formal approach to co-operation, one that abides by the minimum legal requirements when it comes to setting up and running co-operatives. In a similar fashion, the participation of members in the governing bodies of co-operatives is less than satisfactory.

As far as co-operants are concerned, to them there is understandably no real difference as to whether they sell their products to the local co-operative or to some private business in the same sector. Their intensive collaboration with co-operatives is often merely an expression of necessity rather than choice. It is likely that the co-operative is the only buyer in a particular rural area, and that buyer to them is the only chance to cut the costs of reaching the market. The contractual relationship between co-operatives and co-operants is often not a long term one and tends to be broken by both sides. In certain cases, co-operatives disrespect the contract by refusing to pay the agreed price to co-operants for their products using volatility of markets as justification. Co-operants, on the other hand, follow the highest prices and often do not deliver the agreed quantity or quality of goods to the co-operative. The perishable nature of goods produced and the lack of alternative buyers forces co-operants to agree to whatever price is offered on the spot.

Having many co-operants as main suppliers significantly increases the co-operatives' vulnerability affecting in the long run the credibility of co-operatives as business partners. To co-operants, the co-operative is just another middleman in the market. This member/co-operant dynamic highlights a dramatic departure of the co-operative model practiced in Bosnia from the model that integrates the resources to eliminate the middlemen as described by Hansmann (1996). The user-beneficiary tension in this case opens up a space for opportunistic behaviour that in fact turns the co-operative into purely profit maximizing device for its members, with numerous implications for the co-operative's identity.

In terms of ownership and governance, it is clear that no control rights in co-operatives for co-operants means that their status may remain unchanged for an undefined period of time. In terms of risk dispersion, since most of the productive activities happen on private farms of co-operants for a great number of co-operatives, the members bear the minimum production risks while still retaining the right to distribute the end of the year surplus. Instead, the risk is outsourced to an informal network of scattered suppliers. This significantly reduces the ability of co-operatives to manage the risk effectively let alone to plan the investments in improving the production processes.

5. Conclusion and policy recommendations

Agricultural co-operatives emerge to prevent opportunistic behaviour of conventional firms towards individual farmers. However, for the reasons presented in this article, opportunistic behaviour arises within the co-operative structures as well. While recognizing that a number of incentive issues may lead to opportunistic behaviour inside the co-operative, this article argued that the formal approach to co-operative values and principles in setting up and using co-operative structures in general can explain how the space for opportunistic behaviour is created. Opportunism can be both internally and externally motivated. This highlights the need for co-operatives to not only properly apply co-operative principles within their structures, but also to transmit some of these values into their external relations. A substantive approach to integrating co-operative values into all co-operatives' relations allows co-operatives to balance different dimensions of their identity even if they open up their structures to non-member patrons.

There are several ways in which policy can help co-operatives guide their way towards their true purpose. Firstly, the importance of the legal environment and regulation in creating a defined framework in which co-operatives can be encouraged to balance their internal and external relations cannot be overstated. The legal framework should be robust enough so that its instruments enable the development of true co-operatives by placing limitations on opportunistic behaviour. In terms of the specific issue presented in this paper, two things can be done. Firstly, limiting the amount of turnover that can be derived from non-members' activities can push co-operants towards seeking full membership. Secondly, clearly defining the time constraint on the 'co-operant' status would prevent the co-operatives from keeping the most active users away from formal co-operative structures. As in many countries, famously in Northern Italy, using the tax structure to encourage these developments would seem a sensible response elsewhere.

At the same time, the benefits of co-operative membership need to become more attractive in order to create demand among co-operants for full membership. This is something co-operatives themselves have to work on by effectively differentiating between the prices paid to members and those paid to non-members, as well as by extending the quality and quantity of services offered to members but not to non-members. Clarity in the legal framework is especially important for co-operatives in transitional and developing countries, as the lack thereof currently creates a lot of misunderstandings as to the true identity and purpose of the co-operative enterprise, as well as loopholes that allow the unscrupulous to abuse the co-operative format for their own ends.

Notes

- 1 Out of seven International Co-operative Alliance principles of co-operation, those that refer mainly to the internal co-operative structures and processes such as voluntary and open membership, democratic member control, member participation, education and training would qualify as primary source of co-operative identity, while principles that speak of co-operatives' collaboration with other co-operatives and co-operatives' concern for their communities would in this categorization qualify as secondary sources of co-operative identity.
- 2 As a result of the 1995 Dayton Peace Agreement, BiH's current political structure has a form of a loose federation consisting of two administrative entities, namely the Federation of BiH and Republika Srpska, and an internationally monitored territory of Brcko District. Any reform depends upon a political consensus among the three constituent ethnic groups which considerably slows down reformative processes in the country.
- 3 BiH does not have a state level ministry of agriculture. State level institutions in BiH are extremely weak in terms of enacting countrywide policies. This in reality translates into two entities having completely opposing legislation for crucial development sectors such as agriculture and co-operatives and makes any inter-entity collaboration rather difficult.
- 4 The data presented in this paper were gathered in 2011 as a part of a larger effort undertaken by the USAID/SIDA financed project in agriculture to study the state of the BiH co-operative sector. A total of 210 co-operatives provided data on their members and non-members with whom they regularly collaborate. It was collected through a series of questionnaires distributed to co-operative directors. No similar attempt at data collection was undertaken by public institutions or co-operative associations.
- 5 Official Ghazette of BiH 18/03, passed on 01.07.2003.
- 6 The year 1995 was used as a threshold for two reasons. Firstly, it was the year when four-year long war finally stopped and new democratic processes started to emerge. Secondly, it was the time when each of the entities started working on its own strategic and policy documents contributing to a legislative divide between these two administrative units.
- 7 Some co-operatives reported to have no full time employees. On average, co-operatives reported to have four employees including the co-operative director.

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Democratic Management in Argentina: Development and Perspectives of the Worker-Recuperated Enterprises

by Adrian Mengay

Abstract

More than a decade after the Argentinian financial crisis in 2001, this article analyzes the advance of the *empresas recuperadas por sus trabajadores* (worker-recuperated enterprises, or ERTs). It presents the development of the ERTs that started in most cases as occupations, then found a new legal form as worker run co-operatives, and in some cases culminated into new communal forms of political and social production

and reproduction. The paper discusses economic, political, and legal issues of this process, and focuses on the evolution of work organization and its relationship with the democratization of decision-making.

The article reviews the literature on ERTs and evaluates data based on reports and statistics from the University of Buenos Aires and Argentina's government.

1. Introduction

The Argentinian movement of *empresas recuperadas por sus trabajadores* (worker-recuperated enterprises or ERTs)¹, which emerged in response to the economic and social crisis of 2001, is one of the most significant and representative movements of its kind. Since 2001, Argentinian workers took over and recuperated more than 300 enterprises in order to avoid bankruptcy and lock-outs. Today, more than 13,000 people work and engage in workers' self-management in these newly formed worker co-operatives. The movement is still growing today. After more than a decade, it seems essential to evaluate the possibilities and limits of this process and, in addition, people's varying experiences in these worker-controlled environments.

The article reviews Argentinian research on this topic. The data is based on reports and statistics from the University of Buenos Aires and the Argentinian Government. The article will focus on the

evaluation of the relationship between workers and new forms of horizontal, non-hierarchical organization, with respect to the democratization of decision-making processes within self-managed enterprises. This concerns the analysis of different forms of decision-making processes, the circulation of information, and the distribution of income and wages, among other indicators.

Regarding the implications for the organization of labour, it is necessary to assess the changes of labour organization, the adjustments of technology, the division between operational and administrative tasks, and the handling of labour discipline of the workers. The interest taken in both areas is closely related to the question of sustainability of these enterprises. Attention to the topics of democratization and the organization of production can contribute to an understanding of the threats and challenges that confront this movement.

2. The context of the emergence of the ERTs

To understand the phenomenon of ERTs in Argentina, it is necessary to reflect on the economic, political and social context in which they emerged. This requires looking back to Argentina's last military dictatorship, which began in 1976 and marked a turning point in the country's economy as the military dictatorship and the governments after it carried out a major restructuring of Argentina's economy, in line with the neoliberal doctrine. A cornerstone of the restructuring was the progressive decrease of manufacturing in the economy and its place as a mode of regulation of economic and social relations, which was yielded to the financial and services sectors (Fajn and Rebón, 2005). This marked the beginning of a long process of openness to imports, financial speculation, foreign debt, deindustrialization, increased economic concentration, privatization of state enterprises and a progressive predominance of financial valorization resulting in the closure and massive bankruptcy of many companies (Aspiazu and Schorr, 2010: 71; Basualdo, 2001: 29).

External debt was one of the pillars of the new economic model. During the military government (1976-1983), the private sector requested loans from foreign banks, at interest rates that were lower than those of local banks. On the one hand, the money from these loans was used for financial speculation and to buy imported goods, rather than being allocated to local industry. On the other hand, the debt of the public sector increased because of public intervention in the foreign exchange market, the state's absorption of private sector debt, and because of the debt of state

enterprises (Gambina *et al.*, 2002: 99). After the last military government in Argentina, the debt began to grow steadily. In the 1990s the government requested huge loans from the International Monetary Fund (IMF) and other credit agencies, and paid these loans back through privatization and severe austerity measures (Sitrin, 2006: 9)².

Patroni (2002: 257) argues that one key variable for understanding Argentina's economic path during the 1990s was currency appreciation, particularly as the decade progressed. This currency appreciation, in combination with trade liberalization, drastically modified the industrial sector. The survival of the companies under these conditions depended on their ability to improve their efficiency in order to remain competitive in the market and to face low price imports. On the one hand, enterprises that were not able to reduce costs could not survive the process. On the other hand, those who survived did so by replacing an increasingly expensive labour force with capital equipment that overvaluation had made cheaper to acquire (Chitarroni and Cimillo, 2007: 7; Felder and Patroni, 2011: 269).

In the labour market, neoliberal structural reforms resulted in the implementation of a set of legal modifications. This process, known as *flexibilidad laboral* (labour flexibility), increased precarious work (Ruggeri, 2012: 9; Basualdo, 2006: 315). Wage relations deteriorated in various forms, mainly as massive layoffs and wage violations. Along with them came a drastic decline in labour compensation for layoffs (Fajn and Rebón, 2005)³.

"At the height of the economic crisis, the unemployment rate reached 21.5% of the active population, and the underemployment rate reached 18.6%."

These changes led to rising rates of unemployment and under-employment. At the height of the economic crisis, the unemployment rate reached 21.5% of the active population, and the underemployment rate reached 18.6%. The World Bank reported that in 2002, of the 14.3 million people in the labour force only about five million people had stable employment. At the same time, the formal private sector had shrunk drastically, and informal activities had grown until they employed about 21% of the labour force (Cohen, 2012: 73)⁴. Other social indicators have also worsened since the mid-1970s. There was a steady growth of inequality in income distribution⁵ and, consequently, an increase in poverty and destitution. In 2002, 53% of the population of Argentina was below the poverty line, while 24.7% was below the extreme poverty line (UNPD, 2009: 6)⁶.

The political context completes this scenario. Some years before the emergence of the worker-recuperated enterprises, Argentina had experienced a process of delegitimization of traditional political representation and its channels (Portantiero 2002: 2). This political crisis reached its peak with the popular rebellion of 19 and 20 December 2001⁷. This crisis concerned not only political parties, but also all representative institutions, including trade unions⁸.

Vieta (2012: 203) and Patroni (2002: 215) argue that a new and incipient form of alternative unionism had emerged in the 1990s as a counterforce to the neoliberal model and the co-opted union bureaucracy of the national trade union federation in Argentina (*Confederación General del Trabajo or CGT*). The classic

trade unions, which historically monopolized labour demands, gave way to organizations with new methods (Retamozo, 2011: 248). Mutations in the labour market of the late twentieth century, such as union membership problems caused by increased unemployment and informal labour, had an impact on the political participation of Argentinian workers. At the same time, the last military government had already reduced the role of trade unions as political actors, by means of attacking their financial power and political persecution. The government of Carlos Menem (1989-1999) promoted yet another attack on the financial and political power of the unions by encouraging the co-optation of trade unions which were prone to participate in the privatization of former state enterprises. It is also worth mentioning, as Atzeni (2010: 52-53) affirms, that a culture of authority and top-down decisions, permanence of leadership and lack of internal democracy remained characteristics of the Argentinian trade unions even after the return to democracy in 1983. These features, reinforced by government support in the 1990s, contributed to the discrediting of unions and their authority to represent popular demands.

At the same time, alternative forms of working class organization have been promoting new and innovative forms of contestation within the context of massive social protest conducted by social movements of largely heterogeneous groups: employed, unemployed and retired workers' new alternative unions, human rights organizations and various other social movements⁹.

3. ERTs as a response to the crisis

As Vieta (2012: 204) indicates, the surge of the ERTs phenomenon can be understood as a direct response to the drastic increases in business closures, unemployment, poverty, and indigence that resulted from neoliberal policies and market liberalization. The prolonged economic, social and political crisis of the late 1990s led to many business shutdowns that paved the way for company takeovers. There were some takeovers that started in the 1990s¹⁰, but the big wave of ERTs emerged after 2000, when the idea of “recuperating” an enterprise by the workers and the collective workers appropriation spread as an answer to the financial crisis (Lavaca, 2007: 15).

The decision to take over a company especially flourished when bankruptcy, outstanding payments of wages, potential of closing, or intended fraudulent company shutdowns met a politicized and well-organized workforce. These processes began with the occupation of the bankrupt enterprises, continued with the resistance of the workers who refused to leave their workplaces, facing attacks from their former owners (including eviction attempts, police raids, persecutions, etc.), and ended with the start of worker-run production. This was summarized by the ERTs movement with the motto “occupy, resist, produce”. The weak response of the trade union movement also played its part, together with the low expectations for change. In this context, the occupation of the companies by the workers was considered as the only alternative to preserve employment (Rebón and Salgado, 2009: 1).

It is also worth pointing out that practices of taking over workplaces by employees or people occupying land or property

have a long tradition in Argentina (Vieta, 2013: 7). This tradition refers to spontaneous activity as well as radical bottom-up union struggles. ERTs have also been influenced by bottom-up, horizontalized social movements that emerged throughout the 1990s and the 2000s in Argentina¹¹.

In the 1990s, resistance to neoliberal adjustment programs produced a new cycle of protest in Argentina. After the so-called *Santiagazo* in 1993, several rebellions and mass mobilizations emerged across the country¹². In many places, they evolved into unemployed workers' movements informally called *piqueteros*. Many of them took the form of barricades or blockades on national and provincial roads, where people started to engage in direct forms of decision-making. Because of this, “these early rebellions remain significant because they represent, in the memory and imagination of Argentinians, the rejection of systems of representation, in favor of direct action and other forms of democracy” (Sitrin, 2006: 8).

The popular revolt of 19 and 20 December 2001 was also one of direct democracy and direct action (Sitrin, 2006: 10). This event precipitated the birth of hundreds of neighborhood assemblies involving many thousands of active participants. People in the neighborhood assemblies met to try new ways of supporting one another and meeting their basic needs¹³. The unemployment workers' movement, the neighborhood assemblies movement, and a widespread barter network (known as *clubes de trueque*) shaped a context in which many social organizations undertook strategies linked to direct action and to the decentralization of conflict (Calloway, Colombari and Iorio, 2013: 3).

4. Current dimensions and indicators of the ERTs in Argentina

Today, the socio-economic context of Argentina has changed substantially compared to the acute national crisis around the turn of the millennium. Nevertheless, ERTs have shown economic sustainability after the crisis of 2001 and they are continuing to emerge (Rebón and Salgado, 2009; Programa de Trabajo Autogestionado, 2013: 3; Ruggeri, 2014: 7).

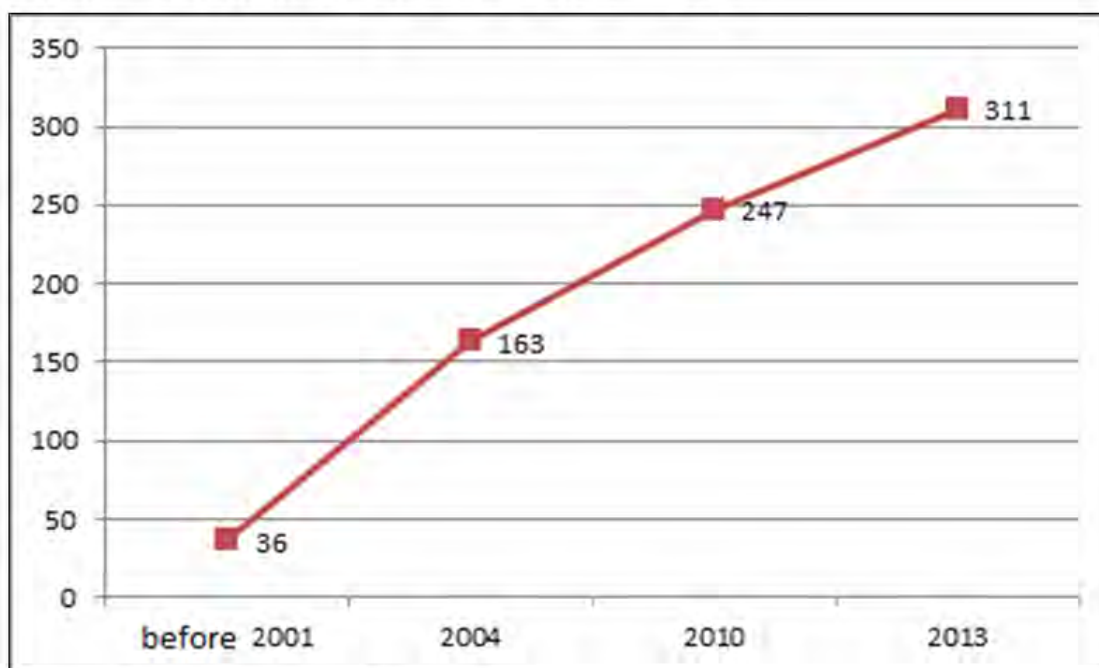
Taking-over a bankrupt company became a widespread strategic instrument to counter bankruptcy or closure of companies. To consider the development of the ERTs, we will discuss the following indicators:

Number of ERTs

In late 2013, more than a decade after the big wave of enterprise “recuperations”, there were around 311 ERTs¹⁴. Between 2010 and 2013, 63 new companies joined the ERTs¹⁵ (see Figure 1).

Figure 1 shows the development of the amount of worker-recuperated enterprises from the beginning to the present. The growth in the number of ERTs after the crisis of 2001 contrasts with the widespread idea that they are just a product of the crisis. Not only new cases have emerged, but existing cases have continued over time, which indicates a low rate of closure¹⁶.

Figure 1. Number of ERTs 2001 - 2013

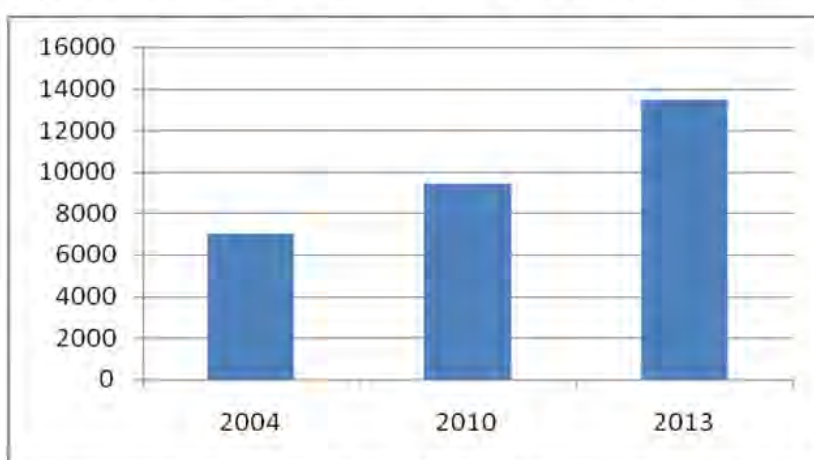


Source: Ruggeri, 2014: 11

Number of workers

Parallel to the increasing number of ERTs, an increase occurred in the number of their workers. In 2004, the ERTs had less than 7,000 workers. In 2010, this number had risen to 9,400 and by the end of 2013 to 13,462¹⁷. Between 2010 and 2013, 2,644 new workers joined the ERTs (Ruggeri 2014: 14). This growth is due to the emergence of new ERTs and to the internal growth and the incorporation of new workers by the existing ERTs¹⁸. In 2013, the average number of workers per ERT was 43.84 (Programa de Trabajo Autogestionado, 2013: 2; Ruggeri, 2014: 13).

Figure 2. Number of ERTs members



Sources: Ruggeri, 2011: 61; Ruggeri, 2014: 7

Distribution in the industrial sector

The metallurgy industry is the most important sector within the ERTs, with a presence of around 20%, followed by the food and meat industry, which together account for another 20%. Other notable sectors are the graphic and textile industries. The rest of the worker-recuperated enterprises are distributed in a wide range of sectors: plastics industry, commerce, chemical industry, wood industry, leather industry, health or education services, etc. (Ruggeri, 2014: 11).

The typical company profile of the ERTs

Most ERTs belong to the manufacturing sector and statistics show that they had existed for approximately forty years. At their peak, they employed between 45 and 100 workers before the takeover. These workers were usually unionized or organized in political groups.

In the last two decades of the 20th century, these enterprises were in continuous decline, because they suffered severe capital destruction in combination with increased competition that resulted in layoffs of many of their employees (Ruggeri, 2011: 43).

Formal and legal structure of the ERTs

To take over the enterprises, the workers followed a similar sequence of steps: occupation followed by the formation of a workers' co-operative. Therefore, it was often necessary to negotiate an interim arrangement with the owner or judge until expropriation was legalized (Fajn and Rebón, 2005).

The struggle for legalization of 'recuperations' is a key to the success of the process. Without it, the workers face the risk of eviction and unclear legal status hinders productive operations. For this reason, about 95% of the companies¹⁹ have chosen the workers' co-operative as a legal structure (Fajn and Rebón, 2005). It is the legally valid form that best suits the self-managed administration of the ERTs. In addition, it enables the workers to receive subsidies and tax reductions or other public support and the legal permission to continue to operate. Co-operatives can be the beneficiaries of an eventual expropriation law, and consequently they can manage the machinery and other assets of the company, without inheriting the debts incurred by the former owners (Ruggeri, 2011: 33).

In 2011 the Argentinian Bankruptcy Law was amended. Through this amendment, employees of a bankrupt enterprise, organized as a co-operative, may request the bankruptcy judge to order the continuation of the debtor's business and the suspension of foreclosure actions. The workers organized as co-operatives are allowed to participate in the bailout through their compensation, taken up to 100% of its amount²⁰. However, even after the new bankruptcy law, the percentage of ERTs who received the definitive expropriation is still low (Ruggeri, 2014: 23)²¹. Before and after this law reform, workers had traversed a complex path to

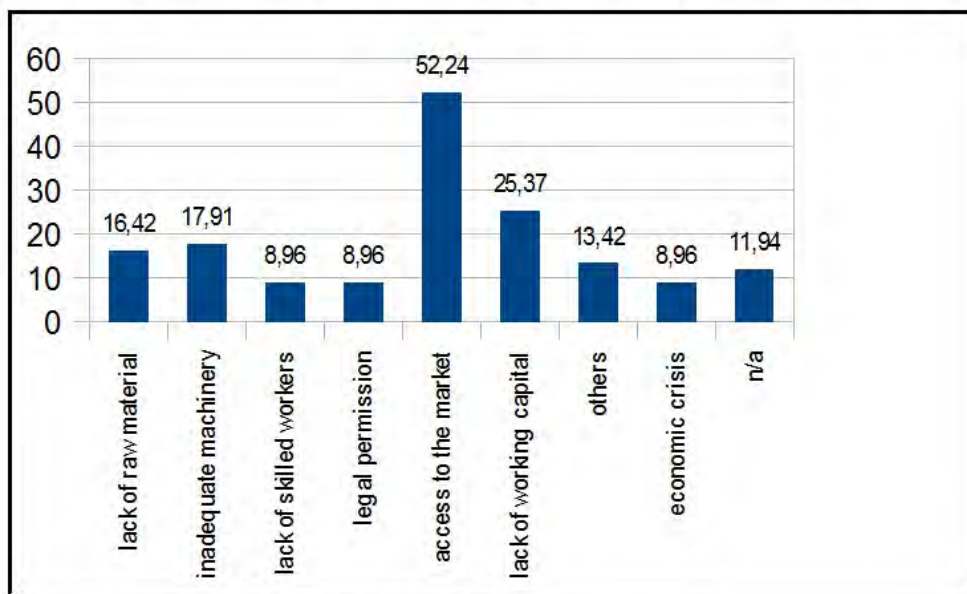
gain control over the companies, including demonstrations and negotiations with different branches of the government (judiciary, legislative and executive).

Production rate and installed production capacity

By and large, the relationship between production and installed production capacity is relatively low. Few companies have been able to achieve the production levels that correspond to its potential capacity or, in the service sector, to the previous level of activity (Ruggeri, 2011:45).

At the time of the occupation, the companies' workers who wanted to continue with the production faced very unfavorable conditions. A high percentage (90%) of ERTs emerged from bankruptcy lawsuits and were confronted with desolate infrastructure²² and the necessity to implement new technologies. Other difficulties consisted in training workers for new tasks, primarily at management and administrative levels. Access to niche markets that had served the previous company or the generation of new ones also proved to be problematic. ERTs usually had restricted budgets and thus faced difficulties in the payment chain and in marketing, among other things. In capitalist companies, this scenario would have required a strong investment, something that is beyond the reach of a newly created self-managed company (Programa de Trabajo Autogestionado, 2013: 4, Ruggeri 2011).

From the workers' point of view, it is possible to identify several causes of low productivity. The main ones are production capacity constraints through scarcity of production factors and failed integration into the market, along with difficulties of capitalization (see Figure 3).

Figure 3. Workers assessment of causes for low production in ERTs.

(Source: Ruggeri, 2011: 48)

Outsourcing as a working method

ERTs very often receive raw materials and supplies needed for production directly from a customer. In some cases they also receive financing to purchase it. The ERTs sell to their customers the service of transforming these materials, their knowledge, and the use of machinery and tools. The marketing, distribution and resale of these products are the responsibility of those who commissioned and paid for the outsourced work (Balladares, 2012: 2).

This modality of outsourced work (“trabajo al fa on”) was adopted by a large number of worker-recuperated enterprises (about 50%)²³, as it is often the only way to restart production due to the lack of financial resources. This type of work has been presented mainly in the initial stages of restarting the production and also in the industries in which access to a huge amount of capital would have been necessary (Ruggeri, 2011: 52).

However, this form of production shows problems. Firstly, it only generates low earnings. Secondly, the characteristic of self-management of these companies is restricted, as ultimately they end up forming a link in the chain of production of another company that decides what, how, and how much is produced, and how it is commercialized. For this reason, a commissioner is understood to be an “external owner or boss” (Ruggeri, 2011: 52). As Fajn and Reb n (2005) point out, the rigidity of the organization of the work process can become one of the most significant obstacles in the development of collective management and self-managed democratic practices.

At the same time, ERTs also engaged in cross-sector vertical integration strategies in which different worker-owned companies in certain economic sectors share resources, markets and expertise in order to eliminate the pressures of capitalist competition

(Giuffrida, 2011). In this way ERTs have developed solidarity networks such as the "Red Gráfica"²⁴. This solidarity production can be seen as an alternative to outsourcing production to other capitalist or co-operative enterprises.

Orientation to market and trade relations between ERTs

ERTs are undoubtedly related to the formal economy and have a high insertion in value chains formed by traditional companies. The need for reinsertion in the market has prevailed over the possibility of forming an "alternative market" in the sense of creating a "parallel" market by ERTs that exchange their products (Ruggeri, 2011: 55).

To analyze the level and type of participation in the market, identifying the suppliers and customers proved to be a useful indicator. The level of continuity faced by the companies before and after workers' management can be measured through the network of trade and financial relations. This indicator shows that ERTs still could not generate an alternative market: only 16% are being supplied by other worker-recuperated enterprises and only 13.58% have customers from other ERTs (Ruggeri, 2011: 56).

Salaries

Salaries are a subject of fierce debate, especially if the wages or "cash withdrawals" must be equal or not. In 56% of the worker-recuperated enterprises, an egalitarian approach to income distribution is applied (Ruggeri, 2011: 84)²⁵.

In companies that do not follow an egalitarian approach, it is essential to determine the magnitude and reasons for

the wage gap, as they can function as indicators of the level of job hierarchy. In terms of magnitude, only 6% of ERTs claim they have differences greater than 75% between the highest and lowest pay, while in 53% of the cases the difference is less than 25%, with an average of 33% overall. Reasons for wage differentials vary: different functions (41%), number of hours worked (27%), differences in labour categories (18%), age (17%), and other reasons (9%) (Ruggeri, 2011: 86).

Management Structure

Undoubtedly, the hallmark that defines ERTs is their collective management. Although almost all ERTs adopted the formal framework of a co-operative, they are not all organized in the same way. The fact that an ERT is recognized as a co-operative by the state involves a set of regulatory mechanisms governing its operations. In this kind of co-operatives, the decision-making occurs through two bodies: the board of directors and the assembly of the co-operative members. The vast majority of the ERTs delegate operational functions to the board. Due to the characteristics of these functions, it is not practical to deal with them in assemblies²⁶. The board often plays the role of an administrative authority, but the delegation of functions does not make it necessarily equivalent to a traditional board of directors.

The frequency of assemblies varies according to the type of decisions that are taken by them, but in any case, the frequency is high and the types of decisions that are made there are considered relevant by the workers²⁷. Despite the many variations and gradations of the relationship between the assembly and the board, it is mainly characterized by a preponderance of

direct democratic processes through the collective body, rather than by its representative character (Ruggeri, 2011: 75).

The composition and rotation of seats on the board reflects a double phenomenon. On the one hand, there seems to be a relatively low level of rotation²⁸. On the other hand, it should be noted that in its composition there is no automatic transfer of pre-existing leaderships or hierarchies to the workers' management²⁹. This leads to the conclusion that a change in management happens through the access of plant workers to management duties and to the board, indicating democratization of decision-making within the companies (Ruggeri, 2011).

To measure the degree of democratization of worker-recuperated enterprises, a further aspect needs to be analyzed. It remains crucial to determine whether all workers are members of the co-operative or not. Workers' co-operatives are bound by the Argentinean law to involve all workers. However, about 10% of workers are not members. Among these 10%, 45% are in the process of evaluation, 5% are interns and the remaining 50% are "hired" workers (Ruggeri, 2011: 79). This should not necessarily be read as an incipient formation of an employer relation among workers – but it also shouldn't be dismissed. In many cases, these workers didn't become members of the co-operative because they extended the trial period beyond the six regulatory months, they have temporary contracts, or because they only provide certain services, such as repairs, maintenance, cleaning, etc. (Ruggeri, 2011).

Relation with the current government

Since May of 2003, Nestor Kirchner (2003-2007) and his wife Cristina Kirchner (2007-present) have governed Argentina³⁰. The relation between the ERTs movement and the current administration has been ambivalent and with tensions. On the one hand, it must be pointed out that the Argentinian state allowed business occupations to take place. State support has even assisted the survival of the ERTs: 85% of the ERTs affirm that they have received some sort of subsidy, technology upgrade grants, legal assistance, or other state-sponsored assistance (Ruggeri, 2010: 70-71) and the main source of these subsidies and assistance came from the national government (Ruggeri 2010: 71) rather than the provincial governments. The 2011 Bankruptcy Law, promoted by the national government, facilitates the continuation of production activities and also gives priority to workers in order to make offers to gain the control of the bankrupt company.

On the other hand, state programs and assistance have been criticized. Firstly, they are fragmentary and incoherent with respect to countrywide policies (Vieta, 2012: 410). Secondly, these policies, together with the granting of state subsidies to ERTs could have depoliticized workers' stated aims of autonomy, self-management and solidarity. It is claimed that these policies and subsidies partially demobilized the movement as a political force (Dinerstein, 2007). In addition, their legal status is often problematic. Even under the new Bankruptcy Law (2011), few courts have recognized workers as legal proprietors of the bankrupt companies³¹.

5. Challenges and prospects

To consider the challenges and perspectives that are presented to worker-recuperated enterprises, the analysis will focus on the evolution of work process organization and the relationship between labour and new forms of horizontal organization, with regard to democratization of decision-making processes within this type of companies.

5.1 Working process

To discuss the challenges and prospects of the ERTs, it is crucial to evaluate the changes in the working process. While it has radically changed the way in which business decisions are made, some authors (Ruggeri, 2010; Fajn and Rebón, 2005) argue that after several years of self-management, the organization of the work process has not been modified significantly. This lack of change may be considered in two ways. Synchronously (1) - relative to the rest of the companies that did not have "recuperation" processes and diachronically (2) - within the same ERTs, comparing the organization of production before and after worker self-management.

The lack of pressure in absence of the former bosses and the elimination of monitoring and control systems may have allowed greater discretion in managing the pace of work or the intensity of tasks (Fajn and Rebón, 2005). However, the authors find few differences between the ERTs and other companies in relation to the existence of fixed functions, fragmentation of tasks, repetitions of the same partial operations, etc. This can reveal a lack of widespread changes in the relation of workers and technology (machinery and equipment).

It is possible that adaptation to capitalist markets in which the ERTs are inserted and the need to comply with the rules and conditions that the market imposes explain this development. Additionally, the aforementioned phenomenon of outsourced work raises concerns about the possible establishment of ERTs as a link in the value chains of self-exploitation in the market (Carretero Miramar, 2010: 5).

Another explanation lies in technologies that largely condition the possibilities of reorganization of the work process. Workers have limited opportunities to incorporate major changes because they lack access to capital both for the productive operation and the modification of existing technology.

Following Fajn and Rebón (2005) it is possible to conclude that despite the disappearance of the main actors (both employers and most of the senior staff)³² who designed, maintained and implemented control mechanisms on the workers, the previous work organization is still preserved by other factors. The fact that the development and resolution of work organization is collective does not necessarily mean that the existence of strategic positions are removed. For example, 67% of ERTs have managers or department heads with responsibilities that are set according to the criteria of having a higher capacity or according to the work experience recognized by the group of workers (either by assembly or by other workers) (Ruggeri, 2011: 84).

The analysis of the subsequent evolution of organization of production is not a minor issue. It is true that the transformation of organization implies a

great difficulty and is full of constraints the workers have to face. But here lies the possibility of overcoming the mere maintenance of jobs and the possibility of generating a different logic of production and a different relationship between workers (Ruggeri, 2010). As Fajn and Rebón (2005) point out, the rigidity of the organization of the work process can become one of the most significant obstacles for the development of collective management and democratic self-management practices, because modifications in the organization of the work process directly affect the control strategies, the restructuring of manual and intellectual work, the levels of discretion, and the autonomy of workers.

5.2 Management and democratization

One other big challenge that ERTs face is the level of democratization of internal relations within companies. Different variables such as income distribution, the incorporation of new employees and hierarchies in decision-making processes can indicate inequalities that endanger, reduce or even block the development of worker self-management.

One approach to analyzing this relationship is to look at the tensions between self-management and delegation as Fernandez and Borakievich (2007: 2) have proposed. To consider this relationship as a form of tension shows that collective logic of self-management is a form that has different dynamics and distinct grades of confrontation, in contrast to a logic of representation. This tension in its extremes signifies that the development of self-management can be hindered by the expansion of delegation and representation, as well the other way around, representation is limited when an expansion of self-management occurs (Salgado, Kasparian, Hernández, Díaz

and Ferramondo, 2012).

Worker self-management as a form of organizing a co-operative means that decisions are made collectively in a participative and democratic way. All workers and members of the co-operative can participate in a deliberative process, articulate their arguments and make decisions collectively, which are central elements of all ERTs (Ruggeri, 2010: 71). On the one hand, the basic democratic structure of the ERTs does not guarantee that the deliberative process is advanced nor that it is applied to all fields in general. On the other hand, Ruggeri (2010: 73) proved that the general assembly still represents the main decision-making body of the worker-recuperated enterprises and that the most important decisions are made there. In contrast to Ruggeri, some authors (Salgado et al., 2012) note an increasing tendency of delegation to special groups of workers and managing bodies. For these authors, the assemblies, instead of functioning as decision-making entities, become mere instances where information is socialized and where already established and defined decisions made by the managing teams are communicated.

This phenomenon of delegation to a certain group of workers is enforced especially within ERTs that have low levels of job rotation in administrative and managing tasks, with no policy to revert these tendencies. The growing tendency of delegating decisions to administrative bodies is leading to more institutionalization and it establishes the administrative bodies as the place where decisions have to be made. Salgado et al. (2012) warn about the emergence in some cases of a new figure, the so-called "general administrator".

Additionally, the low rotation in administrative tasks and positions leads to a separation within the work structure between one group that is acquiring new forms of administrative knowledge and capacities for the co-operative management, and another group of those who are separated from this knowledge. This management or administrative knowledge, if it is not widely spread or multiplied through rotation generates social inequalities and hierarchies, as Salgado et al. (2012) have shown.

Another process where possible inequalities can be identified lies in the incorporation of new associates into the co-operative. The increase of production and sales often makes it necessary to employ new workers. Not in all cases are these new workers also incorporated as new members of the co-operative. This distinction between workers who are equal members and the workers who are not members can have harsh consequences, because non-members can't access administrative positions or, in some cases, can't vote and participate in the collective decision-making processes.

One further indicator for internal hierarchies is the distribution of income and profits. Fernández, López, Borakievich and Ojám (2008) found that the criterion of equal income distribution was mostly used in companies with low-level of production or profits. Rebón and Salgado (2008: 17; 2009: 8) argue that these inequalities are due to the absence of an initial conflict with the old management or owners. According to these authors the intensity of conflicts and struggle that a worker collective goes through in the founding of an ERT are correlated to ensuing practices of pay equity (Vieta, 2013: 55). ERTs with a low level of conflict as well as small scale

organizational change very often maintained the traditional unequal income distribution, for example through the perpetuation of the work process differentiation as justification for income differences. In contrast, in ERTs where ruptures with the previous organizational culture happened, the equal income distribution is widely used and applied as a result of the highly conflictive processes and struggles necessary to take over the company. These cases show that after a first phase of struggle and precarious functioning, these huge conflicts constitute a more social and egalitarian orientation for the co-operative.

All these elements promote the consolidation of a dichotomy between two different groups that express and reproduce processes of social inequality, probably not compatible with the egalitarian experience of "recuperation" and workers' self-management. But there are different ways that this process could be limited.

The legal form of a "co-operative", in combination with the social validity that this legal form and its realization as an organizational culture provide, are obstacles for pure capitalist development (Salgado et al., 2012). The common history and the shared experience of collective struggle and conflict present themselves as forms of self-limitation and moral guidelines in the way they promote egalitarian elements like unity and cooperation among the workers. Rebón (2007:100) noted that these shared experiences constitute a founding story for the co-operative that is part of the collective memory even if it is not always directly present. Therefore, they can diminish or constrain asymmetries or the development of hierarchies.

The continuing importance of horizontal assemblies can also be seen to advance representation as well as pose another limit on future inequalities. Here, inequalities and hierarchies are brought back to the collective discourse, where arguments, justifications, and collective deliberation can take place, and where unjust hierarchies and inequalities need to be explained or justified in front of an audience. In this way, assemblies can serve as a space for critical reflection where it is possible to reduce and question hierarchies, forms of representation, and other forms of inequality. Evidence shows (Fernandez and Borakievich, 2007: 2) that assemblies, where decisions are collectively made without delegation or hierarchies, are a necessary condition for

self-management.

One last equalizing factor should be mentioned: the democratic circulation of information. The degree of free circulation of information is directly related to the democratization of the organization. The assembly is one of the formal spaces for sharing and multiplying information and communication. In this sense, the assembly cannot just be reduced to a place where already made decisions are communicated and presented. Rather, it can function as a space for communication and deliberation that can lead to collective decisions, and in this sense the assembly can be understood as a democratizing space (Calloway, Colombari and Iorio, 2013: 41).

6. Conclusion and perspectives

According to presented considerations, ERTs stand at a crossroads. They are involved in commercial networks and productive value chains, where they are just another element within a capitalistic supply chain. In this sense, the worker-recuperated enterprises are confronted with endemic problems, such as the dependency on technological advancement and capital investment to survive on the market. They have to secure their financial survival under the market-driven pressures that include productivity and efficiency standards. To avoid or neglect these market-imposed necessities and pressures is not sustainable in the long run.

At the same time, ERTs have to be aware of rising inequalities and the potential dangers of new social hierarchies within their workforce. This can lead to new hierarchical positions and structures that can block democratic decision making

processes. The increasing delegation of power to co-operative members must be accompanied by some kind of planning for succession, rotation and replacement of directors or board members.

In such a context, it is very important that worker self-management can invent and develop new forms to counteract the inequality tendencies such as circulation of information, job rotation and democratic decision-making spaces. One key method to reach this aim might be found within the organization of the work process. Changes in the organization of the work process have a direct impact on the strategies of discipline and control, and on the division of intellectual and manual labour as well as on the discretion and autonomy of the workers. A new approach to the work process could affect the internal level of democracy and provide better workers' self-management.

Notes

- ¹ With “empresas recuperadas por sus trabajadores” (worker-recuperated enterprises or ERTs) we consider enterprises that were taken over by their workers and are now collectively managed by these workers. ERTs were previously privately owned companies with hierarchical structuring. In these companies, the functions previously performed by employers and managers are performed by all workers through a democratic management organization, and the responsibilities and tasks are distributed according to collective criteria and collective decision making processes (Ruggeri, 2011: 9; Ruggeri, 2012: 7). For a further analysis of the term “recuperar” or its English translation “recuperating” see for example Vieta (2012: 490).
- ² In 1977 the external debt of Argentina reached 11.7 billion U.S. dollars. At the end of 1983, it reached 45 billion U.S. dollars. In 1999, it reached 144.6 billion U.S. dollars (Gambina et al., 2002: 99).
- ³ Patroni (2000: 13) indicates that president Menem had successfully introduced a set of laws and executive decrees that radically changed social and labour rights in Argentina. The right to strike was curtailed, salaries in the public sector were reduced, a number of precarious forms of employment were legalized, salary increases were negotiated according to increments in productivity, and collective wage negotiations were eliminated to transform it into negotiations per company, while initiating a review of all collective wage agreements.
- ⁴ During this period, unemployment increased from 4.4% in 1976 to 18.3% in 2001 (reaching a peak of 21.5% in May 2002). Another fact referred to the course of unemployment refers to industrial employment: between 1989 and 2000 decreased 35% (EPH – INDEC cit. in Feijoo, 2003; Basualdo, 2006).
- ⁵ In 1999, the richest 10% of the population appropriated 37.2% of income, while the poorest 10% appropriated 1.5%. The richest 10% earn 40 times more than the poorest 10% and appropriated 48.3% of revenues compared to 1.3%. In that moment, 10% of the population (3.7 million) earned as much as the 90% remaining (33.3 million) (Benito 2000: 8-9). The Gini coefficient for the distribution of household per capita income increased from 34.5 in 1974 to 53.8 in 2002 (Gasparini, 2003: 2).
- ⁶ Poverty increased from 4.7% in 1974 to 35.4% in 2001 (reaching a peak of 54.3% in 2002); while destitution increased in the same period from 2.1% to 12.2% (reaching a peak of 24.7% in 2002). (Source: EPH - INDEC cit. in Feijoo, 2003; Basualdo, 2006).
- ⁷ In a context of long economic depression, in which thousands of people were laid off and wages and pensions were cut, the precipitating incident was the government's freezing of people's bank accounts. The money of these accounts was converted into a financial asset that would be held by the banks and used to secure payments to foreign investors, but that could not be accessed by the depositors (Sitrin, 2006: 8).
- ⁸ For example, a survey conducted in February 2002 indicated that 74% of Argentina's population had little or no confidence in the President, that 93% had distrust of legislative branch and 94% of political parties (Zovatto et al., 2003). It is worth pointing out the result of the parliamentary election of 2001, when “blank vote” and “not valid vote” reached 21.1%, while the turnout of votes decreased 27.1% (Abal Medina, 2004).
- ⁹ The most significant new trade unions in the 1990s were Movimiento de Trabajadores Argentinos (MTA) which emerged as a split in the CGT; Central de Trabajadores de la Argentina (CTA), which joined teachers' and state employees' unions and Corriente Clasista y Combativa (CCC) (Vieta, 2012: 203).
- ¹⁰ The first wave of ERTs in Argentina occurred in the 1950s, and the first cases of the current ERTs wave began in 1992 (Ruggeri, 2014: 6)
- ¹¹ For compelling accounts of Argentinian social movements during the 1990s and the beginning of the 2000s see Almeyra (2004) and Svampa and Pereyra (2004).
- ¹² These rebellions took place all across the country. The most important ones were in Santiago del Estero (1993), Cutral C -Plaza Huincul (1996 and 1997), Jujuy and General Mosconi (1997), Corrientes (1999), Tartagal-General Mosconi (2000 and 2001) and Buenos Aires (2001).

- ¹³ In each neighborhood, the assemblies work on a variety of projects. For example forming barter networks, creating popular kitchens and sometimes taking over buildings that they turn into community centers (Sitrin, 2006: 10).
- ¹⁴ Around 50% of the ERTs are located in the Metropolitan Area of Buenos Aires (Ruggeri, 2014: 8)
- ¹⁵ According to Programa de Trabajo Autogestionado (2013: 1), in November 2013 there were a total of 318 ERTs. This number barely differs from the estimates of the University of Buenos Aires from Ruggeri (2014: 7) used here.
- ¹⁶ According to a survey of the Argentinian government, there were almost no closures of these ERT (only 33) (Programa de Trabajo Autogestionado 2013: 3).
- ¹⁷ According to a report of the Argentinian government, in November 2013 the total number of workers belonging to ERTs was 13,440; according to estimates of the University of Buenos Aires, 13,462 (Programa de Trabajo Autogestionado 2013: 2; Ruggeri 2014: 8). The labour force in Argentina in 2013 was 19,092,526 (World Bank, 2015).
- ¹⁸ For example, by 2010, 77% of ERTs declared that they had hired new workers after they had taken over the company (Ruggeri, 2011: 66).
- ¹⁹ By 2010 95.3% of the companies surveyed had been constituted as co-operatives (Ruggeri, 2011: 34).
- ²⁰ In 2011, the Argentinian Bankruptcy Law No. 24522 was an amendment through the approval of Law 26684. The new Bankruptcy Law allows employees of a bankrupt company, who have established a co-operative to suspend the enforcement of claims that are filed by creditors for up to 2 years and ask the judge to appoint the co-operative as the successor to the debtor's management. The work serves as a guarantee credit to the continuity of the firm (Law No. 26.684, 2011).
- ²¹ By 2010, 63% of the ERTs had achieved expropriation laws in favor of the co-operative, and within this 63%, only 19% were definitive expropriation laws. After the 2011 Bankruptcy Law, only 16% of the ERTs achieved a definitive expropriation law and only 10% were benefited by the new law (Ruggeri, 2014: 22-23).
- ²² This includes cases where the former owner had destroyed or had stolen the machines and production units from the workplaces. In many cases the technological level of the machinery was obsolete.
- ²³ By 2010, 63% of the ERTs had achieved expropriation laws in favor of the co-operative, and within this 63%, only 19% were definitive expropriation laws. After the 2011 Bankruptcy Law, only 16% of the ERTs achieved a definitive expropriation law and only 10% were benefited by the new law (Ruggeri, 2014: 22-23).
- ²⁴ For example, Red Gráfica Cooperativa (Co-operative Graphics Network), is a second-level co-operative, formed in September 2007 by seven Argentinian co-operatives active in the graphics sector. Today, Red Gráfica comprises 18 co-operatives, 11 of which are the outcome of worker buyouts. This network encourages the integration of production, the application of business management tools, training, innovation, creativity and regular exercise of solidarity and democracy. The main objectives of Red Gráfica are the implementation of common strategies related to purchasing, warehousing, production, quality, research and development, human resources, training and development, strategic and operational planning, financing, sales and marketing, press, broadcasting and advertising. (ILO, 2013: 44). See Raffaelli in this volume.
- ²⁵ In turn, in 64% of the cases workers have the same workload (Ruggeri, 2011: 84).
- ²⁶ Only 8% of the companies surveyed affirmed making all decisions through the board. The same percentage of companies hold assemblies only once a year (Ruggeri, 2011: 73).
- ²⁷ 88% of ERTs do assemblies regularly (44% weekly and 35% monthly) (Ruggeri, 2011: 74).

- ²⁸ The conservation of managerial positions over a period reaches 67% of the cases (Ruggeri, 2011: 76)
- ²⁹ 63% of the board members belong to the production area, while only 19% belong to the administrative sector. The former trade union delegates compose 35% of the councils, and only 15% of the board members were part of the old hierarchical structure (either managers or bosses) (Ruggeri, 2011: 76).
- ³⁰ Nestor Kirchner and Cristina Kirchner were elected through “Frente para la Victoria”, the Kirchner-faction of the Peronist party (or Partido Justicialista), an Argentinian political movement based on the legacy of former President Juan D. Perón and his wife Eva Perón.
- ³¹ See section “Formal and legal structure of the ERTs” above.
- ³² 63% of the board members belong to the production area, while only 19% belong to the administrative sector. The former trade union delegates compose 35% of the councils, and only 15% of the board members were part of the old hierarchical structure (either managers or bosses) (Ruggeri, 2011: 76).

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Joining Workers' Co-operatives: The Case of the Argentine Co-operative Graphic Network Federation

by Paola Raffaelli

Abstract

As a consequence of the economic crisis that took place in Argentina by 2002, co-operatives re-emerged as a way to tackle unemployment. Within this context, many organizations built up co-operation links with different social actors to obtain mutual benefits.

The aim of this paper is to understand the benefits that workers' co-operatives gain by being associated in a federation. The research has shown that the Co-operative Graphic Network Federation supports co-operatives by facilitating the distribution of resources and sharing of

knowledge, both necessary for their success. The Federation also develops collaborative strategies, solidarity actions and supports self-management.

This research is framed within qualitative studies with case study as methodological approach. The main methods used were semi-structured interviews and non-participant observation.

Keywords: Worker co-operatives; reclaimed factories; social economy; association for work

1. Introduction

The social complexity that exposed the Argentine economic, social and political crisis of 2001 resulted in the resurgence of social mobilisation and the re-emergence of non-traditional economic forms. Workers' co-operatives appeared not merely as an alternative to address the problem of employment generation, but also as a form of essential social network for those who were in personal crisis. Co-operatives break the hegemonic order because they seek to produce a different reality beyond work, and thus have the potential to change the entire society. Consequently, organisations that bring co-operatives together also formed in this post-crisis environment.

This research is focused on the study of the Co-operative Graphic Network

Federation (*Federación Red Gráfica Co-operativa*) and is grounded on the assumption that associative work generates management forms based on solidarity and co-operation and social interactions based on rules of collective reciprocity. Because of the nature of its commercial activity the Graphic Network plays a key role in the consolidation of co-operatives, permitting the transmission of knowledge derived from the self-managed experience. Furthermore, this generates horizontal linkages, a space for socialisation and consolidation of groups, and the development of strategies for sustaining the takeover and continued management of co-operatives. These actions are focused on people and not on capital and their development is based on the collective efforts made by the actors themselves, who become the centre of

the experience (Castreje Suárez, 2005).

Seeking to understand the benefits of co-operative association in economic and social terms, this paper is divided into six sections. The next section provides a historical contextualisation of the resurgence of workers' co-operatives

during the 2001 economic crisis in Argentina. The third section discusses the associativity for work, its dimensions and the role networks play in developing and supporting co-operatives. Methodology is described in section four, followed by research findings. Section six concludes.

2. The context: economic crisis in Argentina

In 2002, Argentina was in one of the greatest economic, social and political crises of the twentieth century as a consequence of the neoliberal doctrine imposed on the country's economy during the 1990s. Deregulation of the labour market and economic recession undermined job security and generated mass unemployment (Lindemboin, 2004). After ten years of such policies, unemployment rose to about 25 % (Grugel and Riggiozzi 2012) and poverty rates stood at over 45 %. Neoliberalism also triggered radical changes in the social structure as many institutions followed the market logic (Danani and Lindenboim, 2003). The strong economic deregulation and the weakening of government structures further deepened social exclusion.

Labour market changes led to the disintegration of the working class (Castel 1997) and caused the formation of a range of atypical employment forms (De la Garza Toledo 2007). The de-socialisation process that took place in Argentina by the end of the 1990s (Wyczykier, 2007) impacted on households, which had to restructure their life strategies, increasing their dependence on social security benefits, taking on second jobs and participating in informal economic activities (Forni et al., 2001). One of the responses arising

out of the most seriously affected social sectors was the co-operative firm, or the "recuperated companies".

In this context, reclaimed companies arose as an alternative to loss of employment. Associative and co-operative organisations were created and many workers took on a different labour relationship from the capital-wage labour. In this sense, reclaimed companies were a defensive strategy in employment conservation and construction of social relations, practices and institutions which re-valued workers' action (Deux Marzi, 2007). Even though co-operative experiences have scarcely been considered or subjected to academic analysis, a historical perspective demonstrates that their evolution has been associated with the vagaries of the economy during the twentieth century in Argentina. The crisis in the early 2000s showed an unprecedented resurgence of self-managed enterprises and, although the country is not in crisis any more, their numbers are still growing. Finally, although not numerically significant, their relevance is derived from their political, economic and social impact.

The significance the co-operative movement had in Argentina is determined by historical particularities. Between 1880 and 1940, two waves of immigration

doubled the size of its population (Novick 2008), coming mainly from Italy and Spain but also from Germany, Wales and Poland among others. The Argentine working class was influenced by the ideologies and histories of immigrants, and was shaped by political thoughts such as anarchism, socialism and communism, and the concept of social organisations, like mutual aid organisations and co-operatives (Camarero 2007; Godio 1987). In this sense, the co-operative is not a novel form but a resource the Argentine working class deployed in crisis situations.

Twelve years after the crisis, Argentina has recovered significantly. The country's

economy has grown steadily in the last decade and national industry experienced a record growth. Reactivation of the economy reduced unemployment, currently at 8.5 %. GDP grew over 8 % each year from 2003 until 2011, with the exception of 2008 and 2009 when the international financial crisis affected the country's economy, and in 2012 and 2013 it grew 0.9 % and 3 % respectively. GDP per capita has tripled, increasing steadily from €3.289 to €11.087 between 2002 and 2013 (World Bank 2013; Kostzer 2008). This development was achieved through internal financial mechanisms, as external funding was denied.

3. Theoretical perspectives about Social and Solidarity Economy

3.1 Associativity and its dimensions

A decision to form a co-operative as an association of members is understood in two opposing ways, referred to as demand and supply side motivations in the existing literature. The former states that co-operatives (and social-solidarity economy more widely) is a consequence of dissatisfaction of needs and intolerable conditions that the prevailing economic system is unable to resolve (Forni, 2002; Coraggio, 2004; Hansmann, 1986). The latter focuses on the positive action of social actors regardless of market or state failures. The supply driven development of co-operatives is due to ideological or intrinsic motivations about building different social relationships (Salamon et al., 1999; Zamagni and Zamagni, 2010). Through the lenses of these two different understandings, it is possible to conceptualise different historical experiences in co-op development. Based on our empirical research and supported by the analysis

of the Argentine context, co-ops formed in Argentina before 1976 can be understood mainly from the supply side theory, whereas reclaimed factories conformed immediately after the economic crisis of 2001 from the demand side.

“My father had a farm and he and his neighbours worked co-operatively. That was co-operativism; it was based on a social relationship. However, our experience was different. We did not want to be co-operativists, we were pushed through; the system pushed us through it. We lost everything and forcibly had to become co-operativists.” (Interview conducted with a worker from Co-operativa de Trabajo El Sol)

Specifically, association for work is based on the non-market economy principle and proposes collective autonomy from both the capital and the wage-labour relation (Laville and Sainsaulieu, 1997; Albuquerque, 2004). In contrast to

capitalist productive organisations, worker co-operatives' legitimacy is based on the construction of a social bond and a system of socially agreed rules rather than the production of goods and services (Haeringer et al., 1997). Their rationale lies within the work community, founded on highly symbolic reciprocal links that determine behaviours and dilute boundaries between individual and collective interests (Gaiger 2004). In turn, solidarity is the basis of the functioning and sustainability of these experiences (Razeto 1987). Association complements co-operation as a social space mediated by respect, trust, reciprocity and members' involvement (Haeringer, et al., 1997, Albuquerque, 2004). Associative work organizations are made up of three dimensions: solidarity, co-operation and self-management (Laville and Sainsaulieu, 1997).

For this particular research project, solidarity was analysed through the values in which co-operatives form networks; co-operation was assessed through the material and symbolic resource distribution and circulation within the network; and self-management was identified through the decision-making process. These three dimensions are interconnected, making it very difficult to refer to one apart from the others.

Solidarity refers to inward and outward group relationships. It refers to both the relation between 'me and us' and 'us and them'. It considers the relation between freedom and individual autonomy and the individual willingness to subordinate this autonomy to a group (Stjernø, 2004). It comes from the free will of members to come together to achieve collective goals, which benefit both the group and the individual. Therefore, associative relationships, through solidarity, unify two

antagonistic areas for social sciences: society and community (Caille, 1998) as they take into account the social and communal principles (Laville and Sainsaulieu, 1997).

Self-management creates horizontal and co-operative social relationships, which are based on democracy (Albuquerque, 2004; Azevedo and Gitahy, 2010). Three dimensions of management can be identified: economic, social and political. In the economic sense, the co-operative is not dominated by the capital wage-labour antinomy. In social terms, co-operatives do not respond only to an economic logic; they have to balance their economic and social aims (Michelsen, 1997). In the political aspect, self-management is a form of horizontal and democratic management in which all the co-op's members make decisions autonomously and equally (Maldovan and Dzembrowski, 2009).

Co-operation has been defined as a work form in which people come together according to a plan in the same production process or in different but connected production processes (Marx, 1999). In the absence of the capital and wage-labour relation, co-operative relationships rely on work cohesion and negotiation skills. Co-operation is, thus, the result of social relations established since the beginning of the experience, which are negotiated regularly regarding the means and objectives of the organisation (Bunel and Angelico, 1989; Vuotto, 1994).

3.2 Blooming together: co-operative networks

To achieve both social and economic goals, co-operatives are supported by internal processes, such as group

cohesion, democratic decision-making process, and external ones such as networks (Bucolo, 2006) from where social capital is created. These two types of bonding social capital emerge from people who share similar identities as an expression from civil society (Hulgard and Spear, 2006). Networks are a product of formal as well as informal activities and can operate at local, regional, national and international level (Pearce, 2006).

Different types of networks have been identified among scholars according to the tightness of the links among their members and their hierarchical or horizontal shape. According to Menzani and Zamagni (2009), five types of networks can be identified. Federations mainly take a horizontal shape and its weight decreases over time. Vertical networks refer to the links between co-op food producers and co-op retailers, and financial networks provide economic aid to its members but also for non-members. Complementary networks are those which promote interaction among their members in order to produce synergies and integrations while preserving each member's autonomy. Finally, network of networks work as umbrella organisations providing representation and system governance based on ground level participation and top decision-making.

Two international successful networking experiences provide a comparative perspective for this study. Mondragon Corporación Co-operativa (MCC) is a Basque network formed more than 50 years ago based on inter-co-operative self-management, solidarity and technological innovation. In 2008, it was made up of 106 organisations comprising 92,773 workers, with a total invoice of €15.6 billion (Azevedo and Gitahy, 2010; Bakaikoa et al., 2004). The co-operatives which are part of MCC belong to the industrial, financial and distribution sectors (Errasti et al., 2003). The other international experience is that of La Lega, an Italian network formed by the end of nineteenth century. La Lega has 5,000 worker co-operatives, 3,000 agricultural co-ops, 2,000 consumer co-ops, 5,000 housing co-ops and 2,000 mixed-forms co-ops (Smith, 2001). It aims to develop co-operatives and transmit and spread co-operative values in society.

These two networks differ by their respective functions. The MCC emerged as a solution to the lack of credit, the loss of labour rights and international trade restrictions (Azevedo and Gitahy, 2010); La Lega performs a paternalistic relationship with its members focused on political and public representation (Smith 2001). According to Menzani and Zamagni (2009) typology, MCC can be identified as a complementary network while La Lega is a network of networks.

Solidarity refers to inward and outward group relationships. It refers to both the relation between 'me and us' and 'us and them'.

4. Methodology

The focus of this research is the social construction of the associative phenomenon and the solidarity, co-operation, and reciprocity relations that are built as a result. For the purpose of this paper, a single case study approach was used (Baxter, 2008), focused on the Co-operative Graphic Network, to explore the values it is based on, the links with co-operatives, the distribution of economic and social resources within the Network and the decision-making process.

Methods used were participant observation and interviews. Participant observation assisted in interpreting actions within their own context (Bryman, 2001). Structured interviews were used

as a first-glance approach. They were conducted with gatekeepers (Neuman, 2010) in each worker co-operative regarding the relationship the co-operative has with the Network and their expectations of it. Data was quantified and a descriptive analysis was made. Three topics were identified from the interviews: the values they share, the resource distribution, and knowledge sharing. In-depth interviews were conducted with Network representatives as a way of knowledge construction and interpretative action that arise from the relationship among the agents (Robson, 2011). The purpose of using diverse methods was to generate different kinds of information for triangulation¹.

5. The case study: the Argentine Co-operative Graphic Network Federation

The Co-operative Graphic Network Federation was formed in 2003 from informal links among print co-operatives that belonged to the National Movement of Reclaimed Factories (*Movimiento Nacional de Empresas Recuperadas*) based on the international experiences described above. It currently consists of twenty-one co-operative-members and nine related ones, which employ more than eight hundred workers. Most of them are based in the Buenos Aires Metropolitan Area. Their co-operation contributes to the economic progress and welfare of the population and the territory where co-operatives are located and carry out their work (Gómez López, 2005). The Network is also linked to national associations, such as the Argentine Workers Co-operative Federation and international associations

such as the International Co-operative Alliance for the Americas (Pacenza and Raffaelli, 2011).

The Co-operative Graphic Network Federation is a productive and economic organisation that aims to ensure competitiveness and economic and social sustainability of its members. It was motivated by the need to strengthen the commercial area of each co-operative through a complementary production process to generate greater economic returns (Pacenza and Raffaelli, 2012). It is an interactive network that brings economic, political, social and cultural factors together and combines and maximises both economic and non-economic resources (Camagni and Gordillo, 2000).

"Nowadays, the Network operates as a larger co-operative. The idea of creating a Network was that, on our own, we cannot do anything. The idea was to get together to do business." (OSERA 2010, interview with the Network's president)

The Network was formed two years after the economic crisis when the struggles and institutional limitations were still evident. In this context, co-operatives formed before the crisis understood that they had to provide support to those in formation. While there was no immediate economic benefit for them, it was a way of spreading co-operative values. Thus, the Network was formed drawing on the collaboration and solidarity of self-management and workers' partnership organisations (Mance, 2004). The Network, as well as its members, is based on the statement of co-operative identity and co-operative values of "self-help, self-responsibility, democracy, equality, equity, and solidarity" (International Co-operative Alliance, 1995, cited in Novkovic, 2008).

The network is governed by an Administrative Council made up of five members' representatives and three employees: two in charge of administration and public relations and one in charge of sales. The board meets every week and the Administrative Council members are constantly in contact with the co-ops to know which one can take the new jobs. The Network should also consider the co-ops' balance between social and economic aims, so it does not interfere in their governance. Finally, they consider extremely important the political context and the support they have received from the government in the last five years.

"There are many economic and political decisions we make. Without Social

Economy Council or Government support it would be very difficult for us to carry on this project." (Interview conducted with a worker from the Network)

5.1 The values

The Network is based on the co-operative values: solidarity, co-operation, self-management and the development of internal and external social responsibility. The exercise of democracy and freedom are crystallised in the decision-making process of the network. The premise of "one person, one vote" or in the Network's case "one association, one vote" is central to their organisation. Management ethics regarding decent working conditions generate economic and social efficiency. Although this is intangible, real and concrete effects can be seen in the daily reality of those who work in co-operatives. Thus, they generate values with real consequences for their economies, which show the relationship between business efficiency and social co-operation.

"In workers' co-operatives, while work is on the production line, we are also producing democracy, liberty, decent work, education, fellowship, reconstitution of social bonds." (Official blog of Co-operative Graphic Network)

The most important contribution the Network made was to transform competitor organisations into collaborators. The Network's members distinguish the strengths of each co-operative and promote them in order to make these organisations complementary rather than fostering excessive competition. Both the co-operatives and the Network understand that by co-operating, they can achieve more in social terms than by competing to

achieve economic benefits.

"The Network seeks to strengthen each co-operative since it will only be strong if all co-operatives are as well. During the negotiation time, the client is not the main factor because co-operatives have a role beyond that." (Interview conducted with a worker from the Network)

Solidarity is the core of all relations within the network. Laville and Sainsaulieu (1997) distinguish three types of solidarity: philanthropic, peer solidarity and redistribution from government. These three occur within the network. The first is reflected through raw material donations and funding machinery purchases during the co-operative formation. Peer solidarity occurs through co-operative links, through the support the network provides and the willingness to help each other. Additionally, works and benefits are distributed solidarily (Menzani and Zamagni, 2009). This prevents co-ops from failing, and helps to secure employment. Finally, the network works as an intermediary between government and co-ops, supporting the members in securing public funding and benefits.

5.2 Resource distribution within the Network

The resource distribution within the Network is based on the needs of co-operatives. Weekly meetings of the Administration Council are used to exchange and solve problems based on the experience of other organisations. This is a method of benefiting individually from the collective experience.

The interviews with co-op representatives revealed different expectations regarding

the function of the Network: 42% mentioned cost reduction as one of their main concerns. Arrangements for collective purchasing had been made with paper mills before, which had allowed them to reduce the price of raw material by 20%. This reduction was reflected in the final price of the product. This agreement is no longer in place as it is no longer needed, although the Network still gives assistance for the purchase of raw material to co-operatives that are being formed or building up their client base. Regarding other expectations, 50% mentioned financial support. This dimension includes three areas: a contingency fund to support the organisations that are experiencing financial emergencies, a retirement fund, and government benefits.

Another means of distributing resources is the management of joint works. The Network allocates particular jobs during the 'dead time' of each co-operative, so as not to interfere with current jobs and to have the added benefit of new clients. These are generally distributed among co-operatives that have not had enough work during a given month, reflective of the Network's objective to provide support and assistance to members. The Network exhausts all efforts to prevent organisations from insolvency. The Network manages highly complex jobs, showing a strong commitment to work as a cluster. All actions carried out by the Network are based on co-operation and aim to generate equity among co-operatives, maximising resources and evaluating opportunities.

5.3 Knowledge sharing

Technical and associative training has been developed as knowledge sharing mechanisms within the Network in order

to support co-operatives. This allows knowledge circulation not only in technical terms but also social and collective. The more recently founded co-ops rely on the experience and expertise of the more established ones. Training varies depending on the context and needs of each co-operative. The first training on association is received at the time the company is reclaimed (for those co-operatives that emerged this way). This is general and broad, and is conditioned by the economic situation. In many cases, the Network assesses the struggling situation of a company and sends a representative to advise workers on how to form a co-operative. Thus, knowledge comes from the experience of those who have experienced that process and who understand the need for guidance. Then, training is requested by co-operatives according to the specific situations they face. It is generally done through The Argentine Workers Co-operative Federation or the Graphic Union.

The transmission of knowledge from other co-operatives is vital. The network provides a framework for support. Their local proximity operates as a determining factor for the bonds they build:

6. Discussion and conclusions

The aim of this paper was to understand the benefit that workers' co-operatives gain from being associated in a federation. It was shown that the Co-operative Graphic Network Federation supports co-operatives, facilitating the distribution of resources and circulation of knowledge, which are necessary for their success. The Graphic Network developed collaborative strategies, solidarity actions and self-management. Although the Network is a productive

“During the *INDUGRAF* takeover, *Chilavert* and *El Sol* participated and supported workers, since they are the nearest ones. During the takeover period, which can last more than six months, workers need presence, testimonials, and support. Thus, workers from other co-operatives belonging to the Network approach them, drink *mate*, chat, and try to calm the anxiety down.” (Interview with a working area of the Graphic Management Network)

Although this knowledge is not technical, it can be considered as part of their training. This vindicates the transmission of knowledge from practice and experience and shows work as a learning process that transforms the world and those who make it (Spinoza, 2006). The network has made agreements with the Gutenberg Foundation (*Fundación Gutenberg*), and the National Technological University (*Universidad Tecnológica Nacional*). At the Gutenberg Foundation, co-operative workers can attend courses on printing techniques, cost, budget and finance. The agreement with The National Technical University allows workers to obtain an undergraduate degree in Graphic Production.

cluster, its aim goes beyond economic benefits. Through their association, co-ops created social relations not dependent on the wage relationship.

The Graphic Network forms of management and organisation are constantly suffused with solidarity, co-operation and autonomy. Solidarity is the core element in co-operatives and this is what sustains the work. Social relations arising from self-managed work are

crystallised into concrete acts of solidarity, demonstrating that workers' co-operatives solve the immediacy of the lack of jobs while generating new social relations and reciprocal links. Thus, not only work but also membership of a collective is constructed.

Economic swings have an effect on the number and visibility of associative organisations, with evidence of an inverse relationship between economic growth and associative activity. Workers' co-operatives are both expressions of a crisis and ways of building a different reality. This includes social relations beyond those in the industrial sector. Workers' co-operatives fight and resist the structural issues concerning production relations, as well as ideological, cultural and educational factors. In turn, the links within and among co-operatives allow the

sharing of knowledge in different ways, depending on their social and political relations. Moreover, workers' co-operatives belonging to the Graphic Network generate common values and culture apart from work.

Exploring the concept and experiences relating to self-management in Argentina encourages us to rethink work relations. This should not be thought of in isolation and the nature of the capitalist system as a whole should be questioned. Consequently, the Social and Solidarity Economy emerges as an alternative paradigm to develop social relations. This 'other economy' is increasingly taking global significance and is built on the active participation of citizens, international co-operation, solidarity and economic democracy.

Notes

- ¹ "Triangulation refers to the combination of methodologies in the study of the same phenomenon. (...) It is largely a vehicle for cross validation when two or more distinct methods are found to be congruent and yield comparable data" (Jick, 1979: 602).

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The Practical Application of Co-operative Principles by Credit Unions

by Akis Kleanthous,
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Abstract

The paper discusses the findings of ongoing research aiming to understand the perceptions regarding the practical application of co-operative principles.

Despite what the literature suggests, the results of this research show that credit unions follow only two out of the six co-operative principles that were researched (“Voluntary and Open Membership” and “Co-operation among Co-operatives”), whilst they appear not to follow the principle “Member economic participation.” The research results for the remaining three co-operative principles (“Autonomy and Independence”, “Education, Training and Information” and “Concern for Community”) are not conclusive. The results could be useful to policy makers, professionals and researchers in order to assess the impact of these perceptions on membership numbers and level of loyalty.

Keywords: credit unions, co-operative principles

Introduction

In the light of the financial crisis of 2008, academic journals and other reputable media were examined, initially, in order to identify people’s reactions to the “failure” of the existing financial system. In this examination, two alternatives to the existing financial system – co-operatives and Islamic finance – were discussed, focusing on the former as it seems that they are well accepted by western societies and constitute a significant part of their economies.

However, it was noticed that credit unions did not take any steps towards filling in the gap that the financial crisis of 2008 had created. A possible reason identified was the possibility that credit unions have departed from their founding co-operative principles. To this effect, in September 2013, structured interviews were carried out with thirty credit union employees, aiming at understanding their perceptions regarding the practical application of the seven co-operative principles by credit unions in Cyprus (note that the findings for the second co-operative principle, “Democratic Member Participation,” are not yet available).

Literature review

Co-operatives are described as democratic, member-based organizations that exist to serve their members giving them “democratic rights of governance” (Spear, 2004b). Co-operatives are very important as much of the competitiveness, the economic success and the prosperity of Finland, Sweden and Switzerland are due to the co-operative businesses that operate in these countries (Birchall, 2009). Moreover, co-operatives seem to be resilient to the financial crisis as they did not stop lending to individuals and to small and medium-sized enterprises and because in contrast to investor-owned banks, co-operatives did not need to be bailed out (Ferri, 2012). Additionally, it seems that the mutual support arrangements among co-operative financial institutions, as in Cyprus, render them more stable than commercial banks (Hesse and Čihák, 2007; Alexopoulos and Goglio, 2011). This is because co-operatives provide guarantees for each other and, in this way, uncertainty and risk of failure are reduced (Stefancic, 2010). Hesse and Čihák (2007) argue that this stability can be enhanced even more if co-operatives diversify from old-fashioned retail banking.

Financial co-operatives (including credit unions), protect the interests of consumers and offer simple, fairly priced, transparent products adjusted to local needs (Alexopoulos and Goglio, 2011). The co-operative financial model continues to grow as it manages to attract new clients and to build relationships of trust, two areas where investor-owned banks seem to have failed (EACB, 2010; Borzaga and Galera, 2012). On the down side, financial co-operatives must be aware that their lack of diversification and

their over-reliance on a specific geographical area or a particular profession increases their risk of failure (Korres, 1999; p.144; Alexopoulos and Goglio, 2009; Stefancic, 2010; Alexopoulos and Goglio, 2011). Additionally, Spear (2004a) argues that the recent attempts to adapt the co-operative financial model to the changing banking industry may take co-operatives away from their principles and values.

The co-operative principles and values seem to be the common characteristic of co-operatives around the world (Korres, 1999; p.27) and they form the basis of the differentiation of co-operatives in relation to other organizational models (Korres, 1999, p.27; Fajardo Garcia, 2012). Furthermore, the co-operative principles increase the members’ sense of confidence, fellowship, solidarity and democracy (Nilsson, 1996). It is further argued that the co-operative principles must be applied consistently and continuously in the day-to-day operations of the co-operatives and they must be kept up to date (Parnell, 1995). One way to do so is by transforming the co-operative principles and values into tangible products and services that serve the needs of the co-operative’s members, e.g. a current account based on a plastic card offering a high interest rate and a credit card without annual fees (Davis and Worthington, 1993). Additionally, the co-operative principles must be embedded in the activities and reflected in the mission statement of the co-operative (Co-operative Commission, 2001), something that the Co-operative Bank in the UK seemed to have achieved (Davis and Worthington, 1993), at least until recently (Kelly, 2014).

In essence, the co-operative principles are the guidelines co-operatives use in putting their values into practice; with the first one being “Voluntary and Open Membership”, i.e.:

“Co-operatives are voluntary organizations, open to all persons able to use their services and willing to accept the responsibilities of membership, without gender, social, racial, political or religious discrimination” (International Co-operative Alliance, 2012).

“Voluntary” refers to potential members deciding whether and when to become members, while, “open” refers to the co-operative being able to accommodate new members that are willing to undertake the responsibilities that membership entails (Papageorgiou, 2004, p.41). The open membership policy has economic value to future members and this value can be realized only as long as this policy is maintained (Fulton and Giannakas, 2012). Co-operatives are frequently set up to serve the interests of a group of people with common characteristics (religion, ethnic origin etc.). Thus, the true test is not whether someone was refused membership but whether this person could become a member or not in another co-operative (Birchall, 1997). Finally, nobody, including the government, can force a person to either become a member or to stop being a member (CSSDA, 2005).

The research results for the second co-operative principle: “Democratic Member Control” will be available at a later stage. The third co-operative principle “Member Economic Participation”, states that:

“Members contribute equitably to, and

democratically control, the capital of their co-operative... Members usually receive limited compensation, if any, on capital subscribed as a condition of membership...” (International Co-operative Alliance, 2012).

Limited compensation means that the co-operative will pay only as much as it has to pay in order to attract enough capital to finance its business activities (Birchall, 1997). This compensation is not calculated based on the value of the capital, members have invested in the co-operative (as in investor owned companies), but rather on the volume of business each member did with the co-operative (Papageorgiou, 2004, p.55). The undistributed reserves, or intergenerational endowment, are in effect the social capital that existing members pass on to the future members (Papageorgiou, 2004, p.56).

“Autonomy and Independence” is the fourth co-operative principle. This means that:

“Co-operatives are autonomous, self-help organizations controlled by their members... If they enter to agreements with other organizations, including governments, or raise capital from external sources, they do so on terms that ensure democratic control by their members and maintain their co-operative autonomy” (International Co-operative Alliance, 2012).

Co-operatives rely on the financial contribution of their members for their initial share capital and after that on their surpluses (CSSDA, 2005). If, for any reason, the co-operative must borrow money from non-members, including the government, then it should do so ensuring that its independence and

and autonomy are not jeopardized (CSSDA, 2005). However, the independence and autonomy of co-operatives could be jeopardized if the co-operatives do not remain independent of political parties (Papageorgiou, 2004, p.60).

The fifth co-operative principle is “Education, Training and Information”, i.e.

“Co-operatives provide education and training for their members, elected representatives, managers, and employees so they can contribute effectively to the development of their co-operatives... They inform the general public – particularly young people and opinion leaders – about the nature and benefits of co-operation” (International Co-operative Alliance, 2012).

Back in the 1850s, the pioneers considered education and training so important that they allocated 2.5% of their surpluses for this purpose (Birchall, 1997). Furthermore, co-operative training enhances the spirit of co-operation amongst members and it opens the doors to non-members (Papageorgiou, 2004, p.61- 62). Moreover, without effective training of all stakeholders, and despite their deep founding ideological differences, co-operatives can be mistaken as normal economic organizations (Papageorgiou, 2004, p.62-63). Finally, this principle represents a commitment of the co-operative to its members to render membership more effective and to facilitate democratic control (Birchall and Ketilson, 2009).

“Co-operation among Co-operatives” is the sixth co-operative principle and it means that “Co-operatives serve their members most effectively and strengthen the co-operative movement by working

together through local, national, regional and international structures” (International Co-operative Alliance, 2012). This principle encourages co-operatives to co-operate amongst themselves to better serve their members, to promote the co-operative movement, to exchange knowledge and experiences and to manage change and technological advancements (CSSDA, 2005). Lastly, this principle can be seen as a business strategy to ensure the economic success of co-operatives (Birchall and Ketilson, 2009).

Finally, the seventh principle, “Concern for Community”, entails that “Co-operatives work for the sustainable development of their communities” (International Co-operative Alliance, 2012). This shows the interconnection between the success of the co-operative with that of the community in which the co-operative operates (Papageorgiou, 2004, p.65; CSSDA, 2005; Birchall and Ketilson, 2009). Co-operative members must identify and identify with the wider community, as the latter is an important stakeholder, able to influence the success of the co-operative (Birchall, 1997). In striving for the wellbeing of their surrounding communities, co-operatives increase employment by creating local branches and engage in social activities (CSSDA, 2005).

It is said that the co-operative principles are the distinctive features of co-operatives (Fajardo Garcia, 2012). However, the comparison of the legal framework of co-operatives in Europe makes it evident that the co-operative principles are not so clearly stated and it is up to the national laws to fill in the gaps (Fici, 2012). The result of this lack of clarity may mean that organizations other than true co-operatives may be mistaken

as such (Fici, 2012; Monzon and Chaves, 2012). Moreover, there is evidence, at least in some areas of Scotland, that co-operatives do not follow the co-operative principles and values. Wilson and MacLean (2012), found that, as time passes, the co-operative principles become less and less important to co-

operative members. Finally, Spear (2000) argues that, in theory, co-operatives may enjoy a number of advantages but these advantages merely represent what co-operatives are capable of, or not, and not what is really happening thus, "reality may be somewhat different, leading to interesting research questions".

Methodology

The current research aims to add to the existing volume of knowledge and more specifically, to examine the extent to which co-operatives put the co-operative principles into practice. The research question is: "What are the perceptions of credit union employees regarding the practical application of the co-operative principles?"

Based on the research question, a qualitative methodology was followed. Additionally, due to the large number of questions (36) that were identified through the review of the existing volume of knowledge, structured interviews were chosen as the research method in order to accommodate these questions without taking too much of the interviewees' time. Thirty interviews were undertaken with 30 credit union employees using a convenience and snowball sampling frame. The interviews lasted from 18 to 68 minutes but most of them lasted around 30 minutes. Apart from the "convenience" of the sample approach, the aim was not to have a representative sample but rather to include people that could contribute to a wider range of opinions and perceptions. The criteria for the sample selection were current employees of any credit union in Cyprus and at the same time effort was put to maintain a balance between men (16) and women (14), levels

of the hierarchy (four in top management, five line managers and the rest in lower positions), different levels of experience (12 with about 20 years of experience and the rest having at least three years of experience) and different age groups (12 over 40 years old with the rest being in the range of 25 to 40 years old).

The interviews were voice recorded, transcribed and then coded using NVivo, having as coding unit the complete meaning of the quotation. A second researcher coded the responses for four out of the 36 questions in NVivo and the Cohen's Kappa coefficient was calculated as 78%. Additionally, a summary of the findings was prepared in Greek and was sent by email to 20 interviewees, from which 17 confirmed the researcher's understanding. From these 17 interviewees, five also explained the "whys" behind these results, highlighting the fact that the interviews were carried out six months after the financial crisis in Cyprus, at a time when uncertainty and fear prevailed. The research methodology is limited by the fact that it has not been combined with any other data collection method (to achieve data completion triangulation) and secondly, the results were not confirmed by any other source of data, e.g. members.

Findings

The data obtained through the interviews support the view that only two out of six co-operative principles are followed, one is not followed and that evidence is inconclusive in relation to the remaining three principles. The results for the second principle, “Democratic Member Control”, are not yet available; thus, this principle was not included in the present findings.

Based on the data collected, the co-operative principles that are followed are the first and the sixth ones. With regards to the first co-operative principle, “Voluntary and Open Membership”, none of the interviewees claimed that someone was forced to become member of a credit union. Nevertheless, nine participants said that in some cases people “are “forced” to become members of a credit union when they need a loan or when they want to offer personal guarantees for someone else’s loan”. Moreover, all but one participant claimed that they were not aware of anyone having been “forced” to unregister from membership. However, 11 of these participants claimed that members unregistered voluntarily, e.g. when they felt that their credit union was giving them a hard time, because they had obtained better terms elsewhere. That is, to access their “permanent” deposits or even as a reaction to the credit union’s decisions.

Similarly, credit unions seem to follow the sixth co-operative principle, “Co-operation among Co-operatives”, as they continue with the imposed plan to merge amongst them (reducing their total number from 100 to 18 in one year). The mergers were imposed by the Troika¹ and were a precondition before the Cyprus government could provide €1.5 billion in

financing to credit unions to enhance their capitalization so that credit unions could meet the minimum capital requirements set out by the European Central Bank. Interestingly, and despite the possibility of layoffs, the vast majority of participants considered that the mergers would be for the best. This was because participants hoped the mergers would improve the professionalism and the organizational structure of their credit unions, e.g. “... for sure they will assist us in working more correctly...” as well as strengthen the capital structure of their credit unions. At the same time however, the participants argued that time should have been allowed for the assimilation of the different cultures of the merged credit unions. Finally, four participants feared that the mergers would lead to the loss of the local identity of their credit union.

On the other hand, it could be seen that credit unions do not follow the third co-operative principle, “Member Economic Participation”, as the majority of participants claimed that, unless they were forced to do so, members would not buy shares to assist with the recapitalization of their credit union “given the specific financial situation it will be almost impossible for a member to buy”. The remaining eight participants claimed that members would show limited interest and thus the intended capital increase would not be achieved. According to the participants, the most important reasons for this were the loss of members’ trust in their credit unions (and the whole financial system of Cyprus), and; the bad current financial situation.

For three co-operative principles (fourth, fifth and seventh), the evidence collected was not conclusive. With regards to the

fourth co-operative principle, “Autonomy and Independence”, almost all participants were in favour of credit unions selling Class B shares to non-members, e.g.:

“If this was said to me before, I would not have accepted it, however; today I wish that people are found [to assist our credit union financially] either from within or from outside the credit unions.”

On the other hand, participants raised concerns regarding the independence of credit unions following the transferring of 99% of the shares in credit unions to the Cyprus government (for €1.5 billion for a period of five years). Additionally, worry about the possible loss of credit unions’ independence as a result of the issuance and selling of Class B shares to non-members was expressed by almost all participants, e.g.:

“... Credit unions will have to maintain their anthropocentric character. If credit unions lose this, they will become banks as well and this will make things worse for the ordinary people on the street and people will lose the counterweight they have that keeps the banks under control.”

In relation to the transfer of shares, more than half of the participants claimed that the loan would have been a better alternative as it would not jeopardize the independence of credit unions, e.g. “I would prefer a clear-cut loan ... because this way [as a credit union] I would not lose my independence ...”. Finally, three participants claimed that none of the two alternatives was good enough and thus there should have been more alternatives:

“... the government owes money to the co-ops. Why didn’t they net off the debt

and receive additionally as much as needed by selling the shares to the government? There is something wrong here ...”

Concerning the fifth co-operative principle, “Education, Training and Information”, the majority of the participants claimed that credit unions took measures to inform and attract new generations; however, it could be inferred from their responses that there was some doubt regarding the adequacy and the effectiveness of these measures: “Nothing. We still have the same leaflets that we used to have.” and “I think that we have a little problem because ... the society believes that co-ops do not offer all the products that the banks are offering.”

In addition, almost all participants claimed that the co-operative bodies informed and guided the Cyprus government during the negotiations with the Troika. On the other hand, and despite the fact that almost all participants considered that such training “would be useful in order to keep the [co-operative] idea alive and to inoculate the younger ones that are joining the movement”, they nevertheless said that their credit unions did not organize any training or seminars for their employees or their members “... I never had. Whatever I learned; I learned it on the job.”

Finally, with regards to the seventh co-operative principle, “Concern for Community”, almost half of the participants claimed that credit unions could have assisted their members if they had adjusted their demands to the abilities of their members, e.g. by reducing interest rates and charges, extending repayment periods, restructuring loans etc.

“... For sure the interest rates because this is what is the most important for people... through the installments, through allowing non-payment of some installments, where this is possible, through other facilities e.g. by not making huge charges.”

On the other hand, the majority of participants claimed that the closure of branches should be decided based on financial criteria: e.g. the financial viability of each branch. “... this moment, the criteria should be purely financial ... It is how financially viable is the keeping of some branches at their current locations ...”, rather than social criteria, e.g. best servicing of members “... there must be a social criterion, e.g. how will the older people be served”.

Five participants had even suggested ways in which credit unions could have served their members with minimum expenses, e.g. opening certain branches only for a few days per month or using mobile branches (vehicles) to serve members at remote areas as:

“It is much more important to support people practically and psychologically, and through these people to support the co-operative movement, than to save a few tens of thousands, causing the peoples’ reaction.”

Apart from the findings with regards to the six co-operative principles, it was found that the three most popular co-operative principles were “Concern for Community”, “Democratic Member Control” and “Autonomy and Independence”. During the few moments of unrecorded conversation, most participants admitted that they felt uncomfortable recalling the co-operative principles, with most of them admitting

that even though they used them in their day-to-day work, they could not explain them or associate all of them with the co-operative principles that were provided to them. Thus, it was not surprising that only a handful of participants attempted to recall the co-operative principles, with the rest feeling much more comfortable choosing from the ones that were provided to them. Finally, it must also be noted that on the completion of the interviews, five or six participants asked for and took the paper with the co-operative principles with them, most probably to refresh their memory.

Based on the interview data, it seems that credit unions assisted by providing to their members’ financial facilities, adjusted to the members’ needs and by charging members lower interest rates and lower expenses (thirteen interviewees), e.g.:

“... basically through the products in order to assist financially the members: the interest rates... the loan installments, by granting grace periods ..., without charging them huge amounts as charges.”

"only a handful of participants attempted to recall the co-operative principles, with the rest feeling much more comfortable choosing from the ones that were provided to them"

Finally, eight participants considered that, as a result of the financial crisis, the behavior of co-operators had changed to the worse, as nowadays credit unions behaved more like commercial banks, increasing their charges, putting pressure on their members to repay their loans and restricting their social character.

Other findings include the view that the anthropocentric character of credit unions was the major difference between credit unions and banks, e.g. “the biggest difference is the fact that in most credit unions, we know our clients and their needs ... credit unions are operating based on their anthropocentric character”, and that the co-operative principles shaped the working relationships and the way credit union employees performed their duties

“Having worked for a commercial bank I can say that the way of dealing with the clients in credit unions differ from the commercial banks. In credit unions, there is better communication with the client and thus a stronger relationship is built between the client and the

employee, you get to know your client and you try to serve him based on what is best for him which is not always what is best for the credit union”.

Moreover, twelve interviewees believed that peoples’ trust could be regained by building on credit unions’ humanistic character, e.g. “...since the old times co-ops relied on their different approach in relation to their clients...I think that this is the only thing we can rely on...”, and by improving the way credit unions are managed (five interviewees) e.g. “... by operating as should, with proper scheduling, by avoiding the mistakes of the past, by proving that you are here and you are good in what you are doing ...”. Additionally, most participants were not optimistic about the future, fearing the shrinkage of Credit unions and/or their transformation into commercial banks:

“I am not optimistic; I am not optimistic at all. I do not know if we are going to survive, if we are going to have the same character that we had ... We will shrink. I am not optimistic for our future”.

Discussion of findings

The findings presented in this paper seem to be in line with the existing volume of knowledge on the first co-operative principle, “Voluntary and Open Membership”, as credit unions in Cyprus are indeed open to new members and members register and un-register voluntarily (Papageorgiou, 2004, p.41; International Co-operative Alliance, 2012).

Despite what was stated in the literature (International Co-operative Alliance, 2012), Credit unions did not seem to follow the third co-operative principle, that of “Member Economic Participation”.

According to the participants, the members would not be willing to “contribute equitably”, to the recapitalization of their credit unions most probably because of the uncertainty and the difficult current financial situation.

Moreover, it is not clear whether the fourth co-operative principle was followed, i.e. whether credit unions were “autonomous, self-help organizations controlled by their members” (International Co-operative Alliance, 2012) as on the one hand, the transferring, to the government, of 99% of the shares in credit unions seemed not to

be "... on terms that ensure democratic control by their members and maintenance of their co-operative autonomy" (International Co-operative Alliance, 2012). Additionally, employees feared the possible loss of credit unions' independence from the potential selling of Class B shares to non-members as this principle states that credit unions should not depend on non-members for their financing needs (CSSDA, 2005). Moreover, the members of credit unions did not seem to submit their short-term personal interest to the long term mutual benefit of all members (CSSDA, 2005), as 40% of all credit union loans were identified by the Troika to be non-performing.

The interviews have shown that the fifth co-operative principle of "Education, Training and Information", on the one hand, was followed as credit unions informed the younger generations, in line with International Co-operative Alliance (2012) and they informed and guided the government, in line with Birchall (1997). On the other hand, credit unions the interview data has shown that credit unions did not to provide any training to their employees who in turn could not "contribute effectively to the development of their co-operatives" as per International Co-operative Alliance (2012). Similarly, credit unions did not provide any

training to existing and future members despite the credit unions' "commitment" to train existing and potential members (Birchall and Ketilson, 2009).

As far as the sixth principle is concerned, "Co-operation among Co-operatives," it seemed that it is followed, as according to the interviews, the credit unions continued with the imposed plan to merge among them reducing their total number from 100 to 18. This would enable the exchange of knowledge and experience amongst credit unions (Papageorgiou, 2004, p.65; CSSDA, 2005) and would also assist in their economic success (Birchall and Ketilson, 2009).

The research was not conclusive as to whether credit unions followed the seventh co-operative principle, "Concern for Community", as on the one hand; the interviews have shown that credit unions adjusted their demands to the abilities of their members in line with the literature (Papageorgiou, 2004, p.65; CSSDA, 2005). On the other hand, the interview data have shown that in deciding which branches to close down, the participants concentrated on financial criteria despite that the literature argues that the decisions should mainly be based on social criteria (CSSDA, 2005).

Conclusion

Based on the present research, it may be concluded that not all of the co-operative principles are put into practice. The findings are in line with the work of researchers that claim that the application of co-operative principles is not to the standard that is proclaimed in the literature. More specifically, even though the evidence suggests that credit unions

are voluntary and open organizations and that there is co-operation amongst credit unions, nevertheless, members are perceived as unwilling to contribute to the financial strengthening of their credit unions. Moreover, the evidence seemed to be inconclusive as to the ability of credit unions to remain independent (mainly due to the transferring of 99% of their

shares to the government). Additionally, the issue of training is inconclusive as well, since credit unions try to inform the government, but at the same time, they do not train their employees and members. Finally, the credit unions' concern for the wider community are not proven since on the one hand they seem to adjust their demands to the ability of their members while, on the other hand, the financial criteria are perceived as more important

than the social criteria in deciding which branches to close down.

In conclusion, it would be useful if future research was directed in understanding the members' perceptions regarding the practical application of the co-operative principles and of the members' participation, in the same context, in order to triangulate the above results.

Notes

¹ European Commission, European Central Bank and the IMF.

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Consumer Food Co-operatives and Community Development

by Simon Berge and Wayne Caldwell

Abstract

This paper presents the findings from a study of five consumer food co-operatives that operate in Ontario, Canada. The study utilizes a multiple case study approach with key informant interviews of co-operative managers.

We show that the co-operatives in the

study focus their operations on balancing community development with financial viability. By balancing social, political and economic activities, these five co-operatives can be seen to represent a modern day agora: the focal point of community activity and social development.

Introduction

The Agora (literally "gathering place"), served as a civic centre, as a marketplace, and as the scene of much of the social and intellectual intercourse of the citizens of the city it served (Thompson, 1950). Based on a systems theory approach, the agora provided a place for the combination of social units and systems that perform major social functions that could define a community (cf. Luloff & Krannich, 2002). Looking from a human ecology perspective, the agora provided a structure for relationships through which a localized population could meet their biological needs thus defining the community through the development of community structures aimed at encouraging survival (cf. Luloff & Krannich, 2002; Poplin, 1979). While human ecology looks to survival, field theory sees social interaction through local social relationships emerging from the interaction of its residents as the critical feature of communities (Kaufman, 1959; Wilkinson, 1991). Based on these theories, Matarrita-Cascante and Brennan (2012, page 295) defined community "as a locality comprised by people residing in

a geographical area; the resources such people require to subsist and progress; and the processes in which such individuals engage to distribute and exchange such resources to fulfill local needs and wants."

Community development within the neoliberal economic system was presented in Cynthia Cockburn's 1977 book, *The Local State*. Cockburn put forward the idea that corporate management and community development could be polar opposites. Putnam (2000) argued similarly that community development is declining in the face of corporate management due to changes in work, family structure, age, suburban life, television, computers, women's roles and other factors. The separation of the market and the social functions within the neoliberal economic system negates the community development role the marketplace could play for a community.

Geoghegan and Powell suggest that, "community development is an expression of the political and politicized

assembly of an active citizenry in civil society, and may therefore be characterized as a modern agora – the ancient Greek concept describing the interface between the public and private spheres of social life.” (2008, page 403) Co-operatives could be a type of agora of the twenty-first century as they intermingle political, economic and social life within a community. By operating under co-operative principles developed by the International Co-operative Alliance and revised in 1995, co-operatives encourage democratic participation of their membership within an economic system.

Co-operatives, and the broader economic democracy they promote, have been considered an alternative to the dominant neoliberal market and consumer democracy (Freathy, 2003; Novkovic, 2008; Hingley, 2010). Hingley (2010) indicated that a co-operative can survive and add value as an alternative organizational form, but requires genuine social responsibility within a network consisting of the co-operative, its members, customers, suppliers and the

community as a whole. Hingley’s results fit with the community development literature that outlines the importance of local participation in shaping communities (Nemon, 2000; Majee and Hoyt, 2011).

The literature is sparse on the intermingling of political, social and economic activities of a co-operative and its role in community development. To address this gap, the purpose of this article is to present five co-operative cases gathered in the study as modern day agoras. The paper is organized as follows: section two presents research methodology and the choice of particular cases in Ontario; section three outlines the cases, including the manager’s definition of community, an outline of the educational activities conducted, how the co-operative principles affect the co-operative’s activities, and financial decision-making. Section four provides a discussion on the similarities between the agora and modern day co-operatives. The paper concludes with future research directions.

Methodology

Food co-operatives represent one of the fastest growing co-operative sectors in Ontario (Ontario Co-operative Association, 2014)¹. We conducted five case studies of consumer co-operatives in Ontario’s food sector for this study. The food co-operatives were selected from On Co-op’s online database of 1,300 co-operatives². A list of food co-operatives from the On Co-op database was created and cross-checked against the co-operative’s mission and vision statements to ensure they were consumer food co-operatives. From the list of 23 food co-operatives, two

brewing co-operatives were removed due to their focus on a specialized food product, leaving 21 consumer food co-operatives. Invitations for interviews were sent to all 21 co-operatives with six agreeing to participate in the study. One co-operative pulled out of the study due to time constraints, leaving five co-operatives in the final study.

By using multiple case studies, the co-operatives can be considered an embedded unit of analysis. The unit of analysis refers to a system of action that is selective and fundamental to r

the development of the case under investigation (Yin, 2009), i.e. consumer food co-operatives in our case. A study of multiple cases can enhance the results by replicating patterns that can produce similar results across cases, thus increasing confidence in the robustness of the study (Yin, 2009). In this study, by carefully selecting the cases to be as similar as possible (i.e. consumer food co-operatives in Ontario), a comparison of activities and policies can be conducted for the group.

Several data-collecting vehicles were used in this instance, including key informant interviews with the managers, review of financial documentation, examination of co-operatives' policy documents (mission and vision statements), review of web presence, and secondary data sources (brochures, newsletters, and historical documentation). Personal and methodological biases were limited through the use of reflexive journaling (Malacrida, 2007).

Co-operative managers were chosen as key informants because they act as an intermediary between the co-operative's board of directors and its members, are themselves members of their co-operatives, and have intimate knowledge of the day-to-day operations of the co-operative. While the managers of these five co-operatives were also members, they clearly do not represent the entire co-operative membership base, therefore reflecting a limitation of our study. Managers do, however, represent one of the most significant and influential voices associated with the co-operative and, although biased, are arguably the best informed members. Interviewing the manager is a good proxy, given the limitations associated with trying to

interview the co-operative membership or board of directors.

To understand the role political, social and economic interactions play in the co-operatives, interview questions focused on the following areas: 1) community, 2) education, information, and training, 3) co-operative principles, and 4) finance.

Community was chosen to understand the scope of the co-operative's activities. How do these co-operatives define their community? Do they have a social, political and economic component to their definition of community? The second category, education, information and training, was chosen to understand the interactions between the co-operatives and the defined community. Defining what programs and activities the co-operatives provided for their communities was considered to be a key component of their social role. Understanding what are considered key co-operative principles (our third category) from the manager's perspective, helped outline the main focus of the co-operatives in terms of political, social or economic activities. Questions related to the last category, finance, helped to outline not only the economic focus of the co-operatives, but also the role the social and political environment play in the co-operatives' financial decision-making.

Interviews were conducted between April and September 2013. Interviews were semi-structured and lasted, on average, 60 minutes. Interviews were face-to-face meetings or conducted via Skype when distance was an issue. All responses were recorded to ensure accurate capture and the opportunity to review responses to provide rigour for the analysis. Common phrases and concepts were identified and transcribed for cross-

comparison. Transcribed sections were coded by each of the four categories (areas) listed above. Responses from interviewees were compared across cases for common phrases (Dye et al., 2000). Comparisons between interview responses and business documentation, including annual reports, websites, mission and vision statements, were conducted.

(1) To understand the co-operative's concept of community, a review of the co-operative's web presence, policies, annual general meeting notes, and social media presence was conducted. Managers were then asked the following questions:

- 1.1. How would you define the co-operative's 'community'? (Members, physical community, interest groups etc.)
- 1.2. What role does the co-operative play within its community?
- 1.3. How does it interact with this community?
- 1.4. Can you outline the co-operative's definition of sustainable community development?
- 1.5. What activities, programs and/or policies does the co-operative undertake to support sustainable community development?
- 1.6. Can you describe the activities, programs and/or policies within the co-operative that support the co-operative principle, "Concern for Community"?

(2) A similar review of the co-operative's documentation was completed for the Education, Information and Training principle. Managers were then asked the following questions:

- 2.1. How does the co-operative reach out to its community to provide programs, and what process does it use to determine the most effective educational method(s)?
- 2.2. What are the goals, and expected outcomes of the co-operative's educational, training or informative programming?

(3) A review of the co-operative's documentation on co-operative principles was completed. Managers were then asked the following questions:

- 3.1. In your opinion, what is the most and least important co-operative principle?
- 3.2. Can you provide a rationale for your highest ranked priority and your most and least important priority?
- 3.3. Which principle is the most difficult to meet and what are the challenges in attempting to address this principle?

Finance decision-making for the co-operative was determined through interviews with the managers. Managers were asked the following questions:

- 4.1. How do you make financial decisions? (What criteria or process do you use?)
- 4.2. Are there any community or social considerations to be taken into account when making financial decisions?

Case descriptions

Information presented in this section was derived from multiple sources, including by-laws, annual general meeting minutes, corporate information sheets, balance sheets, web presence, social media, and news releases. To maintain confidentiality of the cases, specific referencing for the data is not presented; however, information about the general type of data and when it was retrieved is provided below.

Case 1

This co-operative operates as a not-for-profit, vegetarian business (Corporate information sheets, 2012). The unique aspect of this co-operative is its close association with an institution of higher learning. The co-operative has a goal to serve delicious, affordable, local, and organic food, as well as provide a number of educational initiatives through volunteer opportunities, workshops, speakers, and conferences (web presence, 2012). There are over 400 members, most of whom are staff, faculty and students of the academic institution (News release, 2013).

Years of operation	11 years (Corporate information sheet, 2012)
Location	Central Ontario within small urban centre.
Sales	Over \$50,000/year (Balance sheet, 2013)
Mission	Acting as an alternative to the processed, institutional offerings of the larger food service corporations, <i>the co-operative's</i> ³ mission is to serve up ethically-minded fare on 'real' dishes. (Case 1: web presence)

Case 2

This co-operative is the youngest of the case studies; buying and selling local, organic, non-genetically modified foods with a retail store that is open to the public. Members can volunteer their time each month for a greater price discount (Web presence, 2013).

Years of operation	<1 year (Corporate information sheet, 2013)
Location	Central Ontario within small urban centre.
Sales	Over \$50,000/year (Balance sheet, 2013)
Mission	Our co-op is dedicated to providing a marketplace for local producers to present their products to all members of our community. We are committed to also work with the social and educational components of food, the industry of it and the politics (Case 2: web presence)

Case 3

This co-operative has a retail store and acts as a distributor that connects eaters with producers. The store primarily sells produce from farms within a 150-mile radius of the co-operative's headquarters (Social media, 2012). The co-operative was incorporated

as a for-profit business (Corporate information sheet, 2102). The bulk of the co-operative staff are volunteers, with only one full-time position (News release, 2012).

Years of operation	6 years (Corporate information sheet, 2012)
Location	Northern Ontario within small urban centre.
Sales	Over \$50,000/year (Balance sheet, 2012)
Mission	<i>The co-operative is a for-profit co-operative that serves to increase the production, availability, and consumption of locally-grown food products</i> (Case 3: By-laws)

Case 4

This co-operative maintains a national membership-base made up of retail outlets providing an alternative to the global food economy offering members democratic control over the food distribution system (Social media, 2013).

The vision of the co-operative outlines its role as being part of a world that is sustainable in terms of food production, linking everything required to produce food in a 'seed to plate' vision. The seed to plate vision includes the products sold by the co-operative as well as the community's interaction with the environment that produces the food. This co-operative focuses on natural and organic food as part of their business practices to differentiate their offerings from the global food economy (Web presence, 2013).

Years of operation	38 years (Corporate information sheet, 2013)
Location	Golden Horseshoe sub-region of Ontario within large urban centre.
Sales	Over \$2 million/year (Balance sheet, 2013)
Mission	Mission: We proactively bring to market natural, organic and local foods and products within a co-operative network. Vision: Living in a sustainable world from seed to plate. (Case 4: web presence)

Case 5

Case 5 represents the oldest co-operative within this study and is a not-for-profit organization with a natural food store (Corporate information sheet, 2013). The mission and vision statement for the co-operative outlines the value it places on social and economic responsibility, as well as its respect for the earth.

Years of operation	41 years (Corporate information sheet, 2013)
Location	Southwestern Ontario within large urban centre.
Sales	Over \$2 million/year (Balance sheet, 2013)
Mission	<p>We provide our members with organic, natural, sustainably produced products at fair prices.</p> <p>We value:</p> <ul style="list-style-type: none"> • social and economic responsibility • respect for the earth • a caring community • a healthy local food economy. <p>(Case 5: web presence)</p>

Results

Community

The managers offered varying definitions of community based on geographic location, group engagement through knowledge transfer, or co-operative membership. The first definition of community offered by all managers was a geographic location, i.e. city, county or area surrounding retail location.

The geographic definition was then followed by a definition that included engagement within the food system through group knowledge transfer via educational activities or events. In two cases managers further defined community as the co-operative membership (see Table 1).

While all co-operative managers provided a definition of community, only four of the five co-operatives had documentation on community, i.e. web presences, social media, mission and vision statements. None of the co-operatives' documentation provided an actual definition of community. The four co-operatives' documentation on community only referred to a concept of community. For example:

To strengthen the city's food system and

to promote food justice within our community. (Case 1: Mission Statement)

“People needed an alternative way to do business that took into account the needs of community and treated workers equitably.” (Case 2: social media)

By getting to know the farmers who grow our food, we build understanding, trust and a connection to our neighbours and our environment. Supporting local farmers and producers helps to keep them in our community, ensuring our children and grandchildren have access to nourishing, flavourful and abundant food. When we choose organic food and food grown locally, and make our choices known, we raise the consciousness of everyone in our community. (Case 3: web presence)

“[...] Become part of a community of people who care about what we eat, how we acquire our food, and how it is produced.” (Case 5: Mission and Vision Statement)

Case 4 did not maintain their own documentation on community. The co-operative did provide their members with resources (web links, magazine articles,

books) that discuss community in the context of the co-operative sector. This particular co-operative also maintained a fund for community development with a mandate to:

“Support organizations and their projects in bringing the message of sustainable food systems to the public.” (Case 4: Application Form)

Table 1: Co-operative manager’s definition criteria for community

Co-operative region/age	Geographic definition	Engagement: knowledge transfer definition	Engagement: membership type definition
Central 11yrs Case 1	Centred around retail location.	Educational program activities.	None defined.
Central <1yrs Case 2	Immediate and surrounding city area.	Community events.	Must be Co-op member.
Northern 6yrs Case 3	Centred around retail location.	Interaction with community	Must be Co-op member.
Golden Horseshoe 38yrs Case 4	City the headquarters is based in.	Educational program activities.	None defined.
Southwestern 41yrs Case 5	County and surrounding area.	Bridge between community groups.	None defined.

The engagement component for the community definition took the form of knowledge translation and transfer between social groups. Managers indicated these knowledge transfer or bridging activities between social groups occurred through the co-operative’s educational programs, providing comments such as:

“Bridging between various sections of the community that would not normally interact; for example farmers that would be at farmers’ market once a week now have access to this market seven days a week.”(Case 2)

“The community is more positioned on the connection the consumer has with the producer. Learning the stories of the producers, understanding the difficulties of seasonal struggle, depending on weather change and just external factors that are out of their control.” (Case 3)

“The co-operative helps to bring a focus on food and its power in community building and connecting people. How a specific co-operative can bridge gaps between different communities and socioeconomic groups is important.” (Case 5)

Only two co-operatives in this study presented their community in terms of membership status. The managers believed that their co-operative serviced more than just their member base. It was the participation within the co-operative that was considered key to building the community. One manager specifically outlined the requirement for active engagement (volunteers, shoppers, committee members) within the co-operative as a means of building a community:

“Community is broad but, by nature of the fact that we have a retail location a lot of our community is based on public presences of people who come in the store. People who are actively involved in our community over all, just in terms of our volunteers, our active engaged members who maybe volunteer in the store or on committees and then there’s all sorts of members that shop here but also advocate for the purpose of the organization outside of our public location.” (Case 3)

Education

The definition of community affected the co-operative’s community interactions and outreach. All five managers provided responses that indicate the co-operative participates in activities for the purpose of acting as a bridge between socio-economic groups. One co-operative manager succinctly stated that their co-operative “acts as a bridge between various sections of community that would not normally interact”. (Case 5)

Three of the co-operatives provided opportunities for bridging through infrastructure in the form of a community kitchen or community garden. The infrastructure brings various socio-economic groups together while undertaking a food production or processing activity.

The various programs offered by the co-operatives educated their community members on the food system and the co-operative’s offerings (see Table 2). These knowledge transfer activities included food product information, production practices, producer information and food skills, including preparation, preservation, and seasonality.

As illustrated in Table 2, the programs offered were broken down into three areas: 1) Production, 2) Processing and 3) Retail. The co-operatives in this study provided their communities with programs that outlined food production practices such as organic, biodynamic and natural, along with programs in further processing such as canning, storage, baking, and pickling. The retail education program provided community members with an understanding of the retail pricing system including markups, global food systems, and local food systems. Each education program provided differing formats to their activities from workshops and conferences to online resources and e-flyers.

Food was seen as a conduit to bridge communication gaps between socio-economic groups to encourage community engagement. As an example, one manager outlined how the co-operative brings a focus on how the food it sells can be a catalyst for engagement:

“The co-operative brings focus on food and its power in community building and connecting people. How it, (food), can bridge gaps between different communities and socio-economic groups is an important community development tool for a co-operative.” (Case 3)

Table 2: Educational programming

Co-operative region/age	Production education programs	Processing education programs	Retail education programs
Central 11 years Case 1	Workshops, events, conferences, community based education	Food skills - workshops, events, conferences, community based education	Workshops, events, conferences, community based education
Central <1 years Case 2	Best growing practices, Events	Food skills (e.g. chief visits)	Informed consumer: product attributes
Northern 6 years Case 3	Workshops (GMO, meat cuts, etc.)	Food skills Film festivals, e-flyers	Volunteer training programs, e-flyers
Golden Horseshoe 38 years Case 4	Workshops and Panel Presentations: GMO, Fair Trade, Organic	No programming	Workshops: environmental business practices
Southwestern 41 years Case 5	Seasonality training, fuel based production practices workshops	Food skills - free cooking classes, nutritional training programs	Transparent markup system, worker exchange program

Co-operative principles

Managers were asked to indicate which principle they believed affected their business practices the most and the least. The range of responses for the most important was narrower than those provided for the least important. Three of the five co-operatives indicated “Democratic Member Control: One Member, One Vote” as the most important principle, (see Table 3). Managers described the need for democratic policies to differentiate co-operatives from the current system.

“Democratic member control is positioned on co-operative movement building as an alternative to our current economic and political state”. (Case 2)

“The ills of the business model for major corporations is the fact that the guy with the biggest pot of money controls the decisions...If that person or persons don’t have values that might reflect what might be good for the public, but only good for the corporation, that can be a flawed model.” (Case 4)

“Democratic principle is an essential part of co-operation. Without a formalized system for making decisions you can’t work.” (Case 5)

Two interviewees indicated that the principle of Concern for Community was the highest priority.

“Concern for the community or concern for the environment, I feel, is why the co-operative exists. This is central to what the co-operative is all about; it is why we do what we do.” (Case 1)

Even though Case 2's manager provided a response, he indicated that they really had not thought about the co-operative principles:

"...a co-op has to come out of a need that is not being met somewhere else within a community." (Case 2)

The broad range of responses for the least important principle was due to the understanding that all the principles are important. Managers indicated that the selection of least important principles was made because it was a basic function of the co-operative and did not require special attention. For example, Case 5 chose the Concern for the Community principle for their least important principle as it was the very purpose for their operation:

"We feel that concern for the community is the least important because if we didn't have a concern for community we wouldn't exist." (Case 5)

Table 3: Co-operative principles

Co-operative region/age	Most important principle	Least important principle
Central 11 years Case 1	Concern for Community	Member Economic Participation
Central <1 years Case 2	Democracy: One Member One Vote	Open Membership
Northern 6 years Case 3	Concern for Community	No response - Intangible nature of priorities.
Golden Horseshoe 38 years Case 4	Democracy: One Member One Vote	Co-operation among co-operatives
Southwestern 41 years Case 5	Democracy: One Member One Vote	Concern for Community

Financial performance

When managers were asked if there are any community or social considerations when making financial decisions, four out of the five responded with a community focus:

"There is a balance. What can we afford so that the co-op remains open, while [...] what is a reasonable amount to charge. We would love to charge less to the community and pay farmers better, but it is a constant compromise and balance between those different decisions." (Case 1)

"Bringing down prices for the consideration of the community." (Case 2)

"Definitely try to keep as much of our dollars in our community as possible, so that's definitely a major factor and then try to make sure we are making the right

environmental impact choices.” (Case 3)

“Try to fill in the gaps in the community to create a resilient community. The main goal is to provide a resilient local food system rather than several competing businesses.” (Case 5)

The one co-operative that did not outline community or social considerations was the largest co-operative in the study. The manager stated that:

“We utilize a standard financial model to ensure the health of the co-operative.” (Case 4)

Discussion

The Greek agora provided a place to intermingle political, social and economic participation for a community. The five consumer food co-operatives in this study provide something very similar for their communities. People shop at these co-operatives, interact through educational programs that bridge socioeconomic gaps, and participate in decisions, exercising democratic member control, to define their food system. While it is true that the Greek agora’s political activities included voting on proclamations, senate seats, and other political issues, this does not diminish the political empowerment that co-operatives offer their membership in defining their local food system.

It is through this local empowerment that food co-operatives in our study also find the definition for their community. Initially, the five co-operative managers supplied a geographically based definition for their community focusing on a city, region or retail location. This geographic definition would represent the local component of the community. However, each manager built on this initial location-based community definition to include an engagement and participation component. The co-operative community is seen as people that participated in the activities of the co-operative, interacting

with different socioeconomic groups in the community at large. Democratic participation is considered a key component to the co-operatives’ operations helping to define the co-operative and its community.

The managers see the role of the co-operative as building on the participation of community members by acting as a bridge between socioeconomic groups. By encouraging participation through educational programs, community kitchens or gardens, these co-operatives act as social bridges that bring different social groups together, much like the Greek agoras. Local food is seen as a vehicle to bring people together as it represents the power to build and connect a community.

While food is considered the vehicle, the co-operative democratic principle is considered the means to empower communities. The democratic principle of one member, one vote is seen as the mechanism to distribute power within the food system to more people within the community. This distribution of power is seen by many of the co-operative managers as an alternative to the current model that consolidates the authority within the food system.

The co-operatives in this study believe themselves to be an alternative to the existing food system. It is possible to view a co-operative community in Geoghegan and Powell's (2008) terms, as a more radical democratic variant of active citizenship, emerging in the form of community groups challenging paternalistic top-down relationships that disempower. The co-operative's more democratic form of active citizenship within an economic realm arguably indicates the emergence of new social movements among disempowered groups. Disempowerment by the system can be seen as consolidation within the food system limiting participation to simple consumerism. The co-operatives in this study consider the democratic principle to be a key difference compared to the current dominant food system. While the scope of the democratic activities are narrower than that of the

Greek agoras, this does not diminish the significance of communities being able to democratically participate in their food systems.

Even economically, the co-operative managers see the role of their co-operatives to balance the needs of the co-operative and the community. Financial decisions are measured based on the financial viability and the needs of the community. While the Greek agora was not focused in such a way that it deliberately measured financial viability versus community need, it was the heart of the Greek city's economy. It could be argued that the combination of social, political and economic activities mitigated the single focused approach of economic domination of the current food system. It is difficult to dominate all the players in a system when they all have a say in its development.

Conclusion

The findings from this study outline how the five co-operatives define their communities through an augmented geographic definition that included a participatory component. The educational outreach activities enhance the participatory community definition by acting as a bridge between socioeconomic groups within the community. The key co-operative principles of democratic member control and concern for the community further outline the co-operative's focus on community participation through democratic control and community concern. The focus on these two principles is also seen in the financial decision-making for the co-operatives as they attempt to balance the viability of the co-operative and the community's needs.

The agora was the ancient Greek concept describing the interface between the public and private spheres of social life. Economic, political and social issues were intermingled through the interactions that took place as differing social groups met and interacted at the agora. The co-operatives in this study have improved interaction across community groups through educational programming and democratic participation. The co-operatives intermingle financial and social decisions based on democratically determined needs of their community. It could be said that the co-operatives in this study do act as modern day agoras bringing the social, political and economic relationships together for their communities.

Limitations

The study participants provided perspectives on community development from the view of co-operative managers, while co-operative members and other stakeholders' perspectives were not represented due to time and financial constraints. Managers for these five consumer co-operatives are members of the co-operative, but may not represent the view of the entire membership base of the co-operative. Managers represent a single view of their co-operative, albeit a well-rounded view of the operations

and governance of the co-operative.

There is also the limitation of the number of co-operatives within the study. The number of co-operatives operating in Ontario is beyond the scope of this research project. Nearly 24% of all Ontario consumer food co-operatives, as presented by On Co-op's online database, took part in this study. It is possible; however, that not all food co-operatives were registered with On Co-op.

Future research

Future research in the area of Ontario food co-operatives should include the views of community residents outside of the co-operative structure, primary producers within and outside the co-operative, as well as members, to gain a holistic picture of the co-operative within the community.

The methods outlined in this research could also be used in other jurisdictions,

e.g. Quebec, British Columbia, or the Maritime provinces, to gain a better understanding of the pressures, drivers, and challenges faced by co-operatives across Canada. An extended research project looking to international co-operative development would also provide a better understanding of the roles Ontario co-operatives could play in developing a strong community based, local food system.

Notes

¹ The Ontario Co-operative Association (On Co-op) is the trade association for Ontario co-operatives that seeks to build capacity through education and advocacy (Ontario Co-operative Association, 2014).

² http://www.ontario.coop/find_a_coop

³ Italics added as specific city name withheld for confidentiality.

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