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**Book**

## The Routledge Handbook of Cooperative Economics and Management

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# The Routledge Handbook of Cooperative Economics and Management

Edited by Jerome Nikolai Warren, Lucio Biggiero,  
Jamin Hübner and Kemi Ogunyemi



# THE ROUTLEDGE HANDBOOK OF COOPERATIVE ECONOMICS AND MANAGEMENT

Cooperatives have spread across virtually all continents. Today, the International Cooperative Alliance (ICA) recognises over 3 million cooperatives with 1 billion cooperative members or about 12% of the human population and serving many more members of the public, collectively owning trillions in assets. This handbook provides a comprehensive introduction to the subject and the current state of affairs with regard to the study of cooperation in the economy generally and of the cooperative and related sectors particularly.

It highlights the essential issues and debates; provides a future research agenda, outlining the distinctions and similarities between individual and (inter)organisational cooperation; and explores the connections of cooperative economics and management to fundamental ethical principles. This book examines cooptation and the similarities and differences between competitive economics and cooperative economics, identifying to what extent and how cooperative economics and management are more capable of addressing the problems of global neoliberalism, such as ecological collapse, wealth inequity, value capture, and distribution, including via online platforms and social/relational problems.

This book offers a variety of new research and theory-building from various disciplines, particularly focusing on the fields of economics and management but extending beyond these disciplines to domains such as sociology, psychology, anthropology, and political science. It will become the standard reference work for not only a broad and large audience of scholars, researchers, and students but also interested professionals, policymakers, regulators, and cooperators in the field wishing to orient themselves in a global, rapidly developing movement and field of study with reference to issues of producing and allocating resources and focusing on the impact of cooperation on issues like risk, trust, the development of preferences, institutional governance, networks, and inequity.

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*Edited by*  
*Jerome Nikolai Warren, Lucio Biggiero, Jamin Hübner*  
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## **In Memoriam: Carlo Borzaga**

***1948–2024***

Professor Carlo Borzaga, visionary and distinguished scholar of cooperation and the third sector, passed away at the age of 75 after battling a serious illness. His lasting impact is characterised by his constant commitment to promoting research on cooperatives and social enterprises.

Borzaga was a professor at the University of Trento from 1976 to 2021, a period during which he held various leadership roles. In particular, he founded Euricse, a renowned research institute on social economy and cooperation, of which he was president until May 2022. His extensive work, which includes numerous essays and academic articles, has consolidated his reputation as an authority on cooperation and the third sector.

Borzaga's contribution also extended beyond the strictly academic world: he co-founded the EMES European Research Network and chaired Iris Network, an Italian consortium of research institutes dedicated to social enterprises. Moreover, his central role in founding the Italian Association of Labour Economists and his collaborations with the European Commission, the International Labour Organisation and the OECD further testify to his far-reaching impact.

His influence also extended outside the world of research, with a commitment to social activism that saw him as a guiding personality. His contribution to the birth of Italian legislation on social cooperation and volunteering was also of great significance.

Throughout his illustrious career as a researcher, lecturer, and social entrepreneur, he has been a leading voice at the national and international levels, combining academic rigour with a deep dedication to social commitment.

Borzaga's initiatives, such as the creation of cooperatives and the foundation of federations such as Federsolidarietà, underlined his commitment to translating theory into action. Moreover, his personal characteristics – his intellectual generosity and unwavering social passion – endeared him to colleagues and collaborators. Although his passing leaves a great void, his lasting legacy, founded on a multitude of concrete initiatives, will continue to inspire future generations.

**Euricse Research Center**



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# COOPERATIVE ECONOMICS AND MANAGEMENT

## An introduction

*Jerome Nikolai Warren*

This volume has two primary goals: first, to provide a comprehensive overview of the state of the art with respect to the role of cooperation in the economy and organizations, to compensate for the lack of shelf space devoted to the study of cooperative enterprise in its various forms and manifestations, including issues of employee ownership and workplace democracy. Second, it aims to be visionary in the sense that it sets out to anticipate and guide a growing interest in cooperation, in fields as diverse as technology, organizational studies, and sustainability science. It refers to the resulting approach as *cooperative economics and management* (CEM).

This book intends to achieve both goals by bringing together scholarship from the domains of economics and management, as well as related disciplines (e.g., law, sociology, anthropology, and philosophy), dealing with issues of value-generating activities, finance, governance, entrepreneurship, innovation, ethics, technology, the challenges of a sustainable transition, research methods, policy, and associated domains, with an emphasis on connecting scholarship with practical relevance for enterprises, including cooperative enterprises globally. While some of the individual chapters can be seen as reflective of the state of the art in their respective domains, others seek to go beyond the status quo, anticipating how the disciplines of economics *should* or *could* be interpreting and analyzing cooperation. In bringing these diverse perspectives together in one volume, this book aims to achieve its vision of connecting stakeholders from academia, government, and the economy and providing not only a comprehensive survey of contemporary debates and challenges but also an anticipation and shaping of future trends and developments.

Furthermore, this book attempts to foster the promotion and growth of an open paradigm between communities of research and practice based on the broad shared themes and principles discussed, outlined, critiqued, and debated in its pages. In so doing, it builds on work in other volumes, such as Michie et al. (2017); Dow (2018); Novković et al. (2023); and Elliott and Boland (2023).

The framework and main analytical concepts of this approach are outlined and distinguished in the remainder of this chapter.

### **1 Networks: culture and commerce**

This book abandons the neoclassical framework of economics and management as a hindrance rather than an aid to understanding cooperation and coming to terms with cooperatives.

This approach, lodged as it is in ontological and methodological individualism, is not conducive to understanding the emergent “social forces” that industrialist, manager, and cooperative pioneer Robert Owen attributed to the new industrial economy and which he connected cooperatives with Cole (1930, pp. 4ff.) Owen had early recognized the power of *networks* for both coordination and, beyond coordination, *cooperation* (Davis and O’Hagan, 2014, pp. 88ff.).

Networks lie at the center of an extended notion of economics and are central to much of modern organization science (Biggiero et al., 2022). Networks, emphasizing the structural dimensions of relationships between individuals, groups, and organizations, are especially vital, as several chapters in this volume argue, to understanding cooperative enterprise. Networks also mediate relationships between individuals and are therefore essential to understanding cooperation in and between firms, as well as in other organizations (DeBresson and Amesse, 1991; Tödtling and Kaufmann, 1999).

How does the mafia enforce cooperation among its members? Well, in many ways similar to how a cooperative, a sports association, or a large corporation does: by harnessing the power of networks. However, what in the case of the mafia is a coercive relationship should, at least theoretically, be voluntary on the other hand in a cooperative (Rakopoulos, 2017). This means that not only are networks fundamentally important for both describing and explaining (“Verstehen”) cooperation, e.g., between members of a cooperative, but that a network’s structure is a central object of analysis for economists and management scholars dealing with cooperation. Therefore, the chapters in this volume move beyond mere legal definitions of cooperatives and instrumental frameworks like neoclassical economics and facilitate the crafting of more robust and innovative tools and benchmarks through which cooperatives can be evaluated and analyzed.

Networks appear and reappear throughout the volume. Several chapters, including those by Caio Silva, Lucio Biggiero, Jerome Nikolai Warren, Camargo-Benavides, and Ehrenhard, argue that creating a solid scientific footing for analyzing cooperatives requires looking more closely at the structural dimensions, including the formal and informal relations they comprise. According to this view, as opposed to supporting the idea of a sort of essentialism (“cooperatives are firms that ‘do good’”), each cooperative – and even traditional firms – exists on a multidimensional spectrum. What chapters like these make clear is that it is not formal adherence to a catalog of principles, but a complex of rules and constraints, in short relationships, in part embodied in cooperative principles, but also living practices, “change rules”, and a bundle of connections between members and non-members, that matter.

This perspective has a strong bearing on questions like “demutualization”, which has traditionally been attributed to capital or liquidity shortfalls that cooperatives experience. However, an analysis based on the configuration of relationships might offer more robust explanatory power. For instance, if current members of a cooperative enterprise are insufficiently constrained by both formal rules and an informal culture balancing the interests of both present and future members, such as advocated by the African concept of *Ubuntu* (Chapter 5), then an imbalance between the cooperative as a vehicle for inter-generational wealth creation and as a vehicle for current member needs may arise. Battilani and Schröter (2011) argue that the phenomenon of demutualization exemplifies the need for multi-level governance of cooperatives and highlights the benefits of a network-based approach to analysis.

The emphasis on relationships within networks conjures up a paradigm with much in common with cooperative economics and management: *relational economics*.

## **2 Relational economics**

Relational economics (RE) is a relatively new paradigm in economics, political economy, accounting, management, and related disciplines that foregrounds long-term cooperation in knowledge

and network-based economies (Biggiero et al., 2022). Seeking explicitly to move beyond the domain of *Transaction Cost Economics* as exemplified by Williamson (1985), it attempts to analyze not just the costs but also the benefits of cooperation. It does this by developing notions such as “relational rent”, emerging from increasing willingness, opportunities, and ability to cooperate (Wieland, 2018).

In an RE approach, as given by Wieland (2018), it is not through embedding society and economy that one gets, for example, occupational safety regulations or CSR policies, but through iterative processes of relationalizing an economic logic of profits–losses with logics like “common good–private interests” or “engagement–non-engagement” (Wieland, 2018, p. 93). According to RE, “modern value creation is achieved by interlinking the resources of stakeholders originating from multiple economic as well as social systems and organisations” (Biggiero et al., 2022, p. 10). For example, an RE perspective on cooperatives would not interpret cooperative enterprises as belonging to a “non-profit” sector, but as enterprises that specialize in a particular type of relationalizing, combining the logic of “profits–losses” with an extended notion of membership and a democratic mandate in governing the enterprise.

The outcome of this process of “relationalizing” is an emerging paradigm focusing on *relational goods*, *relational rents*, *relational contracts*, and *relational governance*. RE has also been applied to technological developments like artificial intelligence (Wiesmüller, 2023) and is represented in this volume by the contribution of Josef Wieland in Chapter 1.

### **3 Moving beyond mere “relationality”**

Similar to RE, *cooperative economics and management* (CEM) is interested in processes and relationships and in the role of networks in facilitating or hindering cooperation. Also similar to RE, CEM abandons the domain of “spot” transactions to emphasize the importance of relationships in analyzing and interpreting cooperation in the economy and organization. However, concepts such as “relationality” can be accused of being vague, shying away from a deeper exposition of the brute facts that distinguish real firms from one another. Therefore, CEM abandons the neutral “ether” of relationality and communication, *per se*, couching theory-building and testing rather in the context of really existing cooperative enterprise.

In a way, one could say that CEM is a more specific derivative of RE. While RE, for instance, is broadly interested in the creation of shared value among stakeholders, CEM generally departs from a notion of the dignity of labor (which can, on occasion, lead to an instrumental or derivative view of value creation, for instance, among social cooperatives or as embodied in the Mondragon cooperatives’ principle of seeing capital as an instrument, discussed in Chapters 7 and 11) (Warren, 2023). That is to say, while RE is at root relational, CEM is, in addition to being relational, also *abolitionist* (Ellerman, 2021).<sup>1</sup>

What does the distinction between “pure” relationality and abolitionist relationality mean in practice? The chapters in this volume show that the distinction has two main implications. The first is the problematization of the “insider”-“outsider” relationship that cooperative enterprise has historically posed (see, for instance, Chapter 6 by Gonza and Ellerman). This extends naturally to the relationship between workers and the firm as a social organism, with the worker cooperative in many ways representing the canonical model of cooperative enterprise. However, as many of the chapters on technology demonstrate, similar questions regarding the insider-outsider relationship can also be posed concerning online platforms and their users, among other contexts.

That is to say, the “relational transactions” RE speaks of take a distinct dimension in the context of cooperative enterprise. One even speaks of a “cooperative contract” (Chapter 3) or

“patronage” (see discussion in Chapter 6). However, as multiple chapters point out, phenomena like multi-stakeholder cooperatives already point to relationships beyond “patronage” or a strict (even extended) insider-outsider dichotomy. These notions place much of CEM in a “transgressive” camp, in the terminology developed in Chapter 4.

The second distinction between “pure” and abolitionist relationality is entailed in CEM’s epistemological emphasis on group agency, occasionally referred to as the “moral economy”. This refers to the fact that cooperatives traditionally consist of self-managed groups of members. Therefore, the ideal cooperative must develop processes and mechanisms not only for managing the creation of shared value but also for balancing the commercial needs of the enterprise with the mandate of democratic management, which renders the cooperative also a community, as Draheim (1952) noted by referring to the cooperative’s “dual nature”.

That is, while RE speaks of “relational governance”, CEM restricts the notion further to *democratic* or *self-governance*, also called *self-management* in the literature (Novković et al., 2023). This can mean different things in practice and should not be confused with the idea that cooperatives lack hierarchy and only operate on the basis of consensus. The question of moral economy imposes immediately the need for legitimacy and accountability. It also poses the question of balancing the needs of members both individually and collectively with the needs of more or less broad notions of community beyond the enterprise.

#### **4 Cooperatives and the “insider-outsider” dichotomy**

The emergence of cooperative enterprise as a distinct phenomenon to the traditional factory system revived a discussion on membership that, as legal historian Otto von Gierke argued, goes at least as far back as the Middle Ages, with roots in ancient practices (von Gierke, 1868). This discussion, ongoing into the present, problematizes the “inside-outside” relationship in organizations for their membership, which occurs within cooperative enterprises and may be quite distinct from the notion of ownership (Sacchetti and Borzaga, 2020).

In fact, there are at least two narratives through which one can treat cooperative enterprise. The first and canonical one is usually a variant of the following. Cooperatives, emerging in Europe in the latter half of the 19th century, have spread across virtually all continents. Today, the International Cooperative Alliance (ICA) recognizes over 3 million cooperatives with 1 billion cooperative members (or about 12% of the human population, serving many more members of the public), collectively owning trillions in assets and adhering to the following codex of seven principles:

- 1 Voluntary and open membership;
- 2 Democratic member participation;
- 3 Member economic participation;
- 4 Autonomy and independence;
- 5 Education, training, and information;
- 6 Cooperation among cooperatives; and
- 7 Concern for community (ICA, 1995).

Similar sets of principles have also emerged from Mondragon, whose cooperatives adhere to ten principles, including “participation in management”, “wage solidarity”, and “social transformation” (Barandiaran and Lezaun, in Michie, et al., 2017). According to this narrative, organizations like the ICA have stabilized, consolidated, and facilitated this network of socio-economic development from 1895 into the present, in part by providing Guidance Notes to help cooperatives

understand and apply the principles in practice (Rodgers, 2015). The success of the cooperative movement in promoting a pluralistic economy has been so significant that the United Nations declared the years 2012 and 2025 “International Years of Cooperatives” and the subsequent decade the “Decade of the Cooperative”.<sup>2</sup> Furthermore, Recommendation 193 of the International Labor Organization (ILO) requires co-operatives to be included in the curricula at all levels of national education systems (Fici et al., 2013).

A second narrative looks at cooperation as something that occurs quite naturally in human societies, seeing it as an evolutionarily progressive set of behaviors and practices that can be found in rudimentary forms in other species and is impacted by human language and our skill for abstraction, both with reference to relations of time (past, present, future) and to what is today popularly referred to as counterfactuals, which Cornelius Castoriadis referred to as “the imaginary” (Castoriadis, 1987). This tradition finds exponents in pioneers like Robert Owen and Pyotr Kropotkin and is represented in this volume by chapters such as Chapter 5 by Molefe and Chapter 29 by Degyansky.

Just as Kropotkin saw a dynamic, evolutionary cooperative ethic at work in communities, the cooperative form challenges static notions of the so-called “stakeholder theory” as espoused, for example, by Friedman and Miles (2006). Chapter 16 by Gonza, Ellerman, and Juri challenges us to question the “natural order” of division into investor-owners and workers, suggesting a model that incorporates workers into the firm and leverages future profits to increase ownership on the part of workers. Similarly, David Kristjensen-Gural’s notion of “collaborative enterprise” blurs the boundaries between capital and labor in Chapter 7.

A central aim of this volume is not to prefer one of these narratives over another but to bring them into fruitful dialogue to promote a critical examination of cooperative identity, principles, practices, and possibilities. Such a holistic dialogue is vital, as more scientists, policymakers, and citizens realize that cooperation is and will continue to play a significant role in a holistic sustainable transition (Henry and Volla, 2014). Indeed, as argued consistently throughout the book, regardless of the narrative chosen, the question of “insiders” versus “outsiders” recurs in the ethos of cooperation and accompanies discussions around workplace democracy, authority, hierarchy, participatory management, and self-management, as well as derivative discussions of the so-called “hybrids”.

#### **4.1 Hierarchy**

As becomes clear from the chapters in this volume and elsewhere,<sup>3</sup> a cooperative is not merely an enterprise lacking a hierarchy. As Chapter 2 by Dow argues, any type of hierarchy possible for an investor-owned or -managed firm is also replicable for a cooperative enterprise owned and managed by its workers. Indeed, most cooperatives do feature some form of hierarchy. Therefore, distinguishing cooperative and non-cooperative firms based on the existence or non-existence of hierarchy is analytically mistaken (cf. Chapter 10).

Therefore, and following this tradition, a more nuanced and analytically sound conceptual catalog is needed to integrate democracy, self-management, and hierarchy that is generally present in cooperative enterprises. This discussion recurs throughout the present volume in numerous forms and aspects. This includes a critical discussion of Oliver Williamson’s markets-hierarchy dichotomy by Thibault Mirabel in Chapter 3, which proposes adding cooperation as a third pole. The book also includes more fundamental critical appraisals of the concept such as Chapter 10 by Lucio Biggiero, which attempts to distill several key structural aspects of an *Organizational Democracy Degree*, such as the concentration of ownership or the separation between internals

and externals, that can be compared across organizations, regardless of formal type, with a focus on structural hierarchy parameters, such as the reciprocity degree and power concentration.

Importantly, the Handbook also features discussions on distributed forms of leadership (Chapter 24), learning via organizational participation (Chapter 18), and innovating beyond voting for decision-making in cooperatives, including in the selection of board members. These issues impinge on an enterprise, inter-firm network, or meta-organization's hierarchical structuring and are important dimensions in any nuanced and deep analysis of hierarchy in cooperative enterprises and more generally.

What becomes clear in these discussions is that “cooperative” is not a teleological end, a Kantian *Ding-an-sich*, but a container for a relationship that privileges horizontality and mutualism. However, it is prone to change and shift in its manifestations depending on a particular historical moment or economic context, as recent phenomena like social and platform cooperatives demonstrate. This means that existing cooperatives must continually challenge themselves to realize – in practice – the principles to which they formally subscribe, many of which directly impact and constrain hierarchy. For instance, Mondragon's ten principles include “wage solidarity”, which directly impinges upon and limits one formal aspect of hierarchy: wage differentials.

If “cooperative” is not a self-evident phenomenon but one end of a multi-dimensional spectrum based on varying degrees and intensities of relationality, it raises the question of the vector space between the extremes of cooperative and corporation. This brings us to the next category that anchors several chapters in the book: the concept of *hybrid*.

## **4.2 Hybrids**

Directly flowing from the discussion around hierarchy is the concept of a “hybrid”. Taking stakeholder theory at face value, a hybrid can be defined as any firm with any mix of access to residuals and/or decision-making among multiple stakeholder classes, like workers and investors. For instance, an investor-owned firm that engages in employee stock ownership and also practices “co-determination” Page (2018) could be considered a hybrid.

Increasing numbers of such organizations can be found worldwide, including cooperatives selling investor shares to secure capital for investment (Bekkum and Bijman, 2006; Chaddad, 2012; Spear, 2021). These and similar developments, including the pluralism of enterprise types spanning Employee Stock Ownership Plans (ESOPs) (Kim and Ouimet, 2014), Employee Ownership Trusts (EOTs) (Warren, 2022a), multi-stakeholder and “public” cooperatives (Lund and Novkovic in Elliott and Boland, 2023), and “purpose”, “mission-oriented”, and “steward” enterprises (Sanders, 2023), are problematizing the habit, occasionally reinforced by stakeholders within the cooperative sector, of “walling off” cooperative enterprise in a “third sector” (Defourny and Develtere, 1999), separate from the private sector on one hand and the state sector on the other, much like speciation in the natural world (Salamon and Sokolowski, 2016).

As cooperatives continue to sell minority shares to outside investors and investor-owned firms sell shares to employees, the divisions will likely become blurred and further analytical tools are needed to add precision and rigor to distinctions and similarities. For instance, one may interpret cooperative enterprises and investor-owned businesses along a multi-dimensional spectrum. Between the extremes at the poles, which could be interpreted as Weberian “ideal types” (Weber, 2017), lie numerous hybrid organizations with various degrees of control by investors, workers, users, or other stakeholders.

Therefore, the Handbook features robust discussions of the concept of hybrid organizations, which recur throughout the book. These discussions include intermediaries between markets

and firms, as explored in Chapter 3 by Thibault Mirabel, hybrids like Huawei or Mondragon, as discussed in Chapter 10 by Lucio Biggiero, meta-organizations, as examined in Chapter 22 by Thuy Seran et al., or Chapter 24 by Louis Cousin et al., and even project-based cooperatives, discussed in Chapter 36 by Ludger Voigt and Dietrich von der Oelsnitz.

## **5 Moral economy**

The second distinction of CEM is a specific understanding of agency couched in what historian E.P. Thompson called the “moral economy of the crowd” (Thompson, 1971), which has subsequently been referred to as the “moral economy” (Bowles, 2016). This “moral economy” is based on attributing collective agency to groups of individuals and has also been referred to as “structural individualism” (Biggiero et al., 2022, pp. 44ff.) John Commons referred to this category of agency as a “new universal right of collective action” (Commons, 1936, p. 247). Thus, for Commons, Thompson, and others, the “moral economy” is a concept that presents opportunities for “how to give to collective action, in all its varieties, its due place throughout economic theory” (Commons, 1934, p. 5).

Basically, the “moral economy” is a framework for meso-level theory and practice, as it focuses on the feedback effects between social and relational principles and practices on one hand and emergent individual and collective agency on the other. Consumer boycotts (Holcomb, 2016; Hawkins, 2010); and labor strikes (Posusney, 1993) could be considered examples of a “moral economy”, as can the emergent forms of cooperation seen throughout history in less or more formal contexts (Ahrne and Brunsson, 2008), including in the Global South (cf. Chapter 5).

One of the contexts in which the moral economy has been applied is the firm. For example, Vieta (2019) seeks to situate the rising movement of recovered enterprises (*empresas recuperadas por sus trabajadores*, or ERTs) in Argentina within the context of a notion of the *moral economy of work*, connecting the concept of “moral economy” with *autogestion*, usually translated as *self-management* (see also discussions in Chapters 18 and 23 in this volume, as well as Azzelini and Vieta, 2024).

Economic or organizational cooperation of the “moral economy” type, as opposed to mere instrumental coordination (Simon, 1991), has been demonstrated to be present at numerous levels and backgrounds throughout history. For example, Robert Owen’s experiments in New Lanark and New Harmony mixed productive relationships with “reproductive” and “recreational” ones (Cole, 1930; Davis and O’Hagan, 2014), not to mention various utopian and religious communities (cf. Backstrom, 1974; also Chapters 6 and 20). More recently, Avner Ben-Ner has demonstrated that the reciprocal relationships comprising autonomous communities (kibbutzim) enable long-term cohesion within such communities (Ben-Ner and Neuberger, 1982; Ben-Ner, 1987). At the same time, Elinor Ostrom’s life work showed that beyond coordination via markets utilizing bargaining over private property rights on one hand, and authority relations of state actors on the other, a deep and “thick” domain of self-management based on reciprocity can be observed globally over centuries in the form of commonly managed resources, commons, or “common pool resources” (Ostrom, 1990).

It is to this manifestation of the moral economy that we turn next.

### **5.1 Commons**

Tied to the fate of the moral economy is the notion of commons. The connection between the moral economy concept and the commons can be seen by studying the work of E.P. Thompson,

who derived the notion of “moral economy” (see prior section). While Thompson was interested in analyzing the emergent moral economy of crowds (groups) in various historical social movements, his study of the emergence of the English working classes directly connects the rise of new laboring classes during industrialization to the process of the enclosure of the commons, which “entailed for the poor a radical sense of displacement” (Thompson, 1963, Chapter 7).

Far from remaining a historical artifact relegated eventually to the historical dustbin, the study of commons has flourished since Thompson’s book was written. For example, the 2009 Nobel Prize in Economics was awarded to Elinor Ostrom, who had studied the governance of various commons across the world for decades. Her work is being continued by various groups, such as the International Association for the Study of the Commons (IASC), the Ostrom Workshop, and ProSocial World.

While Ostrom considered mainly the governance of natural resources that are by their nature non-excludable, such as pastures, fisheries, groundwater reserves, forests, and irrigation canals, etc., and was still largely wedded to a neoclassical, New Institutional framework (Warren, 2022b), subsequent attempts have been made to extend the notion of commons away from particular resources and towards a more general framing. For instance, Benkler’s (2003) notion of “commons-based peer-production”, which is largely based in the online domain, has inspired concepts such as “open cooperativism”, as represented in Chapter 26.

Related as well to “open cooperativism” is the term “new cooperativism”, which describes a movement of enterprises combining elements of cooperativism and commons. This movement represents “as much a rupture from ‘old’ co-operative thinking as it is from capitalistic system”, as “it is less concerned with formal co-operative structures than it is about imagining new forms of solidarity economies grounded in values of social justice and practices of collective action aimed at broadening social and increasingly environmental care and wellbeing” (Vieta and Lionais, 2022, p. 15). New cooperativism is represented in this volume in Chapter 23 by Francesca Martinelli.

Even more general than Benkler’s notion is the concept of “commoning” (Linebaugh, 2009; De Angelis, 2010; Bollier, 2020). Commoning “turn[s] a noun into a verb” and assumes “there are no commons without incessant activities of commoning, of (re)producing in common” (De Angelis, 2010, p. 955). Moreover, commoning involves “human deeds [...] is embedded in a labor process [...] is collective [...] and,] being independent of the state, is independent also of the temporality of the law and state.” (Linebaugh, 2009, pp. 44–45).

The role of commons and commoning activity is therefore deeply tied to an economy based on bestowing agency on self-managed groups, as the moral economy envisions. Therefore, the concepts of commons and commoning play a central role in the book and are discussed in chapters such as Chapter 4 by Micken et al., and Chapter 14 by Coline Serres, who attempts to spell out how the notion of the commons can help steer traditional for-profit firms towards more sustainable business practices. Examples like the ERTs of Argentina discussed in Chapter 18 by Vieta, et al. present robust experiences of commoning in the struggle to recuperate workplaces. The concept also features extensively in Chapter 25 by Alexandre Guttmann and Cynthia Snack, who investigate the connections between cooperativism and commons in the form of platform cooperatives, and in Chapter 26 by Vangelis Papadimitropoulos and Giannis Perperidis, who develop the more general concept of “open cooperativism” as a synthesis of cooperativism with commons.

## **5.2 Common good**

Also central to this volume’s discussions of moral economy and commons is the concept of the *common good*. A concept with roots in classical philosophy (cf. Aristotle’s *eudaimonia*,

Aristotle, 2011), it largely disappeared from mainstream economics, where it had been present since its origins in moral philosophy, in favor of a mechanistic view embodied by Adam Smith's adage about "the butcher and the baker" (Brown, 2010). However, a moral economy approach seeks to move away from the "neo-Hobbesian" world of neoclassical economics and is much closer to the perspective advocated by American philosopher John Dewey, who wrote of the multi-dimensional distinctions between public-private and social-individual (Dewey, 1954).

Dewey's categorization is important because the two dimensions allow disentangling the common good from the public purse or state. According to a Deweyan democratic, process-based approach, both public and private organizations, even firms, can provide for social ends. That is to say, it is not only the Weberian bureaucratic state that is able to provide for the common good. Cooperative enterprises, as a number of chapters in this volume argue, provide venues for developing more or less restricted notions of the common good within what are essentially private clubs.

For instance, in Chapter 32, Christian Felber presents both a discussion of how firms can serve the common good and introduces the Economy for the Common Good reporting scheme, which is similar to the more recent French *entreprises a mission*. At a more conceptual level, Chapter 4 by Micken et al., analyzes the connections between cooperatives and the common good from numerous lenses. Exner and Raith propose in Chapter 31 that the most suitable analytical frame for measuring the contribution of cooperatives to sustainability involves connecting the common good with notions of solidarity. Another take on the common good issue can be seen in Chapter 18 by Vieta et al., where participation within firms can "spill over" into the political domain, and vice versa, again underlining the Deweyan connections between the private and the social.

It is by connecting the "common good" concept and the related moral economy perspective to a framework problematizing the inside-outsider relationship that the power of the approach taken in the chapters comprising this volume arises. Cooperative economics and management seek to challenge organizations and societies, whether cooperatives, municipalities, or investor-owned firms, to rethink various aspects of the economic and organizational games, including value production, investment, entrepreneurialism, and organizational learning. Much of this process of challenging firms involves the phenomenon of mythologizing.

## **6 Mythologizing**

Part of economic science has always been about mythologizing, as prominent economist John Maynard Keynes pointed out in his famous quip that "Practical men who believe themselves to be quite exempt from any intellectual influence, are usually the slaves of some defunct economist [...] distilling their frenzy from some academic scribbler of a few years back" (Parsons, 1983, p. 369). Ideas like a self-regulating market, where socially beneficial results occur "as if by an invisible hand", are examples of economic mythologization. Plenty has been written about this topic (Polanyi, 1944; Hirschman, 2013; Foley, 2006; Porter, 2020, 1996; Van Lente and Rip, 1998; Giraudeau, 2018).

Mythologization is very much a part of what philosopher, economist, and psychiatrist Cornelius Castoriadis referred to as "the magma of signification" (Castoriadis, 1987, p. 367), the interchange between concepts, meanings and the dynamic mutations and shifts these undergo as the historical moment and, with it, social priorities, shift. Similarly, promoting scientific approaches deviating from the norm involves not only "rational" argument but also de- and re-mythologization, resembling figuratively the congealing and melting of magma (Lakatos et al., 1978). This dialectic between the real, the imaginary and the possible, mediated by both language and imagination, implies the "self-alteration" of society (including scientific communities, business networks, etc.)

through a communicative process of “reception/alteration” (Castoriadis, 1987, p. 370) and implies “the capacity to convert the given confines of the here and now into an open horizon of possibilities” (Steyaert et al., 2016, pp. 234–235).

Therefore, part of the work of strengthening and reinforcing cooperative forms of economics and management involves de-mythologizing and re-mythologizing, including breaking with economic *a priori* (Bultmann, 1962). This de-mythologizing begins already with Dow’s outlining of three principles of minimum departure from neoclassical economics in Chapter 2, which dispel three myths: that markets are efficient allocators of resources, that labor and capital are mere “factors of production”, and that cooperatives somehow only represent extremely small firms like bicycle repair shops (Dow, 2018).

The book also covers the construction of myths, an important part of the scientific and, particularly, policy debate. Myths and mythmaking are integral to the successful management of cooperatives and to the theorizing around cooperative enterprise. Numerous chapters challenge us to reimagine the founding myths of economic theory, entrepreneurialism, and even the identity of the cooperative movement itself and invite us to create new myths suitable to the present challenges. This includes chapters like Chapter 5 by TO Molefe, which challenges the Western- and Northern-dominated narrative surrounding the ICA cooperative principles and invites readers to include indigenous traditions like *Ubuntu* on equal footing.

Chapter 6 by Tej Gonza and David Ellerman challenges the cooperative movement to devise new mythologies for understanding the received history of the movement and the respective identity constructed around that history. Chapter 20 by Jens Martignoni, meanwhile, challenges the potential role of money within cooperatives.

Chapter 23 by Francesca Martinelli similarly challenges the mythologization of the Silicon Valley entrepreneur, offering the mythological figure of Pegasus as an alternative to the “Unicorn”. Similarly, Chapter 29 by *Meredith Degyansky* challenges the notion of community as espoused in ICA Principle Seven, “Concern for Community” ICA (1995), drawing on indigenous and other sources to promote an extended notion of community that includes other species and ecosystems.

## **7 Cooperative economics, cooperative management**

One of the important contributions of this volume is an attempt to connect the scientific study of cooperatives in economics and management scholarship. This is a desideratum because, to the present, especially in the economics curriculum, little space or time is afforded to the study of cooperation, cooperative behavior, or cooperative enterprise, which would require going far beyond the neoclassical model (cf. Chapters 1 and 2). Things are somewhat different in management and business administration faculties, but, as we will see, these topics, and especially cooperative enterprise, are still far from mainstream there.

Before concluding this chapter with an overview of the book’s structure, its relation to existing literature, and the outlook for CEM beyond this Handbook, this section reviews the state of the art in economics and management with respect to cooperation and cooperatives, before outlining how CEM aims to connect research approaches in both disciplines concerned with cooperation generally and cooperatives specifically.

### **7.1 Cooperatives and cooperation in economics**

Cooperatives and cooperation hardly play a role in the economics curriculum. For instance, the most popular economic textbook (Mankiw, 2003), does not even mention them. Neither do Taylor

and Weerapana (2010), Mateer and Coppock (2014), or Frank and Bernanke (2017). Others mention them in a cursory way, such as Colander (2019, 2020), Schneider (2021), Case et al. (2017), Osborne and Rubinstein (2020); and Krugman and Wells (2009). Where they are mentioned in more detail, they are frequently misrepresented as, for instance, only considered a transient phenomenon. According to this view, cooperatives always appear in those times and places where neither market nor state are correctly functioning (Goodwin et al. 2019).<sup>4</sup>

The number of economics textbooks that mention cooperatives in detail is decidedly small. For instance, Pindyck and Rubinfeld (2018) devote only minor space to discussing cooperatives. One must, in effect, search for alternatives like Webb and Novkovic (2014); Benner and Pastor (2021), and Elliott and Boland (2023) to find university-level discussions of cooperatives in economics textbooks.

While cooperatives were not studied analytically by mainstream economists until the mid-20th century, exceptions to this silence, many stimulated by the apparently successful model of Yugoslavian self-management, were generally heavily invested in the neoclassical model. This includes the so-called “Illyrian” or *Ward-Domar-Vaněk* model, named after Benjamin Ward, Evsey Domar, and Jaroslav Vaněk (Bonin and Putterman, 2013, Dow, 2018). It also includes various outcroppings of New Institutional Economics, including Transaction Cost Economics, as interpreted by Oliver Williamson and Henry Hansmann (see Chapters 2, 3, and 8).

Numerous other luminary figures in economics, including Herbert Simon and Kenneth Arrow, also emphasized organizational dimensions of what one might at first glance call “cooperation”. However, much of their research focus remained unclear with respect to the distinction between hierarchical *coordination* and what can be properly defined as *cooperation*, which Williamson referred to as “consummate cooperation” (as distinct from “instrumental cooperation”<sup>5</sup>). Indeed, a tradition emphasizing instrumental cooperation (coordination) under processes of optimization is arguably not equipped to deal with many vital issues in the economics and management of cooperation, including so-called “embedded and environmental institutions” (Elliott and Boland, 2023, p. 45).

Meanwhile, while approaches from development economics, such as Sen’s “capabilities” approach (Nussbaum and Sen, 1993), have been successful in outlining cooperation-based research paradigms beyond the donor-recipient framing through notions like “collective capabilities” and “collective agency” (Ibrahim, 2006), these approaches have arguably not yet been effectively integrated into mainstream economics. They have been introduced into approaches like humanistic governance, where “cooperative humanism”, is a particular reading of collectivist humanism interpreting the cooperative enterprise as “a means of collective action through which members achieve their goals and aspirations, from decent work to access to markets and/or protection from market risks and speculative trading” (Novković et al., 2023, p. 2). However, such approaches remain far from the mainstream (Bäuerle, 2021).

In fact, most contemporary economics courses still focus on two-person, non-cooperative and non-communicative scenarios as the benchmark models in fields like game theory, even though empirical evidence has repeatedly validated that cooperative behavior “pays,” e.g., through the success of Anatol Rapoport’s “Tit for Tat” strategy (Gintis, 2014; Simpson, 2016).

Therefore, it is no wonder that cooperation is also deeply intertwined with behaviors, preferences, and institutions we refer to as “economic”, especially in as far as cooperation is a robust solution to the problem of “bounded rationality” (Kyriazis and Metaxas, 2013; Novković et al., 2023). In other words, economic cooperation extends, on one hand, to cooperative behaviors in general (i.e., among individuals or groups) and to cooperation between organizations (so-called inter-cooperation) based on certain cooperative principles, on the other. Beyond this scalar

dimension of cooperation also lies the dimension of scope. Therefore, and in the interests of semantical clarity, there are several intensities of cooperation, from coordination along an instrumental axis, which could also occur in slave plantations, all the way to “consummate cooperation”.

While in mainstream economics, these vital logics are left to psychology, sociology and other disciplines, cooperative economics closes the gap between economics and the study of cooperation by opening up the “black box” beyond mere functions, e.g., how abstract “labor” cooperates with abstract “capital” to produce outputs to sell on a market. As the discussions and debates within the book demonstrate, opening up the “black box” means cooperative economists must frequently get their hands dirty and do work that mainstream economists frequently leave to sociologists: understanding both formal and informal structures, including personal networks (which typically means doing field research!), understanding how principles and values shape and guide organizational change instead of assuming that cooperatives maximize member income or similar absurd (but common) notions, and, in general, developing a robust set of tools and approaches that emphasize other features distinguishing the scale and scope of cooperation within and between various organizations, including cooperatives.

This does not mean models are not possible, but the consensus of this Handbook is that it requires moving away from neoclassical economics, even in model-building (Chapter 11).

## ***7.2 Cooperatives and cooperation in management***

From the perspective of management, business administration and organization studies, a concern for cooperation has been present to a greater extent. While management has existed for thousands of years, modern management emerged from similar roots as modern economics, from the notion of the division of labor (Bowden et al., 2020, pp. 345ff.). It has moved from paradigms like Frederick Taylor’s “scientific management” and its emphasis on efficiency (Witzel, 2016, pp. 111ff.; Bowden et al., 2020, pp. 499ff.) to behavioral theories emphasizing the importance of expertise, represented by figures like Elton Mayo and Peter Drucker (Bowden et al., 2020, pp. 545ff., 781ff.). The next era of management emphasized the importance of knowledge and is represented by individuals like Douglas McGregor and Daniel Goleman (Witzel, 2016, pp. 62, 248–250).

More recently, the Academy of Management’s increased interest in “politicizing the firm” is also evident. Especially “since the 2003 conference of the Academy of Management in Seattle with the theme of democracy in knowledge economies” (Ahmed et al., 2023, p. 53), questions about the role of democracy in the workplace have again become a central point among the management community. Engagement with an inclusive, multi-stakeholder perspective was confirmed at the recently concluded 2023 Academy of Management conference in Boston, with the theme “Placing the Worker Front and Center”. Influenced by the work of Dahl (1989), numerous influential contemporary management scholars have been interested in the topic of democracy in the workplace, including for both instrumental reasons (motivation, value-added, employee retention, etc.) and more fundamental ethical convictions. These include works by Wilkinson et al. (2010), Battilana and Fuerstein (2018) and Battilana and Casciaro (2021).

Despite this more recent shift in emphasizing the importance of cooperation on organizational outcomes, a certain long-standing tradition has existed at least since the post-WWII era that has continually emphasized complex, dynamic interactions in producing meaning in organizational contexts, including issues of cooperation and communication. Represented by figures such as Stafford Beer and his “viable organization” model (Beer, 1984; Espejo and Reyes, 2011), this tradition has, to date, nevertheless not managed to penetrate the mainstream. It is an ambition of this book

to showcase the overlaps between such traditions, with chapters like Chapter 9 by Caio Silva, in many ways, representing the tradition of Stafford Beer.

Despite mainstream management and business administration's recent embrace of "empathy" and cooperation,<sup>6</sup> much less attention in management research, pedagogy, and policy has been paid to the role of principles such as the ICA cooperative principles as facilitators of certain behaviors in business, and cooperatives are also generally ignored in management textbooks. For instance, popular textbooks like Morden (2017), Bachrach and Schermerhorn (2015), and Robbins et al. (2019) do not mention cooperative enterprise at all. Meanwhile, texts like Morris and Oldroyd (2020) and Robbins et al. (2014) mention them once, in passing. Only rarely, such as in the open resource textbook Rodenburg et al. (2020), are cooperatives dealt with at length as a viable form of business ownership.

Consequently, management scholarship explicitly dedicated to the analysis of cooperative enterprise is unfortunately still the exception.<sup>7</sup> This is the case even though there are numerous questions of vital importance that can be elaborated upon within this context. For instance, what are the economic implications of an open-door policy with respect to membership, as outlined by ICA principle one, "voluntary and open membership", and does membership only entail privileges, or also responsibilities? Does "democratic member participation", as outlined by principle two, necessarily entail voting, or can other tools for making decisions be drawn on, as Simon Pek argues in Chapter 19? The book provides space for this and other management and organizational questions, many of which are timely and have bearing far beyond the cooperative movement, as they affect broader notions like "sustainable development".

### **7.3 Connecting cooperative economics and cooperative management**

As mentioned, one of the Handbook's central tasks is to serve as a repository of research between the economics and management (and adjacent) communities involved in analyzing cooperation. Interestingly, during the last two decades, a flourishing literature from management science has emerged, establishing non-capitalistic firms as objects of specific interest (Wilkinson et al., 2010). This literature is parallel and largely independent from heterodox economics, except for Relational and Evolutionary Economics, which have tried to combine the two broad fields (Dopfer et al., 2023). One of the aims of this Handbook is therefore to collect contributions from the side of management science and, by hosting them in the same volume as contributions from economics, to enhance the cross-fertilization of economics and management within the domain of studying cooperation. This makes the book both broader and more specific than past volumes: broader, since it sets out a transdisciplinary goal; more specific, since it does not take a "kitchen sink" approach, for instance, largely eschewing case studies, which other volumes provide in ample supply (e.g., Dash et al., 2021).

While the field of Cooperative Economics and Management, a pluralist undertaking at its root, certainly has relevance for traditional enterprises and also for large-scale multinationals interested in moving toward more effective and sustainable business models, including designing more cooperative relations along their supply chains, a central beneficiary of the Handbook is many enterprises internationally already labeled as *Cooperative*, which have been largely ignored in much of the existing mainstream economics and management literature. At the same time, its other primary contribution would be connecting existing research on cooperation relationships among individuals and groups with distinct but complementary research on organizational as well as inter-organizational cooperation. Why is this approach innovative? We consider the embedding of a cooperative grammar into the disciplines of economics and management, as well as the Handbook's clear presentation of broad yet interlocking research agendas, to be a significant advancement over existing options.

In this perspective, the Handbook outlines a pathway for research, pedagogy, innovation, management, theory, and practice distinct from a purview of economic analysis that places competition at the center of the analysis (Shaikh, 2016, pp. 259ff). Furthermore, the Handbook structures this knowledge in a systematic way, ensuring that practitioners, students, lecturers, and scholars at all knowledge levels have a comprehensive resource at their disposal.

## **8 Structure**

The Handbook comprises five sections, each with a distinct focus. Section 1 introduces fundamental theoretical aspects, including surveying relational approaches to economics, reviewing broad questions regarding the nature of worker ownership, and developing suitable theories for understanding aspects of cooperative enterprise, including the relationship of cooperatives to markets, to capital suppliers, and to notions like the common good.

Section 2 surveys suitable research methodologies for understanding cooperation and cooperatives. It contains chapters elaborating on alternative approaches to firm valuation, as well as methods for measuring the degree of hierarchy in firms. It reviews the significance of anthropology for understanding cooperation and includes a series of chapters emphasizing relational methodologies, such as path-dependence analysis, Boolean networks and complex adaptive systems, social network analysis, and agent-based modelling. These methodologies are relevant for analyzing cooperatives and their various dimensions, including legal aspects.

Section 3 is focused on various dimensions of management and examines critical issues of cooperative governance and entrepreneurship, including challenging the dominant view that elections are the most democratic approach to making decisions in cooperatives. It considers to what extent investor-owned firms can be managed more cooperatively, including reviewing a commons-oriented approach, as well as examining tools for the leveraged financing of worker buyouts. It also emphasizes financial aspects of cooperatives, including a detailed discussion of the “utopian” idea of a cooperative currency.

Section 4 opens numerous conversations on issues of innovation, including questions of how processes of technical innovation can be managed inclusively and cooperatively, and comparing issues of social innovation as they relate to cooperative businesses and the public sector. The section also contains discussions of leadership, issues of digitalization in cooperative banks, and subjects like online communities and platforms. It features discussions challenging traditional notions of entrepreneurialism, as well as community as defined by the ICA principles. Additionally, it contains several chapters analyzing the potential fruitful connections between cooperatives and commons.

Section 5 connects CEM with issues of sustainability, examining how worker ownership may move organizations closer to sustainable production, as well as introducing innovative reporting schemes and promoting project-based cooperatives as tools for firms and communities to achieve the UN Sustainable Development Goals (SDGs). It also critically examines numerous issues between cooperatives and sustainability, including the analytical frameworks employed to assess cooperatives’ contributions towards sustainability and product supply chains. It features a case study showing the occasional dilemmas cooperatives face between meeting members’ economic needs and transforming their business plans in the face of the challenge of sustainability.

## **9 Relationship to existing literature and companion**

CEM, of which this book is not the first entry, has historically been open to conversing with numerous methodologies and approaches. This includes anthropology, sociology, law, history, psychology,

complexity science, political science, and others. The Handbook attempts to summarize and anticipate a particular transdisciplinary reading of cooperative economics and cooperative management, emphasizing the dignity of labor via the collective agency of the moral economy on the one hand and the problematization of the inside-outside relationship that questions of “the social” imply, including questions of commons and the “common good”. These questions can be scaled beyond the level of the single organization to include inter-firm relationships, as Chapter 17 by Camargo and Ehrenhard emphasizes.

The Handbook builds on existing literature, including volumes on evolutionary or computational theories of cooperation, such as Bowles and Gintis (2013). Similarly, it connects with volumes like the various “cooperative dictionaries” that have appeared for many decades, including recent entries like Bernardi and Monni (2016). It also has roots in abolitionist philosophy, including recently Ellerman (2021). It also necessarily converses with prior and recent handbooks and collected works, such as Parker et al. (2014); Michie et al. (2017); Dash et al. (2021); Novković et al. (2023); and Elliott and Boland (2023). None of these books offer a complete picture of cooperative economics and management, and neither does this volume. This volume is in dialogue with and hopes to supplement and complement existing literature and, by doing so, collectively strengthen the presence and availability of high-quality research on cooperatives and cooperation in and beyond academia.

Before moving on to the limitations of this volume and future prospects, a few words about its distinguishing features are offered.

What this volume offers that distinguishes it from prior literature, with the possible exception of Dow (2018), is its attempt to provide a solid theoretical framework or set of frameworks for distinguishing cooperative enterprises from traditional investor-owned businesses. While Dow’s contribution, some of which is summarized in Chapter 2 of this volume, is mainly concerned with distinguishing cooperative economics from neoclassical economics, this volume goes beyond that agenda by anticipating and outlining various approaches that CEM should or could adopt.

In this vein, two of the greatest innovations the Handbook arguably offers are, first, the robust discussions on topics of technology and innovation, including *social* innovation, provided in the chapters of Section 4, which include some of the first Handbook-level discussions of topics like platform cooperatives. Second, the Handbook is arguably also a pioneer in engaging in a critical discussion on the connections between cooperatives and issues of sustainability, as seen in Section 5. As chapters like that by Andreas Exner and Dirk Raith (Chapter 31) argue, the understanding of (possible) connections between cooperatives and sustainability is rife with lacunae and requires more emphasis in the research literature.

To further illustrate the point: in many ways, the book shares much in common with Elliott and Boland (2023). Both books are strongly inspired by the economics around cooperatives and offer readers a broad survey of literature. Unlike Elliott and Boland (2023), however, this book does not present neoclassical and New Institutional debates on cooperatives (see Chapters 1 and 2 of that volume). Instead, the chapters contained herein argue that the problems Elliott and Boland (2023) identify, such as neoclassical economics’ “expectations that the economic performance of cooperatives is inferior to the performance of profit-maximizing firms because of characteristics inherent in the cooperative organizational form” (17); the fact that cooperatives “may pursue objectives other than profit maximization” (19); agency issues (42); vaguely defined property rights or claims (44); questions about the nature and sustainability of member relations in cooperatives (47), and related problems require either strong emendations to models like Transaction Cost Economics (e.g., Chapter 3 of this volume) or entirely new approaches to understand, describe, and analyze.

Moreover, Elliott and Boland (2023) take the agricultural and consumer cooperative as the benchmark model, while this volume centers on the interaction of capital and labor in a worker cooperative as the benchmark model. It offers numerous discussions for justifying this decision, including theoretical reasons (see Chapters 2 by Greg Dow, 7 by David Kristjanson-Gural, and 8 by Sean Geobey) as well as ones based on the history of the cooperative movement (cf. Chapter 6 by Gonza and Ellerman).

The book also shares much in common with Novković et al. (2023), which similarly centers a “moral economy” approach in the collective reading of the humanist tradition as merged with the practices and principles of cooperative enterprises, aiming at transdisciplinarity between economics and management approaches. Where the two volumes differ is the focus, in this volume, on a pluralistic overview of approaches that includes humanism, but also approaches like complexity theory and anthropology that can equally apply to “cooperative” as well as “non-cooperative” firms and that, in fact, can challenge cooperatives to reflect on both formal and informal structures that may facilitate and hinder democratic or inclusive governance.

Additionally, the Handbook also intends to connect academic and practitioner communities in the field of cooperative economics and management, enlarging communities of practice around related topics and providing opportunities for knowledge sharing. This includes educational materials like school and university curricula, as well as resources for and by cooperative practitioners, such as multimedia resources like videos, podcasts, and blog articles, which will be made available on a dedicated website, <https://econ.coop>. CEM is thus, by its nature, an open set of approaches, dealing with contemporary challenges and achievements, and connecting these to their relevant analytical approaches and methods. Instead of a fixed corpus or canon of knowledge, CEM entails an ongoing conversation about the nature and opportunities for cooperation, especially in the form of self-organized or self-managed firms, and their ability to resolve pressing problems in economy and organization.

Where the book is somewhat limited is in issues of communication. Chapter 18 by Marcelo Vieta et al., deals with feedback effects between communication in the firm and in society and summarizes an important literature initiated by Pateman (1970). Chapter 11 by Jerome Nikolai Warren and Chapter 17 by Andres Camargo and Michel Ehrendhard also entertain discussions on this front to some extent. However, questions like how cooperatives ensure the transmission of prosocial values to later generations, and how open-membership firms like cooperatives deal with heterogeneity in membership, especially in an era of increased mobility, digitalization, and social and political frictions, including migration, war, climate change, and political instability, are vital and deserve more space than we have been able to give them here.

Moreover, the current volume is weak in spelling out how the approaches developed here can be differentially applied to different types of cooperative enterprise, such as housing, energy, agriculture, service, multi-stakeholder, and platform cooperatives. As mentioned, the worker cooperative forms the benchmark model. While Chapter 14 features a discussion on how to apply cooperative governance regimes to for-profit social enterprises and Chapter 22 discusses issues uniquely facing financial cooperatives, the question of translating the approaches developed in this volume to the diversity of cooperative types remains open.

Thirdly, and relatedly, the current volume does not lead a robust discussion on the North/South divisions in cooperativism. Chapter 5 by TO Molefe features an important discussion on this topic, but many more perspectives from the Global South are needed, especially to be contrasted with traditional white, European (i.e., “northern”) interpretations of the cooperative *ethos*.

Lastly, especially when compared with Michie et al. (2017) and Dash et al. (2021), the current volume devotes less space exclusively to case studies. The case studies that are present are usually

instrumental in demonstrating a particular dimension of analysis, such as cooperatives' contributions to sustainability or the effects of digitalization on cooperative banks.

Given these limitations, a forthcoming companion volume will attempt to connect this research agenda with practices worldwide, seeking to connect more directly with cooperative stakeholders in the Global North and South and investigate questions regarding the range of experiences in existence around the cooperative form. It will emphasize how different forms do, or do not, apply similar practices embodying a shared mutualistic set of values. It will include chapters that reveal how CEM is understood and embodied by actual cooperators on the ground, around the world, in different industries, in different organizational models, and from different theoretical frameworks. Additionally, it will examine current and future developments regarding the cooperative movement, including its ostensibly primary challenges of (1) moving away from the periphery and (2) remaining true to authentically mutualistic principles and practices.

It will also seek to compensate for some of the mentioned shortcomings of this volume by featuring robust discussions on communication, issues connecting cooperatives and inequality, the diversity of cooperative types, and by challenging a dominant "northern" framework for understanding cooperative enterprises.

### Notes

- 1 In the sense of promoting autonomy and self-determination not only among members of existing cooperatives, but in advocating for and disseminating the model broadly, as cooperative pioneers like Robert Owen envisioned (Cole, 1930).
- 2 Cf. <https://social.desa.un.org/issues/cooperatives/news/2025-designated-as-the-un-international-year-of-cooperatives>.
- 3 Cf. in particular the work of Greg Dow, e.g., Dow (2003, 2018).
- 4 Source: presentation by Jamin Hübner at CCR Leuven, 2023.
- 5 Cf. Kroszner and Putterman (2009, p. 22, footnote).
- 6 One popular management textbook features the word "cooperation" 25 times and the word "cooperative" 16 times (Hill and McShane, 2008).
- 7 Certainly, programs like that at the International Center for Cooperative Management at St. Mary's University in Halifax, Canada presents an exception to the rule, as do the handful of other "cooperative management" programs, such as that in Bologna University, at Barcelona, Florida and Mondragon Universities, as well as a handful of programs in the Nordic countries.

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# SECTION I

## Theoretical foundations

This section introduces cooperative economics and management's background. It provides a diversity of perspectives and frameworks to researching cooperative enterprise from a foundation useful to integrating cooperation and cooperatives into both economics and management perspectives. By drawing on a range of approaches and disciplines, the chapters in this section demonstrate the complexity and multi-faceted nature of approaches suitable to analyzing cooperative enterprise.

The first group of chapters orients itself around Transaction Cost Economics (TCE), one of the few “mainstream” subdisciplines that is at least, apparently, somewhat adjacent to various issues of interest to Cooperative Economics and Management. However, as each of these three chapters argues, TCE as it is practiced is not fundamentally in a position to make useful scientific contributions to the description, explanation, and analysis of cooperation in the economy. The three chapters differ in their prescription as to what is to be done.

Section 1 begins with Chapter 1 by Josef Wieland, entitled “The Relational Theory of the Firm and Cooperatives”. This chapter introduces relational economics as a framework, which

Sees itself as an interdisciplinary political economy that is primarily interested in the processes and drivers of private and public cooperative value creation, in shared value creation for all stakeholders involved and invested in an economic relational transaction and its governance.

Its relevance for analyzing long-term cooperation is outlined and the approach is distinguished from TCE, as outlined by Oliver Williamson.

Chapter 2 by Gregory Dow, entitled “The Formation and Performance of Labor-Managed Firms: An Economic Perspective,” seeks to introduce readers to “alienability theory”, a set of axioms that the author argues should serve as the foundation for any “cooperative economics” and are themselves, as he demonstrates, the minimal departure from neoclassical economic theory. It outlines the three main principles of alienability theory and offers implications and policy recommendations for increasing the presence of labor-managed firms (LMFs) in the economy.

Chapter 3 by Thibault Mirabel, entitled “Cooperatives as a Third Organizational Pole,” takes Oliver Williamson’s “Transaction Cost Economics” (TCE) as its starting point. Instead of

abandoning TCE, the author seeks to improve that theory by moving beyond the classical “hierarchy-market” dichotomy, adding a third pole, “cooperation”. It elaborates on what adding such a third pole would imply for TCE.

The second group of chapters take on a more philosophical lens and attempt to investigate how cooperatives can contribute to the common good. This group is initiated by Chapter 4 by Simon Micken et al., entitled “Cooperatives and the Common Good.” This chapter outlines at least two different approaches, a morphological and a diverse economies perspective, to defining the “common good” and connects the cooperative as a self-managed and self-organized entity to these several notions, moving from “normalist” (i.e., member-oriented) to “transgressist” (i.e., serving communities beyond the discrete membership) notions of the common good, outlining in each step how cooperatives can and do connect to this notion.

Meanwhile, Chapter 5 by TO Molefe is entitled “Beyond the Western-centred Paradigm in Cooperative Economics”. This chapter seeks to challenge the Western-dominated narrative surrounding the global cooperative movement at present, as represented by the ICA’s narrative. It takes a broad strokes view of global south notions of cooperation, before outlining in detail the African concept of *Ubuntu*, which it proposes is an Indigenous tradition of cooperation that should be put on equal footing with, e.g., the ICA’s seven cooperative principles.

The final group of chapters deals explicitly with the nature of the identity of cooperative enterprise, focusing specifically on the challenging area of labor relations and labor management. It is introduced by Chapter 6 by Tej Gonza and David Ellerman, entitled “Worker Cooperatives and Other Cooperatives”. This chapter presents an alternative reading of the history of the global cooperative movement, emphasizing the importance and centrality of the dignity of labor and attempting to retrace and reconnect the birth of consumer cooperative to the worker cooperative movement and concludes that the contemporary case of the Mondragon cooperatives comes closest to realizing the cooperative roots the chapter seeks to uncover.

This group of chapters and the section concludes with Chapter 7 by David Kristjanson-Gural, entitled “The Theory of the Collaborative Enterprise”, which seeks to introduce the concept of “collaborative enterprise” as a vehicle for resolving the traditional tension between labor and capital in enterprises and applies the approach to the example of the Mondragon cooperatives. The theory developed is strongly influenced by Resnick and Wolff’s interpretation of Marx.

As a whole, these chapters provide a strong case for moving beyond not only the domain of “spot” transactions that is the purview of neoclassical economics, but furthermore underline the importance of anchoring cooperative economics and management to concepts like democracy and the common good. They not only challenge mainstream economics views but also challenge cooperatives and their allies in research and practice to think and act beyond their respective comfort zones.

# RELATIONAL ECONOMICS AND COOPERATIVE ORGANIZATIONS

*Josef Wieland*

## 1 Transactions, governance and cooperation

### 1.1 Exchange and relational transactions

Economic transactions and their agencies or more general events are divided into exchange transactions and relational transactions. Exchange transactions are all forms of purely market-mediated exchange. They are dyadic and discrete in nature, a relation of two non-personal actors limited to an act of exchange of goods, which is exclusively defined by a quantitative economic relation encoded by the price. The identity of the individual actors involved, such as their moral ambitions or social commitments, plays no role. A T-shirt or energy, to name but two examples, is only of interest as an object of exchange transactions in terms of its price-performance ratio. According to orthodox economics, social, cultural, or societal events are externalities that can only be internalized as market exchange transactions.

Relational transactions, on the other hand, are intersectoral and processual; recursive interactions characterize them because they are an attractor and a process of polyvalent agencies, contexts, or, more generally, events of all kinds. Their reference point is not the market, but the organization or network of agencies or events that are necessary for their realization (cf. Wieland 2020, 2022; Biggiero 2022, pp. 60–66). Relational transactions bundle a multitude of resources and interests of social agencies and their specific decision-making logics. They are therefore polycontextual (intersectoral), polycontextual (differentiated decision logics), and polylingual (multiple language games). Viewed through the lens of complexity science, they are a complex interaction system (cf. Biggiero et al. 2016, Biggiero 2022a; Strevens 2014). The social agencies involved, their language games and decision-making logics, and thus also the identity of the actors, influence each other reciprocally and, in the process of their cooperation, expand or change their meaning and transform the character of an economic transaction. A T-shirt or energy as the object of a relational transaction attracts a multitude of events. Consider, for example, how child labor and corruption, political dependence, and military security impact transactions. Subsequently, social standards and compliance, international politics, and value chains—and thus morality, law, politics, international trade, and so on—come into play. All these events connect with what was previously a purely economically coded transaction and fundamentally changed its character. They form the

relational space (cf. Amin 2002; Wieland 2024) in which an economic transaction then takes place. Exchange transactions in which these events are traded as externalities are, therefore, in contrast to relational transactions, a relation but not relational.

## 1.2 *Forms of governance*

Relational transactions and exchange transactions can and must be structurally coupled with each other if relational transactions want to enter the market as economic transactions (cf. on the concept of structural coupling, see Luhmann 2013). The endogenized relational dimension of the transaction then becomes, but only precisely with this market entry, a legitimized quality feature of a transaction valued with a price, which connects with an exchange transaction. In this way, relational transactions can be processed by the market as a form of governance for exchange transactions, where they can become a source of factor income and cooperative rents in competition (cf. Wieland 2020, 2022).

Relational governance mechanisms to process relational transactions exist and operate at all levels of a given society. The levels of micro governance (e.g., individual character, codified norms of behavior), meso governance (e.g., organizational policies and procedures of firms, cooperatives, civil society organizations) and macro governance (e.g., laws, state organizations, cultural complexity) form a relation themselves with regard to the conduct of economic (but also political or social) transactions (cf. Wieland 2022; Williamson 2002). They are an interacting relation of relations; they are relational. The adaptive efficiency of relational governance mechanisms is of fundamental importance for the process of economic value creation and, therefore, one of the major epistemological interests of relational economics.

The market, as a form of governance of economic transactions, is a form of coordination of dyadic and discrete exchange transactions. It allocates ex-post services, i.e., produced offers, to defined demands and evaluates these in the form of relative prices. This interaction is located on a pure thing-thing level; it is factual services, functions, or departments that interact with each other here. The identity of the actors is immaterial in this approach. Other forms of governance through coordination that are important for the economy are organizational mechanisms in addition to the market, such as process flows, positions in charts, or policies and procedures.

Organizations and their interaction processes are, unlike the market, paradigmatic forms of cooperation based on ex-ante agreed rules for the provision of a service, compliance with which can become a problem ex-post. Cooperation in this sense is a self-unfolding process (Richardson 1972; Penrose 1997). Cooperation is an interaction on the human-human level of social relations, and in it, the identity of the actors, such as their willingness and ability to comply with rules and performance promises, plays an essential role. In addition to interaction processes, communication and learning, for example, are also forms of cooperation.

Coordination and cooperation in social processes of interaction are two distinct forms of governance that can be related to each other. For example, companies combine coordination and cooperation mechanisms for their operations to increase the efficiency and effectiveness of their value-creation processes. This represents the human-thing level of social relations. The formal structure of research departments is then combined, for example, with informal communities of practice (Lave & Wenger 1991; Wenger 1998; Wenger et al. 2002; Wenger et al. 2015; Schwengber 2024), and formal positions in such departments (e.g., heads, scientists) are combined with individual competences and the willingness to share or jointly develop knowledge. The distinction of economic interactions on the human-human, human-thing, and thing-thing levels goes back to Léon Walras (1874/2010, p. 58 ff.). The “pure economics” he developed, which is still the

epistemological basis of mainstream economics today, takes place exclusively on the thing-thing level. Ethics (human-human) and applied economics (human-thing), according to Walras, do not fall within the scope of economics, which is exclusively interested in market relations determined by scarcity, from which the concepts of exchange, exchange value, and price arise as central categories of explanation. Walras does accept that the whole of the economy is a network of relations (1874/2010, p. 63, 71, 73, 79). But economics, if it is to be the mathematical science of economic performance, must, according to Walras, confine itself to the level of thing-thing relations. Relational economics takes the opposite view: it is precisely the relation of these three levels that makes it possible to understand and explain economic performance processes in modern economies in a fruitful, accurate, and appropriate way. The deliberate and endogenized loss of information in “pure economics” is prohibitive in times of cooperative, global, and digital value creation.

### ***1.3 Governance of polycontextuality***

A “general theory of cooperation” (Warren 2022, p. 777, 2023), operating with a relational epistemology and methodology (cf. Biggiero et al. 2016, 2022), must therefore understand the interaction patterns and structures of coordinative and cooperative forms of governance. This is because relationality always presupposes the difference of relations, which as such enter a process, can mutually transform and thus become part of a superior value creation process (e.g. value creation through the management of cultural complexity, cf. Wieland 1998, 2024). This is also a distinction from standard economics, which does not make this distinction and for which markets and firms are, therefore, equally media of cooperation (cf. as an example Alchian & Demsetz 1972) and for which moral preferences and legal regulations are understood as functionally equivalent coordination mechanisms (cf. game theory). This is the consequence (cf. to this aspect also the contribution of Felber in Chapter 32) of a theoretical reduction of all properties and characteristics of an economic transaction to quantitative scarcity, cost, or price signals, in which the qualitative difference between coordination and cooperation as distinct forms of governance does not play an explanatory role, but rather coincide as additive quantities, and these terms can therefore be used theoretically in an uncontrolled and arbitrary manner.

Relational economics, as a political economy of private and public value creation through the efficient and effective governance of relational economic transactions, extends the atomistic and reductionist perspective of neoclassical economics and ties in with three strands of discussion in institutional and organizational economics, among others.

The theoretical figure of the polyvalent transaction as a relational transaction, which correlates “law, economics and ethics” in John R. Commons’ economics of institutions (Commons 1934/1990, p. 58), includes more than two actors. Furthermore, it endogenizes the institutional and organizational arrangements necessary for relational transactions. On this conception of the economizing design of this process of attraction, Commons noted: “in fact, transactions have become the meeting place of economics, physics, psychology, ethics, jurisprudence and politics” (Commons 1934/1990, p. 5). In other words, an economic transaction as a social “meeting place” is always also a social relation of agencies or events in general, which are theoretically integrated in Relational Economics as a “relational space” (...) of events of all kinds and thus transformed into business-relevant events and opportunities.

The Economics of Governance by Oliver E. Williamson, with its emphasis on the necessary continuity of processes of cooperative value creation and the role that atmospheric parameters and relational contracting (Williamson 1975; Chassagnon 2022) play in this, is the second starting point of Relational Economics.

“The application of the lens of contract/private ordering/governance leads naturally into the reconceptualization of the firm not as a production function in the science of choice tradition, but instead as *governance structure*” (Williamson 2002, p. 191, emphasis added).

Unlike transaction cost economics, however, relational economics is not exclusively interested in economizing on costs, but also, and above all, in shared value creation (cf. Porter & Kramer 2011, Wieland 2017) through cooperation. It is part of organizational economics (cf. Gibbons & Roberts 2013), which sees itself as interdisciplinary and socially interested.

Finally, the work of Elinor Ostrom (2010) on “polycentric governance” is dedicated to the problem of reducing and dealing with complexity arising from the interaction of polycontextual decision-making agencies. In this world, it is no longer about the linear interaction of independent actors but about studying the process of a system of relations. “We need to ask how diverse polycentric institutions help or hinder innovativeness, learning, adaptation, trustworthiness, levels of cooperation of participants” (2010, p. 665).

### ***1.4 Epistemological and methodological foundations***

The concept of relationality in relational economics receives its philosophical foundation in the process philosophy of Alfred N. Whitehead (1941; Wieland 2020; Schramm 2022), and its sociological legal reference points are the theory of relational contracts by Ian R. Macneil (1974, 1985) and Stewart Macaulay (1963). The pioneering work of relational sociology (cf. Emirbayer 1997; Donati 2011) and network theory (Granovetter 1973; Travers & Milgram 1969; Burt 2004; Biggiero et al. 2016) also belong in this context of a scientific relational conceptualization.

Methodological Relationism, which Relational Economics follows, avoids the well-known and widely discussed difficulties of Methodological Individualism and Methodological Holism concerning the adequacy of the respective complexity reduction in social interactions. It is interested in the process of relationalizing the relations of an interaction and their mutual influence and transformation through interaction (Schwengber 2024; Santos 2015). The explanation of actions, or more generally of events, is therefore not sought in individual preferences or social structures; rather, they are the result of a multiplex interaction process in which the events change their properties or identities. Methodological Relationism goes far beyond the notion that social events are embedded in human relationships (cf. Granovetter 1985).

This means ontologically that transactions and their governance structures, whether tangible or intangible, can exist independently of individuals and that “society is (not ‘has’) relations” (Donati 2018, p. 453; Fleetwood 2005).

This concluding fourth section is only a short basic outline of the epistemological and methodological foundations of a relational theory of cooperative economics. I have discussed these aspects in more detail in my book *Towards a Relational Theory of the Firm* (Wieland 2024).

## **2 Cooperative organization, factor incomes and rents**

### ***2.1 Transactional and relational interactions***

Coordination and cooperation, market and organization, and exchange transactions and relational transactions are conceptually strictly distinguishable phenomena. However, in the everyday practice of a modern economy, they represent only two poles of pure forms, between which lies a continuum of various mixed forms. We follow Macneil (1974, pp. 715–718) in defining the characteristics of the two poles as follows:

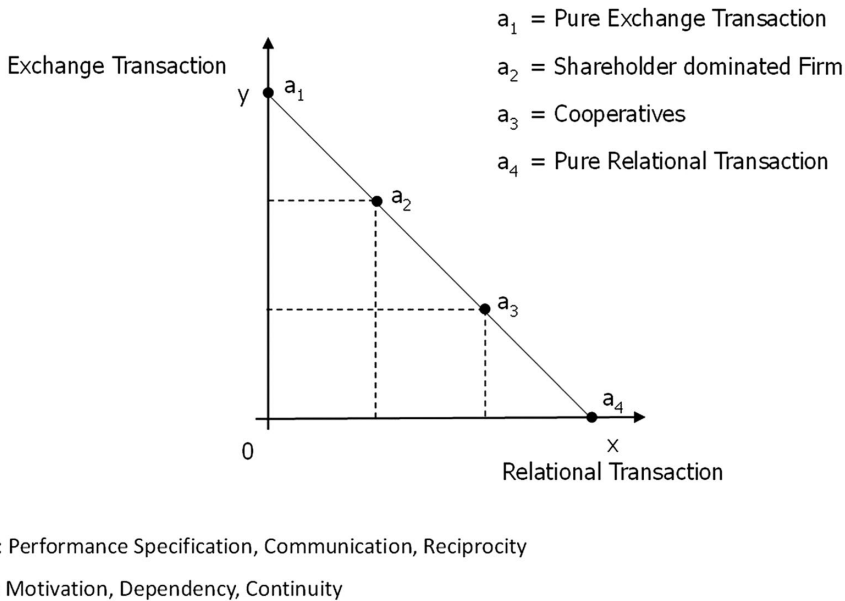


Figure 1.1 Transactional and relational interaction. Author's own work.

Coordination, Market, and Exchange Transactions are characterized by (i) the definable specificity of performance, (ii) the uniqueness of contract performance-related communication, and (iii) quantifiable reciprocity. Cooperation, Organization, and Relational Transactions are characterized by (i) the motivation to cooperate, (ii) the acceptance of the interdependence of the partners involved, and (iii) the high preference for the continuity of the cooperative relationship.

Figure 1.1 shows the characteristics of distinct transactions (performance specification, clear performance communication, quantified reciprocity) on the y-axis and the behavioral and normative characteristics of relational transactions (motivation, dependence, continuity) on the x-axis. At point  $a_1$ , we are dealing with a purely discrete market transaction; at point  $a_4$ , with a purely relational transaction. At both these points, the characteristic values are complete. The points  $a_2$  and  $a_3$  mark mixed forms in which certain elements predominate. Thus, it seems plausible to assume that a business corporation oriented exclusively to shareholder value is located at point  $a_2$  (an organization with a strong market orientation, dominated by pecuniary incentives, whose continuity depends exclusively on the profit generated), while a cooperative oriented to the common good or the company as a nexus of stakeholders is located at point  $a_3$ . They are also economic organizations but might have a comparatively smaller market and a stronger cooperative nexus. Ethical standards or non-pecuniary incentives can play an important role, and the source of continuity is rather a sense of belonging on the part of the involved stakeholders than formal membership (cf. Stryjan 1994; Emelianoff 1995).

Figure 1.1 is intended to show, as a first approximation, that there are diverse forms (e.g., firms, cooperatives, civil society organizations) of cooperative wealth creation whose different contributions to private and social value creation can be explained in a discriminatory way. It thus also provides indicators for the practical design of governance structures with which the desired value creation model can be realized.

## 2.2 Cooperatives as relational organizations

The combination of coordination and cooperation, of performance and normative characteristics, is reflected in the formal and informal governance mechanisms that characterize each organization in its specificity. It is the processual interaction and mutual transformation of these mechanisms at the micro, meso, and macro levels of an organization and the associated multiple societal rationalities that are the essential characteristics of relational governance.

Formal governance mechanisms are, for example, standard contracts, hierarchy, codes of conduct, and legal compliance systems. Informal governance mechanisms include proactive contracting, communities of practice, codes of ethics, and integrity management systems. While the identity of the actors plays no role in the former, it is an essential component of the process adaptivity of the governance mechanisms in the latter.

Just to give one example, the International Cooperative Alliance (ICA) defines the identity of cooperatives as an “autonomous association of persons united voluntarily to meet their common economic, social and cultural needs and aspirations through a jointly owned and democratically-controlled enterprise” (Coop 2023a).

Although the organizational form (association, enterprise), its goals (common needs), the definition of property rights (jointly owned), and the control mechanisms (democratically controlled) are aspects of formal organization, the focus of this definition lies in the emphasis on informal governance. This is clearly reflected in the summarizing characterization: “Cooperatives are enterprises based on ethics, values, and principles” (Coop 2023b).

Their six core values are “self-help, self-responsibility, democracy, equality, equity and solidarity” and the seven principles are “Voluntary and Open Membership, Democratic Member Control, Member Economic Participation, Autonomy and Independence, Education, Training, and Information, Cooperation among Cooperatives, Concern for Community”.

Cooperatives are relational cooperation networks of the resources and interests of their stakeholders. This does not distinguish them from other economic organizations. What distinguishes them is the desired dominance of cooperation over coordination, of informal over formal governance. From this, it can be concluded that the business model of cooperatives is essentially aimed at achieving a joint cooperation rent and, derived from this, individual factor income. These relationships are reflected in point a<sub>3</sub> of Figure 1.1, (cf. the contribution of Biggiero in Chapter 10 and Warren in Chapter 11).

## 2.3 Cooperatives as Stakeholder Networks

Relational economics is naturally more interested in the analysis and explanation of value creation and its forms of governance between, and not at, points a1 and a4 in Figure 1.1. If we include the previous discussion in the following considerations, then firms, cooperatives and civil society organizations are best understood as stakeholder networks (cf. Freeman 1984; Henisz 2023). The next figures demonstrates this consideration using the example of the company (cf. Wieland 2016, 2018, 2020).

The firm, or cooperatives, seen through this lens, is a relational nexus of stakeholder-invested interests and resources for the execution of specific transactions ( $T_1 \dots T_n$ ) and the organizational continuity of cooperation (firm, cooperative, civil society organizations). The outside-in arrows mark the invested resources of the different stakeholders, which can be of a tangible or intangible nature. The inside-out arrows mark the factor returns expected by all stakeholders for their pecuniary and non-pecuniary investments and their share in the rent from cooperation, which can also be of a material or immaterial nature. Finally, the dotted lines between the stakeholders

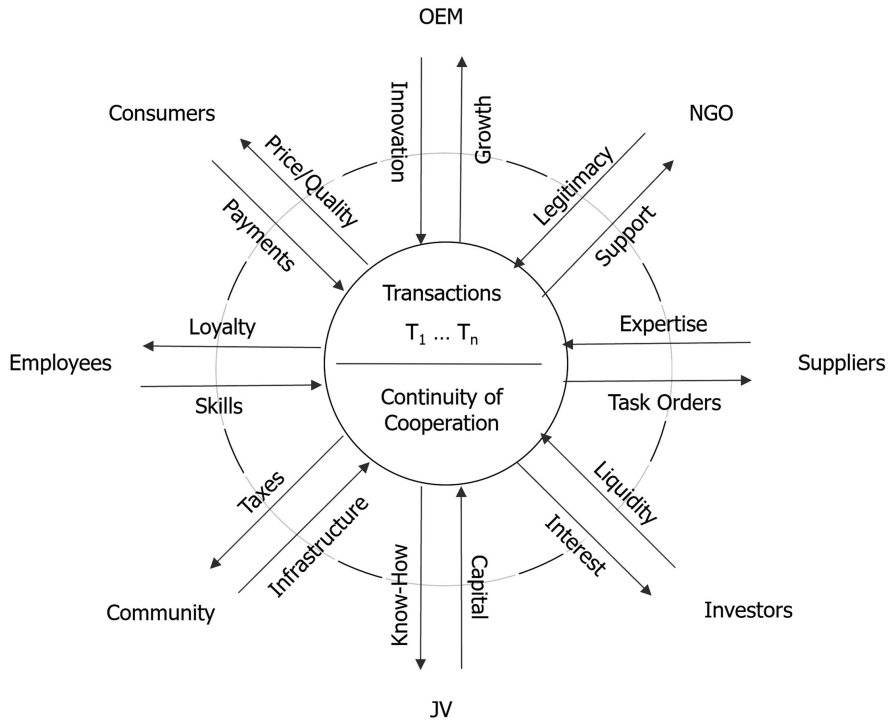


Figure 1.2 The company as a network of stakeholder interests and resources. Adapted from Wieland (2020).

mark their bilateral or multilateral interactions, i.e., communication, learning, cultural and leadership processes, or stakeholder dialogues to generate and develop the willingness and ability to cooperate. In this interactive process, stakeholders may transform their identity from suppliers to customers, from customers to partners, and from partners to competitors. These transformations can, for example, not only influence the development of new cooperation opportunities for the network or its focal firm but also affect their innovation dynamics or competence in dealing with risks from interdependence or cultural complexity, which are fundamental to cooperation. All in all, these events are to be understood as “relational assets” (cf. Wieland 2024; Gulati 2007) of an organization, which have a decisive influence on the value creation possible for a cooperation project (factor income and cooperation rent for all stakeholders) and the relational costs incurred for generating and continuing the willingness and ability of all stakeholders and their focal organization to cooperate (cf. Wieland 2020). This is, in a concisely sketched form, the value creation mechanism of the cooperation economy.

## 2.4 Corridors of cooperation

These considerations are to be deepened here. The willingness and ability to cooperate of the stakeholders of an organization and the organization itself (cf. Möhrer 2022), lead to a corridor of cooperation opportunities that are accessible to all actors through the activation of their relational assets (willingness and ability to cooperate). The acquisition, maintenance, and development of these assets generate costs, which we call “relational costs” (cf. Wieland 2020, 2022, 2024).

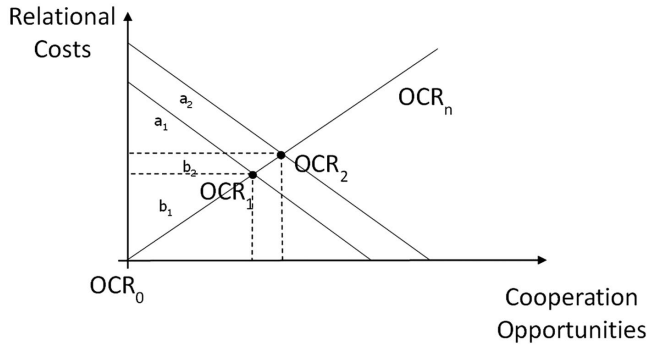


Figure 1.3 Relational costs and corridor of cooperation. Adapted from Wieland (2020).

Relational costs differ from transaction costs (cf. Williamson 2002), adaptation costs (cf. Wernerfelt 2016), and cooperation costs (White 2005) because they are incurred in the context of a specific relational transaction and its governance. Compared with transaction costs, their point of reference is not the governance of different types of contracts. Relational costs are the costs of an organization to continue its existence as a cooperative project. Examples of relational costs include the costs of stakeholder management, the costs of below-par leadership quality, the costs of communication and learning, and, finally, the costs of coding or re-coding (cf. Arrow 1974) of the multiple agencies or events involved, which result from the polylingual character of relational governance and the permanent translation of the multiple codes into a uniform organizational or cooperation code that becomes necessary as a result. The following figure 1.3 is just for the purpose of illustrating these connections.

The budget lines  $a_1$  and  $a_2$  mark and limit the cooperation opportunities that are achievable for a specific organized network of stakeholders, depending on the relational costs, which can be tangible and intangible. Which position an organization actually occupies in the cooperation corridors  $b_1$  or  $b_2$  depends on various factors. These include not only cost-revenue considerations but also the “managerial capacity” (Penrose 1995) of an organization, such as strategic decisions, legal and social standards, and cultural complexity. The expansion line (OCR), which for the sake of simplicity we assume to be linear represents the unfolding organizational and individual learning and development processes (cf. Schwengber 2024) of a cooperative project that produce an optimal cooperation rent (OCR) at point OCR1. All other possible points in the cooperation corridors are associated with suboptimal rents. The potential expansion of the cooperation network (e.g., new managerial capacities, new members, new markets, new products or services, etc.) can only generate revenues for the network if the associated new informal and formal governance structures and mechanisms are adaptive and efficient (e.g., the seven cooperative principles, global compliance management, sustainability accounting, and controlling). If we assume that these elements of readiness and ability to cooperate can be activated, then the achievable cooperation corridor expands from  $b_1$  to  $b_2$  ( $b_2 > b_1$ ), which is accompanied by potentially higher factor incomes and cooperation rents, i.e., expanded value creation.

## 2.5 Cooperation as relational business model

These considerations on relational economics have far-reaching consequences for the management of organizations in a cooperative economy. Ultimately, it is not about individual measures and instruments but about the implementation of a relational business model (cf. Amit & Zott 2001, 2015; Wieland 2024). Unlike conventional transactional business models of an “activity-based

theory of the firm” (Porter 1985, 1998), which are sequentially oriented towards production, sales, and customer relations to maximize profits, a relational business model aims at a network of interactions to create and realize business opportunities (cf. Gulati 2007) as a value creation model.

“The value created is the value created for all business model stakeholders (focal firms, customer, suppliers, and other exchange partners)” (Zott & Amit 2007, p. 183), which no longer aims solely at the sale of products or services and instead integrates “stakeholder activities, and environmental constraints”. (Amit & Zott 2015, p. 333).

To this end, the formation and activation of the following five relational assets are crucial (cf. Wieland 2020, 2024): (i) the willingness and ability to continue the cooperation and its forms of governance (e.g. transcultural management, relational leadership), (ii) the willingness and ability to share assets and routines with other cooperation projects (e.g. knowledge transfer, access to information), (iii) the willingness and ability to be guided by ethical standards in business (e.g. integrity and compliance management), (iv) the willingness and ability for fair stakeholder management (e.g. shared value creation, social standards), and (v) the willingness and ability to manage the cultural complexity (e.g. cultural complexity management, fostering cultural diversity) of intersectoral and global networks. The development of these relational assets requires activities, processes, and instruments at all three levels of governance mechanisms—micro, meso, and macro.

At the micro level of individuals and personal agencies, personal character traits, the willingness and ability to conform to roles, integrity, communication skills, and good leadership are relevant resources of relational assets.

At the meso level of organizations, it is primarily all organizational policies and procedures that are important. These include values management systems, relational contracting, transcultural management of cultural complexity, communities of practice, systems for sharing access to networks and knowledge learning and education, as well as sustainability accounting and monitoring systems.

At the macro level, societal institutions of all kinds are relevant in this context, such as the legal framework, the structuring of property rights, education systems, and the implementation of social standards.

### **3 Conclusion**

Relational Economics is part of an interdisciplinary effort to develop an interdisciplinary theory of social cooperation. This theory project is a work in progress and will remain so for the foreseeable future. This chapter attempts to contribute to an economic theory of the organization of cooperation, which is structured by the taxonomy nexus of stakeholders, relational spaces, relational assets, relational costs, cooperation corridors, and shared value creation (factor income/relational rent). Although previous work has focused on the creation of value by economic organizations, especially focal firms and their networks, it is not impossible that this taxonomy can be used to fruitfully discuss the operations of all kinds of organizations. In addition to the necessary theoretical and conceptual clarifications and further developments of Relational Economics, empirically oriented studies and case studies should be urgently carried out in the future to provide insights into the validity of this theory project and its category taxonomy.

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# 2

## THE FORMATION AND PERFORMANCE OF LABOR-MANAGED FIRMS

An economic perspective

*Gregory K. Dow*

### 1 Introduction

I define a labor-managed firm (LMF) to be a firm that is ultimately controlled by its labor suppliers. In large LMFs, workers usually vote for a board of directors that hires the top managers. All the LMFs discussed here are legally organized as workers' cooperatives and typically follow the principle of one vote per worker-member, although some workers may lack voting rights because they are hired contractually or have probationary status.

I define a capital-managed firm (KMF) to be a firm that is ultimately controlled by its capital suppliers. In large KMFs, investors usually vote for a board of directors that hires the top managers. Most KMFs discussed here are legally organized as corporations having limited liability for individual shareholders and one vote per share of equity capital. These shares may or may not be traded on public exchanges.

KMFs are much more common than LMFs. The share of the LMF sector, measured by employment, assets, or sales, is at most 3%–4% and frequently less than 1%, depending on the country (Dow, 2018a, 87–89). However, most countries have some LMFs (Mirabel, 2021a), and Italy, Spain, and France each have thousands.

Organizational demography suggests four potential explanations for the aggregate rarity of LMFs:

- a Low LMF birth rates
- b Low rates of conversion of KMFs into LMFs
- c High rates of conversion of LMFs into KMFs
- d High LMF death rates

In absolute numbers, KMF births exceed LMF births by factors ranging from 100 to 1,000 (Dow, 2018a, 87–89). Moreover, KMFs are rarely transformed into LMFs. Given the large KMF population, any significant conversion rate would yield far more LMFs than currently exist. For early explorations of LMF demography, see Ben-Ner (1988a, 1988b), and for an early survey of hypotheses about LMF rarity, see Doucouliagos (1990).

I refer to (a) and (b) as formation issues. Theorists focusing on these issues often believe LMFs would have productivity advantages in relation to KMFs and that barriers to LMF formation account for their low aggregate numbers. The challenge for theorists in this camp is to explain how such barriers arise and how they have been overcome in situations where sizable LMF populations exist.

I refer to (c) and (d) as performance issues. Some theorists believe the general rarity of LMFs is due to inherent flaws in this governance structure that lead to poor performance conditional on formation. In this view, when LMFs compete with KMF rivals, they either die off over time or are eventually converted into KMFs. Of course, if failure is anticipated, then an LMF may not be established in the first place. The challenge for theorists in this camp is to explain why LMFs appear to perform well in some countries and industries.

Section 2 discusses barriers to LMF formation involving capital constraints and worker risk aversion. Section 3 discusses LMF performance with respect to productivity and survival. More broadly, Sections 4–6 propose three principles to guide the construction of theories about LMFs: the imperfection, asymmetry, and replication principles. I refer to the overall approach developed in these sections as the alienability theory. Section 7 addresses several questions about LMF formation and performance from Sections 2 and 3 using this framework. Section 8 argues that relatively large LMF populations have tended to emerge in settings where favorable conditions have lowered formation barriers. It also suggests a few guidelines for policies designed to expand the LMF sector.

Readers interested in the history of economic theory about LMFs should consult Dow (2018b, 2020, 2022). For an overview of empirical research, see Mirabel (2021a).

## **2 Capital and risk**

In an influential literature review, Bonin et al. (1993) concluded that LMFs are rare principally due to factors involving capital and risk. Bowles and Gintis (1994) reached the same conclusion. This has long been the most popular explanation for the aggregate rarity of LMFs (Dow, 2018b).

The idea that LMFs have limited access to capital has two main variants. First, it can be argued that capital market imperfections make it difficult for any new firm to obtain external financing via bank loans, bond sales, or the sale of equity shares, whether the firm is organized as a KMF or LMF. This constitutes a barrier to the formation of LMFs (or KMFs) by poor workers who lack capital. However, wealthy entrepreneurs do not need any external financing and can establish KMFs using their own capital. A key question about this story is why a rich entrepreneur would create a KMF even when an LMF would have a productivity advantage. I will return to this question in Section 7.

A more sophisticated story involves the differential treatment of KMFs and LMFs in the capital market. The general idea is that external investors will avoid LMFs because capital suppliers have no control rights in such firms and are vulnerable to opportunistic behavior by the worker-members (for example, high wages followed by bankruptcy). Investors will be much less concerned about financing KMFs where they have control rights and are less vulnerable to abuse. This argument is incomplete in a crucial respect: if capital suppliers are vulnerable to abuse in LMFs, would labor suppliers likewise be vulnerable to abuse in KMFs? What breaks the apparent symmetry? I will offer an answer in Section 7.

If workers are risk-averse, additional complications arise. Workers who have some wealth can limit risk by diversifying their portfolios across firms. However, when workers finance an LMF from their personal savings, each individual worker typically must invest a large share of his or her

wealth in a single firm, which leads to higher risk. A worker might also have specialized skills that would become worthless if the firm failed. Conversely, an LMF might enable workers to limit or avoid some risks, such as unemployment, which they would likely face in a KMF (Doucouliagos, 1995).

Difficulties with capital and risk are mitigated if firms are labor-intensive because then less capital is needed either to start an LMF or buy out a KMF. The same is true when productive assets are readily leased or function well as loan collateral due to their generic nature (e.g., vehicles, computers, or office buildings).

There is some empirical evidence supporting these ideas. Using panel data for 90 U.K. manufacturing industries during 1981–1983, Podivinsky and Stewart (2007, 2009, 2012) found that industry-level capital intensity and risk had stronger negative effects on LMF entry than on KMF entry. For a large sample of Italian manufacturing firms during 2003–2007, Belloc (2017) found less LMF entry when firm-level capital intensity and industry-level risk were higher.

### **3 Productivity and survival**

Several stories about the aggregate rarity of LMFs involve performance problems rather than formation problems. Prominent hypotheses include poor effort monitoring (Alchian and Demsetz, 1972), defective incentives (Williamson, 1980), and costs of collective choice (Hansmann, 1996). I treat these as performance issues because they relate to the ongoing operations of an LMF rather than difficulties specific to the formation stage.

To be sure, if performance is expected to be poor ex-post, then LMFs are unlikely to be created ex-ante. However, some LMFs might be created due to mistaken beliefs or ideological motivations. In such cases, performance problems could become visible through low LMF productivity or survival compared to KMFs in the same industry.

Theoretical comparisons of KMF and LMF performance with respect to monitoring, incentives, and collective choice often yield ambiguous conclusions. Moreover, industries differ in the degree to which such factors are important. Suppose, for the sake of argument, that LMFs are at a disadvantage in industries where the cost of monitoring worker effort is high. Even if this is true (and I will suggest in Section 7 that it is not), other industries have low monitoring costs. Furthermore, certain industry characteristics might favor LMFs. For example, LMF entry is more likely in industries, with more specialized human capital, more educationally homogeneous workers, and managers who are more easily monitored by the firm’s owners (Belloc, 2017).

Accordingly, we need to distinguish between hypotheses about the cross-industry distribution of LMFs and hypotheses about their overall rarity. Although LMFs are more numerous in some industries than in others, they are less numerous than KMFs in almost all industries. A convincing explanation for their aggregate rarity should rely on general factors, not on factors whose relevance varies substantially from one industry to another.

Another approach to LMF performance involves direct comparisons of LMF and KMF productivity when both kinds of firms exist in the same industry. Such comparisons require economists to make assumptions about the production function linking inputs to outputs within the given industry. I will briefly summarize recent research using flexible production functions that are likely to detect productivity differences if they exist. Each study attempts to address self-selection biases, where firms engage in activities for which their governance structures are especially well suited.

Fakhfakh et al. (2012) used two large French datasets, one having seven broad industries (capital goods, consumer durables, consumer goods, construction, transport, business services, consumer services) and the other having four manufacturing industries (mechanical engineering,

printing and publishing, paper and wood, and metals). Given the existing LMF input levels, in most industries, the LMFs had significantly greater output from their own technology than they would have obtained from the KMF technology. However, given existing KMF input levels, the KMFs often would have had significantly greater output if they had been using the LMF technology. A correction for self-selection bias was found to strengthen these LMF advantages.

Monteiro and Straume (2018) compared the productivity of KMFs and LMFs within six industries in Portugal. They adopted two statistical methods. One indicated that LMFs had significantly lower productivity than KMFs in some industries. However, this method did not account for self-selection effects. Using the second statistical method, which is the one preferred by the authors and does address self-selection, no statistically significant differences were found.

Young-Hyman et al. (2022) used French data on workers' coops that were matched with similar KMFs. The KMFs had a productivity advantage in less knowledge-intensive industries, but the LMFs had an advantage in more knowledge-intensive industries. Firms in a knowledge-intensive industry that switched governance structures from KMF to LMF enjoyed an average productivity increase of 8.9%.

Mirabel (2022) used French data on KMFs and LMFs. His approach resembled that of Fakhfakh et al. (2012) but with different statistical techniques and periods. Mirabel found that in 10 of 12 sectors, including services, construction, and textiles, LMFs produced significantly more, given their current inputs, than they would have produced using the KMF technology. In the same ten sectors, the KMFs produced significantly less, given their current inputs, than they would have produced using the LMF technology. The KMFs had statistically significant advantages in two sectors: basic metals and chemical products.

Apart from econometric research along these lines, there is an indirect argument that LMFs frequently have a net productivity advantage over KMFs in the same industry. This argument runs as follows:

- a Many LMFs operate in competitive industries where individual firms have little influence over input or output prices and can enter or exit relatively easily.
- b If all firms in such an industry have access to the same equally productive technology, any firms that fail to maximize profit will exit in the long run.
- c There is strong evidence that LMFs do not maximize profit (Dow, 2018a, 90–94).
- d Nevertheless, LMFs often survive for decades alongside KMFs in the same industry.
- e This implies that to compensate for departures from profit maximization by LMFs, the technologies of LMFs must be more productive than the technologies of KMFs.

The plywood industry of the U.S. Northwest (Craig and Pencavel, 1992, 1993; Pencavel and Craig, 1994) is a classic example where LMFs clearly deviated from profit maximization but competed effectively against KMFs for half a century. Craig and Pencavel (1995) estimated that the LMFs had a productivity advantage of 6%–15%.

If LMFs enjoy productivity advantages relative to similar KMFs, this might sometimes result in an LMF survival advantage, despite potential LMF deviations from profit maximization. Burdín (2014) examined LMF survival in Uruguay using firm-level panel data from 1997 to 2009 for 112 economic sectors. The overall dissolution hazard for LMFs was 29% lower than for KMFs. There were no significant survival differences for manufacturing or transport, but the difference for services was large. LMF survival advantages have also been found for other countries, periods, and industries (Ben-Ner, 1988a; Olsen, 2013). However, with French data, Fakhfakh et al. (2023)

found similar survival outcomes after matching KMF and LMF entrants using the characteristics of firms and entrepreneurs at the time of entry.

LMFs can potentially disappear through conversion into KMFs. Although examples of this phenomenon do exist, most European workers' cooperatives operate under a set of institutional rules that prevent investor buyouts and limit the use of non-member labor. In this setting, LMF attrition through the conversion route is negligible (Dow, 2018a, 107–109).

In sum, the available evidence rules out explanations for aggregate LMF rarity based on deficient performance relative to similar KMFs. At an aggregate level, the rarity of LMFs is almost certainly driven more by formation problems than performance problems. For a similar assessment, see Olsen (2013).

#### **4 The imperfection principle**

The next several sections sketch an economic theory of the labor-managed firm. A full presentation appears in Dow (2018a, Chapter 19). The core of the argument is that credible explanations for the aggregate rarity of LMFs, and for various other empirical asymmetries between KMFs and LMFs, must adhere to three principles, which I will call the imperfection principle, the asymmetry principle, and the replication principle. The economic literature has not consistently followed these precepts, and this has limited the usefulness of earlier theoretical work on LMFs (Dow, 2018b, 2020, 2022).

I begin this section with the imperfection principle. Economists frequently find it useful to construct formal models based on the assumption that markets are complete and competitive. Under the completeness assumption, a separate market price exists for every good or service people care about. This is sometimes expressed by saying that ‘transaction costs are zero’, meaning that the costs of search, bargaining, monitoring, and enforcement can be ignored, and thus that markets for all goods and services can operate costlessly. One implication is the existence of complete contracts that spell out what every participant in a firm must do in every possible circumstance. Another implication is that physically similar goods or services of varying qualities will be traded on separate markets, with the price on each market reflecting the relevant quality level.

Under the assumption that markets are competitive, individual consumers or firms have no influence over prices, which are determined by the requirement that supply equals demand. This second assumption is often expressed by saying that individual agents are ‘price takers’ rather than ‘price makers’. One implication is that firms lack monopoly or monopsony power, and another is that firm-specific physical or human capital is absent.

Few, if any, economists believe that these assumptions provide a literal description of the real economy. However, models with complete and competitive markets (often referred to as perfect markets) are well understood and offer a convenient theoretical benchmark for more complex situations involving imperfect markets. It is often useful to construct economic models by starting with perfect markets and then considering a range of imperfections one at a time to see how they alter the predictions derived from the initial model.

It can be shown that, in a world of complete and competitive markets, there would be no economic difference between KMFs and LMFs. Firms of each type would maximize profit, their distribution across industries would be random, and economies inhabited by one type of firm or the other would allocate resources identically. Such equivalence theorems emerge from an equivalence between stock markets for KMFs and membership markets for LMFs (Dow, 2018a, Chapters 2–5). This implies that interesting theories of LMFs must include some type of imperfection in the markets for capital and labor. I call this the imperfection principle.

Some potentially relevant forms of imperfection include adverse selection, public goods, and incomplete contracts. Adverse selection arises when certain individuals have important private information before they sign contracts with less informed individuals. For example, a worker may know his or her true productivity before accepting a job, while the employer only knows the average productivity of the job applicants. Alternatively, an entrepreneur may know the true quality of his or her project, while the workers hired by the entrepreneur only know the average quality of such projects.

A public good exists when one person's consumption of the good does not reduce another person's consumption, and it is difficult to exclude any individual from access to the good. For example, working conditions might be a public good (or public bad) for all workers at the same establishment. Valuable information on a subject might also be a public good if making the information available to one member of a group implies that the same information will automatically become available to the other members of the group.

Contracts are incomplete when it would be too costly to specify in advance what all individual participants in a firm must do at all times under all circumstances. Contractual incompleteness typically leads to the allocation of resources within the firm through an authority structure. The people who hold control rights in the firm (e.g., investors in a KMF) can then exercise their authority in ways that impose costs on those who lack control rights (e.g., employees in a KMF).

## **5 The asymmetry principle**

Although market imperfections are necessary for a theory of the LMF, they are not sufficient. There could be symmetric imperfections in the capital and labor markets, which would result in an absence of any meaningful difference in KMF and LMF behavior. For an equivalence theorem of this kind involving incomplete contracts, see Dow (2018a, Chapter 16).

Hence, a useful theory of the LMF must also identify a qualitative difference between capital and labor and demonstrate how this helps explain the differences between KMFs and LMFs. I call this the asymmetry principle. In my view, the key asymmetry is that capital is alienable while labor is not. Non-human assets like machines, buildings, and patents are separate from the persons who own them, and their ownership is readily transferable from one person or group to another. However, human assets like talents, skills, and labor time cannot be separated from individual persons and cannot be bought and sold in the same way.

This asymmetry has many important implications. For example, a firm can hire workers to provide a flow of labor services in exchange for wages, but it cannot own a stock of human capital in the same way that it can own a stock of physical capital. Furthermore, each individual worker has a finite amount of time and skill, but there is no limit on a wealthy person's ownership of non-human capital. Consequently, a large firm must employ many workers to supply labor but could potentially have only a few investors providing capital. Another implication is that investors can easily diversify their capital contributions across many different firms, while workers generally cannot do the same for their labor contributions.

## **6 The replication principle**

Critics of the LMF often assume that LMFs have certain restrictive features, such as equal pay for all workers, and deduce that LMFs will have poor productivity or behavioral pathologies. However, it is no surprise that LMFs may exhibit performance defects relative to KMFs if they must operate under constraints that similar KMFs do not face. When asymmetries between KMFs

and LMFs are simply built into the definition of each type of firm, we do not obtain a satisfactory explanation for the empirical differences between them.

To avoid such intellectual sleights of hand, we should assume that an LMF can do anything a KMF can do unless the replication of KMF practices is somehow infeasible for a firm controlled by workers. Conversely, we should assume that a KMF can do anything an LMF can do unless the replication of LMF practices is infeasible for a firm controlled by investors. In either case, the obstacles to replication must be spelled out explicitly. I call this the replication principle.

For an application of this principle, recall that according to some of the productivity studies discussed in Section 3, KMFs would have been better off if they had adopted the technology used by their LMF rivals. At the end of Section 7, I will suggest various reasons why investor control may prevent these KMFs from imitating the practices of LMFs.

## **7 The alienability theory**

I refer to the ideas about LMFs in Sections 4–6 as the alienability theory. Elsewhere, I have argued that this theory not only helps explain the aggregate rarity of LMFs and their cross-industry distribution but also further empirical generalizations about LMF design, behavior, and performance (Dow, 2018a). For a comparison of the alienability theory with an alternative approach, transaction cost theory, see Dow (2022). This section focuses on alienability-based explanations for LMF rarity that apply across a wide range of industries.

Two questions that were left hanging in Section 2 can now be addressed. The first was why a wealthy entrepreneur would organize a KMF even if an LMF would have higher productivity. The alienability of capital implies that rich entrepreneurs can supply all the capital needed for a firm, but the inalienability of labor implies that in firms of significant scale, such entrepreneurs cannot supply all the labor themselves. Nevertheless, if LMFs had perfect membership markets, the entrepreneur could sell LMF membership positions to workers. Assuming an LMF productivity advantage, the total revenue collected in this way would exceed the profit from a KMF.

In practice, this solution is usually blocked by adverse selection. Suppose individual entrepreneurs know whether their projects are good or bad, but potential LMF members do not. If there is a high probability that the entrepreneur's project is bad, workers will not be willing to pay much to join an LMF, and an entrepreneur with a good project will prefer to establish a KMF despite its lower productivity. This argument applies even when workers have some personal wealth and are risk-neutral. Moreover, it is largely independent of industry characteristics, although industries might vary in the extent to which credible information about entrepreneurial projects is available. For a formal model involving workers' cooperatives, see Dow (2018a, Chapter 10), and for a related model involving professional partnerships, see Dow (2018a, Chapter 11).

Another question in Section 2 involved problems of credible commitment. Suppose we grant that LMFs have trouble attracting capital because investors fear being exploited in a firm where workers have control rights. Why don't KMFs face equal trouble attracting labor because workers fear being exploited in a firm where investors have control rights? In short, why don't we have symmetric market imperfections?

The alienability concept in Section 5 is helpful here. Since firms can own stocks of non-human capital but can only hire flows of labor services, capital and labor markets differ in their intertemporal structure. Suppose an LMF must acquire a substantial capital stock before it starts production. Assuming contracts in the capital market are incomplete, this creates a large temptation for the LMF to renege on promised repayments to investors, especially if it will not need to return to the capital market because future maintenance and growth can be financed out of retained

earnings. However, KMFs exchange a flow of wages for a flow of labor services. When a KMF reneges on promised wages, a worker can immediately respond by quitting. In a repeated game framework, KMFs may therefore be more effectively deterred from abusing workers than LMFs are deterred from abusing external investors. This asymmetry applies broadly, though it is likely to be more serious for capital-intensive industries where LMFs must make large up-front investments and workers lack the wealth required to finance a firm. For formal models, see Dow (2018a, Chapters 17 and 18).

Employee buyouts provide an example of a public goods dilemma. Workers are usually uncertain about the productivity gains that could be obtained from converting a KMF into an LMF. Reliable information on this subject is a public good from the standpoint of the employees in the KMF. This leads to a free rider problem: each individual worker benefits from having the information without bearing the cost of generating it. For a formal model, see Dow (2018a, Chapter 13).

Furthermore, even if productivity increases, there is little incentive for an individual or small group to invest time, effort, or money into organizing a buyout because the benefits would be spread across the entire workforce. Thus, KMFs are rarely converted into LMFs even though conversions might enhance productivity on average. Rich investors do not confront similar free rider problems and can convert LMFs into KMFs when this yields a productivity gain, provided that LMF institutional rules allow it. These points are largely independent of industry characteristics, although firm size and the transparency of the relationship between governance and productivity are relevant factors. The argument also holds in situations where workers have enough personal savings to buy out a firm and are risk-neutral rather than risk-averse.

Although free rider dilemmas tend to make employee buyouts rare, exceptions do arise, particularly when a KMF is in financial trouble and job losses are imminent. In such cases, it is helpful to have existing infrastructure to solve collective action problems, such as labor unions or federations of the sort described in Section 8 below. The study of collective entrepreneurship remains at an early stage, but researchers in this area may be able to shed further light on the obstacles to employee buyouts (Lomuscio, 2022).

We can now return to the discussion of productivity and survival in Section 3. The inalienability of labor has a corollary: workers must frequently be physically present at a production site. For this reason, workers frequently acquire a large amount of information about the firm's technology, organization, and markets. Investors, on the other hand, could be located anywhere in the world and might not easily acquire parallel information.

In an LMF, worker knowledge is automatically available whenever firm members make collective decisions, and it is easily transferred to managers because workers tend to trust managers who are accountable to them. Moreover, workers often observe the ability and effort levels of their colleagues, which permits mutual monitoring (Bowles and Gintis, 1993). Finally, LMFs have greater employment stability than similar KMFs, which makes workers more willing to invest in firm-specific human capital.

KMFs have trouble replicating LMF performance in these areas for two reasons. First, it is costly for outside investors to replicate worker knowledge. This is consistent with observations that KMFs employ more managerial and supervisory staff than similar LMFs (Fakhfakh et al., 2012). Second, managers who are accountable to investors tend to be less trusted by workers, making workers in KMFs more reluctant to reveal private information or develop firm-specific skills.

One further point deserves mention. Workers do not just have private information relevant to productivity. They also know their own preferences about trade-offs involving income, risk, scheduling, working conditions, and the like. LMFs can readily adjust public goods within the firm in ways that reflect worker preferences. Investors do not know the details of these preferences,

so KMFs may not supply the same combination of income and public goods that workers would choose for themselves (Pencavel, 2015). More generally, LMFs are likely to place greater emphasis on local environmental quality and other community amenities than KMFs (see the chapter by Albanese in this Handbook). When public goods internal or external to the firm are important, organizational stability is likely to require that LMFs be insulated from investor takeovers (Dow, 2018a, Chapter 12).

## **8 Conclusion**

Many people favor labor-managed firms for social and philosophical reasons, often involving principles of democracy, equality, and community. I have discussed arguments of this kind elsewhere (Dow, 2003, Chapter 2). I believe they have substantial merit, but here I will keep the focus on more narrowly economic considerations.

The evidence on productivity and survival from Section 3 shows that LMFs are not rare because they perform poorly once they exist. Rather, they are rare because they are rarely created. The alienability theory developed in Sections 4–7 explains how LMFs can remain rare in the aggregate even though they appear to enjoy productivity advantages relative to KMFs in numerous individual industries.

The fact that LMF populations vary considerably across countries suggests that public policies and institutions play an important role in determining LMF viability. For example, the Mondragon conglomerate of workers' co-ops in Spain took early advantage of a quirk in Spanish banking laws, which allowed cooperative banks to pay higher interest rates to depositors than other banks (Dow, 2003, Chapter 3). In Italy, political support for tax breaks and public contracts led to the formation of large LMF federations such as the Lega, and after World War II, state promotion of worker cooperatives was incorporated into the constitution (Dow, 2003, Chapter 4). These histories suggest that significant LMF populations tend to arise in institutional settings with unusually low formation barriers. Conversely, LMFs are less common when regulatory institutions make formation more difficult, as in Australia (see the chapter by Bennison in this Handbook).

The probable relevance of history, policy, and institutions is also suggested by the fact that the cross-industry distribution of LMFs varies from country to country. There are some consistent patterns; for example, few countries have LMFs in highly capital-intensive industries like chemicals, mining, and auto assembly. However, certain countries have large LMF clusters in transportation, others in construction, and still others in printing and publishing, and so forth. Thus, LMF viability is not tightly linked to particular industry characteristics and seems to display some path dependence.

Elsewhere, I have discussed policies to encourage LMF creation (Dow, 2003, Chapter 12, 2018a, Chapter 20). I will only make a few points here. First, the LMF birth rate is probably best increased through supportive institutions like Mondragon Corporation in Spain, Legacoop in Italy, and CG Scop in France. These institutions provide capital, insurance, and technical support to individual workers' co-ops. They also organize new LMFs from scratch and by taking over capitalist firms. Similar federations exist in Brazil, Portugal, and Quebec. Such institutions seldom evolve spontaneously because they have large public good elements, but they are resilient and do not require external support once they exist. Governmental efforts in other countries to replicate institutions of this kind would require initial public investments but might provide sufficient productivity gains to pass a cost-benefit test.

Second, the LMF sector can be expanded by policies to facilitate employee buyouts of conventional firms. LMFs formed through buyouts of KMFs often have better survival outcomes

than LMFs started from scratch (Pérotin, 2004; Olsen, 2013; Mirabel, 2021b). If a majority of the workforce wishes to pursue a buyout, public subsidies may be justifiable, much like the subsidies provided foremployee stock ownership plans (ESOPs) in the United States (Dow, 2003, Chapter 4). At present, ESOP subsidies frequently flow to firms where workers own a minority of equity shares and/or lack representation on the board of directors, and where votes are proportional to inputs of capital rather than inputs of labor. The productivity payoff from such subsidies would likely be greater if firms were converted into fully democratic LMFs. A project to convert small businesses into worker cooperatives is currently funded by the Social Sciences and Humanities Research Council of Canada (Co-opConvert, 2024). For a broad cross-country survey of policies to promote employee ownership, see Mygind et al. (2023a, 2023b).

Assuming that the goal is to increase the population of LMFs rather than to increase employee ownership in KMFs, public funds should be targeted at industries where LMFs have an extensive track record, such as light manufacturing, construction, transport, and services. Labor-intensive and knowledge-intensive industries with relatively low financial risk are attractive candidates. Because LMFs often cluster within industries or localities (Arando et al., 2012), a strategy of building critical masses could be fruitful. Public policy should focus on the formation or conversion stage and avoid soft budget constraints for established LMFs, where external support is typically unnecessary. In recessions, support for distressed firms can come from LMF federations, and support for the individual worker-members can come either from federations or conventional social insurance programs.

Economists routinely recommend policy interventions to correct various types of market failure. The barriers to LMF creation are not fundamentally different from other market imperfections, and it is becoming clear that well-designed and well-targeted public policies can enhance both democracy and efficiency within firms. As our understanding of LMFs improves, policy proposals can be further refined. However, we already have ample experience to guide governments that may be interested in such institutional innovations.

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# 3

## COOPERATIVES BEYOND MARKETS AND FIRMS

*Thibault Mirabel*

### 1 Introduction

Cooperatives exist, yet the transaction cost economic theory hardly recognizes them. Whether worker, agricultural, or consumer cooperatives, theorists apply the market-firm framework to define them, while acknowledging that cooperatives do not fit well within this dichotomy. This discrepancy between the existence and the theory of cooperatives has already been noted by Alchian and Demsetz (1972) and is also discussed by Hansmann (1996). In many respects, we face a similar situation with cooperatives as the one expressed by Coase (1937) about firms, whereby firms have material existence while remaining almost absent from economic theory. Failing to account for cooperatives, economic theory misses an opportunity to develop its understanding of productive collective organizations. To remedy this gap, I present theoretical foundations for considering cooperatives as a third pole of economic organizations alongside markets and firms. I define the cooperative contract, radically founding cooperatives beyond markets and firms, as a double constraint of capital and labor imposed on their members for all types of cooperatives. This chapter also suggests that the unpaid labor performed in cooperatives is not a deviation but constitutes a core implicit rule of the cooperative contract.

Among scholars studying cooperatives, transaction cost economics (TCE) (and neoclassical economics in general) is usually not considered a useful framework or is simply rejected on principle, arguably “throwing the baby out with the bathwater.” Despite the many criticisms that have been made against neoclassical economics and TCE, often by their own defenders, I believe it is worth investigating what it would mean to theorize cooperatives within the transaction cost framework to better define cooperatives, delineate their limits, and develop new concepts in TCE. I do not think the transaction cost framework can fully explain the existence and prevalence of cooperatives but can shed light on blind spots within the field. More specifically, TCE seems an adequate framework to theorize what is common among all types of cooperatives.

This chapter shares similarities with other attempts to theorize cooperatives as a third coordination mode, such as that of Borzaga and Tortia (2017). In their paper, the authors recognize that

To affirm that cooperation is a mechanism of coordination on a par with state authority and market exchange is tantamount to maintaining that there are transactions or conditions for

which cooperation is more efficient (implying lower transaction costs) or more effective (implying higher generated economic or social surplus) than alternative mechanisms.

However, the authors try to found cooperatives on cooperation, understood as altruistic behavior (i.e., cooperators are non-self-interested agents). While this is a useful approach, as one is not born a cooperator but must become one, I consider it more interesting to learn under what conditions non-altruistic agents create or join cooperatives.

About 280 million people, or 9.86% of the global workforce, are employed in one of the 3 million cooperatives in existence (Eum & Terrasi, 2017). Cooperatives are thus non-negligible. In some sectors, such as agriculture, cooperatives are even dominant. Cooperatives are as old as firms with limited liability and legal personality. The Rochdale Pioneers were created in 1844, the same year that the United Kingdom issued the Joint Stock Companies Registration and Regulation Act (Turner, 2018). In most countries, cooperatives have no legal existence, and people must organize through firm contracts. More generally, the concepts and categories through which we think of cooperatives are not specific to cooperatives but are borrowed from for-profit firms. In some countries, such as France, cooperatives are legally defined as for-profit firms (*sociétés commerciales*) with specific features, literally making them cooperative exceptions that confirm the conventional rule. In a few countries, such as Portugal, cooperatives are recognized as a distinct legal entity from firms, with their existence defined in a Code of Cooperatives distinct from the Code of Companies. Of course, the legal existence of cooperatives varies from one country to another and also by types. Cooperatives are usually distinguished by their types of members: workers, consumers, farmers, banks, entrepreneurs, craftsmen, etc. For instance, agricultural and fishery cooperatives are usually governed by specialized Codes of laws, distinct from those of for-profit firms.

Diversity is both an important feature of cooperatives and an obstacle to their theorizing. Theoreticians focus on one type of cooperative and the specific problems it might face, such as Dow (2018) for worker cooperatives. The field of agricultural cooperatives is clearly separated from that of worker cooperatives. In this chapter, I intend to define cooperatives beyond their diversity by using the TCE approach. The heuristic potential of this approach lies in its comparison of organizations relative to a transaction cost-minimizing criterion.

The objective of this chapter is to define cooperatives as a radically different type of organization alongside firms and markets by using the transaction cost approach. Section 2 briefly reviews the main concepts of TCE and its methodology. Section 3 presents Williamson's analysis of cooperatives as "peer-group" firms and two approaches to defining cooperatives as hybrids. I criticize these theorizations in Section 4 and consider cooperatives as a third pole of organizations alongside markets and firms in Section 5. Section 6 concludes.

## **2 The transaction cost economics approach**

### ***2.1 Unit of analysis***

The concept of transaction is the keystone of TCE because, as Coase (2000) argues, without efficient transaction systems, agents cannot benefit from the advantages of specialization. Williamson (1985: 1) defines a transaction as the transfer of rights of use between separable technological units. These rights of use include not only property rights but also other forms of transferable rights, such as collective rights or administrative rights. The point here is to stress that transactions occur in many different organizations, not only within markets but also within firms.

To operationalize the approach of transaction costs initiated by Coase, Williamson (1975) identifies three “attributes” or characteristics of transactions: their frequency (F), the uncertainty (U) surrounding their environment, and the asset specificity (AS) they require. The attributes of a transaction determine its cost. Functionally, the relationship between transaction costs (TC) and the attributes of the transaction is the following:  $TC = f(-F, +U, +AS)$ . The cost of a transaction decreases with its frequency but increases with the uncertainty of environment and the specificity of assets or investment required.

According to Williamson, the overall transaction costs determine the mode of governance (market or hierarchy) under the assumption that agents minimize costs. In the case of a transaction between agents characterized by high specificity of assets, low frequency, and high environmental uncertainty, it is cheaper for these agents to be coordinated by a firm or hierarchy. The term hierarchy is used by Williamson to describe the fact that one agent (the input supplier) is losing some rights (thus breaking the equality of rights characterizing market transactions) to the benefit of the other agent (the entrepreneur) in exchange for other rights. Intra-firm transactions are not mere transfers of property rights as in a transaction between a buyer and a seller in a market but involve transfers of use rights tied to the person.

Contracts between agents (or separable technological units in Williamson’s terms) are ways of organizing transactions. Contracts can be explicit, such as an employment contract, or implicit, such as when one orders food in a restaurant and implicitly agrees to pay the price indicated. Contracts often take the form of legal contracts, such as the employment contract, but do not have to.<sup>1</sup> Contracts are assumed to be incomplete to the extent that agents live in a radically uncertain environment from which all potential issues arising between the agents during the transaction cannot be inferred. Additionally, agents are assumed to have bounded rationality, making them limited in their ability to take into account all relevant information. Therefore, there are modes of coordination between agents that complement the incompleteness of contracts, with “authority” within firms being one of them. Modes of governance implement complementary modalities of transaction to increase the enforceability (*ex-ante*) and enforcement (*ex-post*) of contracts. Thus, the three attributes of transaction cost identified by Williamson (frequency, uncertainty, and asset specificity) are not the only significant variables defining the choice between modes of governance.

## 2.2 Methodology

The methodology of TCE differs from that of neoclassical economics in many respects, giving it greater heuristic potential for modeling key aspects of cooperatives. TCE compares differences in organizational settings using a transaction cost economizing criterion. The analysis is discrete, in contrast to the continuous marginalist approach. The focus is on explaining qualitative organizational differences based on continuous attributes of the transaction. The agents are assumed to have bounded rationality and opportunistic behavior. While TCE belongs to mainstream economics, it is based on a realistic hypotheses approach rather than Friedman’s (1953) realistic consequences approach. One significant insight of Williamson’s approach is that modes of organizations always include a trade-off, and as a result, no single mode of organization dominates all others in all aspects. The choice or determination of the mode of governance must match the attributes of the transaction in a discriminating way if transaction cost economizing is to be accomplished (Williamson, 1985: Chapter 10).

From his initial theorization of markets and hierarchies (firms), Williamson (1996) expanded his model of transaction costs to include organizational arrangements that are neither firms nor markets and labeled them “hybrids.” Using asset specificity as the key determinant of organizational mode, he

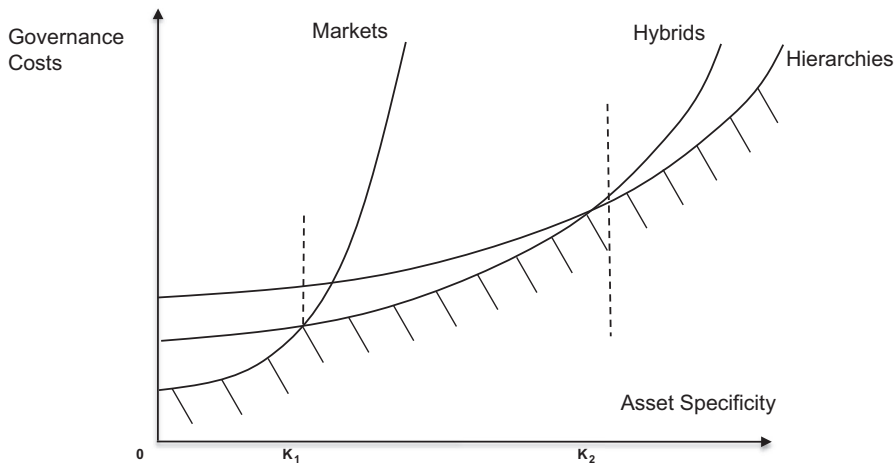


Figure 3.1 Modes of governance, replicated from Williamson (1996: 108).

demonstrated that between market transactions and vertical integration (firm transactions), interfirm agreements operate as optimal choices for minimizing transaction costs (Williamson, 1996: Chapter 4). Contractual hazards increase when specific assets create mutual dependence because agents are assumed to behave opportunistically and to take advantage of this dependence. Figure 3.1 provides a geometric representation of Williamson's model, where the trade-off between the three modes of organization is indicated by bold lines, with the lower envelope showing the least expensive mode for the corresponding level of asset specificity related to the transactions at stake. Governance costs increase with asset specificity, but at different rates according to the mode of organization.

### 2.3 Markets and firms

According to TCE, in markets, agents have separated ownership in the sense that they own both property and return rights on their assets. There is no authority relationship between the two parties and no central structure, common staff or administrative controls are deployed to govern the transaction. The price system provides sufficient incentives for both parties to be efficient and adapt to changing market conditions. In a market with a large number of transactors, partner identity is not relevant, and thus partner selection mechanisms are not needed. There is no mutual dependency between exchange partners.

Market transactions are supported by classical contract law, where “more formal terms supersede less formal should disputes arise” (Williamson, 1991: 271). This “inelastic” contracting regime, coupled with third-party enforcement mechanisms, is well-suited when continuity is not relevant to exchange partners. Contract enforceability and enforcement are ensured by a set of institutions, such as the state protecting the general interest, an efficient legal system, and an independent administration ensuring the well-functioning of markets, which are usually beyond the scope of TCE and are taken as “background conditions.” Except for these institutions just mentioned, there is no need for monitoring or partner selection in market transactions. The decentralized system of prices is enough to ensure transactions at the lowest cost.

Adaptation to disturbances occurs in a decentralized and autonomous fashion as exchange partners react and reposition to changing relative prices and other market signals. This market, as a

Williamsonian mode of governance, is similar to the “invisible hand” coined by Adam Smith and theorized by the “high” theory of general equilibrium of markets. Markets are thus standard agreements among two or more “technological units” that trade with one another.

Where there are transaction costs and market imperfections, hierarchies might supersede markets as the least expensive mode of organization between agents. In that case, the agents unify the ownership of their assets, which they exploit through authority relations. The “visible hand” of the entrepreneur emerges as a central planner of the firm, commanding the integrated agents. The interdependence between upstream (firm) and downstream (producers hired by the firm) assets suggests that partner identity matters in these situations, thus creating the need for partner selection mechanisms.

As the firm grows in scale and scope, the function of the entrepreneur becomes subdivided into common staff, administrators, accountants, funding officers, board of advisors, and others, to coordinate activities inside the firm. This specialized entrepreneurial function includes planning, information sharing, integration, monitoring, performance evaluation, seeking funding, and accounting. The adaptation decision is centralized and vertically transmitted to all elements of the firm. The growth and correlated division of the entrepreneurial function among different individuals reduce the incentives for vertical integration, as bureaucratic costs emerge.

The explicit contracts of firms are those of employment and equity in which the suppliers of labor and capital, respectively, give up their rights to use labor and capital for the benefit of the corporation, which is the legal entity embodying the entrepreneurial function of coordinating inputs for production. Tellingly, the implicit contract law of internal organization is such that courts refuse to hear disputes between internal divisions. In other words, hierarchies are their own court of ultimate appeal (Williamson, 1991: 274) and are singular legal personalities.

## **2.4 Hybrids**

Hybrids are a less studied and established concept compared to markets and firms. Williamson first considered hybrids as a temporary mode of governance that would eventually move into one of the two poles: firms or markets. After studying cases of hybrids, Williamson revised his position and considered hybrids as a permanent cost-minimizing transaction mode of governance with its own rationale and internal characteristics.

The term “hybrids” clearly emphasizes the lower ontological level on which this concept stands compared to markets and hierarchies. The concept of hybrids was coined to understand a wide variety of interfirm relationships such as networks, supply chains, franchise agreements, joint R&D projects, and partnerships.

For Williamson (1991: 281), the hybrid form is characterized by “semi-strong incentives, an intermediate degree of administrative apparatus, [which] displays semi-strong adaptations of both kinds, and works out of a semi-legalistic contract law regime.” Thus, hybrids are conceived as intermediate forms between markets and firms.

Building on Williamson’s view, Ménard (2004) identifies a keystone common feature of hybrids as pooling resources and related decision rights. This pooling entails that a partner’s identity matters as a criterion for partner selection, imposes certain characteristics in contracts, and preserves competition between partners.

Ménard (2022: 302) defines hybrids as “arrangements in which two or more partners pool strategic decision rights as well as some property rights, passing these rights across fixed boundaries of organizations that remain legally distinct and keep autonomous control over key assets.” Legally speaking, hybrids involve parties that remain distinct entities while sharing rights substantial enough to require

monitoring through joint mechanisms of governance. In contrast with markets, hybrids cannot adapt by unilateral decision of one of the partners, and in contrast with firms, hybrids cannot adapt by *fiat* decision; rather, partners jointly plan and govern to ensure the enforcement of the agreement.

Ménard (2022, 2004) maintains that hybrid organizations form a “specific class” of governance structures with the purpose of generating rents from mutual dependence between partners while controlling for the risks of opportunism. To do so, hybrids combine contractual agreements and administrative entities. Hybrid contracts must (1) select partners; (2) determine the duration of the relationship; (3) specify quantity and quality requirements; (4) lay out procedures for regulating renegotiations when *ex-post* adaptation is required; and (5) specify rules for distributing the expected gains from joint actions.

Administrative entities specific to hybrids enable the enforceability (*ex-ante*) and enforcement (*ex-post*) of hybrid contracts. They can take different forms, varying in degree of formalization and centralization of decision-making, ranging from trust to formal government. Ménard (2004: 366) qualifies these administrative entities as “private governments” or “authorities” (as opposed to hierarchies) that “pair the autonomy of partners with the transfer of subclasses of decisions to a distinct entity in charge of coordinating their action.” A major point of these “authorities” specific to hybrids is that they maintain equality or symmetry between partners while mutually enforcing respect for contracts and ensuring “transactional reciprocity.”

### **3 Cooperatives as firms or hybrids**

#### **3.1 Cooperatives as peer-group firms**

In “The Organization of Work,” Williamson (1985) distinguishes six modes of organization. Among them, he defines for-profit firms as the mode of organization based on an authority relation and cooperatives as the mode of organization based on Peer-groups. Cooperatives are self-managed firms with joint production, collective ownership, and democratic decision-making. Williamson distinguishes two dimensions of hierarchies which have different weights in cooperatives and firms. Contractual hierarchy refers to how many agents are responsible for negotiating the contracts (the relation between agents). Command hierarchy refers to how many agents are responsible for effecting adaptations. An authority relation has strong contractual and command hierarchies, while a peer-group relation has a weak contractual hierarchy (because it has no central contracting agent) and a strong command hierarchy. Interestingly, Williamson (1985: 231) states that the efficiency gains of hierarchy as a mode of governance come from command hierarchy which characterizes both cooperatives (Peer-groups) and firms (authority relations).<sup>2</sup>

Cooperatives share many efficiency aspects with firms. For Williamson, their rarity is explained by the fact that, in a capitalist economy, unions are the main collective organizations of workers and operate alongside and inside firms (Williamson, 1985: Chapter 10). Even if Williamson does not carry the analysis further, he assumes that unions must have an advantage in transaction cost economizing relative to cooperatives, resulting in a substitution effect between unions and cooperatives.

#### **3.2 Cooperatives as intermediate hybrids**

Even if Ménard (2007) is not the first to conceive cooperatives as intermediate forms between markets and hierarchies (Bonus, 1986; Shaffer, 1987), I will present only Ménard’s (2007) contribution.

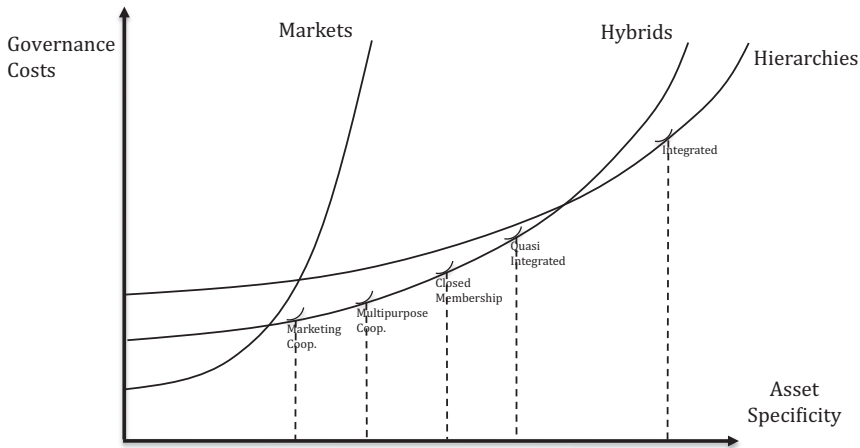


Figure 3.2 Modes of governance among cooperatives, replicated from Ménard (2007: 12).

According to Ménard (2007), the concept of hybrids, as presented in Section 2.4, can encompass the diversity and main characteristics of cooperatives. Indeed, cooperatives pool resources and, as a result, have significant contracts combining competition and coordination between equal yet different partners. Evidence of this aspect is the “one member, one vote” rule, which is common across most types of cooperatives. Cooperatives differ in the status granted to property, decision, and return rights, from identification of property and decision rights to their separation. This diversity stands between complete separation (as in markets) and complete integration (as in firms), thus making it plausible to draw a continuum of cooperatives within the category of hybrids. Trust and horizontal monitoring are also informal mechanisms ensuring the enforceability and enforcement of contracts within cooperatives. These governance attributes are necessary to minimize agency costs with managers, but they also serve to mitigate collective decision-making costs among members, which, as shown by Hansmann (1996), tend to increase with the number of members.

Ménard (2007) articulates cooperatives with the concept of hybrids through intermediate forms. In other words, cooperatives are conceived as modes of organization with similar attributes of transaction and organization to markets and firms, but varying only in degree. Literally, cooperatives are conceived as a kind of average between markets and firms. Figure 3.2 illustrates this point by showing a typology of cooperatives along the axes of asset specificity and costs of governance. For an average asset specificity, cooperatives stand as a cost-minimizing choice between markets and firms. The more easily redeployable the assets held by cooperators in their cooperative, the closer we are to market arrangements (e.g., retailing or marketing cooperatives, and multipurpose cooperatives). Symmetrically, the more specific to the transactions organized by a cooperative are the assets held by cooperators, the tighter the coordination should be, bringing the arrangement closer to a form of governance that is similar to full integration (e.g., closed membership cooperatives and quasi-integrated cooperatives). In the case of very specific assets, the transactions monitored by the cooperative make it structured and governed in a manner very similar to a conventional integrated firm.

Note that Ménard (2007) uses only the variable of asset specificity to categorize cooperatives as hybrids on a market-firm continuum. Other attributes of transactions such as uncertainty and frequency are ignored and left for further research.

### 3.3 Cooperatives as intertwined hybrids

Chaddad (2012) also proposes incorporate cooperatives as hybrids within the transaction cost framework but in a different way than Ménard (2007). In this approach, cooperatives are seen as intertwined forms of organization, merging some characteristics of markets and some characteristics of firms, instead of averaging the characteristics of markets and firms. To differentiate his approach from Ménard (2007), Chaddad (2012) qualifies cooperatives as “true hybrids.” The key point is that cooperatives are not situated on a market-firm continuum, but rather constitute an autonomous mode of organization with characteristics that would be considered contradictory according to the market-firm continuum.

Cooperatives are characterized by democratic governance and authority (“private government” in Ménard’s (2007) terms). These characteristics can be understood as the interaction of market-like and firm-like attributes. More precisely, Table 3.1, extracted from Chaddad (2012: 450), presents a set of nine transactional attributes and their different degrees among markets, hierarchies (firms),

Table 3.1 Markets, hierarchies, and cooperatives as systems of attributes, replicated from Chaddad (2012: 450).

Mechanisms/ instruments	Market	Bargaining association	Processing cooperative	New generation cooperative	Hierarchy
1 Ownership (property rights)	Separated	Separated (-) Level of member investment (+) →			Joint (Unified)
2 Authority (formal)	0	0	++	++	++
3 Incentive intensity	++	++	++	++	0
4 Administrative controls	0		++	++	++
• Planning		0	++	++	++
• Information		+			
• Integration		0			
• Monitoring		0			
5. Common staff (central structure)	0	+	++	++	++
6. Partner selection	0	0	0	++	++
7. Adaptation A	++	++	++	+	0
8. Adaptation C	0	+	+	++	++
9. Contract law	++	++	+	+	0
Degree of Formalization					
• Association (horizontal)	0	++	++	++	++
• Exchange (vertical)	0	0	0 / +	++	++
Degree of centralization	0	+	+ / ++	++	++

Note: ++ = strong; + = semi-strong; 0 = weak. This table builds on and extends Table 1 in Williamson (1991: 281).

and cooperatives (divided into three categories: bargaining associations, processing cooperatives, and new generation cooperatives). The attributes that are weak for markets are very strong for firms, and *vice versa*. Cooperatives categorized as processing cooperatives share some strong attributes with markets, such as incentive intensity and adaptation A (decentralized adaptation), and also share strong attributes with firms, such as formal authority, administrative controls, and central structure. Processing cooperatives also exhibit intermediate values between the two for some attributes, such as ownership, contract law, and adaptation C (centralized adaptation). Thus, cooperatives are conceived as forms of organization intertwining market-like and firm-like attributes, with average values for other attributes.

## 4 Limits

### 4.1 The scope limit

Whether cooperatives are conceived as peer-group firms or as a type of hybrid, the scope of analysis is limited to one type of cooperatives. Williamson analyzes worker cooperatives only, and even within this category, he refers to a certain type of worker cooperative, i.e., ex-Yugoslavian cooperatives.<sup>3</sup> Williamson's analysis belongs to the debate of comparative systems between Western capitalism and Eastern socialism typical of the Cold War, which also marked the first generation of research on worker cooperatives as identified by Mirabel (2021). Hence, the insights resulting from Williamson's conception of cooperatives as peer-group firms really only apply to a certain type of worker cooperative, leading, without caution to a hasty double generalization, to all worker cooperatives, and then to all cooperatives.<sup>4</sup>

Ménard and Chaddad explicitly theorize agricultural cooperatives only. As agricultural cooperatives are less rare than worker cooperatives, their organizational structures are quite similar across countries, and thus the analyses made by Ménard and Chaddad can fairly be generalized to all agricultural cooperatives but are still under the threat of hasty generalizations to other types of cooperatives. A related issue of focusing on one type of cooperative is that they do not fully fit the definition of hybrids as presented in Section 2.4, which makes sense, since hybrids were first established by Williamson and are still used to identify interfirm organizations. Within Chaddad's (2012) and Ménard's (2007) approaches, cooperatives are implicitly considered as interfirm organizations. This sounds contradictory to the stated goals of their approaches, which aim to capture the internal idiosyncratic characteristics of cooperatives within TCE.

The limited scope of these approaches is not particular to the authors reviewed here; this criticism can be extended to many works that focus solely on one type of cooperative. While such a focus has an undeniable heuristic advantage, it also carries the risk of tunnel vision, making the scholar blind to similarities and differences with other types of cooperatives.

### 4.2 The methodological limit

Cooperatives have internal characteristics that cannot be reduced to the usual transaction attributes, hence preventing us from drawing a continuum between markets and hierarchies. Paradoxically, both Chaddad (2012) and Ménard (2007) identify democratic governance (the "one person, one vote" rule) and non-hierarchical coordination as specific characteristics of cooperatives that are shared neither with markets nor firms, and despite this, they try to define cooperatives as hybrids. Williamson also clearly identifies specific attributes of cooperatives, such as collective ownership and democratic governance, but tries to infer these characteristics from a one-dimensional

hierarchy (only in command, not in contract). The absence or weakness of contract hierarchy in cooperatives does not fit empirical evidence. Whether a cooperative or a firm, a legal entity is created that is in charge of contracting. There are as many contractors in a cooperative as in a firm, thus vitiating the double hierarchy criterion for distinguishing cooperatives from firms. In this respect, cooperatives can be as hierarchical as firms. Ménard's pooling resources argument is also not convincing for distinguishing cooperatives from firms because firms are resource-pooling (capital) devices. Pooling resources is indeed common to all collective organizations of production.

If one believes cooperatives have specific attributes that cannot be reduced to markets or firms, then cooperatives must be conceived as ontologically autonomous from markets and firms, rather than trying to fit cooperatives into a language game that is not made for them. Taking seriously Williamson's call to investigate "discrete structural alternatives," we should logically consider cooperatives as a third pole of organization, on an equal ontological footing with markets and firms.

## **5 Cooperatives as a third pole of organization**

### ***5.1 The cooperative contract***

Markets imply a separation of property, decision, and return rights between equal agents. Firms imply joint property, decision, and return rights among agents, resulting in an unequal distribution of these rights. The employment contract (between the supplier of labor and the entrepreneur) and the equity contract (between the supplier of capital and the entrepreneur) are specific to firms. In contrast, cooperatives seem to have joint property, decision, and return rights among agents with equal distribution of these rights. I argue that the contract at stake in cooperatives significantly differs from that of firms. For instance, in worker cooperatives, there is no employment contract or equity contract, but rather a cooperative contract, entailing democratic participation in the decision-making of main investments and strategies, and in the distribution of returns. Any cooperator is free to leave the cooperative, and any worker is free to become a cooperator.

Before delving into the characteristics of the cooperative contract, I want to stress that it is a contract as understood through TCE, a cooperative "treaty" that is not reducible to a legal contract. In fact, most cooperative contracts are not institutionalized in law. Cooperatives exist in many countries despite the lack of laws defining them (for a review, see Cracogna et al., 2013). In law, the cooperative contract is an unnamed or innominate contract, one that is not given any specific name or designation (Hiez, 2006). It is usually referred to by the ambiguous terms "dual membership" or "double quality" of members.

The democratic mode of governance that characterizes cooperatives emerges from the specific characteristics of the cooperative contract which entails collective ownership of capital (non-equity relationship) and membership (non-employment relationship). More precisely, the cooperative contract is based on a double constraint of capital and labor. Cooperatives' members must provide both capital and labor. This is often referred to as the dual nature of membership in cooperatives. Note that only in the case of worker cooperatives is this double constraint legally recognized, while in other types of cooperatives, the labor constraint might be unofficial and take the form of unpaid labor (Chapter 6).

Among the three attributes of a transaction are those that (a) concern the transaction itself (frequency), (b) the environment of the transaction (uncertainty), and (c) the asset of the transaction (specificity). As such, transaction costs are supposed to be independent of agents' initial labor and capital resources. Is this a realistic assumption? Are agents with only labor to supply faced with

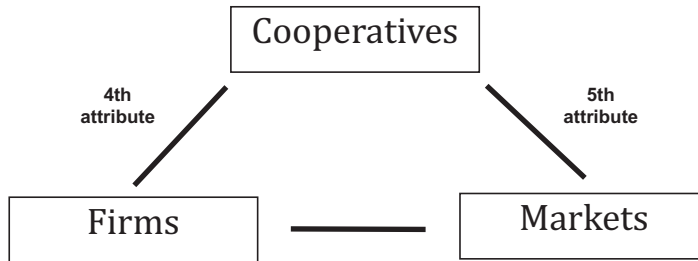


Figure 3.3 Three main modes of governance.

the same transaction costs as agents with both labor and capital to supply for a similar transaction? Are agents who must produce to survive facing the same transaction costs as agents who can live self-sufficiently for a similar transaction?

Let us assume that transaction costs are not independent of the initial resources of the agents. Based on this assumption, cooperatives can be conceived as a third pole of productive organization. This implies that cooperatives not only have specific contracts but also specific attributes as a mode of organization and emerge due to specific attributes of transactions that are currently ignored in the TCE literature and are linked to the agents' initial resources

## 5.2 The 4th attribute of transaction

The 4th transactional attribute designates the attribute that cooperatives share uniquely with firms. It must be irrelevant for markets. Cooperatives are composed of cooperators, while firms are composed of (an) entrepreneur(s), wage workers, and equity capitalists. The difference lies in whether the founder(s) supply one input, in which case the organization created is a firm, or two inputs, in which case the organization created is a cooperative. The double constraint founding the cooperative contract (members must bring both capital and labor) is expressed in the 4th attribute of transaction as one/two-input suppliers in the technology unit of production.

To capture this difference, the 4th transactional attribute could be the proportion of agents within the mode of organization who have supplied both labor and capital. As this proportion increases, the cost of governance increases at a faster rate for firms than for cooperatives, making cooperatives a rational mode of organization for minimizing costs. The cost of governance increases twice as fast for firms as for cooperatives because, in firms, each agent who provides both labor and capital requires two contracts, one for labor, and one for capital, while in cooperatives, only one contract is necessary.

In Figure 3.4, the firm and cooperative curves do not start from the origin; rather, the cost of governance of cooperatives is higher than that of firms when the proportion of agents bringing both labor and capital is null. Why is that so? This is because the bifurcation of labor and capital contributors in a cooperative creates divergent interests and objectives, complicating decision-making processes in reconciling conflicting interests between labor-only and capital-only suppliers. Firms, by contrast, centralize decision-making authority, typically with a managerial hierarchy or a board, thereby streamlining governance and reducing transaction costs associated with negotiations, conflict resolution, and strategic alignment. If a cooperative transacts with a supplier of only one input, it is a sign of "degeneration" towards the firm mode of organization. Similarly, a

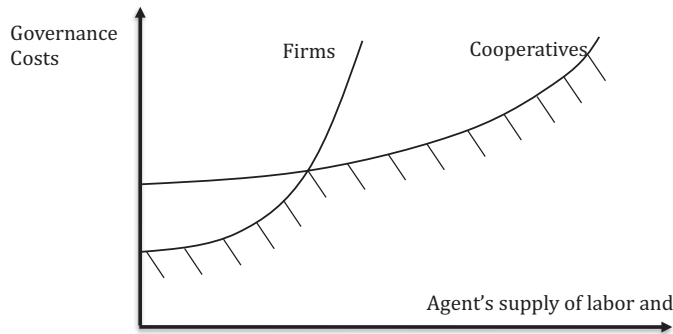


Figure 3.4 Modes of governance according to agent's supply of labor and capital.

firm implementing profit-sharing schemes for its wage workers would also “degenerate” towards the cooperative mode of organization.

The proportion of suppliers of labor and capital within the mode of organization is irrelevant for markets since, in the market mode of organization, agents do not integrate any inputs from others.

### 5.3 The 5th attribute of transaction

The 5th transactional attribute designates the attribute that cooperatives share uniquely with markets. It must be irrelevant for firms. Historically, the first cooperatives were “total cooperatives,” i.e., both a consumer cooperative and a worker cooperative. Take, for example, the Toad Lane store, founded by the Rochdale Pioneers. Its creation followed the failure of a strike. Its explicit goal was to enable poor craftsmen to consume necessary goods at affordable prices in the context of increasing competition from the Industrial Revolution. This is still a strong foundational motivation and development path for cooperatives. The growth of Mondragon has been made possible through the creation of multiple types of cooperatives (consumer, worker, financial, health, housing) helping each other in a coordinated network. So, creating a cooperative often arises from necessity because using the market, i.e., buying from different producers, is too expensive for some agents. Léon Walras, one of the founding fathers of modern economics, advocated that cooperatives were the productive and collective organization through which the proletariat could access capital and thus increase their income streams and wealth (Walras and Walras, 1990).

To capture this phenomenon, the 5th transactional attribute could be the overall amount of labor and capital owned by the agent, which could be measured roughly as the agent's purchasing power or wealth. As the agent's wealth increases, the cost of governance increases at a faster rate for cooperatives than for markets. Then, *ceteris paribus*, a “rich” agent would find the cooperative contract too expensive and would prefer to buy at the market price. The cost of governance increases faster for cooperatives than for markets because of the opportunity cost attached to the use of labor and capital. The opportunity cost of 1 hour of labor or 100 dollars increases with the agent's wealth. To stay within a cooperative, the agent's gains must supersede their losses. Consider now that a member of a consumer cooperative experiences a career advancement, which enhances her hourly wage. Consequently, her opportunity cost for each hour spent contributing unpaid labor to the cooperative increases. If the cooperative's reduced pricing on consumer goods

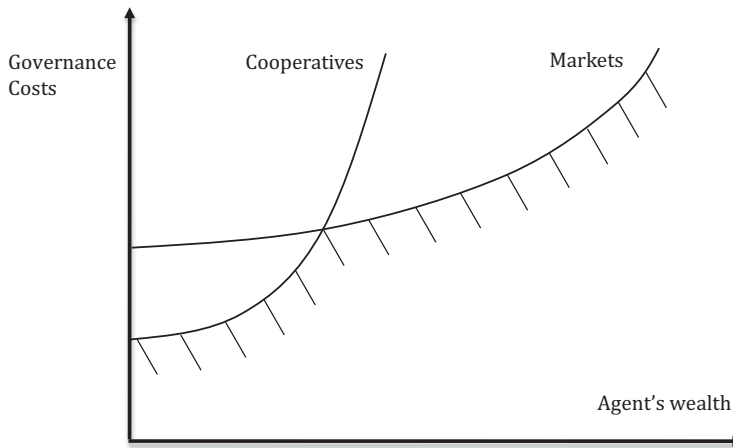


Figure 3.5 Modes of governance according to agent's wealth.

fails to compensate for these elevated opportunity costs, the agent becomes a likely candidate for defection to the market. The gains she receives from the lower prices of consumer goods might not be enough to supersede the losses due to her free hours of labor. She is more likely to leave the consumer cooperative for the market. The cost of governance for cooperatives increases quickly because, to retain her, the consumer cooperative must provide some sort of gains (moral, sense of community, command power, well-being, privilege, etc.) that are difficult to provide and which threaten the distribution of rights within the cooperative itself.

In Figure 3.5, the cooperative and market curves do not start from the origin, rather, the cost of market governance is higher than that of cooperatives when the agent's wealth is null. Why is that so? Because markets operate on price signals, which are less relevant or accessible to agents who cannot participate financially. Cooperatives, on the other hand, often function based on member contributions in terms of time or labor rather than financial capital, making them more accessible to those without capital to offer. Furthermore, the shared decision-making and mutualized risk in cooperatives can make governance less financially burdensome for individual agents, as opposed to market-based governance where each agent bears the full cost of their own transactional governance, including risk assessment, contract enforcement, and negotiation.

## 6 Conclusion

In this chapter, I reviewed the main concepts of transaction cost economics (TCE), as well as the main theorizations of cooperatives within this framework. Conceiving cooperatives as peer-group firms or hybrids of markets and firms, these theorizations face two main limits. First, a narrow scope on one type of cooperative weakens any generalization. Second, there is a methodological contradiction in recognizing the unique attributes of cooperatives while trying to make them fit into a market-firm framework. Building on the democratic governance, the equality of agents, and the joint production within cooperatives, I argued that cooperatives are a third pole of organization, on equal ontological footing with markets and firms. I defined the cooperative contract, radically founding cooperatives beyond markets and firms as a double constraint of capital and labor over the members for all types of cooperatives.

This chapter sheds light on the many practices of unpaid labor done in cooperatives, not as a deviation of cooperatives, but as a core implicit rule, a feature of the cooperative contract. As an autonomous coordination mechanism, cooperatives emerge from specific conditions of transaction. As such, I identified transactional attributes that would draw a continuum between cooperatives and markets or firms, respectively. If cooperatives are posited as a third pole of organization, then there must be new kinds of hybrids, either hybrids of cooperatives and firms or hybrids of cooperatives and markets. The relevance of new types of hybrids is left for further research.

Overall, I hope to have shown the heuristic potential of TCE to build a theory for all cooperatives. Based on the comparative analysis of contracts, TCE is fertile ground for defining a cooperative contract and its role in the economy. Contracts – whether firm, market, or cooperative – have only relative gains and costs which implies both that there is no such thing as a one-size-fits-all contract situation and that each type of contract operates in a definite realm of the collective organization of production. The TCE perspective is one framework through which researchers can study cooperatives; this chapter has attempted to show its potential.

### Notes

- 1 In *The Firm as a Nexus of Treaties*, published in 1990, Williamson argues for replacing the term “contract” with “treaty” to avoid a legalistic reduction of contracts and insists on the conventional aspect of contracts. Despite his proposition, the term “contract” is now conventionally used.
- 2 For a discussion of different types of hierarchies, see Chapter 10.
- 3 In the *Conclusion of The Economic Institutions of Capitalism* (1985), Williamson cites Sacks (1983) as a reference on ex-Yugoslavia and Fama and Jensen (1983) on non-profit firms.
- 4 For another criticism of Williamson’s account of the strengths and weaknesses of cooperatives, see Dow (1987).

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# 4

## COOPERATIVES AND THE COMMON GOOD

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### 1 Introduction

In this contribution, we will dive into the morphological characteristics of cooperatives concerning their differences from profit-driven enterprises and their inherent support of their members in terms of their economic, social, and cultural needs, their democratic self-governance, and their principles of solidarity and reciprocity. Special attention will be given to their relational character, enabling flows of material and immaterial resources and providing infrastructures. Thereby, cooperatives often ensure the provision of ordinary goods and services and are tied to the idea (Section 1) of common goods in the sense of the material and immaterial conditions for everyday life to be shared by members of a given community. This kind of sharing includes the community's definition of what *is* 'good' in a normative way related to people's genuine *interdependent* relations in general and relations based on solidarity in particular.

The debate on the common good is moreover associated with the increasingly dominant discourses on commons and commoning – as activities of democratic self-organization using public resources not delimited by the state or by market mechanisms. By embedding the reflections on commoning as a relational process of negotiating access and use, references are made to ways of thinking beyond capitalocentrism on the one hand and to cooperatives' service effects beyond their members and thus toward the common good on the other hand (Section 2). After having outlined illustrative examples of cooperatives from various fields of action that shed light on the dichotomy of cooperatives' insider-outsider orientation and their significance for social spaces as well as social responsibility concerning the economy of the common good in Section 3, we will elaborate on the similarities and differences between cooperatives and commons/commoning practices in more detail (Section 4). They share a range of essential features, such as voluntary associations of people aiming to improve everyday life through democratic self-governance. They are yet different when it comes to their understanding of the role of common goods and the respective transformative potential of cooperatives and commons. Whereas cooperatives are concerned about their members' living conditions, commoning activities are inextricably linked to broader transformational norms and strive for action beyond capitalocentric economies and communities defined by cooperative membership. Nevertheless, both commons and cooperative approaches run the risk of being co-opted by social policy as a means of overcoming the crisis in welfare provision

and stabilizing – rather than challenging or even overcoming – dominant capitalist structures; a point we will also touch upon.

This chapter thus aims to clarify the possible connections between cooperatives' activities and their promotion of the common good, understood as the provision of goods and services of general interest, characterized by a high degree of free accessibility and central links to social welfare infrastructures. It addresses cooperatives with respect to their actions beyond the scope of their members, taking their surrounding social and spatial communities into account. The chapter will advance a morphological understanding of cooperatives as a generative form to discuss their transformative potential for more humane, inclusive economic cultures and democratic societies.

## **2 Morphology**

Morphology is the method of hermeneutically analyzing a social entity from the interplay of institutional structural features on the one hand and the function of meaning on the other, enabling us to grasp it typologically. The identity of the logic of economic activity is determined hermeneutically in meaning and structural characteristics and the significance of the economy is revealed phenomenologically. This is because the economy, as a culture, constructs social reality through social practices as constitutive acts.

### ***2.1 Cooperatives, infrastructures, commons, commoning***

The morphological characteristics of cooperatives (Engelhardt, 1994; Blome-Drees et al., 2023) unfold in the fact that they operate differently from commercial firms (Borzaga & Tortia, 2017). Cooperatives are objective-dominated in their purpose and democratic in their structure. These two characteristics distinguish cooperatives from formal goal-dominated and hierarchically organized commercial firms. Cooperative dominance of material objectives means an economy that covers the needs of its members. Formal goal dominance in the commercial firm means a profit economy for the capital owners. Cooperatives are, broadly defined, voluntary associations whose members are supported in their economic, social, and cultural needs by means of a jointly founded and operated enterprise, and they regulate their common affairs through democratic self-governance.

Democratic self-governance<sup>1</sup> is realized in the “one person – one vote” principle, ensuring equal voting powers among members, regardless of their capital investments. Cooperatives' basic principle of action is joint self-help, based on reciprocity and mutuality. That is, members not only improve their own situation by using the potential of other members but also make their own potential available to others, expanding the scope of action for each individual (International Cooperative Alliance, 2024).

Cooperatives relate people with one another, enabling flows of material and immaterial resources. In this sense, cooperatives provide infrastructures. Infrastructures are characterized by the fact that individuals are dependent on them but can hardly create them individually. They are “dense social, material, aesthetic and political formations that are of crucial importance both for differentiated everyday experiences and for future expectations” (Appel, Anand, & Gupta, 2018, p. 3), and “an integral and intimate part of daily social life [...] [they] shape the rhythms and trajectories of social life” (Appel et al., 2018, p. 6). Furthermore, “infrastructures mutually shape and collectively configure multiple pathways of change” (Cass, Schwanen, & Shove, 2018, p. 165) and “play a particular role in configuring, anticipating and multiply enabling many different practices and relationships between them” (Shove, 2017, p. 167).

Infrastructures are, therefore, relationships between people and organizations that facilitate the exchange of material or immaterial goods. By securing, controlling, or renewing infrastructures through joint democratic (i.e. cooperative) efforts, new possibilities for action emerge that were previously not possible (or imaginable). Even in peripheral, sparsely populated areas, an adequate range of services must be provided, which will not succeed without the activation, involvement, and support of civil society. In other words, cooperatives often ensure the provision of goods and services of general interest (Schulz-Nieswandt, 2010), thereby fostering the common good, understood here as the overarching totality of the material and immaterial conditions for the self-development of all members of a community. Two essential characteristics of the common good are, therefore, “that it is created and shared by all members of a community [...], and it is truly ‘good’, that is, it contributes to human flourishing” (Melé, 2009, p. 235). Accordingly, there is no one common good; rather, the clarification of what is good for all depends on the respective community and is the result of a negotiation process between its members. The normative vanishing point (*telos*) of the respective common good is social integration in the light of the universal legal and ethical idea of social inclusion (Schulz-Nieswandt, 2016), as laid down in the United Nations Declaration of Human Rights, among others. This understanding of the common good is based on a personalistic view of humanity that sees people “as a social being with intrinsic relationships with others and an interdependent existence” (Melé, 2009, p. 229). This perspective emphasizes the relational structure of humans, i.e. their existential need to belong to a community (Almakaeva, Moreno, & Wilkes, 2022), and justifies the common good based on a reciprocal production of individual and community: “The common good makes sense only as a contribution to the human flourishing of people within a community” (Melé, 2009, p. 236; see also Saltiel & Strüver, 2022 and Molefe in this Volume). Empirically, this ethical grounding is operationalized in the need for local caring communities and regional infrastructures of publicly relevant goods and services.

Common goods are defined in economics as rival goods with a low degree of excludability. Rivalrous in this context means that the consumption of the good by one person reduces the consumption possibilities of the same good for another person. The degree of excludability indicates whether it is possible and, if so, how difficult it is to prevent or exclude people from consuming the good (Ostrom, 2005, 2015). Particularly in the commons literature, this classification of goods is rejected as too essentialist, since it suggests that rivalry and excludability are natural properties of goods. However, both criteria are essentially socially constructed and depend on the type and nature of the relationship that people have to these goods (Helfrich, 2012; Euler, 2018).

Commons and commoning activities refer to the democratic self-organization of socioeconomic processes in which people collectively use – or build – resources not controlled by the market or the state. These activities often depend on a normative orientation and are particularly prominent in food and farming projects such as urban community gardens or solidarity agriculture. Despite their major differences from their historical origins as pre-capitalist common pastures, forests, and fishing grounds, the recent uses of public spaces as commons are often tied to similar practices (e.g. the production of food). The renaissance of *commons* as a *concept* is a reaction to the multiple crises of our time: the financial crisis, the crisis of social reproduction and the climate crisis – all of which have been exacerbated by neoliberal policies (Linebaugh, 2008). At the same time, these crises and their interdependencies have initiated new requests for economies beyond capitalist market mechanisms that advance a democratic orientation toward the common good.

Within academic debates, the discussion was initiated by the paper “The Tragedy of the Commons” (Hardin, 1968), which argued that next to the capitalist enclosure of the commons, users’ greedy actions undermined the existence of common goods. However, it seems to be a tragedy of *unmanaged* commons and – as Gibson-Graham, Cameron, and Healy (2016) argue – a tragedy

related to thinking of the commons in capitalocentric ways only and as a thing, rather than as a practice (commoning, including the process of managing). Hardin's work has, however, provoked various research projects that have demonstrated that *commons* can be managed in a socially and ecologically sustainable way (Amin & Howell, 2016; see also the collection on urban commons in Dellenbaugh et al., 2015).

Building on their longstanding research on alternative and community economies, Gibson-Graham et al. (2016, p. 195) characterize commoning as a social and relational process of negotiating access, use, care, responsibility, and benefit, stressing that commoning as part of postcapitalist politics is tightly linked to performative and transformative strategies. Commoning thus refers not to a thing or good to be found, but to something to be *made by* social practices, i.e. the processes of self-organization through which the collective production, use, distribution, consumption, and preservation of common goods are guaranteed (Euler, 2018; Fournier, 2013). Moreover, accepting the postcapitalist understanding, commoning neither focuses solely on exchange value or profit nor externalizes costs but strives to internalize costs and limit growth. This notion of "postcapitalism" (Gibson-Graham, 2006, 2008) aims to think beyond capitalocentrism, which is neither meant as 'after' capitalism nor as an alternative to capitalism.

The term capitalocentrism was coined by Gibson-Graham (1996) to extend the feminist theorisation of phallogocentrism to the field of [political] economy. Capitalocentrism names the way that a diversity of economic relations are positioned as either the same as, a complement to, [...] or contained within 'capitalism'.

(Gibson-Graham et al., 2016, p. 193)

This replaces dualistic notions of 'alternative economies' versus capitalist economic activities, which bear the risk of overlooking the fact that so-called alternative economies such as unpaid care work, social reproduction and volunteering activities have always been foundational for capitalism to exist as both social and economic order (Federici, 2019). 'Alternative economies' are then not 'the Other' of capitalism and do not refer to anticapitalism or a societal state when capitalism is overcome, but to both the activities and the related conceptual approach of diverse economies attempting to acknowledge and experiment with the diversity of economic activities – such as volunteering, caring, commoning, and cooperatives.

## 2.2 *Insider versus outsider perspective*

In terms of their objective orientation, cooperatives operate in two strategic areas of tension for their long-term positioning. They must decide whether to align their corporate policy internally only with the demands of their members or externally with the demands of other stakeholders and even society (Elliott, Olson, & Grashuis, 2023). In this sense, an internal and external promotion logic can be distinguished. Within the framework of the internal promotion logic, cooperatives must do everything that serves the goal of sustainable member promotion. It is about creating scope for action, opportunities for realization, and participation that members can use to shape their individual lives. Cooperative business models are based on the use of a shared infrastructure. Their economic core and central value proposition are their assumption of selected household and entrepreneurial functions of the member companies (Mazzarol, Simmons, & Limnios, 2014). The division of functions between cooperatives and their members is subsidiary. Cooperatives only take on those functions that their members cannot or cannot adequately fulfill. The majority of all operational functions remain in the domain of the individual members, who are legally

and economically independent in this respect. Cooperatives offer their members the advantage of collective (co-)ownership (Laurinkari, 1994). Cooperative ownership is joint ownership. The most important right of members is the right to use the common enterprise. This right is valid for the duration of membership. Ownership entitles members to receive benefits but not to appropriate any increases in the value of the joint enterprise.

In addition to this member-oriented focus, numerous cooperatives make important contributions to improving local and regional living conditions for the common good within the framework of the external funding logic in the form of voluntary self-commitments. A dedication of a cooperative to the common good exists when corresponding objectives are consciously and permanently included in the cooperative's objectives (e.g., by-laws/statutes), whereby the voluntary self-commitment should be based on the sole democratic decision of the members of the respective cooperative (Engelhardt, 1994). However, it is not enough for cooperatives to have a public service concept. The actual public service activities and the resulting public service effects must also be considered. This requires an analysis in two directions:

On the one hand, the public service economy can be based on a commitment within the local or regional economy and social space, in that cooperatives become actors in the formation of stakeholder networks, considering the challenges of economically and socio-morphologically definable changes in these sub-spaces. Neither social spaces nor networks are simply there but must be created, developed, and maintained effectively and sustainably. This requires generative actors (Köhne, 2020) capable of this performative service. This also includes non-profit cooperatives ethically oriented toward external stakeholders at a regional level, thus generating positive externalities. This automatically turns independent cooperatives into instruments of public infrastructure and social policy. They can enter into (institutional and/or financial) public-private partnerships. The welfare state and welfare society thus enter into cooperation, and further integration of civic engagement in the local/regional area creates welfare mix structures.

On the other hand, cooperatives, as member-oriented self-help organizations, are always considered to be oriented toward the common good if the promotion of the members' living conditions is discursively regarded as publicly relevant (Saz-Gil, Bretos, & Dias-Foncea, 2021).

Accordingly, the question is whether member-oriented corporate policy can be relevant to the common good. Can the promotion of certain groups be in the interest of the common good? The perspective proposed here is that cooperatives can generate positive externalities, i.e. common goods, from their internal constitution in the sense of concentric circles, turning outsiders into insiders in the use of goods and services of public interest, thus enabling a community of growing common goods.

### **3 Cooperatives and social spaces**

In what follows, we will present four illustrative examples of everyday cooperatives. This brief and – considering the vast heterogeneity of cooperatives – by no means exhaustive overview will illustrate the idea of common goods production as a system of concentric circles.

#### **3.1 Senior citizens' cooperatives**

The idea of the senior citizens' cooperative became established in Germany in the 1990s as an innovative approach to working with the elderly; there are now around 1,000, and an umbrella organization is currently being founded. In senior citizens' cooperatives, citizens, predominantly senior citizens, come together to support each other in matters of everyday living. Many senior citizens'

cooperatives now work intergenerationally. Senior citizens' cooperatives are heterogeneous in their structure. The members determine the range of services. Members provide services for other members and receive an expense allowance in return, which can be paid out or saved. These services are provided voluntarily. The social exchange and social interaction create meeting spaces, and members experience a sense of belonging.

Practice shows that with their network of everyday support services (assistance with living, visits to the doctor, going for a walk, doing the shopping, cleaning the home, laundry, etc.) and care services (providing company, relieving relatives, dementia care, etc.), senior citizens' cooperatives are filling a gap in the area of outpatient care for older people and those in need of care. They provide services of general public interest, and thus the internal stakeholder orientation creates a public benefit in addition to their own benefit: Quality of life, independence, self-determination, and participation in the event of a need for care and in old age are ensured. The issue of loneliness discussed in social and health policy (Huxhold & Henning, 2023) – the UK has had a Tackling Loneliness Strategy Team since 2018 – is counteracted. There is also an external stakeholder orientation: Public benefits are evident as a result of the senior cooperatives' commitment to the social space. Connections are created between private living environments and public spaces. Senior citizens' cooperatives work locally, with observed cooperation with consumer and housing cooperatives and a high degree of networking with local stakeholders. As a result, an activating municipal policy is given high priority. By opening themselves to the surrounding community, these cooperatives create social welfare, understood as social (non-negative) freedom of togetherness, as the core of the quality of life in terms of actual caring communities. Communities created this way come close to commons as depicted by, e.g. Linebaugh (2008).<sup>2</sup>

### **3.2 Cultural cooperatives**

Cultural cooperatives support their members in cultural interests through a jointly supported and democratically controlled cultural enterprise (e.g. cinema, theater, museum) (International Cooperative Alliance, 2024). As cultural cooperatives make important contributions to ensuring cultural services of general interest, they can also be categorized as infrastructure cooperatives (Kluth, 2019). As is characteristic of infrastructure cooperatives, cultural cooperatives usually show their potential when both state actors and for-profit companies have withdrawn from the provision or (financial) support of cultural services (Bianchi & Vieta, 2019).

As outlined above (Section 2.1) their impact can be (1) to preserve a public or private cultural enterprise that is no longer supported by the state or the entrepreneur; (2) to seek control over an area of cultural services of general interest to prevent dependence on private service providers; and (3) to represent an innovative business model if social intervention is intended through social innovation in the cultural sector. In this way, they close gaps in services, especially in marginalized communities (Jeong, Kaul, & Luo, 2020), and thus contribute to the promotion of the common good.<sup>3</sup>

## **4 Cooperative banks**

Historically, cooperative banks have made important contributions to maintaining and improving the quality of life, particularly in rural regions (Giagnocavo, Gerez, & Sforzi, 2012). They are moreover currently an effective means for bottom-up regional development (Saz-Gil et al., 2021). They regularly unfold positive impacts beyond their initial membership base (Saz-Gil et al., 2021; Borzaga & Sforzi, 2014). Within these processes, particular importance is attributed to the creation

of networks and social capital as a network-generated resource (Stoop, Brandsen, & Helderma, 2021). However, networks do not emerge by themselves but must be initiated and founded, as well as continuously maintained and filled with life.

Functioning network management, therefore, is an important prerequisite for the success of a network. Generally, cooperatives are considered suitable for creating networks, as they have empirically proven to be able “to facilitate cooperation, trust and dense networks at the local level” (Borzaga & Sforzi, 2014, p. 202) resulting from their deep regional embeddedness (Borzaga & Sforzi, 2014; Giagnocavo et al., 2012). Regional embeddedness also gives cooperative banks a strong bond with customers and members, which is reflected in the high level of trust they place in the cooperative bank (Turner & Gröbl, 2008). Moreover, cooperative banks are characterized by a strong focus of their entrepreneurial activities on the needs of members and customers (Turner & Gröbl, 2008).

Within processes of regional development, cooperative banks’ most important contributions can be summarized as follows: Especially in rural areas, cooperative banks are often the only available financial intermediaries, providing access to credit for otherwise financially excluded people. Due to their regional embedding and close relationships with their members and customers, cooperative banks have considerable information and trust advantages that facilitate risk assessments when lending to small and medium-sized enterprises (SMEs) (Usai & Vannini, 2005). Thus, cooperative banks substantially contribute to regional economic stability by reducing financial exclusion (Turner & Gröbl, 2008) and, thereby, contribute to a region’s economic development (Ayadi et al., 2010), reducing population and capital drain (Minetti, Murro, & Peruzzi, 2021; Hakenes & Schnabel, 2006) in rural areas, and keeping income inequalities at moderate levels (Minetti et al., 2021). Taken together, these effects result in an overall improvement in the living conditions of all residents of a region, regardless of their cooperative membership (Scheidel & Farrell, 2015). Because of their special relationship structure, cooperative banks also provide spaces for social learning, often resulting in further cooperative actions among members and non-members (Scheidel & Farrell, 2015). Cooperative banks, therefore, have the potential to fundamentally change the social relationships between their members on the one hand and the inhabitants of the surrounding region through reciprocal relationships based on long-term cooperation. However, an essential prerequisite is the cooperative bank’s management, which must explicitly open up to the actual needs of the region and (at the very least) actively involve the members in the bank’s strategic planning (Stoop et al., 2021).

#### ***4.1 Platform cooperatives and care work***

Digital labor platform technologies facilitate peer-to-peer interactions, such as the intermediation of domestic care activities. However, in their dominant capitalocentric form of asymmetrical and triangular power relations (peer-to-platform-to-peer), they tend to disrupt a level playing field in terms of economic encounters and social responsibilities. In the care work sector, they even intensify the precarization of workers’ lives. At the same time, care work platforms present themselves concerning the care crisis – as care fixes: They have identified societal needs in terms of on-demand domestic service work, providing additional income for workers and domestic services for households in a time crunch (Strüver & Bauriedl, 2022). *Lean* labor platforms realize profit not by providing services but by building digital networks between workers and clients. They aim for a monopolization of services in terms of market share and tend to exacerbate working conditions as they do not act as employers but as matchmakers for single gigs performed by independent contractors or self-employed solo workers. The lean platform model thus takes any liability away

from platform companies regarding both irregular work and poor working conditions and shifts all risk to the gig workers (Srnicek, 2017).

Worker-owned labor platforms, on the other hand, have their roots in both worker cooperatives and platform cooperatives (Schneider, 2018; Scholz, 2016). Cooperative platform models in the domestic care services sector make particular sense due to (1) the client-worker interactions involved in this type of work, where trust and intimate relationships are crucial and recurrent gigs are the norm; (2) the reliance on a local market only; (3) relatively simple software and match-making technologies (e.g. without GPS); and, last but not least, (4) their independence from huge investments, as they are labor-intensive rather than capital-intensive and do not rely on further means of production. Moreover, they provide income based on workers' decisions instead of algorithmic matchmaking, with much lower commission rates (typically none or only 5%, rather than 30%). Bunders, Arets, Frenken, and De Moor (2022) emphasize that despite these advantages, it is easier for existing worker cooperatives to go digital than to start from scratch as a platform cooperative, as the co-op still needs to recruit and build networks between clients and workers first. The success of UP & GO, an online platform for several worker-owned cleaning cooperatives in the United States, supports this thesis.

Summarizing, these examples show that cooperatives (potentially) create common goods but through different modes of action. On the one hand, cooperatives create common goods by providing goods and services of general interest, thereby improving – at least – their member's living conditions. However, even if cooperatives' actions are oriented solely toward their members' benefits, positive externalities for non-members are generated, as the improved living conditions of members also affect the whole community.

On the other hand, it becomes apparent that cooperative self-help transgresses capitalocentric modes of commodified goods consumption toward a social integration of members as persons, answering their existential demand for social belonging and creating socially embedded well-being (Haworth & Hart, 2007). In this way, cooperatives create communities by relating people to one another who otherwise would remain unrelated. This entails processes of social learning enabling openings toward non-members, that is, fostering an inclusive rather than exclusive mode of action. In practice, these openings toward the surrounding community mean active provision and/or financial support of goods and services of general interest and general support of communities' needs. In philosophical terms, cooperatives then create a social freedom of togetherness, which is, from the point of view of personalistic ethics, to be seen as the good life (Smith, 2023).

Nonetheless, the opening of cooperatives' actions toward the common good of the community beyond their members is contingent upon decisions of members and management alike and is therefore by no means a given. This will be critically discussed below.

## **5 Cooperatives as commons and commoning**

After this overview of cooperatives' activities and impacts within social spaces, we will now briefly analyze the morphological similarities and differences between cooperatives and commons.

Commons and cooperatives share significant features, as both are voluntary associations of people who want to improve their living conditions through democratic self-governance. Nonetheless, there are some crucial differences regarding the relation to common goods. For commons scholars, positive externalities of commoner's practices are a necessary condition for a practice to be regarded as commoning. As Federici (2019) points out, this is not necessarily the case for cooperatives. In these examples of "gated commons" (Federici, 2019, p. 91), members actively reject the promotion of people outside their cooperative and create barriers to membership.

Federici gives the example of housing cooperatives where high capital amounts are needed for membership, resulting in the exclusion of people with lower incomes.

Another noticeable difference is the claimed transformative potential of commons and cooperatives. While commons are always linked to transformative action leading beyond capitalocentric economy and society (Bollier, 2021), this transformative claim is not necessarily constitutive for cooperatives. In the past and present, cooperatives are oftentimes founded to stabilize the living conditions of people. The immediate aim is not to overcome capitalism but to ensure the livelihood of those involved amidst market and/or state failure. If, for example, the welfare state retracts from the provision of common goods in terms of goods and services of general interest, commons, including cooperatives, emerge to fill in the resulting gaps (Kratzwald, 2012; De Angelis, 2012, 2017). In this case, cooperatives and commons can become an instrument of welfare states' social policy, using "the commons as a fix for its crisis" (De Angelis & Harvie, 2014, p. 290) and to stabilize rather than overcome the existing capitalist structures.

These brief remarks show that cooperatives can be considered commons, as they share important morphological features. However, commons are implicitly or explicitly coupled with higher normative demands than cooperatives, since they always entail positive externalities for the whole community and a transformative potential. Whether a cooperative qualifies as a commons depends on the given context and the spirit of those involved. As shown by the illustrative examples above, the morphological features of cooperatives lead to processes of social learning, broadening the scope of possibilities for those involved and altering their immediate experiences of and with cooperation. Cooperatives, therefore, are to be seen as a social form that not only expresses a certain content but also shapes "the social practices, the ways of doing things and relating to each other" (Euler, 2018, p. 11). Thus, the result of cooperative action, as of commoning, can be a transformation of subjectivity, away from the atomized individual of capitalist society toward a personalized member embedded in a community of peers.

## **6 Diverse economies: cooperatives as alternatives and common good?**

The community gardens mentioned above are but one example in which public spaces are transformed into common goods by collective use, shared skills and responsibilities/care – and shared produce; an example illustrating how to make "other worlds possible" (Gibson-Graham, 2008, p. 623) in a performative way. Community gardens are classified as Alternative Food Networks (AFN), as are food cooperatives and community-supported agriculture initiatives, which are often seen as alternatives to conventional forms of food production and supply – but also 'alternative' in the sense of resting on solidarity and democratic self-organization and thus on alternative economic practices (see Rosol, 2020 [and see Exner & Raith in this volume]).

Gibson-Graham came up with their reflections on capitalocentrism well before the financial crisis of 2007/2008 – at a time when discussions about the inevitability of growth and profit-driven capitalist globalization were dominant. In "The end of capitalism (*as we knew it*). A feminist critique of political economy" (1996, emphases added), they stress the ways in which the economy is made up of much more than just profit and growth (related to exchange value) but relies on everyday use value activities (particularly social reproduction and care) and alternative economies such as cooperatives, gifting, and barter. These activities are seen as foundational in a double sense: they are foundational societal economies and they build the foundation for what we have come to know as the iceberg model of the economy, an economy of which we can see only the tip (for a recent development, see The Foundational Economy Collective, 2018). Pointing out the diversity of economic activities and thus including alternative types of labor, enterprises, transactions, properties,

and finance, they try to destabilize the narrow, yet naturalized, understanding of capitalism and to de-marginalize the heterogeneity of economic activities, especially “alternative” ones that are not profit-driven but socially just (for details, see Gibson-Graham, 2006a, b; Gibson-Graham et al., 2013).

Cooperatives in general and worker cooperatives in particular are established forms of “alternative economies” for which democratic organization is pivotal (see Ellerman & Gonza in this Volume). They “can be seen as a response, at once antagonistic and accommodative to capitalism” (Peuter & Dyer-Witheford, 2010, p. 32). While the cooperatives of the 19th and 20th centuries primarily focused on the protection of and provision for their members, today the legal form advances solidarity and responsibility. Housing cooperatives, for example, rest on members’ capital shares (see above) – at the same time, they are linked to basic needs in large cities and have provided affordable housing within the (changing) structures of the capitalist economy for more than 150 years. In their early years, the members themselves lent a hand in construction, set up self-administration structures, and, in times of crisis, established solidarity funds for their members. The aim of housing cooperatives is not to generate profit from rentals but to provide their members with affordable and good housing. For this reason, the members of a housing cooperative usually have contracts for use instead of lease agreements. A central element of housing cooperatives’ democratic governance is the one-member one-vote principle of most cooperatives – regardless of the financial or other contributions of a member. However, as part of professionalization and growth, large housing cooperatives (i.e. those with more than 1,000 units) are nowadays governed by a board, member participation is reduced to a minimum, and management tasks are carried out by regular employees. Their user fees are yet comparatively low, despite the orientation toward the local average rent. Due to the latter and the high number of flats managed by housing cooperatives (in Germany, about 2.2 million) – and despite large cooperatives’ trend toward non-cooperative management structures – housing cooperatives are able to provide affordable housing in cities and present themselves as important alternative, non-profit actors in the housing market, influencing the entire ‘capitalocentric’ sector in a way that is both antagonistic and accommodative at the same time (see, e.g. Balmer & Gerber, 2018 for Switzerland, Lang & Stoeger, 2018 for Austria, and Metzger, 2021 for Germany).

Globally and beyond housing, cooperatives are part of diverse economies in Gibson-Graham’s sense as they are not profit-driven, have democratic or self-governing structures, and focus on the interests of their members as a community, yet are contained within capitalism. Beyond these common characteristics, cooperatives differ considerably from one another – depending on the subject, the geographical and historical context, the legal form, and their respective social significance. As mentioned above, they might influence an entire sector in the sense of being concerned for the common good, but first of all, they are concerned for their members. This is particularly obvious with worker cooperatives – the “prototype of cooperativism” (Peuter & Dyer-Witheford, 2010, p. 32) – as they are comprised of workers who collectively own a coop’s assets (and potential surplus), decide how to run it, and thus determine how to work and how to integrate work in their everyday lives.

## **7 Conclusion**

Various interwoven perspectives are to be highlighted in the review of the analysis. It is about the potential role of cooperatives in the historical change between the path dependency of political economy’s cultural order and the transformation of capitalism through the social learning of new practices and transgressive imagination.

(1) The question of whether cooperatives as a special form of economic activity, can be understood as an organizational type of commons must be reformulated as the question of whether cooperatives can become such an organizational form. Just as commons are not simply present but must first be formed (commoning), cooperatives must open themselves up to outsiders, both to publicly relevant needs (e.g. socio-political) and to developing a high degree of public accessibility. This possibility becomes apparent when analyzing the economic, social, and cultural purposes of their work in social spaces. Examples of this have been provided.

(2) The question of how cooperatives can be placed in relation to the world of capitalism must also be discussed with a differentiated problematization. The cooperative proves to be an alternative form to the capitalist firm due to its structural characteristics. However, whether it can contribute to the transformation of capitalism depends on whether it can detach itself from its embedded character within a system of competitive markets. In other words: Do cooperatives understand themselves as (a) normal, albeit somewhat different, forms of economic activity in a quasi-natural order of the market; (b) as precisely this normal, but somewhat different, form of economic activity, yet instrumentalized by public social policy; (c) as alternative islands with a high degree of autonomy within the hegemonic normality of a political economy otherwise culturally dominated by the capitalist spirit; or (d) as the nucleus and development path of a transgressive logic of overcoming the culture of capitalism as a performative culture of property rights individualism?

The subject area and its questions therefore cannot be answered without ambivalence. In the world of ideas and interests with regard to the system, there are (a) the uncritical normalists, (b) the social reformists, and (c) the transgressionists. In this differentiated landscape, the idea and practice of cooperatives as a special form of economic activity, as a type of insider-oriented organization of goods and services of general public interest, is positioned as an outsider opening with a high degree of free accessibility. The cooperative is positioned between facticity and possibility. Possibility is a conjunctive part of reality.

### Notes

- 1 It is worth mentioning that we, in the broadest sense, follow the ICA's definition of cooperative democracy. The actual degree of democracy realized in different types of cooperatives is up for debate. See Biggiero; Gonza, Ellerman, & Juri as well as Ellerman & Gonza in this volume for an in-depth discussion thereof.
- 2 One example is the BürgerSozialGenossenschaft Biberach eG (<https://bsg.de>). It offers (1) assistance in the form of domestic services in private settings, (2) everyday care by caregivers, and (3) the provision of everyday care in a domestic setting with foreign caregivers. The foreign care workers are then employed by the BürgerSozialGenossenschaft based on German employment law and are subject to social insurance contributions.
- 3 Programmokino Würzburg eG is an illustrative example of a cultural cooperative. After the only privately run arthouse cinema in the city of Würzburg was closed in 2009, individual citizens formed a working group with the aim of maintaining an arthouse cinema in the city. In 2010, Programmokino Würzburg eG was founded with the purpose of promoting "the operation of an arthouse cinema accessible to everyone, in which artistically valuable or particularly informative films and other media are shown" (Programmokino Würzburg eG, 2024, p. 1, own translation).

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# BEYOND THE WESTERN-CENTRED PARADIGM IN COOPERATIVE ECONOMICS<sup>1</sup>

*T. O. Molefe*

## 1 Introduction

Like other similar efforts to rethink the economy within the context of the sovereign state, scholarship, policy and advocacy focused on cooperatives tend to centre, theoretically and empirically, organisational forms, theories, norms and practices rooted in European experiences, even in non-European contexts (Pollard et al., 2021; Sengupta, 2015). The Europe-as-centre orthodoxy also tends to be the vantage point, whether explicit or not, from which the rest of the cooperative world is viewed, described, filtered and theorised (Kamenov, 2019). But is this position sound and defensible? After all, cooperation as an organisational economic strategy is as old as, if not older than, our species, *Homo sapiens*, and so is evidenced everywhere throughout history in all societies, as are organisational forms that arise from this strategy (Bowes & Gintis, 2011). As cooperative historian Ian MacPherson (2012, p. 111) acknowledged, albeit belatedly, “cooperatives in other lands are not just extensions of the European cooperative experience and value systems”.

Orthodoxy being orthodoxy, however, much of the literature is silent on the dissonances and questions that arise from studying, making policy and advocating for a ubiquitously human organisational form from a Europe-centred perspective. Calls such as that by political scientist Jessica Gordon Nembhard (2020) on the need to recognise the global history of economic cooperation among all peoples of the world have largely gone unheeded. In the few instances where there has been acknowledgement, this has largely been superficial. For instance, according to its background paper authored by MacPherson (1996), the Statement on the Cooperative Identity, the 1995 articulation of the global movement’s values and principles, is rooted in Western European experiences and value systems. However, despite subsequently acknowledging that this Europe-centred positioning is not globally representative, MacPherson appears not to have considered the further implications.

Another instance of superficial engagement is found in a recent report prepared by the International Labour Organisation (ILO) and discussed at the 2022 International Labour Conference. The report provides a region-by-region overview of the social and solidarity economy (SSE)—an umbrella concept of questionable coherence yet growing popularity that includes cooperatives and other similar organisational forms based on voluntary membership, equitable economic participation, democratic governance and related egalitarian ideals (Williams, 2014). The report further

notes that what it terms ‘traditional’ forms of cooperation in Africa, Asia, Latin America and the Arab world—essentially, the parts of the world where the global majority live—predate and survived European conquest, which introduced the European cooperative model in these regions (ILO, 2022). Contrary to common misconception, this introduction was seldom benign nor benevolent. It was often a means to aid the settlement of European arrivals and also to dispossess, exploit or otherwise control native populations and their land, labour and natural resources in the furtherance of the imperialist project (Nyanchoga, 2019; Windel, 2021). The report glosses over this latter aspect and does not go beyond its perfunctory nod to the global history of cooperation and therefore does not consider the significance of these so-called traditional forms of cooperation amid the dominance of the Europe-centred perspective.

Thus, for the most part, the Europe-as-centre orthodoxy holds. Peeling back the layers, as this chapter does, reveals that this consensus is built on the myth of Europe as the apex of modernity and civilisation. In reality, it was through conquest, not superiority, that the European cooperative model, and organisational forms, histories, theories, norms and practices within it, rose to global dominance (Windel, 2021). One possible factor driving the perpetuation of the status quo is that cooperatives, as a field of study, policymaking and advocacy, lack theoretical frameworks and methodologies to overcome the inertia of their historical baggage. Consequently, each new study, policy or advocacy initiative uncritically reproduces the Europe-centred framing of the previous one or fails to question it sufficiently. Another equally significant factor is that meaningful recognition of the global history of cooperatives would unavoidably entail undoing and abandoning the Europe-centred myth, which, according to Fairbairn (1994, p. 1), has been “good and constructive”, serving as “an icon or totem for the world cooperative movement, an object of belief and inspiration for millions”. But can ignoring the cooperative histories and epistemologies of the global majority genuinely be good, constructive and inspiring, let alone good, constructive and inspiring enough?

This chapter answers in the negative. It uses a decolonial epistemic perspective (Dastile & Ndlovu-Gatsheni, 2013) as a theoretical framework to unmask the distortions of the dominant Europe-centred cooperative paradigm and the ways it has been justified and encoded into global policy frameworks, thereby obscuring access to the full body of human cooperative knowledge and impoverishing the field. Looking beyond the Europe-centred paradigm, the chapter provides a tentative and incomplete overview of various cooperative epistemologies from around the world, before focusing in greater detail on the African philosophy of ubuntu and a cooperative model therein, animated by the notion of *homo transindividualis*.

What this exercise illustrates is that the problem is not primarily that the dominant paradigm in the field is Europe-centred. Rather, being Europe-centred means that the field is operating from an incomplete and therefore inadequate knowledge base. This needs rectification. However, correcting the historical overrepresentation of European histories and epistemologies as though they are the apex of all cooperative experiences requires more than enumeration and explication, as this chapter does, of the oft-maligned, much-ignored cooperative histories and epistemologies of the global majority. To date, an as-yet-to-be-quantified but outsized amount of time, resources and institutional capacity has been devoted to the research, promotion and actualisation of the European cooperative model as a mechanism for inclusion, equitability and sustainable development, and as a counter to the excesses of capitalism—to the marginalisation and neglect of cooperative knowledge and knowledge systems beyond the Europe-centred paradigm. Therefore, to address the issue, the cooperative field needs a new agenda for research, policy and advocacy, one that is adequately resourced and focused on recentring knowledge and knowledge production toward a more complete and accurate account, guided by theoretical frameworks and methodologies geared for this purpose.

## **2 Unmasking the Europe-centred paradigm to recentre cooperative knowledge**

The Europe-centred cooperative paradigm has created what Münkner (1982, p. 117) calls terminological “confusion” in that “some authors (mainly sociologists) refer to autochthonous self-help organisations as traditional cooperatives and thereby use the term ‘cooperative’ in a very broad sense while others define ‘cooperatives’ as a special type of western style self-help organisation”. This confusion persists to the present day, with most authors, including Münkner, reserving the word cooperative to refer to those of European tradition and labelling others as ‘indigenous’, ‘cooperative-like’, ‘proto-’, ‘semi-’, ‘pre-’ or ‘traditional’ cooperatives, if seen as cooperatives at all. In many cases, this happens with the awareness that these formulations are “problematic” and after having “failed to find any satisfactory alternative” (Kronsbein, 2022, p. 17).

One simple, obvious alternative would be to simply call them cooperatives. But that would require having the means to question the Europe-centred view promoted by the International Cooperative Alliance (ICA) since its founding in 1895. In the background paper to the Statement on the Cooperative Identity, the ICA singles out late 19th-century Western Europe as the time and place when cooperatives “first emerged as distinct, legal institutions” and from there “spread throughout most of the remainder of the world in the twentieth century” (MacPherson, 1996, p. 2). As such, the Statement, like previous iterations, draws exclusively on Western European cooperative traditions as the basis for the values and principles it sets out. Subsequent to its adoption by the ICA, the Statement became the basis for ILO Recommendation 193, an international labour standard that has been highly influential in global policies and laws for cooperatives, particularly in the global South (ILO, 2015), thereby further entrenching the global dominance of the Europe-as-centre orthodoxy.

Breaking down the ICA’s position, which is diffused in the literature (Kamenov, 2019), late 19th-century Western Europe is viewed as a unique and distinguishing moment in the history of the natural human inclination to work together cooperatively to meet shared material and other needs and aspirations. While expressed in differing ways, it rests on the belief that even though cooperation as a strategy by which people organise to meet their needs and wants is ubiquitously human, it was ushered into modernity in 19th-century Western Europe and spread to the rest of the world from there. According to this belief, this era in Western Europe was supposedly so defining and distinguishing that it naturally went on to supersede all that came before in every part of the world, if not pioneer the path for the evolution of all cooperative practices everywhere from ‘traditional’ to ‘modern’ (Develtere, 1994).

In the ICA’s view, which is a settled belief in scholarship, policymaking and advocacy, the distinguishing factor was the recognition of the cooperative organisational form in the laws of sovereign states at that time in Western Europe. The attainment of legal personhood for the cooperative allowed for rules of cooperation to be not only codified, as they had been in various forms up to that point all over the world, but also made enforceable through the legal mechanisms of the sovereign state, thus enabling cooperatives to transact in their own names as actors in the market (Mulqueen, 2018). In this way, legal recognition is considered to have drawn a clear, definitive line between, on the one hand, activities, customs and practices born of the innate human capacity to cooperate (so-called ‘traditional’ or ‘spontaneous’ cooperation) and, on the other, those with the express purpose of cooperating in the pursuit of business objectives (so-called ‘modern’ or ‘contractual’ cooperation) (Birchall, 1997; Develtere, 1994).

This narrative, however, overlooks that the idea of the sovereign state did not emerge as a universal ideal. It was conceived and enacted solely for European states, most notably in the Treaty

of Westphalia of 1648 (Anghie, 2006; Getachew, 2019). This served to consolidate and further European conquest. It was only through determined resistance that Europe's powers were made to reluctantly recognise the sovereignty of peoples and territories they had claimed as their subjects and dominion (Anghie, 2006), even as they continued to exercise differing degrees of dominance, control and influence up to the present day. In many cases, this created situations where legal systems that were longstanding within territories subjected to colonial rule existed alongside and often subordinated to those introduced through European conquest. This situation is known as legal pluralism (Merry, 1988; Yahaya, 2019). These legal systems of endogenous origin had, and have, conceptions of recognition, personhood, contracting and enforcement that underwrite how cooperation as an organisational economic strategy has been understood, practised and theorised and the forms of organisation to which it has given rise historically. These may have differed from European conceptions but were and are nonetheless valid in their contexts. The subordination of endogenous legal systems to the state's legal systems, which are often of colonial origin, is likely why cooperatives in regions that had been subjected to European rule, such as Africa, for example, exhibit high degrees of operating outside of the state's legal mechanisms (or 'informality') and also hybridity, fusing domestic and European cooperative models (Develtere, 2008).

Elsewhere in the world, Jung and Rössner (2014) date the historical roots of contemporary cooperatives in the Republic of Korea to practices such as *dure* and philosophical propositions such as the *gye* principle. Similarly, the Quechua ideal of *sumak kawsay*, 'full life', often misappropriated as *buen vivir*, or 'good life' (Benalcázar & Ullán de La Rosa, 2021) emerges as a historical root of long-standing, extant practices of cooperation in Latin America and the Latin American diaspora (Guttmann, 2021; Benalcázar & Ullán, 2021; Calvo, Morales & Zikidis, 2019; Martínez et al., 2019). Likewise, Sengupta (2015) notes that First Nations, Inuit and Métis people of Canada have cooperative philosophies and traditions that pre-date the arrival of European settlers. *Mātauranga Māori* (Māori knowledge) in Aotearoa appears to hold a rich universe of cooperative knowledge (Waitoa & Dombroski, 2020), as does the African philosophy of *ubu-ntu*, which is explored further in the next section.

These cooperative epistemologies beyond Europe have been obscured by the Europe-centred paradigm. Consequently, there is little research on the models, theories, norms and practices that emerge from them, as they are seen as antiquated or informal variants of the European model, if considered at all. Consequently, it is unclear if and how they differ from those of European tradition, including, importantly, in terms of the value systems and norms that drive them. There are reasons to believe differences exist, as seen in the section on *ubu-ntu* philosophy. It is from these differences that a more complete picture might emerge to address gaps and shortcomings in the field.

On the other hand, much is known about the origins of the ICA values and principles in the statutes adopted in 1844 England by the Rochdale Society of Equitable Pioneers and their evolution to the current form in the Statement on the Cooperative Identity (Fairbairn, 1994; MacPherson, 2012; Wilson et al., 2021). The ten values in the ICA's cooperative model are considered fixed, whereas the seven principles are said to "require constant re-appraisal in light of economic, social, cultural, environmental, and political change and challenge" (ICA, 2015, p. 2).

Much is known, too, about the ICA's cooperative typologies, their norms and practices, the governance and other internal structures they typically exhibit, and the opportunities and difficulties they face (Novkovic et al., 2023). These cooperatives are typically built around a homogenous group (e.g. consumers, producers, workers, etc.) or provide one type of benefit or service (banking, credit, housing, etc.). However, ICA guidelines also recognise multistakeholder cooperatives (ICA, 2015), which may pursue multiple purposes common to their diverse membership.

The ICA's values and principles, and cooperative forms, also have inherent problems beyond those known and well-theorised. For one, the principles are merely guidelines subject to change in response to specific contexts (MacPherson, 2012), but the ICA's cooperative system itself lacks a mechanism for how this adaptation could happen. Consequently, as the world revolves and contexts change, the principles exist as a list frozen in the amber of the moment from which they emerged, with revisions thus far taking place every 30 years but without any systematic driver (MacPherson, 2012). Moreover, the values and principles lack explanatory value. In and of themselves, they do not answer why it is good to cooperate. They lack a coherent, compelling theory of cooperative economics, with multiple candidates such as humanism, cooperativism, mutualism, associationalism and altruism put forward as possible theories (Benner & Pastor, 2021; Novkovic et al., 2022; Novkovic & McMahon, 2023; Vieta, 2010).

### **3 An ubu-ntu cooperative model**

There are many competing accounts of the African philosophy of ubu-ntu. Of these, the account advanced in the work of philosopher Mogobe B. Ramose, which he hyphenates to set it apart, appears the most cogent. Described by Ramose (2005, 2009, 2014), ubu-ntu proposes that a person is and becomes a person through their relations with fellow beings, both human and non-human—including the living, the living-dead (or ancestors) and the yet-to-be-born. Moreover, recognising the full being of others in these relations and seeking, on that basis, to establish harmonious relations, which tend to be cooperative relations, is what makes a person whole and ethical. Ubu-ntu's person, therefore, is not only an individual but also a relation or set of relations that are intergenerational and inclusive of fellow living beings and nature. As beings in these relations interact, they continually construct and configure values, governance mechanisms, and economic arrangements that determine who they are and become. In calling for harmony as the ideal state of such relations, ubu-ntu tends to foster cooperative relations and has historically shaped cooperative organisational forms in Africa and the diaspora (Hossein & Kinyanjui, 2022; Kinyanjui, 2019).

In Ramose's account, what constitutes harmony or how harmonious relations look are neither predefined, dogmatically prescribed, nor eternal and universal (Ramose, 2005, 2009). Rather, the fact that such relations are predicated on recognising the humanness of others enjoins all people in a specific relational context to engage in thought, deliberative dialogue and action as equals in the ceaseless search for such relations. It enjoins them to define and redefine together how to pursue harmony as contexts change (Ramose, 2005). Ubu-ntu, therefore, eschews categorical enumeration and universalising of organisational form, law, values, norms, traits, behaviours and other means to harmony as these are situated properties that emerge from actual harmony-seeking interactions of persons involved in the situational relation (Ramose, 2005, 2014).

Being “an autonomous association of persons united voluntarily to meet their common economic, social and cultural needs and aspirations through a jointly owned and democratically controlled enterprise” (ICA, 2015, p. 2), a cooperative is one such form of social organisation described by Ramose (2005) into which ubu-ntu's ceaseless flow of being and becoming can and has crystallised. That neither the ILO nor African states, under the influence of the Europe-centred Recommendation 193, recognise this does not make it any less true. While some literature concurs (McAllister, 2005; Nyoni & Ndlovu, 2019; Okem & Stanton, 2016), there have been few attempts to explicate in great detail what a cooperative model based on ubu-ntu looks like. One notable exception is Kinyanjui (2019), who draws on the experiences of informal traders in Kenya to explicate a cooperative model based on utu, the Swahili phonological equivalent of ubu-ntu.

These attempts and literature on *ubu-ntu* speak to the existence of a cooperative model that is both theoretical and expressed in the everyday practices of cooperation in Africa and the diaspora. The model is founded on the notion of what I am calling *homo transindividualis*, a ‘person with *ubu-ntu*’ often referenced in the literature. For example, in the descriptive statement advanced by Desmond Tutu (1999, p. 35):

A person with *ubuntu* is open and available to others, affirming of others, does not feel threatened that others are able and good; for he or she has a proper self-assurance that comes from knowing that he or she belongs in a greater whole and is diminished when others are humiliated or diminished, when others are tortured or oppressed, or treated as if they were less than who they are.

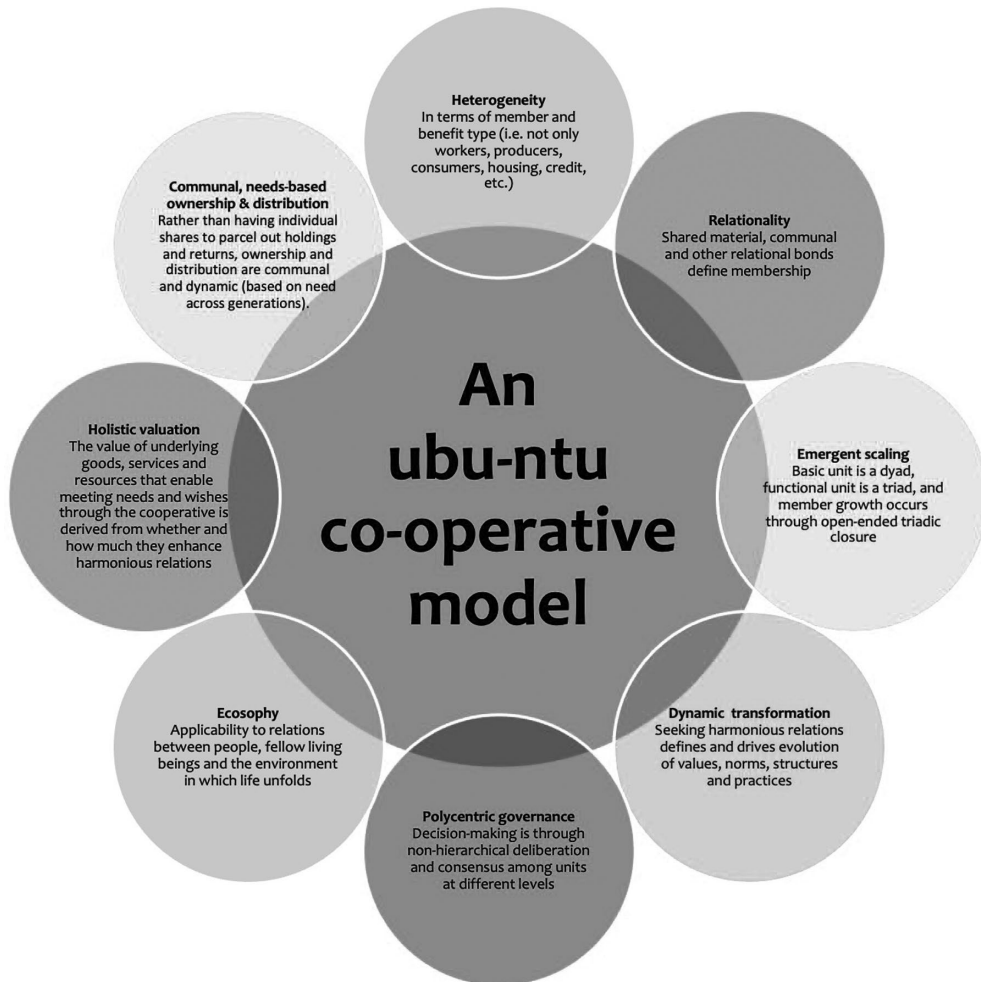
Unlike similar beings of European tradition such as *homo reciprocans* (Bowles & Gintis, 2002) or *homo cooperativus* (Daudi & Sotto, 1986), both responses to *homo economicus*, the individualistic, utility-maximising rational man of neoclassical economics (Urbina & Ruiz-Villaverde, 2019), *homo transindividualis* does not limit cooperation to only self-preservation, the common good or altruism. Rather, cooperation is a moral imperative that defines their being and who they become.

In the model, *homo transindividualis* is not a starting point but, rather, emerges through seeking harmonious relations through thought, dialogue and action among the relation’s constituent components, being the beings that constitute the cooperative (or similar organisation made up of people). These relations are actual relations and not merely contractual or similar formal relations, such as those established by signing up join as a member. Because such relations are always subject to change as people interact, gain new experiences and transform their needs and aspirations, and as others leave and new people establish bonds, emergence is never-ending for as long as the constitutive units exist.

An implication of this is that membership is heterogenous by default, as are the types of goods, services and other resources that enable meeting needs and aspirations through the cooperative. This points to the first three emergent properties (see Figure 5.1 for the full set) that can be deduced from an *ubu-ntu* cooperative model: relationality, heterogeneity of member and benefit type, and emergent scaling (in that membership changes and is changed by the interactions of the cooperative’s constitutive units).

As with the philosophy upon which it is based, the model does not come with a predefined structure or set of values, norms and practices to be applied dogmatically. Rather, these features are a product of, and produce, the harmony-seeking interactions of the constitutive units. This dialectic between the constitutive units and the structure, values, norms and practices points to a fourth property: dynamic transformation driven by harmony-seeking. As *ubu-ntu* calls for recognising the being of others, including fellow living beings and nature, polycentric governance and *ecosophy* are the fifth and sixth properties of the model. Polycentric governance entails decision-making that is non-hierarchical and occurs through deliberation and consensus among the cooperative’s constitutive units, while *ecosophy* denotes that fellow living beings and the environment in which life unfolds are constitutive of the cooperative to the extent that there are actual relational bonds.

Given that harmony is the ultimate aim, not the acquisition of goods, services or other resources, which can only ever be a means to harmony at best, such goods, services and resources hold value only to the extent they enhance harmonious relations. This is the seventh property of the model: holistic valuation. An eighth feature emerges from *ubu-ntu*’s demand for recognition of inter-generational relational being, setting up an approach to ownership and distribution of resources primed for meeting the needs and aspirations of those who were, are and will be. Thus, ownership



*Figure 5.1* Emergent properties of an ubu-ntu cooperative model.

*Source:* Author's ancestral knowledge, experience and deduction.

and distribution are communal, intergenerational, and geared to meeting the needs and aspirations of the constitutive units by virtue of their being and not what they can offer or pay in exchange.

Figure 5.1 depicts the eight emergent properties of an ubu-ntu cooperative model. It is important to emphasise that these are not prescriptive, nor are they a complete set and the numbering does not signify rank or configuration. The properties and their rank and configuration, if any, become apparent and result from the nonlinear, harmony-seeking interactions of each specific cooperative's constitutive units. Furthermore, this articulation is but one account that requires further research.

## 4 Conclusion

This chapter illustrated that the Europe-as-centre orthodoxy in cooperative economics cannot be sustained. It is founded on a world order created to justify and sustain imperial conquest.

Consequently, it offers an incomplete and thus inadequate record of cooperation as an organisational economic strategy. While some literature suggests a multi-regional account of cooperative economics, the development of such an account appears hindered by the historical inertia that has gripped cooperatives as a field of study, policymaking and advocacy. The field also lacks theoretical frameworks and methodologies to overcome this historical inertia, resulting in the longstanding marginalisation of cooperative experiences and theories beyond the European frame.

While it is important, as this chapter has done, to acknowledge the existence of these marginalised cooperative worlds, acknowledgement in and of itself is not enough. The field needs a new research agenda that would allow it to break out of its Europe-centred orthodoxy. Cooperative models such as the one based on the African philosophy of *ubu-ntu* presented in this chapter highlight that significant differences likely exist between cooperative forms, value systems and norms of European tradition and those originating from elsewhere in the world. These differences can revitalise the field, allowing a more complete multi-regional account of cooperation as an organisational economic strategy to emerge.

Such a multi-regional account would recognise that contemporary cooperative practices are human practices that emerged from the specific economic, political and cultural contexts of their place and time, without needing state or other forms of outside recognition to be valid or relevant. It would also reject essentialism by recognising that knowledge production and circulation are complex, multidirectional processes driven by human relations mediated by systemic and structural power, which change over time as a result of these relations. These knowledge processes are seldom bound by the purity of intellectual tradition. Finally, it would seek to understand and learn these knowledges on their own terms, if the people and organisations that embody them wish to be a part of remaking the cooperative identity.

### Note

- 1 Based on papers presented virtually at the 2021 Cooperative Research Conference of the International Cooperative Alliance in Seoul, Korea, and the 2023 Conference on Cooperatives and the Solidarity Economy in Johannesburg, South Africa.

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## 6

# WORKER COOPERATIVES AND OTHER “COOPERATIVES”

*David Ellerman and Tej Gonza*

### 1 When is a “Coop” not really a cooperative?

The short answer is *whenever the actual activity of the “cooperative” is not carried out by the members but by employees*. The problem is, of course, not in cooperation *per se* but in the hiring, employing, renting, or leasing of people to carry out the supposedly “cooperative” activities of the “cooperative” (Ellerman, 2021).

Consider the case of a typical consumer cooperative. What is the cooperative activity carried out by the consumer-members? They do not consume cooperatively; that would be a commune or kibbutz. They shop and consume as individuals or as individual families. They do not carry out the activity of the consumer cooperative business—which is conducted by the hired managers and employees of the business. The whole notion of the consumer-members cooperating together in some joint activity is a beautiful fiction, but a fiction nevertheless. Of course, there may be some overlap between employees and consumers, but we are analyzing *functional* roles, i.e., the roles people have *qua* consumers and *qua* workers. Moreover, the number of consumers will far exceed the number of employees.

Another important example of a cooperative where most of the activity is carried out by rented people is the agricultural marketing cooperative. The members are, in the best case, family farms and, in the worst case, agribusiness corporations. The individual farms or agribusinesses supply the agricultural products to the cooperative for processing and marketing. All the processing work of the cooperative is carried out by employees, from the managers on down.

The same holds for credit cooperatives where the members are the depositors, but the work of the credit union is carried out by its employees. Similarly, in a mutual insurance company, the members are the policyholders, and the work of the cooperative is carried out by its employees. Some non-worker cooperatives may have very few, if any, employees such as small housing co-ops (Ellerman, 1983)—although the “cooperative activity” (living in individual family units with shared spaces) is much the same as in non-cooperative condominiums.

In short, it seems the only sort of cooperative that, by definition, has the joint activity of the cooperative carried out by its members is the worker cooperative.

## 2 A cooperative corporation compared to a conventional corporation

A *corporation* and a *cooperative* are two legal structures underlying the economic firm, a basic unit of economic production.<sup>1</sup> The legal structure defines the rules of the production game – who has the authority to direct labor and who has the rights to the product of that labor. So, how does a corporation differ from a cooperative?

The history of a corporation goes back to medieval times when a *universitas* was defined as an association of people carrying out some joint activity *themselves*.

In the first place, the corporative structures of medieval society are again significant. We are dealing with a time when, all over Europe, separated individuals were in real life coming together, swearing oaths to one another, covenanting together to form new societies, sometimes political societies – all those *universitates*, guilds, colleges, communes that we noticed earlier – and were deliberately shaping constitutional structures for their new societies. For civil and canon lawyers one distinction between a *universitas* and a mere crowd of individuals consisted precisely in the fact that the *universitas*, but not the individuals, could create a ruling official, having ordinary jurisdiction over the community.

(Tierney, 1982, p. 36)

In these early examples of incorporated communities, the members of the corporation were jointly governing themselves, not some other group of people. But if we ‘fast forward’ to modern times, the whole idea of a corporation has changed from an association of people jointly governing their own activity to an assemblage of assets jointly owned by the shareholders, where the activity of the corporation is carried out by employees.

We can here perhaps note a final irony, at least. The concept of the corporation began for us with groups of men related to each other by the place they lived in and the things they did. The monastery, the town, the guild, the university... were only peripherally concerned with what its members owned in common as members. The subsequent history of the corporate concept can be seen as a process by which it became progressively more formal and abstract. In particular the associative elements were refined out of it. In law it became a rubric for expressing a complicated network of relations of people to things rather than among persons. The aggregated material resources rather than the grouping of persons became the feature of the corporation.

(Chayes, 1961, p. xix)

Unfortunately, the concept of a cooperative (aside from worker cooperatives) has gone through a similar evolution with respect to the renting of people to carry out the joint activity.

There are various definitions of a cooperative, but we will begin with what is probably the most institutionalized definition by the International Cooperative Alliance (ICA):

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

(ICA, 2015)<sup>2</sup>

How does this differ from a conventional corporation? For instance, “an autonomous association of persons united voluntarily to meet their common economic, social, and cultural needs and

aspirations” could equally well describe the founders of *any corporation* who then rent the rest of the people to do the work of the corporation. Similarly, the “jointly owned” part of the ICA’s definition is also not specific to a cooperative; both a conventional corporation and a cooperative corporation are legal structures represented by a separate legal entity, which is separate from its individual members. The members have no individual liability for the debts of the corporation and no individual ownership of the assets of the corporation. Both the cooperative and the standard corporation are “jointly-owned” by their members since “the shareholders are the members of the company and the terms ‘shareholders’ and ‘members’ may be used interchangeably.” (Hannigan, 2012, p. 304). In both cases, the members have individual membership rights, i.e., governance and net income rights. That is, both conventional individual shareholders and cooperative members have individual voting and dividend rights. The one case is no more “jointly” or “collectively” owned than the other. The real difference lies in whether the membership rights are *personal rights* (that cannot be sold or bequeathed) held by people who qualify by having a certain functional role versus where the membership rights are free-floating *property rights* (transferable and bequeathable). There is more on this important distinction below.

Next, we might examine in what sense a cooperative is “democratically controlled.” While cooperatives, unlike corporations, generally uphold the principle of one member one vote, this does not imply democratic control. In non-worker cooperatives, the members vote on a one-person, one-vote basis to elect the management of the people working in the cooperative (the employees); they do not vote to democratically govern their *own* activities. That is, the managers in, say, a consumer cooperative or an agricultural processing cooperative are not empowered to give orders to the customer-members or the farmer-members in the course of the business (not to mention otherwise), only to the employees.

In the ICA’s Guidance Notes to Co-operative Principles (2015), the idea of “democracy” is essentially the same as the usual corporate notion of members (i.e., shareholders in that case) having the ultimate governance rights in the organization.

Democracy is a simple concept: the governance or control of an organisation by its members through majority decision-making. (ICA 2015, p. 15) ... Democratic member control is a key differentiating characteristic of co-operatives in comparison to investor or shareholder-owned businesses.

(ICA, 2015, p. 18)<sup>3</sup>

This is hardly a “differentiating characteristic” since the member-shareholders in a conventional corporation also legally have “member control.” The (non-worker) cooperative “slippage” in democratic norms is also present in conventional corporate governance theory in the notion of “shareholder democracy.” It suffers from the same problem.

The analogy between state and corporation has been congenial to American lawmakers, legislative and judicial. The shareholders were the electorate, the directors the legislature, enacting general policies and committing them to the officers for execution. ... Shareholder democracy, so-called, is misconceived because the shareholders are not the governed of the corporation whose consent must be sought.

(Chayes, 1966, pp. 39–40)

And the Economics Nobel laureate, Paul Romer, makes the same mistake in arguing that old Hong Kong was “democratically governed.” This is because Great Britain was a democracy and

it governed old Hong Kong, but “it just happened to be not a democracy that involved the local residents” (Romer, 2009, quoted in Slobodian, 2023, p. 186). In a similar sense, a (non-worker) cooperative in the ICA’s definition is “democratically controlled,” but it is a “democracy” that doesn’t involve the people being governed.

It is easy to see that holding contested elections and voting with one-person one-vote does not necessarily mean people are democratically governed. If the citizens of Russia went through all the activities of democratic voting to elect the Government of Ukraine, that would not make Ukraine “democratically controlled.” The point, of course, is that the citizens of Russia would be electing the government of another set of people, so that scheme fails the most elementary test of “democratically controlled”: the democratic rights to elect the government have to be exercised by those and only *those who are to be governed* (Dahl, 1985; Ellerman, 2015). In that sense, a non-worker cooperative is like a corporation, with the real difference that the voting rights are not based on the relative number of shares but are rather limited to one vote per member.

### 3 Personal rights versus property rights

One aspect where the modern cooperative actually *differs* from the conventional corporation is in the method of allocating membership rights. Membership rights include governance authority, which traditionally implies the right to elect the board of directors and vote on strategic issues at the membership assembly, and profit rights, which implies the right to distributed and retained profits. The cooperative and the corporation differ in who can access membership, that is, who can obtain legal rights.

Before explaining the real difference between a corporation and a cooperative, we need to distinguish between personal rights and property rights. A person has a personal right because they play a certain functional role (e.g., patronizing a cooperative<sup>4</sup>) or personally qualify for the rights (e.g., citizenship rights—see Anu Puusa’s chapter in this volume on the community aspect of a cooperative). Hence, by the definition of a personal right, it is not the sort of thing that can be bought or sold, since the buyer may not have the qualifying role, and if the “buyer” did have that role, they would not need to buy the right. Moreover, since the right attaches to a qualifying role, one either has it or doesn’t; there is no such thing as multiple qualifications. That is why membership rights, such as voting rights allocated as personal rights, are always one-person, one-vote. Different types of cooperatives differ in how they define the “qualifying role” in the cooperative (a worker, a shopper, a farmer, etc.), but the common feature is that the membership rights are assigned to those who patronize the cooperative (there may be other qualifications). The ultimate test of whether a right is a property right or a personal right is whether it can be bought and sold or, equally, whether it can be inherited or bequeathed. The Guidance Notes take note of this difference. The cooperative membership share “is not a tradable asset,” while an equity share in a conventional company “is, generally, tradable” (ICA, 2015, p. 34).

One could have an idealized “history” of cooperatives and corporations where, in the beginning, “All firms are cooperatives” (Hansmann, 2013). In this scenario, a corporate legal structure evolved by taking the patronage requirement to zero; when there are no patronage requirements for membership, then the membership rights become free-floating rights that can be bought and sold. That is, legal rights in an economic firm become property rights instead of personal rights. In that sense, the *conventional corporation is essentially a zero-patronage cooperative corporation*—where the membership rights are no longer attached to any functional role. Since the membership rights are no longer attached to any patron’s role, they are packaged as “shares,” and a person can hold any number of them with one-share, one-vote.

The allocation of membership rights as personal rights is one important aspect in which modern cooperatives have not degenerated—in spite of the use of rented workers and non-democratic control (except for worker cooperatives). When looking at the impressive numbers provided by the ICA on cooperative organizations around the world, cooperative supporters conveniently ignore the fact that most cooperatives today are conventional employers, where legal rights are attached to some notion of “patronage,” which is not the provision of labor.<sup>5</sup>

#### **4 A real cooperative: a democratic firm**

A real cooperative is one where the patronage or functional role to which membership is limited involves people carrying out a joint activity, e.g., labor in a worker cooperative. A worker cooperative is a real cooperative based on democratic principles (self-governance in the sense that the people electing the government are the people being governed) and principles of legitimate appropriation of labor product (Ellerman, 2021).

Only in worker cooperatives or democratic firms is the renting of human beings [(Ellerman, 2015, 2021); (Ellerman et al., 2022)], the employment relation, negated since patronage is defined as working in the firm. Thus, the workers are members, not “employees” (regardless of the classification for tax purposes by conventional legal authorities), of the firm.

It is remarkable how the ICA’s definition of a “cooperative” ignores the means by which the actual productive activity is typically carried out by rented people. Centuries ago, slave labor was the labor system of the day that was assumed to be normal and routine. The ICA’s definition would fit the case where some consumers of cotton joined together in “an autonomous association of persons united voluntarily to meet their common economic, social, and cultural needs and aspirations through a jointly owned and democratically controlled enterprise,” where the actual work of the enterprise was carried out by the labor system of that time, namely workers who were owned rather than rented.<sup>6</sup> Do organizations that routinely use a labor system which treats persons as things to be owned full-time or rented part-time really deserve to be called “cooperatives”?

#### **5 UK history of the degeneration of cooperatives into “cooperatives”**

To consider only the highlights, what today we would call “worker cooperatives” started in the early 19th century in the productive communities of Robert Owen. However, setting up these communities of production required funds that were unavailable to the broader working population. While Owen’s philanthropic endeavors bore some fruit in New Lanark in the early decades of the 1800s, other philanthropic and government funds did not materialize in any significant amounts. Yet Owen’s ideas and examples were the beginning of the cooperative movement in the UK—a movement essentially composed of worker cooperatives. As the problems with financing new cooperative enterprises began to surface, a possible solution emerged in the 1820s.

If fifty households, spending £50 per year, could do their own retailing, making 10 per cent profit, they would have painlessly saved £260 per annum for the community fund.

(Pollard, 1967, p. 82)

Consumer cooperatives started in this manner in the United Kingdom *as a means to fund worker cooperative communities*—decades before the Rochdale Pioneers of 1844. “Thus did storekeeping enter the co-operative movement” (Pollard, 1967, p. 83). After some initial reticence, Owen

supported these stores in view of their ultimate purpose. However, as the stores developed, they became quite popular among the working population, quite aside from any Owenite goals. As those goals receded, cooperators such as Dr. William King had to reiterate their original purpose.

The grand aim of co-operative societies is *not* to combine to raise the wages of its members by buying at wholesale prices and selling the same for ready money, as stated... but, on the contrary, to raise a capital sufficient to purchase and cultivate land and establish manufactories of such goods as the members can produce for themselves, and to exchange for the production of others; likewise to form a community, thereby giving equal rights and privileges to all.

(Pollard, 1967, p. 85)

By the end of the 1830s, “Owen reverted to his hostility to ‘making profit by joint-stock retail trading’ ... when the surviving co-operative societies had become mere stores” (Pollard, 1967, p. 85, fn. 3).

Leaving aside many interesting historical details, the cooperative movement in the UK can be split into two periods: the Owenite-inspired cooperative movement of the first half of the 19th century, which focused ultimately on communities of work, and the second half of the movement that dates back to the Rochdale Pioneers of 1844. At first the aims of the earlier cooperative movement were expressed by some of the Rochdale founders.

In essentials, the “objects” of the Rochdale Pioneers did not differ fundamentally from those “castles in the air” which so fascinated the enthusiasts of an earlier day.’ Their programme was a ‘systematic and orderly scheme of social rebuilding’, envisaging ‘voluntary associations enlarging into a Co-operative Commonwealth’. They ‘set out originally to create, not a mere shop for mutual trading, but a Co-operative Utopia’. ‘Their intention was to raise funds for community purposes... Their object was the emancipation of labour from capitalist exploitation. They had no idea of founding a race of grocers, but a race of men.

(Pollard, 1967, p. 95)

But as time passed and the old cooperators died, the stores thrived—particularly after they introduced the (patronage) dividend on purchases.<sup>7</sup> At first, perhaps influenced by their history, some stores also had a labor dividend for the people working in the stores—similar to the hybrid worker-consumer cooperative, Eroski, among today’s Mondragon cooperatives. However, the final nail in the coffin of the Owenite movement was driven in the 1860s when the labor dividend was removed, not only in consumer co-ops but also in the joint-stock manufacturing corporations that were part of the cooperative movement.

This second process was most evident in the development of the Rochdale Co-operative Manufacturing Society, an off-shoot of the store, which the majority of recent members transformed into a simple profit-making joint-stock company in 1862 by abolishing the bounty on labour over the bitter protests of the old Pioneers’ leaders.

(Pollard, 1967, p. 97)

This history of the modern cooperative movement, starting with the Owenite cooperators, has been airbrushed out of today’s “official” histories. For instance, after mentioning an early 1761 store

selling oatmeal at a discount, the ICA’s history jumps to the Rochdale Pioneers who “established the first modern cooperative business” in 1844.

They are regarded as the prototype of the modern cooperative society and founders of the cooperative movement.

(International Cooperative Alliance, 2023)

There is no mention whatsoever of the earlier decades of the Owenite cooperative movement, which aimed at worker cooperatives and viewed consumer cooperatives as a means to that end.

## **6 Conclusion**

The modern movement of non-worker cooperatives has completely accepted the quintessential capitalist institution of renting, hiring, employing, or leasing people in its “cooperatives”—which are generally considered “good employers.” There is a similar history in the labor movement, which initially aimed to abolish wage labor and establish the Cooperative Commonwealth (Gourevitch, 2015). However, that movement eventually ‘forgot’ its original aim and became the “trade union movement,” which fully accepts the employer-employee relationship and only aims to bargain for a larger share of the added value for the rented people in the bargaining unit.

Today, the best representative of the original (Owenite) goals of the cooperative movement is the Mondragon Movement (Whyte & Whyte, 1991). All the Mondragon cooperatives operate based on the Catholic social doctrine of “the priority of labor” (Baum, 1982). So, the workers are, in principle, not rented people.<sup>8</sup>

More importantly, worker cooperatives, which found their own ways in which to operate under cooperative laws, were primarily devoted to worker empowerment and they formed one of the most rapidly expanding sectors in the world. The issue was very much in the forefront of many cooperative endeavors and no doubt will reappear whenever future revision of the values statement and the principles occurs.

(MacPherson, 2012, p. 122)

In view of the utter domination of conventional businesses in the world today, there is a ‘peaceful coexistence’ between Mondragon-inspired cooperatives and non-worker cooperatives, as seen in the International Cooperative Alliance. However, the old issues are still present.

This is not a new issue. As the economist William Stanley Jevons put it in 1883:

The [industrial] partnership scheme is, I believe, by far the truest form of co-operation. We have heard a great deal of co-operation lately, until we may well be tired of the name; but I agree with Mr. Briggs\* [reference to 1870 newspaper article] in thinking that many of the institutions said to be co-operative really lack the fundamental principle, that those who work shall share. If a co-operative retail store employ shopmen, buyers, and managers, receiving fixed and usually low salaries, superintended by unpaid directors, I can only say that it embodies all the principles of dissolution; it has all the evils of a joint-stock company without many advantages.

(Jevons, 1883, p. 141)

Beatrice and Sidney Webb, two influential figures of the Fabian Society and the British Labour Party, argued for consumer cooperatives over producer (worker) cooperatives. Beatrice contended

that the cooperative movement should focus on organizing consumers, not just producers, to reduce rivalry with unions. Sidney emphasized the collective control of consumers over industry rather than mere profit-sharing. The Webbs proposed institutional solutions that would shift the distribution of value towards the general population but did not attempt to offer a system alternative to conventional human rental firms. J. N. Warren (2022, p. 540) notes that critics, including R.H. Tawney (Rogan, 2017), accused the Webbs of adhering to detrimental utilitarianism and economic ‘science,’ aligning with Alfred Marshall’s theories, rather than engaging with the principles underlying the worker cooperative movement.

Our goal here is only to remember these old issues, past debates, the neglected history of the Owenite cooperative movement, and the degeneration of the (non-worker) cooperative movement from being harbingers of the Cooperative Commonwealth to being good employers of the people actually carrying out the cooperative human activities in the cooperatives. Such a “cooperative” is an “association of persons united voluntarily to meet their common economic, social, and cultural needs and aspirations”—which can be said of the founders and members of any joint stock company—and is a “democratically-controlled enterprise” according to a notion of “democracy” that is not “by the people” whose activities are actually being governed. But, today, all cooperatives do keep alive the idea of voting based on personal rights, i.e., one person one vote, which prevents cooperative corporations (that have not yet been demutualized) from being treated as pieces of property that may be bought and sold.

## **7 Appendix: Individual capital accounts in cooperatives**

The treatment in the Guidance Notes (ICA, 2015) of the 3rd principle of member economic participation requires some additional comment for what it says and does not say. On the balance sheet of any corporation, co-op or not, the word “capital” could refer to capital assets (land, buildings, machinery, etc.) or the equity portions of the balance sheet (assets minus liabilities) so one should be careful not to confuse the two cases. For instance, “indivisible reserves” refers to a portion of the equity, not to some of the cash assets set aside in a reserve fund. Indivisible reserves are not an “asset-lock” since they are not an asset (such as cash) in the first place. The point is that when a cooperative with indivisible reserves is being liquidated by the sale of all its assets, any cash left over after paying off the liabilities (including retained patronage dividends) should not be distributed to the current ex-members but should go to the cooperative movement or charity. Moreover, even when a worker cooperative is not liquidated but has a serious downturn in business (e.g., COVID-19), it should not continue paying the same income to all the members, with the resulting losses booked as debits to the indivisible reserves. The Guidance Notes are sound on those aspects of the indivisible reserves.

The controversial part is the treatment of retained income (or surplus) that is not credited to indivisible reserves. For instance, if the current cash demands to buy assets or pay off liabilities do not allow all patronage dividends to be paid out, some cooperatives have a system of retained patronage dividends that are to be paid out in the future.

The revolving fund plan redeems allocated equity based on the age of the equity (the year the equity was retained), using a first-in, first-out order. The most common method redeems only one year of retained equity each year. Thus, members’ money withheld in 1995 might

be repaid in 2000, that of 1996 redeemed in 2001, and so on. This plan is one of the most effective ways to accumulate capital and is a lot easier than selling new shares of stock. It helps ensure that *current members furnish funds in proportion to their use* and provides a systematic way of returning investments to members. New organizations may begin with this plan at the very start and older organizations may also adopt the plan.

(Zeuli & Cropp, 2004, p. 63 emphasis added)

The accumulation of a member’s written notices of retained patronage allocations would constitute the member’s *individual capital account*. On the balance sheet, the accounting conventions may list those accounts as part of “Equity” or “Capital”, but they, in fact, represent a form of subordinate and flexible (retained losses) debt since there are no additional votes or portions of surplus attached to the accounts. Aside from these revolving accounts of retained patronage dividends in some US cooperatives, the most famous examples of individual capital accounts (in addition to the indivisible reserves or collective account) are in the Mondragon worker cooperatives (Whyte & Whyte, 1991; Ellerman, 2015 [1990]).

However, there is controversy since some cooperators believe that retained patronage dividends must be ‘socialized’ in indivisible reserves rather than recorded in individual capital accounts. This view seems to stem from implicit or explicit ‘socialist’ sentiments that keeping track of retained patronage dividends in such individual accounts is ‘capitalist’ (despite being essentially a form of debt) and therefore should be forbidden in favor of having all accounting entries under “Equity” as indivisible or collective reserves. This was the case, for example, in Yugoslav socialist self-managed firms, and some co-ops today that were historically aligned with socialist/communist movements. There are well-documented economic problems in such socialist enterprises that force worker-members to sacrifice any fruits of their labor when retained in the co-op to finance new investments or pay off old loans (see Gonza, 2024).

## Notes

- 1 The notions of an economic firm, a corporation, a cooperative, and the role of renting people, i.e., hired workers, in defining a ‘capitalist’ and a democratic firm are discussed in slightly greater detail in the chapter herein “Gonza, Ellerman, Kosta 2024”; for more analysis, see also Ellerman (2021), Gonza (2024).
- 2 The definition is repeated on some EU websites: [https://single-market-economy.ec.europa.eu/sectors/proximity-and-social-economy/social-economy-eu/cooperatives\\_en](https://single-market-economy.ec.europa.eu/sectors/proximity-and-social-economy/social-economy-eu/cooperatives_en). David Kristjansson-Gural’s chapter in this volume criticizes the ICA’s definition from a different perspective.
- 3 The comparison goes on: “A second key characteristic is that their member-owners have a non-speculative stake in the business enterprise run by the cooperative” (ICA, 2015, pp. 18–19). Or again: “Membership shares that provide capital in a co-operative are not shares like those in investor-owned joint stock companies. Capital paid by members is not money primarily invested to generate an investment return on capital, but is ‘pooled capital’ invested to deliver goods, services or employment needed by members at a fair price” (ICA, 2015, p. 31). Surely, it is obvious that there are two ways to increase one’s net income: increase one’s gross income (as shareholders want to do) or decrease one’s costs (as consumers want to do in a consumer co-op)—so that common desire to increase one’s net income can hardly be a key differentiating characteristic.
- 4 For instance, “patronage” means work in a worker co-op, shopping in a consumer co-op, selling produce through an agricultural marketing co-op, putting savings in a credit co-op, living in a housing co-op, and so forth.

- 5 It might also be mentioned that, in comparison with ordinary corporations, cooperatives are well-known “good employers” and are more socially responsible.
- 6 The fact that the human rental system is (juridically) voluntary is not a differentiating characteristic. When slavery was abolished, both involuntary slavery and voluntary servitude or peonage were abolished in favor of the part-time rental system. For the US case, see Soifer (2012).
- 7 The idea of getting a return or discount on purchases by members is no longer a unique characteristic of consumer co-ops since it has been adopted by many major supermarket chains. A customer signs up for membership and then a membership card or tab on one’s key chain is scanned at checkout to get a discount for patronizing the store.
- 8 In the actual operation of the Mondragon cooperatives (e.g., foreign subsidiaries), there has been much falling short of their ideals.

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# A THEORY OF THE INTEGRATED COLLABORATIVE ENTERPRISE

*David Kristjanson-Gural*

## 1 Introduction

How do enterprises create value, who claims this value and how is the value distributed? These are some of the questions Marx asked that led him to develop a value theory and class analysis, providing many insights into how capitalist enterprises reproduce themselves.<sup>1</sup> These insights are important for understanding class struggle within enterprises and the effect that class struggle has on how work is organized, how, why, and what kinds of technology are developed, what pay and benefits workers receive, and which norms govern hours worked, including issues like sick leave, maternity and paternity leave, vacation, and holidays.<sup>2</sup> Beyond these workplace issues, Marx analyzed the effect of competition and monopoly on inequality, business cycles, economic crises, colonialism, and ecology.<sup>3</sup> Political economists since Marx have developed deep and insightful analyses that are helpful for understanding both the wealth and technological dynamism as well as the violence and dehumanization that the past few centuries have wrought.<sup>4</sup>

Of course, like every analysis, Marxian theory has its lacunae. Many Marxian theorists have overlooked the important role of unpaid household labor, for example, or the intimate relationship between racism, slavery, and capitalism.<sup>5</sup> Others have argued that class oppression is primary or more important than oppression based on sexuality, gender, race, age/ability, or ethnicity.<sup>6</sup> However, the claim that Marxian theory is logically flawed is invalid, and many misconceptions concerning Marx's analysis and its implications are based on similar misreadings.<sup>7</sup>

Value theory and class analysis help us understand the behavior and incentives of capitalist enterprises, but they can also be used to analyze social enterprises, including different types of cooperatives – consumer, producer, and worker – to shed light on how each reproduces its conditions of existence and how they differ from each other and capitalist firms.<sup>8</sup> How is value created, who appropriates it, and how is it distributed in these various alternative business models? Do these alternative enterprises succeed in eliminating or modifying class struggle, enfranchising workers, and remediating the injustices Marx highlighted? I will argue that only the worker cooperative structure overcomes the exploitation of workers inherent in capitalist class relationships, but worker cooperatives face a conundrum because of two contending justice claims – the workers' claim to appropriate the value they collectively produce, and the stakeholders' claim to have

a say over decisions that affect them. To resolve this conundrum, I will offer a new enterprise structure that I call the *collaborative*.

A *collaborative* is an incorporated network of individual collaborative enterprises and organizations with its own private democratic governance system – a democratic counterpart to the autocratic private government of the capitalist enterprise.<sup>9</sup> Each collaborative unit maintains a two-board structure – one comprised of workers and a second divided between workers and stakeholders, including representatives of the other collaborative enterprises and organizations within the corporation. I will explain how value theory and class analysis lead to the conclusion that resolving the contending justice claims within the enterprise implies rethinking the independent worker cooperative structure in this way. I will conclude with recommendations for the development of principles of collaboration so that proponents of adopting a collaborative approach can effectively advocate for and actively build such alternative structures.

## **2 How enterprises create and distribute new value**

Enterprises create value when they hire workers to produce goods or services (what Marx referred to as commodities) for which there are individuals both willing and able to pay. Workers sell their ability to work via a labor contract that specifies their work hours, pay and benefits, and job responsibilities. Employers put the employees to work creating marketable goods and services. By performing labor in the production of commodities, workers create value, which, due to the nature of the labor contract, the employer claims. Part of the new value is returned to the worker in wages and benefits, while the remainder, what Marx called *surplus value*, is distributed by the employer to various individuals, enterprises, and agencies in return for providing what the employer believes will secure the conditions needed to maintain the viability of the enterprise.<sup>10</sup>

The employer thus reproduces the viability of the enterprise by strategically distributing the value workers create to several providers of services that the enterprise needs to survive. For example, real estate enterprises may receive rent for providing and maintaining commercial space, lenders may receive interest and shareholder dividends in exchange for providing loan or equity capital, and retail enterprises buy finished products at a discount, thus speeding up the turnover time of capital. Managers receive salaries and bonuses in exchange for providing managerial expertise, including supervision, coordination, strategy, accounting, legal practice, hiring, firing, monitoring and disciplining the workforce. State agencies may receive taxes in exchange for the state providing property and contract law, police and military enforcement of such law, and transportation and communication infrastructure, in addition to grants, subsidies, tariffs, and other forms of business development support, including educating and training people. Advertising and public relations firms provide cultural content that reinforces ideas and viewpoints favorably reflecting the enterprise's products, activities, and class relationships, normalizing and justifying the exploitative and extractive economic system. Lobbying, campaign contributions, and the sponsoring of think tanks and news organizations reinforce these conceptual frames and influence the state to promote policies, laws, and programs that support the reproduction of the class system.

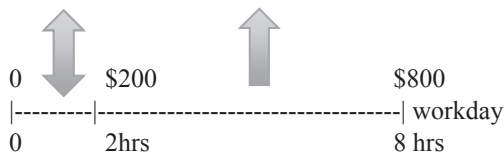
Perceived this way, value creation, appropriation, and distribution offer a lens to analyze how capitalist enterprises maintain their viability and the implications of their efforts on workers, other enterprises, the State, and our understanding of our economy and our roles within it. Importantly for present purposes, it also provides insight into how different enterprise structures modify the creation, appropriation, and distribution of value and the effect on class justice for workers, as well as the right of stakeholders to have a say over decisions that affect them.<sup>11</sup>

The following diagram illustrates class conflict in the production, appropriation, and distribution of value in a productive capitalist enterprise with a single product producing its only form of revenue.<sup>12</sup> The working day represents the average hours worked per day by the typical worker in an enterprise or an economy. Each hour worked results in the creation of an hour of new value, which is expressed in a given amount of currency. For simplicity, suppose each hour exchanges for \$100.<sup>13</sup> Under these conditions, the average U.S. worker would create 8 hours or \$800 of value per day. The daily wage for the average worker is the amount of money that represents the average hours necessary to produce the wage goods that the worker must consume each day to maintain their customary standard of living, which Marx called the value of labor-power.<sup>14</sup>

Suppose the average worker requires \$200 per day to maintain her customary standard of living. She thus receives \$25 per hour even though she produces \$100 of value per hour. According to this view, over the course of the 8-hour day, she produces the value of her own labor-power (\$200) in only 2 hours. In the remaining 6 hours she produces \$600 of surplus value. Due to the nature of the labor contract, the employer legally claims or appropriates the new value created, \$800, and returns to the worker the value of their labor-power, \$200 (represented by the double-headed arrow below). The employer retains the surplus value of \$600 (the single-headed arrow). Employers extract this amount of value on average from each of the workers they employ.<sup>15</sup>

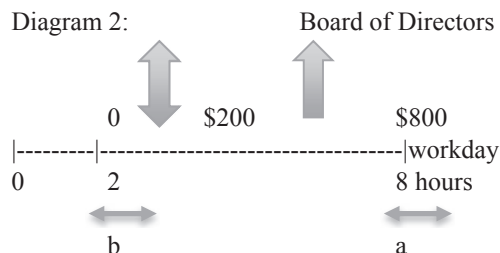
#### Board of Directors

Diagram 1



This legal relationship creates class conflict between the worker and employer over the customary length of the workday, the number of workdays in the week and year, the pace of work, and the customary average wage which determines the average standard of living of workers (Diagram 2, arrow a). Because work is organized to give control to employers, workers often experience the work as unrewarding and resist increases in the pace and duration of work, while employers are under competitive pressure to increase both work's intensity and duration.<sup>16</sup> Employers also strive to reduce wages and benefits to access more surplus value, whereas workers resist cuts in pay and benefits to maintain or improve their customary standards of living (Diagram 2, arrow b).

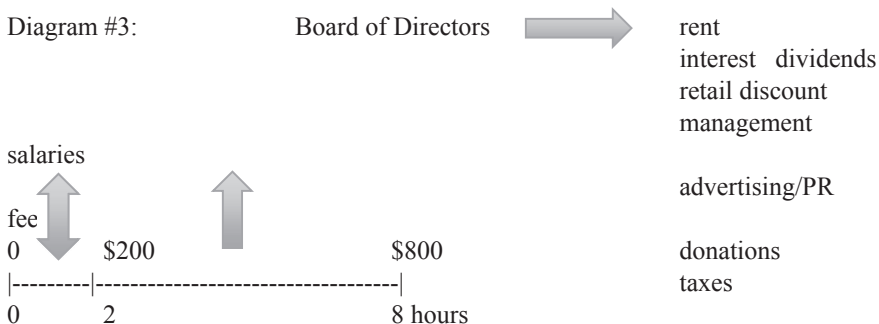
Diagram 2:



*Exploitation* here is used as a technical term to refer to this type of relationship – one where one group performs surplus labor and another group appropriates the new value created by that surplus labor, setting up a class struggle. Although specific workers may experience a greater or lesser degree of exploitation and better or worse conditions of work, the labor contract in capitalism

enshrines and protects this exploitative class relationship.<sup>17</sup> Workers and employers struggle over the duration and intensity of work, the health and safety of the work process, and its remuneration, which determines workers' standards of living. The degree of organization of the labor force, the phase of the business cycle, and many political and cultural factors affect the relative success of workers in this class struggle.

Value theory and class analysis thus provide the answer to the first two of Marx's questions: how is value created in capitalism and who claims this value? To answer the third question – how is this value distributed – I refer back to those individuals and enterprises that contribute conditions of existence for the employer – the real estate enterprises, financiers, retail capitalists, managers, advertisers, lobbyists, and the State, each of whom receives a different type of payment – rent, interest or dividends, retail discount, salaries, fees, donations or taxes – in exchange for providing what the enterprise needs to maintain its viability. These recipients of surplus value often also employ workers, but in this case, the workers are not creating new value but are being paid out of the surplus distribution that their employer receives. These workers experience many of the same pressures on the duration and pace of work, pay, and benefits, but in this case, they are not exploited in the technical sense since they are not producing value from which they are excluded from appropriating. For the purposes of this analysis, I will use the term *exclusion* to signify *workers excluded from taking part in the receipt and distribution of surplus value or non-class revenue while providing conditions of existence for the receipt of that value* – e.g., advertising professionals employed by an agency to provide ad copy for goods and services produced by capitalist firms.<sup>18</sup> These workers do not produce surplus value, but they attract surplus-value to enterprises that provide conditions of existence for industrial capitalist firms, and they play an important role as second-degree cooperatives in integrated cooperative enterprises, including Mondragon, as I discuss below.



The introduction of this group of enterprises and workers, those providing conditions of existence for exploitation, has an important effect on our understanding of class struggle. While it is true that each enterprise that produces commodities and thus creates value gains an advantage by increasing the surplus value it appropriates from its workers, it is not true that this determines their competitive strategy in a lawlike manner. Not only does the enterprise have access to additional forms of revenue aside from the appropriation of surplus value (by providing conditions of existence for other enterprises and thus receiving rents, interest, dividends, salaries, discounts, payments, fees, donations, or government subsidies);, but the enterprise also has no singular strategy for reproducing its viability. Different enterprises will employ different survival strategies under different circumstances at different times. Individual capitalist enterprises themselves are therefore not subject to a singular law of accumulation; they exist with contradictory choices in a situation of fundamental uncertainty about which choices will secure their survival.<sup>19</sup> This conclusion does not imply that the growth of the system is unnecessary: as a whole, a capitalist social formation will

require new outlets for investment and economic growth, as I will explain below. However, the contingent nature of the enterprises' strategic choices concerning their survival is an important and overlooked feature of capitalist enterprises and it will help to define the range of options available to enterprises that choose to adopt alternative institutional structures. I argue further that it will suggest a resolution to the contending justice claims between workers and stakeholders.

### 3 A class analysis of social enterprises

The idea that capitalist enterprises must grow or die likely comes from the way Marx defined capital – as money advanced for the purpose of earning more money, or self-expanding value. He used the simple formulation  $M-C-M'$  to denote the circulation of capital, where  $M$  represents a sum of money value and  $C$  represents an equivalent value of commodities; the two dashes represent exchange, and  $M'$  is the larger magnitude of value that motivates the capitalist to make the initial advance.<sup>20</sup> The circuit of capital differs from pre-capitalist exchange, which Marx argued was characterized not by the expansion of value but by obtaining items for use through exchanging one commodity for money to purchase a different commodity, in a circuit he depicted as  $C-M-C$ .<sup>21</sup>

Whereas accumulation, purchasing more means of production and labor-power, is not an imperative for an individual enterprise at any given time, it is in the very intent of advancing capital that owners of capital receive more value than they advance. This observation helps identify the source of dynamic growth in capitalism. The growth imperative also reveals that the source of our current ecological threat lies in the nature of capital itself. But it also raises the possibility that money can be advanced for other purposes and, indeed, contemporary capitalist economies are populated with numerous enterprises that, while they must remain viable, do not focus solely on the motive of gain.<sup>22</sup> Examining the class relationships in these social enterprises and households helps to see the extent to which these alternative enterprises attempt to overcome the exploitative and ecologically damaging nature of capital.

Several social enterprise forms are mission-driven, rejecting or modifying the maximization of investor returns as their prime motivation. These firms include *non-profits*, *benefit corporations*, and *stakeholder capitalist enterprises*. In each case, workers are hired to produce value or provide conditions for value production in other firms and are paid less than the value they create or attract into the firm resulting in exploitation or exclusion.<sup>23</sup> On the other hand, they are subject to different strategies for maintaining their viability. In the case of non-profit enterprises, they are relieved of two distributions of surplus – certain taxes and dividends – and they are eligible for non-class revenue in the form of tax-exempt gifts and donations. Subject to maintaining their viability, they can dispose of the surplus value created or attracted in ways that the board of trustees, and ultimately the funders, deem suitable to address their mission. However, workers are not typically represented on the board and do not have sufficient wealth to act as funders, so the incentive to extend work hours, increase the pace of work, and limit wages and benefits still exists. The goals of the funders, enacted by the non-worker board of directors, do not incorporate the will of the workers themselves.<sup>24</sup> While the term “non-profit” connotes non-exploitation, the reality for most workers in non-profit enterprises, universities, hospitals, and all manner of socially beneficial non-profit agencies and organizations, is that the workers do not take part in decisions regarding the surplus value they produce or attract, or any non-class revenue they make possible. They face continual pressure to increase the pace and intensity of work, extend work hours, and work for remuneration in pay and benefits that are limited by the funders' willingness to donate.

Benefit corporations attempt to mitigate the harmful effects of profit-seeking firms by adopting a triple bottom line and agreeing to benefit people and the ecosystem in addition to benefiting their

shareholders as part of their mission (Marquis, 2020). While these intentions are laudable, their decisions are at the discretion of a board of directors usually elected only by the shareholders, frequently leaving open the possibility that the distribution of surplus value to advertising, branding, and public relations can promote their supposedly benign mission while the actual pay and working conditions and the repair or maintenance of the ecosystem are given short shrift.

Stakeholder capitalist firms do include stakeholders on the board of directors but typically give them only minority representation (Freeman, 2010). Workers may be included on the board to represent their interests as well, although the existence of numerous stakeholders dilutes the influence of workers, so their efforts to advocate for policies that improve their working conditions and standards of living must enlist the support of non-worker stakeholders. Since both benefit corporations and stakeholder enterprises give authority to the board to appropriate the value workers create or attract, they retain an exploitative class structure. Workers are at best given minority representation and at worst are fully disenfranchised.<sup>25</sup>

If these three relatively progressive forms of enterprise structure fail to overcome the class injustice inherent in capitalist enterprises, how then do cooperatives fare? Cooperatives, labor-managed firms, and worker-owned enterprises are often understood to be interchangeable, but a class analysis reveals important differences. *Labor-management* is a strategy adopted by some capitalist enterprises, both for-profit and nonprofit, to reduce the distribution of value to managers as salaries while at the same time increasing worker effort due to greater worker control over their work process.<sup>26</sup> Labor-management results in more available surplus to secure the other conditions of existence of the enterprise. Because workers are most often not represented on the board, they continue to be exploited and/or disenfranchised, but they may receive higher pay and enjoy greater authority over their working conditions as a result of taking on some (particularly operational) managerial functions. A second strategy – *worker ownership* – can also be implemented to increase worker effort by providing a material incentive to workers to go the extra mile for the firm. In this case, workers receive dividends rather than, or in addition to, external shareholders. This strategy may increase workers' living standards by increasing the value of their equity and/or dividend payments on stocks they receive. However, the composition of the board is not necessarily or even typically affected, and the board appropriates workers' new value and determines how it is distributed. Workers are owners but continue to be exploited.

What then of cooperatives? In terms of class structure, cooperatives fall into two categories – worker and non-worker cooperatives (see Ellerman and Gonza, Chapter 5). Of the two types, only the former succeeds in overcoming the problem of exploitation. Members of non-worker cooperatives elect a board of directors who legally claim the surplus produced by the workers or distributed to the cooperative in exchange for its providing conditions of existence to other enterprises. Workers themselves are generally excluded, as workers, from serving on the board, and the board is responsible to the members, hiring workers as needed and appropriating value or revenue that they either produce or attract.

Retail, finance, and housing cooperatives serve their *consumer* members, who often do not participate in decisions and, when empowered to do so are limited to voting for representatives on the board. Producer cooperatives do elect a board to represent the interests of producers, but in most cases, these producers employ workers to produce the agricultural products that they elect the cooperative board to sell.<sup>27</sup> The workers themselves are not given a say over the surplus value or non-class revenue they create or attract. While these enterprises adopt democratic practices for members and may include some stakeholders in decisions, they nonetheless operate much like capitalist enterprises *vis-à-vis* their workers.<sup>28</sup>

Worker cooperatives adopt a mostly non-exploitative communal class structure.<sup>29</sup> In some cases all worker-members serve on the board, collectively appropriating the value or revenue

they produce or attract and making decisions about how that value is to be distributed. Alternatively, worker-members can elect representatives from among their peers to serve on the board and appropriate or receive value on behalf of all the workers. While this board structure overcomes the problem of exploitation, it falls prey to two problems. First, the lack of integration with other cooperatives means that worker cooperatives are often under-resourced and must operate with work norms similar to capitalist enterprises with whom they compete. Second, they typically disenfranchise stakeholders who are affected by the board's decisions but lack the ability to weigh in on the cooperative's policies and strategic choices.<sup>30</sup>

In response, some worker cooperatives adopt a hybrid structure that includes consumers, suppliers, and even investors on the board. While including and enfranchising stakeholders addresses the problem of stakeholder representation, it dilutes the ability of workers to claim the value or revenue they create and/or attract and it gives stakeholders, who are not subject to the cooperatives' internal governance, a say over the rules and policies by which workers must abide. Worker coops thus face competitive pressure to conform to work norms prevalent in capitalist enterprises, and they overcome the problem of exploitation only by disenfranchising stakeholders.

Marxian class analysis suggests a resolution to this conundrum via two means. First, the formation of a two-board structure that incorporates non-worker stakeholders while respecting the right of workers to the claim surplus value and revenue they generate and to determine the rules governing their work lives.<sup>31</sup> Second, the development of multi-cooperative governance to bring key stakeholders, including second-order cooperatives, under a democratic process by which the contending interests of the various stakeholders can be aligned.

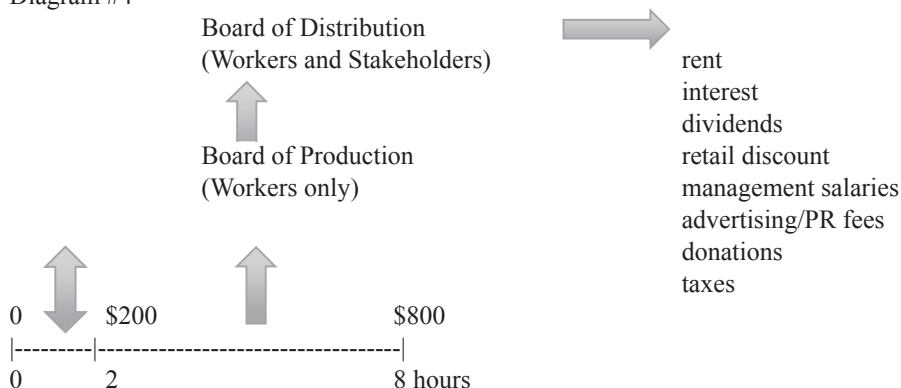
#### 4 The integrated collaborative

To address the problem of diluting workers' rightful claim to appropriate the new value they create, I am offering a new organizational structure that I refer to as an *integrated collaborative*. An integrated collaborative – or “collab” – is an *integrated network of collaborative enterprises with its own overarching corporate governance structure*. A collab allows working members to be the initial claimants of the new value or revenue they create through producing and selling goods or services to clients/customers or that they receive from other enterprises as a result of providing conditions of existence for those enterprises. At the same time, collabs incorporate key stakeholders in strategic decisions concerning how best to reproduce their conditions of existence. To integrate stakeholders without diminishing or diluting workers' voice and vote, each enterprise within the collab adopts a bicameral board. The first board – a board of production – is comprised of workers or their selected representatives only. This board appropriates the surplus the workers collectively create or attract and makes decisions related to their work lives, including hours, wages, health and safety, job design and rotation, etc. These decisions are conditioned by rules agreed upon by a general assembly of all other collaborative enterprises' members who meet regularly to review and update the collab's bylaws, policies, norms, and procedures. In turn, to protect the interests of individuals within any collaborative enterprise, a collaborative union or work council selected by all members acts to ensure that the individual rights of all workers are respected. Each enterprise within the collaborative is thus fully worker-self-directed.<sup>32</sup>

This worker board of production transfers what it deems to be surplus value or revenue to a more inclusive board of distribution made up of both workers and stakeholders. The board makes broader strategic decisions about the distribution of the value or revenue created or received to those providing its conditions of existence, as well as formulating enterprise strategies for reproducing their interdependent conditions of existence, taking into account stakeholders' interests

and important social and environmental externalities (i.e., the effects of their operations on third parties not included in their market exchanges).

Diagram #4



Stakeholders vary depending on the type of enterprise and the nature of the products or services produced by the whole collaborative but may include consumers, suppliers, service providers, community members, environmental stewards, and partnering organizations. The stakeholders thus can weigh in on decisions affecting them but do not do so at the expense of the workers' claim to self-govern and claim the new value or revenue they create or receive. This bicameral structure preserves class justice by giving workers the status of the residual claimant (first receivers of the new value they collectively produce or attract) while honoring the right of community members to fully participate in decisions about strategic choices concerning how to utilize the enterprise's newly created *surplus* revenue or revenue received from other enterprises or government agencies.

Collaboratives engage stakeholders to enhance each other's viability with a purpose broader than maximizing financial returns. They may therefore engage in mutually beneficial specialization without engendering a race to the bottom that reduces wages and undermines working conditions. Intra-collaborative solidarity is important because many scholars argue that within a neoliberal competitive economy, worker cooperatives are forced to make similar decisions to investor-directed enterprises to remain competitive.<sup>33</sup> I will argue that *individual* worker cooperatives have shown they *can* compete effectively due to increased morale, lower turnover, and lower payments to supervisory and executive management and external shareholders. Beyond that, when one considers an integrated collaborative, each collaborative enterprise within the group benefits from supportive relationships with other enterprises within the collaborative (providing consulting, insurance, and patient loan capital, for example) such that it maintains its viability without resorting to strategies that harm workers. Furthermore, by supporting collaborative values, an integrated collaborative helps to erode the corrosive materialism and individualism that corporations continuously reinforce and that drive the market logic that prevails in capital-dominated economies.<sup>34</sup>

To assess the political feasibility, economic viability, ecological sustainability, and moral desirability of a collaborative corporation, I offer a critical assessment of a near-collaborative, the Mondragon Cooperative Corporation.

## 5 The mondragon cooperative corporation (MCC)

The MCC is not a collaborative corporation as I have defined it; rather it is an integrated system of hybrid worker coops that exists within a private democratic corporate governance structure in

a way that is autonomous and self-supporting. Stakeholders, along with workers in each enterprise, are represented on their board of directors, and a General Assembly gathers regularly to democratically formulate rules and policies by which the individual enterprises abide.<sup>35</sup> The MCC itself adheres to a mission of creating and maintaining jobs for its members, with economic viability factoring in as a constraint rather than enriching its members being the sole or primary goal. The individual parts act with the intention of supporting the viability of the whole. It can be characterized as a semi-planned, market-based, worker-directed, community economy with a job guarantee. It is not without problems, which I will identify and address, but it has an impressive track record that allows us to evaluate its viability and the extent to which it overcomes the problems of exploitation and disenfranchisement.

Because the MCC structure closely resembles the integrated collaborative structure outlined above, an examination of its operations provides an opportunity to evaluate four dimensions: political feasibility (can it be recreated elsewhere?), economic viability (will it survive economically?), ecological sustainability (can it remediate and sustain its relationship to the ecosystem?), and fairness and desirability (does it overcome exploitation, contribute to a fair distribution of rewards, and provide meaningful work?).

### ***5.1 Political feasibility***

The MCC forms an economic ecosystem within a regional economy that is self-governing under the laws to which the region is subject. Like Italian law, Spanish law has developed historically to be favorable to cooperative governance. Because Spanish law permits cooperative governance, the MCC does not need to gain majority political support within Spain for laws or policies nationally, or even regionally, and it is therefore not vulnerable to political efforts to undermine its policies and practices.<sup>36</sup> Once incorporated, only members of the MCC can vote on its policies; those indifferent or hostile to cooperative governance do not participate in the system and therefore have no voice concerning its rules, regulations, and mission. This creates an unusual type of political feasibility that depends only on the existence of sufficient room within national law to incorporate as an integrated hybrid worker cooperative. It suggests that political feasibility may exist elsewhere or may be created with the passage of favorable cooperative law.<sup>37</sup> However, it need not wait for a favorable legal or policy environment.

Mondragon, and the robust co-op sectors in Quebec and Emilia Romagna, have all benefited from supportive policy. But a crucial point that became apparent during our literature review is that strong co-op sectors in these regions all preceded the policy breakthroughs that enabled further sectoral growth.

(Rowe, et al., 2017, p. 68)

Political feasibility is also supported by cultural institutions, norms, and practices. Within the supportive context of the Basque region, MCC generates and sustains the cooperative values needed to provide the ability and willingness to cooperate. It has maintained these values over a period of at least 70 years, despite existing within a neoliberal global economic system indifferent or hostile to those values for over half that time. It reproduces cooperative values through a number of mechanisms. Most obvious, historically, was the technical college, now university, providing students with part-time work in a hybrid worker cooperative during their study. This experience allows students to integrate cooperative values while practicing the principles of cooperation in both their work and studies. Preceding this important formative experience for many students

is a participatory and democratic K-12 education following an innovative child-centered early childhood experience. In turn, these institutions have been supported by a cooperative parents' organization as well as communal participation in social clubs, all of which serve to support the values and practices of collective self-direction. Early on, the MCC's political feasibility was thus well-supported by the cultural conditions needed to support collectivist values and to provide important non-market forms of care.<sup>38</sup>

## **5.2 Economic viability**

In addition to its political feasibility, these cultural conditions also support the MCC's economic viability, since schooling and cultural experiences provide members with the practical interpersonal skills needed for effective cooperation. Students both participate in the governance of the university, forming one-third of the board of directors, as well as have the opportunity to combine study with working to gain experience in first-degree cooperatives (those producing goods and services). Many students therefore graduate with experience working and studying within and even co-directing an enterprise. Any further specialized management services they may need to call on to begin a new enterprise or effectively steward an existing enterprise can be provided by the financial, technical, and business consulting enterprises that are integrated into the cooperative governance.

In addition to these important cultural conditions, the formation of the original Caja Laboral Popular, established in 1959 was a critically important decision by Arizmendi, MCC's patron, because it made possible both the pooling of community savings (due again to favorable Spanish banking law) and the establishment of patient community loan capital paired with cooperative enterprise consulting. The latter allowed members to form new cooperatives that were financially viable and provided meaningful employment along with new sources of revenue (in the form of the new value created and claimed by the new worker-directors), which would then circulate within the entire cooperative community. Currently, the financial consulting bank, *Laboral Kutxa*, and the Management and Cooperative Development enterprise, *Otalora*, are also integrated hybrid coops that support the viability of new enterprises in a number of important ways, including helping enterprises adopt new products and processes to maintain their viability through working with numerous coops in the technology and innovation centers.

The financial dimension of economic viability is supported in several other ways. MCC's financial cooperatives allow for the pooling of savings to create necessary initial funds for developing new enterprises and for supporting those enterprises through their initial start-up phase. Because this capital is social or collective, it is advanced not solely for the purpose of enriching shareholders, but for the purpose of creating needed work with competitive viability as an important constraint. Growth is directed toward the provisioning of community needs and market niches that provide employment, rather than at the sole aim of accumulating wealth.<sup>39</sup> In this way, the expansion of the MCC results in providing needed products and important social services that benefit those who do not have the ability to work or those who provide care for them through second-degree cooperatives providing, among other services, social security, health care, and insurance, as well as care for the young and the elderly. As an integrated system with an overarching governance structure, MCC can design institutions to meet community needs without the need to single-mindedly maximize shareholder return at the expense of the community.<sup>40</sup>

A further element of financial viability is the existence of retail enterprises for food, household, and personal items. These enterprises help recirculate value created by members by limiting the leakage of member earnings outside the community and by channeling non-member earnings into

the community when they purchase goods and services at the MCC retail outlets. Cooperative retail stores were initially developed as a means of generating revenue to support worker cooperatives but abandoned their original mission (Ellerman and Gonza, Chapter 5). However, when integrated, they provide an important means for circulating value within the MCC that otherwise would be siphoned off by traditional capitalist retail enterprises.

Dow, Chapter 2, argues:

There is strong evidence that ...[worker cooperatives] do not maximize profit...Nevertheless, ...[they] often survive for decades alongside ... [capitalist] firms in the same industry. Thus ... [worker cooperatives] must often have higher productivity ...which enables them to survive in the long run despite their deviations from profit maximization.

(p. 10)

Having a stake in the company and being included in decisions concerning one's work environment, especially when information is being shared transparently, increases commitment and leads to higher productivity (Cheney et al., 2014, p. 596).<sup>41</sup>

I contend that by examining the production, appropriation, and distribution of the new value created in the integrated system, we can see an important and often overlooked element in assessing the viability of worker cooperative enterprises. Economic viability depends not only on how much new value is created (which depends on employee productivity, hours, work effort, etc.) but also on what types of distributions out of surplus are needed to secure the conditions of existence of the enterprise. Independent cooperatives often do well on the first count because worker productivity is higher when people have a stake in their enterprise.<sup>42</sup> They can do well on the second count – distribution – in part because they are not required to distribute the new value they create to supervisory management or external shareholders.

But integrated cooperatives boost their economic viability further because they can create rules for the whole cooperative group that reduce demands on the distribution of new value, providing them with an advantage in securing their remaining conditions of existence. For example, a rule limiting wage differentials lowers wage costs and increases the amount of new value available for distribution. The rule requiring the retention of capital gains attributed to workers as retained earnings helps offset the reduced wage earnings for workers but also limits the distributions to dividends that capital-dominated enterprises need to make to secure their equity. The fact that the development bank is integrated and designed to work, not to maximize profit, but to maximize enterprise success at creating meaningful and socially necessary work means that interest payments on borrowed capital and fees for business consulting are both lower than for non-integrated coops and capital-dominated enterprises. Similarly, integrated coops reduce their distributions for insurance, retail discounts, and research and development. Non-integrated worker coops are often competitive with capital-dominated firms, but integrated worker coops enjoy additional ways to secure their financial viability. This important fact is often overlooked by critics and by proponents of the cooperative model.<sup>43</sup>

### 5.3 *Ecological sustainability*

The integrated cooperative of Mondragon also promotes ecological sustainability in the Basque region. Externalities in production and consumption affect workers and members of the local community in capital-dominated enterprises, but in the integrated cooperative both constituencies are represented on the boards of directors of enterprises and also have a voice and vote in the

general assembly, which sets rules governing all the coops. The traditional market failure present in capital-dominated enterprises, which therefore requires state intervention, is partially mitigated by the integrated cooperative because some external effects are internalized and stakeholders have a voice and vote on decisions that affect them.<sup>44</sup>

Furthermore, the growth imperative that drives most capital-dominated enterprises is moderated as well. Growth in an integrated cooperative is directed to creating and supporting meaningful work and providing for community needs. The relentless expenditures on branding and advertising prevalent in capital-dominated enterprises, the sophisticated but anti-social messaging suggesting that our well-being depends on participating in wasteful expenditure, and the deliberate planned obsolescence make no sense from a social or ecological perspective, only from the perspective of enriching shareholders. Here is a further saving from the distribution of new value, one that greatly reduces the imperative to encourage relentless consumption of our finite resources in favor of providing regenerative goods and services to meet real human needs. The integrated cooperative enterprise significantly improves sustainability by incorporating stakeholders in decisions concerning each enterprise's strategic choices around technology and sourcing and by integrating business planning to assess the impact of new start-up enterprises.<sup>45</sup>

#### **5.4 Justice**

In terms of justice and meaningful work, the MCC significantly reduces income inequality and empowers members to pursue work that is meaningful to them. Member workers are secure in their livelihoods due to the existence of a job guarantee. The ability to make decisions collectively allows MCC members to raise issues of gender unfairness, including pay equity, the provision of care, the equitable sharing of responsibilities between men and women, and the flexibility in work schedules needed to meet the conflicting demands of paid and unpaid labor and to address children's needs in creative ways.<sup>46</sup> The MCC also provides a sense of belonging, within which one is free to work in ways that expand one's capabilities by moving between enterprises within the community, engaging in retraining, and participating in managerial work and directorship. The training and reabsorption of employees who might otherwise lose their livelihoods due to business failure acts as a type of job guarantee that supports workers who might otherwise remain marginalized in expanding their skills and capabilities.<sup>47</sup>

What then are some of the remaining tensions within the MCC, and does the collaborative corporation structure help mitigate them?

### **6 Shortcomings of the integrated multi-stakeholder cooperative**

A class analysis reveals that the integrated cooperative structure improves upon both traditional capitalist enterprises and social enterprises in two important respects. Workers participate in appropriating the surplus they collectively produce or attract, and key stakeholders are included in decisions that affect them. However, using MCC as an example, it is apparent that both justice and sustainability concerns remain.

The MCC currently dilutes worker's voices even in its hybrid cooperatives. Its multi-stakeholder cooperative structure incorporates the interests of stakeholders but at the expense of enterprise workers, as it allows stakeholders to act alongside workers as *de facto* claimants of the new value created by the workers in the enterprise. Thus, even enterprises operating within the Basque region do not fully support class justice, despite being hybrid worker cooperatives within an integrated cooperative corporation.<sup>48</sup> A worker council is intended to address ways in which worker interests

are overlooked by the hybrid boards, but at the MCC, it has historically been too weak a mechanism to do so effectively. Recognition of the need for worker representation led to the development of the union-coop model as a way of integrating union representation with worker directorship, thus protecting the interests of workers within larger cooperatives where their voices may not be sufficiently effective in influencing policy. It also opens the opportunity for utilizing union expertise and financial support to create worker-coop start-up initiatives.<sup>49</sup>

However, continued reliance on manufacturing work in the era of globalization has created a challenge for the MCC in preserving its cooperative ideals, as it has not been able to set up subcontracting enterprises as worker cooperatives. “[The] matter of conversion of subsidiaries is complicated by their own national, local, and organizational contexts” (Cheney et al., 2014, p. 598). Employing non-member wage workers both locally in the Basque region and in the global South helps the MCC meet the geographic requirements to supply multinational enterprises with whom they subcontract (e.g., providing automobile parts to Ford in Mexico). The MCC has not succeeded in finding a way to organize these subcontractors democratically, sometimes due to national laws regarding cooperatives, sometimes due to a lack of cooperative culture in the host country (including cultural expectations of workers regarding employment and the difficulty of finding or providing the educational support needed for workers to develop the skills and affinity for cooperative management), and partly because of a desire to maintain control of investments in the Basque region (Flecha and Ngai, 2014).<sup>50</sup>

The MCC has responded with two strategies intended to maintain and strengthen the principles of cooperation during an interim period until conditions allow for a fuller enfranchisement of workers abroad. The first is the development of mixed cooperatives, which allows for multi-stakeholder councils to govern subsidiaries. Parent MCC cooperatives hold a majority position on the board, while elected employee representatives hold the remaining seats. This arrangement allows for the development of the skills and culture of cooperation without ceding control entirely to local workers. The second is the corporate management model, which “aims to achieve a system of self-management for the subsidiaries, excluding participation in the decision-making of strategic lines of the parent cooperatives, which belongs only to the parent’s worker-owners” (op. cit. p. 676). While neither strategy fully extends the ideals of cooperation found in the parent cooperatives, each provides a potential means of extending the principles and practices of cooperation to new regions. It must be noted, however, that under the pressure of globalization, the MCC has evolved into a hybrid cooperative/capitalist entity that relies on exploiting labor in the global South for its economic viability.<sup>51</sup> A recent study on the extent of cooperative practices in MCC subsidiaries in several countries concludes:

[O]ur findings illustrate an uncommon coalition in MCC ... [multinational corporations]... between ... [headquarters] ... management and worker-members to avoid genuine cooperativization of the foreign plants, as they deem it detrimental for their control over the business group and risky for the viability of the co-op, thereby generating a dilemma for the ultimate objective of internationalization in Mondragon: keeping cooperative jobs at the Basque plants.

(Errasti Brettos, and Marcuello, 2023)

Finally, because cost minimization is necessary to secure sub-contracts from multinational capital-dominated firms in the global supply chain, the MCC secures its financial viability and goal of maintaining employment in the Basque region at the expense not only of justice but also

of ecological imperatives. The subcontracted enterprises are integrated into production driven by investor interests; and the corporate boards do not include the voice and vote of workers, consumers, or advocates for the environment or future generations. Integration into existing global supply chains is not an optimal strategy for an integrated cooperative. Developing integrated cooperatives in the global South to handle elements of production that cannot currently be produced economically in the North is an important missing link in creating truly viable collaborative economies. To be fair to the MCC, these problems would be greatly diminished if it existed in a world populated by other integrated cooperatives. However, developing the institutions needed to reinforce culture and practice of cooperation abroad is not currently feasible. It is not the cooperative structure that creates these tensions, but the challenges a cooperative corporation faces as it attempts to integrate into a multinational capitalist economy.<sup>52</sup>

The promotion and development of collaborative supply chains in the global South, with support from integrated cooperatives in the North, would be of great benefit. The social and political conditions in the Basque region remain favorable for developing cooperatives, and the neoliberal stage of globalization has clearly created serious challenges. However, the lesson is not that collaboration is not viable or feasible. The lesson of the MCC is to demonstrate what political and cultural work needs to be done internationally to create conditions under which working people can be enfranchised, can appropriate the value they create, and can be empowered to make democratic decisions that consider their needs, the needs of their communities, and the ecosystem.<sup>53</sup>

## **7 Implications: toward the development of collaborative principles**

What implications does this analysis have for existing cooperatives? Taking the justice claim of workers seriously implies that worker cooperatives require a new set of principles specific to their non-exploitative class structure. Here, I outline what those principles might include, how they might provide guidance for both independent worker cooperatives and newly emerging integrated collaboratives, and what initial steps might be taken to develop and promote non-exploitative enterprises within the existing capital-dominated economy.

The current International Cooperative Alliance (ICA) principles institutionalize an enterprise structure that, while beneficial for members, is fundamentally counter to the interests and justice claims of workers. Two principles highlight this misalignment. Principle Two states “Cooperatives are democratic organizations controlled by their members, who actively participate in setting their policies and making decisions.” While members do often actively participate in decision-making, and this is an improvement over the capitalist enterprise structure, the fact that workers in non-worker cooperatives are often excluded from becoming members means that the workers in most cooperatives are generally excluded from voting on board representation.<sup>54</sup> Worker and non-worker cooperatives thus have fundamentally different class structures. A worker cooperative Principle #2 might instead state: “*Workers democratically claim the value created or attracted by the enterprise and determine the governance of their work process, while non-worker members are invited to join workers in democratically determining how remaining revenue is to be distributed to secure the viability of the enterprise.*”

The second principle that needs to be amended for worker coops is Principle #4: “Cooperatives are autonomous, self-help organizations controlled by their members.” This independence principle is designed to ensure that cooperatives are not controlled by anyone outside their membership, but it inadvertently prevents the type of stakeholder participation necessary to preserve justice and promote viability. Principle #4 might be reframed as an *interdependence* principle and amended

to read: “*Worker cooperatives are interdependent, worker self-directed organizations that govern their work lives and include stakeholders in strategic decision-making.*” This wording makes clear that workers are empowered to determine how the work process is organized and what rules govern their work lives, while including stakeholders in decisions concerning the distribution of surplus. In this way, stakeholder interests can be included in strategic decision-making, and the interests of those outside the paid economy, the ecosphere, and future generations are taken into account. The proposed interdependence principle also allows for the development of collaborative corporations that create formal governance structures linking individual collaborative enterprises.

Going beyond the principles of worker cooperatives, principles of collaboration should include the principle that workers claim the surplus value or revenues they create or attract and self-direct their own conditions of work, determining pay and benefits, time off, and workplace norms. Stakeholder representatives then share the role with workers of distributing surpluses, which are determined by the workers themselves, to secure their enterprises’ viability. The principles should encourage the interdependence of collaborative enterprises through the development of corporate governance structures. Because the ICA principles do not refer to second-order cooperatives (those that provide services to first-order coops that produce products and/or services for customers/clients), they preclude the possibility of integrating cooperatives into a cooperative ecosystem with interlocking boards of directors.<sup>55</sup> As a result, both the viability and the ability of cooperatives to support the justice claims of workers are curtailed.

Convening an international alliance of worker cooperatives would help assess the merits, opportunities, and obstacles to adopting a set of worker cooperative and collaborative principles.<sup>56</sup> The alliance could take responsibility for encouraging the development of new collaboratives and supporting worker cooperative enterprises that would like to transition their organizational structure in the direction of the integrated collaborative. It could also work with the existing ICA to encourage non-worker cooperatives to include workers in the democratic governance of their enterprises. This transition can begin with a call for the unionization of non-worker cooperative workers, giving them a voice and leverage to protect their wages, benefits, and working conditions. “Union coop” enterprises can be encouraged to transition toward including worker representatives on the board of directors and/or developing a workers’ council and moving from minority representation to a model of co-determination and eventually to a collaborative two-board structure.<sup>57</sup>

To ensure cooperative enterprises serve the interests of their members, promoting inclusive democratic processes is essential. However, there is no valid moral justification for excluding workers from the governance structure of such cooperatives. Worker cooperatives would do well to recognize the limitations of the ICA principles, work to amend those principles, and advocate for the workers of non-worker cooperatives to be included as full members in the governance structure of the enterprises that rely on their work effort. Marxian analysis, by integrating the distribution of newly created value with its production and appropriation, helps provide the basis for a new institutional framework – the collaborative – to help organize viable and just provisioning. The analysis needs to be supplemented, however, with analyses of household labor and other unpaid and/or non-market means of provision to provide a complete picture that includes other dimensions of justice.<sup>58</sup>

Directors of global capitalist enterprises are inflicting considerable harm, and the development of a new, viable, sustainable, and desirable economic structure is urgently needed. The MCC provides good evidence that, with appropriate modifications and the requisite and challenging political mobilization in locations where the legal and policy environment can be adapted, working toward such a class transformation may now be politically feasible.

## Notes

- 1 Marx's value theory posits that commodity values are based upon the average abstract labor hours required to produce each good or service. Material inputs and machinery are valued based on their current exchange-value – the hours of average abstract labor-time they represent in equivalent exchange with other commodities (since they need to be purchased). The material passes its full value into the commodity and the machinery and equipment pass value according to their average rate of depreciation, physical and moral, that they experience in production. Both types of means of production therefore only transfer the value they possess and do not create any new value. Labor-time is thus the source of new value and the ability to act as residual claimant, appropriating the value that exceeds what the worker receives in wages, is the means by which capitalist employers increase the value of the money they advance. In what follows, I will focus attention on the new value created in production since the value of the means of production is not relevant to the argument. For an accessible introduction to Marxian economics, see Ruccio (2022).
- 2 Class analysis refers to the analysis of different class relationships (slave, feudal, capitalist, communal, and independent) that exist as a result of different institutional and legal relationships between workers and those who claim surplus.
- 3 For an insightful analysis of Marx's writing on ecology see Saitō (2017).
- 4 Marxian economic analyses are published in a number of peer-reviewed journals including *Capital and Class*, *The Review of Radical Political Economics*, *Historical Materialism*, and *Rethinking Marxism*.
- 5 For insightful critiques of Marxian theory from a feminist perspective, see Weeks (2011) and Federici (2017, 2021). For analyses that address the intersection of racism, slavery, and capitalism, see Robinson (2021 [1983]) and Marable (2019 [1983]).
- 6 For a critique of economism in Marxian analysis, see Laclau and Mouffe (1985).
- 7 For a technical discussion of the relationship between value and exchange-value, see Wolff, Callari and Roberts (1984), Roberts (1997, 2004), and Kristjanson-Gural (2003, 2005, 2017).
- 8 For an analysis of how competition affects value production and distribution in cooperative enterprises see Kristjanson-Gural (2011).
- 9 See Elizabeth Anderson (2017) and Ellerman (2015, 2018, 2021).
- 10 Marx (1992 [1867]). See Chapter 4 for definitions of capital and surplus-value, especially pp. 251–252. The following analysis of competition draws from the work of Resnick and Wolff (2006, 2012). Note that in their interpretation, profit refers to retained earnings and dividends, rather than total revenue net of costs of production as in Shaikh (2016, pp. 212ff). Variation in profit can therefore vary independently of costs of production due to variations in the payments to secure the firm's conditions of existence.
- 11 The focus of the following analysis is on paid employment, but unpaid labor remains an equally important and too often overlooked dimension of provisioning that must be incorporated to address the intersections of class justice with other aspects of social justice including gender, race, and age/ability. For a feminist analysis of the interrelationship of paid and unpaid labor, see Quick (2004) and Gibson-Graham (2006). For a class analysis of household labor, see Resnick and Wolff (2006, Chapter 8).
- 12 A productive (or first degree) enterprise produces goods and services for clients and customers. Support (or second degree) enterprises and organizations provide services to assist productive enterprises. Brennan (2017) provides an introduction to the class analysis of the enterprise. For an examination of the multiple class and non-class revenues of the enterprise, see Resnick and Wolff (2006, Chapters 10–11).
- 13 For a discussion of the role of money in Marx's theory of value, see Kristjanson-Gural (2008).
- 14 Marx (1992 [1867], pp. 274–278). Marx does not incorporate an analysis of unpaid household labor needed to reproduce labor-power, and this labor is a vital component of reproducing capitalism. The value thus refers to monetized abstract labor-time and does not imply an assessment of what type of labor is valuable intrinsically.
- 15 For a discussion of the moral legitimacy of this legal wage relationship, see Ellerman and Gonza, Chapter 6.
- 16 Dow, Chapter 4, pp. 8–11 summarizes recent studies that show the increased productivity of workers in worker cooperatives. See also Pérotin (2012), Shaikh (2016, Chapter 4, Part 3), and Fakhfakh (2023). For an analysis of the effect of participation in decisions affecting their work see Uzuriaga, Freundlich, and Gago (2018).
- 17 Marx (1992 [1867]), pp. 279–280. See also Ellerman (2021), and Ellerman and Gonza, Chapter 5. Any industrial firm that hires (or rents) workers, whether for-profit or non-profit, including non-worker cooperatives, is exploitative by Marx's definition. However, Ellerman rejects the means by which Marx defines

exploitation and relies on a labor theory of property rather than a labor theory of value. See Ellerman (2015, pp. 12–14).

- 18 Marxian theory currently lacks a term for the economic domination of those workers who undertake the labor needed to provide their enterprise with a distribution of surplus value in various forms. Resnick and Wolff (2012, pp. 176–177) distinguish productive laborers who produce surplus value, from unproductive laborers who provide various conditions of existence needed to extract surplus-value. Wolff (2012) refers to these producers as “enablers.” Wolff and Resnick do not examine *exclusion* since it is not considered a class process involving the production, appropriation, or distribution of surplus-value, although they carefully incorporate the contradictions produced in competition in their discussion of subsumed class processes (Resnick and Wolff, 2006). Harvey (2010) points to the need to incorporate these enabling producers when he writes: “It is... no longer adequate to think merely about the wage laborer because the working class is stratified according to both the status and the differential financial reward attached to the different functions required to constitute the despotism of a cooperative apparatus dedicated solely to the production of surplus-value” (p. 176).
- 19 For a discussion of the importance of fundamental uncertainty on investment decisions in Keynes’ General Theory, see Crotty (2019), pp. 239–264. For a critique of the imperative to accumulate, see Norton (2001). For an analysis of competition incorporating multiple distributions of surplus, see Resnick and Wolff (2006), Chapters 10–11.
- 20 Marx (1992 [1867]), pp. 247–252.
- 21 Marx (1992 [1867]), p. 250; see also the conditions for the purchase and sale of labor-power, pp. 270–274.
- 22 For a compelling argument concerning the importance of integrating Marx’s analysis of ecology into his critique of capitalism, see Saito (2017). Saito (2022) eloquently analyzes the implications for degrowth.
- 23 See footnote #14 above.
- 24 Ellerman and Gonza, Chapter 5, emphasize this point in their discussion of non-worker cooperatives when they say, “the democratic rights to elect the government have to be exercised by those and only *those who are to be governed*.” [Emphasis in original.] Workers in non-profit enterprises are governed by a board that they do not elect and are therefore politically disenfranchised. If the non-profit produces a commodity for sale and creates surplus-value, these workers are also exploited in the Marxian sense.
- 25 See Ferreras (2017, 2022), who argues for enfranchising workers in bicameral firms as a means of transitioning from traditional capital-directed enterprises toward a worker cooperative structure.
- 26 Dow, Chapter 4, uses the term to refer to “legally organized ... worker cooperatives,” in contrast to “a capital managed firm that is ultimately controlled by its capital suppliers”(4). Here, I draw on Wolff’s (2012) distinction between workers’ participation in management roles (labor management) and workers serving or elected to the board of directors (worker directorship) to distinguish these two possible alternatives, as they have different characteristics and implications.
- 27 Exceptions include small-scale producers such as the fisher cooperatives of southern India.
- 28 Alperovitz (2017) and Puusa, Chapter 15, do not distinguish the different class structures of various democratic enterprises and thus conflate democratic control over others (non-worker coops who elect a board to govern workers) with democratic enfranchisement (workers who elect their own representatives). See Ellerman and Gonza, Chapter 5.
- 29 Worker cooperatives typically hire prospective members who must work for a period without membership prior to being accepted. These workers are technically exploited during this period.
- 30 A third problem concerns the intra- and inter-industry redistribution of value that occurs through the formation of competitive prices, generally from labor intensive to capital intensive firms and industries. For this reason, the existence of worker cooperatives within an economy dominated by capital-intensive, capital-directed enterprises is not sufficient to prevent the appropriation of value from labor-intensive worker-cooperatives. See Kristjanson-Gural (2011). For a democratic alternative the eschews the use of markets altogether, see Hahnel (2022).
- 31 The two-board structure offered here differs from Ferreras’ (2017, 2022) bicameral structure in which workers and investor representatives each form a board and each has the power to veto - i.e. policies that do not gain majority support from both boards may not be implemented by the management.
- 32 Wolff (2012) defines a worker-self-directed enterprise as an enterprise whose board is comprised only of productive workers. The board engages stakeholders, including support workers (or enablers) in “a shared democratic decision-making process” (118). For other perspectives on who ought to be included in appropriation and distribution, see Cullenberg (1992); Burczak (2006, 2017); Resnick and Wolff (2006). For the implications for numerous dimensions of class justice, see DeMartino, 2003. The collab structure

offers a way to respect the right of workers to claim the value they collectively create and to self-direct their workplaces while integrating and enfranchising key stakeholders.

- 33 For a review of this debate, see Sharzer (2017) and Jossa (2020).
- 34 Ruccio (2011) highlights the importance of the distribution of surpluses and their social implications for the reproduction of non-capitalist institutions beyond the enterprise itself.
- 35 For a detailed overview of the Mondragon Cooperative Corporation see Cheney (1999), Morrison (1991), and Whyte and Whyte (1988).
- 36 Spanish labor law also recognizes the worker-member as being in an associated relationship with the cooperative. As Warren suggests... "it would appear that an entire domain of realizing the parameters of the political firm... is possible via creating new legal architectures like "associated labor" that immediately channel labor towards an active role in the productive process, circumventing the incidental and conditional development that occurs via the master-slave logic" (2022, p. 684). For the importance of labor law in the development of worker cooperatives, see Maximo (2022) and Lafuente (2022). For an analysis of its application in Argentina, see Ranis (2016).
- 37 For example, Massachusetts corporate law permits the appointment of workers to the board of directors of a private corporation without limiting their number and also permits the existence of multiple subsidiaries, which could therefore also elect a worker board of directors, forming an integrated worker or hybrid cooperative (Battilana, 2022, p. 11).
- 38 This observation has led many to dismiss the Mondragon case study as not relevant to the formation of integrated cooperatives elsewhere since few regions have this unusually supportive cultural setting. Instead, I suggest that it points to the necessary political organizing and institution-building needed to identify, strengthen, and/or create the cultural conditions necessary in other regions of the world.
- 39 For an analysis that develops the concept of provisioning, see Brown (2010).
- 40 Emilia-Romagna is another important example of how markets and planning can be integrated effectively through networks of cooperatives rather than an overarching governance structure. See Menzani and Zamagni (2010).
- 41 Uzuriaga, Freundlich and Gago (2018) find evidence that white collar workers generally have a more favorable assessment of cooperation than blue-collar workers and that perceptions of work and management/supervisory practices in a worker's immediate work area, including views of participation in decisions and information-sharing, "are critical factors affecting workers' perceptions.
- 42 For a survey of studies comparing the productivity of worker cooperatives versus traditional capitalist firms, see Pérotin (2012). These studies focus on work effort and incentives for workers to shirk or withdraw capital from the firms but do not examine the lower payments out of the revenue generated by the firms in assessing their viability. Pérotin's survey does support the contention "that the key feature of worker cooperatives, increased worker participation, never causes performance to deteriorate in these firms, contrary to many theoretical predictions (p. 13). She concludes: "[S]olid, consistent evidence across countries, systems, and time periods shows that worker cooperatives are at least as productive as conventional firms, and more productive in some areas. The more participatory cooperatives are, the more productive they tend to be" (p. 37). For analyses of French cooperatives that provide further evidence for worker cooperative competitiveness, see Fakhfakh, Pérotin, and Gago (2012) and Fakhfakh et al. (2023).
- 43 For a discussion of the economic viability of the MCC, see Errasti, Bretos, and Nunez (2017).
- 44 Albanese, Chapter 10, Fakhfakh and FitzRoy (2018), and Battistoni (2022) provide evidence that the democratic processes within worker coops support more ecologically sustainable practices. See also Wolff (2012, pp. 133–134).
- 45 However, expansion into global markets and the exclusion of stakeholders in those regions have limited the effect of stakeholders' influence as I discuss below. For a recent study on efforts in Mondragon to reach sustainability goals, see Bergara and Imaz, Chapter 26, who note the important role of managers and institutional goal setting in ensuring that sustainability becomes integrated into each enterprise's practices.
- 46 For example, MCC cooperatives structure work hours to allow both parents and children to gather between noon and 2pm to share a family meal and spend valuable family time.
- 47 Prior to the demise of Fagor, this strategy worked well for members in the Basque region. For a discussion of the efforts to retain employment during Fagor's crisis, see Errasti et al. (2023, pp. 191–194).
- 48 For further elaboration see Kristjanson-Gural (2011) and DeMartino (2003).
- 49 See Witherell, Cooper, and Peck (2012).
- 50 For an analysis of a recent attempt to create a French multinational cooperative, see Errasti, Bretos, and Etxezarreta (2016). Their research broadly supports the findings of Flecha and Ngai (2014).

- 51 Errasti and Bretos (2016, p. 437) suggest the term ‘coopitalist multinational’ to describe the hybrid nature of MCC’s current stage of development.
- 52 Conventions and laws concerning financial reporting are one example of important challenges the MCC faces in sustaining its relationships with other multinational enterprises, as Geobey argues in Chapter 8.
- 53 In the U.S., Cooperation Jackson is an effort to utilize an integrated cooperative model to empower Black citizens in Mississippi, a historically marginalized community. While deeply inspired by Mondragon, its strategy is to become primarily self-reliant rather than rely on support from outside its own Black community. See Akuno and Nangwaya (2017) and Akuno and Meyer (2023). For an analysis of the historical and continuing importance of cooperatives for Black communities in the U.S., see Nembhard (2014).
- 54 I concur with Gonza and Ellerman, Chapter 5, who note that non-worker cooperatives do respect voting rights on the basis of personal (non-alienable) rights (pp. 14–15) (i.e. they enfranchise their members) and note that they “are well-known ‘good employers’ and are more socially responsible” (cf. footnote 3, p. 9).
- 55 For an insightful analysis of the ICA principles and the Guidance Notes, see Warren (2022), pp. 501–535.
- 56 This alliance could build upon the ICA worker cooperative resolution of 2005 and extend the efforts of organizations such as workers.coop in the United Kingdom, which was founded in 2022 to support an international alliance of worker cooperatives.
- 57 For an example of the process of democratizing worker cooperatives along these lines, see Ferreras (2022) and Lafuente (2022).
- 58 For insightful critiques and reformulations of arguments integrating Marxian and feminist dimensions of justice, see Weeks (2011) and Federici (2021).

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## SECTION II

# Methodology

### Introduction

*Jerome Nikolai Warren*

Building on the edifice of the prior foundational section, which abandoned the neoclassical framework of object–object relations to embrace relationships as vital in the study of creating shared value and, beyond this, for the study of cooperation in firms and in the economy, the chapters in this section attempt to outline suitable research methodologies for emphasizing the results of such a shift in perspective. As mentioned in the introduction, traditionally, cooperation and cooperatives were measured, assessed, interpreted, and analyzed utilizing atomistic models like non-cooperative game theory, regression analysis and similar, such object-oriented approaches.

Cooperative scholars have frequently adopted similar approaches, which can be in part explained by the fact that they are taught in the economics and business curriculum. Furthermore, many journals restrict the research they publish to that employing object-oriented approaches. Given the pressure facing young scholars to establish a publication record, it is understandable that many young cooperative economists and management scholars very quickly get pulled into the orbit of regression analysis, game theory, and similar approaches to analyze organizations that are in reality heavily process-driven.

The chapters in the section share the underlying element that a perspective lodged in cooperation, especially one that attributes agency to those providing labor within firms, generally requires research methods departing from approaches that have been hegemonic in both economics and management in the prior century. The chapters offer a decidedly broad and transdisciplinary survey, incorporating approaches including accounting, law, and economic history, as well as computational and complexity approaches, in addition to bringing in complementary disciplines like anthropology. By providing such a broad survey, we wish to both challenge cooperative scholars in economics and management disciplines to think beyond object-based approaches and at the same time nurture and facilitate developments beyond such approaches by outlining how process-based approaches can improve our understanding of the scale and scope of cooperation within and between groups and enterprises.

The section begins with Chapter 8 by Sean Geobey, entitled “Contesting Investor-Centred Valuations of Enterprises”. This chapter argues for a move away from an exclusive reliance on

investor-focused approaches to the valuation of enterprises, arguing that “[a] firm that is making below market-rate returns for capital-providers might actually be providing above-market returns for other patrons”. According to the view suggested by the author, “these firms are well-placed for an ownership transition from capital-based ownership structures to an alternative form”. As an example, the chapter urges the development of accounting schemes that value enterprises based not on future profits, but future wages. It presents a hypothetical case study to reveal how moving beyond an investor-centered focus of valuation can benefit the creation of more worker-owned businesses.

Caio Silva in Chapter 9, entitled “Cooperative Organizations as Complex Adaptive Systems,” presents a complexity-theory approach to understanding cooperatives. It seeks to interpret cooperatives as complex adaptive systems and introduces a configurational approach that deploys set-theoretical methods and the use of Qualitative Comparative Analysis to provide nuanced insights into the conditions and interactions shaping cooperative structures, strategies, and outcomes, attempting to deepen the understanding of the interaction of these elements in making cooperatives highly adaptive to changing environments. The author concludes that “cooperatives are uniquely positioned to provide sustainable reconciliation between social and economic welfare for diverse populations” and that by adopting a complexity approach, “cooperatives can gain deeper insights into the conditions and interactions that shape their structures, strategies, and outcomes.”

In Chapter 10, entitled “Reflections on the Measurement of Organizational Democracy: Conceptual, epistemological, and methodological aspects”, Lucio Biggiero reflects on the concept of organizational democracy by reviewing key entries in the literature and then attempting to develop an approach to measure organizational democracy by adopting a distinction between structural, legal-institutional, and leadership selection relationships between firm stakeholders. It suggests nine indicators grouped into three blocks for measuring organizational democracy: economic-legal, strictly organizational, and strictly hierarchical aspects. By creating an outranking algorithm from these indicators, it seeks to establish two ideal-typical poles, “pure LMF” and “pure KMF” by means of which to compare different firms, whether cooperative or not, according to their democraticity. The chapter then applies the resulting algorithm to examples like “hybrid” firms, taking Mondragon and Huawei as two cases. The chapter concludes, among others, that “democracy and hierarchy are not in strict opposition: depending on other [organizational democracy] elements, we could have a relatively democratic hierarchical organization and a relatively non-democratic nonhierarchical organization”.

Chapter 11 by Jerome Nikolai Warren, entitled “Process-oriented Research Methodologies and their Suitability for Analyzing Cooperative Enterprise,” outlines the birth and development of a multidisciplinary research paradigm based on an evolutionary perspective toward the analysis of cooperation and cooperative behaviors, including three derivative methodological approaches. It anticipates what may be gained from applying these approaches to cooperative enterprises. It finds that much can be gained by abandoning an object-oriented framework for a process-oriented one, including in domains as diverse as “deepen[ing] knowledge about the complex interactions between [...] less or more constrained open membership, and the level of stratification”; “study[ing] problems like the functional limitations of democraticity”; “evaluat[ing] the effectiveness of educational programs within cooperatives intending to increase member participation” or “how cooperatives can take advantage of consistent (with their values) ways of marketing to their members and the wider community”; as well as “a broad use and applicability to regulators”.

Chapter 12 by Linda Bennison, entitled “A Path Dependency Approach to Study Australia’s Cooperatives,” argues that “history matters” and applies an organizational path-dependency analysis framework to study the modern legal history of Australia, to understand the lack of

cooperatives in that country at the present day. In order to answer the question of why “the number of Australian cooperatives has not consistently trended upwards since the registration of Australia’s first cooperative in 1859”, it analyzes the interaction of numerous contingent and conjunctural events in promoting inertial forces that benefited traditional corporate forms in legal practice as well as in pedagogy and professional training. It argues that three distinct stages can be traced out: pre-formation, formation, and lock-in. The chapter draws some general conclusions as to how to better develop cooperative policies and frameworks.

In Chapter 13, entitled “Ethnographic Encounters: Exploring the Cooperative Ethos of Anthropology in Methodology and Practice,” Camilla Carabini provides a comprehensive exploration of anthropology’s unique method to the study of cooperatives, outlining three fundamental pillars of ethnographic methodology: positionality, participation, and restitution. It recognizes that the cooperative spirit is embedded in every step of the research process and underscores the collaborative nature of knowledge creation between researchers and their interlocutors, who become collaborators, including in the work of cooperative anthropologist Marcel Mauss, as well as drawing on the author’s own experiences in a cooperative bank.

# A FRAMEWORK FOR SHIFTING AWAY FROM CAPITAL-FOCUSED MEASURES OF SUCCESS

*Sean Geobey*

## 1 Introduction

Capital-based firms are the norm in most industrialized economies, and as a consequence, there are a wide range of financial tools available to track their economic performance. Co-operatives use these standard financial tools, but they, alongside other models, including non-profits and self-labeled social enterprises, will often use additional measures to identify their impact on society and the environment. Yet these measures are often *in addition to* standard financial metrics rather than *in place of* them. This is because the perspective that underpins the financial monitoring of capital-based firms is that the *residual claimant* will be the owners of the company's capital. A residual claimant is a stakeholder who has the claim on all of an organization's cash flows once all other expenses have been paid and, in turn, also bears the burden of the organization's risk. This chapter develops a framework for building financial reporting for a firm in which the investor is not the residual claimant but instead one of many stakeholders who provide resources to the firm (Warren, 2023). It also explores the implications of having another stakeholder, such as a worker or customer, as the residual claimant.

Cooperatives, charities, non-profit organizations, municipally-owned enterprises, and a variety of other alternative or hybrid enterprise models have different ownership structures than capital-based enterprises, reflecting different stakeholders' membership (Sacchetti & Borzaga, 2021) or ownership (Hansmann, 1999). Hansmann uses the term "patron" to describe individuals or groups that contract directly with an enterprise as a supplier or customer (1999, p. 389). The suppliers include the suppliers of capital (investors), labor (workers), and goods (producers), and it is worker- and producer-owner enterprises which, alongside consumer-owned enterprises, are the most common forms of co-operatives. These are distinct from the broader set of stakeholders who interact with an enterprise in any way (Freeman & Evan, 1990, p. 337), often including those who are recipients of the positive or negative externalities an enterprise produces. The residual claimant has an elevated status among the patrons and other stakeholders in the enterprise, making them the central subject of financial measurement within a firm because they ultimately take on the bulk of the positive and negative risks of that enterprise. However, many of the risks taken on by residual claimants who are not investor-owners are different from those of investor-owners. A naïve adoption of capital-based approaches would lead a consumer co-operative to push for

increasing prices and a worker co-operative to push for cutting wages to increase revenues and reduce costs respectively (Dow, 2018). Following this logic, seeking to optimize capital-based financial measures would undermine the fundamental purpose of these organizations.

At the heart of this issue is the question of whom an enterprise is for. The shareholder primacy model has brought a lot of clarity to this issue (Fama & Jensen, 1985), but centering different residual claimants by a firm would suggest they operate according to different logics (Hansmann, 2000), a use further complicated by emerging models of socially-engaged value-creation (Chandra, 2019; Kramer & Porter, 2011; Emerson, 2003) and the possibility of converting capital-based enterprises to other organizational models through social acquisitions (Vieta, 2021; Vieta, 2019; Jensen, 2016; Campbell et al., 2021). Whether these changes in organizational form can be conducted in an economically and socially justified manner depends on whether their governance models can integrate alternate, non-investor-centered perspectives (Ellerman, 2021; Biggiero, in this volume). Indeed, the demutualization of cooperatives and their conversion into capital-based enterprises (Piscitelli & McHugh-Russell, 2021) could in part be a consequence of applying capital-based financial measures to organizations that have other patrons as their residual claimants.

Who is centered as the residual claimant in a firm and how that firm's economic performance is measured is a key consideration for cooperative researchers. Dialogic accounting argues for respecting the diversity of interests that different stakeholders have in how a firm operates (Brown, 2009; Brown & Dillard, 2015; Brown, 2017; Manetti et al., 2021). In a capital-based firm, free cash flows go to capital-owners and are counted as profits, yet not all stakeholders who could hold the residual claimant position would necessarily make the same choice. For example, the leadership of a worker-owned firm may be inclined to direct free cash flows to higher wages, benefits, or better working conditions rather than toward profits. Focusing on profitability as a measure of a firm's economic performance can lead to inaccurate measures of this performance when comparing capital-based firms to firms operating under other ownership models.

Just as critically, for cooperatives and other non-capital-based ownership structures, a focus on profitability obscures the difficult choices that people within firms make in setting priorities. For example, within a worker cooperative, some may want free cash flows directed toward higher wages and benefits, some might want them directed toward improved health and safety practices, while others may want the money dedicated toward expanding production and growth. Having all of these elements lumped together as costs that negatively impact profitability not only ignores the reality that all of these are desirable goals for many workers, but it also makes it more difficult to have engaged, participatory, and democratic conversations about firm priorities.

## **2 Research question**

This chapter asks whether centering a residual claimant other than a capital-owner changes the value of a firm and its operations. The research question directly seeks to address the gap in accounting tools when applied to alternative enterprises such as co-operatives (worker, consumer, producer, multi-stakeholder), non-profit enterprises, and social enterprise structures. Enterprise valuation will be the focal point of this analysis, but at its core, this chapter will present a framework for understanding the economic performance of firms with different types of stakeholders as residual claimants.

## **3 Framework**

As a starting point, it is valuable to consider the evolutionary pressures placed on firms with different ownership structures. Hansmann focuses on the survival rates of firms with different

ownership structures in different contexts, with a focus on the internal governance costs each type of ownership structure imposes. He argues that internal decision-making costs tend to be higher when there is a more heterogeneous group of stakeholders, and this is a more common feature of firms that are not capital-based. This suggests that there must be other strong pressures for alternative ownership models to thrive in the industries where they tend to thrive (1999). Sacchetti and Borzaga, however, argue that a broader total cost approach beyond transaction and decision-making costs should be taken (2021). Implicit in this approach is an understanding that for some components of economic sectors such as childcare, agriculture, housing, education, and consumer finance, ownership models that are not capital-based produce more net value to other stakeholders than they would to investor-owners. The framework developed here expands upon this concept and formalizes it. Capital-owners remain in this framework, and where they are not the residual claimants, they can still receive returns but do not necessarily have claims to all free cash flows. Instead, they can be expected to receive risk-adjusted market rates of return, analogous to the market-rate wages that employees are expected to receive in a capital-based firm.

As a baseline, consider a firm that has earned revenue from the perspectives of different patrons. Three different groups are clearly compensated: patrons, workers who receive market-rate wages, capital-providers who receive a market-rate return on investment, and producers who receive market-rate payments for their services as suppliers of inputs into the firm. Consumers provide revenue to the firm rather than being compensated for providing inputs into the firm's production. However, consumers receive quasi-compensation in the form of their consumer surplus, which is the difference between the value they receive from the goods or services they consume and the value they would have received from their next best available alternative. Finally, some external patrons are not directly compensated by the firm but may be impacted by the positive or negative externalities produced by the firm's operations (see Figure 8.1: Free cash flow usage with different residual claimants). Methodologically, what appears here is a simple extension of the logic underpinning Ricardian rents for all but the external patrons.

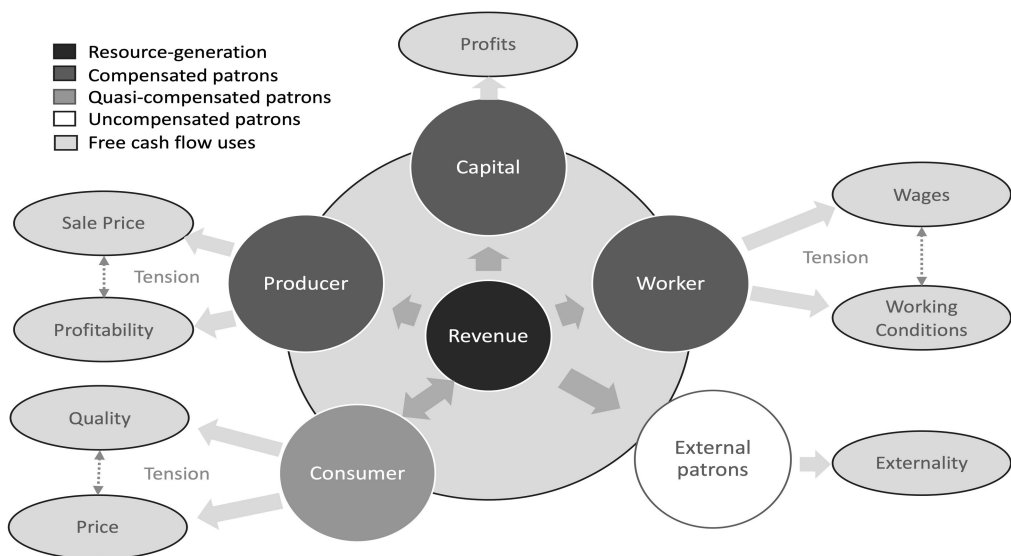


Figure 8.1 Free cash flow usage with different residual claimants.

This framework suggests that these five patron groups – capital-providers, workers, producers, consumers, and external patrons – would manifest their use of free cash flows in different ways. Capital-providers would take these free cash flows as profits, though specific sub-sets of capital-providers will have different risk appetites and preferences for how they receive those profits, including different combinations of dividends, interest, and capital gains. Workers would take their free cash flows as higher wages or better working conditions, creating an inherent tension among worker patrons with different preferences for how these higher wages and better working conditions are manifested. Producer patrons are often small businesses themselves and are seeking greater profitability for their own businesses or a higher sale price for their goods and services, another inherent tension within this patron class. Consumers differ from the preceding patron classes because one of the ways they would often want to use free cash flows is by *reducing* revenues so that they can see lower costs for the goods and services they purchase, though there is a tension here between lower prices and using those free cash flows to invest in better quality products. Finally, some external stakeholders are positively or negatively impacted by the externalities produced by a firm and would be expected to channel free cash flows toward expanding the production of goods that produce positive externalities or toward offsetting the impact of negative externalities. Much like with capital-providers within each of these other groups of patrons, there will be heterogeneous interests, but for each patron group, there is still the need to compensate key patrons to remain solvent. However, it is in the free cash flows after that market-rate compensation that differing measurement and management tools are needed for patrons other than capital-providers.

At its core, the challenge is that market-rate compensation for stakeholders who are not the residual claimants must be treated as such, and the use of free cash flows for the residual claimants must be treated as equivalent to profits in measurement practice. This already occurs to some degree in standard capital-based firm practices. Some capital-providers do so through debt obligations, while others use equity-based structures. Interest on debt repayments is treated as a market-rate compensation cost for a capital-based firm, while equity investors have their returns counted as profits taken from free cash flows. Extending this logic to other residual claimants is the key methodological extension here. This is straightforward enough with other capital-providers, such as those who own preferred shares, options, or royalty financing agreements, but it is more complicated with other patrons. Counting wages and better working conditions for worker-owners could be done on a cost basis, but on its own, this would not likely capture the full surplus that workers benefit from as residual claimants. This issue would also be similar with improved quality or lower prices for consumer-owners. This is even more difficult with producer-owners, where changes to the sale price of their own firms – a capital appreciation – work on a longer time horizon than changes to their firms' profitability.

#### **4 Hypothetical example**

To apply the framework developed above to the core research question of whether centering a stakeholder other than an investor in enterprise valuations changes the value of the enterprise, a hypothetical example will be developed, examining the enterprise from both investor-owned and worker-owned perspectives. While only one hypothetical enterprise will be explored, the logic deployed in this paper could similarly be applied to consumer-owned, producer-owned, non-profit, and hybrid enterprises as well. Indeed, further developing such lenses has added utility for identifying trash-to-treasure opportunities where efficiency gains could be made by switching from one ownership model to another.

The approach taken in this chapter will assume the existence of a hypothetical enterprise with some basic financial information. Earnings will be estimated using a simple example that excludes interest, taxes, depreciation, amortization, and dividends. These are not included so that the example aligns with standard valuation practices and to allow greater generalizability of the example across jurisdictions. Total revenue is \$1,000,000 per year with a total of \$900,000 in wages as the only expense. A notable assumption here is that the enterprise pays double market wages, meaning that market wages would be \$500,000 for an equivalent enterprise, and this enterprise pays a total of an additional \$400,000 in wage premiums above market rates (see Table 8.1: Hypothetical Enterprise Assumptions). The market-rate wages are the aggregate wages workers would receive from their best alternative employment, and these assumptions are ultimately key drivers of differential earnings estimates between patron groups.

Using this hypothetical enterprise as an example, two valuation estimates will be developed. The first estimate will have a traditional investor-owned focus, and the second will use an alternative worker-owned focus. By applying the same assumptions about income, expenses, and valuation-to-earnings ratio, the hypothesis that an investor-owner valuation method and a worker-owner valuation method can produce different enterprise valuations will be tested. Central to this test will be the role of the premium over market-rate wages, which will be considered earnings for the worker-owners and an expense for the investor-owners.

Using the hypothetical enterprise outlined in Table 8.1, we have a firm with \$1,000,000 in annual revenues and \$900,000 in wage expenses. For an investor-owned firm, this leads to a simple calculation of earnings as revenues minus all expenses, resulting in \$100,000 in profits. With the same hypothetical enterprise, a worker-owner centered valuation produces substantially different results. For worker-owners, the \$500,000 premium over market-rate wages is the primary component of their earnings rather than being a cost center. For them, it is the return on shareholder equity – the standard profit estimate – that is a cost center if those earnings go to non-worker owners (see Table 8.2).

In this hypothetical model the worker earnings are five times those of investor earnings. However, even this simple calculation does not fully capture the potential difference between the two valuations. Two key terms worth highlighting here are *return on equity* and *premium over market-rate wages*, which could be modified to change the valuation for each patron.<sup>1</sup> *Return on equity*, which the worker-owners could reduce to zero, could be shifted into an increased premium over market-rate wages, adding an additional \$100,000 to worker earnings. As a practical matter, one might hesitate to do this immediately, as even in this simple hypothetical case, there might be advantages to restructuring a worker-owned enterprise to continue having external shareholders as part of the capital structure but structuring this equity as non-voting preferred shares, which do not hold final residual claimant status, rather than voting common shares, which do. This flexibility may make it easier to facilitate a shift to worker ownership from investor ownership by

Table 8.1 Hypothetical enterprise assumptions

Category		Value
Revenues		\$1,000,000
Wages	Total	\$900,000
	Market-rate wages	\$500,000
	Premium over market rate	\$400,000

Table 8.2 Investor-owned vs worker-owned comparison of enterprise value

Category	Value for investor-owned enterprise (traditional)		Value for worker-owned enterprise (alternative)	
Income				
	Earned revenues	\$1,000,000	Earned revenues	\$1,000,000
Total income	Income	\$1,000,000	Income	\$1,000,000
Expenses				
	Market rate wages	\$500,000		\$500,000
	Wage premium	\$400,000		
			Investor earnings	\$100,000
Total expenses	Expenses	\$900,000	Expenses	\$600,000
Earnings	Return on equity	\$100,000		
			Wage premium	\$400,000
Total earnings	Investor earnings	\$100,000	Worker earnings	\$400,000

still providing room for outside investors to fund the worker-ownership conversion if the workers cannot muster all the financial resources themselves. For example, offering preference shares worth up to a \$100,000 annual rate of return could be attractive to some outside investors as a way to partially finance an investor-to-worker ownership conversion.

*Premium over market-rate wages* can be seen as presenting an opportunity for investor-owners to reduce this downward to increase their earnings. Indeed, this is likely the primary target for enterprise restructuring that would catch the attention of many potential investors. By cutting wages to market levels, a new investor-owner could expect to increase the return on equity, leading to a higher long-term stream of earnings or an increased resale value. However, this approach also carries risks for an investor-owner. Just as determining market wages is not straightforward for a worker-focused valuation, it is similarly difficult for investor-owners. A new investor-owner may substantially scale back wages only to spark mass employee turnover, plummeting productivity, and a more contentious labor bargaining environment. Taken as a whole, while return on equity or premium over market-rate wages could be captured by worker-owners and investor-owners respectively, there are often practical limits to how malleable these items actually are.

## 5 Ownership transitions

Alongside these is a core tension between how surpluses are treated by accountants and economists. For accountants, the core issue is simply free cash flows and the valuation of the balance sheets of an enterprise. For economists, the core issue is opportunity cost and whether resources are deployed efficiently and if the residual claimant can make above-market returns. The residual claimant analysis here is firmly based in the economist's camp, but this also presents a challenge. With a capital-based firm when investors are making accounting profits but earning below market-rate returns, the inefficient deployment of capital this implies means that investors can be expected to withdraw their investments and close operations even if the company is profitable in accounting terms. For example, a capital-based company that has accounting profits but whose return on equity is lower than a US treasury bond is providing below-market returns, which can be

considered negative profits to an economist. This is more complicated for residual claimants who are not capital-providers, as the market-rate of return equivalents can be much more difficult to calculate for workers, consumers, producers, and external patrons.

This is particularly important when considering ownership transitions. A firm that is making below-market-rate returns for capital-providers might actually be providing above-market returns for other patrons. Indeed, a core tension might exist between the same person who could potentially be a member of different patron classes, for example, a worker-investor, and who must balance different risk profiles between these (Albanese, in this volume). If this is the case, these firms are well-placed for an ownership transition from capital-based ownership structures to an alternative form, and using this framework to develop an alternative firm valuation would be critical. We would call one of these ownership changes a *trash-to-treasure* conversion, taken from the common English phrase “one man’s trash is another man’s treasure”, to capture the logic that value is created when control shifts from a residual claimant who places a relatively low value on the enterprise to one who places a higher value on it, with greater value created the more the new residual claimant is able to change enterprise operations to align with their own interests. The value generated by these trash-to-treasure conversions can then be shared in some manner between the new residual claimants, the old residual claimants, and any non-controlling outside investors who facilitate these conversions.

## 6 Non-profit and hybrid ownership

For an external-patron-owned firm, a different calculation could include placing social or environmental impacts in a more central location relative to standard capital-based logic. However, making that case and then operationalizing it in practice requires developing different conceptions of *value* and *risk*. While these organizations are owned by their named membership, the composition of the membership itself is often arbitrary and does not always align with any particular patron. In some sense, these are more effectively thought of as ‘unowned’ rather than being owned by a particular patron group. The value that these firms’ external-patron residual claimants receive could be estimated through the incorporation of financial-proxy models of social impact measurement, such as those used in Social Return on Investment (SROI) analysis (Emerson & Cabaj, 2000) or the Common Approach to Impact Measurement (2019). The challenge is identifying those beneficiaries who would be the equivalent of a producer and assigning a stream of benefits to them. Indeed, there may be a range of different types of beneficiaries who receive quite different benefits. For example, a natural conservation area may provide recreation and leisure benefits to a wide community of users, higher property values to nearby homeowners in addition to the recreational and leisure benefits, and ecological services to both human and non-human stakeholders (Sacchetti & Borzaga, 2021).

Moreover, this perspective could provide insights into other organizational forms that have similarities to producer-ownership models. For example, Hansmann (2013) posits that local governments can be viewed as co-operatives, possibly of residents or of property owners, and the question of whose interests a local government serves could be analytically viewed from the perspective of whose assets are privileged most in public policy decisions. Hybrid enterprises can be seen as combinations of the above valuation models. Sometimes these are explicit, as may be the case for a multi-stakeholder co-operative comprised of 50% worker-owners and 50% consumer-owners. In such cases, the overall value of the enterprise would be 50% of the worker-owner valuation plus 50% of the consumer-owner valuation. However, hybrid enterprise structures, like Italy’s ecosystem of social cooperatives, often have a murkier balance between different patron interests.

Applying one or more of these alternative valuation models can be a useful exercise to clarify which patrons actually view the enterprise as being most critical to their interests (Biggiero, in this volume).

## **7 Theory of value(s)**

The focus of this chapter has been on the internal structure of enterprises and the cost structures of various compensated patrons of those enterprises. In doing so, the ‘black box’ of the economic firm is opened up and examined more deeply. However, the viability of most capital-owned enterprises is currently contingent on their capacity to generate value in markets. It would be remiss to open the lid on the black box of the firm and close it upon the open box of the market. That said, broaching a theory of value is not to be taken lightly, and the source of value creation is a deep-seated, multi-century site of contestation. A neo-abolitionist approach (e.g., Ellerman, 2021) is a strong foundation for arguing that capital ownership is not solely about the predistribution of value generation in economic activity but is also about the management of economic activity within enterprises where value is created jointly between multiple inputs. Shifting from the theoretical economic lens to its day-to-day applications, a dialogic approach to accounting (e.g., Brown, 2009) would similarly align with the work of this chapter in viewing the measurement of activity within an enterprise as a site for contestation. While such ontological underpinnings are relevant to extending this work, they are not necessary for making the core case.

Instead, the approach taken here is a rather conservative one that can stand within the marginalist approach that underpins neoclassical economic analysis. While the core argument in this chapter is certainly at odds with mainstream neoclassical approaches, it can still be made on those grounds. Similarly, the argument made here has some alignment with a New Institutional Economics approach but does not lean as heavily into the *ex-post*, survivorship-driven methodological approach favored in this school of thought, which can trace its roots back at least as far as Alchian (1950), who makes a case that fundamentally connects the institutionalist approach to the neoclassical. However, it is also the case that this chapter does not follow directly from that approach, since at its core, there is an argument for the value of design in theory development for building out alternate models of the firm. The emerging approach proposed here is inherently embedded in praxis.

## **8 Future research**

This chapter presented a framework for de-centering capital-providers as the residual claimants of a firm and outlined why centering a different patron as the residual claimant would materially impact how a firm operates. Suggested future research would extend these insights operationally, conceptually, and empirically. Operationally, managerial accounting methods should be developed that center different residual claimants to ensure mission alignment with these claimants. This would allow these methods to be brought into practice and used for operational management, strategic planning, and the development of mission-aligned financing options. Alongside this development, care must be taken to compare these with generally accepted accounting principles (GAAP) to highlight where there are differences and to develop methods to resolve those, a project that can fundamentally be seen as an extension of dialogic accounting (e.g., Brown, 2009). Given the potential value in trash-to-treasure ownership conversions enterprise valuation may be a particularly fruitful channel for conducting this work, both to identify opportunities to transition capital-based enterprises to other models and to predict likely targets for demutualization.

Conceptually, the centering of other patron classes as residual claimants suggests often dramatic changes in the enterprise logic of different firms, which alters the way they view risk. What risks are managed by firms and which are ignored is a key conceptual issue. All enterprise ownership models are likely to produce both positive and negative externalities, but different ownership structures are likely to produce different positive and negative externalities. For example, worker-ownership models may produce just as many negative externalities as capital-based ownership with respect to abusing monopoly power when that option is available, but their proximity would be far less likely to produce negative externalities that would impact community public health when the workers themselves are members of these communities (Albanese, in this volume). A better understanding of how different ownership models would manage these risks is a valuable next step for researchers and can set the baseline for a larger project aimed at understanding not just how firms or markets produce and manage externalities, but how ecosystems of enterprises operating according to different institutional logics impact economic, social, and natural systems.

Empirically, three key future research topics are immediately apparent. First, the data requirements for all of these alternative valuation perspectives lean heavily on estimating market-priced alternatives, and careful empirical work is needed to clarify how difficult it is to make such estimates in practice. Second, a larger-scale empirical study would clarify how great the differences in valuations from different perspectives are in practice and if there are patterns tied to geography or industry where large valuation differences between capital-based and other ownership structures are more common. Finally, opportunities for and barriers to the adoption of alternative valuation models by non-capital-based enterprises merit further examination, as there are likely strong institutional barriers arising from industry, professional norms, and policymakers that hinder their use. From a public policy perspective, these approaches could be used to identify where alternative ownership models are likely to thrive and establish policies to support ownership model diversification.

## **9 Conclusion**

This chapter's contribution focuses on the decentering of capital-based ownership when looking at enterprise valuation. In doing so, it has demonstrated that elevating different patron perspectives to the level of residual claimant substantively changes enterprise operations. These findings are directly relevant for those working in the co-operative, philanthropic, and social enterprise spaces, or for entrepreneurs interested in alternative firm succession models. Moreover, as these enterprises increasingly look to the emerging social finance sector for non-grant financing, these alternative perspectives can assist them in integrating more complex financial tools into their strategic planning.

The development of alternative accounting and financial tools will be critical for growing and sustaining the co-operative sector. Developing enterprise valuations from worker, consumer, and producer perspectives will allow for the identification of trash-to-treasure conversion opportunities and the development of novel financing mechanisms to enable these. The gap between an investor-centered valuation and a co-operative-centered valuation provides ample space for not only value generation for the converted co-operative but also returns for outside investors enabling the conversion, recognizing the vital role investors play without privileging them over other, often more central, patrons. Furthermore, building in co-operative-centered accounting tools would prevent demutualization and strengthen mission alignment moving forward post-conversion. The deepening of our understanding of the plurality of perspectives that patrons can have on an enterprise is critical to enabling sustainable co-operative conversions at scale.

## Note

- 1 Implicit in the hypothetical is a *market-rate return* on equity of zero rather than creating an investors' analog to the workers' *market-rate wages* category. This choice was made for clarity in simplifying the example by avoiding the distinction between the accountants' view of profits characterized by revenues, costs, and profits, and the economists' view of profits, which focuses on the opportunity costs tied to each of these, making profits relative to market returns the critical long-run consideration. Much like how market-rate wages are treated as a cost for both the investor-owned and the worker-owned enterprise, this view would include market-rate investor returns as a cost for both investor-owned and worker-owned firms. This is a smaller adjustment than it might first seem, as it is already the case for some investors, notably debt-holders, who are viewed as cost-drivers from the perspective of equity-holders.

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# COOPERATIVE ORGANIZATIONS AS COMPLEX ADAPTIVE SYSTEMS

*Caio Silva*

## 1 Introduction

As organizations in the plural sector (Mintzberg, 2015), cooperatives stand out for their principles and overarching values that enable members to be simultaneously investors, patrons, owners, and part of the benefitted community (Limnios et al., 2018). For Levi and Davis (2008), cooperatives are the “enfants terribles” of economics, being both economically oriented enterprises and non-profit organizations (see also Chapter 3 by Thibault Mirabel). The paradox of economic and social, or individualistic and collectivistic goals has been addressed by scholars interested in cooperatives through a duality-hybridity lens (Novkovic et al., 2022; Ashforth and Reingen, 2014; see also Chapter 15 by Anu Puusa). This chapter examines this paradoxical nature through a complexity science perspective, positioning cooperative organizations as complex adaptive systems (CAS).

CAS are “the interaction of a large number of diverse agents” (Holland, 2012, p. 53). An expansion of this definition includes characteristics such as agency and agent interactions that enable adaptability, emergence, and feedback loops. These characteristics make CAS well-suited to survive in turbulent, uncertain, and complex environments in the long term (Cilliers, 1998). From beehives to economic systems, the CAS framework (Turner and Baker, 2019) has been employed to understand agent behavior that leads to adaptation and change (Carmichael and Hadžikadić, 2019). In organizations, CAS perspectives include studies on leadership (Schneider and Somers, 2006; Uhl-Bien, 2021), human resource development (Yawson, 2013), and plural organizations (Pycroft and Wolf-Branigin, 2016; Pinheiro and Young, 2017; Oliveira and Cunha, 2021).

This chapter positions cooperative organizations as CAS, to enable a different understanding (see Novkovic et al., 2023) of cooperative management, organizational theory, and economics. As CAS, cooperatives adapt through self-organization (Ashby, 1991), considering the systems in which they exist, and the pressures exerted by the environment. The CAS perspective necessitates different methodologies for understanding cooperatives and inaugurates perspectives that go beyond paradox and dualities in leading and managing. A configurational approach (Misangyi et al., 2017; Täuscher, 2018; Greckhamer et al., 2018), derived from set-theoretical principles, is offered, and illustrated in different elements related to the main CAS tenets, including self-organization, adaptability, and heterogeneity. Such an approach enables researchers to

simultaneously reap the benefits of qualitative granularity and detail while providing a robust avenue for generalization and transposition to other cases.

## 2 Cooperative organizations

Cooperative members own, control, and benefit from the business conducted by the aggregate. The Guidance Notes from the International Cooperative Alliance (ICA, 2015) provide a minimal structure of cooperative principles that ideally govern the structure and actions of cooperatives around the globe. These principles highlight the cooperative ideal and generate the complexity that these organizations need to embrace in their operations (Ring and Van de Ven, 1992).

The challenges of cooperative governance have been studied from many different perspectives. The free rider problem (Giannakas et al., 2016) shows how cooperatives are vulnerable to agents who do not contribute but reap the benefits of the contributions of other agents. In large cooperatives, the control problem (Borgen, 2004) emerges when members feel they have little influence over decisions, and therefore cannot feel and act like owners and controllers, questioning whether the cooperative organizational form is different from a corporate one. While universal solutions are not available, it is possible to theoretically examine how cooperative governance could mitigate these and broader challenges.

Cornforth (2004) has suggested a paradox perspective to extend corporate governance theories to cooperative governance, noting that the prevailing model of theorization on governance relies on neoclassical economics, which falls short of explaining cooperative behavior. Spear (2004) builds upon stewardship theory to propose a trustee model of governance, arguing that there is in effect the danger of over-empowering cooperative managers, and showing that members have weak influence over boards and management, thus questioning the representation of members and the democratic process in consumer-user cooperatives. Finally, Mazzarol et al. (2018) provided a business model for cooperative and mutual organizations conciliating several theories into an instrument that enables practitioners to better understand cooperative governance, operation, and its member value propositions.

## 3 Cooperatives as complex adaptive systems

Understanding cooperative organizations as CAS requires the premise that they are capable of constant adaptation and evolution. According to Letiche and Lissack (2011), CAS are emergently coherent, focusing on the environment to become resilient rather than acting as efficient machines. CAS accommodate many agents who simultaneously follow rules and adjust actions according to the behavior of other agents, interacting and adapting to continuously support the system and the population it contains (Stacey and Mowles, 2016).

Cooperatives are organizations formed by a network of interrelated individuals whose agency is enacted based on local interactions and overarching rules. Such interactions give rise to patterns of organizational behavior that are unpredictable from the individual agent standpoint. As agents learn and adapt to the environment, the organization's patterns of behavior change, causing the system to evolve. The complexity inherent in cooperatives' operations makes it difficult for researchers to understand causal directions and establish robust networks of influence between practices and outcomes.

In this chapter, I propose that cooperatives fit the CAS characterization, by building upon Cilliers' (1998) typology of CAS characteristics. Table 9.1 illustrates how cooperatives act as CAS according to their theoretical definition divided into four main features: dynamic adaptation,

Table 9.1 Features, definitions, and illustrations of cooperatives as CAS

<i>CAS cooperative feature</i>	<i>Theoretical definition</i>	<i>Illustration</i>
Dynamic Adaptation (Interaction, Feedback Loops, Open Systems)	The interaction of members shapes collective behavior and outcomes through recurrent adaptation to internal and external changes.	Bottom-up adaptive strategies are enacted by farmers in agroindustrial cooperatives, collectively building on individual learning to seize opportunities and hinder threats.
Emergent Behavior (Emergence, Non-linearity)	Local interactions follow a non-linear path to generate emergent macro initiatives by the cooperative, based on trust and mutual support.	In the emergence of credit unions, fiduciary duties between members are not merely summative, but follow a nonlinear path toward the emergence of the formal organization. The principle of inter-cooperation enhances cooperative potential to generate emergent endeavors.
Learning and Evolution (Adaptation, Self-Organization, Evolution)	The principle of education leads to adaptation to environmental needs and a regard to future evolution and sustainability. Since education is distributed, adaptation is likely achieved through self-organization.	Through trial and error accumulated over time, and with the help of adequate training and support, medical cooperatives providing healthcare insurance develop capabilities to be sustainable, offering advantages for both physicians and customer-patients.
Diverse and Localized Information (Heterogeneity, Decentralization)	As decentralized organizations, cooperatives nurture diverse sources of information regarding local operations. Diverse agents operate based on local information, enabling a range of solutions in response to challenges and opportunities.	A worker cooperative has in each member a distinct set of knowledge and experiences, which can be aggregated to collaboratively devise solutions for other members, increasing adaptation and agility.

emergent behavior, learning and evolution, and diverse and localized information. The argument assumes that cooperatives act as dynamic entities composed of individual members who interact based on local rules and individual preferences, which are constantly changing with the economic and social environments. The members interact and make collective decisions based on new imperatives that culminate in changes to the structure and governance of the cooperative.

Cooperatives embody CAS tenets due to their unique member-centric structures and strategic dynamics. Unlike investor-oriented corporations, the resilience and adaptability achieved by cooperatives have roots in decentralized decision-making with the input of a diverse base of membership and control. As Cornforth (2004) notes, organizational theory explains control-based one-dimensional theories, which are unable to cope with cooperative complexity. Cooperatives are riddled with paradox, mostly generated by their dual nature (see Chapter 15 by Anu Puusa), facing tensions in their controlling mechanisms through member representation and management experts concerned with their performance, conformance to cooperative principles and market rules, and both the support and control of governing boards.

In addition to the control complexity, cooperatives may have different ownership rights and membership structures, yet still need to comply with a minimal set of universal cooperative principles. According to Mazzarol et al. (2018), cooperatives maximize member benefits through understanding their roles as suppliers, customers, investors, owners, and members of the community, all potentially embodied in a single agent. The cooperative goal is to generate societal well-being while financial returns are reinvested, distributed, or invested in the community. In contrast, investor-owned firms enjoy the simplicity of having well-defined roles for each agent and a well-defined goal of maximizing shareholder returns through dividends and interest on capital.

Finally, cooperatives behave as welfare organizations in generating social transformation in addition to economic development (Michaud and Audebrand, 2022). Members, who would be denied a voice in investor-owned organizations or treated on a one-dimensional basis (e.g. as either a supplier or a customer), find their emancipation in cooperative organizations as complete members and decision-makers.

#### **4 Research methods for cooperatives as CAS**

Complex adaptive systems research has suffered from a chasm between quantitative model-based methods and qualitative case studies and ethnographies (Thietart and Forgues, 2011; Maguire et al., 2006; see also Ragin, 2008; Cilliers, 1998). Quantitative research on CAS is rigorous and relevant for the pursuit of general laws that govern such systems, as illustrated by the agent-based and system dynamics models, such as the NK model (Kauffman, 1993) and broader computational models (Ethiraj and Levinthal, 2009). On the other hand, qualitative research on CAS tends to provide much-needed nuance regarding specific and local events (Gear et al., 2018), such as in Davis and Sumara's (2006) treatise on complexity and education and in Chiles et al.'s (2004) study of emergence.

According to Richardson et al. (2001), complexity theory answers to the call for pluralism, creativity, and boundary critique by relying on both intraperspective and intersperspective exploration of phenomena. As democratic as cooperatives, complexity science addresses the limits of knowledge when epistemologies and methodologies define the characteristics of the systems we study (Biggiero, 2001). While there is a plethora of avenues for understanding complexity in organizations, this chapter focuses on the integrative methodology offered by configurations. It explores the middle ground between quantitative and qualitative methods by proposing configurational research as a method capable of providing both generalizability and local sensitivity to the study of CAS (Figure 9.1).

##### **4.1 Configurational methods**

Derived from set-theoretic approaches (Fiss, 2007), configurational methods capture patterns and configurations across cases, leveraging the qualitative potentials of generalization. Arguably, grouping qualitative data into categories diminishes its contextual sensitivity in the name of higher generalizability (as shown in Figure 9.1). Configurational methods are therefore suited for middle-range theories, simultaneously valuing case-specific knowledge and leveraging configurations that give rise to certain organizational outcomes. It is important to note that configurational methods are not dismissive of qual-quant approaches. Rather, they integrate elements of both by using qualitative data to inform quantitative patterns of causality. They contribute to methodological pluralism (Mingers, 2001) by offering a balance between qualitative local sensitivity and quantitative generalization potential (Ragin, 2008), allowing researchers to consider both the context and the wider applicability of configurations.

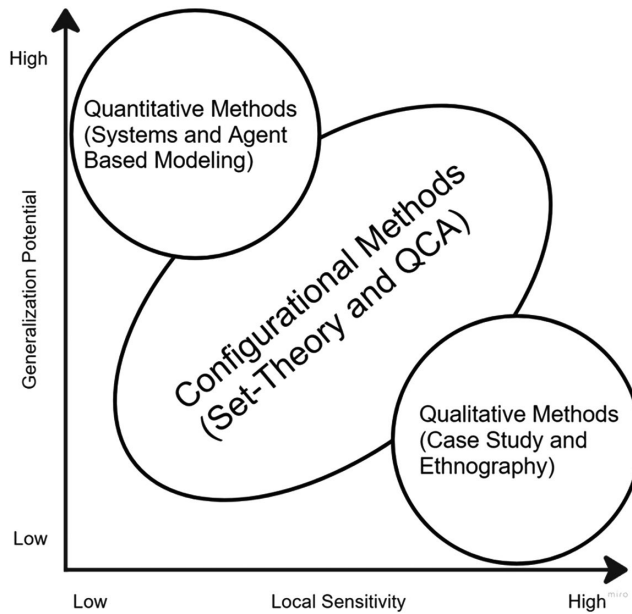


Figure 9.1 Positioning configurational methods.

The configurational approach does not come without shortcomings. The quantification of qualitative data may risk oversimplifying nuance and detail, therefore neglecting the intricate dynamics of qualitative studies (Lucas and Szatrowski, 2014). There may also be concerns about whether the generalizability of configurations can be achieved through a method based on case diversity representation. A key factor in configurational research is therefore the balance between qualitative depth and sample size, as pointed out by Miller (2018), who highlighted the importance of effectively grounding configurations in qualitative data. Finally, some argue that the approach contradicts methodological purity and dilutes the advantages of qualitative and quantitative research, making it too thin to reconcile diverse epistemological standpoints (Guba and Lincoln, 1994).

Despite the possible shortcomings, the configurational methodology attempts to understand organizations as composed of interconnected structures and practices (Fiss, 2007), departing from a holistic approach. Such holism is essential for understanding organizations as CAS (Furnari et al., 2021; Letiche and Lissack, 2011). Instead of conceiving organizational outcomes as simple cause-effect relationships, configurational methods enable researchers to delve into the complexities of causality and nonlinearity while striving to establish relationships between constructs that are essential for generating outcomes. Fiss (2007) highlights the power of configurational methods to underscore equifinality (Katz and Kahn, 1978), where different organizational configurations may lead to the same or similar outcomes.

#### 4.2 Example application of configurations to cooperatives

Cooperatives, as hybrid organizations, blend market and hierarchical elements (e.g. separated and joint ownership and varied incentive structures) along with a mixture of formal and informal governance (Chaddad, 2012). Configurational methods can reveal how these elements combine to reach equilibrium. Additionally, as Thibault Mirabel highlights in Chapter 3 of this volume,

the unique role of trust in cooperatives, transforming contracts into treaties governing capital and labor, makes them particularly suited for configurational analysis.

For this application to be successful, researchers must first identify the operating conditions of cooperative organizations. For example, sets of Boolean attributes may be devised, arguing that cooperatives (A) are a subset of organizations that exhibit high financial (Y) and social (Z) performance, formally,  $A \subseteq (Y \wedge Z)$ . Configurational approaches allow scholars to understand relationships within larger organizational sets. In this example, this may involve examining the overlap between actions adhering to educational principles (B), and benchmarking with private sector organizations (C). Let adherence to educational principles (B) belong to a subset of cooperatives ( $A_1$ ), exhibiting high financial and social performance. Formally,  $B \in A_1$  where  $\in$  represents the “belong to” operator. Further,  $A_1$  may be a subset of organizations with high financial and social performance as in  $A_1 \subseteq (Y \cap Z)$ , where  $\subseteq$  represents “a subset of”, and  $\cap$  represents the “intersection”, indicating common elements between sets. Conversely, benchmarking with private sector firms (C) belongs to  $A_2$ , characterized by high financial performance but not necessarily high social performance. This relationship is symbolized as  $C \in A_2$  and  $A_2 \subseteq Y$ . It is important to note that  $A_1$  and  $A_2$  are different subsets of A, representing cooperatives with different configurations of financial and social performance.

We still consider A as the union of both cooperative subsets ( $A = A_1 \cup A_2$ ), where  $\cup$  denotes the union operator. Actions regarding education (B) and benchmarking (C) indirectly belong to set A, and the performance characteristics of subsets  $A_1$  and  $A_2$  contribute to the overall characteristics of A. Logically then,  $(B \in A_1 \wedge C \in A_2) \Rightarrow (B \in A \wedge C \in A) \wedge (A_1 \subseteq (Y \cap Z) \wedge A_2 \subseteq Y) \wedge A = A_1 \cup A_2$ . This expression states that educational principles (B) and benchmarking (C) belong to the union set of cooperatives (A), making subsets  $A_1$  and  $A_2$  maintain their relationships with financial performance (Y) and social performance (Z). A Venn diagram representing these relationships is plotted in Figure 9.2.

This example portrays a small-scale potential of configurational theorization in cooperative organization management. By employing configurations, researchers may establish conditions on macro, meso, and micro levels of institutional structures, market behavior, and cooperative practices

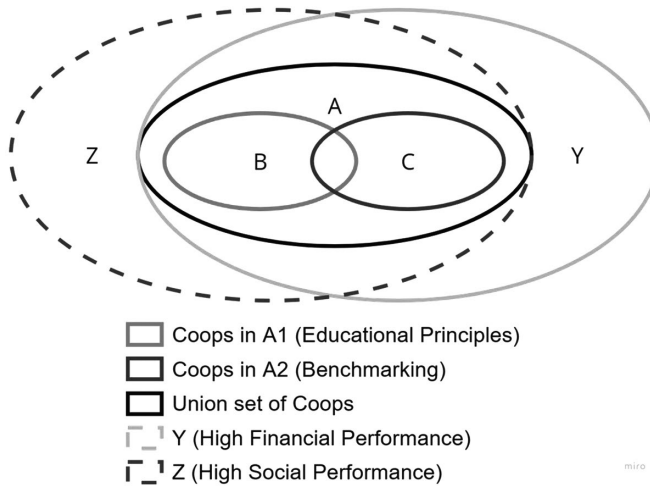


Figure 9.2 Venn diagram of Boolean expression.

to cumulatively build robust theorization efforts, understanding the different set memberships and relationships generating outcomes.

Configurations offer robust and flexible pathways for researching the complexity of cooperative economics and management (the scoping stage in Furnari et al., 2021). The robustness of the method entails accumulating evidence throughout studies and cases, while the flexibility of the method arises from the researcher's choice of focusing in or out and choosing between crisp or fuzzy sets. For simplicity in the example above, cases were grouped under the label of "cooperatives", employing crisp sets, which denote binary distinctions about membership in subsets.

Quant researchers may prefer to deploy crisp sets derived from statistical data establishing binary relationships between constructs, which can yield complex and insightful results with more variables and cases. However, qualitative researchers who want to focus on nuance and multilevel explanations (Miller, 2018) may find it uncomfortable to conform to crisp distinctions. Therefore, they may prefer to employ fuzzy sets (Ragin, 2000; Kumar et al., 2022, for an overview), which allow for nuance by including intermediate thresholds between 0 and 1. Following the latter example, cooperatives' adherence to educational principles may be either full (1) or non-compliance (0) in crisp sets, but they may also have little (0.25), intermediate (0.5), or high (0.75) adherence in fuzzy sets. Notable examples of the use of QCA in other realms of organizational theory and management would help researchers to harvest the full potential of the method. Crisp sets have been thoroughly explored by Marx et al. (2013). They were notably employed by Balodi (2016) to understand young firm performance through entrepreneurial orientation and by Pattyn (2014) in the evaluation policies of Flemish organizations. Fuzzy sets are explained in depth by Crilly (2013) in studying why managers deploy corporate social responsibility. They were employed by Muñoz et al. (2020) to understand organizational conditions that enable innovation in cooperative organizations.

The example offered in this chapter simplifies thresholds, offering a basic rubric. However, in more rigorous studies, it is crucial to define the limits for high adherence to educational principles and corresponding scores in comparison to other criteria. Fiss (2007) and Ragin (2008) highlight that calibration is context-dependent, enabling researchers to delve into theoretical and substantive specifics. By aggregating configurational studies, it would be possible to discern the organizational and economic configurations that generate cooperative advantage or a set of minimal structures for cooperatives to achieve their goals. Configurations can help understand cooperative responses to paradoxes and tensions, recognizing the stability of configurations and the actions necessary for balancing contradictory demands.

## **5 Leveraging the configurations of cooperative economics and management**

From the conceptualization of cooperatives as CAS to the development of set-theoretical approaches to their study, researchers may find the configurational perspective useful for analyzing configurations of conditions that lead cooperatives on a desired path. Seny Kan et al. (2016) suggest that configurational approaches may be employed in diverse situations that relate not only to the internal and external environment of these organizations but also to the intricate relationships between the macro and the micro. The ambitious task of understanding cooperative management as a function of economic variables may be tackled from a configurational standpoint, providing both managerial and economic implications that should be addressed by managers and policymakers.

For instance, Novkovic and Sena (2007) introduced the conundrum of the impact of globalization on the ability of cooperatives to thrive in a competitive environment. While competitive pressures abound, and one could theorize the demutualization and degeneration of the cooperative ideal, the conditions under which cooperatives could flourish in a global market could be better understood through configurational lenses, both in management and policy realms. For example, configurations could be employed in Bretos and Errasti's (2017) work on Mondragón's internationalization strategies in capitalist subsidiaries, especially the dynamics of degeneration/regeneration of cooperative values, cultural clashes, and local economic pressures. Similarly, Basterretxea et al. (2019) study of Fagor includes several factors regarding employee ownership, HRM policies, and HRM outcomes. Configurations would be relevant to understand the causal mechanisms leading to chronic nepotism, failure in training policy, and reverse dominance hierarchies. Finally, Michaud and Audebrand's (2022) work, arguing for different governance practices in cooperatives based on paradoxical tensions, could benefit from configurations highlighting the sets of tensions perceived by cooperative managers in empowering members and controlling their own discretion. These examples range from the least granular (a study of global market conditions) to the most granular (perceived individual tensions) and serve as a symbol of the flexibility of the configurational model.

In researching configurations, scholars are expected to identify the sources of complexity that surround cooperatives as CAS. Table 9.2 illustrates how each complexity element previously defined in cooperative management may be conceptualized in set-theoretical terms and how sets could aid in understanding gaps in the literature on cooperatives as CAS. This table is based on Cilliers' (1998) typology of CAS and complemented by Stacey and Mowles' (2016) perspective.

Table 9.2 portrays how each element of CAS can be quantitatively or qualitatively explored in research. Quantitative methods could be used to assess degrees, levels, and frequency of activities in each set, such as setting 0–1 crisp or fuzzy scale on employee background education depth, ranging from high school to a PhD. Most importantly, each set can also be studied qualitatively by relying on fine-grained detail. For example, interviews could be conducted with a sample of employees to understand their education levels and how they contribute to the diversity of skills and knowledge within the cooperative (see Snelson-Powell et al., 2016 for an example of analyzing interviews using fuzzy sets).

When employing configurational methods to study cooperatives as CAS, researchers must consider the multi-faceted and interconnected nature of their elements through a multilevel approach. This intricacy calls for a multimethod approach to capture the nuances and dynamism of cooperative organizations. By addressing the literature gaps identified in Table 9.2, researchers may gain new insights into unexplored or underexplored dimensions of cooperative organizations. The introduction of a CAS lens and the possibilities of configurational methods may guide scholarship on cooperative economics and management toward new paths for theorization and practice that remain either untapped or isolated in disciplinary and thematic research silos.

For example, studying interaction patterns and degrees among member-employees-board can help understand how and if high member interaction contributes to cooperative outcomes from both social and financial perspectives, and shed light on the mechanisms that create cooperative advantage through interaction. As Muñoz et al. (2020) point out, this could potentially lead to more robust and effective cooperative management strategies. Conversely, addressing the challenge of studying feedback loops in cooperatives may provide valuable insights into the dynamics and consequences of member behavior change or consistency over time in cooperative performance.

Table 9.2 CAS Elements in crisp/fuzzy sets addressing literature gaps

<i>CAS elements in cooperatives</i>	<i>Sets (crisp/fuzzy)</i>	<i>Literature gaps</i>
Interaction	Regular team meetings Collaborative decision-making Member-to-member communication	Patterns and degrees of member interaction influence cooperative outcomes, linking member behavior to cooperative performance.
Feedback Loops	Feedback on member/employee performance Response to member/employee suggestions	Effectiveness of formal feedback loops in understanding how members modify their behaviors and influence the dynamics and policies of the cooperative.
Open Systems	External partnerships Knowledge exchange with external entities Connectedness with external parties	Degree of openness provides insight into the potential adaptability and resilience of the cooperative, revealing how external interactions shape decisions.
Emergence	Different organizational forms adopted Innovative practices included in workflow	Conditions leading to the emergence of new initiatives and structures influence innovation and organizational development.
Non-linearity	Decision outcomes Resource allocation outcomes Unexpected outcomes of cooperative activity	The emergence of unexpected outcomes provides insights into the configurations of relationships influencing cooperative performance and development.
Adaptation	Reactive/proactive market response strategies Resource allocation and management	Strategies and responses to environmental changes that reveal how cooperative patterns of response adapt to market conditions.
Self-organization	Member-initiated projects Collective decision-making structures	Extent and impact of self-organization among members and employees provide insight into innovation development and member contribution.
Evolution	Changes in organizational structure over time Development of new strategies Introduction of new practices	Evolutionary trajectories that lead to the adaptation and evolution of local forms to tackle changing conditions.
Heterogeneity	Variety in member/employee functions Variety in member/employee educational backgrounds Diversity in member/employee skillsets	Diversity in member conditions reveals how heterogeneity influences problem-solving capabilities and performance.
Decentralization	Member involvement in decision-making Distribution of resources to members	Degree of decentralization and resource allocation that influences member participation.

Table 9.3 Expectations for scholarship on cooperatives as CAS

<i>Innovation</i>	<i>Description</i>	<i>Outcome</i>
Cooperative Strategies	Investigation of strategies fostering social and economic objectives, allowing cooperatives to deliver their dual goals	Strategic frameworks for cooperative governance, conceptual developments, enhanced impact
Improved Structures	Research and development of robust organizational structures and practices to enhance resilience	Models for cooperative resilience and adaptability, development of new cooperative management theory, understanding of strategy implementation issues
Decision-making Processes	Analysis of inclusive and equitable decision-making processes that cultivate shared ownership and commitment among members	Frameworks for participative decision-making, inclusive governance practices, equitable participation, cohesive cooperative environment
Solutions for Sustainability	Unveiling innovations that enhance cooperative sustainability in addressing uncertainty and disruption	Sustainable cooperative development and exploration of cooperative options and alternatives
Customizable Cooperative Models	Broad-ranging theoretical findings fitting different contexts, allowing cooperatives to leverage attributes and address challenges	Diversified cooperative models of governance, expansion of cooperative theory to different contexts, and customization of governance to specific needs

### 5.1 Expectations for cooperatives as CAS research

Complexity research holds transformative potential in reshaping the current understanding of cooperative economics and management. It opens avenues for the formulation of novel frameworks and innovative perspectives that can refresh and expand current theoretical, methodological, and empirical challenges. A complexity perspective is needed if cooperatives are to effectively navigate and address contemporary grand challenges regarding economic inequality, food security, and climate change (Berrone et al., 2016). As plural organizations, cooperatives are uniquely positioned to provide sustainable reconciliation between social and economic welfare for diverse populations. Table 9.3 illustrates some ambitious expectations that scholars could hold if a complexity lens were to be employed in researching cooperative organizations.

## 6 Conclusion

Complexity research, with its exploration into the intricate dynamics and multifaceted elements of organizations, unveils transformative potential, reshaping our comprehensive understanding of cooperatives. By leveraging a configurational approach, we can dissect the complex interplay of elements within cooperatives, viewing them as Complex Adaptive Systems (CAS). This approach allows for the identification of various configurations of conditions and outcomes, providing a nuanced understanding of the inherent complexities and adaptive capabilities within cooperatives.

The configurational approach opens innovative avenues for the formulation of novel frameworks and the development of new perspectives that can rejuvenate and broaden established knowledge

domains (Fiss, 2007; Ragin, 2008). It enables the study of cooperatives in a way that recognizes the plurality and interdependence of conditions, allowing for a more precise and enriched analysis of how different elements interact and contribute to various outcomes within the cooperative environment. In a sense, the essence of cooperative organizations as CAS is configurational. This approach has the potential to be crucial for cooperatives to effectively navigate and address contemporary grand challenges. It allows for a more robust and thorough exploration of how cooperatives, given their pluralistic nature and inherent adaptability, can act as agents of change, reconciling social and economic welfare and offering sustainable solutions for the well-being of diverse populations. By embracing a complexity perspective through a configurational approach, cooperatives can gain deeper insights into the conditions and interactions that shape their structures, strategies, and outcomes. This enhanced understanding can inform the development of innovative, adaptive, and resilient cooperative models that are strategically positioned to respond to the evolving needs and challenges of our interconnected world.

In essence, the power of the configurational approach in understanding cooperatives as CAS lies in its ability to offer a multidimensional view of the cooperative landscape, illuminating the path for the development of resilient, sustainable, and impactful cooperative entities capable of addressing the pressing challenges of our times.

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# REFLECTIONS ON THE MEASUREMENT OF ORGANIZATIONAL DEMOCRACY

Conceptual, epistemological,  
and methodological aspects

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## 1 Introduction<sup>1</sup>

The question of industrial or organizational democracy dates back about a century, assuming different aspects and names over time. The last 20 years have even seen a new flourishing and an intensification in economic (Dow, 2003, 2018; Ellerman, 1997, 2021; Michie et al., 2017; Rangan, 2015), management (Battilana, 2018; Lavie, 2023; Wilkinson et al., 2010), and sociological (Ferrerias et al., 2022; Rangan, 2018) studies, including those related to the neo-Marxian research tradition (Jossa, 2014, 2018; Palermo, 2016; Saito, 2024; Wolff, 2012).

This chapter does not aim to review the enormous literature accumulated so far but rather focuses on the construct of Organizational Democracy (OD). Battilana (2018) provided a state-of-the-art discussion on OD and its related concepts, such as hierarchy, self-management, empowerment, and workplace democracy. Instead, this chapter has a methodological nature, attempting to propose measures to calculate a sort of Organizational Democracy Degree (hereafter, ODD), resulting from the combination of different variables that are supposed to vary from a minimum corresponding to a typical large capital-based corporation to a maximum corresponding to a small cooperative. The lack of and need for appropriate and customized tools are, in different ways, also underlined by Sean Geobey in Chapter 8 and Daniela Venanzi in Chapter 21. Hence, the topic does not concern the legitimation or viability of a more democratic degree but rather how to calculate it and how to compare different organizations in this respect. In fact, as we will see, a large cooperative could be less democratic than its capital-based specular form, that is, a firm of the same size working in the same industry but not owned by external (non-workers) owners. Furthermore, because a single capital- or labor-based firm could evolve over time toward a higher or lower ODD, it is important to acknowledge this from many different perspectives, including those of managers, unions, policymakers, and researchers.

Indeed, the main methodological obstacle to constructing this measurement framework was reducing the measurement of hierarchical degree to one (or a few) indexes that can be combined with others. In fact, expressing (more or less hierarchical) structures in parametric forms is all but

trivial, all but granted. This problem usually affects all works concerning the concept of hierarchy, which is rather complex and used in very different, simplified, and ambiguous ways. However, as we will see, with network analysis this is possible, so the road to developing a methodological framework to calculate ODD is open, because the measure of hierarchical degree is a fundamental block.

Of course, though not the aim of this work, the extant literature is in the background. What is presented here is just a proposal, hopefully useful for a debate that might suggest different solutions or changes for some of the nine criteria advanced here. The very same idea of a metric to calculate ODD might be rejected because it could be argued that there is no continuum between the two poles of a pure capital- and pure labor-based organization. Indeed, complexity science could warn us that the probable nonlinearity characterizing the variables constituting a multicriteria aggregate like ODD would create discontinuities despite the single variables could be continuous and differentiable. The debate on chaos and catastrophe (Prigogine & Stengers, 1984; Thom, 1972, 1980), and its applications to economics and management is striking in this regard (Biggiero, 2001; Eve et al., 1997; Guastello, 2002; Parker & Stacey, 1994; Priesmeyer, 1992; Richardson, 2005; Stacey, 1991, 1992, 1993, 1995). Such approaches constitute an elegant mathematical way to explain morphogenesis, that is, the birth of new organizational forms, and to show how quantitative variations can produce new forms – strong qualitative changes.

While Caio Silva in Chapter 9 focuses on connecting the view of organizations as complex adaptive systems with the specificities of cooperatives, this chapter follows a different and simpler line of reasoning with respect to the complexity of the abovementioned debate. In fact, the purpose of this chapter is to focus on, define, and express in operational and measurable ways the main aspects/variables that recur in studies on what distinguishes cooperatives from capitalistic firms. The effort, then, is to provide a methodological framework that can be used for the empirical analysis of their OD, which indeed concerns and can be applied to *any* form of organization. Fundamental problems, such as the demarcation between capitalistic and cooperative forms, will emerge from the application of correct methods to evaluate multi-criteria phenomena, which can show possible incomparability among alternative choices/organizations. Outranking algorithms are the right tools for this and have the merit of being relatively simple: surely much simpler than the mathematics of nonlinearity. Further, they do not require that the single variables be continuous and differentiable, a property that – despite the claims of neoclassical economics – is very unlikely in these types of phenomena.

Instead of taking some demarcation as hypostasis, it is argued that, by applying appropriate analytical methods, empirical studies could show possible discontinuities due to the fact that some organizational forms can be incomparable because they are too different. Moreover, a sort of “real-world morphogenesis” could emerge, driving the occurrence of specific forms and making them not equally distributed. Evidently, such morphogenesis is all but natural, being influenced by fully human choices – political, cultural, economic, juridical, and of course technological. Instead of being a flaw, this provides a great space for human agency. The hybrid forms – intermediate between KMF (capital-managed firm) and LMF (labor-managed firm) – that are so much diffusing during last decades are an evident outcome of such institutionally and economically driven morphogenesis.

The chapter is organized as follows. In the next section, following a framework proposed by Dow (2003, 2018; see also his Chapter 2), a sharp schematization contrasting the two poles of a pure KMF and LMF is provided. Then, in Section 3, nine criteria proposed to measure ODD are enunciated and grouped into three blocks according to their affinity: economic-legal, organizational-strategic, and structural-hierarchical. Furthermore, in the same section, the criteria belonging to

the first two blocks are discussed and, to some extent, formalized. In Section 4, two of the three variables strictly related to measuring an organization's hierarchical degree are discussed and formalized to a satisfying extent, while the third one – that concerning the selection mechanisms for appointing people to powerful positions – is only roughly sketched. In that same section, the “contractualist” (post-Walrasian) and alternative (evolutionary and Neo-Marxian) perspectives are briefly juxtaposed. The analysis of the structural hierarchy ends with a simplified (dichotomous) view of the combinations of its three constitutive variables. Section 5 concerns methodological problems of the ODD construct by wondering whether it can be treated as a multi-attribute aggregate (utility) function or not, and what would be the conceptual, epistemological, and methodological implications of such a – seemingly innocuous and very technical – problem. It will be argued that the crucial question is whether the various attributes are genuinely independent or have a sort of substitution rate vis-a-vis one another. In Section 6, it is shown how to apply outranking algorithms to compare different organizations – or the same organization over time – with respect to their ODD. Finally, in section seven, depending on the evolutionary dynamics of their legal-economic status, hybrid forms – middle ways between KMF and LMF, thus supposing to score intermediate ODD values – will be presented as “betrayals” of the true cooperative spirit or, alternatively, as signs of the progressive democratization of the economy depending. Further, in the same section, the role played by large firm size in depressing ODD is evidenced. In the concluding section, besides highlighting the main points, it is suggested that this methodological framework might be helpful also for classification and statistical aims.

## **2 A rough schematization**

Before contrasting the two poles of pure KMF and LMF, it is better to define the main units involved in the structure and behavior of a large organization and provide a stylized view (Figure 10.1). According to a traditional view, a firm is the property of some legal entity that, by virtue of that property, acquires the rights to govern it, that is, to make strategic and operative choices. Property can be defined in terms of the amount of equity capital, whose owners then correspond to the owners of the firm. They get the rights to appoint the governance body, namely the Board of Directors (BoD), which is charged with outlining the overall strategies of the firm and nominating its President and CEO. The CEO – often together with board members – chooses top managers, who are the heads of corporate functions, such as finance, human resource management, research and development, etc., and the heads of divisions (if any). These latter, in turn, usually in collaboration with the human resource management function, choose middle managers and the workers who constitute the operating core, where the primary functions lie – purchases, production, and sales.<sup>2</sup>

Some clarifications and details might help. Though sometimes a board member can also cover a role in top management, usually they are distinct. Put differently, board members do not participate in operative management. Similarly, though some owners can hold a position in management, usually they do not. In short: owners, entrepreneurs, and managers are three distinct role, and indeed capitalism was born on this distinction. In relatively recent times, top or even middle managers can be rewarded even through stock options, thus becoming, ipso facto, a hybrid figure of owner-manager. Management buyouts could be seen as an extreme extension of that policy. Indeed, even workers are sometimes rewarded with stocks, thus becoming, ipso facto, a hybrid and contradictory figure of worker-owner in a corporation, as it happens in ESOPs (Employee Stock Ownership Plan)<sup>3</sup>. From a pragmatic point of view, the growing diffusion of these practices is positive, though it strongly shakes the idea of a sharp demarcation between KMF and LMF, and

thus, by posing it as a question of degree and not of a dichotomous quality, it further shows how important is having a methodological framework to measure those degrees.

Despite the tremendous power that is usually assigned to owners and board members, in a strict sense, the true realization of a product or service – the so-called operations – is a matter of top managers, middle managers, and bottom-level workers belonging to the operating core, excluding de facto owners and board members. Regardless of the degree of authority and discretionary power, top managers, middle managers, and bottom-level workers can be considered altogether as the workers of a company, as evidenced by the curly bracket of Figure 10.1. Shareholders – or other types of rights holders – are separated from management: they appoint the board members but are not part of management. This is all but new since the time of Berle & Means (1939) and their “discovery” of the separation between property and control, as it is used to say in the field of corporate governance. Even the board is not part of management *strictu sensu*, because they limit their actions to giving strategic inputs to top management and choosing the apical positions. Moreover, as relatively recent literature on corporate governance shows (Gordon & Ringe, 2015; Hill & Thomas, 2017), the power of BoDs and CEOs on top and middle managers varies a lot between the two blocks of continental Europe and Anglo-North America. As well, the power of the CEO on the BoD varies a lot, being usually much stronger in the latter than in the former block. This acknowledgment is not irrelevant with respect to our issue of the relative power allocation in the different parts of the organization.

Though a bit tautological and excluding not-for-market firms and other types of organizations, such as social enterprises (see Simon Micken & colleagues in Chapter 4 and Coline Serres in Chapter 14), Dow’s (2018: 3) definition works well: “A firm can be defined as an organized set of individual agents who participate in a common production process and sell the resulting output on a market. These agents may supply labor, capital, or other inputs. Because the contracts among the agents are usually incomplete, production activities require coordination. For firms of significant size, this involves a hierarchical authority structure in which managers decide what goods will be produced and how”. Dow emphasizes the role of the BoD, because of the peculiar tasks mentioned above: defining strategic orientation and choosing top management. In Dow’s view, the second privilege is regarded as particularly important in that it gives an “imprinting” of the following hierarchical authority structure. In Section 4, this aspect will be deepened, while now we focus on more general aspects.

Let us note that, especially in high-tech firms, the true power is largely allocated to the positions where technological knowledge resides, which is neither the BoD nor the top management, but rather middle management. In fact, when technological knowledge is fundamental, the real decision-making power is in the hands of those possess it, such as the heads of operating functions. A clear example is what is happening in banks because of the digitalization and online use of their services: ICT directors are becoming more and more essential, and often the future CEO or COO are not recruited from the responsible for credit risk assessment, as traditionally happened, but rather from the ICT responsible. All this was to argue that the emphasis on ultimate control as if there was the true and most powerful control of the company sounds unrealistic. The most appropriate picture is neither that elaborated by the various types of post-Walrasian economic theories, such as the Transaction Cost Theory (Williamson, 1975, 1981, 1985), and the Agency Cost Theory (Fama, 1980; Jensen & Meckling, 1976), but rather that proposed by the Resource Dependence Theory (Pfeffer & Salancik, 1978; Pfeffer, 1981, 1997), according to which there is not a single locus of control. The behavior of a (large) organization results from a complex dynamic of interactions between many groups of coalitions. For a deepening on this issue and the limits of pre- and

post-Walrasian neoclassical economics, see Ankarloo & Palermo (2004), Biggiero (2022), and Palermo (2016a, 2016b).

An important theoretical perspective to understand cooperatives and other alternative forms is that of Relational Economics and Organizational Governance, recently launched by Biggiero (2022) and Wieland (2018), because it assumes the ideas of both the Resource Dependence Theory and Evolutionary and Cognitive Economics (Dopfer, 2005; Dosi et al., 2000; Teece, 2009), and rejects the approaches of post-Walrasian Economics. Taking the relational perspective means taking the structuralist perspective, because it implies looking not (only) at single individuals, but also (and perhaps mostly) at the structures in which individuals are embedded. From a methodological point of view, this means taking the system and network perspective and employing relational methodologies (Biggiero, 2016a). For a deeper understanding of the conceptual implications of Relational Economics and Organizational Governance for cooperative economics and management, see Chapter 1 by Josef Wieland. For the applications of the main relational methodologies – Social Network Analysis, Boolean Networks, Agent-Based Simulation – to the study of cooperatives, see Chapter 11 by Jerome Nikolai Warren.

To some extent, in his 2003 book, Dow himself is not distant from the previous claim of Resource Dependence Theory when he defined

A firm to be a coalition of input suppliers whose production activities are coordinated by means of a common authority structure. Under this definition, it is impossible to own a firm, though one can own non-human assets used in production.

(2003: 39)

Because in a firm there are workers and they cannot be “owned” in current society, a firm cannot be owned *strictu sensu*.<sup>4</sup> There can be only two fundamental rights: that to decide what should be done – that is, strategic and operative decision-making – and that of residual claims. From the first part of the definition, it follows that input suppliers should not be limited to equity capital and labor but should be extended to all relevant input suppliers, such as non-equity capital, (main) goods and services suppliers, (main groups of) customers, regulatory institutions, knowledge creation institutions, etc.: in one word, to some (if not all) stakeholders. However, in his conceptual framework, Dow does not follow this view, preferring to stay with the standard view of a KMF (a large corporate company), according to which the “ultimate control locus”, that is, who appoints the governance of the firm, namely the BoD, gets the right also to the residual claim, thus excluding all other internal and external stakeholders.

In the following discussion, I will make the same choice, because this way the contrast between the two poles is better emphasized. However, I wish to firmly underline that the correct view is the other: the surplus (or net product) is obtained through the concurrence of other forces beyond labor and capital, which should also have the right to a residual claim. To some extent, this already happens in some forms of the Toyota system as well as in many Italian consortia. Moreover, the diffusion of inter-firm board interlocks shows that, to use Dow’s jargon, the ultimate control locus may not have full control of governance, because other actors, different from the capital owners, can be appointed to the BoD and even play a crucial role (Biggiero & Magnuszewski, 2023). Further, the strategic or operative interdependence with other companies can be so strong that they might share some middle or top managers because of technological or financial interests. In an extensive and intensive study of the European Aerospace Industry and its worldwide neighbors, Biggiero and Magnuszewski (2023) showed that these are not sporadic cases, but rather they occur through

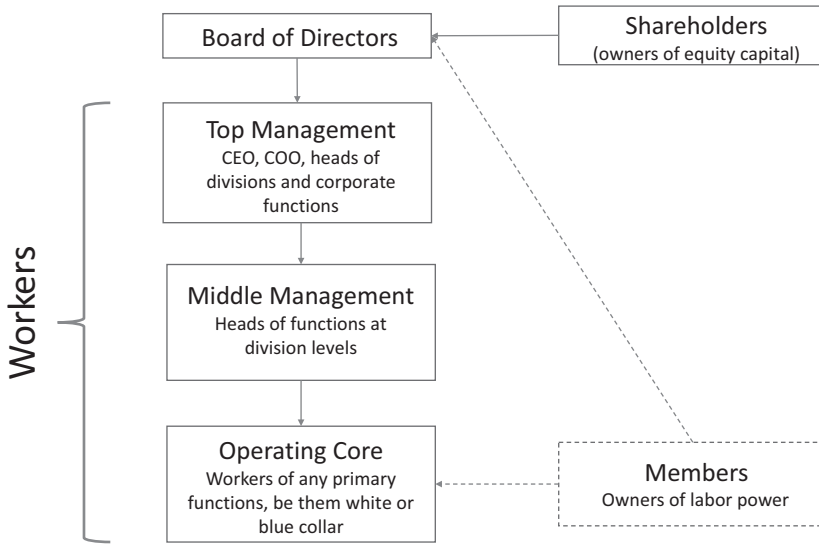


Figure 10.1 A stylized scheme of a capital – (KMF) and labor – (LMF) based corporate.

around one hundred thousand connections linking about 8,000 companies. Partners can be some of the main suppliers, buyers, institutions, or even competitors (if not direct rivals). Though some of them are also shareholders, others are not, thus showing that stakeholder presence in corporate governance is already a diffused reality, at least in some industries.

Once clarified that the (large) KMF depicted by Dow and assumed here, and stylized in the following figure, is a simplification useful for the discussion, let us outline an extreme version of its opposite: an LMF. This is much easier: it can be a (small) cooperative where members correspond to the workers and have equal decision rights. There are no other workers besides members, and, being a small group, there is no need for a BoD or a hierarchical authority structure: members are a team that makes collective choices, sharing all information. If we enlarge the cooperative's size, a set of changes will be necessary making it less "pure" for reasons that will be discussed below. One of these changes can be anticipated now: the large amount of work will necessitate a (much larger) number of decisions, which can no longer be made in a team setting. The consequence will be a structural transformation through vertical (hierarchical levels) and horizontal (specialized functions) differentiation. Furthermore, strategic and operational decisions should then be distinguished, leading to the need for a BoD implementing a hierarchical authority structure. Consequently, at least at first sight, things appear to be not so different from the KMF: members – instead of shareholders – will appoint the BoD, which in turn will trigger the hierarchical authority structure (Figure 10.1). Indeed, as we will see, this seemingly innocent difference likely pulls in many others, and this is why "size matters".

### 3 Contrasting the two poles in three blocks of nine attributes

In this section, the two extreme poles of a pure KM and a pure LMF are contrasted through nine criteria, which are also expressed in terms of variables in a first approximation (Table 10.1). A good mathematical and methodological question, which also has important conceptual and

Table 10.1 Criteria of ODD assessment

1	DOPC	Degree of Overlapping between Property and Control
2	DOOE	Degree of Overlapping between Owners and Employees
3	DPOS	Degree of Profit/Ownership Sharing
4	OCD	Ownership Concentration Degree
5	IOGV	Index of Organizational Goals Variety
6	IEEF	Index of Entry/Exit Freedom
7	DH	Degree of Dyadic Hierarchy
8	TH	Degree of Topological Hierarchy
9	SMDD	Selection Mechanisms for Democracy Degree

practical implications, is whether all of them are continuous variables. I will return to this issue in Section 5.

Following Dow (2003, 2018) and as outlined in the previous section, we can assume that a pure KMF corresponds to a *large* corporate capital-based firm, while a pure LMF corresponds to a *small* labor-managed firm, namely a production cooperative.

According to their affinity, the nine criteria can be grouped into three blocks:

1. The first block includes four essentially economic-legal attributes: the Degree of Overlapping between Property and Control (DOPC), the Degree of Overlapping between Owners and Employees (DOOE), Degree of Profit/Ownership Sharing (DPOS), and the Ownership Concentration Degree (OCD). In essence, the variables discussed in this block operationalize and measure the main concepts discussed by Gregory Dow in Chapter 2, David Ellerman and Tej Gonza in Chapter 6, and David Kristjanson-Gural in Chapter 7, which address problems related to legal-economic aspects.
2. The second one includes two typical organizational-strategic attributes: the Index of Organizational Goals Variety (IOGV) and the Index of Entry/Exit Freedom (IEEF). The matter of these two variables are addressed also by Josef Wieland in Chapter 1, Gregory Dow in Chapter 2, David Ellerman, and Tej Gonza in Chapter 6, David Kristjanson-Gural in Chapter 7, Sean Geobey in Chapter 8, and Tej Gonza, David Ellerman and Kosta Marco Juri in Chapter 16. The aim remains to operationalize and measure them.
3. The third block includes three criteria necessary to measure the hierarchical degree in a structural sense: the Degree of Dyadic Hierarchy (DH), the Degree of Topological Hierarchy (TH), and the Selection Mechanisms for Democracy Degree (SMDD). The concept of hierarchy is discussed in most chapters, but it is more strictly addressed in the first three sections of the Handbook. The effort here is again that of formalize and operationalize.

### 3.1 The block of economic-legal attributes

*Criterion 1.* In a pure KMF, as it can approximately be Amazon, IBM, etc., the right to define the size and composition of the control unit is proportional to the amount of equity capital provided (Michie, 2017). Conversely, in a pure LMF, there is a perfect overlap between the firm's members and board members: indeed, there is no BoD at all, because a pure LMF is supposed to be small and thus lacks a hierarchical authority structure. However, in the case of a medium or large size, even an LMF will need it, and thus likely also a BoD. According to Dow, we can equate KMF

capital owners with LMF members from the point of view of being the ultimate control group because they have the right to appoint the BoD (or to coincide with it, in the case of a pure LMF).

At the very end, this aspect indicates the *Degree of Overlapping between Property and Control* (DOPC). Likely, we could measure it by counting the number of owners/members that sit on the BoD and then dividing it by all owners/members, and by multiplying the outcome per the share BoD members made by owners. If we call the former element  $\alpha$ , the second element  $\beta$  and the latter  $\gamma$ , then:

$$\text{DOPC} = (\alpha/\beta)\gamma$$

Hence, it is easy to see that a KMF with 1000 owners and a BoD size of ten members has a DOPC of 0.01, if all of them are owners, and 0.005 if only half of BoD members is made by owners. Conversely, an LMF with ten members who constitute the BoD would score  $\text{DOPC} = 1$ . Therefore, ODD varies positively with this index, which will tend to substantially depress ODD for KMF and keep it high for LMF.

*Criterion 2.* A simple but interesting way to look at the labor/capital relation in single organizations is by counting how many owners/workers there are. However, what happens if an LMF employs non-members too? In this case, the LMF would partially reduce its ODD, because non-members will not have the same rights as members, as evidenced by the literature on these specific cases (Dow, 2003, 2018). Not coincidentally, Marx identified wage labor as a distinctive trait of capitalism, which in our conceptual framework is represented by the KMF, where all employees are assumed to be under wage-labor contracts, whether they are top managers or shop floor workers. To approach this aspect, we can do analogously what we have done for the degree of overlapping between property and control to formulate a *Degree of Overlapping between Owners and Employees* (DOOE) as follows:

$$\text{DOOE} = \text{Number of working owners(members)/employees}$$

In a pure LMF, DOOE is 100%, meaning that only members work in the firm, while in a pure KMF, owners are not supposed to work, or the fraction of owners working in their firm is supposed to be very small, and becomes smaller as the organization's size increases. This issue addresses two important and debated questions: the role of size and the possibility of multiple ownership/membership. It can be remarked that: (1) at a very small scale, meaning that employees are fewer than 10, the diversity between KMF and LMF lowers, and this effect concerns not only DOOE, but rather it affects to some extent all the other criteria; (2) while multiple ownership is easy, multiple membership is hardly possible – and even prevented by some cooperative laws. This latter question is very much related to Dow's argument that the main demarcation between KMF and LMF is that while ownership is alienable, labor is not. This is a crucial point, recalled in the conclusive section. Here, it can be underlined that these two first criteria – DOPC and DOOE - can be seen as measures of separation – the reverse of overlapping. In fact, in the 15th century capitalism was born, and its productive forces were unchained by two acts of separation: property from control and property from individuation, that is, the *alienable* association of ownership and owner. In the very end, both are forms of alienation.

*Criterion 3.* The existence of some kind of profit or ownership sharing with employees can be considered an increase in participation in residual claim in the case of profit or property rights in the case of ownership. It is rather easy to calculate a *Degree of Profit Sharing* (DPS) and a *Degree of Ownership Sharing* (DOS), which will both vary from 0% to 100%. Because employees' participation in surplus or property is universally intended as a sign of egalitarianism and thus of democracy, both indexes can significantly contribute to measuring ODD. In a pure KMF, they are

supposed to be zero, while in a pure LMF, they are supposed to be 100%. In a more refined version, it is perhaps more effective, especially for large companies, to replace profit with EBITDA or cash flow. Further, because all these variables in the numerator could be negative, it would be best to take the score only if positive (or to neutralize the sign). As concerning ownership, in the first approximation, it could be taken as the value of equity capital.

$$\begin{aligned}\text{DPS} &= \text{Profit share distributed to employees/Profit} \\ \text{DOS} &= \text{Ownership share distributed to employees/Ownership}\end{aligned}$$

*Criterion 4.* This criterion addresses a kind of *Ownership Concentration Degree* (OCD), which could be even 100% in a single person for a pure KMF, and is supposed to be 0% in a pure LMF because all members should possess the same share. We could express OCD using the normalized HHI (Hirschman-Herfindahl Index), formalized as follows:

$$\text{OCD} = (\text{HHI}_{\text{OS}} (1/N)) / (1 - (1/N))$$

where  $\text{HHI}_{\text{OS}} = \sum (\text{OS}_i)^2$ ,  $\text{OS}$  = Ownership Share (instead of market share, as in the standard use of HHI), and  $N$  is the number of owners/members. To let all single indexes contributing to the composed ODD vary in the same direction, that is increasing to increase ODD, it is necessary to use the reverse of OCD, calling it the *Ownership Fragmentation Degree* (OFD), thus indicated as

$$\text{OED} = 1 - \text{OCD}.$$

### **3.2 The block of organizational-strategic attributes**

*Criterion 5.* This is one of the most elusive criteria, though it is considered one of the most important, if not *the* most important in the literature. It is stressed that, while in a KMF the priority (indeed, the unique goal in orthodox versions of standard neoclassical economics) is shareholder value maximization, in an LMF there is usually a set of qualitative and quantitative goals, such as a satisfying income level accompanied by high job stability, the accomplishment of various solidaristic principles, etc. It seems rather hard to identify a single index or even a set of indexes to express this aspect of multi-objective behavior. While keeping this aspect open to future better proposals, in a rough approximation, an *Index of Organizational Goals Variety* (IOGV) could be built, for example, as follows:

$$\text{IOGV} = 1 - (1/\text{number of goals})$$

Therefore, when the organization is seeking only one goal, then IOGV is zero, while it grows with the number of significantly different goals. Though it is not possible to deepen the issue, it is worth noting that neoclassical economics has attempted to treat even LMF in the same logic as for KMF, just replacing profit maximization with wage maximization. David Ellerman (1997, 2021), Bruno Jossa (2014, 2018), and many others have shown that this approach is de facto a denial of the essential nature and behavior of cooperatives and other types of non-profit organizations. Here, to those criticisms, an epistemological remark can be added that has methodological implications for what I will argue below in Sections 5 and 6: neoclassical economics is a mono-criterion theory. The criterion is efficiency, measured in terms of profit. This conceptual peculiarity is required by the fundamental type of reasoning employed by neoclassical economics: the optimization (maxi- or minimization) algorithm. The application of this algorithm, in fact, to accomplish the assumption of complete and comparable transitivity, requires (continuous and differentiable) mono-criterion functions. If there were more than one function, fictitious multicriteria

methods are employed, among which the expedient of building a super-utility function is one of the most used. I will return to this point in Section 5, showing how ODD could be reduced to that case or appropriately treated as a mix of truly independent criteria through the application of outranking methods.

*Criterion 6.* In a pure KMF, stocks can be freely traded, so that entry into or exit from ownership is totally open and not submitted to any constraint save for required capital. However, it could be contended that this is a limitation of entry/exit freedom: only capitalists possessing enough capital would hold the free trade. In a pure LMF, there is usually selective entry to or exit from membership, submitted to the acceptance of all or part of the incumbent members and often also to the subscription of some kind of agreement, possibly involving a (typically relatively small) capital availability. Thus, it seems that in both cases there are barriers to free entry/exit from ownership or membership for KMF or LMF, respectively. If that freedom is considered relevant in terms of ODD, then some kind of index to measure such barriers could be designed to take into account this aspect and quantify its contribution to the aggregate ODD. As with the previous criterion, while keeping this aspect open to future better proposals, in a rough approximation an *Index of Entry/Exit Freedom* (IEEF) could be designed as follows:

$$\text{IEEF} = (1/\text{number} \times \text{weights of barriers})$$

Therefore, if there are many and heavy barriers, then the index becomes very low and flattens the organization's ODD. Of course, the right metrics for the denominator of that index should still be found, but at least for the quantitative barriers, such as a fee or minimum capital investment to be a member, it is supposed to be not so difficult to assign a value.

*Criteria 7–9.* Because they require a larger space than the previous ones, the block concerning strictly structural hierarchy related to organizational coordination and the role played by selection mechanisms is discussed in the next section.

#### 4 The measurement of structural aspects of hierarchy

In this section, the last three criteria are discussed, that is, those concerning hierarchical authority structure and role selection mechanisms. They require special focus because they are crucial in an ODD, so much so that often – even in good and recent works (Battilana, 2018) – democracy and hierarchy are taken tout court as the denial one another so that if an organization is considered hierarchical then it means that it is not democracies, and vice versa. According to this view, an expression as “democratic hierarchy” would seem an oxymoron. This is largely because, despite its relevance in the structure and dynamics of social systems and its apparent intuitive meaning, hierarchy is a rather complex concept that is not so easy to understand and express quantitatively. What is provided here is a contribution to fill this knowledge gap, besides the specific issue of ODD.

The type of hierarchy that matters for this discussion should be distinguished and analyzed in three dimensions: dyadic hierarchy (criterion 7), topological hierarchy (criterion 8), and role selection mechanisms (criterion 9). We can refer to this set as capturing the “structural aspects of hierarchy” to distinguish them from the essentially economic/legal and organizational aspects characterizing the previous two blocks of criteria. Though hierarchical authority can be exerted in many ways and have many sources, here the focus is on its final effect, formal representation, and quantitative measurement.

*Criterion 7.* One of the three dimensions concerns the direct relationship between two individuals: we can wonder whether they have balanced or unbalanced influence power, that is, whether

one of the two has authority over the other. In the latter case, whatever the source of the authority, it will result in a decision asymmetry between subject A who makes decisions and subject B who obeys those decisions – or is induced to follow them. Of course, it could also be a one-to-many or many-to-many situation, but the nature of what characterizes a direct relationship as superior-subordinate does not change. One-to-many or many-to-many settings can be seen, at least in a first approximation, as collections of dyadic connections. Further, the concept of “decision” can be relaxed to express a broad range of leadership styles, from strict commands to subtle persuasion or even unconscious (subliminal) manipulations, as often occurs in some organizational or social settings (i.e., marketing). Here this aspect, though important in principle and practice, can be overlooked to grasp the essence of the hierarchy issue. Indeed, the extensive literature on industrial or organizational democracy, employees’ participation, etc., rooted in many research fields such as organization and management, economics, social psychology, sociology, and political studies, concerns precisely the concepts and factors that lead to a more or less democratic power relationship between superiors and subordinates or between colleagues. For a good inter-disciplinary review on this issue, see Battilana (2018) and Wilkinson et al. (2010). Below and in the next sections, I will return to this important point concerning the background knowledge necessary for a good measurement of hierarchical degree.

Therefore, let us simplify the analysis by assuming that we know and can combine all types of influence power – whether formal or informal, intentional or unintentional, “good or bad” – to arrive at the final result of “conditioning” somebody to do what we want. We can simply represent this as  $A \rightarrow B$ , where  $\rightarrow$  can be interpreted to mean “deciding on” or “influencing”.

Of course, in a relationship between two people, many decisions are usually made, not just one, so we can approximate this aspect by giving a numerical weight to the link: the more decisions that are made, the heavier the link. Further, not all decisions have the same relevance, and again, we can approximate this aspect in the same way: the more important a decision, the heavier the link. Therefore, a hierarchical relationship can be strong either because there are many decisions, because those decisions are very important, or both. We could assign a vector of values ranging, let’s say, from 1 to 10 (max weight), distinguishing between the frequency and importance of relationships.<sup>5</sup>

Bearing in mind these elementary notions, we can represent any organization as a network of decisions, that is, a graph whose nodes are actors and links are the decisions connecting them.<sup>6</sup> Hence, simplifying from the weights of decisions – thus considering only the presence or absence of a decision – we can have symmetric (undirected) graphs, where agents do not have dyadic hierarchical relationships, and directed graphs where at least one relationship is asymmetric, regardless of whether it is totally or partially asymmetric, as in the case of collaborations.

This means we have already reached a first interesting result: a preliminary concept of hierarchy at the organizational level comes from counting how many (direct and indirect) relationships are asymmetric out of the total number of relationships. This measure of hierarchical degree for directed graphs was proposed by Dave Krackhardt (1994), and it varies from 0%, when the organization is composed of all balanced (symmetric) decisions, to 100% in the opposite case. We can call it Dyadic Hierarchy (DH) to stress that it is based on dyads: single pairs of relationships. Because a symmetric relationship also implies a reciprocal relationship, this measure of hierarchy addresses, in a reverse direction, an important concept for the whole debate on cooperation: that of *reciprocity*.<sup>7</sup> Cooperative principles and cooperative behaviors are almost totally overlapping with the idea that – at least limited to some aspects, such as certain types of rights like voting access, or some types of resources like economic or information exchange – agents follow or accomplish a criterion of reciprocity. The connection between cooperation and reciprocity emerges in most

social, political, and anthropological studies (Bowles & Gintis, 2013), and it becomes particularly evident in research employing methods of agent-based simulation modeling (Biggiero, 2016b, 2022; Squazzoni, 2012; see also Chapter 11 by Jerome Nikolai Warren).

It can be formalized as follows:

$$DH = DIAS/TODIL$$

where: DIAS = the number of direct and indirect asymmetric links and TODIL = number of all direct and indirect links. The largest part (if not all) of the studies on organizational democracy lies in the area covered by this dimension of hierarchy, which indeed captures the outcomes of many different elements constituting a democratic style of management and the forms of participation of workers (including managers). The work by Ahmed et al. (2019) goes exactly in the direction of building operative ways to measure those different elements. That analytical work is essential for allowing the formalization of hierarchy, and it is complicated by the fact that these different elements have both subjective and sometimes objective dimensions. In other words, for example, it is not only necessary to count how many times the manager consults her subordinates about a given choice but also to understand the perception that those subordinates have about the leadership style of their manager, because perceptions can be different from objective measures and, even more, from the superior's intentions. For example, perceptions are significantly affected by previous experiences, expectations, cultural backgrounds and contexts. Therefore, there are two metrics to be combined, each of which is already rather complicated on its own. More specifically, some objective variables, such as the number of hierarchical levels, organizational units, and the distribution of connections between them, and some mixed subjective-objective variables, such as leadership style, sense of freedom, feeling of fairness, integrity, tolerance, knowledge sharing, and others (Ahmed et al., 2019; Battilana, 2018; Weber et al., 2020)

The formalization and measurement of the hierarchical degree discussed here through the three parameters requires that the data concerning at least the objective aspects have been already collected and prepared in a relational form to be then analyzed. If those data have been also combined with the subjective dimension, then the outcome is much more significant. It might also be designed an approach that run the analysis with objective and subjective data separately, and then compared to understand if and how the “perceived hierarchy” is different from the “objective hierarchy”.

*Criterion 8.* DH is a good measure and approximation, but it has two flaws. The first is that it is insensitive to size (and, more generally, to topology): that is, two structurally similar organizations of 10 and 10 thousand people could score the same index, even if they have only one or many ranks (hierarchical levels). Conversely, one could intuitively understand that the number of ranks should matter. Indeed, common sense – and even the wide scientific sense – of hierarchy suggests that an organization's hierarchical degree grows with the number of hierarchical levels.

The second limit concerns the position covered by an actor in each group: if she is engaged in all decisions, while the other actors are involved in only one, then their influence power is reduced to a single decision, while the central actor can influence all decisions made in the group. Hence, A can benefit from major influence power due to his or her central position. Therefore, even if all the relations in the group are reciprocal – thus, no dyadic hierarchy – the possible unequal distribution of links can generate positions of major influence power.

To grasp this aspect, we need to calculate a second type of hierarchical index, which we can call Topological Hierarchy (TH), to assess the hierarchical degree related to power concentration due to the topology of the whole structure. Besides capturing the type of hierarchy not expressed by DH, the TH index has also the advantage of applying to both directed and undirected networks.

This concept can be operationalized by using centralization indexes, which measure the degree of variance in actors' centrality.<sup>8</sup> As a first approximation, we can employ the eigenvector centralization index as a good measure, so that:

$$TH = \frac{\sum [\text{normEig} - \text{normEig}(n_i)]}{\text{MaxEig}_{CE}}$$

where:  $\text{normEig}^*$  is the highest eigenvector value and  $\text{normEig}(n_i)$  is the normalized eigenvector value of each node (organization member), and  $\text{MaxEig}_{CE}$  is the maximum eigenvector centralization.<sup>9</sup> This index varies between 0, when the organization consists of a group of peers, as in the pure LMF, and 100% when authority is concentrated in the apical position, as in the pure KMF. Not surprisingly, a typical organizational chart corresponding to an organization having some hierarchical levels and lacking any horizontal collaboration relationships will score 100% for TH. This type of structure is called a DAG (Directed Acyclic Graph) in the jargon of network analysis, because links (i.e. decisions) are all oriented in the same direction, outgoing from one's superior to her subordinates, until reaching the bottom level where there are only subordinates who do not make decisions for anybody else. At the top, there is a position that does not receive any decision, while at the bottom level workers only receive and do not make any decision.

In Figure 10.2a, a simple case of a KMF made up of 40 people is represented as a graph: a COO (Chief Operating Officer), three Top Managers, 9 MM (Middle Managers), and 27 workers of the OC (Operating Core). This structure would score even 100% DH, because all links are asymmetric. If there were horizontal links, meant as some asymmetric relationships occurring at the same hierarchical level, then DH would still be 100%, but TH would be less than 100%. If such horizontal collaborations were true collaborations, meaning reciprocal (symmetric), then DH would be less than 100%. Note that, despite scoring 100%, the organization in Figure 10.2a is a network. This remark is due to the widespread but incorrect habit in social sciences of considering hierarchy and network as opposing concepts. On the contrary, as we have just seen, even a pure hierarchy is nothing else than a kind of network, namely, a DAG (or out-tree).

Therefore, what Herbert Simon in "The architecture of complexity" (1962) calls the *archetype of hierarchy* corresponds to Figure 10.2a, which is a stylized organizational chart of a purely hierarchical organization. Obviously, real organizations are much more complicated than this stylized version and are likely also less hierarchical, especially in high-tech firms, social enterprises, cooperatives, or public administrations, because of the need – different for each of these types of organizations – to incorporate more horizontal coordination, especially reciprocal collaborations. This would correspond to "weaken" the DAG form by adding more links than the minimum necessary to keep the network connected, thus making it less efficient.<sup>10</sup> Furthermore, it would also imply increasing the degree of reciprocity, thus making it more cooperative (collaborative), so that both DH and TH indexes would change (decrease) accordingly, moving from the KMF to the LMF pole.

In Figure 10.2b, the case in which the 27 bottom workers (those in the Operating Core) of the pure hierarchical structure are able to work as a team is represented, that is, without delegating authority to other people and without employing hierarchical levels. In the jargon of network analysis, this would be called a clique, because everybody is connected with everybody else. They form an authentic group of peers, at least in terms of structural hierarchy. Both DH and TH would score zero: that is, no hierarchy at all. This structure corresponds to a pure LMF. Clearly, this case represents a situation of *pure self-management*: a group of peers manages itself without any

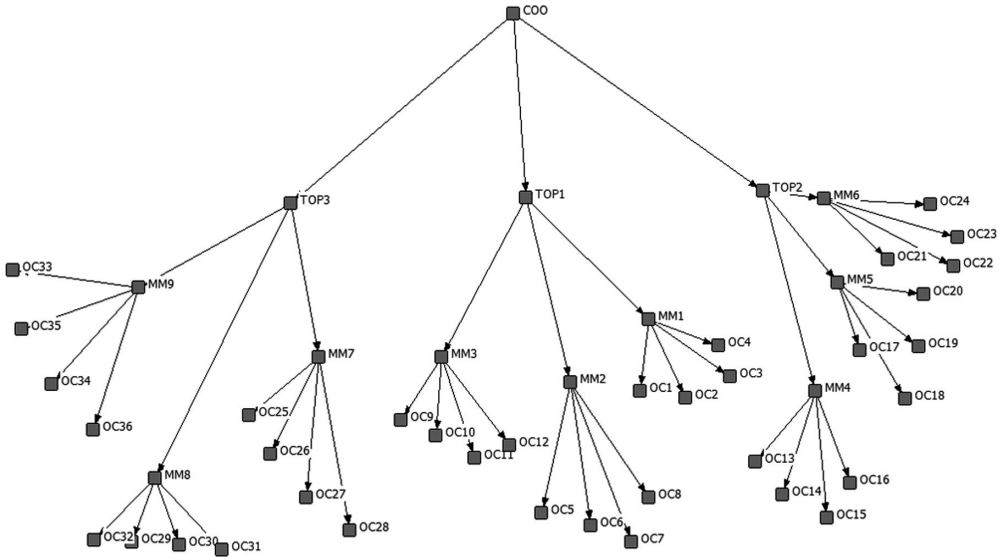
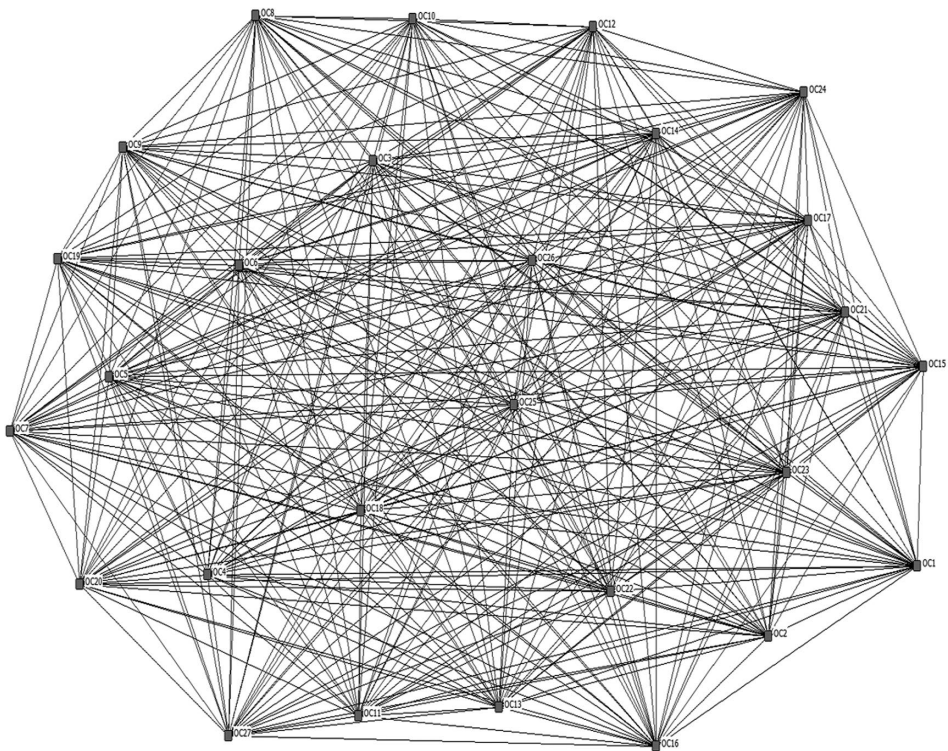


Figure 10.2a The two poles represented as graphs: a KMF represented as a (Direct Acyclic) graph



*Figure 10.2b* The two poles represented as graphs: an LMF represented as a (Undirected Cyclic) graph.

internal (from within) or external (from outside) hierarchical authority.<sup>11</sup> The extent to which the “self” is kept strictly in the hands of the workers depends, of course, on the legal-economic variables discussed in the first block, the number of hierarchical levels, and the selection mechanisms adopted to choose the people who will cover positions of commands, a topic discussed as the third dimension of this third block.

*Criterion 9.* So far, we have seen concepts and measures that can be applied to organizations once they are formed, regardless of the roles behind their formation and stability, and regardless of who and how people are selected and assigned to the power positions within the structure. This is the question concerning the Selection Mechanisms for Democracy Degree (SMDD). Different research streams deal with these issues, ranging from the sociology of organizations, political studies, management studies, and economics: see Chapter 19, where Simon Pek provides a literature review and discusses the democratic content of sortition as a selection mechanism, alternative to top-down and closer to bottom-up. Here it is worth focusing on a very simple but crucial aspect that can be easily understood (and relatively easily measured) and can be taken as the third fundamental dimension of flow hierarchy: that is, regardless of how the structure is and regardless of its relative dyadic or topological hierarchy, how are the people who will occupy the most powerful positions selected? Are they elected by subordinates or nominated by their own superiors? And regressing to the top rank – let us say, the CEO, COO, etc. – how are they chosen? Elected by the organization’s members (workers) or nominated by somebody else, such as the central government or the owners?

Simplifying and mimicking what happens at the societal level, we could argue that the elective (bottom-up) form is democratic, while the coercive (top-down) form is not democratic. The emphasis on describing the latter model as “coercive” is rooted in the neo-Marxist tradition and is justified by the need to allow the unequal exchange between the value that workers produce with their labor and the value contained in the pay they receive. The difference is the surplus value extracted by the firm’s owners through their “agents”: top and middle managers, plus professionals such as engineers, technicians, statisticians, etc. Even accepting the neo-Hobbesian thesis (Bowles, 1985) that human behavior is characterized by a selfish, unfair, and opportunistic “natural” attitude to shirking, the sense of deprivation and alienation from the results of their own effort generates a legitimate and much stronger reluctance to work. This is perhaps the main meaning of Marx’s concept of alienation, and according to the recent discovery of his late-age manuscripts, it is possible to link the thought of young and late Marx, building a continuity of the concept of alienation and its role in the rejection of wage labor. It makes the difference between the neo-Marxist and neo-liberal approaches to employees’ participation, a point addressed also by Boxall and Purcell (2010) and Wilkinson et al. (2010) in their review of this literature.

Some authors might remark that, when there is a legal contract, there is no coercion because there is free will. So, even if there were an undue appropriation of surplus value by the capitalists, if workers subscribed to that type of labor contract, then there is no coercion. However, here lies one of the differences between the neo-liberal and neo-Marxist perspectives: the latter argues that a contract subscription is not enough to configure a free will behavior because contextual-historical circumstances could put one of the two parties in a position of full power, and the other with no bargaining power. Hence, the weaker party is forced to subscribe because they have no alternative. So, it is purely fictitious to argue that workers could resign and leave for a better place. As Piketty (2013) showed, the moments in which workers’ negotiating power was appreciable have been few and lasted shortly. Further, even during those stages, the bargaining power within the companies was usually rather low and limited to some claim for a better income, not able to contend with the hierarchical authority structure and clearly not able to revert it.<sup>12</sup> In fact, when

brought to the field of subtle theoretical concepts, the juxtaposition between the neo-liberal and neo-Marxist perspectives appears as the choice of the former to conceive the economy as made by free and *substantially equal* agents, thus overlooking any contextual aspect, such as agents' financial and material assets (the so-called endowment of resources) and their relational capital (how many important people a person knows). In this perspective, if all agents have the same capital, then they differ only in terms of their preferences and the focus of the analysis becomes that of market exchanges, and the various approaches of post-Walrasian economics, such as transaction cost theory or agency cost theory, become correct. Such approaches are, in fact, built on the view of a market as made by a set of free contracts between individuals, so that those theories could also be called "contractualist approaches". These approaches – and more deeply Oliver Williamson (1985) – have developed a specific idea of cooperative economics, which can also be found in Chapter 3 by Thibault Mirabel. However, to understand how far from reality the hypothesis of equal endowments is, it is enough to look at the totally unequal distribution of income and wealth in every capitalistic country (Piketty, 2013). Put differently, a contractualist approach has some sense only if the parties have similar bargaining power, that is, similar resource endowments. For more theoretical (and also empirically-based) criticisms to post-Walrasian economics, see Biggiero (2022) and Palermo (2016).

As for DH and TH, even for the selection mechanisms there might be many middle ways between the two extremes of pure KMF and LMF, especially when the organizations are big: that is, some top positions are elected, and all the others nominated. For example, the top management could be elected and then, in turn, they choose (nominate) in a top-down fashion the people covering the intermediate hierarchical levels. In essence, this is what happens in a democratic government: people elect their representatives at the highest (or national-regional-local) levels, and then such representatives select and nominate top managers in several institutions. In essence, it is a mixed model. For the moment, let us focus on the two extremes and be aware that most (if not all) intermediate degrees of selection mechanisms and employees' participation can be formalized and measured using a network approach.

Indeed, it is all but easy to treat this attribute as a continuous variable. It becomes more manageable as a qualitative scale with different selection mechanisms listed through an ordinal ranking. In Sections 5 and 6, the epistemological and methodological implications of this qualitative approach will be discussed showing that outranking algorithms can also work with ordinal scales.

In this point, it is helpful to show a simplified (dichotomous) view, where we can place the two poles of pure KMF and LMF as two specific combinations of the three dimensions of structural hierarchy (Figure 10.3): a pure KMF has the highest values of dyadic and topological hierarchy and employs a coercive (top-down) selection rule, while a pure LMF has no dyadic and topological hierarchy and employs an elective (bottom-up) selection rule.

Before closing the discussion of this block and the entire section, it is worth saying just a few words about the influence of organization size on the three parameters of this third block concerning the measurement of hierarchy, while other implications will be discussed in Section 7. A team should be very small, otherwise it cannot work, because its members would spend too much time interacting with one another. As it can be seen at a simple visual inspection, the 27 people in Figure 10.2b are already too many to work efficiently and effectively, because their coordination requires about 350 relations<sup>13</sup>. Therefore, a pure LMF must be very small, as early cooperatives were, being closer to an artisan enterprise than an industrial one. Because of the limits imposed by the "span of control",<sup>14</sup> as organization size grows, it is necessary to proceed with structural transformations by introducing horizontal and vertical differentiation, a process that leads to creating

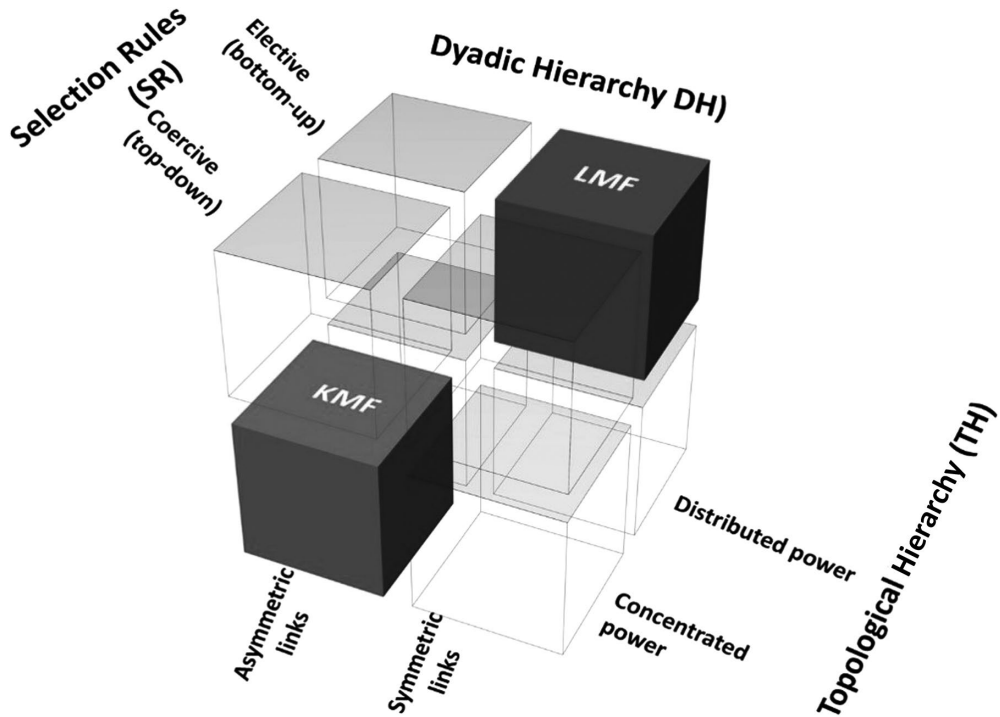


Figure 10.3 The cube of structural aspects of hierarchy in a dichotomous view.

a ramified and multi-level hierarchical authority structure. This effect pushes upward DH and TH because reciprocity lowers and power concentration rises, making the implementation of democratic selection mechanisms more and more challenging. That is why, despite all the best intentions and declarations characterizing the Mondragón statute and mission, Barandiaran and Lezaun (2017) underline that the high-power concentration in a group of about 80,000 employees tends to be very high, and the selection processes tend to confirm the same people in power positions (see also Jokín Bergara Eguren & Oier Imaz Alias in Chapter 34). This is all but surprising because the same flaws occur in many non-profit organizations and in the basic functioning of representative institutions (see also Chapter 15 by Anu Puusa).

## 5 Dealing with the operational assessment of organizational democracy degree

So far, nine criteria to assess ODD have been introduced and briefly discussed. They are likewise attributes of that construct, which deserves some further comment. The first concerns the exploratory nature of this analysis, which will require further refinements in defining and calculating some of the attributes. This exploratory nature will legitimate the easy use of acronyms in this work because they are just born here. Moreover, as already said, the large and growing literature on organizational participation, industrial democracy, employees' participation, employees' involvement, etc. provides concepts, measures, metrics, and empirical results necessary to substantiate

with real values the distribution (and orientation) of relationships in any given structure. Official organizational charts offer only synthetic and poor information concerning only formal main relationships, overlooking several other aspects, such as their actual content, the possible partial counterbalance in the reverse direction, the leadership style, and, most importantly, the subjective perceptions of employees. In this respect, Molina (2001) offers a discussion of the limits of formal charts and the possibility of building charts about informal links.

Once we acknowledge that there are these nine ODD attributes, we should wonder about two fundamental questions that have subtle and crucial epistemological and methodological implications: Does each attribute have the same relevance or do we think that their relevance is different? Can all (or some) of them be considered as substitutes for one another?

As for the former question, the field is open and very much dependent on the observer's social, cultural, and political orientation. Relevance can be typically considered by assigning proportional weights to each variable<sup>15</sup> and keeping their sum at 100%. So, a criterion considered very important, e.g., the degree of separation between property and control, could be weighted 50%. Future studies could help in knowing which attribute is more difficult to vary in a continuum or whether real-world thresholds are coming from practice. Future studies could also help in knowing which attributes are more influential or perceived by workers as more democratic or acceptable. In fact, it is all but granted that what might be better according to scientific logic is also what workers would prefer. Likely, an approach in terms of block influence could reduce complexity by considering which, between the economic-legal, the organizational, and the structural block, could be considered prevalent or more conditioned by the others. Many considerations could be made, but they are beyond the scope of this work.

The second question – whether these attributes are in a substitution relation to one another – is much more complicated and has many more implications. If the answer is positive, then it means that a low value in one criterion could be compensated by a high value in another. For example, it might be that a high ownership sharing, as in many ESOP cases, can compensate a high concentration of hierarchical power. As for the previous question, it does not seem that there is any study on this subject, though it has a lot of managerial and policy implications.

The subtle and crucial methodological implication is that, if the answer is positive, then the nine criteria would be considered not totally independent because one could be replaced (transformed) into one or more of the others. In this perspective, ODD would be a function of those variables, like  $y = f(x_1, x_2, \dots, x_n)$ , and thus, we could write the following expression:

$$\text{ODD: } f(\text{DOPC; DOOE; DPOS; OCD; IOGV; IEEF; DH; TH; SMDD}) \quad [1]$$

Consequently, if such variables were continuous and differentiable, then ODD would be continuous and differentiable too, with many interesting mathematical properties. In this perspective, the ratios would represent substitution factors, similar to the capital-labor substitution rate in the typical production function of neoclassical economics. Indeed, [1] would substantially correspond to a super-utility function, where utility would be defined in terms of democracy degree. Further, the compensatory logic dissolves the multicreriality, because substitution rates allow reducing the variety to just one single composite variable: an aggregate criterion.

Conversely, if the answer were negative, that is, if all (or some of) the nine criteria were considered genuinely – logically – independent, then there cannot be any substitution relation between them, and the previous expression should be changed in the following way:

$$\text{ODD} \equiv \{\text{DOPC; DOOE; DPOS; OCD; IOGV; IEEF; DH; TH; SMDD}\} \quad [2]$$

This is not a function, and thus, it cannot be differentiated nor optimized. It corresponds approximately to writing:

$$Y = \{f(x_1), f(x_2), \dots, f(x_n)\} \quad [3]$$

which is not a function either, but its elements might be considered as functions, if its empirical analysis were confirming it. Indeed, [2] is more correct because it does not imply that any of the elements is necessarily a function. It would be enough for it to be any kind of correspondence. From the mathematical analysis view of the world,<sup>16</sup> in fact, we are naturally oriented to see any correspondence between two sets of elements as if it were a continuous and differentiable relation, while things can be different. A logical or empirical correspondence irreducible to a continuous and differentiable function becomes rather unfamiliar. As we can see, from a methodological issue we jump into an epistemological issue concerning the mathematization and modeling of social (and natural) sciences. Until the relatively recent and tumultuous rise of discrete and computational mathematics, the mathematization of reality took the form of analysis (Israel, 1996). Within the social sciences, this occurred especially in economics (Scott, 2018), where reductionism and modeling meant applying mathematical analysis (Biggiero, 2016a, b).

The hypothesis that all the nine criteria necessary to measuring ODD are *logically and empirically independent* of one another should be submitted to further scrutiny, because it is reasonable to think that, at least between the three blocks, there might be uni- or bi-directional influences. For example, it is difficult to believe that an organization born with a pure KMF first block could then implement a pure LMF third block, and vice versa. Put differently, if economic-legal power is highly concentrated, it will shape the authority structure in a very hierarchical way. Analogously, an organization born with a pure LMF authority structure will unlikely design a high concentration of economic-legal power, as it seems, at first sight, the case of Mondragón. Though it is reasonable to believe that, at least to some extent, some variables influence others, the substitution hypothesis – that is, the positive answer underlying [1] – seems too strong and unrealistic, at least until future research efforts will tell us more. Moreover, some of those relations are likely reciprocal and self-reinforcing: the more one grows, the more the other does, in a loop. If this were the case, then instead of substitutes or complements, (some of) those variables might be mutually reinforcing. Therefore, in the next section, the opposite hypothesis will be taken, though it should be refined in the future.

## 6 Comparing organizational democracy degree across organizations

Once the ODD of a given organization is measured, it becomes more interesting to know whether it is increasing or decreasing over time, or if it is lower or higher than that of other organizations. So, if [1] held, then the comparison is very easy: just multiply the various values by their weights and then sum up. Conversely, if [2] held, then we jump into the field of multicriteria decision-aid and get a method that does not employ any kind of substitution logic. A very good method is that of outranking algorithms proposed by the French School of Operations Research (Bouyssou, 2001; Bouyssou et al., 2000; Roy, 1996; Vincke, 1992). Such methods are perfectly consistent with a view of socio-economic phenomena in terms of satisfying behavior and bounded rationality (Simon, 1978, 1979, 1983).

Another interesting property of outranking algorithms is that they can work well with just ordinal-qualitative evaluations, not necessarily with cardinal values. This is very helpful, especially for criteria that are difficult to express quantitatively, such as the case of selection mechanisms. For example, it is possible to employ a qualitative scale ranging from “very low” hierarchy

for the pure LMF, in which all hierarchical positions are elected from the bottom, up to the “very high” for the pure KML where all positions are imposed from the top.

The method aims to construct an outranking relation among the alternatives and choose the outranking ones, which represent the satisfying solutions. Starting from a matrix like that of Table 10.2, the next steps should then be:

- Build a concordance matrix, which measures the degree to which the ODD of the  $a_i$  organization is preferred to that of  $a_j$  in a direct comparison, according to the different criteria.
- Formulate a concordance test according to the weights of the criteria.
- Build a discordance matrix, which identifies organizations that, analogously (but inversely) to the concordance matrix, are not comparable in a direct comparison, according to the different criteria.
- Formulate a discordance test according to the weights of the criteria.
- Build, through the joint application of concordance and discordance tests, the outranking matrix.
- Identify outranking and outranked organizations in terms of their ODD.

Biggiero and Laise (2003a, b; 2007; Biggiero et al., 2005) have discussed this method theoretically and empirically with real-world applications to various fields, including Management & Organization Science, Finance, and Technology Policy. A very close application (2003) to the present issue involved a comparison of the main organizational configurations, inspired by Mintzberg’s (1979) approach: i) mechanistic bureaucracy, ii) professional bureaucracy, iii) multi-divisional form, and iv) adhocracy.<sup>17</sup> In that case, five criteria represented various ways to measure fitness with the environment and efficiency.

For the purposes of comparing the ODD of different organizations, Table 10.2 follows the same approach: in rows are the organizations to be compared in terms of ODD, and in the columns are the nine different criteria. The last row shows the weights assigned to each criterion, but here the weights play a different role than in [1].<sup>18</sup> The ORG1 ... ORGn listed in Table 10.2 can represent the same organization at different times or different organizations. In other words, if unions, managers, or stakeholders wish to understand whether their organization, after implementing some agreed policies of employees’ involvement or empowerment, has really increased its ODD, they would have the right tool to check it. This tool, by varying the weights and thresholds, allows them to confront their different views in quantitative ways. In fact, the value of each criterion, jointly with its weights and the thresholds adopted in the concordance and discordance tests will identify which organizations will meet an acceptable level of ODD defined by the “analyst”, who might be a researcher, manager, trade union delegate, policymaker, or any other social actor interested in measuring ODD.

Table 10.2 A methodological framework

	Criteria								
	DOPC	DOOE	DPOS	OCD	IOGV	IEEF	DH	TH	SMDD
ORG1									
ORG2									
ORG3									
...									
Weights									

## **7 Hybrid forms, and some crucial questions**

*Hybrid forms.* So far, the analysis has been deliberately extremized by focusing on pure KMF and LMF forms. Now, before closing the chapter, something should be said about what could be in the middle because the real world usually occurs in shades of gray. In fact, as mentioned above, while legal peculiarities in the past built “constructive” (intentional) boundaries between the two poles, the suppression or weakening of such peculiarities makes those “artificial” boundaries vanish (Adams & Deakin, 2017). For example, though there are discussions about their real contestability, there are now in Italy and in China even cooperative companies listed on the stock exchange. Certainly, there is nothing more distant and inconsistent than this with the 1844 “Rochdale Principles” on which the Rochdale Society of Equitable Pioneers established the basis for the development and growth of the modern cooperative movement. And it is rather jarring even with the current ICA principles. Hybrid forms nullify *de facto* the attempts of most theorists – especially the neo-Marxist ones (see Chapter 7 by David Kristjanson-Gural) – to establish a strong demarcation between capitalist and non-capitalist firms, the former supposed to be exploitative and coercive (thus, anti-democratic) and the latter truly democratic.

Giant cooperatives such as Mondragón (Spain) and Huawei (China), which are very different in many respects, are indeed true hybrids between KMF and LMF. While Mondragón can be conceived as a network of cooperatives that, taken as single firms, are not giants themselves, what about Huawei, which is a centralized company with \$130 billion and 200,000 employees and is a joint-stock enterprise owned 98.86% by its employees? The good news is that provided these companies give the proper data to run the analysis, the application of outranking methods could shed light on the ODD of these hybrid giants. The bad news is that getting such data is illusory at the moment because, despite the “Rochdale spirit” big (and even small) organizations, be they KMF or LMF, tend to be totally opaque concerning the collectivity and usually even with respect to their own community of members. For example, that 98.86% that theoretically belongs to Huawei employees is held by a “Huawei Investment & Holding Company Trade Union Committee” with rather opaque selection mechanisms. Furthermore, employees do not hold anything beyond a contract that gives them the right to access profit sharing. Notably, the methodological framework proposed in this paper allows for considering all these formal aspects in the ODD assessment – see the first block of (economic-legal) criteria.

*The size/efficiency question.* These cases lead us directly to another crucial issue: that of size, and then to the related issue of efficiency. There is a clear and strong relationship between structural hierarchy and size on one side, and size and efficiency on the other.<sup>19</sup> To be efficient – and/or to gain market power – a firm’s size grows, which, in turn, requires the coordination of internal activities through horizontal and vertical division of labor, thus increasing the hierarchical authority structure. In short, dyadic and topological hierarchy will inevitably tend to increase, and the selection mechanisms to become more complicated and less democratic. Now, in Section 4, we have seen that, in principle, it is possible to be hierarchical and highly democratic at the same time, but in practice, as size grows, this becomes increasingly difficult. For example, regardless of efforts to keep the organization collaborative (that is, with high reciprocity and consequently having low dyadic hierarchy) and to adopt democratic selection mechanisms, at least topological hierarchy will rise. Therefore, we should be aware of this perverse effect and question whether the efficiency-size rationale is worth the corresponding loss of ODD. Put simply, we can say that *large size and efficiency undermine ODD, while small size and redundancy increase it*.

In the second section of this chapter, when the pure forms were depicted, the size aspect was stressed by identifying a *large* KMF and a *small* LMF. Now that choice becomes clearer: size

leads to an increase in the third block of parameters, those related to the hierarchical structure, so that LMFs growing in size, *ceteris paribus* with respect to the other two blocks of criteria, tend to lower their ODD and thus reduce their distance from KMFs of the same size. Put differently, it might be that, even if Huawei were featured as a KMF in the first block of criteria, it would likely score a very similar ODD to Microsoft or IBM, champions of KMF. Notably, there should be an asymmetric effect of size on KMF and LMF, because it is likely that a *small* KMF has a very high hierarchical degree, while it is very unlikely that a *large* LMF has a very low hierarchical degree. In fact, it is worth reminding that the typical star-like structure of a small firm where a boss has five to ten subordinates is a very strong hierarchy.

*The discontinuity question.* Outranking algorithms allow to us to highlight possible discontinuities between the two poles, which arise from the observer's choices in assigning the weights and building tests. In fact, an important implication of this approach is that there is no guarantee of full comparability between the organizations and, more importantly, there might not be any continuum between the two poles. This is somehow contended by some recent authors, especially (but not only) in the field of finance (see Chapters 16 and 21). For example, while Dow's view is that there is no real qualitative difference between a KMF and a LMF, these methods show that, under appropriate values and weights of the criteria, there *might* be a sharp discontinuity. This would mean that some types of organization are truly different objects, not just the same object with some parametric change<sup>20</sup>.

Indeed, the empirical application of the ODD construct discussed here might show that real organizations cluster around a limited number of combinations of the nine criteria, thus suggesting that, besides the conceptual and methodological choices of a given observer, the concrete interactions between the ODD elements allow only a limited – and perhaps well defined – types of combinations. Indeed, real-world implementations of “impure” KMF and LMF have shown so far the prevalence of certain forms over others. One could rightly contend that laws and often state subsidies have oriented such clustering around specific instantiations of forms. Well, the “drift” of juridical forms regarding cooperatives – and more generally, corporate governance and juridical forms (Gordon & Ringe, 2015) – that are occurring in some countries, such as Italy, France, and China, are producing an interesting openness and weakening of legal barriers.

*The inalienability argument.* Many of the criteria discussed here, especially those in the first block, can be easily related to the debates that have shaped the history of ICA from its origins, well-represented by the British, French, German, and then Soviet Union positions on what should distinguish a cooperative from a capitalistic (or, more broadly, non-cooperative) organization. Because of space constraints, it is possible to focus only on the inalienability argument, which is supposed to be the argument *par excellence* for finding a possible demarcation between KMF and LMF. As for the other topics, a review of Dow (2003), Ellerman (2021), Jossa (2014), Wolff (2012), and Zamagni (2017) in light of the nine criteria discussed here could make evident the connections that are not only conceptual but also political.

The labor inalienability argument runs this way:

“The most important asymmetry between capital and labor is the fact that capital is alienable whereas labor is not. Simply put, ownership of nonhuman productive assets can be transferred from one person or group to another, while this is not true for endowments of time, skill, and experience.”

(Dow, 2018: 9; see also Chapter 1)

It has at least three major implications: (1) on closer sight, it does not make a full demarcation between KMF and LMF, because some KMF ownership shares could be constrained and

linked to their owners, while LMF membership can be graduated, meaning not all workers should be members. Indeed, the first two criteria – the Degree of Overlapping between Property and Control and the Degree of Overlapping between Owners and Employees – grasp exactly this aspect and show that inalienability can be graduated as well. This is precisely what is implied in Chapter 16 by Tej Gonza and colleagues when they outline the transition toward a cooperative economy through a *progressive transformation* of capitalistic firms into cooperative firms by means of ESOPs, which intervene exactly in the two above-mentioned variables.<sup>21</sup> Therefore, the supposedly strong demarcation becomes weaker and fuzzier; (2) moving towards an LMF-based economy, capital circulation and financial availability will decrease, thus likely causing slower growth. Whether this effect is good or bad should be regarded as a matter of discussion, as the supporters of de-growth argue (Eastwood & Heron 2024; Saito, 2024); (3) alienation of a worker from her product (and other forms of capital-induced alienation) is a pillar concept in Marx's view and especially in modern Marxism (Musto, 2012), which emphasizes that alienation is responsible not only for low productivity but also for several social and political negative consequences. Therefore, a substantial reduction of alienation could be considered a positive “side effect” of turning part of KMF into LMF.

*The question of classification and data collection.* The situation of data collection about cooperatives at world level is rather unsatisfying, mostly due to classification differences between different institutions and authors, which in turn come from different cooperative laws across countries. Now, it might be possible that the methodological framework advanced here be useful to offer a different approach to both problems of classification and data collection. In fact, instead of running after the Sisyphean effort to make compatible the different systems of classification, the attention might be shift on calculating the nine criteria proposed here and then let the classification emerge from the statistical clusters that are formed. This approach would also have the advantage to adopt a system that can be applied to non-cooperative firms as well, thus allowing comparability studies rather easily.

## **8 Conclusions**

This chapter has taken a methodological approach because this is one of the dimensions in which the challenge of searching for alternative forms to capitalistic firms needs conceptual efforts. In fact, new “objects” often require new methods, and this seems the case. More specifically, a multicriteria methodological framework to calculate the ODD of *any* kind of organization has been proposed. Nine criteria grouped in three blocks of economic-legal, organizational-strategic, and structural-hierarchical aspects have been discussed and contrasted between a pure KMF and LMF form. Further, the epistemological and methodological implications of two main ways to approach the combination of the nine criteria have been discussed: the usual approach of multi-attribute utility function vs. an alternative approach in which the criteria are logically and empirically independent of each other. Following the latter approach, the criteria have been operationalized in a grid by applying outranking algorithms to compare different organizations or the same organization over time. It has also been underlined that, this way, the optimization requirements typical of neoclassical economics are avoided, while a bounded rationality approach typical of cognitive and evolutionary economics is allowed. Two other important implications are that no substitution rate holds between the criteria and that by applying weights and thresholds, it is possible to follow a typical behaviorist epistemology based on the satisfaction of aspiration levels, namely an ODD minimum score. Hence, no continuum between the two opposite poles of perfectly coercive or perfectly democratic organizations should be assumed. Conversely, weights (and thresholds

too, if any) become a matter of scientific and public discussion. Outranking methods are, in fact, well-suited also for group assessments and decision-making.

An empirically relevant consequence of this methodological approach is that it opens the way to compare many different organizational or juridical forms that are all considered democratic, though due to very different factors. For example, it will be possible to answer questions like: Is an ESOP as democratic as a cooperative? Or as a social enterprise? Or as a capitalistic firm adopting co-determination with union delegates participating in the BoD? And the many other cross-comparisons that can be made between capitalistic firms, ESOPs, cooperatives, social enterprises, mutualistic firms, etc. In the same vein, within each type of organization or juridical form, it will be possible to evaluate ODD according to variations of some criteria. Therefore, it will be possible to answer questions like: Is a given ESOP with only 15% employee ownership share but small and with a less hierarchical degree more or less democratic than another ESOP with a 50% ownership share but much bigger and with a higher hierarchical degree? And so on. In short, this ODD operationalization can be applied to any organization in a cross-sectional or longitudinal perspective.

Another outcome of the analysis is that democracy and hierarchy should not be seen in strict opposition: depending on other OD elements, we could have a relatively democratic hierarchical organization and a relatively non-democratic nonhierarchical organization. Put differently, keeping structural hierarchy at a low level does not guarantee to have a democratic organization, and vice versa, a high level of hierarchy does not imply that the organization be very lowly democratic. Further, structural hierarchy does not mean to have many hierarchical levels, tout court, because the degree of reciprocity (collaboration) in single pairs of relationships matters a lot, as do the selection mechanisms adopted to fill powerful positions. Moreover, we have seen that, by depressing ODD through the third block variables, size operates as a sort of “equalizer” between KMF and LMF of the same (large) size. The difference is that, while in the former case, nobody would likely complain about having a low ODD, in the latter case it would open a breach in the cooperative spirit. This understanding should stimulate reflections and actions in two directions: (i) wondering whether, in all cases of large size, that scale is unavoidable or if it could be replaced by an inter-firm network “Mondragón-like”, which seems very close to that of the “collaborative corporation” advanced by David Kristjanson-Gural in Chapter 7, and somehow addressed also by Camargo Andres Felipe and Michel Ehrenhard in Chapter 17; (ii) working hard to “neutralize” the size effect by keeping the nine parameters as democratic as possible. This is, of course, the most challenging purpose, because it implies intervening in the real power distribution in organizations, an issue always hard to face, regardless of being capitalistic or non-capitalistic forms.

The future evolution of theory and the emergence of concrete organizational forms will help to understand the conceptual and methodological connections between the nine criteria through the possible uneven clustering of such forms around specific types. Indeed, laws on cooperatives have substantially driven that evolution. Therefore, the recent evolution of laws on cooperatives, social enterprises, and other non-capitalistic forms of organization is showing a marked tendency to remove any legal barriers to building any kind of hybrid forms. On one side, this can be seen as a betrayal of the holy cooperative principles of Rochdale and a weakening of current ICA principles. On the other hand, the relaxation of legal barriers offers the opportunity to let social and economic forces drive morphogenesis free from “artificial” (legal) constraints or enhancements.

The reality of the legal-economic system of many countries was that, during the last decades, of creating a number of hybrid forms, arriving to generate “monsters”, such as Huawei or corporate cooperatives listed on the stock exchange. An effective assessment framework as that described here cannot, of course, interfere directly with that trend, but it could be that a reasonably precise

ODD measure could create a new awareness of the democratic “content” of each form, and thus, it could orient policymakers and, most importantly, cooperative institutions to operate for a better selection of the forms more corresponding to the cooperative spirit.

*Limitation and development.* As stated at the beginning of this work, this is just a first attempt that needs to be refined and deepened, and perhaps also integrated with more criteria, though an excessive proliferation should be prevented to make the index effective and empirically manageable. In this perspective, it is useful to remark that the new indexes coming from the extant and growing scientific literature on measuring employees’ participation or leadership style should not enter directly into ODD, thus preventing the side effect of inflating it with many new factors. On the contrary, the great richness of information that can be drawn from them is conveyed to better assess the values of the three variables of structural hierarchy: selection mechanisms, power concentration (topological hierarchy), and the degree of reciprocity (dyadic hierarchy). This is very important because what can be taken from organization charts is very limited: confined only to formal relations and too synthetic – lacking direction and weights (relevance).

Besides the operational refinements that can be done to define and formalize the nine criteria, there are two main limitations. One is that the ODD discussed here is bounded at the organizational level because it does not consider the inter-organizational (that is, meso-) and the society/economy (that is, macro-) level. In other words, one can wonder whether external stakeholders, such as groups of suppliers or buyers or various kinds of institutions might be considered. Some might argue (see for example David Kristjanson-Gural in Chapter 7) that some stakeholders have the right to claim the residual (surplus). This idea is even more important in the perspective of social innovations and sustainability, which involve several actors at any (even international) level (see also Carmen Guzman, Francisco Santos, and Lidia Valiente in Chapter 28, and Meredith Degyansky in Chapter 29). This limitation to a single organization’s level can, however, be overcome in the future, by developing an analogous methodological framework aimed at calculating an extended ODD concerning the interaction of each organization with the meso- and macro-level.

The second limitation concerns mostly the criteria/parameters of the third block, because they have been designed by taking objective measures as inputs, such as number of subordinates per each position, number of ranks, etc. However, most studies rooted in management and organization science, and substantially all those rooted in applied psychology, consider only perceived OD and perceived employees’ participation or leadership style. For example, the subjective perceptions of those same “input” variables, such as employees’ participation or leadership style, and their effects on other variables like job satisfaction, organizational attachment, and identification, and even on a perceived OD. Far from my view is the idea that perceptions are irrelevant or might be overlooked, because what people do is largely (often only) influenced by their perceptions and not so much by the real facts. Therefore, perceptions matter. Here it has been proposed to combine the subjective with the objective values to build dyadic and topological hierarchy leaving for future research the hard question of how to accomplish this outcome.

## Notes

- 1 I wish to thank Jerome Nikolai Warren for the valuable comments given on the first draft of this work.
- 2 Though old, Mintzberg’s (1979) distinctions of the operating core, where primary functions are performed, and the other four macro-areas are still very useful and informative.
- 3 On this issue see Dow (2003, 2018), Ellerman (1997, 2021), Tischer & Hoffmire, and Chapter 2 by Gregory Dow, Chapter 6 by David Ellerman and Tej Gonza, and Chapter 16 by Tej Gonza, David Ellerman and Kosta Marco Juri. It is worth noting that worker buyouts are the analogous case of the management buyout (see Chapter 16 by Tej Gonza, David Ellerman, and Kosta Marco Juri).

- 4 It is worth noting that, from a Marxian perspective, this is not true because the labor force can be bought like any other commodity. According to Marx and Marxist sociologists, the distinctive trait of capitalism is the separation of labor and labor force and the commodification of the latter. This separation allows mainstream economics and the supporters of neoliberalism to hide under the guise of exchange freedom regulated by job laws, what is essentially modern slavery. Further, that separation is one of the ways in which alienation occurs. I will come back to this point in the last and the conclusive sections.
- 5 Clearly, it is possible that B, in turn, also makes decisions affecting A, so that the asymmetry is reduced, eliminated, or even reversed. We can represent this as  $A \leftrightarrow B$ , meaning that there is a collaboration between them. The net flow could be even or odd, thus addressing a final balanced (symmetric) or unbalanced (asymmetric) collaboration.
- 6 Actually, this was Simon's view already in the fifties (1957), though expressed with a different jargon.
- 7 In fact, in the technical jargon of network analysis, the Krackhardt index differs from the calculation of the reciprocity degree because reciprocity, meant as the share of symmetric links, is calculated based on the geodesics instead of the original graph.
- 8 Social Network Analysis considers various indexes of centrality at the node level and their corresponding centralization at the network level. One index – degree centrality and centralization – is based on direct links, while the others (betweenness, closeness, reach, eigenvector, and Katz centrality and centralization) are based on the paths (sequences of nodes) involved by each node. They can be differentiated for directed and undirected graphs, and binary or weighted graphs, and the corresponding combinations. See one of the many available handbooks for the mathematical details: Borgatti et al. (2013), Hanneman and Riddle (2005), Newman (2010). To deepen the application of network analysis to the study of cooperatives, see Chapter 11.
- 9 To be more precise, here it is used Out\_Eig; that is, both eigenvector centrality and centralization are calculated on the out-edges. The reason derives from the idea (discussed above) of looking at organizations as decision networks, where links connecting people are decisions; thus, they have a direction expressing the superior-subordinate (hierarchical) relationship. This logic applies either to direct or indirect relationships alongside a chain (or tree) of sequential decisions.
- 10 In his network analysis of hierarchy, Krackhardt does not consider power concentration, that is, what we call topological hierarchy here. He added to DH – what he calls hierarchy degree – three further indexes: the connectivity degree, the least upper boundedness degree, and the efficiency degree. Here it is not possible to go into more detail, but it is enough to say that, especially in the approximation of all indexes proposed in this first approach to ODD, those three indexes are not necessary.
- 11 This should be called “heterarchy”.
- 12 Bowles and Gintis (1993) agree with this criticism by presenting it in terms of “long” vs. “short side” power, but they share many other aspects of neoclassical economics in its contractualist versions. Therefore, Palermo (2016a) is right to call their view as a “criticism from within” Post-Walrasian Economics. More crucial aspects are those of information asymmetry and the lack of time, financial resources, and skills to run an effective and efficient search for better alternatives on the side of workers. The role of search costs is one of the main points of distance between mainstream economics on one side and Evolutionary and Cognitive Economics on the other side (see Biggiero, 2022).
- 13 The number of links in a collaboration team is  $n(n-1)/2$ .
- 14 As is well known, this expression indicates the number of subordinates that a superior can effectively coordinate. There are about seven factors that positively or negatively affect it, such as task complexity, skill level, etc. See any standard handbook of organization theory/design, such as Jones (2013).
- 15 Criterion, attribute, or variable are synonyms.
- 16 Here, the word “analysis” refers to the branch of mathematics dealing with continuous functions, limits, and related theories, such as differentiation, integration, measure, infinite sequences, series, and analytic functions.
- 17 Another application concerned the three broad governance mechanisms discussed in the post-Walrasian perspective: network, hierarchy, and market. Besides the implications for that debate, the most important aspects of that paper lie in the criticism of the usual multicriteria decision methods, such as multiattribute utility theory, goal programming, Pareto-efficiency, and DEA (Data Envelopment Analysis).
- 18 Here, the weights do not play the role of enabling substitution rates between criteria, but rather that of enabling concordance and discordance tests. Somehow, they work in the opposite direction: to prevent improper comparisons between organizations that differ too much.

- 19 Some more ideas about this and the “advantage of redundancy”, meant as the opposite of efficiency, can be found in Biggiero (2019). This is indeed a very important point because it can be demonstrated that redundancy is positively related to reciprocity, which, as we have seen, positively affects ODD through the DH index. So, redundancy supports democracy, while efficiency does not.
- 20 It is worth recalling what mentioned in the opening section about complexity science: the research streams on chaos and catastrophe (Prigogine & Stengers, 1984; Thom, 1972, 1980) has demonstrated that many third-order functions, even if with only one variable, might shows points of discontinuities. Therefore, even in the case of pure parametric changes, discontinuities might appear. See the following debate and the applications to economics and management: Biggiero (2001), Eve et al. (1997), Guastello (2002), Parker & Stacey (1994), Priesmeyer (1992), Richardson (2005), and Stacey (1991, 1992, 1993, 1995).
- 21 What Dow calls inalienability, Gonza et al. (Chapter 16) call non-transferability of property rights.

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# PROCESS-ORIENTED RESEARCH METHODOLOGIES AND THEIR SUITABILITY FOR ANALYZING COOPERATIVE ENTERPRISE

*Jerome Nikolai Warren*

A respected and coherent body of literature has emerged in recent decades analyzing cooperative behavior, its prerequisites, necessary conditions for continuing cooperation, threats to cooperative behavior, and similar topics. It has been particularly connected with research within anthropology, political science, sociology, economics, psychology, and archaeology (Axtell and Farmer, 2022), and increasingly concerns sustainability science. This body of literature has, to some extent, been connected with numerous ambitions to create transdisciplinary social or “behavioral” science research programs (Gintis, 2014). In economics and management, this literature is represented particularly by the “coactivational” strand of organizational and microeconomic theory (Dow, 1988).

However, the question of how these methodologies can be used to study various aspects of formal cooperative enterprises: labor-managed firms, flattened hierarchies, inclusive or representative governing bodies, the impact of particular organizational values and practices on outcomes, open membership policies, etc., has been significantly less well developed. As this contribution envisions, there is a largely unexplored possibility to incorporate various methodological approaches, such as Boolean Networks, Social Network Analysis and Agent-Based Modeling, into the analysis and study of cooperatives.

In the following section, I briefly summarize key points in the emergence of these approaches before turning, in Section 3, to anticipating how the three outlined approaches could be applied to the study of cooperative enterprises. In Section 4, I reflect on possible future directions of research, and in Section 5, I conclude.

## **2 Birth of an evolutionary, experimental corpus Viz. Cooperative behavior**

Since the first decades of the 20th century, an increasingly robust paradigm has emerged that moves beyond the Hobbesian worldview, a “post-Hobbesian consensus”, one could call it (Bowles et al., 1993). Arguably emerging from an attempt to move beyond the “neo-Hobbesian” school of Social Darwinism, this perspective has adopted an evolutionary approach to the study of cooperation. Over the decades, it has developed into several complementary research agendas: firstly, the

empirical study of cooperation, which has largely been carried out by anthropologists, but also to some extent archaeologists via approaches such as cliodynamics (Levitt, 2019). Secondly, the development of a theoretical corpus to explain and account for the dynamics stimulating and motivating cooperation from its inception, to its maintenance and threats to its effectiveness, among other questions. Space constraints prevent a detailed review of this trajectory, but an overview of the former tradition can be found in Henrich et al. (2004), while a survey of the latter can be found in Bowles and Gintis (2013).

An early entry into this field is given by Pyotr Kropotkin, who was critical of Social Darwinism and interested in both the reality and theory of cooperation. He carried out early ethnographic, ecological, and anthropological studies of cooperation in human, plant, and animal communities (Kropotkin, 1998; Kinna, 1992; Warren, 2022) while writing a book on an evolutionary ethic based on established habits of cooperation (Kropotkin, 2021). In later iterations, this line of thinking was clearly influenced by ecosystem science and computational science, exemplified in the work of Herbert Simon (Simon, 1990; Biggiero et al., 2022, pp. 55ff.).

## **2.1 From states to processes**

In economics, one can see a gradual shift from the static neoclassical model, adapted from classical mechanics and fluid dynamics (Mirowski, 2013), towards consideration of what are sometimes called “constitutive” aspects of individual preferences and volition (Bowles et al., 1993), which, “however they are conceptualized, [...] may well be the beginning of a series of successful incursions of sociological issues into microeconomic theory.” Moreover,

It appears likely to foster some fundamental rethinking about the structure of economic theory itself and its relationship to empirical studies and to neighboring disciplines. The new approach endows economic theory with a degree of open-endedness and path-dependency more characteristic of biology and geology than of physics.

Bowles et al. (1993, p. 9)

In a first iteration of this deviation, so-called “state dependence” became the focus of microeconomic theory (Warren, 2015). This was particularly the case in research on dynamic (including intransitive) preferences. For instance, Prospect Theory, which suggests people react asymmetrically to loss and gain, is an example of such state-dependence, as are notions like the Allais and Ellsberg paradoxes (Warren, 2015, pp. 107ff.).

With the consideration of state-dependence came the eventual acknowledgment of the need to focus on the underlying processes themselves (Mahoney, 2000). The epistemological distinction between states and processes has been highlighted: states are perfectly differentiable and can therefore be more easily mathematically modeled, whereas processes are complex and can be “messy”, complicating any attempt to represent them in simple models (Ulanowicz, 2009b). However, as computational power has increased, the costs of simulating complex processes in dynamic interaction have reduced, including via algorithmic approaches like the *Monte Carlo method* (Kaplan, 2014).

This rise in computational power has been accompanied by the emergence of several distinct methodologies that are conducive to manifesting a switch from the object-based study of states to the process-based study of relationships. I briefly outline three promising approaches before moving on in the following section to anticipate how they might be applied to the study of cooperatives.

2.2 Boolean networks and NK-modeling

Boolean networks (BN) emerged as part of the theoretical tradition introduced above. The development of BN was particularly influenced by notions of complexity and self-organization, as represented by Ilya Prigogine and Walter Elsasser. The work of Prigogine and Elsasser, among others, demonstrated that emergent properties occurring in even simple systems can sustain a diversity of individual and organizational behavioral types that defy representation or analysis via an object-based approach (Ulanowicz, 2009b; Biggiero et al., 2022).

The concept of BNs was first developed by Kauffman (1993). In its simplest form, it treats network relations with Boolean operators—Binary operators like “ON” and “OFF.” The term “Boolean” refers to British autodidact George Boole’s formalization of logic (Kauffman, 1993, p. 13). To create so-called “Boolean networks”. BNs consist of nodes connected by edges, as depicted in Figure 11.1. The main distinction between BNs and social networks, introduced below, is that while the structure of a particular social network depends on the specific relationships being depicted, for instance friendships or business partnerships (Borgatti et al., 2024, p. 16), BNs reduce relationships to simple binary “Boolean” operators. Therefore,

Each node has a binary state (e.g. ON or OFF) [and c]hanges in the state of a node through time are governed by its programming, by its current state, and by the states of its neighbors (nodes directly linked to it by edges).

Green et al. (2007, p. 403)

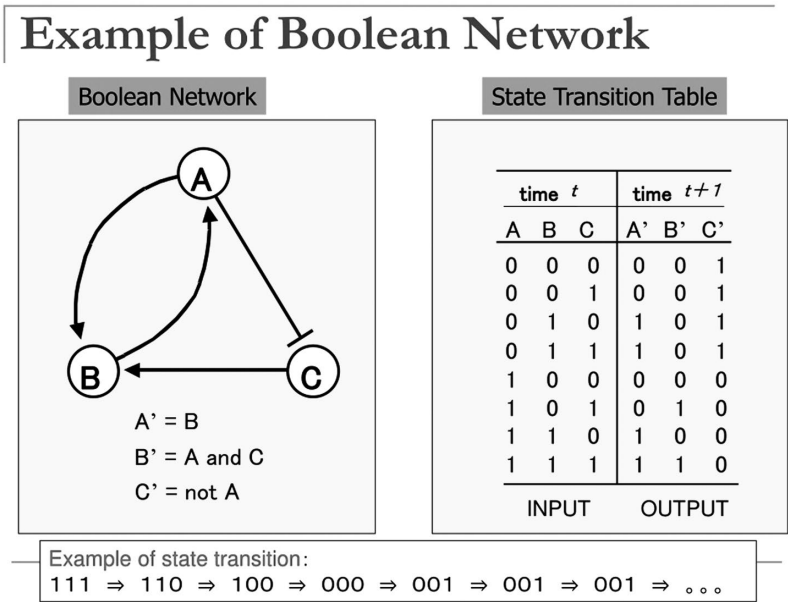


Figure 11.1 A representation of a Boolean network and its evolution based on particular inputs. From a presentation titled “Attractor Detection and Control of Boolean Networks” by Prof. Tatsuya Akutsu of Kyoto University. Reproduced with permission.

This allows for an analysis of self-organization given a certain environment (or ensemble of environments) and rules governing a “population cloud” (Kauffman, 1993, p. 16), which can represent individuals or organizations like firms. “Agency” in such systems emerges as the result of the interaction between local clusters governed and linked by Boolean functions within changing regions (Tilebein, 2006, p. 1089).

Generally, models applying BNs prioritize simplicity and tend to assume simultaneous actions in continual time, though permutations with randomized sequences or grammars are possible (Green et al., 2007; Kauffman, 1993, p. 369ff.). Therefore, the “state of an individual cell changes from moment to moment according to the information or energy it receives and the rules it follows for converting these to action or outputs.” (Stacey, 1995, p. 487). This allows for the application of BN approaches to issues like the development of informal organizational networks (Stacey, 1995, p. 488).

BNs form a particular class of “NK” models, in which N refers to agents’ attributes, while K refers to the independence of these attributes from one another (Kauffman, 1993, p. 218ff.; Tilebein, 2006, p. 1090ff.). An increase in K “results in coevolution, when evolving agents affect each other.” (Tilebein, 2006, p. 1092). This class of models has also been extended to “NKSC”, where S refers to the number of “species” and C refers to pairwise links between these (Tilebein, 2006, p. 1092).

Biggiero, (2016) summarizes two distinct traditions within “NK” research agendas relevant to the study of cooperative behavior. The first of these focuses on “pure” Boolean network dynamics and is described by the acronym NK-BN. These assume “a topologically invariant system... that does not mutate[,] neither [in] its size nor [in] its links distribution” (Biggiero, 2016, p. 62). This means that the network evolves along (occasionally invariant) interaction rules. Figure 11.1 above illustrates an NK-BN configuration. This permutation allows focusing on the interactions between different network shapes and structures on network dynamics, such as how quickly the network arrives at an attractor state (Biggiero, 2016, pp. 63ff.). An overview of relevant NK-BN economics and management research literature, which includes research on industrial clusters and organizational teams, can be found in Biggiero (2016, pp. 67ff.).

Biggiero (2016, p. 70) refers to the second class of “NK” models relevant for cooperative behaviors as *fitness landscape* (FL) models, or NK-FL. These are characterized by differing degrees of “ruggedness” with respect to the landscape, meaning that this subclass of models investigates (relative) paths to local optima, comparing what (Kauffman, 1993) calls “the fitness differences between adjacent genotypes” in a system (see also Biggiero, 2016, p. 72). NK-FL models feature a simplified methodological framework compared to NK-BN models. An overview of relevant economics and management scholarship in this domain, which is much more common than NK-BN approaches and therefore involves a broader range of applications, including vertical (dis)integration and organizational performance, can be found in Biggiero (2016, pp. 78ff.).

More generally, Tilebein (2006, p. 1092ff.) derives a generic framework for applying NK analysis to management contexts under the guise of *Complex Adaptive Systems*. See also Chapter 8 in this volume for a derivative application to cooperatives.

### 2.3 Social network analysis

Social networks “appear to fall between [the] two extremes” of anonymous (e.g., market) and group interactions (Scott and Carrington, 2011, p. 76). This makes *social network analysis* (SNA) a powerful methodology and tool for filling current gaps in research methods for studying cooperation generally and cooperative enterprises specifically, especially when compared to reductionist or aggregative approaches like statistics (Biggiero et al., 2022).

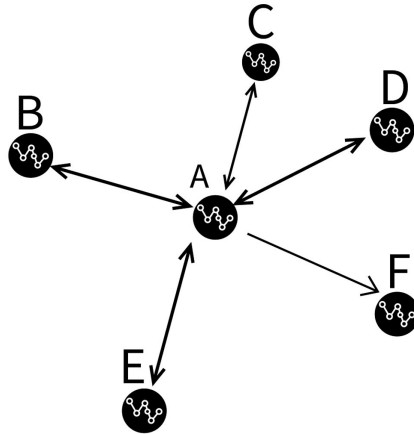


Figure 11.2 A basic “star-shaped” social network. Own image.

Similar to BN, SNA operates with graph theory: nodes representing agents are connected by edges representing relationships (Figure 11.2) in the form of a network. SNA is useful for gaining detailed knowledge about the structure of relationships in a network, including in groups, organizations, or economies. Using SNA, it is possible to compare different networks and directly analyze the evolutionary development of a single network over time (Tichy et al., 1979; Zack, 2000; Kossinets and Watts, 2006). It possesses immense potential for answering evolutionary and institutional questions regarding issues like the impact of different types of relationships, concentrations of power, informal vs. formal rules and procedures, etc., on long-term organizational and economic sustainability. This is especially relevant where such relationships are not necessarily quantifiable, such as “weak” versus “strong” ties (Granovetter, 1985) or influence (Chapter 10 this volume).

SNA emerged in the first part of the 20th century in disciplines like social psychology and was adapted to many other social and behavioral sciences, including anthropology, political science, and sociology (Scott and Carrington, 2011). While SNA has had an impact in management and organization science, its take-up in economics has been much slower (Scott and Carrington, 2011, pp. 67ff.).

## 2.4 Agent-based modeling

Agent-based Modeling (ABM) is connected to both BN and SNA. ABM, which has had broader acceptance in (especially non-equilibrium) economics (Arthur, 2006; Axtell and Farmer, 2022) is an innovation of recent decades and involves the creation of simulations based on certain analytically useful assumptions (Bowles and Gintis, 2013, p. 202ff.). ABM provides a toolkit for simulating or modeling complex relationships in a network. An ABM must be calibrated with the number of individuals (N), the number of generations (G), and the number of rounds per generation (K). Given these parameters and certain rules of interaction, an ABM algorithmically coordinates interactions based on the specified inputs. This process is depicted in Figure 11.3.

The emergent relationships and outcomes of ABMs generally provide a “meso-level” understanding that avoids “grand theories” but seeks general analyses of particular, bounded conditions constraining individual agents embedded in networks producing emergent macro-level outcomes

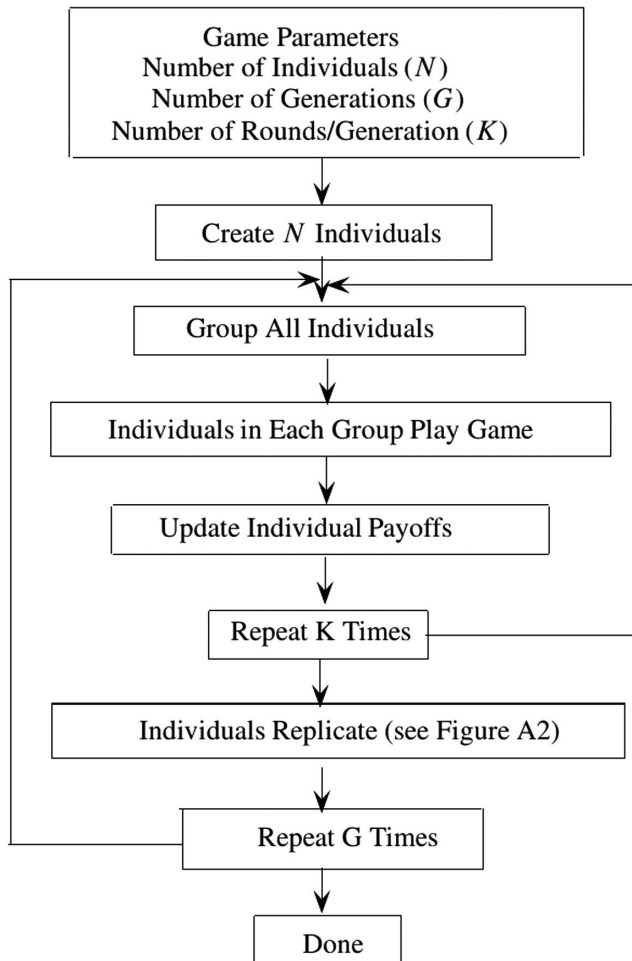


Figure 11.3 A schematic representing the steps involved in an ABM.

Source: Bowles and Gintis (2013, p. 206).

(Epstein, 1999). That is to say, ABM simulates the heterogeneity of real actors, including individuals or firms, by reducing these to parameters that can be distinguished according to either continuous or discrete (even binary, as in BN) operators.

Researchers engaged in ABM generally make use of software such as AnyLogic, NetLogo, GAMA Platform, or Repast (Abar et al., 2017). With these software, users are able to either process or generate large data sets that can be used to simulate different states and interactions between heterogeneous agents. There are as many different ABMs as there are heterogeneous attributes and interactions between individuals or groups embodying those attributes, which is to say there are likely infinite permutations (Axtell and Farmer, 2022, p. 5).

Generally speaking, “[b]ecause of the algorithmic structure of the models, [their] outcomes are nothing else than the implications (deductions) from the assumptions and the rules (mechanisms) according to which agents are supposed to behave.” (Biggiero et al., 2022, p. 54) This

characteristic has been labeled “generative explanation” (Epstein, 1999, 2012), meaning that a model that generates certain outcomes itself provides explanatory power (Valente, 2016).

It is also important that ABM, like SNA, distinguishes itself through its ability to visualize network relations, including emerging patterns. Due to their complexity, these dynamics can often be understood phenomenologically rather than by reducing them to their microscopic components. This is precisely why ABM is frequently considered part of the qualitative research toolkit (Pyka and Grebel, 2006; Yang and Gilbert, 2008).

### 3 Applying “mid-range theories” to the study of cooperative enterprise

Each of the three approaches briefly introduced above can be fruitfully applied to cooperative enterprises, as is argued here. Even though the extant literature is rather thin on applications, I outline how BN/NK, SNA, and ABM could be implemented in economics and organizational contexts to clarify important research questions regarding cooperative enterprises. I do this particularly by inferring from existing research on cooperative behavior how this would apply in the case of enterprises guided by certain cooperative principles.

For instance, just as an illustrative example: if we are interested in the impact of less rigid hierarchical reporting schemes in organizations (a feature cooperatives display, as argued in Chapter 10) on innovation, an object-centered analysis would conduct a regression analysis, attempting to develop a simple (or multiple) regression model, applying it to large observational data sets and assuming a convergence to an existing mean via notions like the law of large numbers. If, in this example, the number of less hierarchically structured organizations is, for any reason, not widespread, then that will, of course, deeply bias such an approach (Mahoney and Goertz, 2006).

However, a process-centered analysis understands that there is complex feedback between unique, complex, and heterogeneous events, and this epistemological standpoint can provide detailed information about the processes involved given certain basic assumptions. Therefore, in analyzing the impact of less rigid hierarchical organizational reporting systems, a process-centered analysis would emphasize the interaction between parameters that produce divergent outcomes. For instance, SNA would be useful for analyzing the interactions we refer to as “informal”, which themselves comprise relations and are thus entirely unsuitable for statistical analysis.

Meanwhile, a BN/NK approach could emphasize either how particular organizational or economic rules, such as *inter-cooperation*, could promote or hinder the emergence of less rigid reporting schemes within specific environments (NK-BN), or alternatively, how slightly altering aspects of the environment (for instance, increasing the number of board members shared across cooperatives) could catalyze or impede the development of such regimes (NK-FL). At the same time, ABM could be employed both to analyze a particular cooperative enterprise and to compare an ecosystem of firms, assessing the relative robustness of different organizational types (e.g., cooperative versus non-profit versus investor-managed firms) in relation to the degree of informal relations internal to the firm over time and/or between firms. Therefore, the three approaches potentially provide process-based tools to move increasingly from the micro to the macro level, each emphasizing the evolutionary, meso-level interactions involved in generating outcomes.

Of course, in practice, process- and object-based approaches can be fruitfully combined, and they frequently are (e.g., Molina, 2001; Biggiero and Magnuszewski, 2023). However, the point is that questions regarding the importance of the interaction between cooperation, complex environments and (inter)organizational sustainability demand that we center process-based approaches.

In the following, I summarize how BNs, SNA, and ABM have been used to study and analyze cooperative behavior and infer from this how they can be applied to the case of cooperative enterprise.

### 3.1 Boolean networks and cooperatives

There are numerous ways to integrate the analysis of cooperatives into a BN framework. Taking Tilebein (2006) CAS framework as a starting point, Figure 11.4 represents an attempt to integrate the ten Mondragon principles into a BN approach. BNs are especially useful when dealing with discrete variables (Lucas, 2007). At the same time, as pointed out by Tilebein (2006, p. 1094), BNs can be applied at multiple levels, “ranging from individual to industry level.”

Applying the two types of NK models to, e.g., the Mondragon case appears to provide a means to disentangle different interaction and attribute levels. The distinction between NK-BN and NK-FL approaches, introduced above, emphasizes different dynamics. For example, NK-BN could be employed to distinguish between the differential trajectories of a “pure LMF” versus a “pure KMF”, in the language of Chapters 2 and 10. Therefore, action rules like (1) “open admission” and (9) “universality” could be represented by OR and AND operators, respectively. Meanwhile, change rules such as (4) “capital as an instrument” or (8) “social transformation” can be interpreted, on the one hand, as a “second-order derived system state” (Markert et al., 2010) in an analysis based on state variables.

However, from a purely process-based perspective, as would be conducive to investigating network dynamics, such change rules can rather be interpreted as syntactical “production/rewriting rules” *a la* Chomsky that affect the intensity of interactions in a network (Gaucherel and Moron, 2017). In other words, they are an “adaptive walk [...] that allows agents to change one property at a time.” (Tilebein, 2006, p. 1093) This “adaptive walk” process could be represented algorithmically and would find its clearest expression in particular dilemmas, where the distinct choices are on display, not only in a marginal, but potentially very significant, way.

From Figure 11.4, education is present at both the individual agent and FL levels and would therefore serve as a candidate for an integrative concept. Indeed, BN models have already been applied by Biggiero and Valente (2016) to emphasize the centrality of knowledge-sharing at the industry scale. A similar approach could be applied at the enterprise level. This is a current research gap, though research applying an object-based approach has found connections between enterprises sharing a commitment to education and democratic accountability and profitability (Young-Hyman et al., 2023).

This could be achieved as an NK-BN model by transforming the existence of key identifiers of a cooperative enterprise, such as the ten principles in Figure 11.4, into Boolean operators. For instance, in Figure 11.5, X is the OR gate, representing “voluntary and open membership”, i.e., the idea that the condition of desire or approval of the membership is sufficient. Meanwhile, in Xs absence, only the gate (Y-Z), AND, is open, representing that in the pure KMF, the requirement of desire and approval must be matched with an amount sufficient to cover the typically high up-front costs for a significant stake in capital. Therefore, such a model would present two very different sets of diverse membership.

Indeed, if network diversity is desirable or increases a firm’s overall fitness, then the above result would provide an argument for moving firms from “pure KMFs” further along (perhaps not always entirely towards) “pure LMFs”. In analogous research, Biggiero and Valente (2016) showed that the AND operator is more demanding and leads to restricted network development

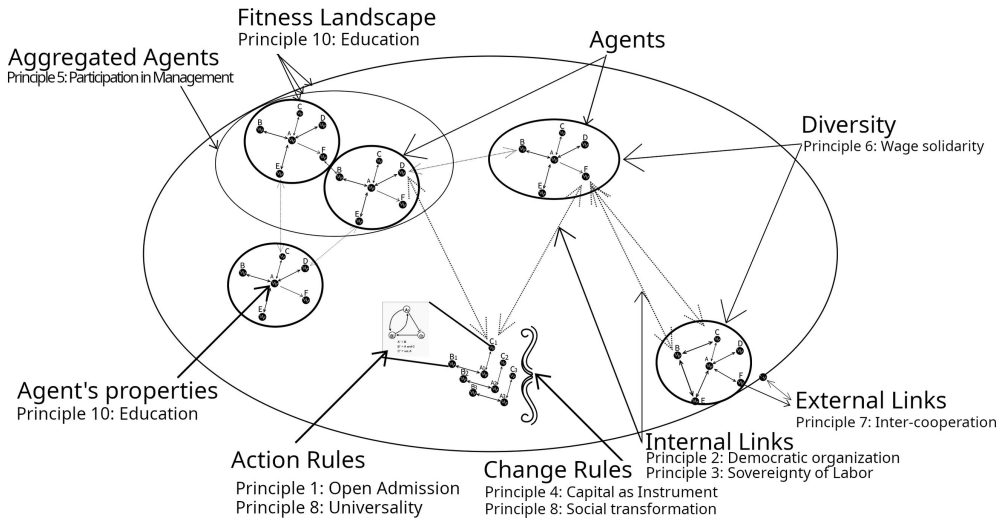


Figure 11.4 A graphic representing the ten Mondragon cooperative principles as elements of a complex adaptive system. Own image, adapted from Tilebein (2006); see also Chapter 9 by Silva.

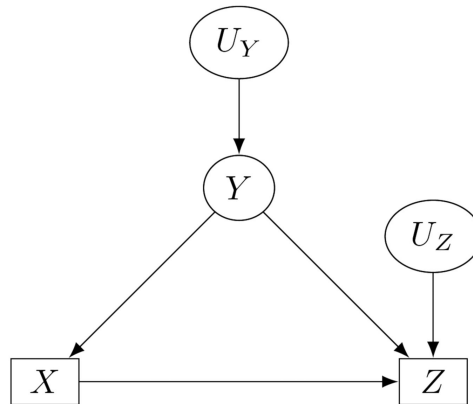


Figure 11.5 A BN dynamic represented as a directed acyclical graph expressing a dilemma facing a cooperative enterprise.

compared with the OR operator. This could be a potential future avenue of research into the beneficial evolutionary dimensions of cooperative enterprise compared to investor-owned businesses.

On the other hand, one could employ an NK-FL approach to study a problem such as the well-documented limitations of the Mondragon model of worker cooperatives with respect to its internal supply chain in a simplified manner (Bretos and Errasti, 2017; Flecha and Ngai, 2014). In this way, one could analyze the extent to which present-day limitations of Mondragon's degree of democratic inclusivity in its supply chain can be attributed to legal/contractual aspects or to structural/relational ones.

For example, one could implement a variety of the outranking algorithm Lucio Biggiero develops in the prior chapter that adds further constraints to recognize the *perceived* stratification within

the organization. This would have the benefit of adding another dimension to the analysis. The dimension could be quite significant since, beyond formal hierarchy, ethnic, national, or other cultural conventions may additionally play a role in preventing more democratic or inclusive membership practices from disseminating.<sup>1</sup> Therefore, adding the psycho-social dimension as a further constraint to the outranking algorithm can help to disentangle informal hindrances, including cultural heterogeneity, to more inclusive or representative governance regimes (Weber et al., 2020).

As to the practical question of what a cooperative enterprise like Mondragon can do to increase the level of democracy in its supply chain, let us return to one of the conclusions from studying Figure 11.4. In fact, one principle, the role of education, is depicted twice: once as “agents’ attributes” and once under “fitness landscape”. This depiction appears to suggest interpreting education as a potential bridge between micro- and macro-level processes. This interpretation would be in keeping with the conclusions of Chapter 18. However, analyzing and evaluating company-wide learning programs for their effectiveness goes well beyond the limited scope of useful applications of Boolean networks, whether of one variety or another.

Therefore, in the following section, I will outline the ways in which social network analysis (SNA) can supplement the above approaches to achieve this goal.

### ***3.2 SNA and cooperation***

How can social network analysis (SNA) contribute to understanding cooperative enterprise in an integrated way? It can do so particularly by bridging the gap between micro- and macro-founded models and by providing key insights into the interactions between individuals’ internal beliefs and the structural relations in which they are embedded. For instance, a fascinating result of applying SNA to polar research camps was the wide divergence between perceived and real networks (Johnson et al., 2003). Moreover, SNA can shed light on the relationship between formal and informal relationships and evaluate efforts to reform cooperatives, such as activating members in governance.

One way SNA can do this is by showing that the degree or intensity of communication channels, commonly shared values, information flow or commitments among agents in a network can lead to differential network configurations, which in turn impact overall network stability. For instance, an important literature review by Henry and Vollan (2014) finds that social relationships are vital to numerous issues in sustainability science (SS) and involve three critical issues: “linking knowledge with action, enhancing collective action, and promoting social learning.” (Henry and Vollan, 2014, pp. 586–588) Moreover, they outline three specific SS research questions to which SNA can provide useful answers: firstly, “How do structural properties of networks correlate with more desirable (or less desirable) sustainability outcomes?”; secondly, “How do networks self-organize over time?”; and thirdly, “How do institutional contexts influence network evolution and the relationships between structures and outcomes?” (Henry and Vollan, 2014, p. 603).

#### ***3.2.1 The nexus between structure and outcomes***

Particularly the first question, analyzing the connection between structural aspects of networks and more or less desirable outcomes, appears suitable for research on cooperatives using SNA. Indeed, research to date has been promising but inconclusive (Freundlich and Gago, 2012; Young-Hyman et al., 2023). Most research on these topics has been conducted using regression analysis, which has its object-focused biases and generally fails to recognize discontinuities and heterogeneity. Instead, SNA can reveal causally valid connections, not just “correlations”, between the

prevalence of cooperatives in a region and various desirable outcomes, such as increased health, higher value-added, and lower inequality or unemployment.

This research agenda would proceed by analyzing the interaction between distinct aspects of cooperative enterprises' structures, such as flattened hierarchies, mutualistic and open company cultures, particular social values, and increased informality (see Chapter 10 for an overview), and the perceptions of both members and the broader public that the particular cooperative serves, with respect to the indicators of interest. An innovative application of this type of methodology to a post-WWII Italian consumer cooperative can be found in Battilani and Bertagnoni (2015, p. 44), which finds that "The way Granarolo made its customers feel solidarity with a social-political system was one of the most innovative, long-lasting, and entrenched characteristics of the company's communication" and speaks about a "brand community" centering around the cooperative identity (Battilani and Bertagnoni, 2015, pp. 39ff.).

Another application of SNA to the question of the interaction between structure and outcomes could involve drawing a dynamic picture of a particular cooperative. For instance, if a large northern Italian industrial cooperative producing machine tools for making ceramic tiles is interested in creating a more inclusive or representative board, it might apply SNA methods combined with ethnographic studies, as outlined by Camilla Carabini in Chapter 13, to analyze both the status quo and evaluate the effectiveness of particular policies or policy changes.

For instance, perhaps the cooperative would like to understand the relationship between the introduction of new board selection processes, such as sortition (see Chapter 19) and any increase in the transparency or representativeness of the cooperative's board relative to its membership. In fact, there is every reason to assume this would be the case. If the *mindemos* value is associated with extremes in dyadic and topological hierarchy (unidirectional, centralized dependencies), while *maxdemos* is associated with the opposite (bidirectional, distributed dependencies), then a selection process that randomizes the choice of certain key functions within the cooperative would, *ipso facto*, increase the value of democraticity. This can be seen in a hypothetical case in

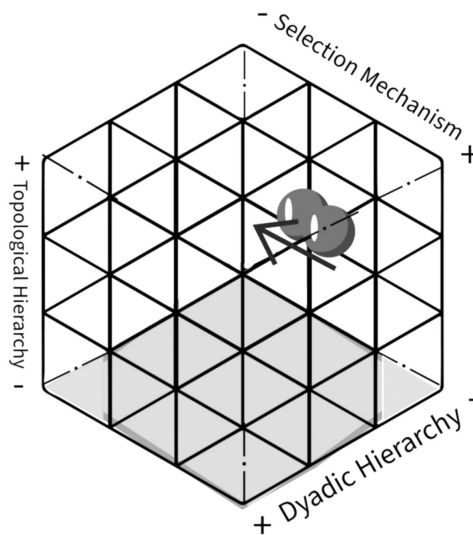


Figure 11.6 A three dimensional cube, adapted from Figure 10.3, showing how sortition impacts organizational democracy in a firm.

Figure 11.6, where the introduction of sortition shifts the dimension of “selection mechanism” and also slightly influences the “dyadic hierarchy” dimension.

### *3.2.2 Network self-organization*

To take the example of the Mondragon cooperatives again, SNA can proceed similarly to an NK-BN approach in order to answer the second question on self-organization. It can connect the structural aspects from Figure 11.4 to specific psycho-social dynamics, such as the presence or absence, as well as the intensity, of informal networks within and between the individual cooperative enterprises or the group as a whole. As such, an SNA approach to evaluating this degree of self-organization would juxtapose the formal organizational chart with relationships derived from observations, surveys, and interviews.

Battilani and Bertagnoni (2015) used participant interviews to analyze a cooperative’s efforts to self-organize as a marketing strategy. Evaluating the cooperative’s successful “viral” marketing strategy, the authors observe that “[t]estimonials [...] confirm the conquest of these dairy shops began by selling to ‘friendly’ shops, run by relatives of cooperative members and people who shared the same ideals.” (Battilani and Bertagnoni, 2015, p. 44). Therefore, the self-organization of a consumer cooperative could be seen as a particularly effective form of marketing, perhaps again underlining the deep and multiple connections that have been variously called tensions or the “dual nature” of cooperatives (Draheim, 1952; Puusa and Hokkila, 2015).

More generally, self-organization typically occurs via informal networks, such as Granarolo’s relations with “friendly” shops, which are not an analytical category but a designation of certain informal relationships based on shared values and goals. Similarly, Hahn et al. (2008) connect informal networks with the trust-building process necessary for sustaining the resilience of socio-ecological networks’ (an extension of SNAs) over time (cf. also Sayles et al., 2019), a question fundamentally related to Exner and Raith’s work in Chapter 31 of this volume. Muñoz-Erickson and Cutts (2016, p. 61) find that the structures of knowledge-action networks deeply influence information governance, particularly emphasizing the importance of inclusive cooperation. In the case of such networks, this refers to “the degree to which [networks] include diverse types of knowledge or knowledge systems, the opportunities for these multiple knowledges to interact, and interactions that distribute power across these multiple knowledges”.

Meanwhile, as the economy becomes not only more knowledge-intensive but also more *networked* (Benkler, 2008; Varoufakis, 2023), the role of informal networks, which can be seen as part of the cooperative form’s “cooperative difference” Novković et al. (2023), will only grow, and the relevance of further study connecting cooperatives to processes of self-organization will increase. For example, Cross et al. (2002, p. 41) find that “informal networks are increasingly important contributors to employee job satisfaction and performance”, yet “are rarely well-supported or even understood by the organizations in which they are embedded.” In a world where cooperation in informal networks becomes increasingly vital for value production and resilience, organizations that are ideally designed as informal networks, especially when these informal links extend outside the immediate enterprise, arguably stand at a competitive advantage (Norberg and Cumming, 2008).

Much of the relevant research literature makes use of so-called “personal networks,” which can subsequently be connected with statistical modeling (McCarty et al., 2019, pp. 177ff.). For instance, Molina (2001) applies personal network analysis to distinguish between formal and informal organizational structures in an NGO, supplementing this with statistical approaches. A similar approach could be applied to study cooperatives.

SNA can also reveal insights into failures to achieve lasting cooperation. For example, Moretti (2017) uses SNA to demonstrate that the overall network of Venetian tourism is poorly organized, largely due to (1) a steady supply of tourists, especially centering around events like the Biennale, and (2) a lack of sufficient communication channels and commitment to particular collective or group strategies on the part of various hoteliers and others in the industry. In contrast, Hahn et al. (2008), cities in Norberg and Cumming (2008), demonstrate that the presence of flexible and informal communication in Kristianstad enabled the emergence of a local Biosphere Reserve.

Since only roughly 7,000 people visit Kristianstad each year, this represents a qualitative distinction from Venice, the most visited city by tourists every year. Nevertheless, this distinction can be incorporated into SNA methods, by weighting external network connections very highly in the Venetian case and less so in the case of Kristianstad. This would allow a researcher to represent and consider this distinction. Regarding the second distinction, one could represent the intensity of communication channels by the number of bilateral ties, weighted to represent, e.g., attendance at meetings.

Comparing Figures 11.7 and 11.8 reveals one of the distinctions between the two networks: one is clearly centripetal, and the other is centrifugal. While Figure 11.8 shows sufficient overlap between three groups with distinct goals, Figure 11.7 reveals a segregation into “high trust,

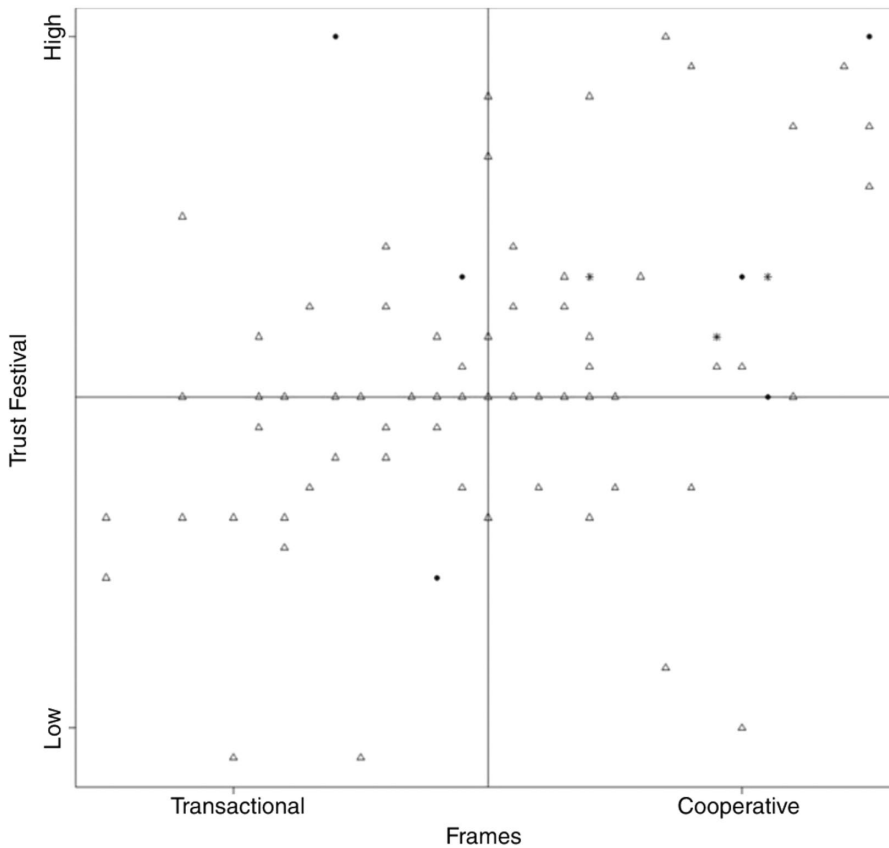


Figure 11.7 Shows the distribution of Venetian hoteliers according to the level of trust and the type: transactional versus cooperative.

Source: Moretti (2017, p. 139).

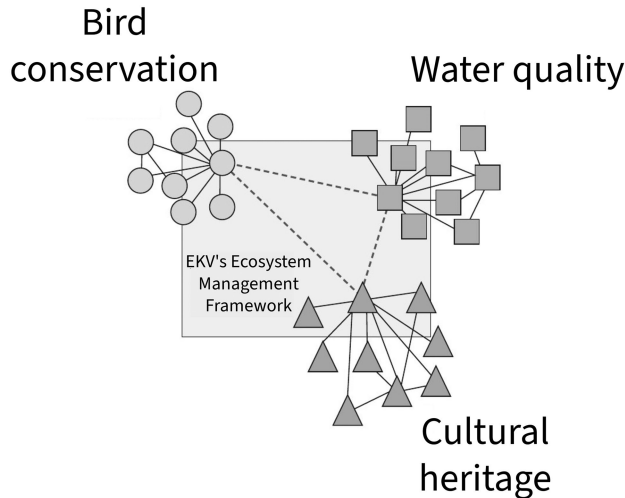


Figure 11.8 about here: Figure showing the ability to manage overlapping interests in the case of Kristianstad.  
Source: Olsson et al. (2007).

cooperate” and “low trust, transact” cohorts. Such a comparative analysis of network structure can provide insights into suitable means to improve outcomes with respect to self-organization in and between networks. This relational dimension has both scientific merit in terms of understanding network self-organization, in addition to being significant for both the governance and regulation of resources and information within and between firms, as I discuss below.

### 3.2.3 Network evolution

Orthogonally to the NK-FL approach, SNA can shed light on the interactions between institutional contexts and the evolutionary feedback between networks and structures. Regarding this third question, Chapter 12 in this volume by Linda Bennison serves as an example of how self-reinforcing, path-dependent processes can contribute to “lock-in” effects that privilege certain outcomes over others, advantaging or disadvantaging cooperative enterprises in the process.

While Bennison studies the case of Australia, Warren (2024) applies the same approach to analyze the evolution of a system of multi-stakeholder cooperatives in Italy. By simplifying the analysis to a number of key historical episodes and events, depicted in Figure 11.9, it attempts to demonstrate the importance of non-linear processes of inertia and lock-in in contributing to the Italian cooperative regime’s organizational evolution. In so doing, it shows how other countries and regions dealing with crises in social services, migration, climate change, depopulation, etc., can learn from and possibly adapt the Italian model.

## 3.3 ABM and cooperative enterprise

ABM can be highly informative with reference to research questions central to cooperative enterprise. Even though it has not yet been broadly applied to cooperatives, similar to BNs and, to a lesser extent, SNA, there is clear potential in understanding the connection between cooperation and the long-term viability of organizations, networks, and economies, and in applying this

*Source:* Warren (2024).

How can this be applied in cooperatives? ABM's "generative explanations" generally produce both an outcome and simultaneously reveal the step-wise processes involved in arriving at that outcome (Valente, 2016). Therefore, ABMs are particularly useful for connecting cooperative enterprise with an evolutionary approach that can reveal important insights into the interactions between practices, learning and the long-term viability of certain pro-social behaviors (Bowles and Gintis, 2013). At the same time, ABMs can help understand how cooperatives can "infect" their environment with these behaviors. This may also include the important question of inter-generational succession and how to preserve cooperative values in new generations (Hafner, 2009; Warren, 2022).

Regarding the first aspect, Macy and Willer (2002) have surveyed the ABM literature on the bottom-up emergence of social order, specifically questions about the evolution of cooperation, and concluded that the emergence of cooperation requires not only a future-oriented but also an experiential horizon, a “shadow of the past” that renders cooperation a “Janus-faced” phenomenon. Similarly, Hartshorn et al. (2013) have surveyed ABM literature on the emergence of cooperation and found that so-called “humanitarian” strategies provided “surprisingly strong early competition” against the ethnocentric in-group based altruism associated with Axelrod and Hamilton (1981).

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and societies. One model they calibrate features (1) resource-sharing and (2) segmentation or differentiation into types: *altruists* and *opportunists*. They find that by increasing a society's segmentation, the disadvantage altruists have compared to opportunists is reduced, "because the [altruists] are disproportionately likely to benefit from the help of other altruists, while [opportunists] are disproportionately likely not to benefit." Indeed, the authors find that if the degree of segmentation is sufficient (in particular, higher than the cost: benefit ratio of altruistic behavior), then altruists "will on average do better than" opportunists (p. 125).

This seems to comport with the findings that the institutional environment, including market forces (Chapter 2, this volume) or monetary regimes (Chapter 20, this volume), may themselves play a role in reducing opportunities for cooperative enterprise to diffuse by allowing opportunistic enterprises to free-ride on the benefits cooperatives provide. Models like this can be calibrated to support policies that promote and even isolate, at least during a development phase, cooperative ecosystems from market forces. Internally, it might promote a vision to reduce cooperatives' external connections to a minimum, as Jens Martignoni argues in Chapter 20 of this volume. They can furthermore provide insight into the general level of magnitude and complexity of interactions suitable for the robustness of such ecosystems.

Another model the authors calibrate interprets long-term outcomes based on the differential presence of, in one dimension, altruists versus non-altruists and, in another dimension, parochialists (those acting altruistically only with in-group members) versus non-parochialists (general altruists). Their simulation, which is reproduced in Figure 11.10, features different payouts based on these dimensions and reveals that "high levels of parochialism in the population sustain a high level of conflict among groups, thereby making between-group selection a formidable evolutionary process and, as a result, maintaining a substantial fraction of altruists in groups. [...] By contrast, when the population is in states where tolerant non-altruists are prevalent, few wars occur" (Bowles and Gintis, 2013, p. 138).

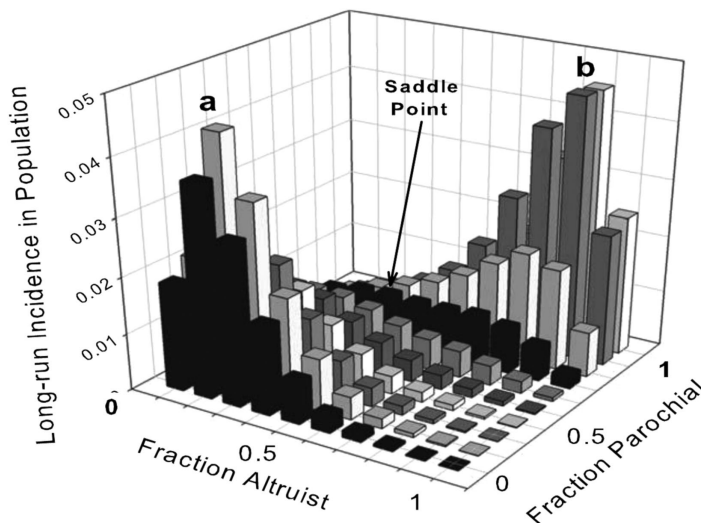


Figure 11.10 about here: A model showing different saddle points, showcasing the dynamics of multi-level selection at play.

Source: Bowles and Gintis (2013, p. 139).

### 3.3.2 Dissemination and succession

Related to methodological questions about the emergence and evolution of cooperative behaviors are questions about the dissemination or influence of opinions or shared mental models. Flache et al. (2017) survey the ABM literature on the connection between models of social influence and tendencies towards consensus and polarization, a central topic for the governance of democratic firms, and describe three distinct model types dealing with the issue. Firstly, an “assimilative” model, first developed by Abelson (1964), typically represented by “averaging”, where agents update their opinions in each round by averaging their prior opinion and that of their neighbors. These types of models are typically characterized by both fixed weights (of influence) and unchanging network structures.

This class of models, which shares much with the NK-BN introduced above, could be useful for explaining how a cooperative enterprise is able to engender shared values in successive generations of members, a vital question in the lifecycle of cooperatives (Hafner, 2009).

The second type of model features a “similarity bias”. These models are defined by their abandonment of “the assumption that there is always influence as long as there is a structural connection between agents. Instead, whether social influence occurs between connected individuals and how strongly they influence each other is now linked to individuals’ similarity.” Flache et al. (2017, 2.31) Thus, these models typically endogenize proximity by introducing a threshold parameter, representing cognitive or cultural proximity.

These calibrations typically result in outcomes similar to the tradition following from Axelrod (1997), where “local convergence can lead to stable spatial opinion clustering from initial randomness” (Flache et al., 2017, 2.38). If the threshold is sufficiently low, these models approximate the “assimilative” models, whereas if it is sufficiently high, “the population ends up fragmented into separate opinion clusters” (2.30).

This class of models could be useful for deepening the understanding of the extent to which cultural homogeneity is vital for cooperative enterprises, as has been argued by some in the literature (Hansmann, 2000). In contrast to this view, a literature review conducted by Iliopoulos and Valentinov (2018) finds that member heterogeneity is an endemic challenge for, in their case, agricultural cooperatives. Their meta-analysis of both successful and unsuccessful strategies for managing heterogeneity describes it as an “overburdening” of the network. They conclude that a disconnect exists between cooperative principles and practices, driven largely by the fact that “the prevailing theoretical approaches stem from a period when the business environment was much more stable and favorable for this organizational form.” (Iliopoulos and Valentinov, 2018, p. 17)

If member heterogeneity is indeed a fact describing cooperatives in the 21st century, then the “similarity bias” class of ABMs can provide tools for explaining the scope and limitations of managing heterogeneity. For instance, related to the comparison of the Venice and Kristianstad cases in Section 3.2, if member heterogeneity “overburdens” the cooperative, a shift from a centrifugal to a centripetal scenario is possible, for example, by lowering the threshold of cultural proximity. Some cooperatives have dealt with these risks by focusing on certain basic shared interests and building on those.<sup>2</sup>

The fragmentation resulting from high thresholds in “similarity” models conjures up the third type of model, featuring “repulsive influences”, which Flache et al. (2017, 2.47) describe as “combin[ing] assimilation with its counterpart, differentiation – the assumption that some interactions lead individuals to adjust their opinions in such a way as to become more dissimilar to others they disagree with.” This class of models is represented by Hunter et al. (1984)s model of “boomerang effects” or Jager and Amblard (2005) formalization thereof.

This last class of models would be most useful in explaining how cooperatives can deal with conflict and constrain processes like “demutualization”, which likely involves some repulsive interactions involving a combination of environment, network structures, and values.

#### 4 Discussion and future directions

This chapter aims mainly to stimulate research by attempting to connect relational methodologies like Boolean networks, social network analysis, and agent-based modeling to the analysis of cooperative enterprise. As has been shown, these approaches connect complex interactions, network structures, and differential outcomes regarding organizational viability or resilience. In particular, the connections to sustainability science, discussed in Section 3.2, offer a fruitful avenue for future transdisciplinary research.

The discussion in this chapter is not intended to be exhaustive or conclusive. To paraphrase Stuart Kauffman, “while the chapter is finished, it is not a finished chapter” (Kauffman, 1993, p. xviii). There are many future directions this line of research could take, and certainly, other approaches can be considered, such as Bayesian networks, neural networks, participatory action design, etc. For example, Chapter 9 in this volume appeals for an approach closely connected to Boolean networks: *complex adaptive systems* (CAS). This approach could be further developed to deepen the understanding of how cooperatives harness heterogeneity and forms of self-organization and self-management to improve the overall adaptation and resilience of the communities in which they are embedded.

Similarly, the approach of *process ecology*, developed by Ulanowicz (1986, 2009b), shares an epistemological concern for the complex interactions between agents in a network and the viability of that network. Its concern for the dialectical interaction between *ascendant* (ordering, efficient) and *redundant* (chaotic, interconnected) agencies could inform CEM scholarship. In fact, its conclusion that it is the disordered components of most complex systems that dominate and that systems that too strongly focus on efficiency become vulnerable to collapse aligns well with the process-oriented view introduced above (Ulanowicz, 2009a).<sup>3</sup>

What intermediate goals should such a research agenda pursue? For example, a BN/CAS approach could be employed within a cooperative to deepen knowledge about the complex interactions between various structural configurations, such as less or more constrained open membership, and the level of stratification (topological hierarchy, in the language of Chapter 10) within the cooperative. Similarly, the idea of using NK-FL approaches to study problems like the functional limitations of democraticity in groups such as the Mondragon cooperatives with respect to their internal supply chain, discussed in Section 3.1, should be pursued in the face of the failures of past efforts to extend membership to non-member employees at Mondragon Hafner (2009). Developing more successful future strategies for extending memberships would benefit from a clearer understanding of the precise structures that mediate relationships across the group’s supply chain.

Meanwhile, literature reviews in SNA generally conclude that the presence or absence of multi-level and stakeholder communication is a deciding factor in the resilience of social networks. Therefore, SNA can be applied to analyzing the negative outcomes from the lack of cooperation (Moretti, 2017) or the formal or informal concentration of influence in networks (Chapter 10, this volume). There have also been calls to adopt SNA as a business practice, on par with strategic management (Trezzini et al., 2004; Cross et al., 2002). There are some obstacles to realizing this aim, which include non-standardized software options, fragmented research offerings, and a bias towards academic research (Trezzini et al., 2004, pp. 69ff.). Nevertheless, examples like Bartilani and Bertagnoni (2015), discussed above in Section 3.2, demonstrate that, due to their close

relations with local communities (see also Chapter 33), cooperatives can incorporate SNA into their marketing strategies.

In line with the business case for adopting SNA, derivative approaches could be adapted to evaluate the effectiveness of educational programs within cooperatives intending to increase member participation. Numerous such programs have failed in the past, such as Mondragon's *cooperativismo* program (Hafner, 2009; Warren, 2022), but SNA could help shed light on the interaction of structural and informal aspects that affect such efforts. For instance, Chen and Zhang (2023) apply SNA to study the relationship between power concentration and corruption in firms and find that an increasing degree of organizational centralization is connected with increased corporate fraud by “mak[ing] active or passive collusion easier in an organization”, by “conceal[ing] fraudulent information within the powerful perpetrators’ inner circle or the dominant coalition of firms” and by potentially “harm[ing] the effectiveness of independent directors’ monitoring by producing verbal dominance” (Chen and Zhang, 2023, p. 31). Such phenomena clearly can and have occurred in cooperatives (Puusa and Hekkila, 2015), and therefore such approaches can help understand how they are facilitated and how they can be mitigated.

Similarly, Biggiero and Magnuszewski (2023) apply SNA to uncover numerous dimensions of formal and informal inter-industry network relations in the European aerospace industry, including both managerial and board interlocks as distinct dimensions of relationality beyond ownership relations. It would be a promising endeavor to apply similar methods within cooperatives and cooperative federations, estimating the intensity and scope of outside links, including those with other, external cooperatives. It could also be employed, as Battilani and Bertagnoni (2015) demonstrate, to understand how cooperatives can take advantage of consistent (with their values) ways of marketing to their members and the wider community.

Lastly, associated with the business case for SNA, there could be broad use and applicability for regulators, both regarding business concentration and cartels, as well as enabling self-regulating networks of cooperatives to exist, simplifying the need for auditing and reporting (Warren, 2023). This should especially apply to both the regulation and governance of Internet platforms, which feature prominently in Section 4 of this volume and where past efforts to apply classical antitrust approaches focused on bilateral relations between consumers and producers have been relatively unsuccessful (Kovacic, 2020).

However, since the product of much of the platform economy: data, is more or less freely provided by users of applications and websites, there is no way to apply this pricing theory of regulation to the context of the platform economy. Also, the dynamics of the market for user data differ markedly from traditional markets, as Jin and Wagman (2021) observe.

First, data exacerbates the information asymmetry between firms and consumers [...] Second, users stand to both benefit and lose from the externalities that are associated with data processing and provision, but the specific pecuniary and non-pecuniary harms and benefits to users vis-à-vis firms’ data practices are often difficult to quantify [...] Third, the nature of data storage and usage raises new questions about property rights and data ownership, data portability and accessibility, data concentration and security, data-related disclosures and transparency, as well as privacy and the ease of data de-anonymization [...] More broadly, all of the classical market failures—asymmetric information, negative externalities, market power, and bounded rationality—are potentially exacerbated or face new complications due to data.

Jin and Wagman (2021)

This requires states to both return to older theories, such as those from the Progressive era, which viewed cartels as inherently harmful to the economic order, and to search for new combinations of antitrust and consumer protection. In many ways, the comparison to the Progressive era of antitrust is justified. The cartels of the Progressive era were in industries like railroads and oil production, which had high infrastructural sunk costs. Much of the platform economy is also built on this ‘high fixed cost, low to no marginal cost’ model (Woods and Böhme, 2020). However, contemporary antitrust policy must also look beyond that era and connect with concerns such as the neo-Abolitionist appeal reflected in notions like the *moral economy* and recognize the shift toward *relational contracts* in much of the contemporary economy (see Chapter 1, this volume). SNA can help move such discussions from pure speculation to a level of understanding and measurement of such relationships.

Meanwhile, the above overview of ABM’s relevance for studying and interpreting cooperative business was necessarily truncated. Other ABMs have interpreted complex issues, such as the relationship of punishment to cooperation (Farjam et al., 2015) or the relationships between cheating, opportunism, and industry profitability (Biggiero and Sevi, 2009). These and related models could be adapted to explain how cooperative enterprises effectively manage resources, enforce certain values, and prevent free-riding and cheating, both within a particular enterprise and with respect to their interactions with capital-managed competitors or the broader market.

Moreover, ABMs, like the “segmentation” example reviewed above (Figure 11.10) could be augmented and developed to study the ability and relevance of collectivist principles like *Ubuntu* (see Chapter 5, this volume) for the governance, regulation and development of networked environments like online platforms that arguably defy any representation via bilateral relationships (e.g., *consumer-producer* Migheli, 2017; Metcalfe, 2013).

## 5 Conclusion

This chapter has attempted to outline how a process-based view can be refined and applied toward analyzing several salient aspects of cooperative enterprise, including particular cooperative principles and practices. Much of the above has been anticipatory, as the research has largely not yet been carried out. However, it is hoped that it, together with other chapters in this section, will stimulate further efforts to both develop and apply suitable research frameworks. In particular, the chapter has attempted to anticipate what a shift from an object- to a process-based approach implies for cooperative economists, management, and organization scholars. It draws on existing literature reviews and examples from current research, and at times speculates on how to apply such methods to cooperative enterprise and related topics of interest to CEM in the future.

It would appear that one of the major advancements of the approaches outlined above, and similar approaches over and against views like the neoclassical view in economics is to abandon any concern for “optimality”. Due to their complex nature and their frequent shift from order to chaos, complex dynamic networks never arrive at any optimum. This places BN analysis, SNA and ABM in a class together with other process-based approaches, such as those frequently present in evolutionary economics and some aspects of organization science, like organizational learning and communications.

Together with approaches from complexity science, evolutionary science, sustainability science, and disciplines like anthropology and sociology, economists and management scholars interested in issues of cooperation should spend considerable effort on outlining a framework beyond optimality and efficiency. These are artifacts of an organizational approach that is arguably

fundamentally flawed for questions concerning how cooperation and cooperative enterprise can be harnessed to solve the pressing problems of the present (Dow, 1988). It is hoped that this chapter provides some avenues for pursuing this agenda.

## Notes

- 1 As an anecdote, in the distribution center of a South African subsidiary of a German cosmetics firm, the collegial environment was negatively impacted by tribalism due to the fact that 15–20 ethnicities with different languages and cultural practices were employed in the department. This prevented any cohesion between the members of different tribes until a rotation system was designed to distribute leadership between the tribes. An analysis of only formal roles would not capture this problem.
- 2 For instance, one wine cooperative in Austria, Domäne Wachau, has focused its activities on communication and education of members with respect to climate change, organic production and sustainable methods of wine-making (Source: personal conversation with managers).
- 3 Such a view has been applied to domains like designing urban districts, via concepts like the “fractal city” (Batty and Longley, 1994); power grids; supply chains (Chatterjee and Layton, 2020); road networks (Logan and Goodwell, 2022); and municipal water distribution networks (Bodini et al., 2012). Most recently, Warren and Ulanowicz (2024) have attempted to outline several applications of PE for economics, including a comparative macroeconomic analysis based on the prevalence of cooperatives.

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# 12

## A PATH DEPENDENCE APPROACH TO STUDY AUSTRALIAN COOPERATIVES

*Linda Bennison*

### **Introduction**

Cooperation between organisations, communities, and individuals confers a survival advantage (Greene, 2013, p. 507). However, the number of Australian cooperatives has not consistently trended upward since registering Australia's first cooperative in 1859 (Patmore et al., 2021). This phenomenon is of interest as cooperatives are regarded as the world's oldest form of mutual (Mazzarol & Reboud, 2020) providing joint ownership and democratic control to those with shared cultural, economic, and social needs.<sup>1</sup> An opportunity exists for a systems science approach to understand, manage, and promote cooperation in economies and organisations by privileging processes over states. In this chapter, a case is made for a path dependence approach, contrasting with the approaches of Sean Geobey for a move away from an exclusive reliance on investor-focused approaches to the development of a variety of cooperative models for enterprise management in Chapter 8, Caio Silva's study of cooperatives as complex adaptive organisations in Chapter 9, Lucio Biggiero's methodological framework of nine different variables to calculate an Organizational Democracy Degree in Chapter 10, Jerome Nikolai Warren's relational or coactivational research methodologies in Chapter 11, and Camilla Carabini's anthropological methodology in Chapter 13. In the following pages economic, political, social, and technological impacts of institutional arrangements and power structures are examined. Specifically, this chapter provides insight into using path dependence methodology to examine the development trajectory of Australian cooperatives.

Path dependence theory provides insights into how past events and historical sequences shape present trajectories or outcomes, underscoring the temporal dimension of analysis. According to Sorensen (2015), adopting a narrow definition in path dependence provides clarity in studies of legal frameworks and regulatory approaches. In this chapter, Mahoney's (2000) definitions are adopted. Thus, a critical juncture is a historical event or decision creating or closing pathways with far-reaching and lasting consequences. Such events are often specific moments in history, such as wars, revolutions, and financial collapses. These events are characterised by a crisis reinforcing or disrupting existing power structures or institutional arrangements as the events or decisions create significant political, social, or economic change. A contingent event is defined as stochastic,

having a level of randomness that cannot be predicted and probability distributions that lead to a range of possible outcomes capable of shaping how systems or institutions develop. Contingent events have the potential to alter a path's trajectory, either reinforcing or disrupting the status quo. These events occur by chance due to specific conditions or circumstances and are not necessarily predictable. Similar to critical junctures, contingent events create a particular path dependence that is increasingly difficult to alter over time as cultural norms, institutions, and structures reinforce the path. Conjunctural events are described as events that form when sequences intersect, giving rise to a distinct trajectory. The moment of intersection holds particular significance in shaping these events. A key feature of path dependence theory is the irreversible influence on future events created by these seemingly inconsequential events (Arrow, 2000; Liebowitz & Margolis, 1995).

The capability of path dependence to analyse events across time complements the three phases of cooperative development: need and social dislocation (Fairbairn, 1994), members uniting in an organised structure, and members' ability to influence legislative and judicial processes impacting public, private, or government policy (Ortmann & King, 2007). When all conditions are present, an environment supporting cooperatives may develop, making the conflation of events significant and validating the adoption of path dependence sequencing.

Path dependence as an analytical tool is often used by qualitative researchers, especially historical sociologists, to study how economic and social conditions at formation impact organisations and constrain subsequent development. The theoretical direction chosen for this study assumes path dependence analysis from a complex, evolutionary perspective. To fully grasp the significance of path dependence, it is useful to explore the wide array of theoretical frameworks utilised in sociology. For example, Mahoney (2000) illustrates how path dependent analysis is sanguine to other epistemological research paradigms in Table 1 (p. 517), using legitimisation, functional, power, and utilitarian theoretical frameworks to produce a typology of path-dependent explanations of institutional reproduction.

In recent decades, free market economics have favoured individual over collective gain, leading to shareholder primacy and corporate purposes strongly aligned to profit. However, evidence of inequitable distributions and ownership of global assets is appearing in many profit-driven economic systems (McCredie et al., 2019). To address this problem, former World Bank Chair and Nobel Laureate Professor Joseph Stiglitz (2019) advocated for the inclusion of alternative forms of organisation to tackle self-interest and excessive corporate greed. This sentiment resonates with a renewed interest in the cooperative model by people wishing to work cooperatively rather than competitively.

In Australia, cooperatives are notably absent and poorly recognised, with low adoption rates attributed to capital and regulatory challenges, a lack of awareness and infrequent teaching about cooperatives (Apps, 2016; Hill, 2000). The 'invisibility' of cooperatives as a viable business structure increased this century (Patmore et al., 2021) with Grimstad et al. (2021) reporting that Australia's regulatory culture hinders the growth of cooperatives. A contributing factor is the limited understanding of cooperatives by lawyers and accountants, who are more likely to recommend establishing a company than a cooperative.

Globally, cooperatives adopt myriad forms and definitions. The International Cooperative Alliance Statement on the Cooperative Identity defines a cooperative as an autonomous association of persons united voluntarily to meet their common economic, social, and cultural needs and aspirations through a jointly owned and democratically controlled enterprise.<sup>2</sup> In operational terms, an Australian Government Business website defines a cooperative as a member-owned business focused on providing services to members rather than maximising the financial return of

investments. A Queensland State Government website distinguishes a cooperative by its ability to perform commercial functions unavailable to individuals, generate a profit for members unlike an incorporated association, not be restricted by membership caps like a private company, and have a strict one member, one vote governance system.<sup>3</sup> This study uses path dependence theories and frameworks to improve knowledge of the causal paths influencing cooperative development trajectories.

### **Approaches to path dependence**

The general concept underlying path dependence in social dynamics, biology, or physical evolutionary studies is a dynamic process governed by its own history, characterised by self-reinforcing dynamics and positive feedback (David, 2007). Academics interpreting historical relationships have applied general principles, path dependence, and general laws to initial conditions, revealing multiple path dependence explanations in historical literature, some general, some complex (Goldstone, 1998; Mahoney & Schensul, 2006; Tilly, 2006). Path dependence has been used by historical sociologists, legal scholars, planners, organisational management scholars and economists as an alternative to traditional discipline-based studies exploring institutional and technological development. Despite the widespread acknowledgement by academics of history's significant role in organisational development (Arrow, 2000; David, 1994, 2007; Hathaway, 2000; Liebowitz & Margolis, 1995; Mahoney, 2000; Mahoney & Schensul, 2006), questions persist about the precise nature and extent of its involvement (Schreyögg & Sydow, 2011).

An improved understanding of the theoretical ecology of organisations has been achieved by adopting longer time frames in research studies. Publications by Schumpeter in the 1950s, and further developments by Nelson and Winter in the 1980s, forged a significant conceptual connection between Darwinian evolutionary theory and the impact of technological innovations on economic development (Biggiero, 2022). Concepts identified by Hannan and Freeman, (1977, 1989) have been extended by researchers of population ecology, organisational diversity, environmental influences, isomorphism, organisational adaptation, and selection, to name a few. The debate over Lamarck's claims of more frequent use of an organism strengthening and developing adaptive features, which are then preserved by reproduction, and Darwinian theory linking the survival of organisms to variation, selection, retention, and inheritance, demonstrates how strategic adaptation and determinism mechanisms link and fit to the environment (Child, 2012). However, there is a clear tension between the use of mechanical and biological analogies for understanding complex phenomena (Nelson, 1995). More recently, Sloan Wilson and colleagues (2023) highlighted the dominance of gene-centric thinking throughout the 20th century. As a consequence, the study and application of human cultural change were relegated to disciplines beyond the conventional boundaries of evolutionary science and biological research.

The multidimensional effect of selection processes, production and marketing efficiencies, and political ties, contribute to organisational survival. For example, Hannan and Freeman (1989) suggest Carnegie adapted rather than created steel-making techniques when he combined previously separate manufacturing processes into a single, more efficient plant. Arthur (2009) later described the concept of technology being autopoietic, or self-creating, in his chapter, Structural deepening. Further refinements expanded the concept with combinatorial evolution, explaining how existing components or technologies recombine or are rearranged with existing elements to create innovation, not invention (Arthur, 2009). More recently, Biggiero (2018) has addressed concerns about the validity of viewing social systems as self-organising networks that are operationally closed, autonomous, and cognitive. He does this not by following autopoiesis theory and radical

constructivism but instead by adopting a second-order cybernetics perspective. A significant strength of this argument is its transition from rigid, engineering-focused (hard) interpretations to more flexible, social-based (soft) perspectives. This shift is adept at tackling the inherent complexities within human systems, demonstrating that second-order cybernetics possesses a robust theoretical foundation applicable to sustainability science (Biggiero, 2001).

The use of non-linear combinatorial processes of emergence in such settings has also been tackled by authors such as Roger Koppl and Duncan Foley. A mathematical model of combinatorial evolution developed by Koppl et al. (2023) introduces a novel theory, the emergence of economic niches, which explains how diverse combinations of elements drive technological progress. Although the research focus of Hannan, Freeman, Arthur, Mahoney, Biggiero, and Koppl differs reflecting economics, historical sociology, engineering, organisational ecology, and technology, their findings converge and reinforce the importance of reciprocal processes between historical contexts and technologies in shaping outcomes in evolutionary processes. Systems thinking provides a rich ground for interdisciplinary exploration that can deepen insights and enhance understanding of how information influences organisational behaviour and decision-making within complex adaptive systems.

The phrase ‘history matters’ appears regularly in academic literature. Its significance relies on understanding how linking the past and present contributes to understanding how institutions evolve (North, 1990), thus avoiding a statement that it just happened because it happened (Goldstone, 1998, p. 833). Importantly, path dependence frameworks do not recreate history; rather, they use available evidence and theories to construct a consistent logical story constrained by the evidence that would otherwise not be possible (North, 1990). Evidence of an early event creating an advantage that has an irreversible influence is critical to establishing path dependence (Arrow, 2000; Liebowitz & Margolis, 1995). However, unqualified claims linking path dependence with history, such as history matters and shapes the future, are criticised as vague (David, 2007; Schreyögg & Sydow, 2011). If the research fails to describe rigorously a path-dependent process of change, an argument develops that path dependence is more aligned with path analysis (David, 1994; Mahoney, 2000). To address this weakness, Mahoney (2000, p. 507) proposed tracing an ‘outcome back to a sequence of events with deterministic properties that cannot be explained by prior historical conditions’. An event is contingent if it triggers a path-dependent sequence, regardless of how minor or inconsequential the event appears at the time.

Path dependence has biological and genealogical contexts as an intuitive style of institutional evolution. The concept of evolutionary change has widespread acceptance as an institutional attribute, as institutions are carriers of history with institutional frameworks influencing organisational form and development (David, 1994; North, 1990). If a prevailing situation, linked to historical events, exerts an influence on the current environment, it may satisfy path dependence. With these characteristics, the so-called accidents of history can become entrenched with conformity, leading to an expectation of continued conformity that becomes self-fulfilling (Lewis, 1969).

Path dependence relies on a strong causal thread where changed conditions result in permanent effects, shifting economic paths to an alternative steady state (Allen & Donaldson, 2022). Research by Arthur et al. (1987) using a non-linear Polya system in economic path dependence processes demonstrated how a self-reinforcing dynamic occurred from a seemingly insignificant event. Labelled the Polya urn experiment, the power of sequence was illustrated by allowing the colour of the first ball selected to dictate the colour of the next ball added to the urn. When repeated, the process introduced a bias to the coloured balls added to the urn. Applied to the uptake of technology, this initial advantage increases adoption, potentially disadvantaging alternate technology (Arthur et al., 1987). This early bias effect can create permanence when transferred to social

arrangements (David, 1994; Lewis, 1969). Similarly, when applied to technology, the outcome is a “lock-in” of this initial advantage either through inflexibility or a non-ergodic past event, rather than the expected averaging of all other events (Arthur, 1989).

In economics, increasing returns are cited as a necessary condition for the adoption of path dependence (Arthur, 1989). A positive feedback loop occurs when one technology experiences greater adoption over another, initiating a chain of events. The increased use of technology can prompt modifications and enhance user expertise. Subsequent modifications further improve the technology, leading to increased adoption (Arthur, 1989). Different degrees of path dependence success and failure are defined by Liebowitz and Margolis (1995): first-degree when an association with the initial condition doesn’t confer inefficiency; second-degree when subsequent events are later shown to be inferior to an alternative; and third-degree when an action is shown to have an inefficient path *ex-ante*.

A legal interpretation of path dependence theory, comparing developments in law with evolutionary change, is provided by Hathaway (2000). Her argument rests on the doctrine of *stare decisis* where binding precedents become embedded in the structure of the law, conferring a degree of predictability and reducing uncertainty. Hathaway’s argument is consistent with North’s (1990, p. 96) earlier findings on the evolution of common law as a form of institutional change. Hathaway (2000) also argues that understanding past law is necessary to understand current law, especially the significance of timing and sequences within the law. Using examples from three strands of path dependence theory, increasing returns, evolutionary, and sequencing, Hathaway (2000) conceptually narrows the choices, showing how legal decision-making constrains or nurtures legal practice. A more recent contribution by Schauer (2018, pp. 142–143) suggests that *stare decisis* has a weak normative practice and is more likely useful as a rhetorical weapon against opponents, perhaps reflecting a similarity evident in opponents of path dependence.

A theory of gradual institutional change proposed by Mahoney and Thelen in 2010 was extended in 2015 (Thelen & Mahoney, 2015). The subsequent work opposes the earlier focus on endogenous shocks, punctuated equilibrium, and contingent events to encompass displacement, layering, drifts, and conversion. The change marked a shift away from sociology toward political science, positing that institutional change occurs gradually, influenced by the interpretation and enforcement of rules interwoven with institutional properties and political context. This line of thought is not entirely new, as North (1990, p. 101) acknowledges the contribution of gradual institutional change occurring through continuous marginal adjustments as well as discontinuous institutional change such as in conquests and wars.

The interwoven nature of path dependence is summarised by Sewell (1996, p. 842): people’s practices can constitute and reproduce structures at the same time that structures shape practices. However, the success or failure of structures or organisations is closely intertwined with human cooperation. Therefore, path dependence offers an avenue to comprehend the influence of humans on constructs like the institutional framework (North, 1990). It is the human element underpinning structural and organisational constructs that is important to understanding cooperatives.

### **A novel application**

An illustration by Mahoney (2000, p. 534, Figure 3) of English industrialisation, based on Goldstone’s (1998) article, Path dependence in historical sociology proved a catalyst, prompting subsequent investigation and providing a framework for research into Australian cooperatives. Path dependence is distinguished from path analysis: path dependence relies on contingent events to set in motion an institutional chain of events characterised by deterministic properties.

Contingency is critical in path dependence as its presence prevents the prediction of events reliant on prior historical conditions or explanations based on how causal processes work. In contrast, path analysis explores chronologically sequenced variables and is often criticised as tracing outcomes back to temporally remote causes (Mahoney, 2000).

An explanation of England's industrialisation by Goldstone (1998) and Mahoney (2000) depicts three sequences: environmental, cultural, and industrialisation. The environmental sequence of declining sources of surface coal and wood fuel led to Newcomen's 1712 invention of an atmospheric engine capable of draining flooded coal mines along Britain's coast. The cultural sequence reveals a period characterised by the limited authority of the monarch and the Anglican Church, within a society open to new ideas and technology. The intersection of these two sequences, specifically flooded mines and technological experimentation, created a conjunctural event: the development of the first steam engine. An industrialisation sequence followed, characterised by cheaper coal, improved steam engine designs, reduced iron and steel prices, mass production, the building of railways and ships, and then the mass distribution of goods (Mahoney, 2000). The methods used to extend these sequences to Australia are detailed below.

First, legal and academic databases were interrogated for potentially relevant events and legislation. The data was collated in chronological order initially in a Word document and later using an Excel spreadsheet. The transfer of data to a worksheet resulted in an expanded display of data and allowed for a greater number of filters to be used. Worksheets within the spreadsheet file proved valuable for developing multiple scenarios as potential sequences. Next, data was analysed, time periods assigned, and a preliminary scaffold was built for the path dependence framework. Decades were selected as the unit of temporal analysis; however, pre-Federation (1901) data was added as antecedent data surfaced. Preliminary efforts to construct a framework with peer-reviewed literature were frustrated by events that extended across decades. For example, the financial reform that commenced in the 1970s preceded the Corporations Act 2001. Attempts to account for antecedent effects saw all data linked to the first mention of an event. The problem with this approach was that the timeline quickly became disordered. Data was then reassigned based on the date it occurred, leading to multiple entries for some events. While chronologically correct, this upset the flow of sequences. To resolve this, bridging text was added to link legislation across the decades. Again, a quagmire of data occurred with little order to the structure being created.

To make better sense of the data, a shift from a chronological decadal perspective to a sequential event-focused perspective was required. Events were re-ordered, restoring a reasonable degree of order to the data. With the primary scaffolding in place, further searches were conducted using two methods: generalist and academic. The generalist approach involved interrogating Google for events connected to Australia's colonial development. While Google is not considered an academic tool, this search was undertaken to determine if events outside of the academic literature were relevant or if any events had been overlooked in earlier literature searches. Results from this search informed further investigations. For example, references to Australian pioneer technology indicated a causal pathway linking the rapid settlement and industrialisation of Australia to the English Industrial Revolution (Birmingham et al., 1979). Search criteria were also applied to events such as Federation, World Wars, industrialisation, booms, recessions, and depressions. Search filters for cooperatives included "cooperative" and "co-operative" in both singular and plural forms. Field notes from the literature searches were invaluable in later calibrations of events in institutional, regulatory, and corporatisation sequences.

Academic literature databases were re-examined using data from Google and Google Scholar searches. For example, the book *Australian Pioneer Technology. Sites and Relics... towards an industrial archaeology of Australia* (Birmingham et al., 1979, p. 7) states 'the settlement of Australia

was a consequence of the Industrial Revolution'. This was confirmed by Casella (2006) and Myers et al. (2018). Although the citation is circuitous, the causal link identified in Google was confirmed in academic literature. A further strategy traced citations of academic researchers actively engaged in Australian cooperative studies. This method, described as a seminal-work-driven approach by Hiebl (2021), supported the findings of Horsley et al. (2011) that despite a weak study design the strategy is useful to supplement other searches. Searches were repeated across academic literature in law, history, economics, geography, and social sciences until no further references appeared. The robustness of events as contingent or conjunctural was assessed to determine stochasticity and whether events deviated from the known or expected behaviour of similar incidents.

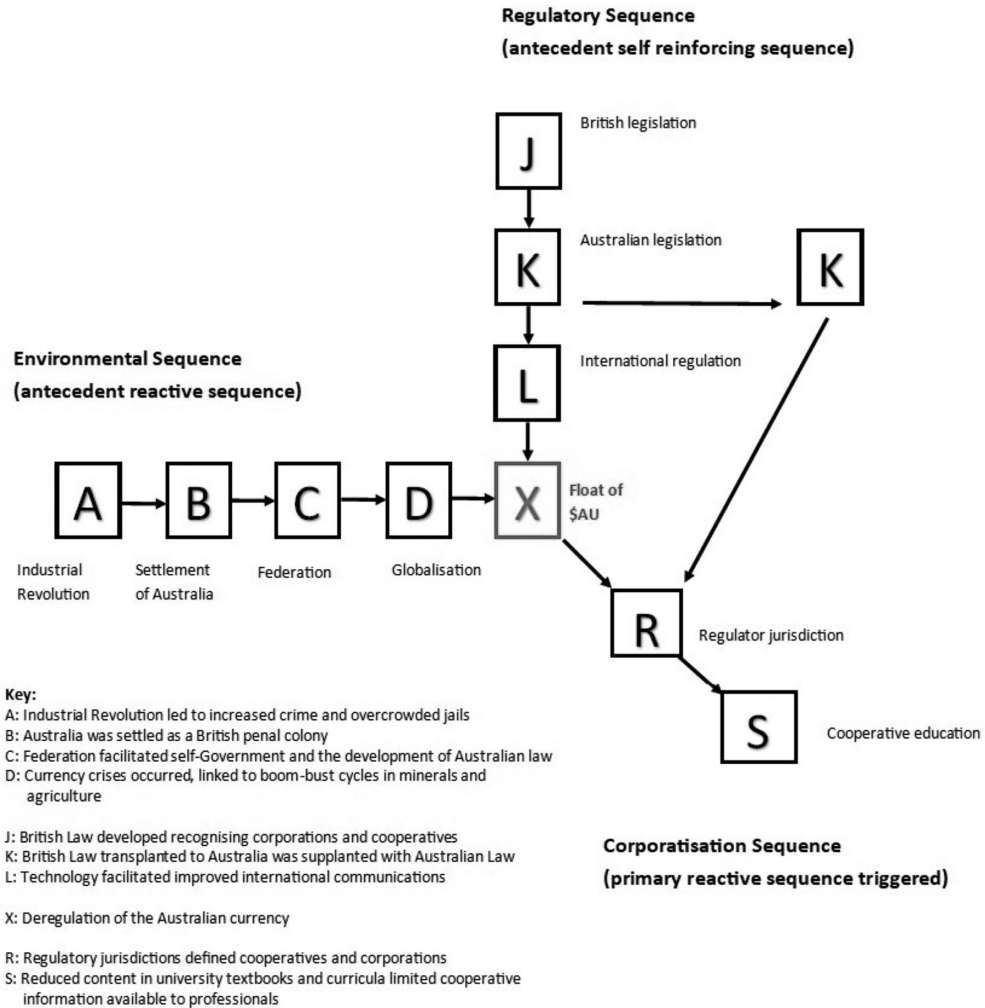
By way of example, the European settlement of Australia, although possible was not predictable and perhaps unlikely. Lieutenant James Cook recorded landfall and claimed the Australian continent for England in 1770, 164 years after William Janszoon's first authenticated discovery of Australia.<sup>4</sup> Cook's claim might have appeared a random and unpredictable event until viewed in the context of the Industrial Revolution. Factories disrupted cottage industries, leading to the displacement of workers who then migrated to cities in search of employment. These outcomes, namely overcrowding, increased crime, and the overfilling of jails, contributed to England's imperative for establishing a penal colony (Grinberg, 2022). This example reveals how the invention of a small engine served as a causal link, initiating an institutional chain of events characterised by deterministic properties, that led to the settlement of Australia.

Australia's Federation had far-reaching consequences on the institutional sequence (Hughes, 1992). To combat Australia's tyranny of distance (Blainey, 1966), the six British colonies coordinated services such as post, railways, and telecommunications (Hughes, 1992). When the colonies united to form the Commonwealth of Australia in 1901, specific lawmaking powers were conferred to the Commonwealth (French, 2008). Of interest to this study, the referral of finance and trade matters was restricted to foreign trading and financial companies already formed in the Commonwealth under s 51(xx) of the Australian Constitution, known as 'Corporations Power'. As a result, cooperatives and companies operated without a constitutional head of power, leading to the development of a national framework reliant on cooperative federalism (Apps, 2016; Hall, 2020; Sarina, 2013). This development trajectory continued for a century, weathering booms and busts as the new nation developed.

A regulatory antecedent self-reinforcing sequence developed from British and Australian legislation, as well as international regulations and policies. The reinforcing nature of this sequence becomes apparent through the influence of British law on the emerging colony, illustrated by the adoption of the Westminster system and other legal and regulatory traditions that formed the foundation of Australia's legal system.

A primary reactive sequence was triggered when the institutional and regulatory sequences intersected. The point of intersection, the deregulation of Australia's currency, is the conjunctural event that created the corporatisation sequence. The three path dependence sequences are illustrated in Figure 12.1. It is worth noting that the promulgation of the Corporations Act in 2001 (K1) by the Commonwealth Government falls within the realm of Australian legislation (K). This, alongside previous corporations legislation, influenced the jurisdiction of Australian regulators (R). This contrasts with the implementation of the Cooperatives National Law template legislation from 2012 to 2020, which retained State and Territory regulators.

The introduction of the Corporations Act 2001 (Cth) streamlined administrative procedures, resolving many inconsistencies that had arisen under State and Territory jurisdictions. In contrast, the introduction of Cooperatives National Law almost a decade later retained State and Territory



*Figure 12.1* Path dependence sequences defining key institutional, regulatory, and corporatisation events that influenced the development trajectory of Australian cooperatives (Bennison, 2023).

regulators creating un-cooperative federalism characterised by inefficient administration and inconsistent legislation (Apps, 2016). Figure 12.1 lacks clarity regarding the impact of the Corporations Act on cooperatives. While the figure indicates changes in regulator jurisdiction and alterations in university textbook content following the Act, it doesn't explicitly reveal how this impacted companies and cooperatives.

Figure 12.2 displays a reconfigured illustration derived from Schreyögg, Sydow, and Holtmann's (2011) organisational path dependence framework, based on the concepts presented in Figure 12.1. The second figure outlines sequences structured around regulator jurisdictions, delineating stages from pre-formation to formation and lock-in. The efficiencies gained from a well-resourced national regulator are reflected in the current streamlined application processes

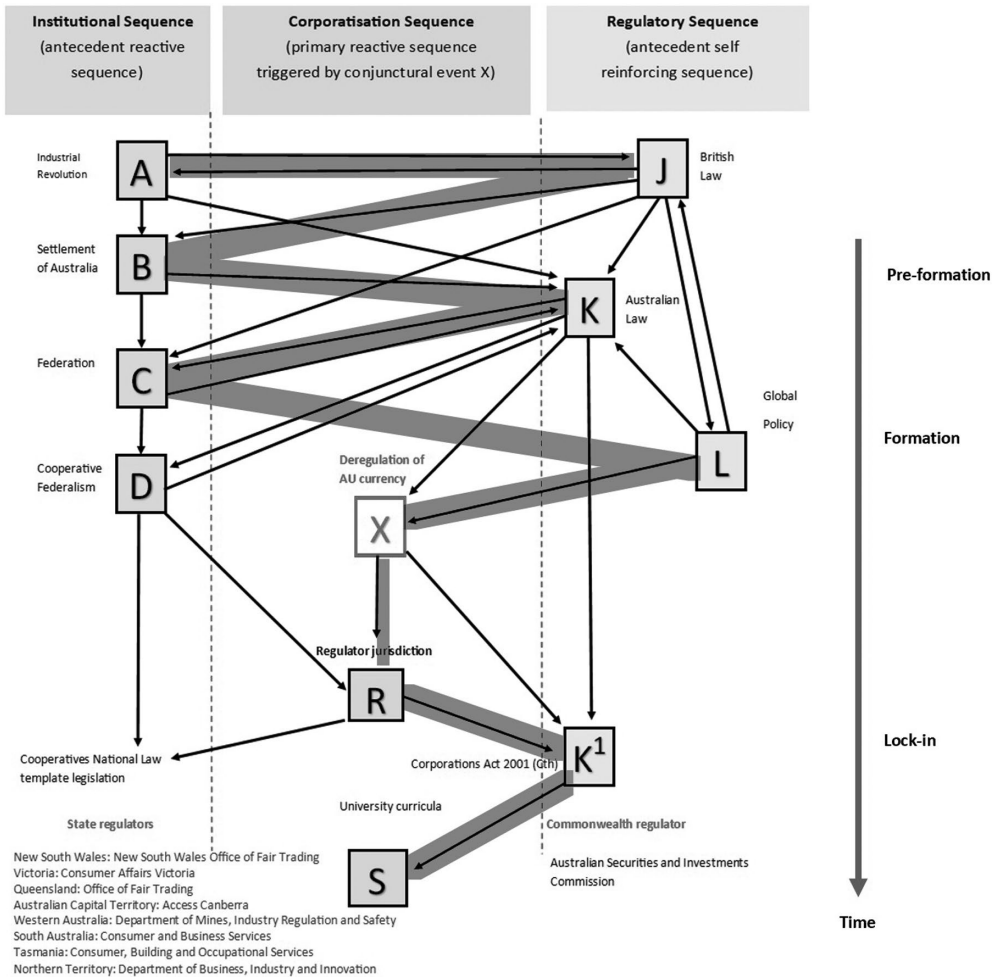


Figure 12.2 Path dependence sequences reflecting Schreyögg, Sydow and Holtmann's organisational process (Bennison, 2023).

for companies; a company can be registered online in less than 20 minutes, whereas registering a cooperative with a State or Territory regulator is more likely to require months. Warren (2024, in press) has followed this methodology to provide an evolutionary analysis of Italy's social and community cooperatives.

The three phases, pre-formation, formation, and lock-in, depicted in Figure 12.2 shed light on how the Australian situation of corporate primacy may have developed. Although regulator jurisdiction is identified in Figure 12.1, the narrowing of choices is evident in Figure 12.2. Several unanticipated consequences have followed the promulgation of the Corporations Act 2001 (Cth). Firstly, the Australian Law Admissions Consultative Committee incorporated Company Law as one of the 11 core university law courses. Consequently, most law graduates now possess familiarity with the Corporations Act and companies. This, however, led to a second consequence: the inclusion of 11 core units curtailed the time allocated in university curricula to educate

undergraduates about cooperatives (Apps & Bennison, 2023). The significance of this sequence highlights the need for further research in this domain.

## **Conclusion**

Path dependence theories and frameworks allow researchers to undertake research across longer periods of time. This chapter explains the methodology used to analyse policies, practices, and technologies impacting the development trajectory of Australian cooperatives from the 1901 Federation to the 21st century. Goldstone's (1998) and Mahoney's (2000) findings are extended to Australia, revealing the role of contingency and conjunctural events in creating lock-ins and self-reinforcing trajectories. Through a path dependency framework, the impact of the Corporations Act 2001 (Cth) on the development trajectory of cooperatives is revealed. Although a federal regulator resolved the problem of 'un-cooperative' federalism derived from inconsistent State and Territory legislation for corporations, cooperatives have inadvertently been disadvantaged by multiple regulators and fragmented legislation.

The small profile held by cooperatives in the business landscape raises questions about whether cooperatives matter and warrant serious attention. Former World Bank Chair and Nobel Laureate Joseph Stiglitz (2019) advocated for the inclusion of alternative forms of organisation to temper the self-interest and excessive corporate greed evident in recent decades. This attitude is finding support among some scholars critical of the rising inequalities in the distribution and ownership of global assets.

Potential weaknesses of this study include limited and biased data, subjective selection, and elimination of events in the path dependence sequences. However, rigour in how literature and findings were reviewed and analysed, combined with an awareness of this limitation, makes this research no weaker or stronger than other soundly conducted research.

The timing of cooperatives research aligns well with the United Nations' declaration of 2025 as the second International Year of Cooperatives. Particularly relevant is the United Nations call to review existing legislation and regulations to create a legal and regulatory environment more conducive to the creation and growth of cooperatives. The argument to support cooperatives is bolstered by Anu Puusa's statements in Chapter 15, Critical issues for corporate governance. First, cooperatives are in a position of strength in today's world, wielding considerable economic power and influence from one billion members. Second, cooperatives employ, directly or indirectly, 250 million people around the world and involve more than half of humanity. As modern food supply chains connect humanity and play a vital role in political and food security, diversity, and stability in such systems are essential. Systems, whether natural or humans-made, that tend towards monoculture are prone to collapse. Cooperatives, however, when well-managed, not only offer diversity but also serve as a form of longevity insurance. Compelling arguments linking sustainability and cooperatives are made in Section V: Sustainability and are excellent reading. Molly Scott Cato in Chapter 30 argues for a cooperative future, Andreas Exner and Dirk Raith in Chapter 31 promote cooperatives and ecological sustainability to improve understanding, Christian Felber's approach is for an economy for the common good in Chapter 32, and Marina Albanese reflects on the governance and 'green-ness' of work cooperatives in Chapter 33. In Chapter 34, Jokin Bergara Eguren and Oier Imaz Alias discuss Mondragon Worker Cooperatives, followed by Cecile Godfroid, Marc Labie and Coralie Muylaert's analysis of the cooperative contribution to the circular economy and product service systems using an environmental transition lens, before the final chapter by Ludger Voigt and Dietrich von der Oelsnitz on project-based cooperatives as a means for civic engagement to achieve Sustainable Development Goals.

## Notes

- 1 Adapted from the International Cooperative Alliance Statement on the Cooperative Identity. <https://www.ica.coop/en/cooperatives/what-is-a-cooperative>.
- 2 Adapted from the International Cooperative Alliance Statement on the Cooperative Identity. <https://www.ica.coop/en/cooperatives/what-is-a-cooperative>.
- 3 Australian Government. <https://business.gov.au/planning/business-structures-and-types/business-structures/co-operative>; Queensland State Government. <https://www.qld.gov.au/law/laws-regulated-industries-and-accountability/queensland-laws-and-regulations/associations-charities-and-non-for-profits/cooperatives/what-is-a-cooperative> Australian Taxation Office.
- 4 See Gutenberg Australia timeline. <http://gutenberg.net.au/explorers.html#explorerlist>. Authenticity of the site is derived from Witten, I. H., Gori, M., & Numerico, T. (2007). Chapter 2 – Literature and the web. Can the alchemists transmute a mess of books into an ethereal new structure? In I. H. Witten, M. Gori, & T. Numerico (Eds.), *Web Dragons* (pp. 29–59). Morgan Kaufmann. <https://doi.org/https://doi.org/10.1016/B978-012370609-6/50005-9>.

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# THE COOPERATIVE ETHOS IN KNOWLEDGE CREATION

## How anthropology informs cooperative economics

*Camilla Carabini*

### 1 Introduction: a cooperative methodology

Anthropology is, by definition, cooperative. The foundational principles of anthropological methodology—positionality, participation, and restitution—are inherently cooperative, emphasizing the need for ongoing reflexivity, collaboration, and reciprocity during the research process. On the other hand, the cooperative ethos reflects the attitude anthropologists demonstrate in the field by acknowledging that the researcher and their interlocutors jointly participate in knowledge creation (Darwin Holmes, 2020).

Biological anthropologists have been interested in studying cooperation as human behavior to deconstruct the myth of human beings being guided solely by self-interest or at war against each other (Kropotkin, 2021). They recognize how our species exhibits incredibly mutualistic attitudes, far more than other primates (Silk, 2009). Suggesting that it evolved from mutualistic collaboration rather than altruistic impulses, some scholars insist that human cooperation arose from interdependence for survival and procreation: cooperation as mutual aid explains human societies' unique forms of cognition, communication, and social organization (Tomasello et al., 2012).

While acknowledging the significance of these reflections, this text will refrain from delving deeper into them and instead direct attention toward economic anthropology, which has roots in the study of exchanges within non-market societies and has since expanded to recent ethnographic studies within investment banks. Positioned within the realm of heterodox approaches, the anthropology of the economy embraces the understanding that science itself is a social construct and emphasizes the political nature of economics (Wilk & Cliggett, 2007). “The anthropology of the economy explores the idea that different but possible ways of organizing economic activity can not only be imagined in theory but can be brought to fruition in historical reality” (Rakopoulos, 2020, p. 3). Therefore, studying cooperatives from an anthropological perspective concerns the failures or realizations of democratic economic systems.

The first anthropologist to challenge the flawed notion of economics as a science entirely autonomous and separable from every other disciplinary field was Marcel Mauss (2002 [1925]). Building on his theories, generations of anthropologists have criticized the “natural laws of the market”

proposed by classical political economists, such as self-interest and the maximization of utility. In studying a particular type of non-market society, namely, gift societies, Mauss revealed that different principles, such as reciprocity, hierarchy, solidarity, and competition, simultaneously operate within any social system (Aria, 2016). By considering gift societies a hybrid concept between utilitarian calculation and pure generosity, Mauss drew a connection with cooperatives. Future scholars will use this same intuition to address cooperative organizations as a third way between the market and the state, and the cooperative economy as a domain within market-oriented societies where reciprocity persists despite the competitive environment (Polanyi, 1945; Godbout & Caillé, 2002).

In the context of cooperative economics and management (CEM), anthropology offers a qualitative analysis of both the enterprise and the community it is immersed in. Anthropologists view the cooperative as a social entity *per se*, with its history shaped by people influenced by social, cultural, and geographical factors (Nash & Hopkins, 1976; Vargas-Cetina, 2011). They critically examine how workers live within and outside the cooperative and the relational and intimate economies of its members (Rakopoulos, 2018; Vargas-Cetina, 2005). They analyze the tensions and disillusiones between theory and praxis concerning democratic participation, political neutrality, and governance structures (Kasmir, 1996). Additionally, they study the frictions between the local sensitivities of workers and the global markets for their products (Ferry, 2003).

Instead of analyzing how anthropologists have been studying cooperatives (see Rakopoulos, 2020), I will further explore the cooperative nature of the discipline's methodology. I argue that this understanding could broaden the analysis of CEM scholars, allowing a more rounded and holistic comprehension of economic phenomena.

As a research methodology, anthropology offers valuable insights into the cooperative economy by using ethnography and participant observation to render explicit the *emic*<sup>1</sup> perspectives of the agents and their relationships with the human and non-human world. This approach provides a rich, “thick” (Geertz, 2003, p. 6) descriptive analysis of how individuals engage with each other, the researcher, and other natural agents within their community. Immersing oneself in the context of a cooperative life allows for exploring social interactions, symbolic meanings, ritualistic practices, and communication dynamics that are otherwise impossible to consider. Ethnography, as a method, goes beyond the mere collection of data; it involves the active engagement of the researcher in the lives of the people being studied over an extended period (Ingold, 2014). It builds upon the collaborative relationships that the anthropologist and their co-researchers establish in the field daily (Lassiter, 2005). This engagement encompasses observing events, listening to conversations, conducting informal and formal interviews, gathering documents and artifacts, and conducting archival work (Hammersley & Atkinson, 2007). It is a mode of relating to others. When practiced within organizations, ethnographic sensibility allows the analysis of corporate culture as a strategic site to underpin the complexities of contemporary societies (Cefkin, 2009).

Through a brief reconstruction of Marcel Mauss's experience as the pioneering cooperative anthropologist in Europe, I show that anthropology and the cooperative movement share common roots. I draw inspiration from his life and academic career and use my ethnographic example as a decade-long participant observer in an Italian cooperative bank to show how the anthropological approach creates knowledge that is *per se* cooperative.<sup>2</sup> However, I first introduce the three critical aspects of the anthropological methodology that present a profound cooperative ethos: positionality, participation, and restitution.

## **2 Positionality: the tool of reflexivity**

In their pursuit of understanding and interpreting the social world, anthropologists are acutely aware that complete objectivity is an elusive goal.<sup>3</sup> The ontological approach from the post-modernist critique suggests that anthropological epistemology is based on the practice of reciprocity and the encounter with human and non-human agents in the field (Degyansky, Chapter 29). Reality is co-constituted between anthropologists and the communities they study, and objectivity is seen as a collaborative and relational process, acknowledging multiple ontologies and perspectives (Richardson, 1993). Researchers are not detached observers but integral components of the social fabric they investigate. Within this complex dynamic, they bring their own vulnerabilities, personal stories, and experiences, all of which inevitably influence their observations and interpretations of both quantitative and qualitative data. This understanding gives rise to a practice known as positionality.

Positionality describes “an individual’s worldview and the position they adopt about a research task and its social and political context” (Holmes, 2020, p. 1). It is unique to each researcher: some aspects are culturally ascribed as being fixed, for example, gender, class, skin color, and nationality, while others, such as political views, personal life history, and experiences, are more fluid and constantly changing. As it will impact their results, researchers should critically scrutinize and acknowledge their positions, assumptions, and biases as they engage with their chosen fields of study in a constant practice of reflexivity. A reflexive approach becomes, therefore, a necessary prerequisite and an ongoing process for the researcher to identify, construct, critique, and articulate their positionality.

Moreover, anthropologists should recognize that the people they engage with – the collaborators through which knowledge is co-created – often develop their own technical knowledge, made of empirical data, theories, and models sometimes validated even in academia. Dealing with this situated knowledge is an ordinary reality within organizational contexts, like cooperative enterprises. Scrutinizing these emic concepts poses an additional challenge for the researcher, who must critically assess these notions while simultaneously subjecting themselves to a double self-examination through the practice of reflexivity.

The anthropological distinction between etic and emic can be fecund to international business and management scholars, who have used it to distinguish elements that can be compared across cultures (Buckely et al., 2014). However, sometimes those boundaries can be very blurred. This is why CEM scholars, like anthropologists, should adopt an approach that acknowledges the inherent tensions arising from their different positionalities.

Reflexivity contributes to increasing awareness of the consequences of knowledge production among the studied community –or cooperative. Knowledge creation is not neutral; instead, it carries the potential to facilitate or hinder social change, as well as create conflicts and imbalances. Recognizing that their commitment extends beyond academic inquiry, anthropologists reflect upon how their works can impact society (Graeber, 2011; Ortner, 2016). This acknowledgment paves the way for engaged anthropology that bridges the gap between theoretical exploration and political aspirations for change. In this case, academia merges with activism, resulting in a discipline responsive to the pressing needs of the studied societies. However, reflexivity and positionality become critical in ensuring that the political stance does not surpass the ethical strive for knowledge, which is the ultimate objective of any scholar.

Familiarity with the cooperative movement or engaged as activists, CEM scholars may straddle the dual roles of researchers and practitioners or activists. With the aim to contribute to academic

discourse, the practice of constant and consistent reflexivity becomes imperative in this delicate balancing act. Navigating this tightrope requires a perpetual commitment to reflexivity and recognizing how their affiliations influence their academic work.

### **3 Participation: knowledge creation is always a cooperative effort**

The second crucial methodological aspect is participation. Among the most debated yet fruitful concepts for other disciplines is “participant observation”—the notion of immersing oneself in the daily activities of the community under study (DeWalt & DeWalt, 2011; Malinowski, 2004). Over time, this practice has expanded with concepts such as “performative observation” (Vargas-Cetina, 2020, p. 204) or “observant participation” (Seim, 2021, p. 3). However, at the core rests the idea that anthropology is not a passive study of people but a collaborative endeavor embodied within a community. The anthropologist becomes a participant, experiencing life and work with their co-researchers.

The assertion that anthropology is not merely a study of people but a study with people encapsulates the essence of participatory methodology (Ingold, 2008). This immersion within the environment of joint activity equips researchers with a unique vantage point through which they can perceive the world through the lens of their interlocutors. This outlook highlights the cooperative nature of anthropology, where the world at large becomes a co-researcher in the journey of knowledge acquisition. Through this participatory engagement, which implies constant negotiations in the field, anthropologists glean insights into diverse ways of seeing, hearing, and touching – an experiential understanding that transcends theoretical abstractions and exposes the researcher to their vulnerabilities (Behar, 1996).

By focusing on everyday practices in the workplace and beyond, the stories that are told, and people’s behavior during meetings or informal gatherings, anthropologists can describe the processes that give meaning to an organization’s life and, through their thick descriptions, render explicit what is considered implicit within the community. Looking at the micro-level of relationships, practices, and discourse has proven to be a powerful tool for conducting a broader macro-level analysis of the cooperative culture. The world does not reveal itself through formalized concepts, such as structures or symbols. Agents strive to make sense of their experiences through routines, practices, rituals, and performances. Participant observation allows researchers to access those data, helps in formulating culturally relevant questions, and enhances the accuracy of data interpretation by providing an insider’s perspective: to describe a cooperative culture, one should observe those who interact with it on a daily basis.

Despite the invaluable insights gained, this immersive approach comes with challenges. Anthropologists often struggle to switch off from their research, even during personal downtime. Fieldwork is a total social activity embodied and felt by the researcher (Richardson, 1993). The boundaries between work and personal life become blurred, leading to constant data collection and analysis. This continuous engagement can be exhausting, but it also highlights the commitment and dedication required to understand and recount the lives of the studied communities. Observant participation shows the importance of being actively engaged in a cooperative to achieve a deeper understanding of the cooperative economy.

Anthropology exemplifies that knowledge-seeking requires the researcher to transform themselves in the process of engaging in the field, accept unanticipated paths, and be open to possibilities that arise while experiencing the world (Throop, 2018). The ethnographic encounter is a way to understand another being without privileging any logic but instead being open to new horizons of understanding that may emerge when different logics dynamically meet (Merleau-Ponty, 1964

in Throop, 2018). As a methodology, anthropology entails moving out of the comfortable modes in which the researcher inhabits the world by taking the parameters of alternate ontological frameworks seriously. It is an imaginative work: “Not a matter of imagining a form of experience but of experiencing a form of imagination” (Viveiros de Castro, 2013, pp. 483–484). By experiencing the other, the ethnographic encounter “enables one to critically reconsider one’s view from another vantage point” (Jackson, 2013, p. 262 in Throop, 2018). It is about making the strange familiar, and the familiar strange, in all its ontological essence. This is possible only through the embodiment of the researcher into their field.

Some management scholars have recognized the benefits of participatory approaches. Participatory Action Research, for example, assumes knowledge to be a “process of joint learning” (Ottosson, 2003, p. 90), and includes “the human research subject into the design, implementation, and analysis of the research” (Pietrykowski, 2015, p. 1). Anthropologists have also been using PAR to promote solutions for and in collaboration with public organizations and institutions (Vargas-Cetina, 2020), as this method resonates with ethnographic data collection (Chevalier & Buckles, 2019). A first takeaway for CEM scholars is that, especially in cooperative economics, a critical interdisciplinary engagement would benefit research. Radically new research methods can emerge by developing a truly transdisciplinary approach that moves beyond mere juxtaposition or complementarity among disciplines. It would involve discussing each discipline’s underlying assumptions and creating new common languages. At the same time, it would also provide more holistic attention to the emic voices of the interlocutors in the field. In this regard, compelling work is being carried out by some authors in this handbook who are shaping a theory of cooperative economy based on relational epistemologies and methodologies (Wieland, Chapter 1; Silva, Chapter 9; Biggiero, Chapter 20; Warren, Chapter 11). By recognizing the cooperative ethos that characterizes the relationship in the field and viewing interlocutors as co-researchers, CEM scholars acquiesce that pursuing knowledge requires researchers to transform their thinking and be receptive to unanticipated possibilities from the people engaged in the research.

#### **4 Restitution: to give back and reciprocity in the field**

One of the ethical imperatives for anthropologists is to give back to the communities that accept sharing their knowledge with them. This reciprocity builds trust between the researcher and their collaborators. This relationship is built through a dialogue of giving and taking, where scholars actively contribute to the community’s well-being. This practice goes beyond anthropology and could be extended to most disciplines. Various creative methods have emerged to give back to the communities, implying prolonged involvement over an extended timeframe – such as graphic novels, music, videos,<sup>4</sup> as well as creating associations, teaching, and working with local institutions.

Returning to the field after research is completed involves a delicate process of communication and translation. Anthropologists often feel the urge to share results and respond to the expectations of the informants and communities. As mentioned earlier, interlocutors have become co-producers of the researchers’ knowledge, but they also have their own ideas built upon experience and practice. Researchers, therefore, need to reckon with practitioners’ knowledge and face it. They feel the weight of having to contend with those who experience their reality daily and may not appreciate the researcher portraying it in academic nuances. “Turning relationships into data, and placing interpretations in public can also disturb and break fieldwork relationships. It might be ‘anti-social’” (Mosse, 2006, p. 937). The researcher must consider the possibility of receiving a hostile reaction to their work and should not assume that the people studied will necessarily “see the research in the same way” (Hammersley & Atkinson, 2007, p. 219). Therefore, generating a

cooperative spirit in the field, based on open dialogue and the recognition that any critique is meant to contribute to knowledge creation, becomes essential.

In addition to that, every author writes for an audience. In the case of cooperative anthropology, this public generally extends beyond academia and includes the cooperative members themselves. Sometimes, research can be commissioned and written for the enterprise's top management. Practitioners could benefit from the insights of the results: however, it could also generate conflicts, exacerbate tensions, and, in extreme cases, provoke harm. Acknowledging these risks, anthropologists must tread carefully when navigating these heterogeneous audiences.

A collaborative ethnography shares the authority of defining the research's target audience with the interlocutors and should aim to "deliberately and explicitly emphasize collaboration at every point in the ethnographic process," especially in the writing process (Lassiter, 2005, p. 16). More than a restitution ex-post, once the work is completed, the researcher can engage in a process of collaborative reading and interpretation of the ethnographic text in the making. Allowing co-researchers to have a say in the final manuscript is a way to share the power and authority of academic knowledge – knowledge that is situated and matters intellectually, politically, and ethically.

Ethnography encourages researchers toward activism, seeking to instigate change or impact cooperative life. Like militant anthropology, the cooperative ethos that animates ethnography may manifest as a scholarly commitment to social betterment that surpasses the boundaries of traditional academic research (Scheper-Hughes, 1995). Researchers find a way to achieve restitution through their active engagement and collaboration with the communities, partnering with enterprises or other local institutions to address complex social issues and reach transformative shifts that conventional research alone cannot achieve.

Anthropology advocates for integrating the reciprocity principle into research practices, emphasizing the importance of building trust through active engagement, and acknowledging the contributions of cooperative communities. This practice could benefit CEM scholars, as the discussion on innovative knowledge-sharing methods encourages reconsidering traditional dissemination approaches, promoting significant inclusion. Acknowledging potential challenges, including conflicts, in research dissemination urges scholars to approach their fieldwork with open and continuous dialogue with interlocutors, aligning with the participatory essence of cooperatives.

## **5 Marcel Mauss: the first cooperative anthropologist**

Marcel Mauss (1872–1950) is well known as one of the European founders of anthropology as a discipline. Not so widely known is that he was also "one of the leaders of the cooperative movement in France" (Fournier, 2006, p. 206) and was among the founding members of a consumer cooperative called *la Boulangerie*.<sup>5</sup> Apart from his extended academic research, he engaged in political writings, today recollected in the outstanding volume "*Écrits politiques*" (Mauss & Fournier, 1997). This is a collection of more than 180 articles published in various journals and newspapers between 1895 and 1939, approximately one-third dedicated to cooperative organizations. If, as a scholar, he never conducted research in the field – a fact that earned him the title of "the last and the best of the 'armchair anthropologists'" (Fournier, 2006, p. 283) – his travels throughout pre-World War I Europe to inform his fellow cooperators and promote the emerging movement provide interesting ethnographic insights. This is why those specific texts on cooperatives have been deemed worthy of particular examination from an anthropological perspective (Copans, 1999).

Mauss examined cooperatives with an ethnographic attitude, conducting fieldwork at home when anthropology only considered societies far from the center of colonial empires as their object of study. In 1905, he traveled to the United Kingdom to attend the English Cooperative Congress.

On that occasion, Mauss realized that while studying the British cooperatives, he was also gleaned information about the society at large. Immersed in the context, he experienced the power of ethnographic knowledge: “I’ve learned more in a week about the government of things and men, and about the English and Scottish peoples, . . . than in ten years of reading. Now what purpose will all that serve?” (Mauss in Fournier, 2006, p. 126). Mauss embodied the cooperative ethos of an anthropologist, but he and his contemporaries lacked the framework to recognize the avant-garde nature of conducting research in their own (or close by) countries or within organizations – a practice that is now commonplace among anthropologists.

The extensive reports on Belgian, German, English, and Russian cooperatives in the *Écrits* present a wealth of sociological and economic data while also revealing his anthropological ethos of looking “beyond numbers” in the pursuit of “direct contact with things and personalities” (Mauss & Fournier, 1997, p. 160). As both a fervent socialist and advocate of cooperation, Mauss exhibits profound admiration for the pragmatic results obtained by cooperatives in contrast to the utopian aspirations he associated with political practices. On some occasions, he strategically employed his writings to propagandistically reinforce the connections between cooperativism and socialism. However, he insisted on the autonomous nature of cooperatives and the need for them to be separated from political parties, as he conveys in his analysis of Russian cooperatives (Mauss in Fournier, 2006, pp. 275–299).<sup>6</sup>

Shifting the attention to his academic coté, *The Gift: Forms and Functions of Exchange in Archaic Societies* (Mauss, 2002 [1925]) is undoubtedly the text that resonates most when seeking his cooperative ethos. It is crucial to recognize that the political intention behind *The Gift* was to demonstrate the existence of economic systems that did not adhere to the capitalist principles of profit maximization and self-interest (Aria, 2016). Mauss’s academic fascination with gift societies comes from finding a common thread between them and the profoundly democratic society he envisioned. Mauss is quite explicit on this. He refers to cooperatives as the “economic organizations of the proletariat” (Mauss, 2002 [1932]: p. 96), positioning them as contemporary iterations of gift societies.<sup>7</sup> Emphasizing the cooperative model as an emergent economic order, he contends that it is already operational in specific economic groups where tasks are undertaken and services are provided for others (Mauss, 2002 [1932], pp. 99–100). Going beyond *The Gift*, in the name of his extensive study of religions and mythologies,<sup>8</sup> he linked the cooperative movement “to the grandiose or modest beginnings of the major religions: the spirit of sacrifice, the search for ideas and formulas, the intensity of passions” (Fournier, 2006, p. 310). Cooperativism was, in his eyes, a secular “religion of man for man” (Fournier, 2006, p. 310).

Mauss has always maintained a rigid separation between his academic career and his cooperative and activist life (Hart 2007, 2014). However, this dichotomy becomes more blurred when acknowledging the profound political implications embedded within his academic writings and practices. While it would be anachronistic to label Mauss as a militant anthropologist, referring to him as the first cooperative anthropologist implies recognizing a level of engagement in his academic journey. Not only because of his intentions of demonstrating alternative economic systems to capitalism but also as a generous teacher who embodied cooperation as a practice of sharing knowledge – and personal life – with students. At the same time, when viewed as the first cooperative anthropologist, educating fellow cooperators through his written works, we recognize the anthropological perspective embodying the notion that “the personal is political” avant la lettre.

Through both his personal and academic life, with the zeal and passion of the scholar and the cooperator, Mauss actively contributed to creating a society built on principles that diverged from capitalism. I imagine his tenacious smirk as he writes, his humble awareness of forging a society based on solidarity as a total social fact through words that have the power to become reality.

## **6 Doing ethnography in a cooperative bank**

Informed and inspired by Mauss's work, I have conducted extensive fieldwork at a cooperative and ethical bank in Italy for almost ten years. I started as a researcher engaged in a six-month ethnography; then I became a member and eventually a volunteer, contributing to different activities. In 2022, I organized a series of interviews with employees and members in my new role as a Ph.D. student. My fluid position as both a researcher and practitioner has endowed me with the unique privilege of accessing a domain that is typically closed to outsiders. Over an extended timeframe, I have engaged in numerous formal and informal conversations with the bank's members, employees, and clients, thus enabling an in-depth exploration of the evolving narrative and historical trajectory of the cooperative. At the same time, it was a favorable environment as members who actively participated in the research process embraced the cooperative ethos of anthropology.

Reflexivity has guided me throughout my research. Among the strategic measures I have adopted in this process, I committed to refraining from making assumptions. During interviews, because of my positionality, members would often assume my familiarity with specific processes. In response, I consistently played the role of a humble, uninformed observer, asking to define and explain processes even when I was well-aware of them. This approach recalibrated the dynamics of information exchange, facilitating a more nuanced understanding of the cooperative's internal mechanisms. Integral to this process are my field notes, serving to chronicle my experience and as a self-auditing and self-awareness mechanism, perpetuating the ongoing exercise of reflexivity. Furthermore, I have sought the collaboration of colleagues from different backgrounds to enrich the research through a transdisciplinary lens and provide an additional vantage point that augments my insider positionality. This cooperative dimension has fortified my research endeavors, safeguarding against the potential biases inherent in my dual role.

Participating in the bank's activities has given me an intimate understanding of the organization. Embracing ethnography as a practice that involves attending to persons and learning from them my research encompasses the lived experience of observant participation as "living attentionally with others" (Ingold, 2014, p. 389, stress added). The highly complex governance structure of the bank, for example, is also deeply entangled in informal moments of sharing and exchanges among members that would not have been picked up if not through a constant mid-term engagement. Participant observation allowed me to embody the struggles, the joys, and the emotions that members share in the bank, which are a fundamental part of the ethos that animates them.

As restitution concerns, I have volunteered in the banks' activities since the beginning of my research. I chose to engage in the service to give back to a community that has enriched my academic and personal journey. The research outcomes published in international journals contribute to the bank's standing within the academic sphere, showing the profound importance of knowledge dissemination. The engagement of the bank's members and employees in reading, discussing, and critically evaluating my research on the evolving ethics of the institution (Carabini, 2014), the polyphonic cooperative governance structure (Carabini, 2024), and the potential risk of fetishizing ethics within the bank<sup>9</sup> serve both as a demonstration of how informants become co-researchers as well as an exemplar of how the concept of restitution fosters new discussions while reciprocating the trust vested in knowledge creation.

## **7 Conclusions**

The added value of anthropology in studying cooperative economics lies in the essence of its cooperative method. Positionality, participation, and restitution are relational practices that give the interlocutors a central role in the research process, making the output the result of a cooperative effort.

Ethnographic knowledge does not aim to establish an absolute truth but instead seeks to describe the researcher's unique journey toward their conclusions – a journey that cannot be undertaken alone but requires the active participation of those involved in the study. Research as a cooperative practice means that the interlocutors become co-protagonists of the knowledge production. Ethnography excels in capturing aspects that may elude quantitative analysis, such as motivations, emotions, and the underlying forces driving human and organizational actions. This nuanced understanding is made possible only through free-flowing, unstructured, and non-hierarchical interactions that occur over an extended time and where people feel they are contributing to the creation of the research.

The mere presence of the researcher, however, influences the observed context. Analogous to “Schrödinger’s cat” in physics, where an observation alters the state of an entity, the anthropologist’s presence affects social reality. Given the inherent challenge of overcoming this paradox, ethnographers consistently detail their role within the research context through rigorous reflexivity, engage their interlocutors in the participant observation process according to ethical principles, and give back to a community that has enriched their academic and personal journey.

When analyzing cooperative identity, principles, and values, it is crucial to acknowledge that the interpretations of these concepts are historically contingent and culturally specific. Values of cooperation, as delineated by the International Cooperative Alliance (ICA),<sup>10</sup> such as equity, democracy, and political neutrality, should always be contextualized when studied in the field. They can vary from cooperative to cooperative within the same country and across cultures. In the last decade, the ICA cooperative identity has started facing critiques for being perceived as Western-centric and, therefore, incomplete (Molefe, Chapter 5). I situate my knowledge within this Western-centric cooperative history without the pretension of it being the only history to be told. Anthropology certainly offers the theoretical and methodological tools to shift toward decolonial epistemic perspectives and a recentering of cooperative research.

From this European perspective, however, I claim that Marcel Mauss sowed the seeds for what can become today the realm of an anthropology of cooperatives. Further research would contribute to understanding his engagement in the cooperative movement; however, he can be recognized as the first cooperative anthropologist who showed the value of looking at cooperative organizations with a critical glance. In my study of the Italian cooperative and ethical bank, I insist on the cooperative ethos embedded in the discipline. By recognizing that rigid ethics or identity may impede rather than enhance the potential for emancipatory experiments, by engaging co-researchers in knowledge creation and by reciprocating the trust received from the bank with voluntary activities, I show the cooperative methodology of anthropology in practice.

I have argued that anthropology provides a critical approach that can broaden the way research is conducted for scholars of cooperatives in general, and CEM scholars within the particular context of this Handbook. By definition, anthropology is cooperative and, ultimately, the most cooperative of the social sciences.

## Notes

- 1 With the word *emic*, anthropologists refer to cultural practices, discourses, values, and beliefs from the perspective of those who live in the community. *Etic*, on the other hand, is an outsider’s perspective, the look that an observer can have on the same community. For more: Mostowlansky, Till, and Andrea Rota. (2020) 2023. “Emic and etic”. In *The Open Encyclopedia of Anthropology*, edited by Felix Stein. Online: <http://doi.org/10.29164/20emicetic>
- 2 I am aware that the choice to refer to Marcel Mauss and to an Italian cooperative bank reflects my personal trajectory from a European tradition. The history of cooperative enterprises, however, is entangled with many different philosophies around the world, all of which deserve more attention and further research, especially in anthropology. African-American history, for example, is deeply entangled with the strives

- against oppression, discrimination, and White supremacy of the Black cooperative movement (Gordon Nembhard 2014). Other scholars have looked at the connection between the history of cooperatives and Confucianism in China (Bernardi 2014), the African philosophy of Ubuntu (Molefe, chapter 5), indigenous knowledge in Mexico, and labour movements in Argentina (Giovannini and Vieta, 2017).
- 3 Since the publication of James Clifford post-modernist ideas, anthropologists have been drawing on Husserl's phenomenology and investigating around the concept of the relation between the subject and the object of research. For further insights on the post-modernist and ontological turn refer to Richardson 1993 and Throop 2018.
  - 4 An example of restitution within the cooperative economy is AroundTheWorld.coop, where the researcher embraced a grand project to show the impact of cooperatives worldwide. For further information see [www.aroundtheworld.coop](http://www.aroundtheworld.coop)
  - 5 In 1900, along with thirty-eight members and 1.900 francs of starting capital, Mauss founded a consumer cooperative intended to cover the entire sector mainly by collective purchasing of flour and selling of "breads, pastries, cookies, and petits fou". Despite the struggle to keep it alive, the Boulangerie was liquidated in 1906 (Fournier 2006).
  - 6 Originally published in *La Revue de Paris*, t. 2, 27 e année, mars-avril 1920, 96-121.
  - 7 Chapter 4, Conclusions for economic sociology and political economy - pp. 91 - 100 (Mauss 2002)
  - 8 Mauss was appointed President of the Section of Religious Science at the École Pratique des Hautes Études in 1938
  - 9 Carabini, C. and Raffaelli, P. (in preparation) Restoring the Relational Form of Credit through Value Practices. The case of Banca Popolare Etica.
  - 10 For the 1995 revised statement on the Cooperative Identity adopted by the International Cooperative Alliance, which contains the definition of a cooperative, the values of cooperatives, and the seven cooperative principles please refer to <https://ica.coop/en/cooperatives/cooperative-identity>

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## SECTION III

# Management, organization and entrepreneurship

### Introduction to Section III

*Lucio Biggiero*

Having a section on Management and Entrepreneurship is one of the points of strength, originality, and pride of this Handbook, because in the history of these two research fields – and even more in terms of pedagogy – cooperatives and other alternative forms to capitalistic firms have been rather overlooked. A certain attention was given during the fifties and sixties – and then, in the last two decades with a renewed interest – by economic theory, but not by Management and Organization Science. A different story was the case concerning sociology and political science that, however, were more interested to the ethical and social implications rather than to the possible economic advantages and management of cooperatives. However, “the times they are a’changing”, as a recent winner of the Nobel Prize in literature was singing many years ago, and so even Management and Organization Science is nowadays paying increasing attention to cooperatives and other alternative organizational forms. As recalled by Jerome Nikolai Warren in this volume’s introductory chapter, the (American) Academy of Management has recently dedicated its annual conference to these issues, and other analogous European leading scientific associations, like EURAM and EGOS – as well as many others – are hosting entire sessions on these and related topics. Further, new journals have recently been born, aimed at deepening the analysis of cooperatives, nonprofits, mutuals, or commons, so extending the interest and awakening the education sector to fill the gap even in terms of teaching. This is of fundamental relevance, because studies on education and cognition tell us clearly that the years of knowledge and mind development generate a sort of “imprinting” that tend to persist over an individual’s entire life. So, if that imprinting can be open to the ethical legitimation and economic effectiveness of alternative forms, then it will produce the effect of feed future societies and economies with more diverse ideas.

This section opens with a contribution by Coline Serres: “The governance of commons by social corporations: A theoretical governance model”. Commons and common goods are naturally associated with cooperatives because their foundational principles – solidarity, mutual support, and self-management – are (almost) the same. Further, recent innovations in the legal-economic sphere accompany the cooperative form with other types of enterprises, like social corporations. Actually, Mondragón and Huawei define themselves as examples of cooperative corporations, a label that

only few years ago would have sound as an oxymoron. So, there is a proliferation of hybrid forms. In this turbulent landscape that is continually generating new forms, this chapter aims to assess under which conditions social corporations – defined as fully fledged limited companies legally committed to a social mission – can govern commons and, by doing so, become commons enterprises. It draws on Elinor Ostrom’s institutional analysis, and introduces the recently acquired distinction between “old” and “new” commons, where the latter are more flexible and various than the former, because they do not require the subtractability requisite – mostly the case of knowledge-based commons – and can be managed both by communities and by private organizations. From this, she develops the focus on social corporations. Following the Institutional Analysis Development framework, the author discusses three management principles applicable to social corporations that are supposed to affect the effectiveness and sustainability of private enterprises in governing the commons, particularly the “new” commons. Such principles involve internal and external stakeholders in the decision-making process. Though other contributing factors can play a role and deserve further analysis, it is argued that this inclusion is key to fostering the convergence and involvement of all parties toward the management and development of the commons.

In Chapter 2, Anu Puusa analyses a very important issue in the historical cooperative movement that is likely destined to become more and more important: the locus and management of power in large cooperatives. It is obvious, in fact, that as a cooperative’s size grows larger, the hierarchical structure ramifies and becomes larger too, thus losing and weakening members’ connections, and becoming “more reliant on professional management. (Some other chapters of this and the previous section deal with these issues more technically, namely Chapters 10 and 19.) This may lead to a shift towards a representative model with professional managers in control”. Consequently, power tends to be more concentrated in few positions, the structure more formalized, and the cooperative spirit dissipates. A clear sign of the decreasing interest of members in the governance of the cooperative they own can be found in a lower participation in cooperative meetings and voter turnout in representative elections (see Chapter 19 and below). After outlining these problems, Anu Puusa recommends keeping the cooperative spirit strong, namely through awareness, knowledge, and education, and to design more participative mechanisms and intra-organizational coordination devices.

The following chapter, “Democratic Ownership: Scale Through Leverage” by Tej Gonza, David Ellerman, and Kosta Marco Juri, has two major goals: explaining what really differs between capitalistic (investor-owned) and cooperative firms, and why the latter are so few. These are two fundamental issues of the whole debate on capitalism and the possible alternative economic forms. They argue that the distinctive aspect lies in the fact that the right to claim the residual is completely different in the two cases: for capitalistic firms, that right can be traded, while in the cooperative form is identified to the specific person that holds it. In the former case, we can properly speak of transferable property rights, while in the latter case, we should speak of nontransferable personal rights. The same distinction is argued by Gregory Dow in Chapter 2, who speaks of alienability vs. inalienability. The second issue discussed by the authors is even more interesting, because it helps to explain the relative paucity of cooperative firms as a share of firms overall internationally. The usual explanation ranges from the lack of productivity to the lack of capital and managerial skills, which would assign to cooperatives a marginal role, covering the niches left open by capitalistic firms because these are less profitable or “too ethically marked”. Gonza and colleagues argue that it is rather a problem of entrepreneurship and the lack of appropriate policies and specialized competencies. They note that the two ways in which cooperatives are born are “ex nihilo creations on one hand, and legal, financial, and organizational complexities related to cooperative conversions on the other”. Both ways, and especially the latter, require high competencies and a considerable

amount of capital. They argue that if the American model of Employee Stock Ownership Plan were adopted more broadly and properly supported by policy interventions and the diffusion of specific consultancy skills, then the cooperative share could substantially grow. This idea is important because, if it revealed true, then a transition to a market-based economy really mixed between capitalistic and cooperative firms would not require a dramatic legal, institutional, or financial change, thus making the transition quite “smooth”.

In their chapter on “The Strategic Role of Cooperative Enterprise as Intermediary of Ambidexterity”, Camargo B. Andres Felipe and Michel L. Ehrenhard argue that second-level cooperatives, as federations or large agricultural cooperatives, have a special capacity to intermediate organizations’ purposes, and particularly to manage the ambidexterity aspects of organizations’ strategy. This is an interesting and less investigated aspect of second-level cooperatives that can make them more attractive than their analogous second-level organizations of capital-based firms. The coordination advantage would come especially from the stability and long-term perspective that characterizes cooperative enterprises, and their special capacity to manage ambidexterity, which in fact is considered a key factor of long-term competitiveness in dynamic environments. The idea is that second-level cooperatives can get high connectivity with other organizations, so that their cooperatives’ members can benefit of easier and wider access to external resources. At the same time, the second-level structure can allow to pursue both exploitative and explorative strategies in different moments or even in the same time but for different business.

In Chapter 18, Marcelo Vieta, George Cheney, Matt Noyes, and Emi Do revisit Carol Pateman’s ‘spillover thesis’ according to which the level of organizational democracy reached in single organizations through employees’ participation or forms of ownership and/or profit sharing have a positive democratizing effect on the whole society and economy. That effect is supposed to take place via social and economic behaviours of cooperatives, but also via the learning processes embodied by any worker employed in participatory workplaces. There is, in other words, a spread from the firm’s level to economy level democracy: an “educative element” feeding the whole civic life. This aspect should be taken in high consideration because, beyond the ethical dimension that makes cooperatives attractive for the social implications of reducing social inequality and destructive competition, there is a rationale for economics and management. Indeed, market failures can be better coped with by firms and people accustomed to finding cooperative solutions and participatory decision-making processes. Vieta and colleagues argue for a more articulated definition and understanding of the spillover effect by addressing the reverse influence that can occur from a more democratic and participative society and economy on democracy at work. When put in this synergic link between the micro and macro-level, the authors revise the literature on workers’ participation and democracy and propose to extend the scope of channels of interactions between the two levels. Many contextual, historical, and cultural influences are discussed, and social learning in movements and workplaces are deepened and related to democracy at work and workers’ cooperatives.

No doubt, one of the intuitively and widely shared ideas of democracy rests in the way of selecting people by bottom-up mechanism to cover roles of responsibility, more precisely, voting one among many candidates of the bottom level. At a closer sight, it is easy to see that things are more complicated: how are candidates selected? Which are the rules employed for voting? Etc. Simon Pek’s chapter enters this issue of selection mechanism with an interesting and provocative view: might it be that sortition is more (or at least, as well) democratic as traditional mechanisms through candidatures? The author “synthesizes and extends prior research by advancing a framework of how cooperatives could integrate sortition into various facets of their governance structures and a contingency approach for weighing when is likely to be more attractive than other

selection methods”. The essential reasoning is based on the simple fact – variously addressed in many chapters of this Handbook – that many cooperatives do not embody the myth of small firms where members work as a team. On the contrary, many of them are large-size organizations managed through a multi-level and wide hierarchical structure, precisely where the problem of selection mechanisms occurs. The author traces back to political science the discussion about the possible comparative advantages of sortition and deepen on its recent “resurgence” and application to single institutions. He underlines that “sortition could either be used as the sole selection method for a particular body or in tandem with other selection methods”. For example, it could be employed only for selecting the members of the board of directors or to “support the work undertaken by the cooperative’s broader membership at general assemblies”. Following the literature, Pek underlines the trade-off between competence and democracy, because sortition is better suited to achieving political equality, impartiality, and deliberativeness, while election is better suited to achieving competency and popular control. This is a crucial aspect that each organization should face with in its attempt to democratize work and save efficiency and effectiveness at the same time. The author suggests a contingent approach to choose the right selection mechanisms, that is, grounding on a pragmatist and shared collective choice, where the main recommendation is to be aware of the alternatives to election and of the possible combinations between them. Therefore, this Chapter 19 opens to the idea of an entire scope of possible selection mechanisms that have different meanings and “values” in terms of democratic content. Their formalization and measurement would eventually enter into the methodological framework proposed in Chapter 10 to calculate the Organizational Democracy Degree.

In his chapter on “Cooperative internal currencies: An approach to strengthening the cooperative economy”, Jens Martignoni discusses an interesting and courageous proposal toward a sort of independence of the cooperative from the dominant capitalistic economy. A separate currency is doubtless a radical innovation, because money circulation and value is at the core of any economy, especially of a capital-based economy. The author starts by recalling that money is a “legal construct” whose features “require and give rise to completely different economic systems”. We can add that the taboo of creating new currencies not based on a central bank reserve value was recently broken by the birth of crypto currencies that, against the predictions made by most bankers and experts, are still there and, in some cases, increasing their value and diffusion. Jens Martignoni dedicates an entire section to remind that early utopian thinkers and some founders of the cooperative movement, such as Claude Henri de Saint-Simon and Robert Owen, considered the creation of a different system of value measurement essential to remain truly consistent with the cooperative principles, which was based on the familiar Marxian (and Ricardian) idea of embodied labour in terms of hours. Then, the author recalls the fourth Rochdale principle of sharing surplus between cooperative members and its applications in consumer cooperatives with various kinds of “token money”, which are still used in many cases. After the historical perspective, Jens Martignoni moves to underline the harmful implications of the financialization of economies, a question well-known, researched, and debated. Finally, he approaches the recent experiences that can drive to the outcome of a cooperative-based currency and the possible designs.

Though there are aspects to be further clarified with regard to the distinctions between value, wealth, capital, money, and currency, and not fully developed as concerning the ways in which a cooperative-specific currency might exchange with the other currencies or mediate the exchange values of the goods that are bought or sold, this chapter is very stimulating in bringing forth innovative ideas and initiatives in this field. Perhaps, if a whole system of cooperatives, such as a federation, considered and adopted some kind of innovation, there could be the critical mass and competencies sufficient to make it effective. At the very end, the Euro-Zone was based on

a monetary agreement that over time is taking on a strong role in the international monetary system and at the same time is pushing member states to strengthen their coordination in other aspects: fiscal policy, trade laws, corporate governance, etc. So, similarly, a federation of cooperatives that usually already coordinates a lot of aspects, such as finance, employment, internal trade, investments, auditing procedures, etc., might consider creating its own currency as a viable option. We do not know whether networks of cooperatives such as Mondragón that seem at first sight the best candidate, have ever taken it seriously into account.

The last chapter of this section is written by Daniela Venanzi and similarly deals with financial aspects: she focuses on the things that might distinguish worker producers' cooperatives from capitalistic firms in terms of financial performance parameters and decisions. The author starts by underlining that, unlike the traditional bad reputation spread by those who ground the rationale of cooperatives on ethical (if not fully utopian) motivations, finance is neutral, not an enemy. Then, she recalls that most empirical studies on cooperative performance "view them as profit-maximizing firms or a variant of this view and use financial ratios, not relying on potentially different objectives" and usually, in comparing cooperatives vs. non-cooperatives firms, they have been rather flawed because do not run statistical regressions by also controlling for size, industry and country. Further, theoretical conclusions as well as empirical findings are not univocal nor conclusive about the standard performance parameters in terms of profitability or productivity, perhaps because the multi-objective nature of cooperatives and the relevance assigned to non-financial outcomes varies a lot across size, industries, and countries. The author then interprets the literature on a recent wave of cooperative mergers, carried out mostly to increase size, lower R&D unitary expenses, and build more competitive brands. It seems that even in this field, a clear positive effect cannot be supported by data. Indeed, if we consider that a positive relationship between size and performance is all but guaranteed, those results are not so surprising and likely, as usual in business, the mergers (or acquisition) initiatives in the cooperative world might be instead attributed more to consultancy fashion or to unjustified belief than be derivative of a proof-based strategy.

Finally, Daniela Venanzi approaches the issue of the capital structure choice of cooperatives compared with non-cooperatives through the lens of the "two prevalent theories: the trade-off theory (integrated with agency costs and benefits of debt) and the pecking order theory". This is one of the crucial points, because one of the main criticisms lodged against the idea of a cooperative-based economy is that cooperatives chronically lack capital, are "undercapitalized" – especially regarding equity capital – thus being unable to compete in capital-intensive sectors. Well, even in this field, studies are not univocal and conclusive. Perhaps, the diffusion and strategic growth of cooperative banks and other financial and insurance operators is substantially changing the landscape, thus making statistical comparisons very sensitive to their presence. The theoretical and empirical literature review presented in this chapter is very useful, and should be a stimulus to put many more empirical studies on the future agenda, to fill in the lack of knowledge in this fundamental area, especially in the attempt to give sound rationales to the idea – occurring in many of the chapters of this volume (see Chapters 6, 10, 16, 32) – of grounding the economy on a more extensive and intensive presence of cooperatives as a desirable exit from capitalism. As a corollary, when looking at the works referred in this chapter, it seems that the analytical perspective of behavioural finance is still far from being used. This is another gap that should be filled soon, especially because cooperative members' behaviour is (or at least should be) presumably very far from the optimizing behaviour assumed by the standard theories of finance.

# THE GOVERNANCE OF COMMONS BY SOCIAL CORPORATIONS

## A theoretical governance model

*Coline Serres*

### 1 Introduction

Consciousness regarding the need for more sustainable consumption and production patterns, as well as the determination to safeguard the planet in the long term, has increased in recent decades. This growing desire for a more sustainable world goes hand in hand with the need to address issues such as social exclusion and poverty. This rising phenomenon creates a societal demand on markets for business models that are both socially- and for-profit-oriented, going beyond the traditional system of shareholders' supremacy. Such organizations have been coined under the term "social corporations:" fully-fledged limited companies legally committed to a social mission (Serres, Hudon, & Maon, 2022). As such, social corporations aim to achieve social goals through market logics and are a type of social enterprise. They are shareholder-owned while still favoring social objectives over shareholders' private wealth in their bylaws and governance settings (Serres et al., 2022). Examples of social corporations include legal "benefit corporations" in the United States and Community Interest Companies in the United Kingdom.

Through their commercial activities, social corporations target specific social outcomes, which can manifest in various forms. Some solely aim to create positive externalities, while others also contribute to the production and governance of commons through the involvement of a social group in the decision-making process regarding their activities. In doing so, they create and govern commons (Hess & Ostrom, 2007a), which are shared resources collectively managed by communities and/or organizations (Albareda & Sison, 2020). This chapter aims to provide specific management principles for social corporations to sustainably govern commons and become "commons enterprises."

In *Governing the Commons*, Elinor Ostrom (1990) opened up the field for scholars to study the commons. Since then, the academic world has extensively relied on her eight design principles when researching commons, leading to a varied literature on the topic and the emergence of a paradigm in recent years (Bollier, 2011). Numerous resources have been recognized as commons (Hess, 2008), beyond the local natural resources studied by Ostrom. Among these newly recognized commons, human-made commons, such as complementary currencies (Hudon & Meyer, 2016; Meyer & Hudon, 2017) and financial cooperatives (Périlleux & Nyssens, 2017), have

been studied. They can be created and/or managed both by humans and by organizations that are collectively managed (Dardot & Laval, 2014). While Ostrom's research focused predominantly on natural resources, the emergence of new societal challenges and the recognition of additional resources as commons means that there is a need for new design principles.

This chapter will focus on the conditions under which social corporations can govern commons and become commons enterprises. To do so, the Institutional Analysis and Development framework (Ostrom, 2005)—an institutionalist framework specifically developed to study commons in a more general way—is drawn upon. A set of management principles is proposed that can be used when designing the main institutional rules of commons enterprises in order to sustainably govern commons.

## **2 Commons, commons enterprises, and the institutional analysis and development framework**

In this section, I will first introduce the theoretical background on the commons and commons enterprises before presenting the Institutional Analysis and Development framework. The latter will serve as a basis for establishing management principles for the sustainable governance of commons by social corporations.

### ***2.1 From common-pool resources to new commons***

The notion of “commons” exists in several disciplines, notably in economics and law. From an economic perspective, common goods are resources that are non-excludable (in the same way as pure public goods) but subtractable (Ostrom, 2010). That is to say, they are available to all—making it extremely difficult to restrict access—and “[their] consumption by one user decreases the amount available for others” (Hudon & Meyer, 2016, p. 124S). Resources that are non-excludable and subtractable are a specific type of commons referred to as “common-pool resources” (CPRs)—natural resources collectively managed—and are also sometimes called “traditional commons.” An example of a CPR is the fish stock in a communal lake. From a legal perspective, commons can relate to common property, which is a legal regime in which users jointly own legal sets of rights, making ownership indivisible (Ciriacy-Wantrup & Bishop, 1975; Peredo, Haugh, & McLean, 2018). While numerous CPRs are governed under a common property regime, such a property regime is not necessary for commons to exist (Peredo, Haugh, Hudon, & Meyer, 2020). Indeed, CPRs can be open-access (Benkler, 1998; Lessig, 1999), governed under a common property regime, or even owned privately by individuals and/or corporations (Ostrom, 2000, p. 338). Regardless of their property regime, the common denominator of all commons resources is that “they are jointly used, managed by groups of varying sizes and interests” (Hess & Ostrom, 2007a, p. 5), enabling collective action to emerge and collective dilemmas to be addressed. In a collective dilemma situation, there is a need to favor long-term group benefits over short-term individual benefits (Bridoux & Stoelhorst, 2022). By answering collective dilemmas, the groups managing the commons form a community (De Angelis, 2003) to sustainably govern the commons and avoid the resource's over-exploitation (Hardin, 1968).

In *Governing the Commons*, Elinor Ostrom (1990) highlighted eight design principles for communities to sustainably govern commons and avoid over-exploitation. She did so through the study of CPRs' institutional arrangements and based her work on a quantitative database compiled from 5,000 qualitative case studies collected from various disciplines (e.g., are anthropology, history, forestry). Of these 5,000 cases, she considered the “successful” ones—those that had survived

over time—and identified eight design principles that they held in common. This institutional analysis of CPRs produced a methodology for analyzing commons, which stimulated research on many other types of commons beyond CPRs.

This growing research on commons has led to new definitions and aspects of the commons, which had previously remained unknown, particularly in relation to human-made commons such as knowledge artifacts (Hess & Ostrom, 2007b) and urban environments (Brandtner, Douglas, & Kornberger, 2023), among others. Moreover, even in relation to natural resources, some scholars have argued that non-excludability and subtractability may change over time (De Moor, 2011); Helfrich (2012) even stated that commons are given the non-excludability characteristic while not necessarily having it originally. Nevertheless, in spite of these variations, all types of commons are shared by groups of people to provide responses to so-called collective dilemmas (Hess & Ostrom, 2007a, p. 3). This condition is *sine qua non* for all commons (Hess & Ostrom, 2007a), irrespective of the type of organization—formal or informal, for-profit or non-profit—governing them. Indeed, to govern commons, individuals or social actors must implement a form of collective action when dealing with the resource (Coriat, 2015).

Drawing on this scholarship, the concept of “new commons” has emerged, encompassing a broad set of both natural and socially constructed non-excludable and depletable resources. New commons are defined as “shared resources that have recently evolved or have been recognized as commons” (Hess, 2008, p. 1). As such, they encompass commons that can emerge from shared resources that are collectively managed (Dardot & Laval, 2014; Hess & Ostrom, 2007a). New commons can also be resources whose nature evolves (Meyer & Hudon, 2019). Given that the term “new” does not imply that a resource is new in itself, but has rather been recently conceptualized as a commons, new commons may take various forms and refer to a wide variety of resources. In 2008, Charlotte Hess mapped new commons as a reference guide for further research (Hess, 2008). Her map depicts the variety of newly recognized commons, ranging from neighborhood commons through cultural and knowledge commons (Hess & Ostrom, 2007a) to certain institutional infrastructures for the functioning of the market that are managed like commons.

While traditional commons and new commons are both resources that are collectively managed (Hess & Ostrom, 2007a), they mainly differ in the variety of resources encompassed, the characteristics of these resources, and the institutional logics governing them. Indeed, new commons are resources that can be much more varied than traditional CPRs since they can be any type of resource that is managed like a commons (Hess, 2008). Their characteristics are also more flexible because, in the same way as public goods, some commons do not display subtractability (Sison, 2007). An example of non-subtractable commons is knowledge, which does not deplete when shared but rather expands. New commons are therefore non-excludable, while the subtractability characteristic depends on the resource itself (Duraiappah et al., 2014). However, in distinction to pure public goods, the provision and use of new commons depend to a certain extent on the collective management decisions of groups of “commoners”—which might be a community or a multi-stakeholder network contributing to the governance of the commons (De Angelis, 2017). Finally, the institutional design of new commons remains quite complex to characterize, since, first, they are still evolving as commons<sup>1</sup> (Bravo & De Moor, 2008); and second, they can be managed both by communities and by private organizations.

## 2.2 *What are commons enterprises?*

In this chapter, I look at “commons enterprises,” which are social corporations governing commons. Social corporations are fully-fledged limited companies that prioritize a social mission over

profit maximization in their bylaws (Serres et al., 2022). A famous example of a social corporation is the US-based benefit corporation *Patagonia*, which sells sustainable outdoor gear. Social corporations' missions widely range from the production of sustainable private goods (e.g., shoes made from 100% natural materials, like the UK-based company *Waes.co*) to the sustainable governance of shared resources, like commons. The latter are called "commons enterprises."

Social corporations—and by extension, commons enterprises—are a type of social enterprise and as such, they are active in markets and can survive over time. For example, in their paper on social corporations, Serres, Hudon, and Maon (2022) study three cases of social corporations that have been commercially active for 10–15 years. Social corporations use market mechanisms to achieve social outcomes and, in doing so, they are competitive with traditional businesses. Regarding investment attraction in these organizations, McWade (2012) identifies four motivational drivers for social investors: the desire to tackle societal problems, the investor's personal values, the desire for social value creation through social enterprises, and the shift from grant and donation models. By choosing to invest in social corporations, investors have a dual motive of supporting a social cause and achieving some financial return (Emerson, 2003). While financial returns of social enterprises are generally limited, there is still some expectation that shareholders will receive a financial return at some point and be able to reinvest it (in another social enterprise for instance) (McWade, 2012). Additionally, investing in social corporations and commons enterprises can also be part of a company's corporate social responsibility policy (Gibson, 2022).

An example of a commons enterprise is the German limited company *Regionalwert AG*, active in the area of Freiburg. *Regionalwert AG* is a citizen shareholder company that supports regional agriculture and food systems. Within its bylaws, the mission statement of the company is defined as "[...] contribut[ing] to the preservation and improvement of a sustainable ecological and regional economic and social development, ranging from agricultural farming to final consumption of food products" (Hiß, 2015, p. 14). To achieve this, the company purchases agricultural and food businesses with capital raised from shareholders and then leases them to local entrepreneurs. Anyone in the local area can become a shareholder, ranging from citizens and local companies to charities and even municipalities. What matters most in becoming a shareholder is the desire to support regional businesses. Despite its for-profit legal status, *Regionalwert AG* is not listed on the stock exchange and, since its creation in 2006, has never been able to distribute financial dividends to shareholders.<sup>2</sup> The company primarily focuses on realizing its social mission by supporting local businesses and its own activities before distributing dividends. Although it cannot guarantee that it will be able to do so in the coming years, the company views shareholders' investment in regional value as a long-term investment that will eventually convert into financial returns. *Regionalwert AG* is therefore an example of a for-profit company combining the economic behavior as of *homo oeconomicus* with the desire to contribute to the commons (Hiß, 2015, p. 10).

Commons enterprises are privately-owned, fully-fledged limited companies that contribute to the governance of commons through the implementation of their social mission. While the example mentioned above concerns a traditional commons (i.e., agriculture and land tenure and use), commons enterprises can govern various types of new commons, whether they are tangible or intangible.

### ***2.3 The institutional analysis and development framework***

To assess how commons enterprises contribute to the governance of commons, I rely on the Institutional Analysis and Development (IAD) framework (Ostrom, 2005), which was explicitly developed by Elinor Ostrom in her later work for a more general analysis of different types of commons.

This framework focuses on the institutional, community, and biophysical features under which commons can be effectively governed (Hess & Ostrom, 2007a). In Ostrom's view, when such features are properly designed, all elements are united for commons to emerge and thrive over time. However, when dealing with commons, the outcome being dependent on a variety of contextual factors, the appropriate fit of institutional designs with the context can change over time (Ostrom, 2005, Chapter 1). The IAD framework can therefore be approached either from the impact on the contribution to commons as an outcome in a given context or from the system of shared management of resources in place, assessing its capacity to successfully address various collective action issues raised by the commons (Ostrom & Hess, 2007). It is the latter approach that is taken in this chapter.

The general IAD framework is structured into three main clusters (Ostrom & Hess, 2007). Underlying factors—on the left-hand side of Figure 14.1 in bold—represent the institutional designs in place according to resource characteristics, as well as the attributes of the community managing the resource and the rules in place. Within this institutional context, actors evolve and operate in an action arena, which creates patterns of interactions (Ostrom, 2005). The last cluster is the outcomes, where, in the case of commons enterprises, commons emerge and evolve in a constantly changing environment. Additionally, evaluative criteria help assess the outcomes achieved by commons generation and the capacity to generate other outcomes under alternative institutional arrangements (Ostrom & Hess, 2007).

According to Ostrom, to understand the contribution of privately-owned organizations, such as social corporations, to commons, it is important to examine the institutional features of these organizations. The main hypothesis proposed by this framework is that the provision of commons by social corporations depends on three major institutional features (on the left-hand side of Figure 14.1): (i) the presence of strong social norms embedded in the attributes of the community, (ii) the commonly agreed-upon rules-in-use for managing the shared resource, and (iii) an appropriate fit of these norms and rules with the specific biophysical characteristics of the resource (Kiser & Ostrom, 2000; Ostrom, 2005; Ostrom & Hess, 2007).

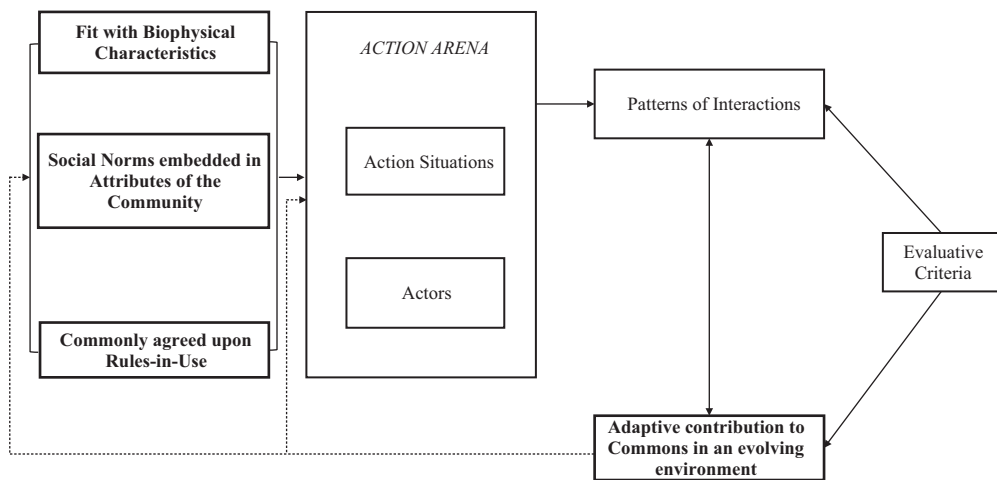


Figure 14.1 Institutional analysis and development framework adapted for the analysis of commons enterprises.

Source: Adapted from Ostrom and Hess (2007, p. 44).

These institutional features can be applied to analyze commons enterprises. First, the attributes of the community are defined by the preferences and beliefs of stakeholders and shareholders, such as CEOs, investors, and employees, who convey social norms. In this chapter, I consider community attributes as a set of institutional characteristics that need to be accounted for when studying a specific commons enterprise. Second, commonly agreed-upon rules-in-use are decided by boards of directors and management committees, with varying degrees of co-management with stakeholders; these rules-in-use are of primary interest in this work. Third, regarding the bio-physical characteristics of the resource, these are closely linked to the resource itself and cannot be generalized to all social corporations and types of commons.

The eight design principles proposed by Ostrom provide guidelines for designing the variables related to the “commonly agreed-upon rules-in-use” in the IAD framework (Ostrom, 2005, pp. 16–20, 258–259). Nevertheless, Ostrom’s eight design principles were primarily intended to apply to local common-pool natural resources. As Ostrom stated, these principles were not designed to assess other types of commons (Ostrom, 1990). Each type of commons involves not only a specific resource system but also other elements such as financing and the main societal logic of action. In the case of commons enterprises, there is a strong focus on market logics, which is less pronounced when commons are governed by informal communities. Ostrom’s design principles, being guidelines to improve the robustness of the management of a CPR (Ostrom, 2015), do not assess (i) whether privately owned companies can contribute to the commons and become models for commons enterprises, nor (ii) what form of collective action, if any, exists to connect insiders and outsiders (for instance societal stakeholders) of commons enterprises. There is therefore a need for design principles applicable not only to all types of commons but also to private companies so that they can collectively define commons-related social missions.

### **3 Management principles for the sustainable governance of commons by social corporations**

In this section, I present three management principles applicable to social corporations to sustainably govern commons and become commons enterprises. While the first two principles focus on internal co-management, the third principle addresses external co-management. That is, internal and then external stakeholders are involved in the decision-making processes regarding the social corporation’s rules-in-use.

#### ***3.1 Executive stewardship***

The emergence of social corporations, including commons enterprises, is possible thanks to their owners’ desire to invest in sustainable projects. By including provisions in the for-profit organization’s bylaws that specify social outcomes overrule private wealth maximization, shareholders become accountable for the company’s societal outcomes. However, for commons enterprises’ social missions to be respected without significant tension, the wishes of shareholders and executives must align. Indeed, misalignment between owners’ and executives’ interests and goals can create tensions because the two parties may not be aiming for the same goal. Such situations arise when at least one of the parties is endeavoring to maximize its own utility as opposed to the community’s utility (Jensen & Meckling, 1976). This scenario is central to commons enterprises since they address collective dilemmas through the governance of commons. On the one hand, principals of commons enterprises aim for social objectives and design their company to achieve them. On the other hand, executives may seek their own utility maximization and may not share

the owners' ideals and objectives, as commons governance is a non-commercial outcome resulting from the commons-enterprise's for-profit activities.

From a strict economic perspective, voluntarily renouncing traditional profit maximization to focus on social impact is not necessarily opportunistic behavior. Stewardship theory helps to understand this discrepancy, as it "defines situations in which managers are not motivated by individual goals but rather are stewards whose motives are aligned with the objectives of their principals" (Davis, Schoorman, & Donaldson, 1997, p. 21). Stewards are defined as pro-organizational and collectivist (Davis et al., 1997) and are intrinsically motivated (Sundaramurthy & Lewis, 2003). That is, their motivation is an inner drive, providing a sense of fulfillment or joy to the individual undertaking an activity autonomously (Gagné & Deci, 2005). In doing so, stewards pursue the best objectives for the organization—the collective—and not for themselves.

Therefore, to foster alignment between socially motivated owners and executives, one solution is to appropriately select the executive team (Besley & Ghatak, 2005; Caers et al., 2009). Appropriately selecting leaders means choosing executives who are stewards with internalized goals similar to those of the owners. Thus, selecting stewards as executive leaders is a primary management principle that can contribute to the robustness of commons enterprises.

*Management principle 1: The executive team must behave as stewards.*

The selection of executives as stewards is largely based on trust (Keay, 2017), as executives exhibit intrinsic motivations when chosen by shareholders. Additionally, stewardship theory postulates that principals and stewards do not have hierarchical power relationships but rather maintain a low power distance (Davis et al., 1997). A low power distance allows shareholders and executives to establish a closer relationship and adopt a personal style of leadership and power (Schillemans, 2013), which in turn fosters increased loyalty towards the interests of the commons enterprise.

### **3.2 Collective human resource strategy**

Stewardship theory focuses on upper-level managers (Davis et al., 1997), given that it marks the distinction between ownership and control (Jensen & Meckling, 1976). Even though the CEO, that is to say, the steward, controls the commons enterprise and sets its strategic objectives, they need employees to align with the organization's values and strategy (Gagnon, Jansen, & Michael, 2008). For instance, since some commons enterprises adapt their production and delivery processes to societal demands by using clean technologies, they need not only increased skills from workers at all levels (Groenewegen & Vergragt, 1991) but also workers' commitment (Hart, 1995). Executives, therefore need to increase commitment among workers by creating motivational mechanisms linked to their intrinsic motivation or their value scale.

A firm's reputation plays an important role in attracting top employees and fostering their commitment because an "employee's views on a firm's environmental performance and whether it fits their values profile frequently affects their willingness to work for that firm" (Dechant & Altman, 1994, p. 8). Dechant and Altman therefore raised the question of employees' autonomous motivation since pro-societal workers are expected to be more committed to the commons enterprise's strategy and values. Employee selection then becomes equally crucial given that human resources policies must align with commons enterprises' environmental strategies (Russo & Fouts, 1997), enabling the emergence of a collective objective shared by executives and non-executives.

On top of that, when employees also become stewards of collectively pursued strategies, they are likely to exercise power on the executive team (Davis et al., 1997) to respect the

societal objectives. Indeed, since non-executives are autonomously motivated to achieve social outcomes and govern commons, they expect management to go in the same direction. The executive team is therefore pressured by both shareholders and non-executives to work toward the social mission.

*Management principle 2: Non-executives align with collective strategy and act as stewards.*

### **3.3 Complementing governments' pro-societal actions**

Through its social goals, a social enterprise complements—or at least aims to complement—governments' pro-societal actions (Huysentruyt, Mair, & Ute, 2016). This section examines the particularities of pro-societal market shaping in the case of commons enterprises.

Commons enterprises are co-defined by communities, i.e., stakeholders evolving inside them, but also by the social norms they convey outside the organization. One of the strongest norms conveyed by these private organizations is the desire to go beyond compliance with existing legal obligations from governments, which are insufficient to achieve the desired level of commons provision. Indeed, in the case of pro-environmental commons enterprises, governments often already set minimum compliance rules or use various incentive schemes to limit CO<sub>2</sub> or pollutant emissions. However, these private organizations decide to go further by voluntarily contributing to the management of environmental commons.

This desire to complement governments' actions and go beyond compliance is a viable management principle that enhances the robustness of commons enterprises. Indeed, although they are working toward strong societal objectives, commons enterprises are active in commercial markets and need to create competitive advantages. For instance, filling in for governments might create new market niches and attract new customers. Russo and Fouts (1997) further contribute to this argument in an empirical study proving that enhanced environmental performance can increase profitability. The authors claim that adopting a beyond compliance strategy gives “the ability to influence public policies in ways that confer a competitive advantage” (Russo & Fouts, 1997, p. 540). By complementing governments' pro-societal actions, commons enterprises can benefit in two ways. First, given their ability to influence public policies, they can anticipate future regulations. Second, governments tend to work together with the most advanced companies in terms of social and ecological impacts. Thus, commons enterprises develop political acumen, an inimitable valuable resource (Russo & Fouts, 1997).

*Management principle 3: Commons enterprises complement governments' pro-societal actions.*

## **4 Toward an institutional analysis and development framework of commons enterprises**

Collective action within commons enterprises results from the collaboration between the organization and its internal or external stakeholders. Its robustness can be improved by implementing the three management principles proposed in this paper and summarized in Table 14.1. These management principles allow for inclusive and collaborative governance to be implemented according to each commons enterprise's specific needs. Such collective action, embedded in the management principles, distinguishes commons enterprises from pro-social business models that tackle externalities.

Table 14.1 Management principles for commons enterprises

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<b>1 Executives are stewards</b>
Executives must behave as stewards as they are autonomously motivated to contribute to commons through the commons-governing company's for-profit activities. Owners' and CEOs' objectives are aligned.
<b>2 A collective strategy shared by all</b>
In commons enterprises, autonomous motives are triggered for non-executives to align with collective strategy and act as stewards.
<b>3 A desire to complement pro-societal governments' actions</b>
Commons enterprises have the autonomous desire to complement governments' pro-societal actions to (i) address social issues not covered by governments and (ii) develop a competitive advantage over markets.

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Co-management can first exist between the commons enterprise and its internal stakeholders. Employees become the main drivers of the companies' initiatives when governing the commons. In such cases, all parties within the commons enterprises work together and converge to achieve the social mission. I argue that this convergence is fostered if appropriate management principles are applied within a commons enterprise.

First, through management principle 1—*executives are stewards*—the executive team must align with the owners of the commons enterprise. The latter created an organization that voluntarily contributes to commons out of a desire to make a difference and achieve societal outcomes. By having executives align with them on this issue, a first level of convergence is fostered within the commons enterprise. Second, management principle 2—*a collective strategy shared by all*—ensures organizational commitment from non-executives, such as middle managers and employees, through involvement in collective rule-making. When these actors are autonomously motivated to achieve societal goals, the adoption of co-management principles help their initiatives more readily converge with both shareholders and the executive team. Third, this convergence of the three types of actors—owners/shareholders, executives, and non-executives—supports the actions taken to *complement pro-societal government actions* embodied by the commons enterprise (management principle 3).

When co-management exists between the commons enterprise and its external stakeholders, the latter can more easily collaborate with the for-profit organization to resolve collective issues and manage the commons resource. To achieve this, commons enterprises must be organized to tackle collective issues and implement inputs from external stakeholders. I argue that such collaboration becomes increasingly robust with a stronger implementation of the above management principles.

The three management principles proposed here do not negate Ostrom's eight design principles (1990) since they apply to this new resource system, which is the commons enterprise. Nevertheless, a parallel between the "traditional" eight design principles for natural resources and the new management principles for commons enterprises is drawn in Figure 14.2. While two design principles as defined by Ostrom remain identical (*clearly defined boundaries and congruence between appropriation/provision rules and local conditions*), the others have been adapted to commons enterprises. These adapted design principles correspond to the various rules-in-use of commons enterprises, particularly in monitoring, sanctioning, and recognition of rights as an organization and a collective-choice arrangement. On top of these, I also argue for a slight adaptation of the last design principle—*nested enterprises*. As with traditional CPRs, commons enterprises evolve in a nested environment given that they are part of a multilevel governance framework. Nonetheless,

Design principles of common-pool resources	Adapted design principles for commons enterprises
Clearly defined boundaries	Identical (as part of the definition of the commons to be provided)
Congruence between appropriation/provision rules and local conditions	Identical (as part of the definition of the commons to be provided)
Collective-choice arrangements	A will to complement pro-social government's actions
Monitoring	A collective strategy shared by all
Graduated sanctions	Executives as stewards
Conflict resolution mechanisms	Further research needed (as part of the commons enterprise structure)
Minimal recognition of rights to organize	Legal spaces for social corporations ensure recognition
Nested enterprises	Identical (as part of a multilevel governance framework)

Figure 14.2 Adapted management principles for commons enterprises.

although I recognize that all companies have to be embedded in their environment, governing other types of commons makes that environment more complex. Indeed, commons enterprises not only govern the commons but also tackle multilevel and multidimensional problems in their environment. I therefore argue that commons enterprises evolve in a *strongly* nested environment, as a specific condition to govern the commons. Key elements of a strongly nested environment, as discussed in this chapter, are the embeddedness of commons enterprises in the local life and environment, as well as their collaboration with other supporting organizations, particularly public authorities. Finally, more research would be needed to assess the characteristics of the various collective issues that arise with the provision of new commons and the corresponding challenges for commons enterprises. Such research could be conducted with a view to further complementing our understanding of the enabling management principles.

## 5 Conclusion

This book chapter aims to bridge research on commons and social corporations, defined as fully-fledged for-profit organizations in which social outcomes are favored over private wealth maximization in bylaws at incorporation. It assesses under which conditions these organizations govern commons, becoming commons enterprises. To become commons enterprises, social

corporations must implement a form of co-management with internal or external stakeholders when governing the commons, to address a collective dilemma. I argue that this is possible provided the management principles proposed in this chapter are implemented by commons enterprises. When applied, the management principles theoretically foster the convergence and involvement of all parties toward the management of and contribution to the resource. Other contributing factors can play a role and deserve further analysis, but the identified management principles show how the core variables of the IAD framework can be further developed into a model for analyzing forms of co-management in commons enterprises. Commons enterprises then evolve in a strongly nested environment—as opposed to organizations evolving in a weakly nested environment. Lastly, the management principles proposed here could apply to other types of companies, whether social or not (especially management principles 1 and 2). Yet the argument put forth in this chapter is that a social corporation must (i) follow all three management principles *and* (ii) have a social mission that contributes to the production and governance of commons by involving a social group in the decision-making processes to be considered a commons enterprise.

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### Notes

- 1 From now on, I will use the generic term “commons” for both common-pool resources and new commons.
- 2 Source: Regionalwert AG website, <https://www.regionalwert-ag.de> (last accessed: 08/31/2023).

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# CRITICAL ISSUES OF CO-OPERATIVE GOVERNANCE IN LARGE CO-OPERATIVES

Who eventually wields power?

*Anu Puusa*

## 1 Introduction

Co-operatives hold a strong position in today's world. They are large employers and taxpayers, wielding considerable economic power and influencing societies all over the world. Co-operatives involve more than half of humanity, and the sector is estimated to include around one billion members. Co-operatives employ, directly or indirectly, 250 million people around the world. Co-operatives operate in virtually all industries and countries.<sup>1</sup>

The starting point for the idea and principles of co-operatives is that the co-operative exists for its members and that the members should be heard in decision-making. According to the International Cooperative Alliance, *cooperatives are democratic organisations controlled by their members, who actively participate in setting their policies and making decisions* (Principle 2, Democratic Member Control).<sup>2</sup> This premise creates a certain framework for the management of co-operatives and gives rise to their characteristic inseparable connection between the business or commercial role and the member community role.<sup>3</sup> Their management receives its mandate from the membership and is tasked with steering the co-operative to satisfy the membership's versatile needs. In order for this to happen, functional dialogue must take place between management and membership. This objective is supported by the co-operative governance system.

In co-operatives, the governing representatives hold the balance of power in both management and operations precisely because of the democratic governance structure. A special characteristic of co-operatives is the significant role of governing representatives in making decisions, bringing forward the membership's needs, monitoring operational effectiveness, and overseeing the realisation of the co-operative's purpose. The governance structures of different cooperatives may vary, and they have become more diverse in recent decades.<sup>4</sup>

For the above reasons, we need critical examination in addition to ideal models about how the governors and the governance system of co-operatives work in practice, how well they can realise the idea of the co-operative, and what kind of skills and know-how are needed to fulfil that demanding task. Furthermore, this chapter's topic is underpinned by the analysis of how conscious the members of co-operatives are of their ownership and, thus, how owner-control is actually

realised in practice, particularly in the context of large consumer and service cooperatives. Who truly wields power in our jointly owned co-operatives?

## 2 About corporate governance

There is no single overarching theory of corporate governance, and the concept itself holds different meanings for different people depending on their ontological preferences.<sup>5</sup> *Corporate governance* thinking stems mainly from listed companies, resulting in company governance arrangements heavily marked by the interest of investors in maximising shareholder value.<sup>6</sup> The general theory and practice of good governance created in the context of investor-owned companies are well-established and functional – it could even be said that companies aiming to increase shareholder value have developed good governance significantly since the 1980s.<sup>7</sup> Co-operatives should in no way fall behind in good governance.<sup>8</sup> However, the governance of co-operatives and mutuals is relatively under-theorised.<sup>9</sup>

However, the governance matters of co-operatives have been found to be more complex<sup>10</sup> compared to the governance of investor-owned companies due to the co-operatives' unique mission to satisfy both the social and economic needs of their members. Therefore, the models created in the framework of investor-owned companies are too one-dimensional to suit co-operative governance if left unmodified.<sup>11</sup>

It is rather peculiar that co-operatives have not addressed this issue together as a global movement to create a code of governance designed specifically for the special characteristics of co-operatives, modifying what already exists. While some individual models have been developed and adopted into use, and different approaches have been taken in different countries, as long as we fail to collectively address the issue, we continue to legitimise the idea that the governance and operations of co-operatives have no special distinguishing characteristics that set them apart from other models. This is another reason why it is important to recognise the special characteristics of co-operatives' leadership and governance, casting a critical eye towards good governance in the context of co-operatives and how it should be developed.

## 3 Critical issues of co-operative corporate governance

In this chapter, I examine some special characteristics and challenges of particularly large consumer and service co-operatives that are relevant for organising good co-operative governance and are therefore relevant for their functionality and success. The following viewpoints, some fairly critical, are not presented in any order of prevalence or importance. Furthermore, some only apply to specific types of co-operatives, and I am aware of the differences, sometimes considerable, among individual co-operatives as well as industries, regions, and countries regarding these practices and the relevant regulations. The list is in no way exhaustive.

### 3.1 *Passive owners*

Co-operatives can be useful and valuable tools for their members if their activities and offerings encourage the members to use the co-operative's services. In this case, members may readily conflate their membership and customership as "only" being a customer, and if they lack the initiative to keep up with their co-operative's affairs and participate in its decisions, a significant portion of the model's opportunities are lost on them. Only members who recognise their ownership are able to wield the power of an owner. Naturally, simply being aware of one's rights and obligations is insufficient.

Members must also be willing and able to take responsibility for decisions and their consequences. Therefore, it is of utmost importance that co-operatives would fulfil the 5th Principle: Education, Training, and Information, according to which they should provide education and training for their members, elected representatives, managers, and employees so they can contribute effectively to the development of their co-operatives. It is also relevant to inform the general public – particularly young people and opinion leaders – about the nature and benefits of co-operation.<sup>12</sup>

The basic idea of the co-operative model includes the assumption of active membership. The members finance, govern, and use the co-operative's services.<sup>13</sup> This focus on users – not capital – serves as a call for the members to be active. However, previous research shows that widespread ownership of large co-operatives can lead to member passiveness.<sup>14</sup> The majority of members might be active users but find it unnecessary or not useful to participate in issues of governance or be otherwise active.<sup>15</sup> The indifferent, even negligent attitude of co-operative members towards their power of influence granted by their ownership must be seen as a clear concern or even as a risk. For example, a research report (N=1027) prepared by Pellervo (2022), the umbrella organisation of Finnish co-operatives, representing the Finnish population, states that the opportunity to influence the affairs of one's co-operative was nowhere near the top when co-operative members were asked to list their reasons for joining.<sup>16</sup>

The less members are aware of their ownership, the weaker their willingness to participate in governance or even monitor it. For example, the late Johnston Birchall, Ph.D., a senior lecturer at Stirling University in Scotland and an esteemed commentator and supporter of co-operatives, noted that large consumer co-operatives, among others, run into the problem of collective work. When the number of members is high and the impact of an individual member's input is consequently minimal, this results in the thought of "let others do the work." In other words, this is the problem of *free-riding*, as widely recognised in prior studies.<sup>17</sup>

Regrettable as it is to generalise, the loose commitment and passive nature of co-operative members as owners is important to recognise as a starting point when evaluating the need to develop good co-operative governance. In all likelihood, this issue especially applies to large consumer and service co-operatives. A passive membership is a detriment to the basic idea of the co-operative as a democratic community and ultimately erodes the special characteristics of co-operatives as a type of company.

### ***3.2 Competence and expertise requirements of co-operative management***

It is essential for the people who manage co-operatives, both in terms of governance and operative management, to thoroughly understand the idea of co-operative business and the resulting special characteristics. However, our general education provides a poor foundation in this regard – co-operative business is largely ignored at all levels of education<sup>18</sup>. Furthermore, the education given in business schools, for example, still emphasises the limited liability company model, the characteristics of which differ from co-operatives, especially in terms of the business' purpose. We should therefore consider where and how knowledge of co-operatives is gained and, especially, how systematically individual co-operatives employ the means to ensure competence when choosing their key persons. If the governing or operational management of a co-operative fails to grasp the idea of co-operative business, this inevitably leads to the weakening or even loss of the co-operative's values and principles, its entire unique identity. There are already too many warning signs of this happening.

Even so, expertise in co-operative business may not be a high-priority criterion for selecting new governing representatives. Many co-operatives and various governing bodies use

nomination committees to prepare the process for selecting new personnel. They should ensure that the nominees' business or commercial competence is not emphasised at the expense of their co-operative competence or vice versa. The governing representatives must have a good understanding of the co-operative idea to guarantee that future co-operatives can operate according to the true principles. This aspect cannot be compromised, and therefore the target profile for each governing position should automatically include the requirement of understanding the co-operative business model.

Naturally, mere ideological commitment and understanding of the idea of co-operatives are insufficient on their own. Evolving business environments, the growing competence and know-how of current members and potential customers and members, heavier competition, and increasing co-operative sizes place greater requirements on operational efficiency and business expertise. As the world's complexity and the pace of change increase ever further, co-operatives need professional management and functional management and governance systems, especially as their size expands.<sup>19</sup>

The board members, in particular, must be well-versed in business. The board is expected to support the managing director and other operational management, which places significant requirements on the competence of individual board members. These requirements only grow as the business expands in scale and variety.

### ***3.3 The critical role of co-operative boards***

Because the board is the co-operative's central governing body,<sup>20</sup> the co-operative's governance is derived from the board's way of working, according to the co-operative's basic mission and purpose. Can the board realise the co-operative's basic mission in its work with a sufficient level of clarity and purity? Do the board members understand the idea of co-operative business in the first place? Does the core imbue the rest of the co-operative's management system with the true values and basic principles of the co-operative? If the board does not produce the above in the form of strong guidelines and messaging, these aspects may become disconnected phenomena and fail to secure a foothold and influence among operational management and the rest of the co-operative's personnel. Thus, they are critical issues of co-operative governance.

In the end, co-operatives are made up of everyday actions, recognisable and concrete. The previously mentioned lack of education introduces particular challenges in this regard, as does the fact that the previous experience and role models of many in governance and operational management come from the world of investor ownership. They have learned how to make a business efficient and profitable but are less familiar with productivity and satisfying the members' other needs and expectations in a jointly owned model with a broader perspective on the concept of benefit. Some even disagree with the model's necessity, considering it sufficient to produce high profits that only deliver financial benefits to the membership.

This has been observed in practice and proven by research. For example, in a study conducted by Puusa and Saastamoinen (2021), the elected representatives emphasised business activities and their profitability in terms of both leadership and management. The commercial business role and member community role were seen as separate, with the former taking priority, meaning the latter could only be realised once the business was profitable enough. The member community role was not understood – its interpretation was reduced to isolated “good deeds”, which each co-operative performed as they saw fit.

The above does not support the idea of the dual nature of co-operatives. The obligation of diligence and loyalty applies to all governance, especially the board of directors, regardless of the

company type. There should be a critical review of governance: Do the actions taken serve the best interests of the company? Are decisions based on sufficient background information? How can this evaluation be verified after the fact from the minutes of meetings, for example? These obligations have additional significance in co-operatives due to their dual nature and values, and the decision-makers must also ask themselves the following: Do we base our decisions on the values and principles of the co-operative? Are different options considered from the perspectives of both the business and the membership? The shrinking understanding of the member community role is a problem.

Another cornerstone of good co-operative governance and excellent management is the clarity of the roles and tasks of different governing bodies. The less they overlap and the firmer the boundaries of each body's specific role, the less chance there is of conflict, resulting in efficient management. To successfully handle the vast responsibilities, the board must have regular, close, and genuine dialogue with other governance bodies, operational management, and members.

### ***3.4 Are co-operatives managing director-centric?***

Co-operatives include many voices, partially as a result of their dual nature, which affects the position of the managing director. In other words, the expectations of members in consumer, service, and producer co-operatives can be highly diverse and typically conflict. This logjam of wishes is easily reflected in governance work. Decisions are made hesitantly, and even those with sound financial justification may be left on the table in the crossfire of motives and expectations. In such situations, the managing director must act as a shepherd and seek a solution that is in the best interest of the co-operative as a whole.<sup>21</sup>

The managing director's role can be very powerful in a co-operative engaged in general business, resulting in co-operatives that are clearly management-driven, not member-driven.<sup>22</sup> It has been argued that co-operative managers enjoy positions of far greater power and much wider margins of discretion, unfettered by the membership compared to managers in capitalist companies.<sup>23</sup> However, the ultimate idea of the cooperative is that its members should be actively involved in decision-making and play a key role in the direction of the company, ensuring that the operations and business areas serve the needs of the membership.<sup>24</sup> If genuine dialog is missing between the management, members of the governance bodies, and the membership and if the competence of representatives from different governance bodies falls short, it sets the stage for an unresisted dominance of the CEO.<sup>25</sup>

The situation is rooted deeply in history. Throughout their long history, co-operatives have generally been established by laypersons – people with limited understanding of business and finance. The German economist Reinhold Henzler, who primarily studied the governance of co-operatives, wrote that co-operatives must employ managers because their members may lack the business management expertise needed to successfully steer the enterprise, especially in rapidly changing market situations. This was no doubt a wise and appropriate course of action. It also gave rise to a strong organisational culture that continues to live on.

Although the situation has changed fundamentally since those early days, managing directors still reign supreme in terms of knowledge. The level of expertise varies greatly among co-operatives' board members, not to mention supervisory boards and member councils. Governing representatives come from very different backgrounds and have different motives. Gaps in skills and knowledge sow uncertainty and doubt, even leading to unwillingness to challenge operational management. When combined with historical company culture, this creates the perfect conditions for the managing director's dominance.

Because the balance of power is heavily skewed in favour of the managing director, they must be highly committed to their work and prepared to hold themselves to a high standard. They must put themselves at stake and maintain high morals and ethics. The importance of strong co-operative values as a foundation cannot be overstated in this instance, and the governing representatives should consider the values of the nominees when choosing key persons.

#### **4 Summary and conclusions**

The study of co-operative governance is especially interesting and meaningful because the owners risk losing their power in large co-operatives due to the sheer number of members and their passivity. Naturally, this is also influenced by the membership's awareness of owner governance in general and the special characteristics of co-operatives in particular. For example, this is evidenced by modern co-operatives largely relying on ways of thinking that are appropriate for increasing return on investment instead of responsibly serving all stakeholders in the spirit of the co-operative. Chapter 10 presents an interesting methodological framework for calculating an Organizational Democracy Degree.

The low participation in co-operative meetings and low voter turnout in representative elections reflect the shallow interest of members in the governance of the co-operative they own. The governing representatives responsible should not take this as a licence to play fast and loose with the principles of good governance. If anything, the opposite is true: if the owners abandon their monitoring role, the governing representatives are left to make up for it. The governing representatives must remain alert even without being pressured by the rest of the owner-members.

It is absolutely vital that the representatives have sufficient knowledge of the special features of co-operative business. Any lack in this regard will preclude them from exploiting the competitive advantages of this company type. At worst, the co-operative morphs into just another company type without an ideological foundation, reduced to operating on the same basis as investor-owned companies.

A well-known and respected academic in the field of co-operative studies, the late Johnston Birchall, has stated that there are three elements in successful governance, and the key is to find an optimal balance between them: voice, representation, and expertise.<sup>26</sup> Besides these, keeping in mind the co-operative purpose and its dual nature is essential. From a more practical point of view, for good governance, it is also important to always recognise the specific role of each governing body. Even a slight deviation from the basic roles may paralyse decision-making, provoke needless internal tensions, and even disrupt business operations.

The governance task is to fulfil the cooperative's objectives, protect members' interests, and maintain member control. However, this might be particularly challenging in large co-operatives because the larger the cooperative, the less connected and more alienated its members might become. As a result, it can rely less on member involvement and must rely more on professional management.<sup>27</sup> It has been argued that as the co-operative grows, even one that implements participatory mechanisms of governance, may slowly devolve into a thin, representative model, especially with the rise of a class of professional managers who exercise operational control.<sup>28</sup>

Therefore, one key topic in this chapter is the concentration of power in co-operatives. In principle, the powerful position of the managing director can be seen as neutral. What matters is for the co-operative to realise its basic mission successfully, for the member experience to meet the membership's expectations, and for the governing representatives to be able to calmly progress matters in the desired direction. It is important to remember that the co-operative's existence is justified by the basic mission given to it by the member-owners who also give the operational

management their mandate – in practice, the managing director’s ultimate superior is the member, the customers, or the producers. The management of co-operatives must aim to maximise member benefits in the long term, achieving more than just financial gains. It is therefore illustrative to describe the role of the co-operative’s leader as serving the community, already conceptualised by Henzler, one of the earliest researchers of co-operatives.

To paraphrase a Finnish proverb, governance is like fire: a good tool but a bad master. The interests of governance bodies and operational management must not deviate from those of the membership, and the co-operative must be steered by the voice of the owners, not individual leaders. The fact that ordinary members no longer possess the expertise and experience necessary to lead a large co-operative poses a challenge for co-operatives in general, especially in terms of their growing scale, increasingly professional operations, and heavier competition. Co-operative management – governance and operational – requires people with specific knowledge and education. The membership chooses people from among its own ranks to carry out this task. The principle here is that the membership never cedes its voice and assumes that it will be heard by hired managers as well.

This chapter started with the question of who truly wields power in co-operatives. In practice, the answer is multifaceted. For example, as the number of owners grows, so do the difficulties in forming a single unified will, which raises the question of whether some co-operatives are becoming or have already become so large that their extensive and widely spread memberships cannot manage them effectively. This is influenced by a number of factors, such as the different interests of the owners, the means at their disposal, and the will to investigate the expectations and needs of a broad group. An increasing number of voices in the membership risks the owners losing their power. The risk is also significantly increased by the owners’ passivity and/or limited understanding of the issues of owner governance and the company’s business logic. Good corporate governance can greatly reduce the risk of uncontrollable power reallocation. Through good governance, owners can safely entrust their power to elected governing representatives and to the company’s operational management. However, the governors and operational management must always remember that they are only borrowing their power. The power comes from the members who have the right to reclaim it or reassign it to the people they choose.

## Notes

- 1 ICA (2023): <https://www.ica.coop/en/about-us/international-cooperative-alliance>. For more detailed information, see also World cooperative Monitor (2022): [https://monitor.coop/sites/default/files/2022-11/WCM\\_2022.pdf](https://monitor.coop/sites/default/files/2022-11/WCM_2022.pdf).
- 2 ICA (1995).
- 3 Puusa, Mönkkönen et al. (2013), Puusa, Hokkila et al. (2016), Puusa and Saastamoinen (2021).
- 4 See Birchall (2015), Hakelius and Nilsson (2020), Puusa and Saastamoinen (2023).
- 5 L’Huillier (2014).
- 6 See for example Cornforth (2002, 2004), L’Huillier (2014).
- 7 See for example L’Huillier (2014).
- 8 See Puusa and Karhinen (forthcoming).
- 9 Cornforth (2002, 2004).
- 10 See for example Cornfort (2004)
- 11 Cornforth (2004, p. 26). Also L’Huillier (2014), Pargendler (2016).
- 12 ICA (1995).
- 13 See for example Henzler (1957), Somerville (2007), Jussila and Tuominen (2010), Novković et al. (2022).
- 14 Several researchers have written about this. See for example Spear (2004), Chaves et al. (2008), Cornforth (2004), Dilger et al. (2017), Puusa and Saastamoinen (2021), Puusa et al. (2023).
- 15 Spear (2004), Chaves et al. (2008), Tuominen et al. (2009), Basterretxea et al. (2020), Novković et al. (2022), Puusa et al. (2023).

- 16 Kantar TNS (2020) Pellervo. 1027 respondents aged 18–79, representing the Finnish population, participated in the survey. The data is weighted to represent the 18–79-year-old population according to gender, age, and residential area. The CAWI method (internet-assisted electronic form) was used for data collection. The margin of error for the survey was  $\pm 3\%$ .
- 17 See for example Spear (2004), Chaves et al. (2008), Tuominen et al. (2009), Puusa et al. (2016), Basterretxea et al. (2020).
- 18 See for example Fontrodona and Sison (2006), Puusa et al. (2013, 2016), Puusa (2018).
- 19 See for example Spear (2004), Tuominen et al. (2009), Nilsson (2018), Puusa and Saastamoinen (2023).
- 20 By this I mean that defining, deciding, and overseeing the execution of strategic guidelines, including financial objectives and investments is the responsibility of the board. Thus, the board has a lot of power but also a huge responsibility.
- 21 Puusa and Karhinen (forthcoming).
- 22 Mazzarol et al. (2011). See also Spear (2004), Chaves et al. (2008), Tuominen et al. (2009), Puusa and Saastamoinen (2023).
- 23 Spear (2004), Chaves et al. (2008).
- 24 Puusa and Saastamoinen (2023)
- 25 Tuominen et al. (2009)
- 26 Birchall (2017).
- 27 Kaswan (2014), Puusa and Saastamoinen (2023).
- 28 Kaswan (2014, p. 196).

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# 16

## DEMOCRATIC OWNERSHIP

### Scale through leveraged conversions

*Tej Gonza, David Ellerman and Kosta Marco Juri*

#### 1 Introduction

Democratic ownership in the sphere of economic production is often contrasted with capitalist ownership along the lines of transferability of legal rights, such as profit and governance rights. If capitalist ownership implies full transferability of legal rights in production, democratic ownership anchors legal rights with the current generation of workers in the firm. A worker cooperative is generally considered the best practical proxy for a democratic firm (Ellerman, 2021; Erdal, 2012); however, worker cooperatives remain rare in contemporary economies, while the capitalist form of enterprise continues to dominate the markets despite contrary predictions by intellectual giants like John Stuart Mill. Why did democratic ownership fail to achieve scale?

Worker cooperatives are most commonly established from scratch or by fully converting a capitalist firm. In this chapter, we argue that cooperatives have faced challenges because they did not introduce a mechanism that would allow for the gradual conversion of capitalist ownership into democratic ownership. We introduce an alternative proposal that can help scale democratic ownership using the mechanism of leveraged gradual cooperative conversions. In the literature, this solution is described as the “Cooperative ESOP”, since it uses the ESOP leveraged financing mechanism, which is attached to a cooperative vehicle (Ellerman et al., 2022 and Appendix). We argue that the mechanism of gradual and leveraged conversion, with the aid of institutional support, can help democratic ownership grow in our economies and become mainstream.

#### 2 Continued domination of capitalist ownership against democratic ownership

The form of association, however, which if mankind continue to improve, must be expected in the end to predominate, is not that which can exist between a capitalist as chief, and work-people without a voice in the management, but the association of the labourers themselves on terms of equality, collectively owning the capital with which they carry on their operations, and working under managers elected and removable by themselves.

(Mill, John Stuart, 1970. Principles of Political Economy, Book IV, Chapter VII)

Laborers associated on terms of equality in the economic firm, democratically managing the business and owning the fruits of their labor, are not as common today as one might expect from the writings of John Stuart Mill. Worker cooperatives, which best represent democratic values in the economy, have historically been found in regions that have provided strong and systemic institutional support; however, even in those regions, democratic ownership remains limited to the margins of the economy, dominated by capitalist ownership. This section examines the most common ways of worker cooperatives “coming about” and discusses the issues that have prevented cooperatives from being better represented in the population of economic firms (see Chapter 3, Mirabel, this Handbook).

## ***2.1 Starting from scratch***

The historical problem of scaling worker cooperatives through *starting-from-scratch* creation has been particularly challenging due to several factors that are unique to the nature of the cooperative organizational form and the legal context in which it exists. In economies based on capitalist ownership, it is typically economically sensible for an individual (or group of individuals) to establish a conventionally-owned firm when seeking to start a business, regardless of whether a worker cooperative could yield superior overall economic results. By doing so, the founder secures full ownership of the company and, consequently the exclusive rights to profits, decision-making, and capital appreciation, even as the workforce expands. On the contrary, establishing a worker cooperative would require sharing those rights with future members. Thus, in the absence of a commitment to cooperative principles over pure financial gain, conventional ownership models will usually appear as the preferable option for individuals starting a new business. As Ben-Ner (1988, p. 290) argues, “a self-interested entrepreneur will not choose to establish a worker-owned firm and share entrepreneurial profits [and other ownership rights] with others if the establishment of a capitalist firm is a viable alternative”. Moreover, if ownership rights are not tied to labor, the entrepreneur can extract entrepreneurial rents even if not employed in the company, meaning they can embark on multiple entrepreneurial ventures at the same time. In the startup community, the prevalence of conventional types of ownership is exacerbated by the fact that ‘exiting’ from the company, typically through acquisition by a dominant incumbent player, is often considered to be the ultimate goal for entrepreneurs (Moules, 2012; Pisoni & Onetti, 2018).

Besides the entrepreneur’s pursuit of self-interest, another key barrier to the development of starting-from-scratch worker cooperatives is the inefficiencies arising from the requirement to abide by democratic principles in the already delicate and difficult-to-navigate startup phase. In a worker cooperative, where democratic decision-making takes place, it is much more important to recruit people who are believed to share core values and possess the necessary organizational, leadership, and entrepreneurial skills than it is in a conventional company. Especially in the startup phase, this process can be significantly more time-consuming, costly, and complicated than simply hiring people and instructing them without involving any democratic process. Recognizing such potential challenges, which may arise when seeking to establish a cohort of like-minded and committed people, some may find the process of establishing a cooperative from scratch too risky.

Another key challenge is access to capital. Financial institutions and investors may be hesitant to fund unproven cooperative startups, instead preferring more conventional businesses with predictable structures (Dow, 2003, pp. 208–210; Dow, Chapter 2, this Handbook; Kerr, 2015). The rise of venture capital (VC) as a widespread source of finance for startups over the past two decades (Lemley & McCreary, 2019; Mygind & Poulsen, 2021) has arguably contributed to making conventional types of ownership the default choice for company founders.

With conventionally owned enterprises far outnumbering worker cooperatives, a monoculture of conventional ownership has permeated government, educational systems, financial institutions, consulting and professional services, and society as a whole (The Ownership Commission, 2012; Abell, 2014; Nuttall, 2012; ILO, 2023; Kruse, 2022). Specifically, this may manifest as a lack of information on the topic of worker ownership and of attention to worker cooperatives in schools and universities – including business schools –, a scarcity of consulting and professional services that understand the specific needs of cooperatives, and the presence of costly and overly bureaucratic processes for establishing a cooperative. These challenges hinder cooperatives from accessing financing, specialized training, and ongoing support, which may dissuade aspiring entrepreneurs from setting up a worker cooperative in the first place.

## 2.2 Conversions

The alternative path to the creation of democratic ownership is through cooperative conversion. While there are some examples of mechanisms for cooperative conversion in France (Les Scop, 2023; Fakhfakh et al., 2023), Italy (CFI, 2023; Lomuscio et al., 2023), and Spain (CECOP, 2013; Marcuello, 2023), they are often utilized to save failing companies. These conversion mechanisms typically allow only for full (100%) cooperative conversions, which greatly limits their potential for widespread adoption.

Access to capital presents a significant challenge for full cooperative conversions (see Chapter 21, Venanzi, this Handbook). Since the assets of a business are insufficient to serve as collateral for bank loans that could cover a complete buyout, cooperative conversions often depend on financial support from either the government or cooperative financial institutions. Italy, France, and Spain have thriving cooperative conversion infrastructures, mostly thanks to their strong cooperative movements and the respective cooperative ecosystems, which took centuries to develop.

When an operating company is transformed into a cooperative enterprise, it involves legal and organizational complexities that may deter potential cooperative members from participating. Understanding and navigating the legal, financial, and organizational aspects of converting to a cooperative can be a daunting task and may discourage full participation (Vieta et al., 2017). Achieving a full conversion to a worker cooperative can also be challenging because of the resistance from existing owners, who may not be interested in the cooperative model or may fear potential financial losses. Furthermore, traditional businesses often have a hierarchical structure that can make it challenging to transition to a cooperative model, which emphasizes collective decision-making and shared ownership (see Chapter 10, Biggiero, this Handbook). The shift in organizational culture and power dynamics can be difficult for some businesses to embrace, leading to hesitancy in pursuing cooperative conversions (Orsi et al., 2023).

Different institutional measures are often called for to support the scaling of worker cooperatives (Cooperatives UK, 2023; Lawrence et al., 2018; ILO, 2014); however, little attention has been paid to the potential behind two concepts – *leverage* and *gradualism*.

## 3 Some conceptual clarity on democratic ownership

The economic firm is the factual institution of economic production, where labor is combined with capital equipment to increase output. The ontology of the economic firm refers the factual nature of economic production, where labor is organized, coordinated, performed, and supported by capital equipment to enhance productive capacity (Ellerman, 1990, 2021; Gonza, 2024; Robé, 2011, 2020). People who are actively engaged in production are members of the economic firm.<sup>1</sup>

Production is the engagement of firm members in creating the labor product, which is expressed in value terms as the value added, the difference between total revenue and total non-labor costs used in production.

The legal structure underlying the economic firm as a factual organization provides a system of rules for production. To ensure consistency between expectations and outcomes in production, the legal structure creates a system of rules that provides legal rights and roles to different stakeholders in production (Pistor, 2019; Swedberg, 2007). The legal structure of an economic firm defines the authority and rules for the appropriation of the labor product (Coase, 1937). There are two sets of legal rights in production. Governance rights conventionally provide the right to vote on strategic governance questions at the shareholder assembly and the right to delegate managerial authority. Economic rights can be divided into two categories: (i) the right to current profits (value added minus wages), whether they are paid out *or reinvested back into the company*, and (ii) the right to previously reinvested profits, that is, the net asset value of the company.<sup>2</sup> The legal structure defines legal membership, that is, the recipients of these legal rights (Gonza, 2024; Ellerman, 2021).

There are two central categories of the legal structure underlying the economic firm – the corporation and the cooperative (Gonza, 2024; Ellerman, 2021). In a corporation, legal rights are assigned to capital instruments that can be easily traded, sold, or otherwise transferred among physical and legal entities. In this structure, legal rights are bequeathable. In a cooperative, legal rights are attached to a functional role in the economic firm, which can either be the performance of labor (worker cooperatives), consumption (consumer cooperatives), provision of capital (credit cooperatives), or being a stakeholder (stakeholder cooperatives).

In conventional literature, the main objective of the economic firm is defined as the maximization of shareholder value (Lazonick & O’Sullivan, 2000). An alternative part of economic and sociological literature may define other objectives for the economic firm, such as providing benefits to a broader set of stakeholders (Imperatori & Ruta, 2015; Leviten-Reid & Fairbairn, 2011; Novkovic, 2019). Based on the two categories of legal structure mentioned above, a broader definition of the objective of the economic firm could be that it is to pursue the interests of its *legal members*, which may include shareholders, workers, or members of the local community.

A democratic firm is an economic firm, whose legal structure attaches legal rights to factual membership in the firm (Dahl, 1985; Ellerman, 2015, 2021). Concretely, a democratic firm assigns legal rights to the group of people responsible for creating the labor product (labor theory of property—not the labor theory of value) and governance rights to the group of people subjected to managerial authority (democratic principles, the difference between affected and governed interests). The right to the added value in a democratic firm is assigned based on labor patronage, which should roughly reflect the labor contribution of a given member (Ellerman, 2015). The right to governance in a democratic firm is a democratic right, where each member in the firm has one vote regardless of their position in the firm (Dahl, 1985).

Here is the most urgent challenge to political invention ever offered to the jurist and the statesman. The human association which in fact produces and distributes wealth, the association of workmen, managers, technicians and directors, is not an association recognised by the law. The association which the law does recognise—the association of shareholders, creditors and directors—is incapable of production and is not expected by the law to perform these functions. We have to give law to the real association, and to withdraw meaningless privilege from the imaginary one.

(Percy, 1944, p. 38)

In corporations and non-worker cooperatives (i.e., capitalist firms), the employment contract alienates legal rights from the workers. A democratic firm disassociates the imaginary and the real, attaching legal membership in the economic firm to factual membership, that is, to the provision of labor in the production process. Worker cooperatives are a type of cooperative that, ideally, attach legal membership to factual membership (see Chapter 6 on “worker cooperatives and other ‘cooperatives’” in this Handbook). Only worker cooperatives are, in principle, democratic firms.

Democratic ownership is not limited to the sphere of the democratic firm. The ideals of the democratic firm are, in practice, very rare, as they require that 100% of legal rights be assigned to 100% of firm members.<sup>3</sup> However, democratic ownership is a more flexible concept as only a part of the legal rights in an economic firm can be structured democratically. For example, a given economic firm might establish a 30% democratic ownership structure, where 30% of conventional shares are “democratized” by being assigned to all the workers in an accessible way,<sup>4</sup> and by being democratically represented in the governance of the firm. In this case, the remaining 70% of the shares could be traded on the market, held by a few individuals or founders, by the local community, or by other stakeholders. Such a legal structure could be referred to as a hybrid cooperative.

Democratic ownership, defined in such a way, may lead to new ideas when considering the scaling of democratic ownership in the economy. It allows for a gradual conversion of a capitalist firm into a democratic firm – or, at least, a conversion into a part-democratic firm, where some part of economic and governance rights is (permanently) attached to firm membership.

#### **4 Enabling scaling through leveraged and gradual conversions**

In the United States and, more recently in the United Kingdom, worker ownership has scaled quickly after the introduction of a special financial mechanism that leverages a worker-buyout based on the future profitability of the operating company. This approach enables building worker ownership without requiring workers to invest their personal savings or pledge their personal assets or property. A worker buyout of an existing company (which should be a profitable company) is facilitated, in this case, through a special purpose vehicle, which holds shares in the names of the workers. The legal innovation behind these models could be restructured to help scale democratic ownership in the economy.

The Employee Stock Ownership Plan (ESOP) was introduced in the legislation in the United States in the 1970s. Today, there are more than 6,500 existing ESOP businesses holding assets of over \$1.6 trillion and employing roughly 10% of the country’s private sector workforce (NCEO, 2023). In the United States, over the past 25 years, there have been an average of 200 ESOP WBOs per year. Compared to the 223 worker cooperatives employing fewer than 2,500 workers and holding \$128 million in assets in the United States (Abell, 2014), these numbers are staggering.

More recently, as of 2014, a similar mechanism was introduced in the United Kingdom, where the Employee Ownership Trust (EOT) has been extensively used by business owners to provide an ownership succession tool or simply to reward and motivate employees by providing them legal rights in the business. In 2022, there were 332 transfers of businesses in EOT ownership, and by the mid-2024, there were a total of 1,650 worker-owned businesses across the country.<sup>5</sup>

There are a few possible reasons for such an explosion of employee ownership in the United States and the United Kingdom. However, based on the literature discussing the difficulties of cooperative scaling due to capital problems and the empirical evidence from existing leveraged buyout mechanisms, we claim that the financing innovation behind gradual leveraged buyouts has enabled scaling by providing a solution to the capital access problem that limits the growth and conversion of worker cooperatives (Pendleton, Robinson, & Nuttall, 2023).

The interesting feature of the ESOP and EOT models is that they, in principle, include *all* workers in “a share” of the legal rights.<sup>6</sup> Furthermore, the structure of the models anchors legal rights with the current generation of workers, preventing the transferability of legal rights and making them *de facto* inalienable.<sup>7</sup> However, the main challenge of the models is that they are quite far from the democratic vision of ownership. While some selling owners may decide to create democratic ownership within the ESOPs and EOTs they set up, the legal default is a paternalistic structure where workers only receive pass-through voting rights on a limited set of decisions. The practice in the United States and the United Kingdom tends to follow the minimal legal requirements regarding governance rights (Kroncke, 2017; Magowan, 2010; Russell et al., 2004). Furthermore, the UK’s EOTs do not even provide full economic rights; the model creates a capital structure where workers receive distributed profits as bonuses but lose the claim over the retained portion of the profits, thus, providing only a partial claim to the labor product for the workers (Pendleton et al., 2023).

#### ***4.1 The basic mechanism of the Coop-ESOP***

The American or US ESOP provides a proven model for the gradual conversion of a conventional firm into an employee-owned firm. The model suffers from a few artifacts of its legislative history that are addressed in the model proposed here. The most important problem with the US ESOP is that the special purpose vehicle (SPV) holding the worker shares is a trust where the workers are only the beneficiaries of the trust, and the trustee has the final decision-making rights for the shares in the trust. This type of trust is often used when a minor inherits wealth, and the wealth is put into a trust until the minor becomes of age. However, the US ESOP trust is perpetual, as if the employees were perpetual minors forever unable to make their own decisions.

Hence the first major change in the recommended model is to replace the trust with a special type of worker cooperative to serve as the SPV for holding the employee shares. As a cooperative, there is one person/one vote to elect the board of the cooperative to make decisions regarding the percentage of ownership of the underlying company in the Coop-ESOP. A cooperative, structured in a way to ensure democratic governance and to regulate the distribution of economic rights based on the labor contributions of the workers, could be used as a vehicle to purchase shares of the underlying company by using the power of leverage. For example, the cooperative could buy 50% of the shares from the underlying “capitalist” firm for a certain price, where either the seller agrees to gradual financing (seller’s credit), or the cooperative obtains a loan, pays for the shares, and uses future profits to service the debt. The legal rights are “anchored” in a special legal-purpose cooperative and assigned to the cooperative members, providing them with economic and democratic governance rights. If all workers of the underlying company are included as members in the cooperative, 50% of the legal rights are attached to firm membership. Although this falls short of the democratic ideal, it nevertheless achieves partial democratic ownership. Following Ellerman et al. (2022), we call this mechanism a “Cooperative ESOP”.<sup>8</sup>

The second artifact of the US ESOP is that it was legislated as a special type of pension plan, so employees only see any cash from their ownership when they are near or at retirement. Hence, the second major change is that the Coop-ESOP model uses a share (or money) recycling or rollover model, where the oldest entries in the individual capital accounts (ICAs) are paid out in a continuous process. The repurchased shares or paid-off debts are recycled to current employees, so new employees are automatically brought into ownership. This recycling or rolling over of the individual capital accounts may start after the acquisition loan is paid off or earlier, depending on the cash position of the underlying operating company.

The US ESOP and the European Coop-ESOP models are voluntary processes on the part of the previous owners who may be looking toward a retirement that would preserve their legacy in the community or who simply want to create a “company of owners” rather than the usual company of just employees. The owner may want to start off with a low percentage of transferred ownership, say 20–30%, to see how everything goes for a few years before committing to sharing a larger percentage of ownership.

The purchase of the owner’s shares can be financed or leveraged by a loan from a financial institution to the ESOP, underwritten by the company itself. In that case, the owner receives the cash immediately and then the loan is paid off over a period of time by contributions from the company to the ESOP, not through any payments directly out of the employee’s pockets or pay checks. The alternative to bank financing is seller’s credit, where the owner offers the credit and is only paid out over a period of time.

If all goes well, then eventually the owner retires or otherwise transfers 100% of the shares to the ESOP. In the case of the Coop-ESOP, it can fold the operating company into the cooperative so that the co-op becomes the operating company—or it could continue to operate with the operating company 100% owned by the worker cooperative.

#### **4.2 Inside the Coop-ESOP**

Each normal employee of the underlying operating company should be a member of the cooperative. This fulfills the basic idea in a democratic firm that membership should be based on labor, not on the ownership of capital. There might be a small membership fee (e.g., 100 euros) but only for psychological reasons. Each member has an individual capital account (ICA) in the cooperative which is not “equity” but represents the amount ultimately owed to the member (as internal debt). That is, there are no votes attached to the size of a member’s ICA (it is always one member/one vote). There are two ways to denominate the balance in a member’s ICA: (1) as an amount of money (as in the Mondragon cooperative ICAs), or (2) as a certain number of shares, as in the US ESOPs.

The balance in a member’s ICA (after the initial “membership fee”) comes from the ESOP contributions of the underlying company to the ESOP. That amount of money is to be credited between the collective account and the ICAs. It is suggested that the collective account always receives credit for a fixed percentage, say 20–30%, of the ESOP contribution. The remaining part of the ESOP contribution is accredited to the individual accounts according to some agreed-upon criterion representing their labor contribution in the company, which is usually just their salary (or perhaps salary plus some measure of their time with the company). Thus, the credits to the accounts are a return to labor, not to capital. The ICAs should be conceptualized as debts to insiders as opposed to the usual debts to outsiders on the balance sheet. They do not represent “equity capital” since there is no equity capital in a worker cooperative; labor is the “equity” factor that qualifies one for membership in the cooperative.<sup>9</sup>

In spite of using language like “employee ownership,” it is important not to let language dominate reality. The reality in a worker cooperative is that membership (often misdescribed as “ownership” for purposes of conventional communication) is a personal right based on people qualifying by working in the company and is not a property right that can be sold or bequeathed to others. Since membership is based on satisfying the required functional role (working in the company), there is one member/one vote. There is no such thing as “having the qualifying role” ten times or a hundred times. There is also no such thing as selling the membership right since the “buyer” might not have the qualifying role, and if they had the qualifying role, they would not need to “buy” it.

This is similar to the *democratic* political sphere, where the qualifying role may be residence in a city or state or citizenship in a country. Those personal rights may not be bought or sold or bequeathed and are always one person/one vote. In a conventional company, there is no qualifying role, so the membership rights become free-floating untethered property rights, “shares,” that can be bought and sold and held in multiple quantities. Each entry in a member’s ICA is dated (like additions in a person’s savings account). Initially, the cash from the ESOP contributions is paid out on the bank loan or, in the seller’s credit arrangement, directly to the selling owner. If the ESOP contribution exceeds the required loan payments or is received after the loan is paid off, then the cash is used to pay out the oldest entries in the member ICAs on a First-In/First-Out (FIFO) basis. This rollover or recycling plan is an improvement in the Coop-ESOP compared to the US ESOP, where workers often have to wait until near retirement to receive any payouts.

This rollover/recycling program has several other benefits other than “early cash” for the worker-owners. In the US ESOP, the payouts are geared toward employees retiring or exiting the company. It is stochastic as to when people might choose to exit; indeed, there could be a “run on the ESOP” where a number of people retire at once because they are afraid the company might not be able to pay them out through the ESOP if they wait. With the rollover/recycle plan, nothing changes when a worker retires or exits except that there are no more credits to their accounts since those credits are based on labor contribution. Then, as their account ages, it is paid out until it goes to zero in the rollover plan.

The second benefit of the rollover plan is that it tends to equalize the balances in the accounts since the oldest accounts are paid down and the newest accounts get their share of the credit. Hence the accounts of the oldest and longest-serving employees do not just accumulate bigger balances, which would increase their risk. As the older accounts are reduced and the younger accounts are increased, the “mortgage” for the capital assets of the company is slowly passed from the older generation to the younger generation of members in an automatic way, independent of any stochastic or panic decisions.

Unfortunately, this sort of automatic repayment plan is not used in US ESOPs, so the liability to repurchase the shares in the ICAs just accumulates until the founding cohort of employees retires. Unless the company has carefully planned for those bunched repurchase liabilities, for example, with a sinking fund, it seems that many ESOP companies are sold to meet those liabilities. Indeed, in the 30–40 years since ESOPs were established, there are now slightly more ESOP sellouts than new ESOPs in the US—all due to an avoidable artifact of the US ESOP being legislated as a pension plan rather than a plan with continuous rolling over or recycling of the ICAs.<sup>10</sup>

## **5 Conclusion: identifying the main source of scaling potential**

Democratic ownership in the realm of economic production offers a great opportunity for social progress (Blasi & Kruse, 2019; Dudley & Rouen, 2021; Gonza, 2022; Yetim & Gur, 2023). However, despite its appeal, democratic ownership has struggled to gain significant traction in contemporary economies, where capitalist enterprises continue to dominate. There are known historical challenges related to the scalability of democratic ownership, but there are also possible solutions to problems limiting this economic alternative.

We argued that one of the main hurdles faced by cooperatives is their inability to offer a mechanism for the gradual conversion of capitalist ownership into democratic ownership. Rather than following the prevalent calls for the establishment of worker cooperatives from scratch or through 100% conversions, the chapter introduces a concept termed “Cooperative ESOP”. The suggested approach to expanding democratic ownership involves a cooperative entity acting as a purchasing

vehicle for shares of an existing company, allowing for gradual conversion and utilizing leverage to finance the acquisition of ownership rights in the name of firm members.

One of the greatest potentials for applying these principles is in the ownership succession problem. Most of the US ESOPs and the UK EOTs have been established as tools for addressing the succession challenge, but there is a great need elsewhere to find political solutions for significant wealth transfer behind succession planning. In the EU alone, the small and medium-sized business sector accounts for 99% of all businesses (European Commission, 2023), employing two-thirds of the private sector working population and contributing to more than half of the total value added generated by businesses in the EU (European Parliament, 2024). Approximately 450,000 firms with 2 million employees are transferred each year across Europe, while EU institutions warn that almost a third of the businesses do not have a succession plan (European Commission, 2006; European Union, 2020). Supported by national regulatory frameworks and appropriate fiscal incentives, the cooperative ESOP can provide a tool for addressing the succession problem and scaling democratic ownership into the mainstream.

Gradual leveraged buyouts implemented within a cooperative structure would address the issues related to capital access (since the conventional company undergoing conversion guarantees the loan) that hinder the growth of worker cooperatives in the population of economic firms. While the strategy may not (immediately) achieve the purest form of democratic ownership within individual firms, it would help scale democratic ownership in our economies.

## Notes

- 1 Conventionally, the employment relationship defines the boundaries of factual membership; however, with recent changes in labor organizations, especially related to labor-based platforms (LBPs) (Gonza & Ellerman, 2022), we should focus on alternative and more direct qualifications of factual membership.
- 2 These rights are compromised in many worker cooperatives that do not have Mondragon-style individual capital accounts to record the reinvested portion of the profits, so profits that are not paid out are collectivized as in the case of Yugoslav self-managed firms, the United Kingdom's Employee Ownership Trusts, or many Italian and French worker cooperatives.
- 3 Even the "poster child" of economic democracy, Mondragon cooperatives, faces a certain degree of mismatch between the assignment of legal rights among firm members. While there are no legal members who are not workers of Mondragon cooperatives, not all workers are legal members of the cooperatives.
- 4 We follow Gonza (2024) to define "accessible to all factual members", where accessibility is defined based on positive and negative freedom of access to legal rights for all members. Negative freedom of access implies that there is no legal constraint for any worker or group of workers in the firm, and positive freedom of access implies that there is an objective possibility for any worker to access legal rights (most commonly, there must be no financial constraints for becoming a legal member).
- 5 Accessed on August 30<sup>th</sup> at the website address of Employee Ownership Association, UK Research ([employeeownership.co.uk](http://employeeownership.co.uk))
- 6 There are some exceptions; see Rosen and Case (2022).
- 7 This is only partly true. By legal design, an individual worker cannot – or is disincentivized to – sell or trade shares held by the ESOP or EOT trust. It is possible, under certain conditions, to sell the stock held by the trust collectively. Sellouts are also one of the major reasons for stagnation in the number of ESOP plans in the US (Mygind et al., 2023; Rosen, 2023).
- 8 To better understand the technical points behind the model, we suggest readers go through the article by Ellerman et al. 2022.
- 9 There could also be a collective account that is not individuated to the members. The collective account would "collectivize" a part of the retained profits so that the value of those profits or the share appreciation is not individuated to ICAs. Mondragon cooperatives have a collective account, where around 30% of retained profits are commonly collectivized as a kind of self-insurance policy to ensure that the values on ICAs will eventually be paid out. This is an effective device that may prevent the heavy liquidity requirements underlying the repurchase obligation, which often impose challenges for ESOP firms in the United States.

- 10 Given the possibility of offers from cash-rich private equity funds or competitors, another mechanism to prevent sellouts is to have a separate non-profit, e.g., “ABC Co. Preservation Association,” holding a “Golden Share” of stock, say 15%–25% of ownership, that would be silent on all normal corporate decisions but could veto any sellout of the employee-owned company.

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# THE STRATEGIC ROLE OF COOPERATIVE ENTERPRISE AS AN INTERMEDIARY OF AMBIDEXTERITY

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## 1 Cooperative enterprise within a new business reality

For decades, cooperative enterprise (CE) has played an essential role in social and economic development worldwide (Camargo Benavides & Ehrenhard, 2021; Stiglitz, 2009). This is reflected in the CE's impact on various sectors such as agriculture, wholesale and retail, banking, financial services, industry, health, education, and social care. Responding to societal needs, overcoming market failures, and alleviating problems for members and society (Cheney, Cruz, Peredo, & Nazareno, 2014; Costa, Andreus, Carini, & Carpita, 2012), The CE has been economically efficient in fulfilling the demands efficiently as possible (Toms, 2012). Defining CE is not as easy as it seems; different definitions appear in the literature (Camargo Benavides & Ehrenhard, 2021). In this chapter, we adopt the definition from the International Cooperative Alliance: "A cooperative is an autonomous association of persons united voluntarily to meet their common economic, social and cultural needs and aspirations through a jointly owned and democratically controlled enterprise" (ICA, 2020). This is a widely accepted definition adopted by practitioners and scholars alike (Battaglia, Bianchi, Frey, & Passeti, 2015; Bernardi & Miani, 2014; Camargo Benavides & Ehrenhard, 2021). CE can also be owned by companies. For instance, suppliers in agribusiness can own an interfirm cooperative (Hendrikse & Feng, 2013), and small and medium enterprises (SMEs) users can also own an interfirm cooperative (Camargo Benavides, Ehrenhard, De Visser, & de Weerd-Nederhof, 2022).

However, business reality has changed with increased interdependence and connectivity among organizations. This reality is associated with rising levels of collaboration between different actors, organizations, and people, particularly to achieve a competitive advantage (Barringer & Harrison, 2000). This business reality materializes through different interorganizational relationships (Parmigiani & Rivera-Santos, 2011), such as strategic alliances (Das & Teng, 2000; Kale & Singh, 2009), joint ventures (Ren, Gray, & Kim, 2009), buyer-supplier agreements (McCutcheon & Stuart, 2000), licensing, co-branding, franchising (Combs, Michael, & Castrogiovanni, 2004), cross-sector partnerships (Selsky & Parker, 2005), networks (Keith G. Provan, Fish, & Sydow, 2007), trade associations, consortia (Eisner, Rahman, & Korn, 2009), and cooperatives (Cliquet, Hendrikse, Tuunanen, & Windsperger, 2007; Windsperger, Cliquet, Ehrmann, & Hendrikse, 2014). Despite

the benefits of interorganizational relationships, many of them fail (Barringer & Harrison, 2000), and finding the right partner is a challenge in itself. Hence, a set of actors called intermediaries enables the process of allowing collaborative exchanges.

This chapter proposes a fresh perspective on CE, where CE can play a strategic role as an intermediary of ambidexterity. Within the mainstream of strategic management, organizational ambidexterity emerges as an important factor in achieving short- and long-term success. Rather than dropping out, the primary goal of a CE within the market is to add a strategic role that enhances collaboration with different actors, such as social organizations, universities, government institutions, and society, to articulate business relationships with multiple actors.

## **2 What is organizational ambidexterity, and why is it relevant?**

Organizational ambidexterity has been a subject of attention in business and management research by scholars and practitioners over the past decades (Levinthal & March, 1993; O'Reilly & Tushman, 2013; Russo & Schena, 2021; Tushman & O'reilly, 1996). In a dynamic environment, organizational ambidexterity has been identified as a key factor in the success of organizations both in the short and long term (Birkinshaw, Zimmermann, & Raisch, 2016). Additionally, it is a relevant element within competitive advantage (Turner, Swart, & Maylor, 2013). Furthermore, organizations that manage exploration and exploitation activities have better financial performance, higher survival rates, and higher levels of innovation (Birkinshaw & Gibson, 2004; Gupta, Ken, & Shalley, 2006; O'Reilly & Tushman, 2013). An ambidextrous organization is defined by its ability to exploit and explore business opportunities. In other words, it enhances and utilizes what organizations already know, as well as exploring new capabilities and focusing on discovering what is yet to be known (Chen, 2017). The constructs of exploration and exploitation are based on the seminal work of March (1991). *Exploitation* refers to activities associated with features such as choice, implementation, production, efficiency, selection, refinement, and execution (March, 1991), while *explorative* activities can be identified with aspects such as search, risk-taking, experimentation, variation, discovery, and flexibility (March, 1991).

Any organization can develop an ambidextrous orientation with explorative and exploitative activities and processes. However, it is necessary to consider the challenge of balancing and managing tensions between exploitation and exploration activities (Andriopoulos & Lewis, 2009; Gupta et al., 2006), essentially due to the scarcity of resources, which complicates the decision-making process for allocating resources to explorative or exploitative activities (Raisch, Birkinshaw, Probst, & Tushman, 2009). On the one hand, exploration requires a higher level of uncertainty and risk. On the other hand, exploitation activities are more likely to be executed and are less risky due to the nature of the capabilities that are already known (Rothaermel, 2001). Moreover, organizations are required to find their path to develop solutions to this dilemma. Nonetheless, organizations can achieve an ambidextrous orientation using different approaches. For example, core business units create alignment with existing products and markets by implementing independent units (Birkinshaw & Gibson, 2004), where explorative and exploitative activities are structurally separate (de Visser et al., 2010). Aoki and Wilhelm (2017) present an in-depth case study of Toyota, which is a good example of balanced ambidextrous behaviour within an organization. The study identified how Toyota can balance exploitation and exploration activities through structural ambidexterity. On one side, the mass production unit focuses on exploitative activities, while on the other side, explorative activities are developed by the product development unit. In other cases, organizations use an approach of contextual ambidexterity by adjusting their exploration and exploitation activities to a specific space and time, 'building a set of processes or systems that enable and encourage

[managers] to make their own judgments about how to divide their time between the conflicting demands for alignment and adaptability' (Gibson & Birkinshaw, 2004, p. 211). For instance, this is the case with SMEs, where, due to a lack of resources, they cannot allocate investments for a separate structure (Abebe & Angriawan, 2014; De Clercq, Thongpapanl, & Dimov, 2014). Alternatively, organizations can achieve sequential ambidexterity by shifting structures over time (Chou, Yang, & Chiu, 2017). Recently, dynamic ambidexterity has been proposed as a framework that integrates these approaches within a multilevel perspective of the firm to achieve long-term survival (Chen, 2017).

The fact that all organizational forms, including CE, have to face a dynamic business context surrounded by cooperation materializes the idea of Håkansson and Snehota (1989) that "no business is an island." Thus, cooperation with other actors is a determining factor for growth (Hansen & Hamilton, 2011; Pullen, de Weerd-Nederhof, Groen, & Fisscher, 2012). When an organization cannot achieve exploitation and exploration on its own [what organizations already know, as well as explore new knowledge and focus on discovering what is yet to be known (Chen, 2017)], cooperation becomes a crucial factor for organizations to achieve learning goals (Hillebrand & Biemans, 2003).

From an organizational learning and innovation perspective, these activities are often promoted and facilitated by cooperation (Van Wijk, Jansen, & Lyles, 2008). Through cooperation and by exploiting complementary assets, organizations can leverage a lack of resources (Rothaermel, 2001) and increase performance (Stuart, 2000). Therefore, to enhance connections and cooperation between actors, intermediaries arise as enablers (Howells, 2006).

It is already known that CE helps to overcome market failures such as lack of access to markets, lack of support services, and other barriers that cooperative members cannot reach on their own (Hendrikse & Veerman, 2001). For instance, the contribution of social cooperatives in Italy at a regional level (Costa et al., 2012) improves the living and working conditions even in areas neglected by the state (ILO, 2017).

Based on the idea expressed before, CE could be perceived as a facilitator, implying that CE can articulate interorganizational relationships between members, CE, and multiple actors (H. Yang, Klerkx, & Leeuwis, 2014), coordinate the flow of information, fill gaps in knowledge, and facilitate formal and informal connections to enable exploration and exploitation activities (Camargo Benavides et al., 2022).

### **3 Intermediaries from an innovation perspective**

To reach connections with other organizations, a set of actors is broadly called intermediaries (Howells, 2006). Intermediaries are external institutions that support companies in their activities, particularly, those associated with innovation processes (Gassmann, Daiber, & Enkel, 2011). Intermediaries have emerged as potentially powerful actors and entities to speed up transitions (Kivimaa, Bergek, Matschoss, & van Lente, 2020). They are frequently used to bridge gaps between different industries.

Besides, the intermediation activities serve to establish or improve the link between different actors with complementary skill sets or interests to support the diffusion and generation of innovation (Edler & Yeow, 2016) (Table 17.1).

Although traditional intermediary organizations operate mainly bilaterally between a set of actors, a new set of intermediaries emerges with functions at the system or network level (van Lente, Hekkert, Smits, & Waveren, 2003) (Table 17.2).

*Table 17.1 Intermediaries in innovation and definition (Howells, 2006)*

<i>Term</i>	<i>Definition</i>	<i>Study</i>
Intermediaries	Explores the role of intermediary agencies supports technology transfer to small firms	Watkins and Horley (1986)
Third parties	Persons or organizations that intervene in the adoption decisions of others	Mantel and Rosegger (1987)
Brokers	Agents facilitating the diffusion in a social system of new ideas from outside the system	Aldrich and Von Glinow (1992)
Intermediaries	Examines the role of intermediaries in technology exploitation	Seaton and Cordey-Hayes (1993)
Intermediary agencies	Role of mission agencies in formulating research policy	Braun (1993) Callon (1994)
Intermediaries	Role of intermediaries in effecting change within science networks and local collectives	
Consultants as bridge builders	Role of independent consultants as bridge builders in the innovation process	Bessant and Rush (1995)
Intermediary firms	Adapt solutions available in the market to the needs of the individual user	Stankiewicz (1995)
Intermediaries	Public and private organizations that act as agents transferring the technology between hosts and users	Shohet and Prevezer (1996)
Bricoleurs	Agents seeking to develop new applications for new technologies outside their initial development field	Turpin, Garrett-Jone, and Rankin (1996)
Superstructure organizations	Organizations that help to facilitate and coordinate the flow of information to substructure firms	Lynn, Mohan Reddy, and Aram (1996)
Knowledge brokers	Agents that help innovation by combining existing technologies in new ways	Hargadon (1998)
Intermediary level bodies	Help orient the science system to socio-economic objectives	van der Meulen and Rip (1998) Howells (1999)
Innovation intermediaries	Innovation intermediaries Proactive role that certain types of service firms play as intermediaries within innovation systems	
Technology brokers	Actors filling gaps in information and knowledge in industrial networks	Provan and Human (1999)
Regional institutions	Provide 'surrogate ties' by serving as functional substitutes for a firm's lack of 'bridging ties' in a network	McEvily and Zaheer (1999)
Boundary organizations	Role of boundary organizations in technology transfer	Guston (1999)
Boundary organizations	Role of boundary organizations in technology transfer bridging science and policy	Cash (2001)
Knowledge intermediaries	Organizations that facilitate a recipient's measurement of the intangible value of knowledge received	Millar and Choi (2003)

Table 17.2 Intermediation functions (Agogu   et al., 2017)

<i>Function</i>	<i>Example</i>
Connect	Create and maintain a network with relevant stakeholders
Involve/commit/mobilize	Mobilize resources (human capital, financial capital, and complementary assets)
Solve/avoid conflict	Create legitimacy, avoiding conflicts
Stimulate	Support learning process and adaptations for its members

Table 17.3 Processes and activities (Howells, 2006)

<i>Processes</i>	<i>Role</i>	<i>Study</i>
Innovation consultancy services	The role of consultancy firms specifically to promote innovation involves a variety of actors, including consultancy firms and intermediary agencies	Pilorget (1993)
Technology brokering	Technology brokering is where an organization routinely creates new products by making connections between existing solutions in other sectors or technologies	Hargadon and Sutton (1997)
Innovation bridging	Provision of knowledge or services that are complementary to firms	Wolpert (2002)
Knowledge brokering	Knowledge brokering intermediaries that facilitate the exchange of information about innovation among companies	

The roles of these actors vary according to their purpose, sometimes as bridges (Bessant & Rush, 1995; McEvily & Zaheer, 1999), brokers (Kwon, Rondi, Levin, De Massis, & Brass, 2020), and information intermediaries associated with information exchange (Popp, 2000) (Table 17.3).

Although the literature in management and business has recognized the role that intermediaries play in the field of innovation, particularly from the exploration perspective of the organizational ambidexterity framework, little is known about the possible role that an intermediary can operationalize on the exploitation side.

#### 4 Cooperative enterprise as an intermediary of ambidexterity

Following Camargo Benavides et al. (2022) to extend the understanding and research on intermediaries of ambidexterity, we conceptualize in this chapter the role of CE as an intermediary of ambidexterity. Based on the interorganizational structure shaped in a CE, it brings an organizational configuration that facilitates collaboration between parties. CE holds a central position as a focal organization that allows the creation of formal and informal ties to connect various actors. CE's centrality facilitates the articulation of interorganizational relationships with multiple parties. For instance, it enables access to external knowledge (S. M. Yang, Fang, Fang, & Chou, 2014) and the process of acquiring resources for its members (Camargo Benavides & Ehrenhard, 2021).

According to Edler and Yeow (2016), within interorganizational relationships, the main characteristic of intermediation is to link parties that need to connect. The argument is that the CE can play the role of linking and channelling efforts and goals through the CE itself, particularly when CE connects the supply and demand sides in terms of solutions. CE can be seen as an intermediary of ambidexterity, which enables explorative (search, risk-taking, experimentation, variation, discovery, and flexibility) and exploitative (choice, implementation, production, efficiency, selection, refinement, and execution) behaviour (Camargo Benavides et al., 2022).

The study by H. Yang et al. (2014) presents three case studies of farmer CE in China and how these cooperatives play a role as innovation intermediaries. The study examines how farmer cooperatives facilitate agricultural innovation, which means that the role of these CE is to trigger explorative behaviour. Besides, these farmer cooperatives deal with specialized technology service providers, who mainly engage in technology improvement to optimize farming practices. Additionally, these farmer cooperatives it combines technical and marketing services around one or several products to optimize farming practices, and finally, improve agricultural production and marketing, natural resource management, and credit services to promote development in rural communities.

The study performed by Camargo Benavides et al. (2022) used an interorganizational ambidexterity framework to analyse how three interfirm cooperatives in the printing industry in an emerging market enable exploitative and explorative initiatives along with their SME members, government institutions, chambers of commerce, universities, technical organizations, and other actors.

First, the authors show in this study that interfirm cooperatives facilitate the process of formal and informal connections with different actors, such as alliances with local universities. The main objective of this alliance was to gain access to external knowledge through seminars and courses, which enhance the efficiency and productivity of their SME members. Besides, they undertook projects to improve efficiency within the production processes of SME members. Furthermore, there were joint projects between interfirm cooperatives and government institutions to implement quality management systems within the SME companies.

Second, this study also demonstrates how interfirm cooperatives undertake joint projects with government institutions to obtain knowledge transfer, financial, and technical support to implement innovation departments within SME members, which speeds up changes in the companies and launches new products and services into the market.

## **5 Managerial implications and recommendations**

This chapter acknowledges the relevance of CE in social and economic development worldwide. Although business reality has changed with increased interdependence among organizations, this reality is reflected in the benefits of interorganizational relationships, including CE. However, finding the right partner is a challenge in itself. Hence, arise a set of actors called intermediaries, that enable the process of collaborative exchanges between parties. Therefore, within a range of intermediaries with functions and roles that they offer, we introduce CE into the discussion as an intermediary of ambidexterity. Thus, it is likely to consider CE a trustworthy partner acting as a mediator between various actors (Klerkx & Leeuwis, 2009).

The approach of CE as an intermediary of ambidexterity has implications, particularly at the local level. Understanding that CE can be seen as an intermediary of ambidexterity, which stimulates exploitation and exploration activities (March, 1991). CE can deploy a relevant impact by enabling better cooperation with organizations, government institutions, and other actors for the

benefit of local development. There are several functions that CE holds to stimulate interactions between different stakeholders. For instance, building social networks, brokering partnerships, pooling and managing resources, providing institutional support, education, and training, facilitating knowledge gathering, learning processes, and capacity building for accelerating breakthroughs and innovation (Camargo Benavides et al., 2022; H. Yang et al., 2014).

On one hand, the study by H. Yang et al. (2014) showed how farmer cooperatives play a role as intermediaries. The study examines how farmer cooperatives facilitate agricultural innovation and engages mainly in technology improvement to optimize farming practices. On the other hand, the study performed by Camargo Benavides et al. (2022) reported how interfirm cooperatives enable interorganizational relationships between government institutions, innovation actors, and universities, to gain access to external knowledge and new capabilities. Both cases reported technical and marketing support to obtain improved production and marketing performance for members in emerging markets.

Finally, this chapter guides how CE can move within a business reality characterized by rising levels of collaboration between different actors, organizations, and people. CE can play the role of an intermediary of ambidexterity, with functions that enhance innovation, commitment and sustainability, and facilitate exploration and exploitation processes. Collaboration between different actors is an important factor in achieving short- and long-term success (Birkinshaw & Gibson, 2004) and competitive advantage (Turner et al., 2013).

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# REVISITING THE ‘SPILLOVER THESIS’ IN PARTICIPATORY WORKPLACES AND WORKER COOPERATIVES

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## 1 Introduction: democracy at work and the ‘spillover thesis’<sup>1</sup>

The modern firm is a component not just of the economic sphere – as it is typically understood – but also an extension of the political, cultural, and social spheres. Democratic forms of participation in the workplace, it has been argued, can encourage democratic consciousness and practices outside of the workplace, influencing civil society and stimulating broader economic reforms. These boundary-spanning features of participatory and democratic workplaces have come to be known as their *spillover effects* (Budd et al., 2018; DuFays et al., 2020; Rybnikova, 2022). For Carole Pateman (1970), who first clearly articulated and summarized what became known as the ‘spillover thesis’ in her landmark book *Participation and Democratic Theory*, heightened participation in the workplace converts organizations into learning spaces for increased participation in the greater polity. Pateman’s theoretical research on workplace participation and democracy has had a lasting legacy, fostering further research and thinking on the relationship between workplace democracy and wider political involvement and activism since the 1970s (see, e.g., Altshuler & Corrales, 2013; Dahl, 1985; Ferreras, 2017; Greenberg, 1986; Kim, 2021; Macpherson, 1977; Mason, 1982; Sobel, 1993).

The literature suggests that spillover is particularly present in avowedly democratic organizational forms such as worker-owned-and-governed cooperatives: democratically organized businesses co-owned and co-administered by workers, where work is the common denominator for membership, and where capital is subordinate to labor (for many examples, see Cheney et al., 2023). No doubt, worker cooperatives can succumb to problems such as excessive formalization, power inequalities among members, and mission drift, thereby compromising their democratic potential (Cheney, 2002; Bretos et al., 2023; see also Dow; Puusa; Biggiero in this volume). At the same time, empirical evidence has also shown that, when they hold fast to their democratic values, worker cooperatives are more likely to foster wider participatory democratic consciousness when compared to strictly owner-run or shareholder-owned and hierarchical firms (e.g., Bernstein, 2012; Malleon, 2014; Vieta, 2020).

This chapter reviews empirical and theoretical studies on how democratic participation at work relates to broader civic life, with a focus on democratically organized and participatory workplaces such as worker cooperatives. Here we address an implicit assumption of the spillover thesis: that

there is an educative element to participatory workplaces, such as worker co-ops, for civic life. Throughout, we contemplate how and to what degree, according to the extant literature, the specifically educative dimensions of participatory, democratic, and self-managed workplaces relate to and impact engagement in the wider polity.

This discussion also stresses that spillover is more than the one-way flow the metaphor suggests. We thus critically interrogate the spillover thesis by bringing into conversation several sociological, organizational, and workplace and social movement learning theories to help us appraise the educative dimensions of participatory and democratic workplaces, unpacking the influences from workplace participation out to civic life, and vice versa. Before reviewing the key arguments in the spillover thesis debates, we first evaluate some of the varied and elastic definitions of participation in organizations (Wilkinson et al., 2010, p. 10). We then re-assess the spillover thesis in light of related approaches to understanding participation in democratic organizations, including considerations of contextual, historical, and cultural practices; social, organizational, and communicative diffusion theory; theories of learning in workplaces; notions of cooperatives ‘associative intelligence’; and theories of social movement learning and ‘learning in struggle.’ In the final pages, we address the potential two-way flows of democratic consciousness and participation in democratic organizations via findings from recent research into worker-recuperated enterprises (WREs): worker cooperatives created by ex-employees from failed top-down, capitalist firms. WREs help illustrate how a two-way spillover can occur from out of the informal, solidarity-based, and learning-in-struggle dimensions they highlight. WREs offer the unique vantage point of dramatic cases from which to compare the possible effects of participation in the same workplace before and after transitioning to a democratic one (Sobering, 2022) while highlighting the informal ways that collective learning and spillover can unfold (Vieta, 2014). We conclude by suggesting that a contextualized and multi-perspectival approach to the spillover thesis still offers a way of explaining the social and political implications of workplace participation and democracy for organizations and society.

## **2 Participation in organizations**

In their introduction to the *Oxford Handbook of Participation in Organizations*, Wilkinson et al. (2010) underscore that the meaning of the concept of *participation in organizations* varies depending on the discipline. “There is...an extremely diverse set of practices,” they argue, “that congregate under the banner of participation” including “direct communication; upward problem solving; representative participation; and financial participation” (p. 4). Indeed, organizational participation can refer to a wide variety of activities and organizational goals, ranging from managerially driven programs to complete worker ownership and self-governance (cf. Cheney, 1995; Cheney et al., 1998; Dachler & Wilpert, 1978; also see Figure 18.1). Key to probing any instances of claimed or observed participation by members of a group, organization, or society is establishing independent criteria for what counts as authentic and robust participation (see Biggiero; Puusa in this volume).

For researchers interested in the dignity and wellbeing of workers (e.g., Freeman & Rogers, 1999) and the political and civic impacts of democratic workplaces and democracy at work, organizational participation depends greatly on the degree of workers’ direct participation and control over decision-making and the labor process (Bernstein, 2012; Ezorsky, 2007; Hodson, 2001; Malleson, 2014). According to Hodson (2001), in a rich empirical study of how dignity is formed or hindered at work, more workplace participation by employees – that is, where they have actual decision-making power – is at the heart of (a) improved working conditions and thus an improved quality of work

life; (b) decreases in mismanagement, abuse, and conflicts at work; and (c) strengthened workplace citizenship, which, he further argues, means better all-round and engaged citizens.

This contrasts with instances of strictly top-down participation programs in business or governments' highly ritualized stakeholder engagement processes that, regardless of intentions, serve to make participation and its outcomes contained and predictable rather than open-ended and holding the possibility of truly transformative change. Labor process theorist Andrew Friedman (1977) has called this type of participation, which is limited to measured or pre-determined organizational goals alone – rather than also addressing workers' or social benefits – “responsible autonomy”, referring to administrative practices that provide workers more discretion over some decision-making related to job tasks and work processes. These programs are often designed to showcase contained participation practices while limiting deeper forms of employee involvement in the consequential decisions of the firm (Ferrerias et al., 2024).

A useful and widely cited framework for understanding the degree of participation and democracy at work, with theoretical and empirical importance for assessing the possibilities of spillover effects, has been offered by Paul Bernstein (2012). Following Pateman (1970) and analyzing studies on workplace democracy in a variety of participatory firms from the late 1950s onward, Bernstein directs our attention to the key components of democratic workplaces, including the dimensions and degrees of workers' control in participatory firms based on the range of issues and policies over which workers have control, the highest levels of the organization at which such control is exercised, equitable economic returns, the transparency of management-level information, the degree of democratic consciousness within the firm, a set of rights guaranteed to all members of the organization, and an independent arbitration body to settle internal disputes. According to Bernstein, a deeper form of participation at work thus deals with decision-making and organizational design on matters of importance and with democratic consequence for all involved in the firm. Contemporary worker cooperatives, such as the Mondragón Cooperative Group in the Basque Country, Spain, and the Canadian-based Sustainability Solutions Group, for example, embrace many of these democratic components (Cheney et al., 2023).

As Figure 18.1 depicts, we can place types of organizational participation, democracy, and decision-making power along a spectrum. This continuum ranges from minimal employee involvement; through forms of profit sharing and participation in management, to codetermination plans, labor-managed firms, and worker co-ops, where workers both participate actively in the running of the firm, co-own the firm and its means of production, and share in the profits. In short, toward the left end of the continuum, we see more managerial oversight and less worker participation. Toward the right end, we find increasing levels of workers' oversight and control. Figure 18.1 also graphically depicts an array of participatory work-design programs introduced throughout the 20th century, from managerially driven to more worker-driven ones. All these forms of workplace participation still exist today, although sometimes under newer labels (Cheney et al., 2023).

Similar to Bernstein (2012), Wilkinson et al. (2010) argue that participation in organizations “can be deconstructed according to degree, form, level and range of subject matter” (p. 11). Represented in Figure 18.2, they use an “escalator of participation” metaphor to illustrate a progressively upward and intensifying scale that compares and ranks forms of participation. This scale ranges from information and communication, to consultation models that “involve the workforce in decisions at all levels of the organisation, whether undertaken directly with employees or indirectly through their representatives,” to codetermination schemes (for instance, works for councils in some European countries), and up to fuller forms of workers' control (including decision-making practices and co-ownership of firms) (pp. 11–12). As one moves up the scale, the responsibility for decision-making increasingly flows from management and representatives to

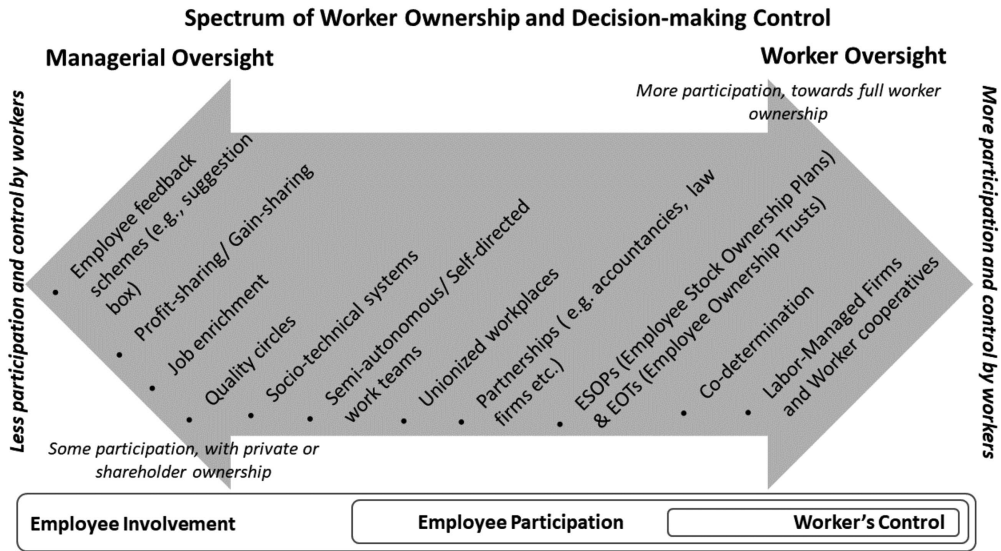


Figure 18.1 Spectrum of worker ownership and decision-making control (Cheney et al., 2023, p. 66).

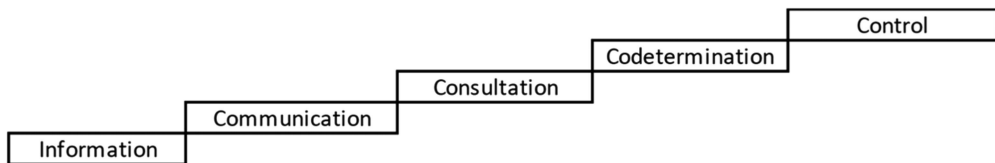


Figure 18.2 The escalator of participation (Wilkinson et al., 2010, p. 11).

workers themselves. Moreover, the model accounts for the role of informal participation, which we will address in due course:

Although less likely to be researched than formal forms of employee participation, informal participation – between first line managers and their staff, and within teams – is vitally important to provide some of the glue that holds together more formal [participation] practices and helps to make them work.

(p. 12)

Bernstein's (2012) and Wilkinson et al.'s (2010) frameworks map the degrees of participation *and* participation's relationship to power inside the organization. They also begin to suggest criteria and measures that may apply across boundaries between work and society. Bernstein's framework is, in fact, partly motivated by such a concern. At the same time, it must be acknowledged that not only organizational structures but also individual preferences or structural barriers play major roles in determining the course of participative organizational processes. For instance, even in systems that are highly participative by design, there will be members, who for various reasons, do not wish to or cannot participate as intensely or consistently as others. In the latter case, reasons

for not participating in meaningful ways are often linked to barriers to inclusion, especially for marginalized groups (see, e.g., Hein & Ansari, 2023; Hossein, 2020; Stohl & Cheney, 2001; Parker & Slaughter, 1988).

These are but a few of the complexities and subtleties around participation at work and in organizations that influence the assessment of potential spillover in democratic organizations.

### 3 Participation and the spillover thesis

Research looking at the potential for ‘spillover effects’ in participatory organizations is particularly interested in how organizational participation and its design, especially in democratic organizations such as worker cooperatives, can inspire and engender more active community and political participation (see, e.g., Battilana et al., 2018; Budd et al., 2018; Ferreras et al., 2024; Jian & Jeffres, 2008; Kim, 2021; Malleson, 2014; Peterson, 1992). Recently, such dynamics have been observed in U.S. worker co-ops and their connection to commons-based governance (Orr & Johnson, 2017); worker-recuperated firms in Argentina (Kasparian, 2022; Sobering, 2022; Vieta, 2014, 2020); and in studies of the Mondragón cooperatives, particularly concerning their programs to revive community participation and neighborhood control over issues that matter in the lives of people outside of work (for more on the Mondragón cooperative network, see Bergara & Imaz in this volume).

Since the publication of Pateman’s influential work, however, other researchers and theorists, such as political scientist Neil Carter (2006), have argued that the link between democracy at work and ‘political efficacy’ – that is, direct, meaningful, impactful, and satisfying participation in civic life – is uncertain and unclear. Carter suggests that spillover for “developing a ‘participatory persuasion’” (p. 415), to the extent it occurs, is contingent on organizational specificities, such as the origins of a co-op (for instance, the degree to which the reason for developing the co-op in the first place was itself already politically oriented or community-focused), the size of the firm, the past experience and expectations of a co-op’s worker-members, how formal or informal and how representative or direct the democratic governance structures are, and so on, as well as broader socio-economic and political contexts.

Greenberg (1986; Greenberg et al., 1996) also found mixed results for evidence of spillover in data from the plywood cooperatives of the Pacific Northwest of the United States during their heyday in the 1940s and 1950s, as well as in other cooperative experiences including Israeli *kibbutzim*. Greenberg concluded that the level of engagement of worker-owners in wider political life varied by context but also that education about democracy outside of the co-op was key to overcoming political alienation in the public sphere and encouraging cooperative practices. More recently, and with equally mixed results, researchers have asked specific questions about the extent to which such boundary-crossing influences take place, the conditions that favor such effects, and the durability of their impacts (Geurkink et al., 2020; Hassan, 2023).

But the evidence for spillover persists. The presence of spillover has been found in participatory work organizations that specifically take up strong social commitments to tackling issues such as sustainability, environmentalism, and local economies (Mychajluk, 2023), and in other cause-based organizations that identify with social movements striving for social change (Foley, 1999). Indeed, researchers of alternative and democratic organizations and social movement organizations provide varying evidence for spillover effects stemming from actual participation in democratic organizations (e.g., Choudry, 2015; Foley, 1999; Greenberg et al., 1996; Larrabure et al., 2011; Vieta, 2020). For Foley (1999), people who come together “in popular struggles” (p. 14) experience changes in political and community attitudes and behaviors in ways suggested

by Pateman and the spillover thesis. Larrabure et al. (2011), in studying Argentina's worker-recuperated enterprises (discussed further later) and comparing them with Venezuela's socialist production units,<sup>2</sup> also found that workers who participate in these cooperatives experience improved skills and capacities to engage in, foster increased awareness of, and hold better attitudes toward community and civic life.

'Struggle' can range from explicit, coordinated collective action against widely experienced exploitations and disadvantages that challenge established power relations – such as strikes or factory occupations – to the nearly invisible day-to-day tussles by workers over workplace norms and understandings (Atzeni, 2010; Foley, 1999; Larrabure et al., 2011; Vieta, 2014, 2020). Of course, many internal struggles, for individuals and groups, do not rise to the level of visible manifestation beyond their micro-local context. Ben Hamper's memoir *Rivethhead* describes in both humorous and tragic detail how struggle is waged in viable even if limited ways in the course of work processes and communication (Hamper, 1991). In a highly influential study, Michael Burawoy (1979) documents how workers on factory floors in both the United States and in Eastern Bloc countries in the 1970s and 1980s learned to work together but also compete in sometimes playful ways in social behaviors he termed "making out" and "playing games" in piecework or assembly line regimes, all the while learning informally how to resist authoritarian control but also how to get by and make the best of their situation. Among his findings, Burawoy suggested that these internal work-based struggles transformed workers' perceptions of themselves and their place at work. While Burawoy shows that shopfloor consent is indeed manufactured in the rules and regimes of production, workers also learn how to resist coercive hierarchies and create social groups and behaviors that remain beyond the complete reach of organizational rules and control.

However, as the more cautious views on spillover effects indicate (Carter, 2006; Greenberg, 1986; Schlachter & Már, 2024), it is not clear from which direction the spillover may occur. Does the independent variable for the presence of pro-social or civic attitudes and practices rest with the organizational type – that is, stemming from a firm's democratic design – or with social, political, or economic factors lying outside the organization? Indeed, for Schlachter and Már (2024), both directions for spillover are possible. From their research results, spillover effects can be bi-directional and related to motivation, "trajectories of engagement" (p. 59), and boundary crossing. Moreover, engagement in one realm that may have pro-social or civic-minded practices, whether from outside or within the firm, may displace engagement in another.

#### **4 Extensions and reformulations of the spillover thesis**

Schlachter and Már's (2024) work is an example of recent research that usefully complicates the spillover thesis, considering a variety of social, economic, and political factors in both work and civic domains, including individual motivations and personal trajectories. In an allusion to the well-known *substitution theory* in economics, the authors found that workplace participation is influenced by the lack of avenues for wider political participation and can effectively serve as a substitute for what might have been activity in the public sphere. Furthermore, Schlachter and Már underscore, focusing on cooperative workplaces:

Reflecting some previous studies, advocating the civic spillover hypothesis, our survey results indicate that workers in cooperatives are much more civically engaged than workers with similar demographic characteristics in conventional firms. We also find that participation in firm governance is positively associated with civic behaviors among cooperative

workers overall. In contrast to extant scholarship, however, we examine whether these patterns vary by motivation to work in democratic firms and find that the relationship between participation on and off the clock is on average stronger for *co-op enthusiasts* who actively self-selected into cooperatives than for *co-op agnostics* who did not.

(p. 47)

Thus, the boundary-spanning relationships, interactions, and influences between democratic participation in workplaces and the public sphere may flow from the workplace to society or vice versa. Substitution may also occur when the lack of participation in one sphere is replaced by participation in another. Moreover, initiatives to energize or elevate participation at the community level may also heighten awareness of possibilities for greater empowerment at work, in what could appropriately be called a ‘reverse spillover’ (Cheney et al., 2023).

The notion of ‘spillover effect,’ then, might not fully capture the complex and sometimes synergistic flows of influence between democratic practices in the greater polity and the participatory workplace. Thus, a more complete understanding of the boundary crossing between participation at work and participation in the greater polity requires a more holistic consideration of participation in relation to several related dimensions. We have identified in the literature five possible entry points for understanding the boundary crossing of pro-social practices or civic-mindedness observed between participative and democratic workplaces and the greater polity: contextual, historical, and cultural influences; social learning in workplaces; diffusion theory; theories of associative intelligence; and theories of social movement learning and learning in struggle.

#### 4.1 Contextual, historical, and cultural influences

Political participation in the wider community rooted in contextual influences can stimulate or even initiate forms of workplace participation, social entrepreneurship, and the emergence of cooperatives (Hirschman, 1984; Spear, 2010). Workers or other community stakeholders can import expectations for and even practices of organizational participation from the political sphere to the workplace, even if these workplaces are not formally organized as cooperative spaces or with any other horizontal structure. Importantly, some accounts of the Occupy movement, at its height in 2011–2012, trace the development of new worker cooperatives several years later to the legacy of activism in the broad-based, decentralized, and democratic Occupy movements (Ranis, 2016), which had as a core principle challenging centralized corporate power (Gitlin, 2012).

A legacy of historically and culturally embedded democratic practices and norms in an economic sector, a region, or a country can also influence the possibility for the emergence of labor-managed firms and the degree to which participation or democracy may be taken up in organizations. In the Basque Country, where the Mondragón cooperatives are located, it has been observed that the *fueros*, or democratic territorial charters that pre-existed modern institutions and the incorporation of the Basque Country into the Spanish monarchy, and now federation of Spain, are far more than historical footnotes. In the Basque, *fueros* left important legacies that manifest still in the popularity of open debate in public places about political issues, in the creation of numerous local social clubs, and in the insistence that the highest political body is the general assembly representing the people (Azkarraga, 2018). Similarly, many of the workplaces that were eventually converted to cooperatives in Argentina and that make up its worker-recuperated enterprises movement emerged from long traditions of working-class democratic practices on shop floors and in the community, including decades-long experiences with shop stewards’ committees, popular assemblies, and union-based workers’ assemblies (Vieta, 2020).

The creation of more democratic workplaces can also extend beyond historical and cultural practices and be stimulated by wider grassroots responses to rising wealth inequalities in the larger society. Indeed, income and wealth gaps become one of the prime motivators for the development of worker co-ops. As Camille Kerr, Principal at Upside Down Consulting and Chicago-based co-op developer who helped found the cooperative ChiFresh Kitchen puts it: “Worker co-ops open the door for people’s imagination for what our economy could look like if our priorities are different from those of the elite, and instead reflect our values [when] our values are around people” (Kerr, cited in Cheney et al., 2023, p. 202). Here, Kerr makes implicit reference to a notion that has been taken up by sociologists and communication scholars as the theory of ‘diffusion.’

## ***4.2 Social, organizational, and communicative diffusion***

A fundamental question for much of the research on participation between organizational and societal domains is how and when influences and even inspirations for participation take place. The term most closely associated with such effects is ‘diffusion.’ Closely linked to social innovation theory – where organizations invent or re-order processes and outputs to maximize or meet social needs and outcomes rather than only economic outcomes (Phills et al., 2008; see also Guzman in this volume) – diffusion theory is most often applied to the uptake of new information, new technologies, or new perspectives. However, it also applies readily to managerial regimes of knowledge and practice and, therefore, to the creation and emergence of ‘alternative’ systems of firm ownership and governance (Rogers, 1983).

How information and knowledge are shared and spread – inside an industry or field or at the societal level – leads to questions of power as well as process, and all are central to the broader diffusion of practices and knowledge pertaining to organizational behaviors and structure. For example, which initiatives or designs or schemes become popular, receive financial support, and in some cases, become common currency (Goll, 1991)? How is a particular managerial or organizational program implemented and promoted? How is a scheme or trend picked up by others, including the well-documented tendency toward organizational isomorphism or even mimicry (Mason, 2012)? And, through what mediated or interpersonal channels does such diffusion take place (Cheney, 2002)? We could also mention the implicit suggestion of spillover and the diffusion of business practices, organizational behaviors, and economic resilience present in the industrial districts literature (Becattini, 2004; Marshall, 1919). In the industrial districts economic model, a plurality of business types and sizes – including worker cooperatives and non-profits together with conventional for-profit firms – mobilize geographical closeness and local knowledge to share in market information and the production and distribution of goods, as well as in the risks and returns of local economic activity, as documented over the past 50 years in the Italian regions of Tuscany, Emilia-Romagna, and Veneto; in Germany; and in Japan (Becattini, 2004; Piore & Sabel, 1984; Schilirò, 2017).

Both economic concentration and the dominance of certain discourses – of ‘efficiency,’ ‘production,’ ‘measures of success,’ etc. (see Warren; Ulanowicz in this volume) – also diffuse and reinforce certain assumptions, shape firm policies, and more specifically influence the behaviors and attitudes of owners, managers, and employees. A longitudinal study of the Mondragón cooperatives by George Cheney (1995, 2006) found a certain implicit acceptance of popular management trends, even as there was an admission among appointed managers and many elected officials – that is, presidents of individual co-ops and members of governing councils – that imitation of prominent capitalist transnationals carried a certain inevitability for instrumentalizing the overall goals and aims of the Mondragón cooperatives. Such assumptions and tendencies,

especially about the idea of “the consumer-driven firm,” compromised the cooperative networks’ guiding social goals and internal participatory practices.

The diffusion of knowledge and practice about work and democracy occurs not only in comparatively top-down ways but also in both ‘bottom-up’ and horizontal ways. The spread of the term ‘sociocracy’ and its associated practices in recent years is a good example. While not formally cooperatives, firms that adopt sociocracy-based administrative approaches implement a set of principles and practices that rely on networked forms of organizational design, consent as a modified form of consensus in deciding on organizational goals, and the preservation of direct democracy through overlapping manageably sized decision-making circles. Most of the specific ideas associated with sociocracy are not new and have long been associated with worker cooperatives; yet, there is a strong appeal today for the term and the set of guidelines under that rubric, in part because it leaves room for focusing on micro-issues and needs within the firm while nimbly responding to wider organizational goals (Cheney et al., 2023).

### 4.3 *Learning democracy at work*

An area of research that addresses questions of participatory spillover, from the standpoint of how influences occur between workers, is workplace learning (see, e.g., Billett, 2001; Engeström, 2001; Illeris, 2011; Malloch et al., 2010; Sawchuk, 2008). Workplace learning theorists and researchers view all organizations as sites of learning, taking into account implicitly and explicitly that learning at work carries over to other spheres of life, and learning in other spheres of life bleed back into the workplace. For workplace learning researchers and theorists, all organizations are interlaced by social forms of learning that occur formally, non-formally, and informally or incidentally (Illeris, 2011). For instance, people working in organizations may come with formal training or degrees or may be trained while in the organization, or perhaps the organization sponsors workers to take certificate-granting programs. Organizations also hold seminars, workshops, retreats, and other educational events – non-formal (i.e., non-certificate granting) learning. However, the most enduring forms of learning in organizations, as the workplace learning tradition convincingly shows, occur informally through social interaction and often go unnoticed (Eraut, 2004).

To understand the relationship between democratic participation and learning at work, and the theoretical and practical issues it poses, it is useful to consider the role of ‘informal learning’ from workplace learning research and theory. While formal and non-formal learning happen via curricula or educational institutions, informal learning happens throughout everyday life (Eraut, 2004; Marsick & Watkins, 1997). No doubt, formal and non-formal learning are important for professional and work-related training, and certainly ideas about participation or even democracy in the workplace filter into organizations via educational programs beyond the firm. Still, we argue that informal learning is the primary way learning happens and remains relevant at work (Sawchuk, 2008), and thus is also more likely to *cross over* between workplace and non-workplace settings. Informal learning – such as takes place in everyday non-prescribed interactions at work – is important for considering in more nuanced ways the spillover of practices and attitudes between organizations and other social realms. Moreover, workplace learning researchers have explored informal learning in a variety of contexts, including the conventional capitalist workplace, the cooperative workplace, and work as related to social relations beyond the workplace.

Livingstone and Roth (2001) conclude that there is ample evidence to show that “a massive amount of informal learning [takes place] among working people,” both on shop floors and in the portion of their lives not spent working for wages. That is, much nuanced social and tacit learning

takes place in working people's everyday interactions in and beyond the workplace. Working people are experts in many areas of their everyday lives, which cross over into the workplace and their non-work settings even if they do not think of themselves as such due to acculturation, social biases, and feelings of alienation or disengagement (Livingstone & Sawchuk, 2003; Terkel, 1997).

This informal, tacit, social, or incidental learning can take place anywhere (Garrick, 1996; Marsick & Watkins, 1997). Workers playing soccer together on the weekend or gathering around the proverbial 'water cooler' may trade stories about 'the boss,' share views of department meetings, talk about local or national politics, and so on. In some of these interactions, workers may be feeling out the latitudes and boundaries for individual discretion and practice. Garrick (1996), in particular, emphasizes how informal learning is especially tangible in the everyday experiences of the workplace in practices such as networking and teamwork, mentoring, and trial-and-error learning pertaining to job requirements and skills. Of course, as we shall see below, informal learning can also be explicit and intentional, as in the case of workers who find opportunities to 'talk union' – that is, to initiate dialogue aimed at generating collective action (Bardacke, 2011; La Botz, 1991).

#### ***4.4 Associative intelligence in cooperatives***

Cooperatives, and worker cooperatives in particular, offer lively spaces for informal learning. When they realize their guiding principles, worker co-ops can be "transformative learning organizations" at the core (Vieta, 2014, p. 186). Cooperative historian and researcher Ian MacPherson (2002) has characterized cooperatives' socially-oriented learning as "associative intelligence," which is rooted in:

A special kind of knowing that emerges when people work together effectively; a conviction that people through working together could learn skills that would make collective behaviour more economically rewarding, socially beneficial and personally satisfying.

(p. 90; see also Keen, 1912)

A case study of a Toronto-based worker cooperative grocery store by Quarter and Midha (2001) shows how members learn about their tasks and expand their cooperative work capacities mostly informally, through day-to-day work experiences, shop floor discussions, and questions to internal experts and other co-op members. Their work further highlights that the actual open and democratic structure of a worker cooperative is a crucial factor in promoting informal and experientially-based knowledge sharing. Others have called this a cooperative's predisposition for fostering associated forms of learning, related to organizational communication studies' concepts of mutual knowledge and distributed information and agency (Cooren et al., 2006). Sharing practical experiences and knowledge is particularly important for understanding the potential of spillover from the cooperative workplace to the community. Moreover, the camaraderie and social cohesion practiced in the cooperative may spread into non-work life and the rest of society, as we discuss further shortly.

Cooperatives can thus yield many instances of both organization-to-larger-society and larger-society-to-organization spillover. This is likely because, first, co-ops are inherently social businesses (Quarter et al., 2018) engaging in collective entrepreneurship (Duguid et al., 2015).<sup>3</sup> In co-ops, members may mutually discover and learn about the needs and capacities of fellow members, as well as those of other stakeholders, such as customers and surrounding communities (Leadbeater, 1997; Novkovic, 2008). This learning is about becoming collectively autonomous, in a positive sense of freedom – that is, a 'freedom to' self-direct, self-determine, and

self-actualize their collective economic and working lives as cooperative work moves beyond the negative sense of ‘freedom from’ compulsive work, capital, and autocratic owners or managers (Horvat, 1982; also see Vieta, 2020). Second, their democratic governance structures compel cooperative members to be closely attuned to other members’ needs and skills to ensure the long-term viability of their business (Miner & Novkovic, 2020; Sauser, 2009). These factors are perhaps even more pronounced with worker cooperatives, where membership is tied specifically to work and members need to be deeply invested in the well-being of fellow members to secure the future stability of their business (Becchetti et al., 2010; Pérotin, 2014; also see Ellerman & Gonza in this volume). Luis Razeto Migliaro (2017) explains that the cultivation of solidarity through association is a vital source of productivity and cohesion. Razeto’s “C Factor” (so named because many relevant concepts in English begin with the letter: cooperation, collaboration, communication, care, etc.) connects associative intelligence, practical teamwork, and knowledge creation to the weaving of bonds of solidarity and care.

Of course, this learning is in a significant way ‘political.’ The socialization of knowledge, as Mondragón founder Arizmendiarieta put it, is essential for the democratization of power (Arizmendiarieta & Azurmendi, 2022, p. 46). Similarly, Alexander Laidlaw (1962) explains how the practice of democracy in cooperatives is, at once, a process of education in democracy:

Such concepts as group responsibility, reaching decisions by majority vote, delegating authority to responsible officers, observing rules agreed upon by the group, exerting self-discipline for the welfare of the group, cannot be taught, or learned in the abstract. They must become part of the personality of the individual and the experience of the group through actual situations. For the great majority of people, the co-operative society engaged in the day-to-day requirements of life and earning a living becomes the ideal vehicle through which these concepts are acquired.

(pp. 10–11)

Indeed, working-class and socialist reformers have long valued participatory and democratic worker organizations for their educational and emancipatory potential. While Karl Marx, for instance, remained cautious regarding the revolutionary potential of worker cooperatives, he nonetheless recognized their potential educational and prefigurative function for the working class (Marx, 1985). Earlier in the 19th century, Robert Owen (1991) espoused similar views regarding the centrality of education in the cooperative-like “villages of union” he envisioned in New Lanark, Scotland. Pierre-Joseph Proudhon (1989) saw “workmen’s unions” (including worker co-ops) as “the open school, both theoretical and practical, where the workman learns the science of the production and distribution of wealth, where he studies, without masters and without books, by his own experience solely, the laws of... industrial organization” (p. 78). And, for Mikhail Bakunin, worker cooperatives afforded “the benefit... of accustoming the workers to unite, organize, and independently manage their own affairs” (Bakunin, 1990, pp. 201–202). These are just a few important historical examples of what would later be recast and applied as the educative dimensions of participatory spillover.

#### ***4.5 Social movement learning and ‘learning in struggle’***

Paralleling this workplace and cooperative learning research and theorizing has been a growing interest in the forms of learning that occur within social movements and their organizations (see, e.g., Choudry, 2015; Foley, 1999; Gouin, 2009; Hall & Clover, 2005; Kuk & Tarlau, 2020;

Overwien, 2000).<sup>4</sup> Bradbury et al. (2016), for instance, point out that spaces of collective awareness, networking, and deep collaboration all foster the kind of informal learning and development of democratic consciousness that is well known to labor and social-movement organizers. At times, this learning occurs in collective action against forms of injustice and oppression in the workplace or in other socio-political spaces, or what one of us has termed – taking off from the work of Foley (1999) – “learning in struggle” (Vieta, 2014). For Foley, learning in struggle is a “contested activit[y]” within affected organizations or in the social sphere that is being struggled over, whether it is a workplace, neighborhood, or, on a wider scale, in international solidarity efforts. Figuring out collectively the causes of injustices or other socio-economic dilemmas and solutions to them, doing so in the heat of the moment, challenging power relations and the merits of policies, and bringing to light relations of domination in society and the issues being addressed – all can involve learning in struggle. Hence, for Foley, learning new values and attitudes of social justice happens in the very collective actions of movement protagonists and the boundary-crossing attitudinal changes they imply. Indeed, motivations for action and knowledge acquisition in social justice groups happen both ways: out to society from within social movement organizations and vice versa (pp. 131–143).

Recent research with Argentina’s *empresas recuperadas por sus trabajadores* (WREs, worker-recuperated enterprises), for instance, has revealed many two-way pro-social changes in the community-oriented and democratic dispositions of the workers involved (e.g., Fajn, 2003; Kasparian, 2022; Larrabure et al., 2011; Rebón, 2007; Ruggeri et al., 2005; Sobering, 2022; Vieta, 2020). WREs are, essentially, worker cooperatives that emerge from conversion processes rooted in crises and led by employees themselves.

The labor-managed firms that emerge from crises and from the conversion of conventional private or investor-owned firms to worker cooperatives led by the original firm’s former employees have been termed “labour-conflict recuperations” (Vieta et al., 2024, p. 6; also see Vieta, 2020, p. 134). The pro-social changes these workers experience – “from managed employees to self-managed workers” (Vieta, 2020, p. xix) – begin to expand with the process of taking over and converting their firms into cooperatives. These changes have been linked to their collective learning, which emerges informally within ongoing struggles to secure their own livelihoods and as they learn how to self-manage a worker cooperative.

WREs offer an example of how crises in the greater political economy can spill over and influence a collective of workers experiencing the same crises and threats to their livelihood, compelling them to create a more collective and cooperative workplace. Eventually, as they learn ‘cooperativism’ together, they begin to take on more socially focused and community-oriented stances reflecting a “moral economy of work.” This perspective can serve as an impetus for a collective of workers that feels it has been exploited to take joint action and engage in a project such as converting a crisis-ridden workplace into a cooperative (Vieta, 2020, p. 26). Argentina’s WRE movement has been understood to have emerged in such a context, in the thick of a collapsing political-economic system in 2001. There were few other options left for working people who felt that the basic tenets of their labor contracts and labor rights had been violated beyond normal hierarchical expectations.<sup>5</sup> In these situations, “working people or the poor struggling to preserve socio-economic traditions and customs threatened by encroaching government policies, new laws, and deregulated markets” might turn to extreme forms of action for self-preservation, such as taking over workplaces and converting them to co-ops (pp. 26–29).

Specifically, because of the challenges of taking over workplaces, working together to overcome shared adversities, and engaging in their projects of cooperative over time, most of the workers Vieta (2020) interviewed experienced “some degree of positive transformation in their

knowledge, skills, attitudes, or values” in key areas of participation. These included: cooperative and democratic practices at work; interpersonal attitudes and behaviors; a sense of being able to influence political decisions in and out of the co-op; and concern and connection to, and actual participation in, community affairs (p. 492). The learning processes guiding the acquisition of workers’ democratic consciousness at Argentina’s WREs tended to begin informally and intra-cooperatively. They emerged from the social bonds that form organically on shop floors; from having to collaborate closely to overcome crises at the point of production. And they continued to evolve as workers endured weeks and months of occupying the firm and resisting eviction threats, and then from having to collectively learn how to self-manage a firm (Vieta, 2019).

These intra- and inter-cooperative ways of informal learning – learning by actually doing self-management and learning from other WREs in an evolving ecosystem of cooperatives formed from crises and conversions – emerge and solidify over time and collectively within the recuperated workplace in what WRE workers themselves call *compañarismo* (comradeship) – a deep sense of solidarity acquired through struggling together to overcome a crisis and restart a business cooperatively (Vieta, 2020, p. 401, 494). Such *compañarismo* is forged in the paradigm-shifting takeovers and business conversions for workers (Jensen, 2012 McCain, 1999). Workers must think of others – of their colleagues at work and even their place in the wider community – to overcome what Delahaye (2005) has called a radical “disorienting dilemma” (p. 45) in the organizational flows and practices that form when taking over a troubled firm and restarting it as a cooperative. The time of transition is disruptive, liberating, and full of possibilities for those involved, often transforming workers’ dispositions toward their workmates and society from competition to cooperation.

*Compañarismo* and other forms of solidarity among workers that emerge in participatory workplaces like WREs and other forms of strongly cooperative labor-managed firms (see Biggiero; Dow; Puusa in this volume) mean that worker cooperative members are more likely than workers in non-cooperative firms to adopt *internal-organizational* and *external-organizational pro-social dispositions*.

*Internal-organizational pro-social dispositions* express themselves in, for instance, helping out workmates in situations where, in the past, when they were employees under owner management, they would have stuck to their own tasks and individual interests. Evidence of this is found in how salaries tend to be handled in WREs. Survey research carried out by two different teams from the University of Buenos Aires found that between 56% (Ruggeri et al., 2005, p. 67) and 71% (Fajn, 2003, p. 161) of WREs practice complete pay equity, with small variations in pay usually linked to overtime and taking up temporary administrative roles (also see Sobering, 2022).

These internal-organizational tendencies are also visible in WREs’ new cooperative labor processes, reflected in how the second cooperative principle – “democratic member control” (ICA, 2024) – is adopted and practiced. At WREs, informal communication flows between workers are mediated by consensus-based decision-making and less formal communication structures compared to the previous firm. These informal structures become central to redesigning the firm more horizontally and are instantiated in the formal organizational elements of worker cooperatives, such as their elected administrative councils. These have been called the “hidden energies” unleashed in many worker co-ops (Wang & Ahmed, 2002).

Horizontalized governance and pay equity practices show further evidence of shifts away from attitudes of individualism to those of solidarity, as the workplace transitions from owner-management to workers’ self-management and robust participation. There is thus a strong case for what Bowles and Gintis (1993) theorized as among the “efficiency gains of the democratic firm” in relation to the typical reliance on mutual monitoring by workers (pp. 77–78). In democratic firms,

according to the authors, “labor discipline” is maintained, among other soft disciplining mechanisms, via “an optimal mix of monitoring costs and wage incentives...[and]...an increased effectiveness of monitoring of the labor process due to the incentive for workers to report...information on the activities of their fellow workers....” (p. 77).

In WREs that have now been studied in many countries, the function of mutual monitoring in self-management arrangements is practically carried out not via coercive or other distanced means but rather through more subtle and accommodating social mechanisms. Alternative means of mutual assessment and coordination are set against an economic and organizational backdrop of equitable wages and job rotation, which is important from the start. Specific mechanisms include social accountability via the transparency of their horizontal decision-making, information sharing, and what might be called soft social pressure (often expressed via jesting or friendly banter between colleagues); social cohesion via open expressions of concern for each other (which can frequently be heard even in formal assemblies); and stories workmates tell each other regarding how the contribution of each member of the co-op is necessary to ensure the long-term viability of the business. These alternative, softer forms of collective discipline go a long way in tackling possible issues of “free riding” and ethical violations of commitment to the whole (Sobering, 2022; Vieta, 2020).

Connected to relational and horizontalized forms of organizational governance (Biggiero, 2016; also see Wieland; Biggiero in this volume), workers not only gradually learn to take a deeper and more committed interest in the well-being of the enterprise and each other, but also in the wider community, demonstrating *external-organizational pro-social dispositions*. Many of Argentina’s WREs, for instance, engage in some form of community outreach or development work beyond the main productive activities of the firm. Around two-thirds of WREs that have been researched also practice outwardly focused community development work by creating, for example, community recreation centers, education initiatives, and health clinics in the cooperative, or by sharing portions of their revenues with local community needs (Ruggeri et al., 2010; Vieta, 2014, 2019).

Overall, it has been found in WREs that there is a more expansive approach to normative expectations for interactions, with solidarity as a unifying value. Some behavioral economists call this a “we-rationality” (Navarra, 2009, p. 18), a set of social norms and practices guiding cooperative behavior that develops among associates working together in common projects and collectively self-managing a firm, in contrast to accustomed hierarchical forms (see also Bruni & Zamagni, 2004). Worker cooperatives with strong pro-social dispositions – such as WREs – follow concretely what Young-Hyman et al. (2023) have termed “workplace democracy as a ‘real utopia’...a viable form of organization that is both economically productive and socially welfare enhancing...as organizations with formally distributed authority and collectivist norms” (p. 1353; see also Wright, 2010). With WREs, these collectivist-leaning norms and we-rationality perspectives are further expressed in how the productive activity of many of these cooperatives reaches beyond the firm and out into the community, and vice versa, illustrating varying forms of spillover interlacing these participatory firms.

## **5 Conclusion**

Carole Pateman’s spillover thesis continues to be an important lens through which to understand the ways that democratic workplace practices relate to democratic practices in the broader civic sphere. Since her *Participation and Democratic Theory* was published in 1970, empirical evidence has emerged that spillover does occur in certain contexts, particularly in organizations with pre-existing democratic structures or in settings linked to social movements. In these cases,

workers engaged in solidarity-building activities and collective resistance against management or greater social injustices display outsized degrees of participation in non-workplace civic life.

However, critical questions about the explanatory breadth and depth of the theory remain, particularly related to the scope and attribution of spillover effects. Scholars such as Carter (2006) argue that connections between democracy at work and broader civic life are spurious in all but a few unique situations, casting doubt on the spillover thesis's generalizability. Others have suggested that where such connections exist, a stimulus for worker participation may originate from outside the workplace, not within it, conceptually reversing the direction of the spillover effect. We subscribe to the view that flows of democratic participation occur in both directions while certainly interacting with other factors. What unites these perspectives is the notion that the spillover thesis, as originally conceived, does not fully account for the complex, dynamic, and nuanced relationships between participation in the workplace and the greater polity.

In this chapter, we have supplemented the spillover thesis using five theoretical perspectives from the sociological, organizational, and social movement literature: historical and cultural contexts, social learning in workplaces and social movements, diffusion theory, associative intelligence, and collective learning in struggle. Drawing on research with worker-recuperated enterprises (WREs), worker cooperatives, and other solidarity-based organizations, we have detailed some of the structures, social relations, and workplace practices that extend knowledge of the two-way diffusion of democratic learning and practice. Concurring with those who have argued that certain organizational forms – notably worker and other cooperatives – are particularly conducive to such diffusion, we considered the development of new pro-social dispositions of workers toward affairs internal and external to the organization among workers in Argentina's WREs.

We argue that this elaboration and refinement of the spillover thesis produces a more complete view of the boundary crossing between participation at work and that of the greater polity. It is our hope that the empirical and theoretical contributions of this chapter advance cross-disciplinary efforts to understand the societal impact of the modern participatory firm not only in the area of economics but also in the political, cultural, and social spheres.

### Notes

- 1 The authors would like to acknowledge the supportive editorial work of Tom Abel in reviewing this chapter, fact-checking, and helping to finalize the bibliography.
- 2 Socialist production units (*unidades de producción socialista*), emerged in 2008 in Venezuela during the presidency of Hugo Chavez. They are “non-profit productive enterprises managed democratically by their workers, local communities and the state” (Larrabure et al., 2011, pp. 183–184).
- 3 Collective entrepreneurship, in this sense consists of entrepreneurial practices that combine group risk-taking, resource pooling, and actions focused on social values and objectives, rather than merely maximizing profits (Burrell et al., 2009). For Cairns et al. (2023), collective entrepreneurship encompasses “collective ownership,” “collective processes,” and “collective goods” that “interact with each other in a complex interplay” (p. 15).
- 4 Researchers interested in learning in workplaces and social movements have explored the learning processes that unfold during social and collective struggles, both in and beyond the organization, providing further insights for understanding the interplay and flows between democracy and participation in the workplace and the greater polity. An important stream of workplace and social movement learning research and theory shows how informal learning can particularly unfold in crisis-riddled workplaces or in workplaces caught up in the thick of wider socio-political or socio-economic crises. This scholarship combines the transformative force of Dewey's (1938) and Freire's (1970) experiential learning and ‘learning by doing’ approach – that is, we learn more richly when we interact and do things rather than sit passively by and take in static information – with a class-based focus on the agency of workers and other social movement actors as people who read and rewrite the world.

- 5 Argentina's WREs began to emerge in the 1990s and early 2000s as workers' immediate responses to the worst effects of structural adjustments and the temporary failure of the country's neoliberal political economy. A weakened official union movement and an increasingly unresponsive state, overwhelmed by growing life precarity and loss of legitimacy compelled workers in insolvent or failing privately or investor-owned firms (often forced to fail fraudulently by unscrupulous owners) to take matters into their own hands by occupying the company and ultimately converting it into worker cooperatives. As of late 2023, around 15,000 workers were self-managing over 430 WREs throughout the urban economy in sectors as diverse as printing and publishing, media, metallurgy, foodstuffs, construction, textiles, tourism, education, gastronomy, health provisioning, and shipbuilding (Azzellini & Vieta, 2025).

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# SORTITION AND THE DEMOCRATIC GOVERNANCE OF COOPERATIVES

*Simon Pek*

## 1 Introduction

A key feature that differentiates cooperatives from other economic organizations is their approach to democratic management and governance. In cooperatives, members collectively own and control their organization, based, among other factors, on the principle of equality among members (Kaswan, 2014; Michaud & Audebrand, 2022). Effective democratic governance can help ensure that cooperatives make decisions broadly aligned with the interests of the membership (Puusa & Saastamoinen, 2021) and augment their broader societal impact on, for example, efforts to tackle pressing sustainability issues (Venanzi & Matteucci, 2022; see also the chapter by Bergara and Imaz in Section V) and advancing democratization (Kaswan, 2014).

However, cooperatives often face a host of interrelated challenges when it comes to ensuring good democratic governance (e.g., Michaud & Audebrand, 2022; Pek, 2021; Puusa & Saastamoinen, 2021 (e.g., Michaud & Audebrand, 2022; Pek, 2021; Puusa & Saastamoinen, 2021; see also the chapter by Biggiero in Section I and the Chapter by Puusa in Section III). For instance, it is not uncommon for power to be concentrated among a small subset of members (Puusa & Saastamoinen, 2023) who may not always descriptively represent their cooperative's broader membership or effectively advocate for its interests (Pek, 2023). Concomitantly, in many large cooperatives, members adopt a more passive stance towards their cooperatives and do not avail themselves of opportunities to participate, particularly in large cooperatives (Kasmir, 2018; Puusa & Saastamoinen, 2021). Inequality in participation is also a major concern, as some groups of members have fewer opportunities to shape decision-making and see their concerns silenced or downplayed (Bijman & Wijers, 2019; Priola et al., 2014). Additionally, poorly designed governance structures can lead to excessive conflicts and decision-making inefficiencies (Basterretxea et al., 2020). The incidence and magnitude of these challenges will likely vary across different types of cooperatives (Mannan & Pek, 2024; Vieta et al., 2016).

Over the years, researchers and practitioners have focused on identifying novel solutions for preventing and overcoming these challenges. Many innovative governance practices and processes have been advanced (Bijman et al., 2014). Illustrative examples include new forms of organizing, such as sociocracy (McNamara, 2023), and new governance structures, such as mini-councils (Bretos et al., 2020). However, given the persistence of these challenges and their likely evolution

given the shifting regulatory and technological landscape cooperatives find themselves in, we have seen calls for more research on—and practical experimentation with—innovative ways to overcome them (Billiet et al., 2023; Mannan & Pek, 2024; Michaud & Audebrand, 2022; Novković et al., 2023).

A promising stream of research in this vein has begun to focus on a topic that cuts across all cooperatives' governance structures: the method used to assign and allocate opportunities to serve as representatives on bodies like boards of directors, committees, and councils (Mannan & Schneider, 2021; Pek, 2021; Warren, 2022). By far, the most common selection method used in cooperatives is election, exemplified by the International Cooperative Alliance's (n.d.) emphasis on equal voting rights in the principle of democratic member control. However, echoing surging interest among political scientists (Sintomer, 2023), researchers in this stream of research have begun exploring *sortition*—the use of lotteries to assign various types of political offices (Stone, 2011)—as another selection method that could serve as a complement or substitute for elections in cooperatives. This collective body of work is nascent and fragmented. There have been calls for more focused research on sortition in cooperative and democratic organizations (Battilana et al., 2022), particularly when it comes to unpacking *how* and *when* it could be used in cooperatives' governance structures (Apostolakis & Dijk, 2018; Pek, 2021, 2023).

I take up these opportunities in this chapter by canvassing, synthesizing, and extending research on sortition in cooperatives. I begin by briefly introducing sortition, focusing on its historical and contemporary applications and its purported benefits. I then create a framework for how cooperatives could integrate sortition into their governance structures by fusing prior research on sortition in cooperatives with research from other contexts. Next, I advance a contingency approach to explore when applications of sortition in cooperatives may be more or less appropriate. I conclude with a brief discussion outlining implications for research and practice.

## **2 An introduction to sortition**

At its core, the use of sortition entails using lotteries—and, thus, omitting human control or influence—when selecting one or more representatives from a pool of eligible individuals (Dowlen, 2009). When creating the initial pool, decision-makers have to specify the population of interest (e.g., a particular region or jurisdiction) and apply any relevant exclusion criteria (e.g., requiring that individuals be over a certain age to be eligible) (MASS LBP Inc., 2019). For example, a cooperative interested in using sortition to compose a committee of six focused on reviewing its procurement policies may wish to exclude anyone who has been a member for less than a year or currently serves on the board of directors from being eligible. The pool of potential committee members would thus comprise all other members, from which six would be selected using various digital (e.g., Excel) or analog (e.g., lottery ball machine) tools. Crucially, given their unpredictability, lotteries prevent any reasons, whether good or bad, from influencing who is ultimately chosen from the pool of options (Stone, 2011). Dowlen (2009) uses the term *arrational* to capture this property. As such, returning to our hypothetical committee, the decision of who will be called to serve will not be influenced by reasons such as a given member's knowledge of procurement, career interests, or, perhaps, desire to use the committee to advance their personal interests.

Sortition has had a long and somewhat tumultuous history, having at points played a central role in politics like Athens and Florence, only to largely disappear from use until a resurgence of interest in the last few decades (Sintomer, 2023). As part of this resurgence, many applications of sortition have been proposed or implemented. One of the most common suggestions entails using

sortition to select members of legislative bodies. For example, Gastil and Wright (2018) proposed a bicameral governance system whereby a sortition-based chamber and an election-based chamber would complement each other. Additionally, some political parties have begun using sortition as part of their process for selecting candidates (Sintomer, 2018).

In many applications and proposals, sortition is combined with practices to foster deliberation. However, it is important to note that sortition and deliberation are distinct and that using sortition does not automatically generate deliberation (Carson, 2019). This fusion is most common in deliberative mini-publics like citizens' juries and citizens' assemblies, where sortition is combined with a range of practices to foster learning deliberation among participants (G. Smith & Setälä, 2018). Deliberative mini-publics have been used to tackle a wide range of topics, from municipal waste management to electoral reform. While interest in sortition has primarily been limited to the context of states to date, some researchers and practitioners have begun to explore it in other contexts, including corporate governance structures (Zeitoun et al., 2014), schools (Pek et al., 2018), platforms (Mannan & Schneider, 2021), and universities (Kennedy & Pek, 2023; Warren, 2022). As I will discuss below, some research has begun investigating sortition in the context of cooperatives.

Why might a polity or an organization wish to use sortition to assign responsibilities like committee membership or board seats? Over the years, researchers have advanced numerous potential benefits of sortition. Some research focuses primarily on categorizing the advantages and disadvantages of sortition (e.g., Carson & Martin, 1999; Pek, 2021; Zeitoun et al., 2014). Other research adopts a more explicitly comparative approach, differentiating sortition from other selection methods to discern which performs better on different criteria (Courant, 2019; Malleson, 2018) or in different contexts (Warren, 2022). Pek (2021) drew on prior research to distill a set of benefits of sortition relevant to worker-owned firms like worker cooperatives, four of which I briefly overview here to contextualize the next section.

First, sortition can help reduce the risk of the long-term centralization of power among a small subset of individuals who may not necessarily be descriptively representative of the broader membership. Due to its unpredictability, sortition, if implemented properly, is likely to prevent the same individuals from being selected to hold the same office repeatedly (McCormick, 2006). Additionally, those selected through sortition are more likely to be descriptively representative of the broader membership (Carson & Lubensky, 2009; Malleson, 2018). In cases where the number of people selected is quite small, which will likely apply to many cooperatives, it will be necessary to use some form of stratified lottery to have this effect (G. Smith & Setälä, 2018). Second, sortition can help reduce apathy and increase overall participation by, for example, increasing the political efficacy of the broader membership (Knobloch et al., 2020; see also the Chapter by Vieta and colleagues regarding the spillover thesis). Third, sortition can improve decision-making. Unlike those selected through elections, those selected through sortition are not subject to the same strategic distortions, notably the risk that others will attempt to influence potential future representatives by, for example, supporting their campaigns, and the pressure to focus on issues likely to support their re-election as opposed to longer-term and less public issues (Stone, 2011; Vandamme & Verret-Hamelin, 2017). Additionally, the greater descriptive representativeness—especially when combined with opportunities for learning and deliberation—will likely improve decision-making by bringing a broader array of perspectives to the table and reducing polarization (Burgers, 2015; Landemore, 2013). Fourth, sortition can help improve cohesion among a cooperative's membership by reducing status barriers among members (Malkopoulou, 2015) and reducing the incentive for different groups of members to compete with each other (Stone, 2011).

### **3 Opportunities for integrating sortition into cooperative governance**

Having elaborated on how and why sortition has begun attracting attention in various contexts, I now turn to developing a framework for different ways cooperatives could integrate sortition into their governance structures. Given that the body of research explicitly focused on potential applications of sortition in cooperatives is quite limited, I complement it with research on potential applications in state contexts (e.g., Bouricius, 2013; Burnheim, 1985; Sintomer, 2018) and other non-state contexts (e.g., Carson & Lubensky, 2009; Pek et al., 2018; Zeitoun et al., 2014).

Before beginning, it is helpful to note that sortition can be used in tandem with other selection methods like election. It is possible to compose a particular body with individuals selected through multiple methods in the form of a ‘mixed chamber’ (Vandamme et al., 2018), as seen in the Irish Constitutional Convention (Farrell et al., 2020). In many of the applications I describe below that include multiple individuals, readers can assume that sortition could either be used as the sole selection method for a particular body or in tandem with other selection methods. Additionally, bodies composed of individuals selected through sortition can also serve as complements to existing bodies instead of as replacements (Farrell & Stone, 2020). For example, Gastil and Wright (2018) propose a bicameral system based on two chambers with matching powers: one with members selected through sortition and one with members selected through election. There is much debate over these various designs (e.g., Bouricius, 2018; Vandamme et al., 2018), and future research will need to explore this topic in the context of cooperatives. For our purposes here, many of the proposed applications below can serve as either complements or substitutes for existing bodies in cooperatives. Finally, as I mentioned earlier, sortition is often—though need not be—paired with efforts to foster deliberation. The latter can vary significantly, even in deliberative mini-publics. As such, in this section, I do not distinguish between varying degrees of deliberation for each of the proposed applications. I return to this topic in the following section.

#### ***3.1 Building on contemporary cooperative governance models***

Cooperatives vary in their governance structures based on their jurisdiction and desire to involve various stakeholders in their decision-making. Drawing on prior research that has sought to categorize different governance bodies and innovations in cooperatives (Bijman et al., 2014; Novković et al., 2023; Pek, 2023), as well as insights from specific cooperatives’ governance structures (e.g., Darr & Lewin, 2001; Gunn, 1984), I will explore four broad groupings of applications of sortition that build on contemporary cooperative governance models.

First, cooperatives could use sortition to select members of their boards of directors. Carson and Lubensky (2009) suggested this potential application in the context of public and non-profit organizations. In the traditional model of cooperative governance (Bijman et al., 2014), the board of directors is responsible for making initial decisions that are subject to subsequent ratification at the general assembly. Many cooperatives also have a supervisory board that monitors the board on behalf of the general assembly. Sortition could be used for selecting some or all members of these boards. In the Kyneton and District Town Square Co-op, for example, a portion of the board was selected through sortition (Taleb, 2020). While not a board *per se*, some schools have experimented with switching from elections to sortition for selecting members of their student governments (Pek et al., 2018). In cooperatives with, or contemplating, multiple boards, sortition could be used in some of them. Cooperatives could adopt variants of Zeitoun and colleagues’ (2014) proposal of a dual-chamber corporate governance structure, where an elected shareholder board is complemented by a second stakeholder board selected through sortition. Sortition could

also be used to select members of existing or new committees. For example, Bouricius (n.d.) suggests that sortition could be used to select members of a nominating committee charged with proposing potential board members. Additionally, sortition-selected bodies could be used to monitor the board's performance, as was done in the Scott Bader Commonwealth through a system of lottery-selected panels (Bernstein, 1976).

Second, cooperatives could use sortition to support the work undertaken by the cooperative's broader membership at general assemblies. General assemblies play a crucial role in cooperatives, functioning as "the ultimate decision-making forums in every cooperative" (Novković et al., 2023, p. 86). As summarized in Pek (2023), general assemblies have a wide range of responsibilities that may or may not be undertaken in practice, including approving reports and decisions, electing members of the board of directors, and deliberating about matters of concern to the cooperative. However, general assemblies are often prone to numerous problems, including low levels of participation (Spear, 2004) and limited critical engagement (Hernandez, 2006). Sortition could be used to select bodies tasked with performing or supporting some of this work, such as providing feedback on resolutions up for ratification and then feeding their conclusions back to the general assembly (Pek, 2023). In large cooperatives that have opted to replace general assemblies with elected member councils (Bijman et al., 2014), sortition could be used to select member council members, a possibility that Apostolakis and van Dijk (2018) highlight and document an instance of.

Third, sortition could be used to perform adjudicative functions, broadly conceived. Bernstein (1976) highlights the importance of having a robust judiciary for effective democratic governance that can perform tasks like protecting members' rights and adjudicating contraventions of cooperatives' rules and bylaws. Many cooperatives have specific bodies to undertake some or all of these tasks. For example, Darr and Lewin (2001) discuss the vital role of independent judiciaries in several Israeli taxi cooperatives, where elected judges handled a wide range of complaints arising from inside or outside the cooperative. Cooperatives could use sortition to select individuals to perform these types of tasks. Indeed, one of the most well-known uses of sortition today is its use in jury selection in several countries (Carson & Martin, 1999). Berman (1967) describes a plywood cooperative that used sortition to select members of an appeals committee that considered appeals in cases of worker suspension or termination. It is also possible to use sortition to compose juries tasked with studying content moderation questions in cooperatives that use online tools for deliberation and decision-making (Schneider et al., 2021).

Fourth, cooperatives could use sortition to select members of other bodies for collective representation and member engagement, which are common in many large cooperatives. Some of these bodies are charged with representing and advocating for the interests of particular stakeholders. For example, worker members in Mondragon's base cooperatives are represented by social councils (Forcadell, 2005), whereas in some other worker cooperatives, they are represented by labor unions (Pinto, 2021). Other bodies perform specific information-gathering, advisory, and decision-making functions in cooperatives. As an illustration of this, Hoedad's had multiple task force committees focused on topics like compensation and benefits, health and safety, and orientation (Gunn, 1984). Sortition could be used to select members of both types of bodies. As an example of the former, Pek (2019) pointed to various ways labor unions could use sortition in either a comprehensive or partial manner, including selecting members of committees tasked with undertaking external outreach or vetting decisions to support political parties. As an example of the latter, Carson and Lubensky (2009) discuss how the National Lottery in the United Kingdom used sortition to select a subset of the members of regional committees that decide on which community projects to fund.

### **3.2 Other potential applications of sortition**

In addition to these four broad categories of applications, sortition could also be used in myriad other ways. Some of these are relatively minor adaptations to the ways most cooperatives operate. For example, cooperatives could use it to select individuals responsible for election-related tasks like ballot counting, as in Mexico (Cantú & Ley, 2017). Another is to use sortition as a tie-breaking device when it is impossible or overly challenging to distinguish among a final set of candidates (Warren, 2022). Still, another potential application is to use sortition to select candidates in cooperatives that involve formal or informal political parties (e.g., Baviskar, 1968). This application has recently been explored by political parties in some polities (Sintomer, 2018).

Perhaps more imaginatively, sortition could also serve as the building block of completely different ways of imagining cooperative governance. Over the decades, some have pursued what Farrell and Stone (2020, p. 240) term a *strong vision* for sortition, giving it a more comprehensive and central role. I briefly overview three such visions here to spur further reflection and innovation. The first is a system proposed by Burnheim (1985, see also Carson & Martin, 1999; Pek, 2019) called *demarchy*, which is centered around two types of bodies selected using sortition. Functional units focus on policy-making on specific issues like waste management. Higher-order bodies focus on the structure of the overall system of governance, tackling questions like which stratification criteria ought to be used in functional units. The second option is *multi-body sortition* (Bouricius, 2013), whereby legislation is made by several lottery-selected bodies, each performing different tasks, such as agenda councils responsible for setting the agenda for subsequent bodies and interest panels responsible for proposing specific pieces of legislation. The third is Landemore's (2020) model of *open democracy*, which advances a new conception of democracy that emphasizes different forms of non-electoral representation, notably the use of bodies selected through sortition.

## **4 When to use sortition in cooperatives? A contingency approach**

Until now, I have discussed what sortition is, why it has garnered so much interest, and how it could be used in cooperatives. Readers may be wondering when it makes sense to adopt any of these or other applications. Just as it has many potential advantages, it also has many potential disadvantages (e.g., Carson & Martin, 1999; Pek, 2021; Zeitoun et al., 2014). Different selection methods, such as sortition, election, or appointment, are more or less suited to achieving different democratic ends (Courant, 2019; Malleson, 2018). In critically comparing sortition and election, Malleson (2018) concluded that sortition is better suited to achieving political equality, impartiality, and deliberativeness. In contrast, an election is better suited to achieving competency and popular control. When weighing whether cooperatives should adopt a particular application of sortition, it is worth considering whether alternative selection methods fit the bill better (Warren, 2022).

Stone (2011) offers a useful heuristic here. He argues that because lotteries neutralize the possibility that all reasons, good or bad, will influence a given decision, it is important to weigh whether this is an overall net positive or net negative in a given situation. Lotteries are appropriate when one has exhausted all the good reasons available for making a decision but where the potential for making decisions based on bad decisions exists. For example, in a situation when it is not possible for a hiring manager to discern between two equally skilled and capable candidates for a job, both of whom have equal claims, a lottery would prevent the hiring manager from making their decision based on problematic reasons like personal biases or nepotism. Here, we find justification for the above-mentioned tie-breaking function. In many other situations, though, good and bad reasons will likely be available. Notably, for our purposes, when deciding who should fill a given

committee post, one may aspire to choose based on good reasons like candidates' levels of subject matter expertise while also wishing to prevent the influence of bad reasons like a desire to repay political debts. Here, they will have to decide whether the prevention of bad reasons outweighs the loss of good reasons.

As such, when researchers and practitioners consider the use of sortition in a particular context, they should weigh whether its benefits outweigh those that could be garnered with another selection method. Circling back to the purported benefits of sortition discussed earlier, sortition is likely to be more appropriate when ends like descriptive representativeness, impartiality, and more frequent and unpredictable turnover are particularly salient. For example, cooperatives may find that impartiality is particularly important in some situations, such as when making decisions about a member's guilt or innocence (Berman, 1967), nominating prospective board members (Bouricius, 2017), or debating particularly contentious topics (Mannan & Schneider, 2021). In other cases, cooperatives may find that popular control or subject matter expertise is particularly salient. In the former case, an election is likely to be more appropriate (Malleeson, 2018), and in the latter case, methods like certification may be more appropriate (Courant, 2019). In many situations, it may make the most sense to focus on achieving the benefits of different selection methods by creating complementary bodies, each composed of individuals selected through different methods (e.g., Gastil & Wright, 2018; Malleeson, 2018).

There are at least three other relevant considerations when comparing alternative selection methods. The first is applicable laws, which, in many cases, dictate which selection method ought to be used in some contexts. Notably, the use of elections based on one member, one vote is the default in much cooperative law (Pönkä, 2018), though some jurisdictions have more flexible laws (Serres & De Moor, 2023). As such, for sortition to be used in jurisdictions with these laws in place, it would have to be integrated into earlier stages of the election process, such as by randomly selecting a set of candidates whom the broader membership could then vote on. Cooperatives will likely find it much easier to use sortition to select members of discretionary committees. The second consideration is the cost of adopting sortition (Warren, 2022). At a minimum, adopting sortition would require human resources to promote and undertake the lottery process. Additional common expenses related to making opportunities accessible to as broad a range of individuals include honoraria for participants and covering costs such as childcare (Harris, 2019). Furthermore, if fostering deliberation within sortition-based bodies is particularly important—which may be the case if, for example, sortition is used to improve the quality of decision-making by bringing together a wide range of participants—then funds will need to be available for mainstay elements of deliberative mini-publics such as facilitation (G. Smith & Setälä, 2018). The third consideration is the level of receptivity to sortition and its underlying benefits based on the organizational context. Some cooperatives, such as those operating according to more egalitarian and horizontal principles (Rothschild-Whitt, 1979) and those with more deliberative cultures (Warren, 2022), may find it much easier to adopt sortition in a more systematic manner. In other cases, however, it may be necessary to implement sortition in a more staggered manner, starting with smaller-scale and less controversial applications to legitimate the practice.

## **5 Discussion and conclusion**

Democratic governance is a key distinguishing characteristic of cooperatives with myriad benefits for members and society at large. However, cooperatives often face a host of challenges in implementing and sustaining democratic governance, including member apathy and inequalities in

participation. To their credit, those studying and working within cooperatives have long been open to identifying and experimenting with novel ways of improving democratic governance (Bijman et al., 2014; Novković et al., 2023). One such approach that has begun drawing attention highlights on the selection methods used to select representatives in cooperatives, emphasizing sortition as a promising alternative (Mannan & Schneider, 2021; Pek, 2021; Warren, 2022). Researchers involved in this conversation have made important contributions by identifying the merits and potential demerits of sortition in this context and suggesting various applications. However, as is the case with many newer streams of research, research to date on sortition in cooperatives is fragmented and has some important gaps.

In this brief chapter, I have sought to canvass, synthesize, and expand on this work to address two important gaps: an insufficient understanding of *how* sortition could be used in large cooperatives and *when* it ought to be used. Regarding the former gap, I created a framework of different ways cooperatives could integrate sortition into their governance structures. Researchers could use this framework to develop new or augment old conceptions of democratic governance in cooperatives. For example, they could use it to imagine what it would be like for cooperatives to be structured as either demarchies (Burnheim, 1985) or open democracies (Landemore, 2020). Practitioners could use it as a flexible tool for problem-solving and member engagement based on the specific needs, governance structure, and context of their cooperative.

Regarding the latter gap, I advanced a contingency approach to help researchers and practitioners ascertain when sortition is likely to be more or less appropriate. Sortition is by no means a panacea for addressing cooperatives' myriad governance challenges, though it can be a powerful tool in the right circumstances. Whether or not the circumstances are right ultimately depends on a careful situational assessment of whether its benefits outweigh those of other selection methods, relevant laws, resource needs and availabilities, and the level of receptivity based on the organizational context. This initial effort to develop a framework of contingencies can help researchers develop more nuanced and in-depth theories about when different selection methods may be more or less appropriate and, potentially, how they could be used in different combinations to increase their effectiveness. It can also serve as a heuristic for practitioners weighing whether particular applications of sortition are the right fit. In sum, I hope this chapter helps advance and deepen this important area of research and practice as we collectively work to improve democratic governance in cooperatives through novel yet properly conceived innovations.

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# A MODEL OF A FULL COOPERATIVE WITH INTERNAL CURRENCY

An approach to strengthening  
the cooperative economy

*Jens Martignoni*

## 1 Introduction

This article examines the economic basis and the role of money, a critical factor that has not yet been taken into account in embedding the cooperative economy in the wider global economy. It proposes an updated model for the cooperative organization and how cooperative values and goals can be better achieved by integrating the monetary dimension.

Among many different reasons, the author has identified the monetary system as a strong source of structural power, which hinders the development of the cooperative movement and amplifies setbacks. He suggests a unique bottom-up solution to address this problem. The core idea is to return to the model of the Full Cooperative and add a parallel, non-capitalist, commons-based, democratic currency to support the domestic (member-based) economy. This combination would also provide the means to develop a sustainable economy from the bottom up. The model was partly derived from utopian socialist drafts of the cooperative movement (Buber, 1958) and combined with ideas like a commons-based, democratic currency (Martignoni, 2022).

In the next section, some points are taken up where the cooperative movement has lost its original power in overcoming capitalism. The relationship between cooperatives and money and the historical efforts to adapt the monetary system to the needs of cooperatives are then presented using several examples. The fourth section takes a closer look at the role of money and specific currencies as a systemic component of the economy. What exactly is the problem with money and how could money be designed differently? Some design aspects and the constitutional question of an internal currency are treated to provide the basis for the presentation of a better-adapted cooperative model (Full Cooperative model). Then the core issue, the internal currency, is outlined and its main currency circles are briefly described. The seventh section discusses initial transformation approaches for the implementation of the model and identifies the need for further research and discussion.

## **2 The lost power of the cooperative movement**

The cooperative movement was born out of necessity through a series of ingenious organizational innovations in the 19th century and played a crucial role in limiting and overcoming the tragedies and disasters of industrial capitalism in the late 19th and early 20th centuries. The ideas for the cooperative movement came from both utopian conceptions of pioneers (see Engelhardt, 1994) and older, multi-layered sources of a common economy based on solidarity, such as the tradition of life communities (Original Christian communities) going back to the early days of Christianity and beyond (see Hettlage, 1983, p. 198). Important features of the modern approach were the implementation of democratic structures, self-help, fair collaboration, and social meaning in economic activities. The movement was very successful and contributed much to a better supply and living for most of the population of Western nations in the 20th century. However, by the end of the 19th century, the integral vision of a cooperative movement as a reform project, which aimed to solve the social question through equitable, needs-based economic activity, was weakened. After World War II, this “radical” orientation disappeared almost entirely (Preuss, 1960). The movement was further weakened by the abuse of the idea by fascist and communist regimes and by the loss of true member participation due to consumerism. Despite these challenges, it continued to flourish and play a strong role in many postwar societies, with many cooperatives focusing on individual topics, such as housing cooperatives, banking cooperatives, consumer cooperatives, etc. However, in recent decades, capitalism returned to its new form of financial capitalism (Stiglitz, 2020), and the need for a more radical and powerful form of cooperatives has become urgent. Among the chances for improvement, the author has identified the financial dimension as a blind spot (Martignoni, 2022). The ruling monetary system, a very strong source of structural power (Robertson, 2012; Lietaer, 2001), has arguably undermined the cooperative idea and spirit. It has also hindered the development of the cooperative movement toward advanced sustainability and amplified the degeneration of cooperatives up to conversion into limited companies:<sup>1</sup> The importance of the monetary system was clearer to the pioneers in the early days of the cooperative movement. The next section shows some examples that serve as starting points for reintroducing these considerations.

## **3 Cooperatives and money**

### ***3.1 Historical developments***

The mystery of money has puzzled scholars for centuries, and many theories about money and the monetary system have emerged. However, not many have been treated seriously by the science of economics in recent decades. Rather, money is only briefly explained in textbooks as a bundle of three or four functions, only to be left unquestioned on all subsequent pages as a prerequisite for most other theories and concepts.<sup>2</sup> This has mistakenly led to money as a general concept<sup>3</sup> being equated with the specific forms of money that exist today as currencies (e.g., dollar, euro, etc.). The terminology must therefore be sharpened here to discuss the possibility of differently designed money. Like Bindewald (2021), the general term money is used for the “concept of money” (Simmel, 2004). In contrast, each specific form of money, which is organized as a legal construct and then also given a name (dollar, euro,...) is referred to here as a currency (Bindewald, 2021). A currency can be designed from a wide range of possibilities, as seen in the area of cryptocurrencies or community currencies, also called complementary currencies.

The author argues that the monetary system and the use of currency are decisive factors (Lietaer, Ulanowicz, and Goerner, 2009) and need to be redesigned to make cooperatives a powerful force

for necessary change toward sustainability. Such “heretical” paths of monetary or currency reform have been taken but have not yet been incorporated more broadly into the economy (for an overview, see Boyle, 2002).

However, in the historical development of the cooperative idea, the design of the monetary system was recognized by some pioneers and thinkers of the movement as a central element of the capitalist economic order. However, this path was not pursued in most cases. Nevertheless, there were repeated attempts to introduce this knowledge into the movement.<sup>4</sup> In the next section, we will look at two specific “other ideas” of money and currencies that were developed in the context of the formation of the modern cooperative idea.

### **3.2 Experiments of Robert Owen**

Robert Owen, one of the most important cooperative pioneers, also recognized that the monetary system would have to be changed if a different economic system was to be introduced. Owen developed his labor theory of value as early as 1820 in his *Report to the County of Lanark*: “That the natural standard of value is, in principle, human labour, or the combined manual and mental powers of men called into action.” (Owen, 1832, p. 5). To solve the problem of how to realize this, he returned to the idea of time accounting and saw – though he was not the first – the next step in a trading system based on the production factor of labor and intended to ensure adequate remuneration for workers.

During the first “operating phase” of his experiment in the New Harmony settlement in Indiana, United States, Owen introduced the idea of a separate currency for the community: the so-called “Labor Notes”, which were based on quantifying the work “stored” in the products in hours and then compensating or “exchanging” this “work for work – hour for hour”. However, this idea was only implemented after Owen left New Harmony. It was most likely Josiah Warren who came back to this idea (Sartwell, 2011, p. 186). He began publishing “Labor Notes” in experiments with his own sales stores in different cities and later for a short period back in New Harmony too (Rocker, 1949, p. 63; Martignoni, 2022, p. 189ff.).

After his return from the United States, Robert Owen continued his work in England and embraced the idea of labour exchange promoted by figures such as King and Thompson (Oliver, 1958). The first exchange bazaar was founded by the Association for Promoting Co-operative Knowledge on Greville Street in London at the end of 1829 (Uhl, 2013, p. 79). Owen had bigger plans and initiated the creation of Equitable Banks of Exchanges with “Labour Notes” parallel to the existing monetary and economic order (Uhl, 2013, p. 79). To this end, Owen refined his ideas. As a result, a National Equitable Labor Exchange was set up in London in 1832 and later in other locations, where goods could be bought and sold using labour notes. In addition to the value of the processed material, the worker received compensation for the average time required to manufacture the product. This had to be determined by a special committee of the exchange (Elsässer, 1984, p. 191). However, the complicated handling and the lack of understanding of the advantages of the new system among the workers led to a short lifespan. The exchanges had to be closed again as early as 1833 and 1834 (Martignoni, 2022).

In his proposal, Owen did not register an important source of “wealth” that is just as important as labor, namely access to natural resources, especially land, and the means of production, which are regulated by property or ownership rights.<sup>5</sup> Nevertheless, his approach was groundbreaking. Firstly, he linked money directly to the underlying performance of work or knowledge (although still in the form of products), thus advancing to economic performance as the actual basis of

money. Secondly, he recognized that no other economy was possible without a radical revaluation of performance contributions and that the existing money and the resulting market could not achieve this. Instead, he proposed the formation of democratically organized committees with expertise in their respective fields to determine the value of products. This approach of conscious and jointly determined pricing remains forward-looking.

### ***3.3 Other forms of money in the consumer cooperative movement***

Certain other forms of money were introduced very early, particularly in the consumer cooperative movement. An important pillar of the consumer cooperatives was the so-called “dividend”. This idea was already applied in Rochdale (from 1844). The fourth principle of the Rochdale pioneers was: “Distribution of the surplus to the members in proportion to their transactions” (Fairbairn, 1994). Goods were sold at market prices, and the profit that private merchants could make from the (too expensive) sale of goods, as well as the profit achieved through joint procurement and the efficiency of the consumer cooperative, were paid back to the members in cash on a pro-rata basis at the end of each period (dividend or share of the profits). The reimbursement was usually in the range of 5–10% of turnover. To determine the exact amount of the dividend for each member of a consumer cooperative, the turnover of each member (household) had to be recorded precisely for each accounting period. Various systems were developed and used in practice for this purpose. Generally, there were two completely different systems: consumer tokens and credit tokens (Martignoni, 2016, 2022). Typical representatives of the former were the tokens from Rochdale made of copper/brass (Waddell, 1993). Tokens of this type had a fluctuating value, analogous to the respective dividend, i.e. about 5–10% of their imprinted value.

The situation was quite different with credit tokens. These were exchanged directly for legal tender before purchase and were regarded as full means of payment both in the stores of the consumer cooperative and at all dealers and stores with a contract. Tokens of this type were used instead of the national currency and were of practically the same value to consumers. By members purchasing these tokens in advance, the cooperative received a considerable amount of capital in conventional currency free of interest. Today, this would be called “prepaid”. By around 1960, however, consumer cooperatives gradually abolished the use of tokens. Legal regulations, wars, and practical reasons such as overly expensive token production, fraud, and especially the introduction of cash registers led to the replacement of the token systems (Hirschberg, 1975, p. 56).

The token money of the consumer cooperatives was used as a pragmatic solution for the organization of the dividend and as a short- to medium-term liquidity safeguard. They also served as an identity-forming element and customer loyalty instrument. However, the consumer cooperatives didn’t create a link to the ideas of Owen and didn’t use these “internal currencies” for a more revolutionary purpose. Nevertheless, there were repeated attempts to introduce the “money- knowledge” into the cooperative movement. In other comparable currents, money was questioned,<sup>6</sup> but until now most of the experiments have not scaled up or have failed.

## **4 Systemic issues**

### ***4.1 The problem with money***

The existing, uniformly structured, mixed private/state money system (with currencies such as the dollar, franc, euro, etc.), sometimes called “fiat money”, has a clear characteristic in terms of participation, which is optimally matched to the capitalist economic system: it is not the contribution

or effort to the national product (labor or work) that counts as a distribution factor. Instead, the sole amount of money that someone owns is the key to the distribution of all wealth.

So personally collected money in the form of rent (interest, profit, pensions, price gains, inheritance, etc.) prevails over pure wages. Those who can accumulate more money can buy more capital<sup>7</sup> through this money – investment. They have more than they need and can save more money, starting to stockpile it. With this advantage, they can again accumulate more money to buy additional capital, thus almost inevitably their capital increases. This positive feedback, which causes a constant concentration of wealth (see Piketty, 2014), is systemically anchored in the monetary order. The monetary system promotes parasitic behavior, extracting value from productive areas and monetizing everything always more. Creutz (2010) has calculated the effects of interest as one component of this exploitation and found that around 30% of most prices represent the value that is siphoned off.<sup>8</sup> This means that when each economic transaction within the cooperative and among its members has to be executed using money optimized for capitalism, the cooperative constantly loses power by “sending”<sup>9</sup> money to the capitalists. The money accumulated by billionaires, then additionally increases the cost of capital, for example, for land or buildings, which inhibits cooperatives in their further development.<sup>10</sup> Thus, all cooperative values (ICA, 2015) are challenged or even contradicted in every single transaction.

Another point is the exposure to the capitalist market when using capitalist money. For example, a company that produces the same products outside the cooperative can lower prices (dumping) and thus tempt members to buy its products instead of those produced in the cooperative. The members’ purchasing power and the cooperative’s resources are thus exposed to the market without protection (see also Section 6.1).

The monetary system, therefore, contradicts cooperative principles and should be neutralized and, at least within the cooperative, be replaced by a more suitable system.<sup>11</sup> Money has to be treated as a common good (Chapter 32, Section 8) to be useful even for the management of other common goods and the commons.

It can be determined that a cooperative is severely affected in its activities and effectiveness by the existing monetary system, which works against the aims and values of cooperatives. There are even more systemic and organizational reasons that point in the same direction, as will be discussed in the next section.

## ***4.2 A currency as an operating system***

In neoclassical-oriented economics, money and currencies are usually assumed to be “means of exchange”,<sup>12</sup> regarded as the foundation and unit of measurement of economic activity per se, and in any case not regarded as the medium of an approach to change the economy itself. However, this premise has long been relativized or refuted historically and in contemporary heterodox approaches.<sup>13</sup> Here, we limit ourselves to briefly outlining the chosen position on the understanding of money, which in the broadest sense can be classified as Chartalist, a position dating back to Georg Friedrich Knapp (Knapp, 1924), or institutionalist, which today is reflected in Modern Money Theory (MMT) (Ehnts, 2017). A brief description of the term by L. Randall Wray refers to the essential points:

In the Chartalist approach, the state (or any other authority able to impose an obligation) imposes liability in the form of a generalized, social, or legal unit of account- a money-used for measuring the obligation. This does not require the pre-existence of markets, and, indeed, almost certainly predates them.

(Wray, 2014, p. 2)

Money is thus seen as a social construct, or more precisely a part of a legal system that provides a framework for a modern economy based on provisioning the government and using the division of labor. Viewing money as a legal framework also brings about a specification of money as a certain “sort of money”,<sup>14</sup> here called “currency” with a certain name (see Section 3.1). A currency is therefore a specific set of rules that has the same status for the economy as an operating system<sup>15</sup> for a computer:

An operating system provides a basis and an interface for all activities and a framework that enables competing applications (in our case, government, companies, enterprises, and consumers) to operate and perform their mission. The most important task of an operating system is to manage the total resources of the device and allocate them in such a way that they get to the right places and that the limits of what is possible in terms of resources are optimized and not exceeded (which would lead to overheating in a computer, for example).

This comparison of currency as the operating system of the economy could perhaps open a bridge of understanding to, first, break the prevailing dogma of money as a kind of “natural entity” that has somehow evolved as a subordinate instrument of efficient markets,<sup>16</sup> and second, transform it into a design perspective in which currency is superior to markets and must be intentionally designed to achieve a desired (sustainable) economy. This systemic approach also makes the usual concept of “peer exchange”, which is behind the general “medium of exchange” idea, superfluous, since it has proved to be an obstacle to an adequate understanding of money (Polanyi, 1944). Instead of “exchange”, the concepts of buying and selling (“purchase”) are used, and money is, in the first instance, a pure means of payment (settlement of contributions and remunerations). The systemic approach also makes the “puzzle” of the current booms and busts explainable and offers a bridge between economy and ecology (Lietaer et al., 2009). This opens a door within the existing, de facto unchangeable, monopolized fiat-currency system (e.g., the euro) in a subsidiary way and within certain limits, by designing different or complementary currencies (see Lietaer, 2001; Robertson, 2012).

### **4.3 Constitutional aspects**

As a second compulsory prerequisite for the proper design of money, or more precisely of currency, Karl Elster, a German economist following Knapp, proposes the concepts of “community of payments” and a “community of production and consumption”: “...that there is no money and no payment as long as there is no community of payments; that no community of payments is conceivable as long as the community of production and consumption has not also come into being.”<sup>17</sup> (Elster, 1923, p. 42). The constitutional framework of a currency can therefore be any community with production and consumption, or sufficiently strong intra-economic relations, that can guarantee a minimum level of constitutionality.

The third important collective aspect of money is the socio-economic approach of mutuality, as derived by Knapp (1924) and further specified by Elster: “The share in the social product is the payment granted by the community organization to its individual member for his cooperation in the social product.”<sup>18</sup> (Elster, 1923, p. 46). This is an idealized but systemically correct approach and is also congruent with the cooperative idea.

With the above three points, we can now build a bridge from monetary theory to cooperatives:

- 1 A cooperative in the actual sense is already a community with a constitutive character, which can impose a liability in the form of an internal unit of account. A cooperative therefore could issue a currency and oblige its members to accept it as payment, e.g., for internal services.

- 2 A cooperative is also a joint enterprise that tends to be a «community of production and consumption» (Elster, 1923). Thus, it fulfills the prerequisites for a «community of payments» (Elster, 1923). However, the congruence of the two communities only achieves a maximum extent in a Full Cooperative. In partial (specialized) cooperatives, such as consumer cooperatives or housing cooperatives, the overlap would be much smaller.
- 3 A cooperative, as a community with the principles of equality and democratic organization, is strongly built on self-help or mutuality. Engagement, participation, and work for the common cause are expected to be remunerated by a fair share of achievement and return.

#### **4.4 Design hypotheses**

If the role of currencies as a central instrument for distribution and coordination (Martignoni, 2022) is recognized and the “monetary silencing” (Feinig, 2022) is finally overcome, the design and especially the issuance of the currency that the cooperative uses become very relevant. Therefore, the following hypotheses were formed for the research (Martignoni, 2022, p. 216):

A cooperative as an economic community that wants to seriously and consistently pursue solidarity-based ethical objectives and public service principles with its members cannot be successful in the long term if it does not:

- a see its members as producers and consumers at the same time and bring these functions together in a democratic, federated way within their domestic economy,
- b subordinate both the functions and rules of the currency that it and its members use to its objectives.

### **5 The cooperative as an economic community**

The cooperative idea can be described as the collective satisfaction of an economic or meta-economic need based on self-administration [and reciprocity], i.e. in a democratic manner, utilizing self-organized self-help (Schulz-Nieswandt, 2020; see also Chapter 4). From this idea, which recalls more general conceptions of the economy, as suggested by Polanyi (2011), an independent and different “economy of life” could be derived. This could be defined as a self-organization of mutual self-help based on self-administration (Schulz-Nieswandt, 2020). This general definition has the advantage of not implicating a common capitalist view of an enterprise, as today’s official definition of the International Cooperative Alliance does: “A cooperative is an autonomous association of persons united voluntarily to meet their common economic, social, and cultural needs and aspirations through a jointly-owned and democratically-controlled enterprise.”<sup>19</sup> See also Chapters 5 and 29.

The alternative model presented here aims to achieve a comprehensive construct of a solidarity-based economy with the integration of all vital needs and capabilities into internal economic cycles. The same idea has already been pursued for a long time and used to be called “Full Cooperative”.<sup>20</sup> Full Cooperatives were (utopian) cooperative forms of organization with the mission to satisfy economic interests for their members as completely as possible and, beyond that, to satisfy non-economic life interests (see Hettlage, 1983, p. 198), i.e. also strive for a common way of life as a group. This mission was followed, for example, by Robert Owen as well as by the pioneers in Rochdale from the very beginning, in that as soon as the first steps with a shop had been taken, they began to integrate other economic and living areas into their projects. In Rochdale, the first objectives of 1844 already included a common shop (“consumer cooperative”), common

houses (“housing cooperative”), production facilities for the employment of the unemployed (“production cooperative”), as well as the purchase of land with agricultural production and further steps towards a Full Cooperative, most of which were achieved later but were then lost again for various reasons (Fabricius, 2015; see also Chapter 6, on the history of the United Kingdom for another viewpoint on this).

The idea of Full Cooperatives returned and disappeared regularly in the further development of the cooperative movement. A remarkable example was set up in 1919 as the “Freidorf” (“Free village”), a settlement cooperative in Switzerland, near Basel. The Association of Swiss Consumer Societies (V.S.K.) issued guidelines for this new “Full Cooperative” drafted by Bernhard Jaeggi, a national politician, and Karl Munding, a cooperative scientist. The central design issue of their concept was to define its members as the actual economic space (“household”) that is to be managed jointly (democratically) and according to the cooperative principles (V.S.K., 1922). It therefore makes sense to distinguish a *member or internal* (domestic) economy from an external, in our case today, *market* economy. This is nothing unusual since each company or enterprise distinguishes between internal and external behavior. Within every company, a high grade of cooperation is usually required. So, internally, many large companies have realized a kind of “socialist planning economy” (Phillips and Rozworski, 2019). Market competition and price negotiations apply for the most part only outside the company. This is or was a central characteristic of companies (or firms).<sup>21</sup>

In the case of a cooperative, however, this distinction between internal and external is of much greater relevance, since economic principles deviating from the norm are to be used internally, and the members are normally not bound to the cooperative by a strongly binding employment contract, but by voluntary decision. This leads to very similar arguments in favor of greater member involvement as discussed in Chapter 6.

So a Full Cooperative would strive to go back to the original intrinsically rooted conception of solidarity. Instead of membership,<sup>22</sup> understood in terms of customers (Birchall, 2011), it should be seen as participation, collaboration, and association. Members and cooperatives have to be linked on a mutualistic basis: This means that members, too, must contribute and participate in their cooperative enterprises to maintain a viable organization.

## 6 Description of the model

### 6.1 The new ways of working and sharing

The idea of a Full Cooperative as the basis of a non-capitalist and non-state-dominated economy was always an approach to bring the cooperative idea – as a holistic space connecting producers and consumers – to its full fruition. Within an economy, consumers and producers are dependent on each other. But this dependence is rejected by the prevailing doctrine of the “free market”. Instead, the opposite claim is made that the relationship is one of free choice. But this freedom is illusory and is feigned by the complex division of labor and the mistreatment of money as capital (compare Chapter 2). Such “freedom” does not especially apply to the area of essential goods. A Full Cooperative would recognize and build upon this reality, and a new way of working would include the knowledge about this dependency, which could be summarized as: *We are dependent on others working for us while we work for others who are dependent on us*. Chapter 5 highlights a similar view in the African tradition (ubu-ntu).

As a cooperative is limited in size and possibilities, a two-tier economy is suggested. The first layer would consist of the basic needs of the members, which, as far as possible, would be fulfilled

by internal self-organization within the cooperative and managed financially by an internal currency. The second layer would remain today's world economy with its own national/regular currencies. This distinction would split work into two parts (see also the insider vs. outsider-perspective, Chapter 4, Section 2.2):

Part 1: Domestic economy: internal work for the cooperative remunerated by an internal currency.

This would be a much richer and more distributed kind of work, as each person capable of working would have different jobs, doing community work, agricultural work, and specialized work, all with remuneration in the internal currency;

Part 2: Foreign economy: external work “in the market” or “for the market” to earn additional regular currency. This would be a (part-time) job in the still-existing “market economy”. The earned fiat currency would then be exchanged by the cooperative for internal currency, and the collected fiat currency would allow the cooperative (and its members) to buy products from the foreign economy.<sup>23</sup>

How would value be defined for the internal economy? The central objective of the internal economy is to supply all members with all the basic goods they need by using the collaboration of all members capable of doing so. The determining value is therefore the supply, i.e. each member should receive at least as many currency units as they are likely to spend on their livelihood (see the currency as an operating system, Section 4.2). An anchor value proposed is to standardize the remuneration for an hour of communal work in such a way that someone who contributes a sufficient amount can live on it. This base price then affects all other price ratios and can be kept stable through ongoing readjustment by controlling the currency. In fact, this conception of shared value is outside the common value and price theories and also different from Owen's labor value (see Section 3.2). It would best be located in sufficiency and commons-based value theories emerging in recent years (Gough, 2023) or would draw on the Sraffian model of price determination (Martins, 2018) and would allow (if further elaborated, e.g., Warren, 2023, pp. 67–71) bridging individual and collective common good, shared value in a limited economic area, and price.

The goal of the Full Cooperative would be to maximize Part 1 for all members and minimize Part 2 for the whole cooperative. But of course, it must keep a balance between outer needs like cars, computers, holidays in foreign countries, etc., and inner needs like housing, food, childcare, elderly care, etc.

Such an internal economy for basic needs will be based on a close-knit neighborhood of the members and would have a size big enough to build up the diversity to organize a large part of economic activities internally.<sup>24</sup> Of course, such an inclusive community that provides a new, authentic, and sustainable culture of social togetherness must be developed step by step and needs an in-depth analysis of contemporary social processes<sup>25</sup> and sophisticated governance.

The image of the final situation of a Full Cooperative could be partially compared with Kibbutzim in Israel (Leviatan, 2012; Ben-Ner, 1982) or with Eco-Villages,<sup>26</sup> but unlike them, the idea of a joint settlement is not necessary or particularly aimed at. The central relationships of the members are their economic needs and activities and their corresponding elected affiliation and joint work. For a definition of a Full Cooperative, see Appendix A.

## **6.2 The constitutional framework**

The constitutional framework is a set of principles, policies, or guidelines summarized in a charter or program that contains the basic constitution for an economic community as a Full Cooperative.

This principle-based approach is a long-standing tradition in the cooperative movement, as it was through such declarations that many important elements of cooperative development were shaped by their founders (Rochdale Principles, Raiffeisen Principles, etc.; see also Münkner, 2015). Later they were adapted and made more focused and were collected in the cooperative values and principles of the International Cooperative Alliance (ICA, 2015). However, there were also other more fundamental, though lesser-known suggestions and well-thought-out principles from Peter Kropotkin (1892), Gustav Landauer (1911), or from the already mentioned Jaeggi/Munding (V.S.K., 1922; see Section 5). From these guiding principles, a new, adapted version with 17 points was developed by the author, creating the framework for the formation of Full Cooperatives (see Appendix B).

### ***6.3 The legal and regulatory framework***

As already mentioned, the proposed model might need some changes and adaptations of existing national or international regulations to be fully implementable. This is generally the case for ideas beyond “piecemeal social engineering”.<sup>27</sup> Nevertheless, it is possible to implement a major part of the model within the existing legal and regulatory frameworks in many countries.

The main source of legal uncertainty might be the established taxation system which focuses on heads, private income, and a distrustful economic environment. This contradicts the ideas used in the model, where taxation is seen in the collective distribution of resources and can be raised for the most part directly via the internal monetary system (Warren, 2023). The same can be said of social insurance schemes.<sup>28</sup> However, the application of the existing social security system should be reduced as much as possible, as internal social security will be much cheaper and more direct for members. The goal of the cooperative should be to convince the (at least local) authorities and the surrounding societies of the benefits of cooperative engagement to negotiate favorable taxation.<sup>29</sup> The Basque regulations relating to the Mondragon cooperative could be used here as a blueprint (Aginagalde, 2009). Of course, the question of the chances of help, such as subsidies, investments, grants, and exemptions by the existing system, should be considered in further conceptualization.

Other issues touching the existing laws would be the advanced membership agreement and the implementation of an internal currency desk. Specific reforms would include the following:

- The main requirement to be a member is participation and working engagement, so a legal contract close to a working contract must be concluded which allows a flexible mode of application in different areas of the cooperative entity.
- Members would be provided with housing, social insurance (to a certain degree), and other benefits that would need specific contractual forms.
- Democratic decision-making about all budgets and remunerations would further need specific regulation, (s)election modes, and extra bodies inside the cooperative.
- The currency must be rooted in the statutes as a central instrument of the cooperative work and a currency desk or internal bank must be established. Buying and selling would then be shifted from spontaneous or emotional acts towards a more planned and mature behavior of registration of requirements and ordering (Devine, 1989).

In general, the role of law in the new model would be much more of an integrated approach and would “extend beyond merely regulating and framing cooperatives as a recognized legal form” (Warren, 2023).

#### **6.4 Design aspects of the internal currency**

A key feature of a Full Cooperative is its internal currency. This is a parallel or complementary, non-capitalist, commons-based currency to support the domestic (or member-based) economy. The currency would have restricted convertibility towards the fiat-money (Euro) and optimally be implemented on a blockchain as a cryptocurrency but could also use conventional banking or payment platforms<sup>30</sup> (see Chapter 27).

A first design was developed out of a currency study for housing cooperatives, the *district currency* (Antoniadis et al., 2016; Martignoni, 2018; Martignoni et al., 2018), which could be used as a participation instrument and means of payment, especially for large housing cooperatives and settlements. As a next step, this currency was joined with the Full Cooperative into a specific generic model of an *internal currency* (Martignoni, 2022) which will be outlined next.

The basic functions of the internal currency as an operating system of the cooperative are:

- The remuneration of contributions to and engagement with the cooperative.
- The distribution of adequate purchasing power to all members.
- The management of resources, in particular land, water, energy, housing, production capacities, and investments as resources for the future.
- The maintenance and development of the cooperative as an independent production-consumer entity and living space.
- The ability to re-negotiate and re-value goods and services towards more sustainable, equitable, and just prices.
- The shielding of the cooperative from direct economic access from outside. This would enable intelligent clearing of incoming and outgoing currency flows.

The amount of currency issued, and the valuation (prices) of different services and contributions must be brought into a dynamic balance. The use of computer-based electronic currencies could achieve this. Through such quasi-instant availability of information about all purchases and sales, the internal economy becomes transparent, and the necessary currency supply can be calculated continuously (see also Chapter 32, Section 9).

The main currency flow of the internal currency would be a cyclical flow starting at the currency management desk, which issues new currency following the economic activities of the members and the instructions of the cooperative's "economic piloting assembly".<sup>31</sup> This piloting assembly would analyze all data from sales and purchases, orders, production processes, plantings, weather and temperatures, harvesting, etc., to obtain the most useful information for decisions about feeding and withdrawing the currency into the cycle. The members would get remuneration for all kinds of work, including social and family work. They would then use the currency to buy goods and services from the working units (production facilities) of the cooperative. The ones working there get additional remuneration. The working units are then charged for their use of resources, especially land, real estate e.g. according to the model of a uniform tax (George, 1935), raw materials, and production facilities. Thus, the money flows back to the currency-desk. In some cases, subsidies for investments could be given to the working units. Because the cooperative is the owner of all production capacities, houses, and land, most of the money is returned by "public charges" to the currency management desk as rents, fees, payments for the use of facilities, etc. Therefore, a balanced flow of currency would be possible and the main goal of the management of the Full Cooperative.

## 7 Transformation

The model, as it is developed, now (Martignoni, 2022) could be seen as a holistic fusion of many already existing elements and ideas. The first preconditions for the model of a Full Cooperative to become a serious option for the advancement of existing cooperatives or the building of new ones are questions of the consciousness of the individuals involved or to be addressed. The scenario of a “real utopia” here would be “eroding capitalism” (Wright, 2015, Chapter 4).

If such a transformation or application of the model is tackled, four basic options are given (Martignoni, 2022, p. 352ff.):

- a Start-up: Founding of a Full Cooperative from scratch and gradual expansion until all areas are established.
- b Partial transformation of an existing cooperative: Implementing parts of the model in the extension of the cooperative.
- c Full transformation of an existing cooperative: Implementing stepwise all parts of the model and transforming the cooperative into a Full Cooperative.
- d Association of existing cooperatives: Amalgamation of cooperatives of various types, initially through a common currency and later into a closed or merged association or single Full Cooperative.

Inspiration for the realization could also be the Kibbutzim as an outcome of the settlement idea of full cooperatives in the 19th century (Ben-Ner, 1982; Martignoni, 2022, p. 157ff.). They are maybe still the closest successful application of a full-cooperative model. The main differences in the model presented here are:

- The Full Cooperative is not bound to a (new) settlement but fits perfectly in an urban area by using the same strategy as regular companies, renting or buying houses, land, and production facilities as needed (maybe scattered over a certain area).
- The Full Cooperative would have a much more elaborate organizational and governance system, opening spaces for different sub-groups and different engagement and needs of individuals.
- The Full Cooperative would link its economic activities by an internal currency, therefore keeping a highly professional system of accounting and planning and a strong protection for internal values.
- This outline of a new form of cooperative with an internal currency indicates a direction in which the economic intention of a cooperative, namely the comprehensive and efficient supply of members, must be further developed and integrated.

## 8 Summary

This article discusses a new cooperative model called *Full Cooperative*, which includes the knowledge of the importance of the monetary system for a cooperative economy. The Full Cooperative model proposes the following:

- An internal currency issued and managed by the cooperative to remunerate member contributions and distribute purchasing power fairly.
- The internal currency would be designed to reflect the cooperative’s goals of sustainability, equity and fair pricing. It would act as an “operating system” to coordinate and distribute resources.

- A split between an internal member economy and the external market economy. Members would work part-time in the market economy to earn regular currency to exchange for the internal currency.
- The goal of maximizing work within the cooperative's internal member economy to meet members' basic needs, while minimizing work in the external market economy.
- The Full Cooperative would require members to actively contribute and participate to sustain the internal cooperative economy.

The author argues that an internal currency and the Full Cooperative model could help correct the incompatible incentives created by the mainstream monetary system and allow cooperatives to better achieve their goals. The model is intended to provide a wide range of ideas and feed a discussion about an integral, differently structured common economy, which should, without a doubt, be the core of the cooperative model. However, legal and regulatory changes would likely be needed to fully implement the model.

However, research on this topic is still very remote and needs to be intensified. Additionally, the aspects of management and leadership, basic services, member participation, and the feasible gradual development of such a large organization, would need to be investigated further.

### Notes

- 1 One such example was the German Consumer Cooperative, which partially transformed into a Ltd. in 1972 (Coop AG) and went bankrupt 1989 (see [https://de.wikipedia.org/wiki/Co\\_op\\_AG](https://de.wikipedia.org/wiki/Co_op_AG), accessed 05.12.2023).
- 2 The widespread textbook by N. Gregory Mankiw, for example, explains money creation incorrectly and treats it as a minor matter, which has a massive impact on the concepts of banking and finance and on economic theory itself (Di Muzio and Noble, 2017).
- 3 "The concept of money as the incarnation and purest expression of the concept of economic value" (Simmel, 2004, p. 99).
- 4 The American Populist movement of the late 1900s – has important things in common with the Cooperative movement – did specifically include monetary innovations that increased popular access, particularly for farmers (Goodwyn, 1978).
- 5 This was the great insight of Henry George, who revealed "the real functions of capital" (George, 1935, Chapter V.).
- 6 The American Populist movement of the late 1900s – has important things in common with the Cooperative movement – did specifically include monetary innovations that increased popular access, particularly for farmers (Goodwyn, 1978).
- 7 Capital is used here traditionally, meaning land and natural resources, labor, and manufactured capital especially production facilities.
- 8 Another indicator is the rent of apartments in housing cooperatives (cost-based rent) versus privately owned apartments (speculation-based rent) in cities like Zurich: The cooperatives are 20%–30% cheaper.
- 9 For example, interest on loans to a housing cooperative would be much lower when real costs were be calculated.
- 10 In the city of Zurich, it is almost impossible for housing cooperatives to acquire land for more houses because land prices are extremely high and private investors have almost unlimited financial resources.
- 11 For example, Principle 3 of the Cooperative principles (ICA, 2015), Member Economic Participation, is severely affected when members do not receive enough income due to misdistribution, and Principle 4 (Autonomy and Independence) is affected by the possibility of intervention by money from outside at any time.
- 12 The classical "definition of money" lists three or sometimes four functions: medium of exchange, store of value, unit of account, and means of (unilateral) payment (Ingham, 2004, p. 3).
- 13 For corresponding sources and references see Arestis and Sawyer (2006) or Martignoni (2022).
- 14 This concept overlaps but is not congruent with Zelizer's concept of "Special Monies", which identifies different sub-groups within the same currency. The idea that money can also act as a separate currency

- (“complementary currency”) in much smaller areas and with a defined purpose has only recently been seriously investigated. One of the main authors on this topic was Bernard Lietaer with his book *The Future of Money* (2001).
- 15 “Operating system (OS), program that manages a computer’s resources, especially the allocation of those resources among other programs”, <https://www.britannica.com/technology/operating-system> (accessed 06.12.2023).
  - 16 This view is, for example, used in Friedman and Schwartz (2008).
  - 17 German original text: «...dass es kein Geld und keine Zahlung gibt, solange es keine Zahlgemeinschaft gibt; dass keine Zahlgemeinschaft denkbar ist, solange nicht auch die Produktions- und Konsumgemeinschaft ins Leben getreten ist.».
  - 18 German original text: «Die Beteiligungsmöglichkeit am Sozialprodukt ist die von der Gemeinschaftsorganisation ihrem einzelnen Mitglieder gewährte Gegenleistung für seine Mitarbeit am Sozialprodukt».
  - 19 Definition from <https://www.ica.coop/en/cooperatives/cooperative-identity>, accessed 05.12.23.
  - 20 This term is a translation from German “Vollgenossenschaft” and is not really anchored in international English. Already the translator of Martin Buber’s “Paths in Utopia” mentioned this as a literal translation since no equivalent term was to be found in the English authorities (Buber, 1958, p. 80).
  - 21 In the meantime, there have been approaches to challenge this and introduce internal markets, especially within very large companies and multinationals. However, despite bold announcements like Malone’s “The future of work” (2005), it remains an area of limited extent. This would also support the failure of the traditional economic model as tackled in Warren, 2023, p. 74f.
  - 22 Taking the assumption that membership is the state of belonging to an organization or an agreement by which someone joins an organization.
  - 23 Some interesting parallels could be drawn to the situation in Cuba (Posada, 2011; Andersson and Ekeström, 2011), but the differences would be in the much smaller size of a Full Cooperative and in the voluntary membership, which would incentivize people differently in the use of the second currency.
  - 24 A Full Cooperative in a matured state might need 50,000– 100,000 members (based on initial economic estimations by the author).
  - 25 Social processes such as cooperation, accommodation, assimilation, or competition (Bardis, 1979).
  - 26 “An ecovillage is an intentional, traditional or urban community that is consciously designed through locally owned participatory processes in all four dimensions of sustainability (social, cultural, ecological, and economic) to regenerate social and natural environments.” <https://ecovillage.org/ecovillages/what-is-an-ecovillage/> (accessed, 07.12.2023).
  - 27 The matter of law and utopia has been widely discussed; see e.g., Avilés (2003).
  - 28 This is, for instance, the case for Mondragon, which has a private social insurance cooperative, Lagun Aro, see <https://www.seguros lagunaro.com> (accessed 28.02.2024).
  - 29 Examples of this include people like Luigi Luzzati, former finance minister of Italy (1910/1911), who promoted cooperatives, including cooperative banks, as a form of (especially rural) economic development (Ammirato, 1994).
  - 30 For complementary currency systems, the platform Cyclos is used widely (see <https://www.cyclos.org/>, accessed 29.02.2024).
  - 31 The first version was called District Currency and had some slightly different terminology (Martignoni, 2018).

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# APPENDIX A

## Proposal for a definition of a full cooperative

(translation from Martignoni, 2022, p. 262)

A full cooperative according to the new model is an economic community with the claim to cover the individual and communal consumption and the economic needs of its members as completely as possible (“fully”) from the fair distribution of the common work and the resulting production of goods, services, and contributions. To this end, it organizes and forms itself as a community with voluntary membership, democratic participation, and obligatory co-responsibility and cooperation. It uses an internal currency to protect and promote meaningful and sustainable cooperation. As a collective, it procures the necessary resources and means of production as well as all other facilities that its members need to lead a self-determined, dignified, and fulfilling life. In active exchange, it is part of a larger federation of other full cooperatives.

# APPENDIX B

## The 17 principles of a full cooperative (proposal)

(translation from Martignoni, 2022, pp. 257–260)

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*No Guiding principle*

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- 1 Economy (economics) is household management. The household is the whole earth.
  - 2 The members of the household are all living beings; humans, animals, and plants.
  - 3 Good housekeeping (i.e. economy) is when all members have both an appropriate place and sufficient resources to live in dignity according to their species, and when all can contribute to the care of others according to their strengths and possibilities. The best possible cooperation is the way to achieve these goals.
  - 4 The primacy of reflected needs over production is the starting point of the economy and the fulfillment of the basic needs of all is the first objective of the economy.
  - 5 The basic form of the concrete economy is the federation of independently operating economic communities, linked to each other in justice, consisting of people who work together in alert, lively cooperation.
  - 6 The basic organization is the full cooperative as a self-contained economic community of appropriate and manageable size, which administers itself in a simple manner and, following federalist association bodies, operates the most comprehensive self-sufficiency possible. The basic principle of the organization is the combined (integrated) consideration of consumption, production, and compensation.
  - 7 The full cooperative comprises all people who wish to belong to it voluntarily and are prepared to both contribute to the community and be supported by it. There is a free choice of contract and membership. The decision is to make a voluntary commitment in favor of the community in return for the assurance that the community will cover ones needs.
  - 8 The members are all equal and are required to use their knowledge and skills purposefully within the framework of the economy for the common good. They are given full scope for responsible individual initiative.
  - 9 Money in the form of a internal currency is an important means of optimally organizing cooperation and the dynamic, cyclical balancing of the full cooperative in accordance with these principles. The appropriate relationship between the external economy in the existing “state” monetary system and the domestic economy with its internal currency is achieved by carefully organizing the flows of money.
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*(Continued)*

(Continued)

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*No Guiding principle*

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- 10 The full cooperative strives for a democratically oriented form of organization that takes into account the decisive importance of the genuinely cooperative and generally truly social principle of close relationships in all things. It promotes the intensive participation and involvement of members in supply, production, care work, capital formation, control and administration.
  - 11 The full cooperative promotes within itself circles of culture and encounters that are shaped into centers of noble, intellectual intercourse and educational efforts. In a common space and in cooperative relationships, the members shall get to know each other personally and, in a permanent connection with mutual influence and stimulation, create a common, effective, and comprehensive cooperative education and culture.
  - 12 The full cooperative shall be a model of justice and joyful work, not a means to an end.
  - 13 The full cooperative procures and secures all necessary resources and means of production peacefully through rent, lease, purchase, donation, transfer, voluntary assignment or similar fair procedures. It uses and manages these together with its members in a sustainable, long-term manner.
  - 14 In the full cooperative, a meaningful level of division of labor is sought, which promotes a reconnection of physical and mental labor through more diverse, more holistic and thus more productive work organization. To this end, industrial production is largely decentralized and organized on a smaller scale and agriculture is once again polyculturalized in the sense of natural diversity and the participation of as many members as possible.
  - 15 As a “federation of voluntariness”, the full cooperative aims to develop a new kind of living community, which in turn can enter into closer relations with neighboring groups as a whole in order to increase its strength, so that over time the relationship of federalist cooperation emerges.
  - 16 The full cooperative and its federation constantly work against the tendency towards uniformity and centralization, promote learning at all levels and continuously develop its manifestation.
  - 17 Anyone or everyone that wish to work under different conditions or with a different focus is free to found new full cooperatives. However, they may only call themselves a full cooperative if they recognize and integrate these principles approved by the federation.
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# NON-FINANCIAL COOPERATIVES THROUGH THE LENS OF FINANCE

Why should they differ from non-cooperatives?

*Daniela Venanzi*

## 1 Introduction

Finance for non-financial cooperatives is a quite neglected topic in international literature (but the literature on cooperative banks is richer: see Venanzi-Matteucci [2021] for a recent review). Perhaps, an ideological perspective could be the reason: finance is often considered the dark side of capitalism (Palley [2007; 2013]; see Scarano [2023] for a review of a post-Keynesian view on this topic), overtaking real economy by devouring resources, risky and distributionally unequal, oriented to enhance personal capitalists/investors' benefits, emphasizing individualism, self-assertion, competition, and the ultimate cause of crises and defaults. On the other side, cooperative economics ground on sustainability, mutual support, collaboration, and in-group solidarity, superiority of community over individuals/groups. According to the theory of cultural value orientations (Hofstede, 1980; Schwartz, 2006), the first is a symbol of mastery attitude as dominant culture variable, the latter of embeddedness/harmony. However, finance is not bad or good per se: from a normal perspective (once the financial excesses are cleared away: Venanzi, 2012) finance is instrumental to production decisions (and in general to the economic growth), by providing financial resources and supporting better decisions in their utilization, in terms of efficiency and effectiveness. According to Nobel prize-winning economist Robert Shiller (2012), finance, far from being a parasite on society, is one of the most powerful tools we have for solving our common problems and increasing the general well-being.

In addition, the studies that discuss this topic (mainly regarding agri-food industry) often omit references to modern financial theory, which is tailored to large corporations, although the comparison between financial decisions of corporations and those of cooperatives could be a fruitful approach to highlight the distinctive characteristics of cooperatives and to trigger the development of a wider extended financial theory.

This chapter tries to contribute to this field. However, two limits of this comparison need to be preliminarily highlighted: (i) cooperatives widely differ from each other in constitution, scope, and business organization; with regard to organizational form and objectives, cooperatives may show as much variation as we find between cooperatives and investor-owned firms (IOFs): therefore, comparing generally defined cooperatives with non-cooperatives could be a particularly tough and potentially biased task; (ii) traditional cooperatives (in many industries) introduced different

organizational innovations, for example, new-generation cooperatives, partnership of limited liability company cooperatives, and equity-seeking joint ventures.

Here the analysis refers to a traditional cooperative, characterized by ownership restricted to members, open membership, redeemability of non-transformed residual claims, benefits only to patrons, a favourable tax regime, and “one member, one vote” principle: so, it is not generalizable to all cooperatives and suffers from limits above.

## **2 Why should cooperatives differ under the financial perspective?**

The first perspective to assume regards the objectives of cooperatives (Sosnick, 1960; Garoyan, 1983; Staatz, 1983, 1989; Cook et al., 2004). When a cooperative is considered as an independent firm or a sort of vertical integration of otherwise autonomous firms (for example, in cooperatives that produce/sell with input supplied by cooperative members), a single-objective cooperative is assumed, while the cooperative as a coalition of firms assumes multiple objectives. Soboh et al. (2009) present/discuss an overview of the studies and the objectives of the cooperatives as suggested by the different studies and try to summarize the different objectives corresponding to the different views.

Synthetically, the views of the cooperative as an independent firm or as a variant of it, consider the cooperative as a firm managed by entrepreneurs who seek to achieve the cooperatives’ single objective, discarding members’ objectives in the decision-making process. In the first perspective, the goal of the cooperative is profit maximization: therefore, the cooperative’s profit is the main performance indicator, members’ objectives are ignored, and the price paid for their product is considered as an additional variable cost. When a variant of an independent firm is emphasized, there are three possible objectives and related performance indicators: (i) maximizing the joint profit represented by the total profits of both the cooperative and member firms; (ii) maximizing the return to patronage, which is equivalent to maximizing the dividend to the members; (iii) maximizing output (turnover): the focus is on processing as much product as members optimally produce and having the capacity to anticipate the potential increase in the supply of raw material; obviously, this objective is subject to the constraint that sufficient return is made in order to pay out the total costs. In the vertical integration view, the objective is to maximize members return (patronage refund) per unit of input after paying the highest possible price for members’ products in comparison with prices paid by other firms in the industry. The performance indicators in this case are both prices paid to members and the return on patronage that they receive at the end of the accounting year.

Finally, the last view of the cooperative as a coalition of firms is basically assigning multiple objectives to the cooperative. The coalition can be formed between firms such as: heterogeneous member groups, managers, non-member customers, and non-member shareholders, in which each firm has its own objective. The objective of the different groups can be conflicting, in which a compromise decision will be reached as a result of bargaining processes. Therefore, the decision-making unit is assumed to consist of many parties within the cooperative. The business relationship among the various stakeholders of the cooperative can be organized either via a set of explicit and implicit contracts or a settlement of bargaining processes using game-theoretical approaches. Constructing a formal model for such a cooperative and subsequently finding appropriate performance measures is not only problematic but also requires strong assumptions to define the different sides (and their objectives) and their relations to each other.

This distinction obviously affects how to measure the performance of cooperatives vis-à-vis non-cooperatives (see Section 3).

However, other specific features of a cooperative could impact financial decision-making, synthetically, the following: (i) risk aversion; (ii) tax advantage; (iii) capital constraints deriving from

ownership structure; (iv) private (non-listed) firms; (v) agency problems rising from potential opportunistic behaviours by members; (vi) size. Some studies prove that cooperatives are larger than IOFs in the same industry (Oustapassidis et al., 1998; Soboh et al., 2011; Li et al., 2015): this evidence is based on the fact that cooperatives are less flexible in determining the optimal firm size than IOFs, i.e., producer cooperatives have to process the volume of input delivered by their members. However, this evidence is not definitive and depends on industry and country: many studies, in fact, refer to cooperatives in many industries (especially in the tertiary sector) as small firms and explain the more intensive presence of cooperatives in more fragmented industries as a mean for aggregating single small firms in larger and stronger entities. It is important that when comparing cooperatives with IOFs, the assumed size difference should be considered, since firm size can affect the financial variables that distinguish cooperatives from IOFs, otherwise the empirical findings could be distorted.

In the next sections the impact of these specific features on financial decisions/analyses is discussed.

### **3 Financial performance of cooperatives and its components**

Empirical studies on performance of cooperatives should distinguish comparisons and performance indicators with respect to the different perspectives and the corresponding objectives. However, this approach is not frequent. The most international empirical studies on the performance measurement of cooperatives prevalently view them as profit-maximizing firms or a variant of this view and use financial ratios, not relying on potentially different objectives.<sup>1</sup> Soboh et al. (2009) present an ample review of international empirical studies on the performance of the cooperatives in various industries and countries, using different methodologies.

In general, the analysis of financial indicators utilizes the following DuPont identity (the more extended version), i.e. an algebraic expression that decomposes ROE (return on equity = net income on equity ratio) in five separate components (or variants of the model, less articulated: see Grashuis, 2017): the operating profit margin, the asset turnover ratio, the equity multiplier, the tax advantage ratio, and the interest ratio that respectively proxy efficiency (i.e., the ability to control the cost incurred in the revenue generation process), capital productivity (i.e., the efficiency of asset utilization), leverage (both in terms of indebtedness ratio and related incidence of interest costs), and the impact of taxes (EBT is the earnings before taxes, while EBIT is the earnings before interest and taxes):

$$ROE = \frac{\text{Net Income}}{\text{EBT}} \times \frac{\text{EBT}}{\text{EBIT}} \times \frac{\text{EBIT}}{\text{Sales}} \times \frac{\text{Sales}}{\text{Assets}} \times \frac{\text{Assets}}{\text{Equity}}$$

In general, empirical studies measure the impacts on ROE of the different components and therefore analyze its sensibility to them, both in samples of cooperatives and in comparisons between cooperatives and non-cooperatives sub-samples.

From the methodology standpoint, empirical studies that use logit/probit analysis (the likelihood of being cooperative is expressed as a linear relationship with the independent variables) (Soboh et al., 2011) are more robust than the descriptive analysis of average values (and their statistically significant differences with respect to non-cooperatives). In interpreting empirical findings, some studies omit consideration of the interdependence among the independent variables (for example, the impact of leverage on ROE depends on both indebtedness and interest costs) or to appropriately explicit the effect of control variables as size (Li et al., 2015) (if firm size impacts on profitability,

comparison should be between cooperatives and non-cooperatives samples that are homogeneous from the size perspective), industry and country: impacts are often industry- and country-specific (for example, in terms of taxes and accounting rules or any other influential factor) and including sector and country dummies might be insufficient. When ROE distribution is very heterogeneous, quantile regression (Grashius, 2017) gives more robust findings.

Since the emerging empirical evidence is very mixed and not generalizable, it is more interesting to discuss which indicators should differ in cooperatives and why, rather than reviewing the findings of empirical literature in this field (Soboh et al., 2009; Soboh et al., 2011).

With respect to profitability, cooperatives are not generally considered to be maximizers of return on capital investments. The owners of the cooperatives, contrary to the owners of the IOFs, are not mainly interested in the return on their investment but in other services/benefits provided by the cooperatives to their members. Consequently, cooperatives are expected to have a lower profitability than IOFs, due to higher material/labour costs (for inputs provided by member suppliers or workers) or lower revenues (for better selling conditions to member customers): these expectations have a strong empirical support, across different industries and countries.

Efficiency ratios refer to the efficiency of equity capital, assets, and working capital in terms of the production or sales size. Asset turnover, an example of an efficiency ratio, indicates the efficiency of the firm's assets in terms of the total turnover. With respect to operational efficiency, as measured by utilization of assets to generate revenue, some studies (Lerman-Parliament, 1990; Soboh et al., 2009) argue that cooperatives have the tendency to overinvest to form a greater asset base than that of IOFs. This is because cooperatives may treat their own equity as costless funds, without acknowledging their opportunity cost. Undervaluing the cost of equity may lead to overinvestments, resulting in a lower utilization of assets by cooperatives rather than IOFs. These aspects suggest that cooperatives have higher yearly equity growth than IOFs. However, the overinvestment can not only be in fixed assets, but it can also affect current assets, resulting in a higher level of inventories.

With respect to capital financing, cooperatives are usually viewed as equity-bound firms, suggesting that members' equity, in principle, is the only source of capital financing. Therefore, cooperatives may need to rely more on debt financing than IOFs to finance their activities and sustain a comparable growth rate. An additional factor is their attitude towards risk. The cooperative's principle of risk sharing, and mutual responsibility may provide an incentive to decision-makers of cooperatives to accept higher levels of risk rather than what the managers of IOFs would accept. Copeland and Weston (1988) argued that cooperatives have a higher level of debt because of the risk of bankruptcy. However, the nature of cooperative members could justify a higher risk aversion: they face total risk, not only systematic. Section 5 below discusses the relevant drivers of capital structure choice in cooperatives.

European cooperatives are generally not publicly traded, nor are they open for non-members' investment. The nature of the allocated and unallocated equity, in addition to the slow redemption process, leads to the conclusion that cooperatives have a higher growth in their general reserves and other non-issued equity base.

Therefore, theoretical conclusions as well as empirical findings are not univocal as far as leverage is concerned (see Section 5 for an in-depth analysis).

Solvency ratios refer to the ability of a firm to meet its long-term fixed expenses and debts and to accomplish long-term expansion and growth. Studies argue that, given that cooperatives have the tendency to use more debt than IOFs, the expectation is that cooperative's solvency is lower than the solvency of IOFs. A low solvency level implies that the cooperatives would have a higher likelihood of default on debt service payments, and higher prospects of bankruptcy than IOFs.

However, a higher risk aversion of cooperative members could suggest maintaining indebtedness within a solvency range. Liquidity ratios refer to the ability of the firm to meet its short-term liabilities and to quickly convert an asset into cash. For the same reasons as the solvency ratios, traditional cooperatives are expected to have lower liquidity ratios than IOFs.

Some minor studies analyze the technical and cost efficiency of cooperatives, often by utilizing different tools such as Data Envelopment Analysis and Stochastic Frontier Analysis.

Soboh et al. (2009) summarize the main expected results assumed in the literature as follows:

- cooperatives are perceived as inferior organizations due to monitoring, horizon, common property, non-transferability, and control problems. They might be less technically efficient mainly due to the higher cost to control the many principals of the cooperative. Moreover, cooperatives are argued to be less able to allocate efficiently due to the horizon problem (i.e., the lack of the property right that allows the member to sell his ownership share upon leaving the cooperative). This can cause the cooperative to under-utilize capital;
- cooperatives can also be scale inefficient due to the rapidly increasing cost to control large numbers of members, which prevents it from achieving a scale-efficient operation;
- other researchers view cooperatives as advantageous due to their goal alignment with members giving the cooperative an informational advantage in case altruism is present; also, due to lower agency costs, cooperatives have an operational advantage in economic conditions marked by lower returns.

Also in this case, empirical findings are neither univocal nor conclusive.

#### **4 Growth through M&As**

Numerous theoretical and empirical studies have been conducted in recent decades to analyze mergers and acquisitions (M&As) in terms of the underlying rationale and expected objectives (Melia-Martí and Martínez-García, 2010). Many studies have also been conducted on the effect of merger processes on the profitability or efficiency of the entities involved through the use of different methodologies.

Merger processes have had a relevant impact on cooperatives in many industries, as for example in agri-food and large-scale retail distribution, in different parts of the world as well as in European countries (for example, Denmark, the Netherlands, and Ireland in the agri-food industry; in Spain, concentration was promoted by government as a solution to the atomization problems of Spanish agri-food coops: see Melia-Martí and Martínez-García, 2015). The main need seems to be further strengthen bargaining power as well as to gain economies of scope in R&D and branding. In Europe, mergers have mostly been between cooperatives belonging to the same country, although there have been a few cases of cross-border unions.

However, although a large number of authors consider growth to be essential for the survival of the sector and for better financial performance, the relationship between size and business performance has rarely been proved. Studies on agri-food cooperatives (McKee, 2008) have mainly concluded that there is no statistically significant relationship between profits and efficiency on one hand and cooperative size on the other.

Merger theories are commonly classified into two groups: value-enhancing and non-value-enhancing theories. The former state that the primary aim of mergers is to maximize the firm's value (Salter-Weinhold, 1979; Seth, 1990) and assume that there will be a financial gain for shareholders in acquiring another firm (Halpern, 1983). The market for corporate control and synergy theories belong to this category.

Non-value-enhancing theories include the agency and managerial theories and indicate that managers and shareholders have different interests and motives and that managers may act in their own interest at the expense of shareholders (Mueller, 1969; Walsh-Seward, 1990; Roll, 1986).

The efficiency theory, based on value-enhancing theories, is the dominant theory in explaining mergers. Synergy moves managers to look for economic gains in the interest of shareholders. Synergy occurs when two firms run more efficiently (through cost reductions) or effectively (through better allocation of scarce resources) than separately (Sharma-Ho, 2002). Some of these gains come from the restructuring of business activity. For example, mergers are an opportunity for making structural changes in order to reduce costs and increase efficiency, such as redeploying staff and closing, restructuring, or replacing production plants or processes, etc.

However, there is still no consensus on whether mergers contribute to a real improvement of a company's performance given the varying results of these studies: despite the fact that mergers galvanize growth in activity for these firms, existing studies suggest that, in general, there does not seem to be any clear improvement in the post-merger situation of the acquiring or resulting organization, as most economic indicators suggest a very small or nonexistent improvement (Kumar, 2009).

Studies that explore the effect of a merger on share prices have had varying results. Some leading studies found empirical evidence that target-firm shareholders enjoy positive returns following a takeover announcement (Jensen-Ruback, 1983; Brickley et al., 1988), unlike those of the acquiring firms, which showed negative returns (Langetieg, 1978; Limmack, 1991; Eckbo, 2008) or invariable returns (Frank et al., 1991). Operating performance studies analyze the results of mergers using economic and financial information through the application of ratios of differing significance. However, their results vary and there is still no consensus on whether mergers contribute to an improvement in the enterprises' performance, measured in most cases through cash flow or profitability. Some of them find significant improvements in operating performance after the merger (Healy et al., 1992; Manson et al., 2000; Rahman-Limmark, 2004). Others do not find significant post-acquisition improvements or even evidence of decline (Ravenscraft-Scherer 1987; Clark-Ofek, 1994; Sharma-Ho, 2002; Kumar, 2009).

An important question in this field is to analyze if M&As among cooperatives have some specific reasons/objectives to be undertaken. Richards and Manfredo (2003a, 2003b) found that capital constraints are the most significant factor motivating agricultural cooperatives to involve in mergers, acquisitions, joint ventures, and strategic alliances, and that successful transactions tend to increase cooperative sales growth (not market power) at the expense of profitability. On the other hand, they describe the profile of a consolidation cooperative as efficient, minimally leveraged, and less liquid than the average. A 2000 survey conducted on US 500 agricultural cooperatives showed that reducing costs through reducing duplicated personnel is the most common motivation, followed by increasing the scale (size) of the cooperatives to remain competitive and cover increasing fixed operating costs; financial constraints are not a common motivation, in disagreement with the findings of Richards and Manfredo (2003). Vandeburg et al. (2000) identified as the most important driving forces for mergers and acquisitions in agricultural cooperatives in the United States the following: increased number of farms, increased costs, reduced profits, increased competition, and industrialization of agriculture. Another relevant objective could be business diversification: since cooperatives' owners are non-diversified investors, firm-level diversification positively impacts on cost of capital, by reducing risk and enhancing firm value; in addition, it might enhance debt capacity, by reducing credit risk and default probability.

We can derive some insights about this question by analysing what the pre-merger financial characteristics of the merging cooperatives are, when compared with other enterprises in the same industry, better by distinguishing between the different profiles of the cooperatives involved: acquiring and acquired cooperatives in acquisition mergers and involved cooperatives in mergers that result in a new entity formation. The financial stability of cooperatives involved in mergers is a key factor in the success of the operation as it has the immediate effect of increasing both their own resources and liquidity. As regards their pre-merger financial situation, some studies claim that more liquid and less leveraged cooperatives are more likely to merge, acquire, or form joint ventures (Melia-Martí and Martínez-García, 2015).

Relative size could be a factor that determines whether a cooperative is acquired or an acquirer in a merger: acquirers usually have a relative size greater than those acquired (Ravenscraft-Scherer, 1987; Bruton et al., 1994; Larsson-Finkelstein, 1999) and above the sector average. On the other hand, their fixed assets/turnover ratio is much higher than average in the sector, significantly for both acquiring and acquired cooperatives. The high level of fixed assets/turnover of entities before merging has been shown to exist in studies carried out on different industries. The high fixed assets/turnover ratios lead us to think that restructuring assets may be one of the ways open to the cooperatives to obtain synergies by reducing their fixed costs. Indeed, the sharing of resources as a result of a merger involves the combination and rationalization of certain operative assets of the two companies, leading to a decrease in costs due to economies of scale and scope, one of the potential sources of synergy in merger being the lower fixed costs through better utilization of fixed assets.

On the other hand, in all cases of cooperatives that have taken part in mergers, they show a lower capacity to generate an operating profit ratio than the sector. In addition, acquired cooperatives show a return for members (in both patronage dividends and in the percentage of turnover destined to buying products, including from their members, who are the cooperatives' main suppliers) lower than the sector average. The reduced profitability could be due to either reduced earnings, proportionally excessive costs, or to both. However, turnover is significantly lower than the sector average and the fixed assets/turnover ratio is significantly higher, a symptom of an oversized fixed structure as compared with the sector average.

One of the objectives considered in a merger could be the desire to increase the members' earnings. In fact, some studies point out that in cross-border mergers of agricultural cooperatives, the members' main interest is the price that they get for the agricultural produce when selling it to their cooperative or to other processing firms. The members do not care about how the market value of the cooperative is affected by an eventual merger, since the shares that the members own in the cooperative are not tradable/appreciable. Melia-Martí and Martínez-García (2015) show that when one cooperative acquires another, liquidity, business size, and return on assets are the most important economic-financial factors in determining the cooperatives' role. In an acquisition merger, the probability of being acquired rises with liquidity and falls with higher turnover.

## **5 The choice of capital structure**

The different factors that can influence the capital structure choice of cooperatives compared with non-cooperatives are synthetically identified here, by discussing the main theories on capital structure in light of the specific features of cooperatives (Chen-Katchova, 2019).

Capital structure studies in modern finance include two prevalent theories: the trade-off theory (integrated with agency costs and benefits of debt) and the pecking order theory. The trade-off

theory claims that the firm's optimal debt ratio results from trading off the benefits and costs of an additional euro of debt and that firms will gradually adjust their debt ratio to the optimal level to maximize the value of assets. Benefits of debt include:

- interests that is deductible from the corporate taxes (Modigliani-Miller, 1963). Cooperatives, however, should have an incentive to utilize equity capital in lieu of debt due to the differential tax treatment of profits in cooperatives. Profits in an IOF are taxed at the corporate level and any profits passed to owners through stock dividends are taxed again at the individual level. Most profits in a cooperative are taxed only once – at the cooperative level or member level – or never, depending on profits are distributed or accumulated. Trade-off theory of capital structure implies that the reduced taxation of earnings decreases the incentive for cooperatives to maximize debt financing as compared with IOFs, particularly when members and management do not assign the appropriate value or cost to equity;
- less cash flow problems (Jensen, 1986; Lang et al., 1991), and allowing for the option to liquidate (Harris-Raviv, 1990). Under the free cash flow hypothesis of Jensen (1986), the challenges associated with the monitoring of internal generated cashflow has the potential to induce sub-optimal and reckless investments only beneficial to management at the expense of shareholder. Hence, the inclusion of external finance in the form of leverage has the potential to mitigate the free cash problem. However, in the case of cooperatives, the owner-manager separation is weak, therefore the agency benefits of debt (related to its disciplining role on managerial decisions) are less relevant. However, if we consider the potential opportunistic behaviours of members (see Chapter 15 on passive owners), the disciplining role of debt could be relevant. In fact, the institutional setting of cooperatives (i.e., weak proprietary rights, dominated by one-person-one-vote principle, and limits to profits distribution), could favour opportunistic behaviours from members (Iliopoulos, 2003; Kalogeras, et al., 2009), such as the following: (i) the maximization of individual profit opportunities at the expense of the cooperative organization (i.e., arbitrage in selling raw materials on the market or conferring to the cooperative; lack of minimum quality levels of conferred inputs, when the cooperative purchase is guaranteed, as well as slack in provided working resources, etc.); (ii) unwillingness to provide sufficient equity (directly, or indirectly through renounced profits) to self-finance the cooperative; (iii) free riding behaviours to the detriment of organizations/other members. On the other hand, however, members of a cooperative do not expect a direct appreciation of their equity investment as investors in IOFs do (as noted above, cooperatives are more often non-listed companies), so managers may treat this portion of equity as a costless source of capital and members' incentive to monitor management's use of it may be weaker, leading both to ignore the opportunity costs of capital.

Disadvantages of debt consist of potential costs of financial distress (Kim, 1978) and agency costs arising from the monitoring costs and repayments risk that the lender transfers to the borrowers (Jensen-Meckling, 1976; Myers, 1977). According to the user-owner principle, cooperative managers may view the cooperative principle of risk sharing and mutual responsibility as an insurance policy, prompting them to assume more risk and borrow more heavily than managers of IOFs. From the supply perspective, however, the user-owner principle creates an implied obligation to return a cooperative's profits to members via equity redemption. Lenders may not consider cooperative equity to be as secure as equity in IOFs, since there is an expectation for cooperatives to eventually redeem in cash the equity held by their members (Chen-Katchova, 2019). On the other hand, however, risk aversion should be considered. Cooperative owners are non-diversified investors: differently from passive investors of large and listed IOFs, they invest capital, human assets, and

reputation in their cooperatives and so they are more averse to risk since they face the total risk and not just the systematic/undiversifiable one; their benefits also derive from non-monetary factors as self-esteem, control power, job preservation, etc. Therefore they aim at reducing risk and eliminating risk-shifting behaviours, that generate agency costs of debt, rather than maximizing equity value. In this vein, cooperatives could be seen not dissimilarly from small entrepreneurial/family firms in their view of firm as “a purpose in life” (Becattini, 2001).

The pecking order theory (POH) of capital structure is another influential capital structure theory. In contrast to the trade-off theory, Myers and Majluf (1984) suggested that firms do not have a target capital structure. Instead, firms’ choices of capital structure are driven by their preference among different sources of funds due to adverse selection in the financial markets when asymmetric information is present. Because of transactions costs when issuing new securities, firms are also facing information costs because the capital market would recognize the issuing of equity as a negative sign, resulting in the firm equity to be undervalued.

Based on pecking order strategy, there are three sources of funding available to firms: retained earnings, debt, and equity. The POH predicts a hierarchical order in firm financial policies: internal funds are the most preferred sources of financing, followed by lower risk debt financing only if internal funds become insufficient, with equity financing being the last choice.

However, considering that cooperatives are rarely listed companies, the stewardship theory of Donaldson (1961 and 1984) seems to be more appropriate to theoretically explain the POH rather than the Myers–Majluf approach (since the effects on stock prices are irrelevant):

- the user–owner principle makes the external equity access constrained. This principle not only limits the potential pool of investors – those who contribute equity to the business must also patronize the business – but also limits the rate at which equity can be acquired. In a cooperative, equity is built through the allocation and retention of the cooperative’s profits to its members. “Cooperative equity accumulation is further challenged considering that members’ equity in a traditional cooperative is non-marketable, non-transferable, and its stated value does not appreciate through changes in market values” (Li et al., 2015). Finally, illiquidity of members’ equity creates a horizon problem. Older members who may soon retire have little business incentive to support investments in long-term projects when the benefits from the investment will accrue to those who use the cooperative in the future;
- the growth purpose is consistent with the cooperative objective to maximize the utilization of inputs provided by members: self-financed growth (i.e., through retained earnings) combined with safe debt (i.e., highly rated, and with low insolvency risk) could better reconcile growth with the financial solidity and survivorship of a cooperative;
- retained earnings are the source of funds preferred by managers, since they are under their full control, less risky (since the higher risk aversion of cooperative owners), better from the tax advantage view. Within the scope of the user–owner principle, a cooperative can be managed to achieve an objective other than strict profit maximization, such as maximizing patronage payments, optimizing net prices to producers, maximizing value to members, and maximizing quantities of products sold and marketed. The objective chosen by a cooperative will influence the observed financing behaviour, according to the POH. If the cooperative will maximize members’ profits, leading to lower firm profitability, we could observe a slower equity accumulation, and *ceteris paribus*, a greater proportional use of debt financing. Conversely, a cooperative that pursues profit maximization will accumulate equity more quickly and be in a position to finance investments relying more heavily on retained earnings and therefore equity (which increases as a consequence) is more relevant than debt.

Mnisi and Alhassan (2021) consider, in addition to external borrowings, the external finance in the form of grants and subsidies, which some typologies of cooperatives can rely on, providing a review of international studies about the impact of external finance (through loans and grants/subsidies) on cooperative's technical efficiency. Similar to debt, subsidization also has a conflicting effect on efficiency. First, the "income smoothing" hypothesis argues that the access to subsidies and grants induces poor efforts since any revenue shortfall arising out of inefficiency is absorbed (Minviel-Latruffe, 2017). Conversely, access to subsidies and grants also has the potential to address the financial constraints, facilitating the adoption of advanced technologies and improve efficiency. International empirical findings are not univocal.

Original and worth talking about is the contribution on this field by Royer-McKee (2021), who formulate a model that indicates the optimal capital mix by maximizing the rate of return on equity while satisfying an interest coverage requirement that ensures it is capable of meeting interest payments. Cooperatives benefit from maximizing the rate of return on equity because increases in the rate enable it to pay a higher proportion of patronage refunds in cash and raise the rates at which it can grow and retire member equity. If the rate of return on capital employed is greater than the interest rate on borrowed capital, the cooperative's problem reduces to selecting the lowest equity position that satisfies the interest coverage requirement. The optimal equity position is inversely related to the rate of return on capital employed and directly related to the interest rate and the required level of interest coverage. The cooperative's choice of capital structure has implications for its ability to retire member equity. This model implies that the rate at which a cooperative can retire equity is inversely related to its equity position, a hypothesis that is at odds with the idea that greater leverage is an obstacle to equity retirement, as stated in several earlier studies. In addition, equity retirement is positively associated with the rate of return on capital employed and negatively associated with the interest rate, the proportion of patronage refunds paid in cash and the equity growth rate.

An in-depth examination of the literature reveals, therefore, that cooperative specificity can logically result in a greater user of debt financing in some perspectives and lower use in others. Thus, whether being a cooperative necessarily leads to a different capital structure relative to similar IOFs is unclear. As such, the question of relative debt becomes an empirical exercise. Not surprising, the empirical findings, too, are mixed (see Li et al., 2015 for a short review of empirical literature).

## 6 Preliminary conclusions and further research directions

The financial characteristics and underlying decisions of non-financial cooperatives are here analyzed, by focusing on some important areas like financial performance measurement, growth through M&As and capital structure choice. The empirical findings that compare cooperatives with non-cooperatives (a short review of the main international evidence is here provided) are mixed, fragmented (most studies are industry-specific, country-specific, time-period specific), not univocal, and not generalizable (in Grashuis-Su, 2019 an in-depth review of the empirical literature on farmer cooperatives).

In addition, comparison might be distorted since: (i) cooperatives widely differ from each other in constitution, objectives, and business organization: they may paradoxically show as much variation as we find between cooperatives and IOFs: therefore, comparing "generally defined" cooperatives with non-cooperatives could be a particularly tough and potentially biased task; (ii) the *ceteris paribus* principle (necessary to correctly isolate the impact of being a cooperative) is not always respected in empirical testing, when control variables (for example, size) that affect the

analyzed dependent variables are omitted or the compared sub-samples are non-homogeneous with respect to them.

In this study, whether and why the cooperative peculiarities could explain differences with respect to non-cooperatives in these areas are discussed, by providing a systematic framework of the relevant determinants.

Some preliminary considerations follow and indicate avenues for future research:

- better measures of financial performance of cooperatives could and should be elaborated: the widespread tendency to use traditional financial indicators ignores the different objectives of cooperatives and therefore comparisons with non-cooperatives are biased. Appropriate performance measures should be linked to the relevant objectives. However, simplistic adjustments of standard profitability ratios (as for example in D'Amato et al., 2022) are not satisfying solutions (summing input costs to income measure could hide operating inefficiencies): appropriate measures of firm profit as well as of incomes/revenues of cooperative members (that in standard measures of financial performance result in higher costs or less revenues) should be elaborated;
- in the case of cooperatives, to consider only financial performance (although extended to members' profits) could be belittling, likely more than in non-cooperatives. In fact, the cooperative business model has also wide-ranging economic–social implications, as well as it impacts on sustainability, in terms of better governance (i.e., more attention to interests of all stakeholders) and risk mitigation (less excesses and smoothing over time and across industry of performance);
- theoretical hypotheses on capital structure choice could predict more and less indebtedness of cooperatives, at the same time. In fact, the cooperative features that are relevant drivers of the capital structure choice are numerous and drive off in opposite directions. In the same vein, as far as reasons/effects of M&A activity are concerned. Therefore, the attention moves to empirical evidence, which must be wider, more systematic, so as to favour the robustness of results, their comparability among studies, and their generalizability.

### Note

- 1 Rare studies (see D'Amato et al., 2022 on Italian wine sector cooperatives) try to take into account the difference in objectives, by adjusting the performance measure, for example the operating profitability (ROS) in terms of EBITDA (Earnings Before Interest, Taxes, Depreciation, and Amortization) plus the raw material costs (when they are supplied by cooperative members as in agri-food industry). However, such adjustments seem to be partial and questionable.

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## SECTION IV

# Innovation

### Introduction

*Jerome Nikolai Warren*

“Innovation” is a concept that is vital to markets. As Joseph Schumpeter remarked in his *Theory of Economic Development*, innovation is the main driver of a market system. Schumpeter later developed the concept of “creative destruction” that has been highly influential in shaping economists’ and management scholars’ understanding of the innovation process. Even though Schumpeter specified innovation, as opposed to invention, as consisting largely of a social process (dissemination and market entry), most contemporary scholarship delimits innovation to technical advances, including recent issues of automation and artificial intelligence.

Again attempting to break out of this largely self-imposed cage, this section presents diverse perspectives seeking to understand how cooperatives and cooperation can broadly extend the notion of “innovation”, as encompassing the traditionally restricted definitions concerning technological change and also going outside them. The relevant chapters analyze how a cooperative model can be useful in governing technical and technological change and innovation. Much of the discussion runs parallel to but is in many ways more ambitious than what can be found in research streams such as “cooperation for innovation”.

Beyond this, many chapters explicitly or implicitly deal with broadened notions of innovation, embracing terms such as “social innovation,” “coopetition,” “distributed”, or “collectivist leadership”, returning to topics like the commons, which are built around self-organization, and which emphasize that the structures of relationships are often a determinant of outcomes by constraining the flow of information and other resources along particular paths. Such “constraints”, traditionally viewed negatively by mainstream neoclassical models, can, as several chapters in this section demonstrate, serve to promote more resilient enterprises (including cooperatives) and enterprise clusters or federations.

The structure of the section is as follows. It begins with Chapter 22 by Thuy Seran, Călin Gurău, and Inmaculada Buendia-Martinez, entitled “Coopetition in financial cooperative meta-organizations”, which looks at the concept of coopetition as it applies to the context of French cooperative banking federations. It looks at the interaction between institutional and market pressures

via the lens of digitalization that stimulates situations beyond “pure” cooperation, but also beyond a pure “zero sum” game of market competition. It may shed light on how other cooperative banks and their respective federations globally could deal with the challenges of digitalization.

Meanwhile, Chapter 23 by Francesca Martinelli is entitled “Pegasus Enterprise: An Innovative Form of Cooperative for an Alternative Model of Entrepreneurship”. This chapter draws on numerous diverse sources from philosophy, economics, and mythology to critique the venture capital (VC)-based model of startups traditionally associated with Silicon Valley and known as “unicorn” companies. In their place, the chapter proposes an innovative concept of the firm, entitled the “Pegasus enterprise,” drawing on classical Greek mythology and moving away from the idea of an individualistic to a collective form of entrepreneurship. It develops a philosophical framework influenced among others on Nietzsche to conceptualize and mythologize the new enterprise form, which was initiated primarily in the cultural sector and is increasingly appearing in other sectors.

Moving the discourse to a global level, Louis Cousin, Luc K. Audebrand, Marta Bruschi, and Anastasia Costantini in Chapter 24, “Distributed Leadership for Collective Innovation: Managing Digital Change at the Cooperative Movement’s Level”, look at the issue of managing technological innovation at the scale of cooperative federations. Problematising traditional notions of leadership, the authors argue for moving away from an individualistic notion of leadership especially within the cooperative sector, suggesting that technological change can be better managed via different forms of leadership. It analyzes several types, including both *collective* and *distributed* leadership and seeks to apply them to the concept of meta-organization. They conclude that such types of leadership are consistent with the values and identity of cooperatives and that,

[R]ather than acquiring all the competencies required itself, a cooperative association’s specific value may be to ensure that these competencies are present among its membership and wider network and to facilitate the activation of these competencies through collective and distributed leadership mechanisms.

The next group of chapters connect cooperatives, commons, and technology. Chapter 25 by Alexandre Guttmann and Cynthia Srnc is entitled “Platform cooperatives, a model of commons and sustainability”. It examines the emergence of platform cooperatives and inquires as to the role that commons can play in their development. Toward this end, the authors develop the notion of “commons-oriented cooperative” and review numerous relevant case studies of platform cooperatives internationally that the authors believe exemplify the commons-oriented cooperative. They also engage in a discussion as to the value these cooperatives provide.

Continuing the cooperatives–commons nexus, Chapter 26 by Vangelis Papadimitropoulos and Giannis Perperidis, entitled “On the Foundations of Open Cooperativism,” presents *open cooperativism* as an alternative to the neoclassical form of organization, connecting the concept with Elinor Ostrom’s notion of commons. “In contrast to traditional and platform cooperatives that adopt closed proprietary licenses, therefore, not producing commons, open cooperatives deploy open protocols, open logistics, open supply chains and open value accounting to enable commons-based open social innovation.” Open cooperatives serve, according to the authors, as a locus for the meeting of states, civil society, and ethical market actors who in concert produce digital commons. The chapter concludes by outlining several policies, including taxation that could help promote open cooperativism.

Concluding the digital debate, Chapter 27 by Morshed Mannan, Nathan Schneider, and Tara Merk, entitled “Cooperative Online Communities” outlines several fundamental problems with

the omnipresent contemporary model of centralistic online platforms, lamenting various negative outcomes as a result of the concentration of ownership and power, including the so-called “enshittification lifecycle”, in which platforms are “good to their users; then they abuse their users to make things better for their business customers; [and] finally, they abuse those business customers to claw back all the value for themselves”. After outlining problems with such a corporate model, the authors make a case for the cooperative form as a suitable means to organize online communities, advocating for two models, the platform cooperative and the “Exit to Community” models, to achieve the transition, using concepts like decentralized autonomous organizations and block-chain, as well as the cases of Loomio and social.coop, as illustrations.

Rounding out the section are two chapters that look more broadly at the possible connections between cooperatives and innovation. Chapter 28 by Carmen Guzman, Francisco J. Santos, and Lidia Valiente is entitled “Linking Cooperatives and Social Innovation: Bonds for Transforming Societies.” It firstly introduces the notion of social innovation from numerous dimensions, developing a conceptual scheme according to which to analyze and interpret particular social innovations, categorizing “Type 1” (meeting social needs) and “Type 2” (transformative) social innovations, before distinguishing between internal (cultural/social or knowledge dimensions) and external (political or productive dimensions). The authors connect this conceptual schematization with the cooperative enterprise, as interpreted by the ICA cooperative principles, attempting to understand how these “solve social problems from the private sector through the implementation of social innovations in a holistic way”.

Finally, Chapter 29 by Meredith Degyansky is entitled “Relational, Ecological Cooperation With and As Part of More-than-Human World(s)” and applies a critical anthropological lens to scrutinize the cooperative movement’s self-image. Beginning by critiquing a Western-dominated “One-World World” entertaining notions such as “Progress”, the author argues that much of the canonical history of the cooperative movement, including concepts like self-help, is implicitly built upon this narrative, embodied by the idea of “a human that conquers and stands above all, that makes rational choices, and that looks out for himself”. By harnessing various indigenous and related sources, it attempts to extend the notion of community embodied for example in the 7th ICA principle of “concern for community” to the more-than-human world in order to

Leave us wondering how we might engage in practices, as a cooperative movement and as cooperative entities, that implode our sense of community to include all of life, and how that line of thinking might inform the ways we design systems, structures, and beyond.

# COOPETITION IN FINANCIAL COOPERATIVE META-ORGANIZATIONS

*Thuy Seran, Călin Gurău, and Inmaculada Buendia-Martinez*

## 1 Introduction

Cooperatives are unique organizations. In the two centuries since their creation on the European continent and its subsequent developments around the world, as Molefe's chapter describes, their founding values and principles remain their hallmarks, shaping a business model differentiated from other institutional forms in terms of mission, governance, income generation, and profit distribution (Guzman et al., 2020; Novkovic, 2021; Sadi & Moulin, 2014). But, like any other business, the need for growth and adaptation to a complex and changing environment requires cooperatives to continuously implement structural and functional changes (Byrne, 2023).

These processes have led a part of the cooperative sector to evolve toward strongly integrated groups using a new organizational structure: the meta-organization. Although these cooperative meta-organizations have been analyzed in the literature from the perspective of their creation and structuring (Barea et al., 1999; Côté, 2001; Pipitone, 2009; Poulin & Tremblay, 2005), there are no studies dealing with the management of their internal tensions resulting from coopetitive relationships.

In this line, our study integrates three elements independently treated by the literature. First, the research focuses on the coopetitive relationships inherent to the coordination and functioning of participating organizations. As Josef Wieland analyzes in the first chapter of this book, these relationships bring together a multitude of resources and decision logics creating a complex interaction system. For this reason, his empirical study requires a thorough analysis of coopetition at the project level in order to identify the generated tensions and the adopted coordination mechanisms. The cross-cutting nature of digitalization, together with its vital importance in today's (re)definition of the value proposition, represents a generator of cooperative and competitive relationships. Second, the study focuses on the cooperative banking sector. An analysis of the largest cooperatives in the world (Euricse & ICA, 2022) makes it possible to affirm that meta-organizations are an organizational configuration present mostly in the cooperative financial sector. Moreover, since the beginning of this century, this sector has been undergoing significant institutional and organizational change as a result of legal, commercial, and systemic pressures leading toward standardization and homogenization in line with other types of banking institutions (De Serres et al., 2011). A factor of convergence of cooperative banking with other organizations

is the area of information systems and technologies (IS/IT), since they are the pillars on which rest the production and distribution of banking service, with a strategic importance of the first order. Third, the empirical analysis of coopetition in cooperative banking meta-organizations requires a specific methodological approach and a longitudinal case study to illustrate its theoretical and practical development. In this study, we focus on the case study of the French group Banque Populaire Caisse d'Épargne (BPCE).

The chapter is structured as follows. After this introduction, the second part presents the theoretical background on meta-organization and coopetition. The third part is devoted to analyzing the cooperative tensions of cooperative meta-organizations using a case study from the banking sector. Section 4 includes a discussion of the findings and the conclusions.

## **2 Meta-organization and coopetition: literature review**

Meta-organizations are an important phenomenon in contemporary society. Defined as an organization whose members are other organizations rather than individuals (Ahrne & Brunsson, 2005), or as “networks of firms or individuals not bound by authority based on employment relationships but characterized by a system-level goal” (Gulati et al., 2012: 573), their structure and functioning present specific characteristics in comparison with other inter-organizational networks. Using the permeability of boundaries and the degree of hierarchical stratification, Gulati et al. (2012) establish a typology resulting in four types of meta-organizations: closed community, open community, extended enterprise, and managed ecosystem.

These complex structures are extensions of their base cooperatives and, like them, they emerge from specific conditions of transaction (Cf. Thibault Mirabel's chapter on cooperatives as ontologically autonomous from markets and firms). Meta-organizations are characterized by a continuous interplay between cooperation and competition, which results in internal “coopetition”. On the one hand, collective action at meta-organizational level requires members' coordination and collaboration for the perennity of the meta-organization (Berkowitz & Dumez, 2016; Gulati et al., 2012); in addition, some members can be competitors with other member organizations for autonomy or resources or compete with the meta-organization itself (Ahrne & Brunsson 2008; Berkowitz & Dumez, 2016). In short, “coopetition” in meta-organizations can be considered as an example of “ecological metaphysic”, as indicated in Warren's chapter, which seeks a balance between competition and cooperation.

During the last two decades, coopetition has become the subject of a growing research interest (Bengtsson & Kock, 1999; Bengtsson et al., 2010; Dagnino et al., 2007; Le Roy & Czakon, 2016; Padula & Dagnino, 2007). Coopetition research has progressively evolved from the study of dyadic or triadic interactions (Bengtsson & Kock, 2000; Ritala & Tidström, 2014) to the investigation of complex cooperative situations, often associated with specific industries (Pellegrin-Boucher et al., 2018) or multi-organizational networks that evolve dynamically over long time spans (Gnyawali & Park, 2011). These cooperative situations involve a multitude of interdependent actors and interactions, often expressed at different levels and with various intensities (Chou & Zolkiewski, 2018; Mariani, 2016; Pattinson et al., 2018).

In this development, two lines of research are emerging: external and internal. With regard to the former, the following factors are highlighted: globalization, the reduction of the product life cycle, hypercompetition and uncertainty, the response to regulations and technological convergence, as well as the response to customer expectations (Bonel & Rocco, 2007; Gnyawali & Park, 2009; Seran et al., 2016, Seran & Bez, 2021). Much of this research shows that coopetition can be

a strategic element of business performance (Gnyawali et al., 2008; Pellegrin-Boucher et al., 2013; Yami et al., 2010). Indeed, thanks to coopetition, companies can develop research and products more quickly, reduce costs significantly, increase sales volume, diversify their portfolio of products and services and maintain a high level of customer satisfaction (Bengtsson & Kock, 1999; Quintana-Garcia & Benavides-Velasco, 2004; Ritala & Hurmelinna-Laukkanen, 2009). In the case of internal factors, various studies detect cost reduction via economies of scale as a primary driver (Seran et al., 2016), in addition to access to resources (Lado et al., 1997; Bengtsson & Kock, 1999, 2000; Brown et al., 2017), inter-organizational learning and knowledge development (Hong & Snell, 2015; Tsai, 2002), achieving legitimacy and internal centrality (Luo, 2005), speed and creativity in product development (Song et al., 2016; Tippmann et al., 2018). However, these strategies are not without risks or tensions (Bonel & Rocco, 2007; Fernandez et al., 2014; Gnyawali et al., 2006; Gnyawali & Park, 2009) given that coopetition occurs between organizations that are simultaneously both partners and rivals (Bengtsson & Kock, 1999; Gnyawali et al., 2012).

The aim of coopetition is to combine the advantages of collaboration and competition. In principle, coopetition can be considered as a “win-win” situation (Quintana-Garcia & Benavides-Velasco, 2004), but in some circumstances, it can become a “win-lose” relationship. Coopetition could thus become a major obstacle to company performance, placing subunits in a position of ambiguity (Busco et al., 2008; Luo, 2005), increasing the cost of coordination and reducing company performance (Luo et al., 2006; Song et al., 2016). The way the company coordinates its different divisions therefore significantly impacts synergies and internal results.

However, effective management can transform a threat into an advantage. This way, the management of cooperative relationships acquires a strategic dimension that should be addressed by appropriate coordination mechanisms and structures (Cassiman et al., 2009; Mariani, 2016). With a few exceptions (Czaron, 2009; Dahl, 2014; Tidström & Rajala, 2016), this research field is still underdeveloped, especially regarding the strategic management of long-term, evolving cooperative situations.

The literature on inter-organizational relationships proposes two inter-related strategies for inter-organizational coordination (Gulati et al., 2012): *cooperation* – focused on preventing the opportunistic behavior and sustaining the commitment of organizational partners, and *coordination initiatives* – which dynamically combine partners’ contributions and actively manage task interdependencies in pursuit of a common goal (Astley & Fombrun, 1983). The managerial mechanisms facilitating these strategies comprise (Mariani, 2016): standards, plans and rules; objects and representations; roles; proximity; routines; and relational coordination. To achieve and maintain organizational performance, managers are often forced to flexibly combine the two approaches, considering competition and cooperation as interdependent opposite aspects, rather than mutually exclusive strategies (Chen, 2008). However, little is known about the design, implementation, and effects of the coordinating mechanisms that facilitate this paradoxical interdependence (Naidoo & Sutherland, 2016). Understanding these coordinating mechanisms is key to successfully managing cooperative tensions within meta-organizations.

### **3 Cooperative bank federation as meta-organization: coopetition and coordination mechanisms**

#### **3.1 Conceptualization and drivers of cooperation**

Since their origins more than two centuries ago, financial cooperatives have evolved into cooperative groups using various types of structures with different levels of integration, ranging from

the centralization of common services to operational and executive functions (Ayadi et al., 2010). Federative or associative forms are very frequent in the cooperative financial sector – both for banks or insurance companies, and many of them are structured as heterarchical meta-organizations (Ayadi et al., 2010; Bülbül et al., 2013; Seran et al., 2016). They are owned and governed by their members, individual citizens, or private entrepreneurs (Ayadi et al., 2010). Because they serve the interests of their members/customers, these banks are typically decentralized at the regional level, being deeply embedded in the local culture and economy. This localized structure and expertise limits their geographical reach and requires their integration in federative institutions to achieve economies of scale and inter-organizational synergies (Ory et al., 2004). This transformation has not been without challenges caused both by the regulatory framework, which has the effect of standardizing the operations of all financial institutions without taking into account their specificities, and by the market pressure to obtain certain levels of profitability. As locally based institutions, financial cooperatives are deeply rooted in their communities, but they must accept that their central structures will become, with time, large and increasingly integrated entities – both horizontally and vertically, in which the identity of individuals and their sense of belonging to the community must be combined with institutional norms and management practices essential to ensure the group's effectiveness and security (Malo & Tremblay, 2004).

In addition to the common strategic goals shared by meta-organizational members, bank federations have a strong associative culture based on inter-organizational solidarity: when a regional bank or subsidiary experiences problems, the meta-organization provides direct help, both financially and institutionally. However, they also create conditions for direct or indirect competition: they aim to serve the same categories of clients, with similar strategic positioning and access to meta-organizational resources. In terms of governance, these banking federations are associations of horizontally connected members, coordinated by a dual administrative structure (Ahrne & Brunsson, 2008; Dumez, 2008; Provan & Kenis, 2008): a federal institution that defends the interests of regional banks, and a national structure that ensures strategic cohesion and financial unity. Their complexity in terms of structure, processes, and governance is determined by a paradoxical relationship between meta-organizational center and periphery: although the shareholders are in regional banks, the political and financial decisions are delegated to the meta-organization center to achieve synergy and critical mass. This meta-organizational specificity increases the complexity of negotiation and consensual decision-making (see Figure 22.1).

Coopetition in the banking sector is determined by a series of legal, market, and systemic pressures. Of particular importance are the external changes derived from the regulatory and institutional framework introduced after the 2008 financial crisis, which require a better management of credit and liquidity risks, good governance, and regular reports (Butzbach, 2016). These regulations seek to homogenize the activities of cooperative banks with capitalist banks by creating tensions between efficiency and profitability at the market level, and strategic convergence at the group level. Another factor that generates inter-organizational coopetition is digitalization. The accelerated digitization of the banking sector requires “pooling and sharing [the] digital business strategy with other players in the business ecosystem, whether they are partners or competitors” (Bharadwaj et al., 2013: 474–475). In fact, the adoption of interactive, real-time IT applications and multi-channel customer strategies require a greater coordination and integration of various information systems (Sia et al., 2016) with significant implications: banks must drastically restructure their organization and functioning to simplify operational models, accelerate decision-making, and implement a customer-oriented strategy. These aspects affect the entire organization, from territorial agencies to central services, often creating in-house resistance, as they imply a radical transformation of work routines and organizational culture (Cuesta et al., 2015).

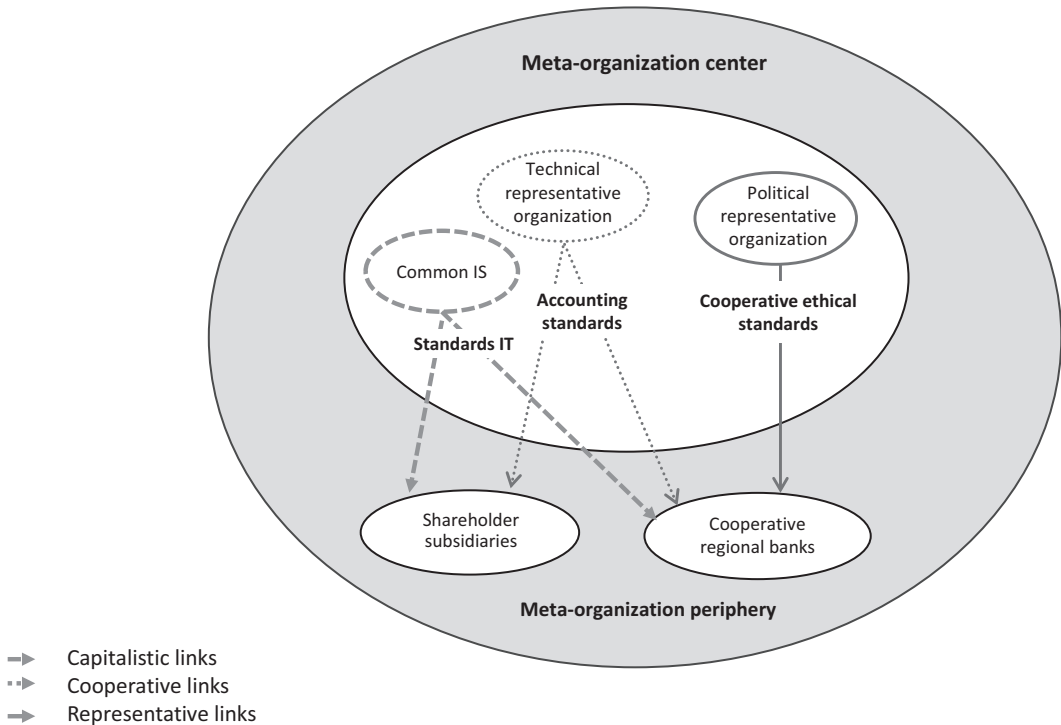


Figure 22.1 Structure and governance of bank federation.

Source: Seran (2012).

In the case of financial cooperatives, the development and use of integrated digital systems represents an important challenge given the transformation of the sector toward complex holdings based on the coexistence of various organizations, value systems, and strategic interests. This diversity creates favorable conditions for inter-organizational cooperation that should be properly managed and channeled through effective coordination mechanisms. However, despite the important size and influence of cooperative banking groups in the European financial system (Ayadi et al., 2010; Bülbül et al., 2013; Karafolas, 2016), little is known about the phases and mechanisms applied in each of them to manage digital transformation in the specific context of inter-organizational cooperation.

## 3.2 BPCE case study

### 3.2.1 Methodology

The complexity of our research topic required the analysis of a longitudinal case study. This approach is particularly adapted for analyzing complex socio-economic phenomena in a specific context (Baxter & Jack, 2008), because of its capacity to combine primary and secondary data, and to integrate quantitative and qualitative elements. Based on this, the availability of data, representativeness, and a meta-organizational structure with a high level of integration and centralization were the criteria used for selecting a case study within the European banking sector.

It should be noted that financial cooperatives play an important place in the European financial landscape. French cooperative banks represent outstanding examples not only because of their importance in the European and French market, as they control 57% of European cooperative financial system's assets and have a national market share between 63% and 77%, depending on the financial products (European Association of Cooperatives Bank (EACB), 2022), but also because of their high level of integration and centralization (McKillop et al., 2020).

Of the main three French cooperative banking groups, we focus on BPCE to investigate its evolution and structural complexity. BPCE is the second-largest French cooperative banking group, founded in 2009 as a partnership between Banques Populaire (BP) and Caisses d'Epargne (CE). In terms of structure, functioning, and governance, both BP and CE represent meta-organizations of the closed community type. The resulting group can be defined as a bipolar meta-organization, which has gradually evolved toward a closer integration in terms of strategy and operational synergies, while competition is still present, especially among regional banks.

This case study applies a longitudinal perspective, which covers a period of 20 years, and evidences the multi-level dimension of coopetition and internal coordination. Secondary and primary data were collected from internal corporate documents, such as brochures, reports, financial statements, and press releases published. In terms of coding and analysis, we applied an axial coding procedure (Strauss & Corbin, 1998), which permits, on the one hand, to analytically identify the main research themes, and, on the other hand, to relate various codes (categories and concepts) to each other, using a combination of inductive and deductive thinking. Our codification followed two main research axes: first, the main stages of BPCE's digital transformation realized during the investigated period, and, second, the main themes associated with our research objectives: participating stakeholders, collaborative, and competitive relationships, as well as the coordination mechanisms applied to reduce or channel coopetitive tensions. The codification procedure was facilitated by using NVIVO.

### *3.2.2 Results*

Data analysis indicates three phases of digital transformation during the studied period of 20 years. We present our findings outlining, for each of these phases, the interdependence between context (environmental conditions, meta-organizational context, and digitalization projects/activities), coopetitive forces, and coordination mechanisms.

#### *3.2.2.1 PHASE I: IT AND IS INTEGRATION 2001–2009*

The provisions of the 1984 Banking Law eliminated the existing monopolies from the French banking sector, all banks having the possibility to expand their operations and competencies to cover the functions of a commercial bank. These circumstances created new opportunities and challenges for traditional bank federations. On the one hand, they were able to expand into new market areas such as insurance or investment banking; on the other hand, entering in direct competition with capitalist banks, they had to prioritize efficiency and profitability, adopting market strategies that countered their traditional culture and associative principles.

One way to save costs and create synergies was a progressive IT/IS integration at the group level, since the pursuit of a digital business strategy requires a robust and flexible enterprise platform. This digitized business infrastructure, based on standards and integration strategies, enabled flexible service provision and a dynamic reconfiguration of customer relationships and business partnerships (Markus & Loebbecke, 2013). BP and CE - at that time functioning as independent

bank groups – initiated this process almost simultaneously. In 2000, CE decided to reduce the number of existing IT platforms from eight to three, and then, by 2010, to launch MySys (Biseul & Hardoin, 2009) as an integrated information system that serviced the needs of all its 17 regional banks. The system was managed by a specialized branch called IT-CE, including IT expertise and resources dedicated to its development, functioning, and maintenance. On the other hand, BP started the development and deployment of a new information system in 2001, aiming to replace the four existing IT systems with a unique information platform (Counis, 2005). This integrated system, named Equinox, was finalized in 2009, being managed by Informatique Banques Populaire (iBP), an independent branch of the group.

IS integration provides obvious advantages at the group level, but which depend on the consensus and adherence of all meta-organizational members to the project's requirements and objectives. The central management of the two bank groups achieved this commitment either by actively promoting the cost savings derived from this integration, or by imposing penalties to reinforce decisions and implementation deadlines (Counis, 2005; Garrouste, 2009):

- In the case of MySys (CE), 115 million euros in future savings were predicted from an annual budget of 450 million: half of this sum would result from eliminating the need for multiple developments required by the use of several information systems, one quarter would result from infrastructural integration and another quarter from future optimization. Beyond a cost advantage, the objective was to improve service quality using an efficient and reactive information system.
- On the other hand, the management of BP established penalties for the non-respect of operational deadlines, which were narrowly avoided in 2004 by its most important member – the Banque Régionale d'Escompte et de Dépôts.

If the reasons for members' collaboration are rather obvious, the manifestations of competitive relationships are subtler. First, as a result of this project, regional banks lost a part of their independence and competitive autonomy, as all their market and operational data were shared with other meta-organizational members. On the other hand, in terms of IT competence and leadership, regional banks had to transfer their resources to the central level, and to compete with other members for the budget/resources dedicated for IS integration – as the project included a complex redistribution of resources, competencies, and roles within the meta-organization. Finally, at the individual level, the regional banks' directors and personnel competed for a better professional career track, because IS integration required personnel redistribution (see Figure 22.2).

Coordination mechanisms were designed and implemented using a combination of plans, roles, and procedures to facilitate inter-unit collaboration and reduce competitive tensions, giving all participants the opportunity to channel their expertise and professional ambition into a positive contribution to the project. To enhance cooperation, the central management established joint objectives for all meta-organizational members and developed a strategic plan for project implementation. The annual unfolding of the strategic plan was based on detailed operational programs and budgets, while internal communication between various project stakeholders was ensured through a dedicated online communication platform. In addition, two coordinating mechanisms were used to manage competitive tensions:

- The first was an operational role system, which gave regional banks the possibility to assume and enact the role of 'leader', 'mirror', or 'pilot' for developing and implementing specific IT

applications. The roles were openly negotiated among regional banks, the final decision taking into account the specific expertise of each territorial unit.

- The second coordinating mechanism enhanced the professional mobility within the inter-organizational job market, which allowed bank employees to position themselves according to their capabilities and career ambitions. This multi-level system created a positive cycle of inter-dependent cooperative relations, preserving competitive tensions to fuel collaborative processes of creative problem solving, while providing a flexible framework that facilitated negotiation, consensus, and coordination between various participating actors.

#### 3.2.2.2 PHASE II: MERGER AND STRATEGIC RESTRUCTURING OF THE TWO BANKING NETWORKS 2010–2014

In parallel with the integration of the IT infrastructure, the two groups continued a general strategy of service diversification, especially toward investment banking. In line with this strategic orientation, in 2006, CE and BP became partners in Natixis, a joint venture created through the merger of Natexis and Ixis, the investment bank subsidiaries of the two groups. Unfortunately, Natixis experienced significant losses in 2008, in the context of the global financial crisis. To rescue it from bankruptcy, the French government orchestrated a merger between the two banking networks, realized in 2009, under the name of BPCE Group.

BPCE is a joint stock company, fully owned by the regional banks, representing a central coordination institution that elaborates the strategy, manages risks, decides and controls budgets, and implements the human resource policy, for the two banking groups. From a structural point of view, this merger led to a bipolar meta-organization, centrally integrated through synergic governance and strategy, while at the operational and territorial levels, the two banking networks continued to service their traditional customers. The merger raised a significant problem in terms of IT infrastructure, as each of the two banking networks were just finalizing their IS integration. The main challenges for the newly created organization were to reconcile and align these separate information systems in the context of inter-organizational restructuring (Alaranta, 2005).

The literature (Wijnhoven et al., 2006) presents three possible post-merger IS integration models: coexistence, partial or complete integration. The strategy selected by BPCE was coexistence, the two information systems (MySys and Equinox), continuing to function separately, each servicing its own network of regional banks. The planned evolution of each information system continued, including regular performance audits and a progressive introduction of new software versions. For example, MySys is updated every year with five new versions (in January, March, May, September, and November), which include the projects established in the IT Functional Annual Plan (IT-CE.fr).

The merger created a situation of multi-level coopetition. The pre-existent complexity in terms of structure and functioning of the two banking groups determined a combination of competition and collaboration both inter- and intra-networks, which characterized this phase of consolidation and transition toward a full digital strategy. Within each banking network, regional banks were directly competing for clients, who became more mobile and demanding.

Although regional banks preserved in some measure a competitive advantage on their traditional territory/market, a sustained performance increase required the enlargement and diversification of their product portfolio, and the provision of better customer service. On the other hand, the launch of an integrated system that serviced the information needs of all meta-organizational members forced these banks to increase their functional collaboration (see Figure 22.2). The merger created

direct competition between the regional banks based in the same territory but included in different banking networks. This inter-network competition was more intense than its intra-network manifestation, as often the two groups were offering highly similar products and services.

Although BPCE central coordination institutions were fully owned by regional banks, in reality, the decisional power of regional banks was highly diluted, the management of the group being enacted by a group of technocrats led by François Pérol, a former vice-secretary of the French president. This central governance structure was responsible for elaborating BPCE's strategy, managing risks, controlling the budget, and implementing the human resource policy for the two banking networks. A direct consequence of this form of governance is a lower representation and power of regional banks at the central level (Cf Anu Puusa's chapter in Section III on the challenging issues of governance in large cooperatives that can be applied to central coordination institutions), but, on the other hand, it reduces the number and intensity of inter-unit conflicts based on individual or regional interests, ensuring strategic coherence and continuity at the group level. To achieve this, the top management enhanced inter-group collaboration at the strategic level, pushing toward a progressive integration of the two banking networks, while, on the other hand, it facilitated competition at the operational and commercial levels between regional banks, both within and between the two banking networks. BPCE's strategic plan comprised ambitious performance objectives, centered on high commercial and customer service targets, encouraging regional banks to diversify their portfolio, improve market communication, and develop new customer service offers. Thus, the management of the cooperative situation was based on a dynamic balance between strategic integration (collaboration) and territorial competition (see Figure 22.2).

The two IS (Mysys and Equinox) played an important role in supporting both collaboration and competition between regional banks. However, in line with the governance strategy presented above, the collaborative orientation was mainly applied at the central level, where an IS Direction designed, planned, and coordinated the main IT projects of both networks. This central IS coordination center established common performance objectives for the two information systems (such as cost savings or increased efficiency). On the other hand, the information system of each banking network was managed separately and that created a direct competitive situation, as each system attempted to separately achieve the centrally defined objectives, competing for a common pool of resources and customers. Furthermore, this dual structure of digital systems reinforced operational and functional competition between regional banks. At the individual level, weak work performance was usually sanctioned with the professional redistribution of the person responsible. On the other hand, the merger created a larger internal job market, providing opportunities for individual advancement and mobility in line with the personal level of competence and performance.

### 3.2.2.3 PHASE III: IMPLEMENTING DIGITAL PROXIMITY 2015–2020

From 2015 onwards, the intensification of competitive pressures from three different sources (increased customer mobility and service requirements; digitalization of competing banking organizations; and an aggressive diversification of Fintech organizations into financial services) have forced BPCE to accelerate its digital transformation. Evaluating the competitive positioning of BPCE on the digital banking market, the president of the group declared that if they compare themselves with *Crédit Agricole*, *Crédit Mutuel*, or *Banque Postale*, they are not among the best three market players (Pérol, 2017).

To change this situation, BPCE developed an ambitious strategic plan, acquired a digital bank subsidiary (i.e., *Fidor* in 2016), and invested time, human, and financial resources to restructure its

information system around a customer-centered approach. These initiatives have been detailed in the 2014–2017 and 2018–2020 BPCE's strategic plans:

- The first plan, entitled 'Growing differently', draws four main investment priorities (Federation Caisses d'Epargne, 2013): to create proximity banks that are leaders in human and digital relations; to finance its clients, they have to become major actors in the saving sector, evolving from a credit to a financing logic; to become a full-service bank and insurance institution; to accelerate internationalization; and three action levers: enhancing collective efficiency; developing and effectively using employees' professional capabilities; emphasizing the mutualist specificity of the BPCE Group.
- The second plan provides a precise strategic map of an organizational and digital transformation centered on the concept of 'digital proximity'. Named *TEC 2020*, it makes new promises toward: clients, to provide them more expertise, valuable solutions, and satisfaction; toward employees, to help them transform their jobs, providing better tools and attracting more talents; and toward members, because a bank that belongs to its clients must serve the society in which it evolves. To fulfill these promises, the BPCE Group increased human and technological investments to accelerate digital transformation (Pérol, 2017). The implementation of digital proximity requires the combination of services provided by its network of regional banks and local agencies with an aggressive digital presence. Concomitantly, the group aims to increase its overall efficiency, customer satisfaction, and technological prowess (French Banking Federation, 2018). The central management plans to drastically restructure the network of territorial agencies gradually merging or closing the less efficient ones (i.e., until 2020, more than 400 local agencies were closed, and the number of regional banks of the two partnering networks will be reduced at 12 for BP and 14 for CE). Despite these measures, territorial proximity will be preserved, ensuring that clients are able to physically access a local agency in less than 10 minutes in urban areas or less than 20 minutes in rural areas.

The multi-level coopetitive situation manifested in the previous two phases preserves its complexity and undergoes several important changes. First, in each banking network (BP or CE), the competition at the regional and local levels has increased as a result of the planned territorial restructuring. The ambitious training program enhances both competition between employees (in terms of professional positioning and evolution and their collaboration) to provide better financial services to BPCE's customers (Béziade & Assayag, 2014). The accelerated renewal of the IT platform and the introduction of new applications, presents also a dual, paradoxical aspect: on the one hand, it reinforces the competition between the two information systems, but, the integrated digital strategy creates opportunities for inter-system collaboration and synergies through various BPCE's market channels, but also for competition, resulting from institutional and market pressures to reduce costs, increase efficiency, and enhance operational performance. In this context, some digital activities can be managed collaboratively – e.g., the digital platform's maintenance, while various group units and channels may compete directly to attract, satisfy, and retain customers.

As in the two previous phases, the governance of digital transition promotes an increased integration at the strategic level, but, on the other hand, encourages commercial and functional competition at the territorial level (see Figure 22.2). The pooling of digital resources and capabilities was specifically enhanced through the creation, in October 2015, of an Outsourcing and Technologies division (BPCE OT), which coordinates all IS subsidiaries (i.e., IT-CE, iBP, the IT Direction of BPCE SA, and Natixis' information system). BPCE OT is functionally independent from regional

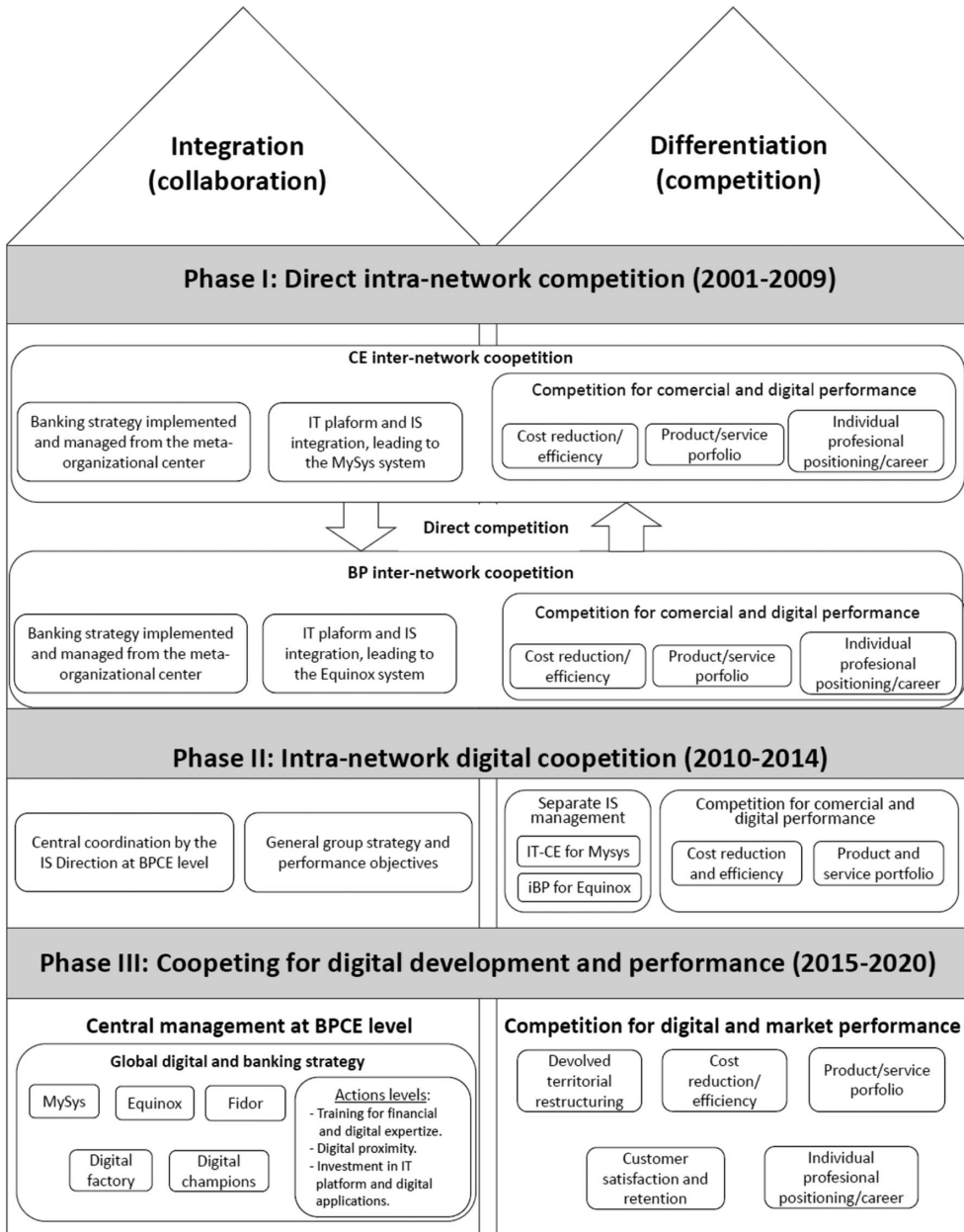


Figure 22.2 Structure and management of competitive forces in digital transformation (2001–2020).

Source: Authors' own work.

banks and directly subordinated to the central management. BPCE OT includes more than 1200 employees (analysts, engineers, experts, and consultants) geographically located in 14 French cities.

BPCE's strategic plan also envisages the creation of a Digital Pole attached to its central management structure. This pole will ensure the planning, deployment, and management of BPCE's digital strategy, by taking into account the opinion and needs of all internal and external stakeholders. This central task force will also coordinate a community of so-called 'digital champions', including 40 experts working in various group structures (regional banks, subsidiaries, or central organs) that will design and monitor the implementation of various projects. In addition, the BPCE establishes a 'digital factory' comprising six territorial expertise centers. Finally, the plan indicates the development of new technological platforms, a digital application library, and a specialized team to monitor the social media networks. These initiatives facilitate and reinforce the collaboration of various stakeholders to ensure the consistency and efficiency of BPCE's digital transformation. On the other hand, playing the card of decentralization and autonomy, BPCE allows each regional banks to decide which of its local agencies will be closed or will merge. However, the general objectives are clearly stated and non-negotiable: until 2020, both the number of local agencies and of regional banks of the two networks had to be significantly reduced.

## **5 Discussion and conclusions**

Today, meta-organizations are a phenomenon increasingly present in many business sectors challenging "the traditional theoretical framework of organizational analysis" (Berkowitz & Dumez, 2016: 150). Their structural complexity implies the simultaneous existence of cooperative and competitive activities between the different units composing the meta-organization. This combination of opposing dimensions, such as value creation versus its appropriation, establishes a paradoxical relationship generating multiple tensions that cannot be eliminated because they are not inherent to coopetitive relations, but they can be managed in order to maintain cooperation at the forefront, which represents a source of performance for companies (Cf. Josef Wieland's chapter in Section I). Thus, the management of coopetition emerges as a relevant aspect of strategic management, whose objective should not be to eliminate the tensions, but rather to channel them through various coordination mechanisms, preserving a dynamic balance of this paradoxical situation to exploit the advantages of both collaboration and competition. The coordination mechanisms are designed and implemented using a combination of plans, roles, and procedures to facilitate inter-unit collaboration and reduce competitive tensions, giving all participants the opportunity to channel their expertise and professional ambition into a positive contribution to the meta-organization.

Within the cooperative sector, there are many cases of meta-organizations. Indeed, an analysis of the 300 largest cooperatives in the world (Euricse & ICA, 2022) shows that many of them are structured and managed as meta-organizations. The use of longitudinal studies and the qualitative nature of coopetition determine the rarity of research focused on the management of coopetitive tensions (Czakon et al., 2014; Dorn et al., 2016) in all business models, but particularly in cooperatives.

This gap in the literature justifies the choice of the case study presented and analyzed in our project: BPCE. This meta-organization represents a heterarchical association of independent regional banks that use federative governance structures to achieve critical mass and synergic competitive advantages. Their association persists in time with two main consequences: the meta-organization develops central institutions to represent and coordinate its member organizations; and the

meta-organizational structure, functions, and management evolve in time, under the pressure of market and institutional forces. As a result of this structure and functioning, the cooperative interactions between member organizations are not temporary or isolated but represent an enduring and evolving cooperative situation (Bengtsson et al., 2010).

The longitudinal analysis of cooperation using digital transformation allows us to identify three phases associated with specific cooperative tensions (see Figure 22.2). Although different, these three phases can be logically integrated into the general evolution of the meta-organizational structure and functioning. The first phase is centered on the integration of the IT platform and regional information systems, in each of the two banking meta-organizations (BP and CE). The second phase consists of the consolidation of the integrated IT/IS infrastructure, representing also a period of transition toward a more complex structure resulting from the merger of the two banking groups. This transition results in the strategic approach initiated in phase three, oriented toward an accelerated digitalization of financial products, offers, and customer services, both at the national and international levels.

It is interesting to note that despite the different objectives and activities included in each phase, the meta-organizational context determines the enactment of both collaborative and competitive interactions, as only through their coexistence the meta-organization is capable of simultaneously exploiting the efficiencies resulting from competitive tensions and the synergies engendered by multi-level collaboration. The coordination mechanisms implemented in each phase are highly similar, despite the evolution of the meta-organizational context and objectives: a clearly defined and highly ambitious set of joint objectives and projects related to digital transformation pushes meta-organizational members toward multi-level (inter-organizational, inter-professional, and inter-individual) collaboration, while competitive situations are designed and deployed to increase efficiency, develop creative tensions, and determine the best-available professional outcomes.

An important trend is the progression toward an increased complexity and ambiguity regarding the concomitant combination and interaction between collaborative and competitive forces at various meta-organizational levels. The established coordination mechanisms evolve toward offering more freedom of choice to the very actors that will simultaneously collaborate and compete, either on similar or on different levels. In fact, if phase one is characterized by a clear channeling of cooperative and competitive areas, actions and alternatives, in the third phase, the top management defines clear strategic objectives, structural changes, mobilized investments, and performance targets, but does not attempt to control or closely monitor various interactions and outcomes, increasing the fluidity and the spontaneity of the cooperative situation, as well as the responsibility and insecurity of meta-organizational actors. The dynamic equilibrium between collaboration and competition is constantly rooted into a multi-level combination of integration and differentiation objectives, mechanisms, and incentives (see Figure 22.2).

Despite the specificities of this case study (cooperative meta-organization of the French banking industry), some managerial implications can be drawn for the whole cooperative sector. From a macro/meso perspective, the historical development of the cooperative movement is conditioned by the institutional and market complexity in the territorial area where it operates, leading to different evolutions and structures (Côté, 2001; Karafolas, 2016; Poulin & Tremblay, 2005). For the financial sector, in particular, the legal framework is of utmost importance not only because it forces the creation of meta-organizations (e.g., by forcing the merger and/or absorption of other cooperative entities) (Ammirato, 2018; Khafagy, 2020), but also because prudential regulation and international accounting standards lead cooperative banks toward an inexorable process of convergence with the dominant model ignoring their specificities (De Serres et al., 2011). This situation

has a direct impact on the structuring of the cooperative sector, generating meta-organizations. In this context, coopetition, as a paradoxical phenomenon, is identified and defined in relation to punctual interactions between independent organizations. The conflictual coexistence of collaboration and competition leads to intra and inter-organizational tensions, which need to be avoided, minimized, or properly managed. The very existence, success, and performance of a heterarchical type of meta-organization depend on the dynamic coexistence and evolution of multi-level coopetitive interactions. To manage these complex relationships between various meta-organizational actors, appropriate forms of coordination mechanisms should be designed and implemented (Cassiman et al., 2009; Mariani, 2016) to preserve a dynamic interdependence between collaboration and competition at different meta-organizational levels, during the entire process of digital transformation. However, coopetitive tensions may manifest not only between member organizations but also between one or more members and the meta-organization itself (Berkowitz & Dumez, 2016). For this reason, the management's priority is to establish and enforce – either through incentives or sanctions – joint objectives and strategic orientations, using coordination mechanisms at functional and operational levels to manage the deployment of coopetitive relationships. In theoretical terms, this complex and dynamic strategic construct is based on the subtle interplay between integration and differentiation tendencies, which are facilitated through a combination of formal and informal elements that are specific for the meta-organizational structure, functioning, and context.

Finally, it is necessary to point out the active role of top management in creating spaces for negotiation aimed at the design and implementation of coopetition coordination mechanisms. In these spaces, the concerned stakeholders can express and discuss the commitments they will face under the supervision of top management, preserving their legitimacy to act based on their democratic choice, know-how, and the extensive network of internal relationships developed in time, thanks to job rotation.

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# PEGASUS ENTERPRISE

## An innovative form of cooperative for an alternative model of entrepreneurship

*Francesca Martinelli*

### 1 Introduction

Since the dawn of civilization, people have turned to myths to explain the inexplicable, confront the fears of incomprehensible natural phenomena, find moral guidance, and draw inspiration for their actions. Faced with a nature that terrifies with its phenomena, myths emerge as a tool to grasp the real and render its many facets in understandable and acceptable narratives. Even today, myths and their metaphors are very powerful in the imagination of human beings.

In this chapter, through the myth of Silicon Valley and the related metaphor of the unicorn company, we will analyse the successes and failures of the neoliberal utopia and its entrepreneurial model. With the crisis of neoliberalism, we will observe that new points of view arise, leading to the emergence of new metaphors born in opposition to the previous rhetoric.

In this context, we propose the use of the metaphor of the Pegasus enterprise to describe an innovative cooperative model that combines individualist and collaborative aspects of an entrepreneur's experience in the market. The model will be described through philosophical, sociological, and management analyses, using concrete cases as examples.

### 2 Unicorns, camels, and zebras

The term 'nature myths' (Vickery, 1969) refers to narratives that present natural phenomena as intelligible in terms of value and meaning, functioning to motivate human action by being perceived as true in a significant sense. These myths have been used to explain events in the natural world and help people relate to nature. They symbolize and personify natural elements, providing understandable and acceptable narratives to confront the fears of incomprehensible natural phenomena and find moral guidance.

Max Horkheimer and Theodor W. Adorno, in 'Dialectic of Enlightenment' (1947), argue that as knowledge advances, the mythology of ancient times, the 'nature myths', is incorporated into rational explanations of the world. In this way, myths are stripped of their role in explaining the incomprehensible, giving way to a single, homogeneous, reproducible, and uniform vision of which they end up becoming instruments. When myths no longer have to explain nature, they can become ideological myths, i.e. myths in the service of an ideology (Poluboyarinov & Surova, 2023) or a utopia.

This change of use does not make myths and metaphors any less powerful, as the success of the neoliberal utopia and its myths and metaphors show. Neoliberalism utopia idealizes the man of enterprise and production, the *homo oeconomicus* (Smith, 1759, 1776), who applies economic reasoning universally (Foucault, 2004), transforming himself into a ‘self-employed entrepreneur’ (Corsani, 2013). Like a micro-business, this individual constantly seeks to maximize profit, meticulously considering the constraints and resources within his reach (De Lagasnerie, 2012). This utopia generates new myths, exemplified by the pervasive myth of Silicon Valley and the related unicorn company.

As we will see in this chapter, this is a myth that is still dominant today, but which, since the 2008 crisis, has begun to show limitations and shortcomings. Following Albert Hirschman’s (1972) and Julie Battilana’s and Marissa Kimsey’s (2017) analyses, if some people simply chose to get out of these dynamics, others started to react. The reaction has led to the creation of new perspectives and new movements and, with them, new metaphors to narrate their alternative perspectives. In this section, we will look at two new ‘quadrupeds’ that have arisen in open reaction to the unicorn: the camel and the zebra (Bellini, 2022; Cristofaro, Kask & Muldoon, 2023). The former represents a response to the financial excesses of the startup world that still originates within the classical business world, while the latter is a metaphor that comes from the world of associationism and cooperation and thus develops its ethics and principles.

## ***2.1 Metaphor of the neoliberal utopia***

The concept of the neoliberal utopia refers to the idealized vision of a society based on unfettered markets, government intervention for private purposes (e.g. protecting the primacy of private property against public power), and individual freedom (Foucault, 2004; Slobodian, 2018). This vision, often associated with neoliberalism, emphasizes the belief that unfettered markets can lead to overall prosperity and societal well-being. The term ‘neoliberal utopia’ is used to describe the consequences of implementing neoliberal policies, including the imposition of commercial values on various aspects of society. Neoliberal policies involve the belief that greater economic freedom leads to greater economic and social progress for individuals, supporting strong property rights, free markets, and free trade (Harvey, 2007). In neoliberalism, the role of the state is to create and preserve an appropriate framework for such practices without unfettering the market, supporting deregulation, privatization, and the responsibility of the individual.

The term Silicon Valley refers to a region located in the southern part of the San Francisco Bay Area. The name was first adopted by the journalist Don Hoefler (1971) because of the region’s association with the silicon transistor, used in all modern microprocessors. Subsequently, during the 1970s, Atari, Apple, Microsoft, and Oracle emerged in this region. In the 1980s, Cisco, Sun Microsystems, and Adobe followed suit, while the 1990s saw the rise of Netscape, Google, Yahoo, Amazon, PayPal, and Netflix. From the 2000s to the 2010s, Meta, Twitter (now X), and Uber joined the ranks of prominent companies originating from this area.

Being home to some of the world’s most influential technology companies, Silicon Valley is today often described as the epicentre of innovation, entrepreneurship, and technological progress (Moore & Davis, 2004). At the core of the Silicon Valley myth is the belief that anyone with a great idea and the audacity to pursue it can become the next technology tycoon (Walker, 2018; Gobble, 2018). Regardless of his background or resources, the self-made man of Silicon Valley is the one who, through his entrepreneurial spirit, has turned little more than an idea into a billion-dollar company. For this reason, the myth is also closely associated with the concept of a unicorn company (Lee, 2013; Rodriguez, 2017), startups valued at over US\$1 billion in the financial market.

The dream of founding a unicorn company is at the root of the actions of many modern entrepreneurs who, following the Silicon Valley myth, are guided by the so-called ‘ethics of success’ (Fumagalli, 2015), founded on two pragmatic criteria: becoming rich and famous (Bologna, 2018). Indeed, in a context where the main rule is to innovate by inventing new needs and products, the parameters that determine success can only be material.

Individual ethics (Jervis, 2003), unchallenged individual freedom (Bauman, 2002), and the logic of competition in the world of work take over, aided by an increasing individualization of careers linked to phenomena such as outsourcing, a new desire for flexibility, and the entry of new technologies into the labour market (OECD, 2017; Armano, Murgia & Teli, 2017; De Masi, 2018; Eurofound, 2020).

The push for competition and individualism goes hand in hand with the disappearance of the cooperative model from schools and universities, so much so that today cooperative enterprises are no longer studied in economics departments and business schools (Kalmi, 2007). As neoliberal utopia has taken hold since the post-war period, cooperatives have disappeared from economics textbooks, until their substantial disappearance today. Even at Stanford University, they are no longer taught, although its founder, Leland Stanford, along with the first funding, had also given instructions to promote ‘the right and advantages of association and cooperation’ (Schneider, 2018).

## 2.2 Crisis of the neoliberal model

The myth of Silicon Valley, along with the neoliberal utopia, has elements of truth and, above all, resonates with common sentiment, as evidenced by its global success. Yet, despite being the dominant reference point even today, it is riddled with various cracks.

Mariana Mazzucato in her book *The Value of Everything* (2018) acknowledges that Silicon Valley entrepreneurs are often seen as ‘heroic do-gooders’. This is because they offer, at least ostensibly, free, or highly innovative services to the public. In contrast with this common perspective, the economist argues that big players in the innovation sector do nothing more than extract value, without producing it. The prices and innovative products they bring to market do not reflect the contribution of the community to these products. If one considers the role that the state plays in creating infrastructures that are also useful to large innovators (e.g. diffusion of the internet, creation of GPS systems), the risks of the innovation economy are socialized, while the rewards are privatized (Mazzucato, 2021).

Mazzucato bases her perspective on the notion that the current economic system often fails to properly recognize and measure ‘value’, particularly that created by public institutions, innovation, and other non-market activities. The most important example is considering finance as a productive sector, while it is an extractive one. The increase in profits at banks and in the financial world does not have a spill-over effect on the real economy. Mazzucato recalls the work of numerous scholars who demonstrate that companies continue to finance most of their investments through undistributed profits, i.e. on their own. This happens because external financiers demand a higher return on shares, focusing more on increasing their wealth than on growing businesses that produce value and work.

The first result of this misconception of value is an enormous growth in inequality in our societies. Since the 2008 financial crisis, the limits and dangers of an economic model based solely on success and wealth (of a few) have become evident. In his essay *The Price of Inequality*, Nobel laureate Joseph E. Stiglitz (2012) provides a detailed analysis of the mechanisms that make this model unsustainable, demonstrating why ‘Societies characterized by widespread

inequality do not function efficiently, and their economies are neither stable nor sustainable in the long run’.

In his book, Stiglitz argues that the concentration of income and wealth at the top, coupled with the lack of opportunity and mobility for those at the bottom and in the middle, leads to lower economic growth, less efficiency, and a failure to fully utilize the potential of all members of society. He also emphasizes that this inequality is not only morally problematic but also has adverse effects on the overall economy, as the rich, in pursuit of their self-interest, use their political influence to shape policies that further exacerbate inequality.

The second result has a direct effect on the lives of individuals, particularly those who dream of founding the next unicorn company. In Michel Foucault’s vision (2004), the emergence of the individual as a self-employed entrepreneur, like a micro-enterprise, was supposed to free them from the control of large economic forces. But instead, it identifies new forms of constraint.

Despite entrepreneurs’ dreams, the failure rate for startups is a well-documented phenomenon. According to the latest data, up to 90% of startups fail, with about 10% failing within the first year and a staggering 70% failing within years two through five (Howarth, 2023). The reasons for these failures vary, with common factors, including the absence of a product-market fit, poor marketing strategy, cash flow problems, lack of financing, and the impact of external events such as the COVID-19 pandemic (Huddleston, 2023).

In a context where most startups are destined to fail, having a well-defined exit strategy becomes fundamental. There are five main exit options for startups. The acquisition implies selling the company to a larger one for a profit, which is the most common exit strategy for startups, providing returns to investors and founders. The Initial Public Offering means going public and offering shares on the stock market, which allows the founders and investors to sell their shares to the public. The Management Buyout means that the management team acquires the business from the existing owners. The Employee Stock Ownership Plan is a strategy that allows employees to become partial owners of the company (Tej Gonza, David Ellerman, and Kosta Marco Juri in Chapter 16). Finally, liquidation: closing the business and selling off all assets if other solutions are not possible in front of the failing business.

Usually, startups and investors should consider the circumstances of their ventures and choose an exit strategy based on their specific goals and the overall situation of the business. However, many founders are reluctant to plan for their startup’s exit, often only considering it when the business is in distress or when there is inbound interest from an acquirer (Parang, 2022). Failing to plan for the eventual exit can lead to missed strategic opportunities or suboptimal outcomes. Not only this: it can also have effects on the founders of the business. The individualistic drive often leads to isolation, self-exploitation, and alienation. As Robert Papin (2015) emphasizes in the introduction to the bestseller in France, *La création d’entreprise*, everyone embarking on a project must ‘face loneliness, insecurity, distrust, family sacrifice, and financial sacrifice’.

### **2.3 Emergence of new metaphors**

Faced with this panorama, we can observe two main reactions compared with the dominant entrepreneurial system. The first is to choose to leave the company by exercising the right to exit (Hirschman, 1972). To this first category belong all those startupper who use an exit strategy and leave their company.

The second category seeks to change the approach to the business system by exercising the voice (Hirschman, 1972), which means confronting a system to try to change it through personal observations. To this category belong people such as the venture capitalist Alexandre Lazarow,

who wrote the book *Out-Innovate: How Global Entrepreneurs – from Delhi to Detroit – Are Rewriting the Rules of Silicon Valley* (2020). In his book, Alexandre Lazarow explores the evolving landscape of innovation and startup success beyond Silicon Valley. The book contends that the new playbook for innovation is emerging from the ‘frontier’, representing a shift away from the traditional Silicon Valley model. Lazarow argues that startups from around the world, including those in Delhi and Detroit, have achieved significant success by embracing their unique environments and leveraging their local advantages.

To explain this new approach, Lazarow introduces a new metaphor implying a quadruped, suggesting thinking ‘like a camel’. Thinking like a camel in the context of business refers to adopting strategies that enable survival and growth in challenging conditions, as opposed to the traditional fast-growth model epitomized by ‘unicorns’. The term ‘camel’ is used to symbolize the ability to endure and thrive in adverse environments. This concept emphasizes balanced growth, long-term prospects, and diversifying business models, drawing lessons from the resilience of camels in harsh conditions. Unlike unicorns, which pursue rapid scale-up and market dominance, camel startups take a more balanced growth path, and do not require a constant stream of investment to sustain themselves. Lazarow aims to encourage entrepreneurs to embody characteristics such as stubborn determination, willingness to overcome extreme hardships, and a focus on sustainable, long-term success.

Within the voice, following the reasoning of Julie Battilana and Marissa Kimsey (2017), we can observe other three categories of reactions questioning the ethics of the neoliberal utopia and its principles. The first is that of the ‘agitators’, those who bring the grievances of specific individuals or groups to the forefront of public consciousness. In our context, 2008 was a crucial year for this category, which includes those who have protested and are exercising their exit and voice (Hirschman, 1972). In 2008, the cracks in the system became more evident and thus many protest movements were born. One example is the movement Occupy Wall Street. Another example is the young people in business schools around the world who, thanks in part to the 2008 crisis, began to express their dissent over doubts they had had for a long time, namely whether what they were learning in economics departments was sufficient to deal with the world’s current problems (Raworth, 2017). The demand for pluralism in economics courses became a worldwide movement that is still fighting today to change the curricula of top universities.

The second is that of the ‘innovators’, those who create a viable solution to address these grievances. In this category, we can include all the thinkers who proposed solutions to the actual economic model, like the already mentioned economists Joseph E. Stiglitz and Mariana Mazzucato. Also, in this group, we can find new metaphors, which in this case aim to reverse the perspective. One interesting example is the ‘doughnut economy’, theorized by the economist Kate Raworth (2017).

The third category is that of the ‘orchestrators’, those who coordinate the action of different groups, organizations, and sectors to give scale to the proposed solution. Here we find those who seek to change the system by implementing alternative practices. Returning to the quadruped metaphor, in direct contrast to the unicorn company model, we find Zebra Unite. Zebras Unite operates in the form of a cooperative and seeks to foster a community that co-creates and catalyses resources—community, capital, and culture—specifically for businesses prioritizing social and environmental impact. This movement draws inspiration from the essays ‘Sex & Startup’ (Zebra Unite, 2016) and ‘Zebras Fix what Unicorns Break’ (Zebra Unite, 2017) written by the founders. It challenges the traditional business and funding models prevalent in Silicon Valley, models often oriented towards high returns and dominated by white male leadership. The choice of the zebra is also linked to the minority African-American and Latino women who in the United States are

often excluded by the startup system. Unlike the unicorn, the zebra is real and is built to run and win, but not in a rush (Bansal, 2019). That also means that instead of disruption in the market, the zebra approach focuses on sustainability and the broader impact of a business on society. In essence, a zebra is any startup that seeks to make a positive contribution to society and enhance the well-being of consumers, emphasizing a more balanced and sustainable approach over disruptive tactics.

The Zebras Unite movement actively strives to achieve a balance between economic and social values (de Gennaro et al., 2023). Contrary to the conventional emphasis on profit maximization, this movement places importance on principles such as mutualism and resilience. The startups associated with Zebras Unite align themselves with the ‘teal’ organizational paradigm (Laloux, 2014).

### **3 The Pegasus enterprise model**

The pervasive spread of the business culture borrowed from Silicon Valley paradigms does not mean that everyone passively absorbs the exhortation of self-responsibility and competition. The two different categories presented, exit and voice (Hirschman, 1972), describe different ways of reacting to the dominant paradigm and combine different levels of intensity, involvement, innovation, and action (Battilana & Kimsey, 2017).

Above all, the case of the Zebra Unite movement shows that situations where people find themselves with little bargaining power, in poor or impoverished economies, in conditions of inequality and exploitation, have always been fertile ground for ‘resistance’. In some cases, we see even the birth of self-management organizations (Reteuna, 2010; Allegri & Ciccarelli, 2013; Bologna, 2020), where workers seek to regain control through the shared management of the means of production (Albanese, 2001).

For this reason, in recent decades, we have seen a resurgence of grassroots movements of all kinds: co-working spaces, associations, self-organized unions, cooperatives, online communities, and buyouts. Among the emerging organizational alternatives, cooperatives, especially production and labour cooperatives, have been rediscovered as an option to connect autonomy and social security through collaborative work (Eurofound, 2020) and promote solidarity (Murgia & de Heusch, 2020) in an increasingly individualistic world of work.

These experiments include the self-management cooperative, or cooperative of independent workers (Chiappa & Martinelli, 2019; CECOP, 2019; Martinelli et al., 2022) that has spread across Europe in the last 40 years to provide a collective response to the rhetoric of the self-made man.

Since 2017, we have referred to this specific typology of cooperative as Pegasus company (Martinelli, 2018; Martinelli, 2019; Martinelli, 2020; Martinelli, 2022; Martinelli, 2023; Martinelli, 2024). As of this publication, we have chosen to call the enterprise model we will present ‘Pegasus enterprise’ following the line of thought of Isabelle Ferreras (2017), who distinguishes between ‘corporation’ and ‘enterprise’ as a legal and social form, respectively. The Pegasus enterprise is a metaphor that describes a company set up as a cooperative, which makes it possible to combine freelance work with the collective dimension of a company. This double dimension implies both the possibility to run one’s own business autonomously and to obtain better working conditions using the strength of the collective. The Pegasus enterprise model therefore does not deny the desire typical of our era to have flexibility and build a personal business but places it within a cooperative dynamic that allows people to enter a community of equals.

Considering the categories of Hirschman (1972) and Battilana and Kimsey (2017), the Pegasus enterprise is a metaphor expression of the ‘voice’ that falls within the category of ‘orchestrators’.

The first feature of a Pegasus enterprise is to fight economic inequality while valuing both the individual and collective dimensions of work through the mutualization of resources and the access for workers to more sustainable careers. The second feature is the workers' control by workers of the means of production, which is realized by negotiating better working conditions and using digital platforms to scale and increase the impact of workers' goals.

### ***3.1 Combination of collective and individual work through the mutualization of resources***

One of the most controversial elements of the Silicon Valley myth is the figure of the self-made (usually) man who single-handedly manages to turn a garage-born enterprise into a worldwide success. It appears to be an individual achievement when the success of a startup is a story of many people due to the various stakeholders involved in its journey: the team, investors, mentors, the broader community, the network and connections within the industry and market, and the infrastructures.

Despite this, in the rhetoric of the unicorn company, the collective aspect is left only to the dimension of competition. This disregards a fundamental aspect of human reality, namely that, according to numerous biological, psychological, and economic studies, the path of cooperation represents the best way to achieve individual goals (Sen, 1988; Jervis, 2003; Barberini, 2009; Peters & Adamou, 2015), as well as being more consistent with human nature than the strictly competitive model.

Although their approach to work is very individualistic, artists were the first in Europe to understand the opportunities of a non-competitive but cooperative approach to enter the market. In economic terms, artists struggle to access markets and distribution channels, with limited access to a broader audience and difficulties in earning a living from their creations, they face income inequality and often rely on philanthropy and exclusivity, with only a small percentage achieving financial success, and they face the risk of the commodification of art and market dependency (Howes, 2016; Nineham, 2021).

To deal with this very complex landscape, artists in Europe have been practicing self-management in the form of Pegasus enterprise since the 1980s. Just like in traditional cooperatives, artists establish these entities to meet concrete needs: to share resources, achieve better working conditions and more sustainable careers, and to break out of the isolation of the artistic profession. The peculiarity of this model is that when the artists decide how to structure the cooperative, they choose to retain certain individual freedom, thus modifying and evolving the original worker cooperative model.

One of the first performing arts cooperatives in Europe, Doc Servizi, was founded by a group of musicians in Verona in 1990 to combat undeclared work and obtain better working conditions (Martinelli, 2017; Martinelli, 2021). The musicians chose to found a worker cooperative because it offers the dual status of a member and a worker: as a member, each musician can maintain autonomous management of his/her activities, essential for fully expressing their artistic potential; as a worker, he/she becomes an employee of the cooperative, accessing social protections and pooling management costs with others (e.g. accounting, managing contracts, and trainings). Together, the members decide how to develop the cooperative, acting as collective entrepreneurs through the democratic principle of 'one head, one vote'.

Founded by a group of musicians with the same goal as Doc Servizi, ensuring employee status for member workers and providing them with a safe and secure work environment, Lilith cooperative was established in Helsinki in 1997 (CECOP, 2019; Puusa & Hokkila, 2020). The

following year, Smart was founded in Brussels (Charles, Ferreras & Lamine, 2020), initially as an association providing the first billing platform for those working in the arts and later transforming into a multi-stakeholder cooperative in 2016. Some years before, Smart chose to embark on a path of internationalization in response to a dilemma of what to do with retained earnings, which today has led it to have cooperative partners in seven European countries (Warren, 2022). Even in these two cooperatives, artists can move independently but within the protection provided by the cooperative. Members are at the same time members, workers, and entrepreneurs of the cooperative.

The Business and Employment Cooperatives (BEC, *cooperative d'activité et d'emploi*) also work by the same mechanism. BEC emerged in France in 1994 to counter the isolation of entrepreneurs in any sector and offer them a valid alternative to establishing an individual enterprise, namely the cooperative where they can test their business idea (Bost, 2011; Bureau & Corsani, 2015). Facing the crisis of the welfare state, BECs aim to build a new one by providing the growing number of self-employed workers with a collective framework of security and democratic economic relationships (Ballon et al., 2018; Boudes, 2020). In practical terms, entrepreneurs become employees of the cooperative, allowing them to experiment with their business activities with less risk. The cooperative provides numerous services throughout the membership period, including legal, tax, and administrative support, and the option to invoice through the cooperative, shifting the entrepreneurial risk onto the collective structure (Martinelli, 2017).

Although each activity is individual, the basic mutualization among members concerns the sharing of management costs, which include the cooperative taking care of all the bureaucracy related to each professional activity, such as job placement, company taxation, administration and accounting, and payroll (Martinelli et al., 2022). In some countries, this centralized labour management model has become very attractive to informal workers. Some examples are Smart Germany for labour regularization of migrant workers (Warren, 2022) and RCOOP, a cooperative founded to legalize the economic activity of Afro hairdressers in Brussels, which supports their self-management and self-entrepreneurship within the legal boundaries of the cooperative (Martinelli, 2021). Another is BEC Družstvo, founded in regions with one of the highest unemployment (and undeclared work) rates in the Czech Republic to support employment in rural areas through the application of the BEC methodology for the creation of new entrepreneurial activities in the area (Martinelli, 2021).

The democratic dimension of the cooperative enterprise that provides for full transparency of financial statements through the mechanism of annual meetings and reinvestment in the cooperative, ensures that the surplus value produced after the cost-sharing is not dispersed but remains within the cooperative or used for actions that benefit the members of the cooperative. With this system, the Pegasus companies generate a 'relational rent' (Warren, 2023; Joseph Wieland in Chapter 1), i.e. a jointly produced profit. Additionally, in the 'one share, one vote' model typical of unicorn companies, where profits end up in the hands of shareholders applying an extractive model of value (Mazzucato, 2018), the democratic cooperative model based on 'one member, one vote' ensures that the generated profit is evenly redistributed among the cooperative members. Firstly, all surplus value obtained from the improvement of the cooperative's administration system, e.g. through the introduction of technologies that speed up procedures or the optimization of organizational systems benefits the cooperative members or reinvested in the cooperative business, remaining within the cooperative. This is evident in cases such as Doc Servizi and Smart (Martinelli, 2019), utilizing management platforms that enable significant improvement and subsequent growth of the social base. Secondly, democracy also helps to mediate conflicts that may arise from the use of resources, because considering that the mutualization is covered by a levy, in often very poor and precarious sectors, such as the artistic one, moments of conflict may arise

for the value of this contribution. Usually, since cooperative members, especially when workers do not extract value from the cooperative, they prioritize its survival. An example is the fact that members of Doc Servizi, Coopaname (Martinelli, 2017), and Smart Germany (Warren, 2022), albeit at different times, voted to accept a higher levy to become financially sustainable. This operation differs in principles and methods from Uber's 'surge pricing' (Hall, Kendrick & Nosko, 2015; Lucio Biggiero in Chapter 10), which does not benefit drivers.

### 3.2 *The control of the means of production through work*

The Silicon Valley companies mentioned above can have an extractive relationship also with labour, especially platforms that facilitate the exchange of goods and services between people, and the matching of labour supply and demand. These kinds of platforms transfer human responsibility to an opaque algorithm based on unequal rankings (Aloisi, 2016; Aloisi & Di Stefano, 2022) and who use the seeming neutrality of these algorithms to opportunistically instrumentalize relationships between suppliers and clients of the companies' services. As Kate Raworth (2017) points out, economic theory argues that it should be relative productivity that should determine how much a group (e.g. workers, owners, and shareholders) earns, but in reality, it is the relative power that defines it (Bowles & Gintis, 1993; Raworth, 2017; Pistor, 2019; Ellerman, 2021a). The growth of finance has reinforced the culture of shareholder supremacy leading to the belief that the primary obligation of a company is to maximize returns for those who own its shares. In this setting, workers become replaceable, 'an asset to be hired and fired' depending on profitability (Raworth, 2017).

This phenomenon represents the most extreme expression of the 'voluntary renting of human beings', as outlined by Jerome Nikolai Warren (2023) quoting David Ellerman (2021b, p. 92). The problem lies precisely in the separation of the action of the individual from his/her responsibility for that action. Since responsibility and the individual are inalienable, the value added by workers cannot be separated from their actions (Gregory K. Dow in Chapter 2). According to Ellerman, the only solution to this contradiction is the reconstitution of enterprises 'as democratic organizations whose members are the people working in the enterprise' (p. 105). Warren also underlines that the rents' distribution 'requires the *ex ante* negotiation between all relevant stakeholders, including the workers who carry out the labour process'.

In the Pegasus enterprise, the workers are in control of the rents, as seen above, because they coincide with the shareholders of the company. Unlike a system that maximizes profits for people who have never set foot in a company, in a cooperative, the workers are the ones who own the company and therefore control it. This brings action and responsibility together again and implies control over the company's means of production, even when it comes to platforms (Marina Albanese in Chapter 33). This coincidence of action and responsibility, guaranteeing freedom from external shareholders (negative freedom), also allows the entrepreneurial freedom to be exercised to build the enterprise according to the needs of those who work in it (positive freedom).

In the wake of the 2016 protests delivery platforms, gig worker cooperatives have emerged across Europe (Martinelli, 2021). These cooperatives see self-management as an opportunity to regain control over their work and express their 'voice' (Martinelli, 2022). Their democratic structure allows them to collectively define working conditions and take control of the platform. Among gig workers seeking a cooperative alternative to the exploitation of their labour are not only riders and bicycle couriers (most of whom are part of the CoopCycle federation) but also teachers. Teachers, in a bid to end the exploitation by online teaching platforms, which do not

guarantee them any rights or work-life balance, have created a cooperative with its own teaching platform (MyCoolClass).

Instead of an algorithm, some cooperatives prefer self-organization systems or collective work organization systems, where, for example, working hours are defined based on individual needs and determined by a group of people (Martinelli, 2024). When cooperatives use algorithms, they are owned by the members and tailored around their needs, like in the case of Doc Servizi or Coop-Cycle (Martinelli, 2023; Martinelli, 2024). Cooperatives also use platforms to ensure transparency in work and to trace it, countering practices of self-exploitation or informal labour and explicitly regaining control over the means of production of their work, and consequently, greater economic power (Martinelli, 2021).

Although technology enables economies of scale, following the logic presented in the previous paragraph, the value produced is always used to generate more funds to be mutualized for the community's benefit (Murgia and de Heusch, 2020). This shift transforms the logic from control (Stark & Pais, 2020) to community (Martinelli, 2023; OECD, 2023). For cooperatives using platforms, the business model is not that of intermediation and value extraction but that of disintermediation (Martinelli et al., 2019; Martinelli, 2023). Since the platform is owned by cooperative members, it becomes a technological tool ensuring the sharing of costs and resources and the generation and redistribution of wealth (Louis Cousin, Luc K. Audebrand, Marta Bruschi, and Anastasia Costantini in Chapter 25; Morshed Mannan, Nathan Schneider, and Tara Merk in Chapter 27). Once operating costs are covered, any additional value produced returns to the members and owners, excluding any risk of speculation (Chiappa & Martinelli, 2019).

Similarly, the use of data relies on transparent and ethical systems that allow members to know how data is used and for what reasons (Martinelli, 2023; OECD, 2023). This is possible because a relationship of mutual trust is established between the cooperative and its members. This trust is foundational to the mechanism of self-management cooperatives because the autonomy enjoyed by members is based on a strong trust relationship between freelancers and the workers tasked with managing the organization. While members must trust the organizations, which could potentially act unfairly toward them (Mondon-Navazo et al., 2021), organizations must also trust the members who, due to their autonomy, could shift any responsibility, even for illegal activities (such as working more hours than allowed by law or collective agreements), onto them. To address this issue, for example, Doc Servizi and Coopaname have introduced specific guidelines in the cooperative regulations (Martinelli, 2017). These guidelines, activating the relationship that members have with the cooperative, provide additional operational instructions beyond the employer–employee relationship (Chiappa & Martinelli, 2019). These instructions cover a range of aspects, from the responsibilities of members towards the cooperative (regarding breaks, safety management, adherence to values, etc.) to the handling of reimbursements and cooperative patronage).

#### **4 Comparison among different entrepreneurial models**

The various metaphors we have presented in the chapter describe different entrepreneurial models. The choice of different animals is not just a stylistic choice but metaphorically reflects ways of thinking and acting guided by different objectives and ideals. In this context, the Pegasus enterprise draws inspiration from the myth of Pegasus, the winged horse of Greek mythology.

According to the myth, Pegasus was born from the ground wet with blood spilt when Perseus cut Medusa's neck. Similarly, the Pegasus enterprise was born within the existing entrepreneurial system as an innovative entrepreneurial form that combines different elements of the dominant system to counter its rhetoric (Bellini, 2022). As Cornelius Castoriadis would say (1975), the

Pegasus enterprise emerges when some people access the ‘space of the imaginary’, where it is possible to rethink and reimagine established society by introducing dynamics of activation of the ‘instituting society’, the symbolic space where new social institutions can be created by combining pre-existing concepts. This is also exactly what Greek society, whose context inspires the metaphor, did, as it is the first society to explicitly question in a written way the established and collective worldview through the invention and practice of philosophy (Warren, 2022).

The result of this recombination of elements describes a model that is different from the other three metaphors of quadrupeds: unicorns, camels, and zebras. Parallel to the three metamorphoses of man that Friedrich Nietzsche recounts in *Thus Spake Zarathustra* (1891), we can see the unicorn as the starting situation (the “Geist”, spirit, before the metamorphoses), thinking like a camel is the first metamorphosis, cases like Zebra Unite are the second (lion), and the Pegasus enterprise is the third (child).

The unicorn is the status quo, the dominant model. As a metaphor for the statistical rarity of the value of a startup on the stock market, it describes an entrepreneurial model where control and power are concentrated at the top, in the hands of shareholders. The result is for-profit companies, like those of platforms, whose sole objective is rapid, statistically disruptive growth to increase stock value and not build well-administered business structures (Morshed Mannan, Nathan Schneider, and Tara Merk in Chapter 27). In contrast to this indiscriminate growth, which makes companies aiming for these goals very fragile, the first evolution occurs, towards the camel, allowing for more stable foundations. As Nietzsche wrote, the camel is a bearer of fortitude who is used to carrying burdens. The problem with the camel is that it does not question the values and obligations imposed by the system in which it lives, just like Lazarow’s camel that accepts the individualistic model and is always based only on economic success as a measure, even if in the long term.

Moving beyond the camel means questioning the paradigms within which one finds oneself, and this is what, according to Nietzsche’s vision, the lion does. The lion openly challenges the values and traditional culture that, imposed as dogmas, limit the freedom of the individual. Similarly, Zebra Unite breaks with the traditional business model. The choice of the zebra, a herd animal, is consistent with a model that shifts control and power into the hands of a collective of people who own the company. The cooperative and community dimension takes precedence, surpassing profit orientation in favour of the well-being of the community, the environment, and society. It breaks with the shareholder model at the top, because in a cooperative, all members are shareholders.

After the lion, which breaks pre-existing patterns, according to Nietzsche, it is the child who opens a new phase oriented towards construction. The child is creativity, par excellence, capable of building a new and different vision of the world, always concrete and based on the real world. The child transgresses the established world, as Castoriadis would say, and it is described by the metaphor of the Pegasus enterprise.

Unlike the unicorn company, the Pegasus enterprise replaces the logic of competition, success, and profit with attention to the individual. All his life, Pegasus has been faithful to his knight. Similarly, cooperatives put the person and his or her needs at the centre of their activities, as opposed to the profit for the unicorn company, which instead becomes a tool to achieve the goals of its founders and the basis for an intergenerational alliance (Hancock, 2008).

Unlike the camel and like the zebra, in the Pegasus enterprise, the entrepreneurial dimension is expressed only in a cooperative dynamic. Pegasus has two wings: one represents usually isolated individuals transforming into a community where individual strengths multiply; the other represents the technological tools used to be competitive in the market. With these two wings, Pegasus can fly high because people together, and supported by the right tools, including democratic principles that “infect” the entrepreneurial logic, create new shared value (Josef Wieland in Chapter 1).

What distinguishes a Pegasus enterprise from a Zebra Unite is the emphasis placed on the individual dimension, which in the Pegasus enterprise is not surpassed by the collective dimension but integrated with it. In the Pegasus enterprise, the individual entrepreneurial dimension and the collective one are harmonized using the cooperative self-management business model. In self-management cooperatives, the freedom of individual entrepreneurship is integrated with the goals of the collective cooperative enterprise because every member of the cooperative is also a shareholder. As a shareholder, every person is unique but also responsible for the cooperative.

This dynamic, according to Greek mythology, can be told by remembering that Pegasus is also a constellation that arises when the winged horse decides to fly to the highest part of the sky to become a cluster of shining stars visible to all. A constellation is like the network of people composing the cooperative: if even one star is removed, there is no longer a constellation but merely a cluster of stars. Stars (people) and constellations (cooperative) are both necessary for each other to exist. Without people, there is no cooperative, without the cooperative, people are crushed and dispersed by the individualism of the status quo.

One last thing that the metaphor of Pegasus teaches is also to learn to be seen: by transforming into a constellation, the shape of the sky changes, and Pegasus becomes visible to all. Similarly, cooperatives must still learn to show themselves as Pegasus, to show that there is an alternative model to the profit ethic, the cooperative ethic.

## **5 Conclusions**

In this chapter, we have observed that the model of the neoliberal society driven by the myths of Silicon Valley and its famous startups, the unicorn companies, pushes entrepreneurs to embrace increasingly individualistic and ruthless strategies in the market. This model, focused solely on success and profit, began to reveal its shortcomings and limitations with the 2008 crisis. Since then, many economists and entrepreneurs have not only criticized it but also explored different ways of doing business. In this context, new metaphors such as the camel and the zebra have been proposed. If the metaphor of the camel is used to mitigate the effects of unicorns by introducing elements of slowness and stability, the metaphor of the zebra is employed to shift attention completely from the individual to the collective, introducing new elements of complexity into the equation, such as environmental and social considerations.

In the second part of the chapter, we introduced a fourth model inspired by the winged horse of Greek mythology, the Pegasus enterprise. The Pegasus enterprise describes a new entrepreneurial model based on the self-management cooperative, also known as a cooperative of independent workers, which emerged in Europe in the early 1980s. The main characteristic of the Pegasus enterprise is its ability to combine the independence typical of freelancers with social protections and the collective dimension associated with wage labour. Through this experimentation, the Pegasus enterprise addresses economic and social inequalities by strengthening workers' bargaining power, introducing new forms of collaboration, and mechanisms for equitable wealth distribution, even leveraging new technologies and platforms.

Today, over 60,000 people already work within self-managed cooperatives or Pegasus companies in Europe (Martinelli, 2022). Despite still modest numbers, the constant growth and dissemination of this cooperative model are significant signs of its potential. Confirmation of this potential also comes from the dominant business world.

As we know, many big tech companies are experimenting with concepts such as 'flat hierarchies', 'team-based organization', and 'agility' to improve employee well-being and activate processes of collective intelligence and voluntary work (Rockart & Short, 1991; Townsend,

DeMarie, & Hendrickson, 1998; Cristini, Gaj, Labory, & Leoni, 2003; Travica, 2015; Tran, 2017; Davis, 2017). These experiments are particularly effective, as seen in the case of Google, which creates a corporate culture that connects people and is based on vision, values, and voice (Tran, 2017).

But Google's efforts are always constrained by the concentrated model of (absentee) ownership, whereas looking at cooperatives, they inherently possess a connective corporate culture. First, the shared vision among cooperative members is the reason for the establishment of each enterprise, the common need that unites the individuals deciding to establish and participate in it. Second, members of a cooperative share the same values by being part of the cooperative and therefore respecting its principles and values (International Cooperative Alliance, 2017). Third, the structurally democratic nature of cooperative enterprises also emphasizes the dimension of voice (Luca Biggiero in Chapter 10). In the case of Pegasus companies, it gives a voice to usually isolated workers in the job market, allowing them to also express their rights of union representation (Chiappa & Martinelli, 2019; Martinelli, 2022). The combination of these features also has a multiplier effect on economic profit. As highlighted in the study by Trevor Young-Hyman, Nathali Magne, and Douglas L. Kruse (2022), especially in knowledge-intensive sectors, such as those in which most self-management cooperatives operate, the practice of democracy makes companies more productive, and even profitable, because the formal structure and collectivist norms of democratic enterprises limit the mechanisms of inequality often present in other companies.

In conclusion, in an era dominated by ruthless competition, the legacy of cooperatives offers another path. As emphasized by Ivano Barberini (2009), the cooperative spirit is not just an antidote to competition but a vehicle for personal development. In a self-managed cooperative, each individual can develop and grow without harming others but together with them. The protagonism that characterizes our society is not denied but embraced within a broader system that values everyone's project within a collective framework, which becomes crucial for the success of individuals. While the world chases unicorns, the Pegasus enterprise takes flight, demonstrating that in unity and collaboration lies a new opportunity to assert one's individuality. This approach, which does not prioritize overpowering others at all costs, ensures everyone is unique without remaining alone.

## 6 Summary

The neoliberal utopia idealizes the man of enterprise and production, intending the *homo oeconomicus* who uses economic rationality to measure every aspect of his life as the self-made man. The chapter shows how this utopia finds perfect application in the myth of Silicon Valley, whose entrepreneurs represent stories of great individual success. The objective of this chapter is to demonstrate that although the rhetoric of neoliberalism is still dominant, the model is lacking from an entrepreneurial point of view and there are viable alternatives to be considered, such as the cooperative one on which the second part of the chapter focuses. At first, the weaknesses of the Silicon Valley myth are highlighted by reporting the analysis of economists who have shown that this conception is only making society more unequal. Furthermore, the chapter highlights how the business model conveyed by the metaphor of the unicorn company proves to be unworkable except for a few. This implies different types of reactions to contrast the model, which we analyse by combining the theories of Hirschman (1972) and Battilana and Kimsey (2017). New metaphors, such as that of the Camel and the Zebra, also emerged among the various reactions to replace the dominance of the unicorn company. The chapter then explains the Pegasus enterprise

model, which represents a different way of being an entrepreneur by combining individualist and collaborative practices through the self-management cooperative model.

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# LEADERSHIP FOR COOPERATIVES’ DIGITAL TRANSITIONS

From an individualistic to  
a collectivistic perspective

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## 1 Introduction

Leadership has been extensively studied in academia: the ABI/INFORM database contains almost 33,000 scientific articles about leadership published over the past century. Leadership also holds prominence among the general public, evident in Forbes’ annual list of “The World’s Most Powerful People”, which they present as the “heads of state, financiers, philanthropists, and entrepreneurs [who] truly run the world” (Forbes, n.d.). The cooperative movement also demonstrates an attachment to its leadership, evident through its celebration of individuals who have made significant contributions to the movement, such as Alphonse Desjardins in Québec (Desjardins, n.d.) or Friedrich Wilhelm Raiffeisen in Germany (International Co-operative Alliance, n.d.), and educational programmes such as the Cooperative Leadership Academy (CHS, n.d.).

While a universally agreed-upon definition remains elusive, advocates of cooperative leadership agree on one key point: the fundamental distinction between classic (or capitalist) leadership and cooperative leadership lies in the latter’s commitment to cooperative principles. More specifically, these advocates insist on the social awareness of cooperative leaders, their capacity to work with a collective (and delegate power to members), and that they are motivated by a desire to effect positive change in their community (NASCO, 2020; Horn, 2020; Schatz, 2019; University of Saskatchewan, 2015). Interestingly, advocates of cooperative leadership often hold assumptions belying a somewhat individualistic perspective. This translates into programmes and public statements that aim to develop individuals’ decision-making skills, such as establishing and transforming organizations in response to external pressures and demands.

This chapter aims to explore how underlying assumptions about leadership can impact cooperatives’ collective strategies, especially in the context of entrepreneurship programmes. Our argument is built around an opposition between individualistic (e.g., contingency theory) and collectivistic (e.g., collective and distributed leadership) perspectives and grounded in empirical observations from the field. In this respect, cooperative associations offer an interesting context: they are structures of

inter-cooperation capable of fostering innovation through frameworks of collective leadership. To complement our empirical observations, we turned to scholarly contributions, and the emerging literature on meta-organizations proved to be a valuable resource. Scholars in the field of meta-organizations demonstrate a specific interest in cooperative associations and address such topics as their roles in collective innovation. We also found digital transitions to be a compelling context for exploration. A few companies have quickly become digital success stories, reinforcing a collective belief in enlightened, forward-thinking individual leaders (e.g.: Mark Zuckerberg, Elon Musk, and Jeff Bezos). This context has created pressure on cooperative associations, prompting efforts to demonstrate and reinforce their members' capacity to benefit from and drive digital innovation. Such efforts notably include digital leadership programmes, which have yielded mixed results.

In the first section, we explore how cooperatives have adopted an individualistic leadership perspective in addressing competencies required for a digital transition. This analysis enables us to highlight limitations that may be attributed to cooperative managers' and institutional partners' underlying assumptions. In the second section, we discuss how a collectivistic perspective of leadership could produce a strategic shift in cooperatives' digital transition strategies. More specifically, we argue that this shift could reinforce the foundations of cooperative associations: rather than serving as support structures for individual digital leaders, they might provide frameworks for collective action for digital transitions.

While primarily theoretical, this chapter also incorporates empirical observations, particularly from an Erasmus+ project to which one of the authors contributed in 2022–2023, titled DSEtools (DSEtools, n.d.). The project involved a short empirical study based on primary data (interviews) and secondary data (desk research) on 11 cases. A focus group involving managers and representatives of cooperative associations rounded out the study.

## **2 Managing cooperatives' digital transition from the top**

The prevailing perception of digital transition views it as a strategy conducted by skilled and rational managers leading their teams towards a promising technological future. In this section, we unpack this assumption by outlining its theoretical foundations and institutionalization, then turn to its limitations in a cooperative context.

### ***2.1 Cooperative managers: digital leaders?***

The idea of cooperative managers as potential digital leaders can be linked to individualistic perspectives of leadership, significantly influenced by contingency theory. These concepts have gained widespread acceptance, leading to a degree of institutionalization in both the cooperative movement and public bodies.

#### ***2.1.1 Individualistic leadership perspective: theoretical background***

A leader is often depicted as an inspiring and knowledgeable individual who wields their influence, typically derived from hierarchical relationships (see Chapter 10, this book), to lead a group towards a more promising future. Keith Grint attributes the origins of this perception to theorists such as Thomas Carlyle, whose “normative” model envisioned leaders as “irremediably masculine, heroic, individualist, and normative in orientation and nature” (Grint, 2011, p. 8) and Frederick Taylor, whose scientific management theory, in a quest for efficiency, put the control of knowledge and task distribution in top management's hands (Payne et al., 2006).

From the very beginnings of management science, research has consistently challenged the relevance of a purely individualistic perspective. For instance, the Hawthorne experiments showed that work productivity could be better understood through group-oriented culture than individual motivation (Hassard, 2012; Roethlisberger & Dickson, 2003). Yet, the romantic idea of the leader (a managerial version of Castoriadis' *imaginaire*) seemed to benefit from post-war United States hegemony and the country's individualistic culture, evinced by theorists such as Maslow and McGregor (Grint, 2011).

The second half of the 20th century saw a gradual shift away from charisma to rationality as a leader's primary asset. Contingency theory, as advocated by Jenkins, Stogdill, Fiedler, and Mouton, assumed that "situation X requires leadership X to ensure an appropriate – and thus rational – response" (Grint, 2011, p. 9). This trend was reinforced by subsequent theoretical work, such as New Public Management, which aimed to transform old, inefficient bureaucracies by introducing lean processes. These theoretical developments seem to share the aim of helping top-level managers implement organizational changes.

### *2.1.2 Cooperatives' adoption of an individualistic leadership perspective*

The individualistic perspective has revealed itself as valuable to understand and anticipate individuals' behaviours in cooperative organizations. Simon Pek's contribution (see Chapter 19, this book) is illustrative in mobilizing the contingency to support an innovative theoretical reflection about the integration of sortition within cooperative governance.

By extension, cooperative supporters have adopted this same perspective to develop programmes for digital transition, focusing on upskilling top managers. One example is the Belgian incubator COOPCITY, founded and governed by seven organizations, including one cooperative association. The incubator offers capacity-building programmes to benefit cooperative managers. COOPCITY's overarching goal is to support cooperatives as agents of social innovation, especially through the development of collaborative economy models. To achieve this goal, COOPCITY offers a range of programmes and services designed to help individuals turn their ideas into projects, assess their social impact, test new products or services, or experiment with governance models with diverse stakeholders. All in all, COOPCITY aims to guide and support individual entrepreneurs, empowering them to become leaders in their respective fields.

The individualistic leadership perspective can also be found in public institutions' approach to digital transitions, which can strongly influence strategies conducted by cooperatives and their supporters (see Chapter 28, this book). For instance, the European Commission released DigComp (European Commission, 2022), a framework that provides guidelines for trainers on critical digital competencies for professionals. DigComp identifies competence areas that enable individuals to harness technology and digital innovation effectively, facilitating their personal evolution and the strategic deployment of emerging technologies to their advantage. Organizations can use DigComp as a basis, tailoring it to create digital literacy training programmes that meet the specific needs of their employees or members, as well as to benchmark their own progress, ensuring that their employees are equipped to navigate the changing digital landscape.

For instance, the DigComp "Information and Data Literacy" competence area emphasizes the central role of managers in leveraging data to consolidate their organizations' competitiveness in an increasingly digital market. As such, managers are encouraged to champion effective data management and analysis in order to foster informed decision-making, improve their member services, and increase operational efficiency. This involves choosing appropriate data storage solutions (cloud-based systems, structured databases, or on-premise servers), designing a relevant system

for data aggregation and cataloguing (to monitor member engagement and for evidence-based decision-making), performing data analysis (to detect patterns in member behaviour, preferences, and needs), evaluating performance (by comparing key metrics over time), and generally adopting data-savvy practices, combining data management and analysis to establish a resilient organizational framework that can navigate the digital age. In sum, this competence area encourages cooperative managers to make a paradigm shift in their decision-making processes, from relying on intuition or anecdotal evidence to basing their choices on a robust foundation of data-driven information (European Commission, 2022).

Overall, the cooperative movement and public institutions have developed a wide array of solutions to help cooperative managers acquire the multifaceted skills needed to guide their teams through a complex, but promising, digital journey. In the following section, we present empirical data that show managers' uncertainties about their ability to fulfil this expectation and become skilled digital leaders.

## ***2.2 Observed limitations of an individualistic perspective in cooperatives' digital transition***

Empirical observations revealed that managers of cooperatives and cooperative associations face challenges from their external environments in implementing digital transition strategies. They also exhibit scepticism about the relevance of an individualistic leadership perspective in the context of digital change.

### ***2.2.1 Cooperatives need to engage their external partners***

Viewing the digital transition as a process primarily led by skilled managers overlooks a crucial fact: field experiences show that cooperatives' digital transition may remain incomplete when conducted in isolation from their broader ecosystem of partners.

An illustrative example is Aldia, a social cooperative based in Italy. The cooperative provides various forms of assistance, including psycho-pedagogical, social welfare, educational, and health-care services for individuals across all life stages and for individuals with disabilities. It boasts a workforce of over 2,000 employees.

Aldia developed a custom software solution to monitor and enhance employee productivity and store beneficiary data. The cooperative experienced a significant transformation, thanks to its software, which enhanced its credibility and trustworthiness (the data it generates are certified) and allowed it to collect valuable insights. This, in turn, enabled it to secure additional funding. Members have witnessed increased efficiency and the workforce has since expanded.

The shift to digital solutions posed some challenges for management, who had to contend with some resistance from their employees and clients (public authorities). Managers ensured that stakeholders were actively involved throughout the project and that they benefitted from relevant capacity-building activities. In this respect, cooperative managers made recourse to tools and methodologies developed for the needs of individual leaders, which resulted in a successful organizational-level digital change.

Yet, such an individualistic perspective revealed its limitations when Aldia needed to partner with another cooperative to improve its services and to resist growing competition from capitalist actors. Their partner cooperative was limited in terms of its digitalization, and was thus unable to efficiently share necessary data. Consequently, Aldia staff initiated and supported a digital change in their partner cooperative, providing software, skills, and change management methodologies.

The leadership modelled here fundamentally differs from the leadership modelled in their own transition, as the former was co-performed by managers from both organizations (Aldia and the partner cooperative), each of them bringing their own capacities (digital resources in the case of Aldia, organizational resources in the case of the partner cooperative) into play in order to reach a common aim (a more efficient partnership of care cooperatives). However, managers felt that they lacked appropriate methodologies for this inter-organizational change strategy, which illustrates the gap left by the mainstream individualistic perspective of leadership.

Last but not least, an individualistic approach may be questionable in that it conflicts with the very principles framing cooperatives' identity. As organizations collectively owned and controlled by their users, cooperatives commit to equipping their members with the knowledge and information that will enable them to actively participate in decision-making processes (International Co-operative Alliance, 2015). A digital strategy relying on digital skills and visions centralized at the top-management level may be felt to be misaligned with these founding social values (Marsan et al., 2017).

### *2.2.2 Cooperative associations need to engage their members*

As explained above, a cooperative's digital transition strategy is influenced by both its internal characteristics and external conditions. While top managers can typically address internal characteristics, external conditions tend to be more complex (Pfeffer & Salancik, 1978). In this respect, top managers may find a valuable ally in cooperative associations.

The cooperative movement encompasses a vast array of cooperative associations, embodying cooperative principle six: cooperation among cooperatives. According to this principle, "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, 2015). While cooperative associations have not been extensively studied by scholars, the broader literature on meta-organizations offers a useful theoretical framework for understanding their roles, capabilities, and limitations in organizational change and leadership.

The concept of *meta-organization* refers to an organization whose members are themselves organizations, rather than individuals (Ahrne & Brunsson, 2005). Meta-organizations have yet to be fully appreciated by management and economics scholars, who typically identify and adopt three levels of governance: micro, meso, and macro (see Chapter 1 and Chapter 32, this book). The emerging theory of meta-organizations is rooted in the observation that organizations tend to create relational governance mechanisms at a meta level, usually in the form of another organization intended to structure relations between the meso (organizational) and macro (institutional) levels (Ahrne & Brunsson, 2005; Berkowitz & Dumez, 2016). In other words, meta-organizations' primary function consists of setting up and maintaining an organizational field that ideally provides their members with a stable framework for collective action (Harter & Krone, 2001; König et al., 2012).

We adopt Scott's neo-institutional definition of an *organizational field*: that is, "a community of organizations that partakes of a common meaning system and whose participants interact more frequently and fatefully with one another than with actors outside of the field" (Scott, 1995, p. 56). In our context, we view the cooperative movement as an organizational field, whose actors (cooperatives) share a common meaning system enshrined in the seven international cooperative principles.

Meta-organizations display two important characteristics that distinguish them from other inter-organizational arrangements, such as networks. First, as organizations, meta-organizations have a certain degree of autonomy, agency, and authority (Berkowitz et al., 2022). One can contact, bargain, and contract with a cooperative association, whereas the same actions may not be

feasible with an informal network of cooperatives. Second, meta-organizations are associations that organizations can voluntarily join and leave, collectively forming the centre of their authority (Berkowitz & Bor, 2018). This distinguishes them from franchises or business groups, whose member firms typically hold little power. Thus, while meta-organizations present some commonalities with inter-firm networks, such as facilitating inter-organizational knowledge exchange, their structural characteristics translate to unique mechanisms of change and innovation that distinguish them from other frameworks of collaboration (Ahrne & Brunsson, 2005).

As meta-organizations, cooperative associations ensure that their field is recognized and institutionalized by engaging in representation, communication, and advocacy with policymakers and the general public. Scholars have noted that meta-organizations, including cooperative associations, possess capabilities that could prove useful in times of profound transformations, such as the digital revolution. Through their research, capacity-building activities, and networking with members, meta-organizations can identify weak signals from their internal and external environments. This enables them to understand opportunities and challenges and to adopt relevant strategies to ensure the long-term continuity of their field. For instance, Harter and Krone (2001) have highlighted how the Nebraska Cooperative Council, a US-based agricultural cooperative association, encouraged its members to digitalize through capacity-building and experience-sharing activities, thereby consolidating the competitiveness of their field.

Yet, some characteristics of meta-organizations' structures make them averse to change and weaken their capacity to act in response to environmental variations. König et al. (2012) note that their typically slow decision-making processes – attributed to their heterarchical, consensus-based governance structures – combined with a culture of elitism cultivated by representatives and staff members, generate significant inertia, especially in the context of a paradigm shift like the digital revolution.

Our data confirms the collective expectation that cooperative associations support their members in harnessing the potential of the digital revolution, but also the challenges cooperative association managers face in conducting such a field-level transformation.

Diesis network offers an illustrative case. Self-describing as a European innovation ecosystem, Diesis is made up of social economy organizations and federations. Its executive director notes that the challenges of leading a collective digital project are mainly caused by complex governance structures and the varied decision-making roles of diverse stakeholders, who include members, employees, board members, external partners, and regulatory bodies. Aligning all these interests towards a common digital vision generally proves challenging. Limited resources, including funding and personnel, also pose a major challenge: managers find it difficult to streamline the budget dedicated to driving their digital progress.

Thus, cooperative managers attempting a digital transition may face barriers from their external environment, such as partner cooperatives with less digital competency. In addition, managers of cooperative associations may feel disempowered in implementing digital strategies due to complex organizational structures and members' uneven interests and skills. These experiences provide preliminary evidence of the limitations of an individualistic leadership perspective: skilled, knowledgeable managers must navigate conditions beyond the borders of their organizations for a successful digital transition.

### **3 Managing cooperatives' digital transition as a collective process**

In the previous section, we argued that the concept of a digital transition is typically viewed through the lens of contingency theory, which assumes that leadership rests primarily on the

shoulders of top managers. We then contextualized these assumptions with field observations, which led us to conclude that in practice, cooperative managers struggle to meet the expectation that they be future-oriented and digital leaders, as they face disempowering environmental obstacles. In this section, we shift to an alternative theoretical lens, exploring theories that conceptualize leadership as a collectivistic rather than individualistic phenomenon. We begin by introducing these theories before illustrating how they can be put into practice through examples from the field.

### **3.1 *Collectivistic leadership perspective: theoretical background***

Contingency theory assumes that organizational change relies on a manager's ability to acquire skills and expertise to implement relevant strategies in the organization. However, as Denis et al. note, a "growing body of organizational research and theorizing [...] examines leadership not as a property of individuals and their behaviours, but as a collective phenomenon that is distributed or shared among different people, potentially fluid, and constructed in interaction" (Denis et al., 2012, p. 212).

We refer to this body of research as having a *collectivistic* perspective on leadership. It includes various leadership theories that embrace the idea that leadership can be shared within teams, distributed from top levels of organizations, or even spread across organizational boundaries. In this section, we focus on two key concepts of these emerging theories: *collective leadership* and *distributed leadership*. We now briefly present each of them.

*Collective leadership* is defined by Yammarino et al. as

a dynamic leadership process in which a defined or focal leader, or set of leaders, selectively utilize skills and expertise within a network, and across levels of analysis and hierarchical levels, effectively distributing elements of the leadership role as the situation or problem at hand requires.

(Yammarino et al., 2012, p. 393)

Rather than attempting to centralize knowledge at the top of an organization, a collectivistic perspective assumes that leaders are agents capable of activating relational assets to foster the circulation of leadership knowledge among interested stakeholders (see Chapter 1, this book).

The concept of collective leadership urges scholars to focus "on units, teams and networks, rather than solely on the skills of individual leaders" (Yammarino et al., 2012, p. 393). This perspective opens up avenues for understanding how problems common to the organizational field can be addressed not only by top managers but also by teams composed of individuals interested in improving the organization's performance and innovation capacity. These individuals can be involved through dedicated governance frameworks (see Chapter 19 and Chapter 28, this book), or through established frameworks of inter-organizational collaboration – such as bilateral partnerships, memberships to industry associations and participation to innovation hubs (see Chapter 28, this book). Accordingly, leaders need not assume specific hierarchical positions or be appointed through formal processes: instead, they demonstrate the capacity to mobilize individuals within their networks, whether these networks are formally constituted or not.

The conditions for collective leadership are arguably complex. At the individual level, leaders require certain skills to identify and manage resources and circulate relevant information to address a given problem. However, many conditions for collective leadership, such as network

embeddedness, the overall climate of collaboration, and the outcomes at play, are beyond individual leaders' control (Yammarino et al., 2012).

The concept of *distributed leadership*, which we also include as part of the collectivistic perspective, complements the study of collective leadership. While collective leadership scholars explore how the available skills and expertise in networks can enable a group of individuals to collectively adopt a leadership role, scholars of distributed leadership study relational governance models both within and beyond organizational boundaries.

*Distributed leadership* views leadership as a group phenomenon. It is often associated with the theory of distributed cognition, which recognizes that cognitive capacities exist not only in the minds of individual persons but also in their interactions with other people (Denis et al., 2012). Scholars have applied the concept of distributed leadership to study complex change mechanisms within and across organizational boundaries, such as public hospital networks, where diverse actors spontaneously organize around a shared goal through fluid mechanisms (Buchanan et al., 2007).

Huxham and Vagen (2000) made an influential contribution in wondering which organizational conditions enable or prevent the development of distributed leadership practices. They proposed a distinction between leadership *media* and *activities*. Regarding leadership *media*, the authors argue that leadership roles are exerted not only by individuals performing leadership practices but also by the structures determining who accesses frameworks of collaboration and the processes channelling their practices. Regarding leadership *activities*, the authors suggest focusing on how collaboration is managed, how participating organizations are represented, and which strategies are deployed to recruit and empower targeted participants to collaborate.

As the concept of distributed leadership gained momentum and became institutionalized, criticisms emerged. In particular, scholars have questioned the effectiveness of distributed leadership patterns in the field (Denis et al., 2012). For instance, Currie et al. (2009) applied Huxham's and Vagen's (2000) framework to study two pilot projects in public healthcare. They observed that implementing distributed leadership frameworks through a top-down approach resulted in a multiplication of leadership forms. In some cases, this even resulted in backlash, with participants pushing for centralized coordination (Currie et al., 2011). These critical studies argue that leadership distribution cannot be proclaimed but must be co-built with participants in response to local contexts and needs.

Thus, while an individualistic perspective focuses on how managers acquire the knowledge and skills to lead their teams on a top-down organizational change journey, a collectivistic perspective shifts the focus to the network's characteristics. Put simply, the concepts of collective and distributed leadership propose that we focus on the capabilities and structures in an organizational field that allow groups to collaborate on leading a transition, rather than focusing on one individual's ability to conduct and implement a digital transition strategy. Cooperative associations offer a relevant case to assess these capabilities at the network level.

### ***3.2 Cooperative associations as frameworks of collectivistic leadership***

In the previous section, we argued that a collectivistic perspective is more effective than an individualistic perspective in managing innovation mechanisms led by cooperative associations. We now turn to two case studies to illustrate how the concepts of collective and distributed leadership shed light on the role of umbrella organizations, including cooperative associations, in digital innovation strategies: clusters of social and ecological innovation (CSEIs) and inCooperazione.

In the European Union, CSEIs are meta-organizations established with the specific aim of fostering the adoption and dissemination of technological innovations. Designated by public institutions, these meta-organizations act as ecosystems facilitating digital transitions for organizations in the social economy, including cooperatives (Diesis Network et al., 2022). They bring together a range of entities in a given territory, including social economy organizations, mainstream enterprises, civil society groups, public authorities, and education and research institutions. These initiatives aim to drive local economic growth, ecological sustainability, and societal well-being through collaboration, resource sharing, and innovative thinking. Traditional competitive clusters tend to limit their scope to academia, industry, and governments, as per the triple helix model (Etzkowitz & Leydesdorff, 1995; Leydesdorff, 2021); CSEIs are unique in their integration of a fourth stakeholder – civil society – an approach referred to as the quadruple helix model (Afonso et al., 2012). Civil society encompasses non-profit organizations, community groups, media, and other entities that champion the broader public's interests and needs. By including civil society organizations, CSEIs aim to integrate the broad range of societal values, needs, and concerns in the innovation strategies of their members. This ensures that innovative ecosystems are more representative, responsive, and attuned to the collective aspirations of their communities – whose values, needs, and concerns are indeed pivotal to the success of their innovation strategies (Diesis Network et al., 2022).

Digitalization strategies are not limited to clusters: established cooperative associations can also take an active role in digitizing their field. The Trentino Federation of Cooperation noted that its members were facing a dual structural deficiency due to the lack of a comprehensive digital strategy at the field level. First, smaller cooperatives lacked resources to effectively digitize their membership management: members' files were either not digitized or stored using low-quality digital solutions (e.g., tables), protracting their operations and increasing the risk of data loss. Second, membership in one cooperative did not translate to benefits from other cooperatives due to a lack of connectivity between them. In response, the Federation designed a blockchain-based meta-membership system through a platform called *inCooperazione*. Rather than storing members' data within their own systems, cooperatives can now store it on a blockchain common to the local movement. This technology allows cooperatives to maintain control over their own data, while allowing it to circulate among the network. As a result, member files are recognized by participant cooperatives' systems: a single membership card is needed to access services from the whole network of local cooperatives. When a member updates their personal information, it is updated across all the cooperatives' systems, reducing administrative burdens and costs. Cooperatives can also extend their benefits to partner cooperatives' members, thus increasing the value of cooperative membership and encouraging them to patronize cooperative businesses over capitalist competitors.

These two examples illustrate collectivistic leadership processes coordinated by meta-organizations. While CSEIs adopt a bottom-up approach and the Trentino Federation of Cooperation a top-down approach, the digital transformation process rests in the hands of their members in both cases. In practice, CSEI members design and experiment with innovations based on their needs, while Trento cooperatives contribute to the viability and tangibility of *inCooperazione* by storing their members' data on the platform. In both cases, the success or failure of the innovation process hinges on the collective willingness of the meta-organization's members to co-lead and adopt it. Furthermore, the CSEI case exemplifies a distributed leadership approach. By granting civil society organizations full membership in their clusters, CSEIs create the conditions for stakeholders to develop a collective understanding of digital innovations and their societal and

environmental relevance. In other words, rather than merely attempting to influence innovation processes through advice and ideas, CSEIs act as structures where stakeholders can develop a collective understanding of their shared problems.

## **4 Implications for practitioners**

Shifting from an individualistic to a collectivistic perspective of leadership may have implications for digital strategies designed by both managers of cooperatives and managers of cooperative associations.

### ***4.1 Implications for managers of cooperatives***

Tools such as DigComp usefully outline the vast array of competencies required for a digital transition. Yet, cooperative managers may find the scope and intensity of such requirements overwhelming.

Today, most of the cooperative movement is made up of small organizations with tight budgets and limited staff. For instance, 97% of cooperative enterprises in Canada have fewer than 100 employees, and more than half have no employees at all. Two-thirds of cooperative enterprises collectively produce less than 5% of the total aggregate turnover for Canadian cooperatives (Statistics Canada, 2021). In France, the top 100 cooperatives, or 0.5% of cooperative enterprises in the country, generate 78% of the aggregate turnover for cooperatives and employ 70% of cooperative workers: the remaining resources are thus unevenly distributed among 22 500 enterprises (Coop FR, 2022).

Their digitalization is typically limited to using basic, affordable solutions, such as spreadsheets and collaborative documents. Consequently, managers may perceive a substantial gap between their daily challenges and the institutional path to digitalization – and that it would be unrealistic to bridge this gap in the near future.

Adopting a collectivistic leadership perspective may help close this gap. At the organizational level, a distributed cognition perspective encourages managers, stakeholders, and members to consider the diversity of knowledge and skills in their organization. Thus, rather than centralizing the resources needed to devise a digitalization strategy, it could be more effective for managers to create spaces where their collaborators, including staff and members, can pool their visions and skills around a common goal.

A collectivistic leadership perspective also broadens opportunities beyond the cooperative's boundaries. In the case of very small organizations, resources may be limited to very few staff and members, who are less likely to possess the wide array of competencies needed. Expanding to the broader network of cooperatives may open doors to additional resources: some partner cooperatives may be facing similar challenges and have a different set of local competencies. Here again, managers' roles consist not much in centralizing resources. Rather, managers could focus on establishing frameworks of distributed leadership, by building and capitalizing on relational assets such as experience- and skill-sharing practices (see Chapter 1, this book), both within their organizations (meso level) and in their wider network of partners through cooperative associations (meta level).

In sum, collectivistic leadership recognizes that transitions can be collectively performed when teams collaborate beyond traditional hierarchical frameworks (collective leadership), putting their competencies to work in the service of a common goal (distributed leadership). This perspective could help managers focus specifically on the competencies needed to facilitate collective

discussions for shaping and implementing digital strategies across organizational boundaries, rather than attempting to bridge a potentially large personal skills gap.

#### **4.2 Implications for managers of cooperative associations**

In practice, establishing frameworks for leadership across organizational boundaries may prove complex for an individual cooperative manager. There are organizational barriers, including a lack of information about other cooperatives' needs and resources and a shortage of the skills required to establish collaborative frameworks. As meta-organizations, cooperative associations are uniquely able to detect weak signals in their networks, such as common needs and complementary resources that can be used for a collective digital transition.

A collectivistic perspective of leadership may have two implications for cooperative association managers. First, just as we observed in the case of cooperative managers, it can take some of the weight off their shoulders. Rather than acquiring all the competencies required itself, a cooperative association's specific value may be to ensure that these competencies are present among its membership and the wider network and to facilitate the activation of these competencies through collective and distributed leadership mechanisms. This includes mapping needs and competencies and creating governance frameworks that engage people whose motivations and skills are aligned with the collective objective – here, a shared vision for a collective digital transition.

Second, recognizing the assets of cooperative associations in creating frameworks for collective leadership may also mean assigning specific roles or responsibilities to cooperative associations. Given that cooperatives may struggle to undertake a digital transition without the support of their ecosystem, the role of cooperative associations may be to shape these ecosystems to their members' needs. This may include advocating with policymakers, establishing capacity-building programmes for members, and creating and facilitating appropriate frameworks for collaboration and innovation.

In essence, a collectivistic perspective of leadership may alleviate some of the burdens on cooperative association managers as sole leaders of digital change for their whole field, while specifying that the role of cooperative associations be to take appropriate action to support member cooperatives' digital transitions.

### **5 Conclusion**

In this chapter, we argued that an individualistic leadership perspective, influenced by the contingency theory, has reached a dominant status among the general public, economic actors (including cooperatives), and public institutions. This translates to a collective assumption that cooperative top managers should spearhead their organizations' digital transitions, leading their teams through complex strategies that require extensive competencies. We further showed that, in addition to placing a substantial burden on cooperative managers, this perspective limited the ability of cooperatives to engage with partner organizations on their own digital endeavours, thus adding friction to already challenging organizational change processes.

We suggested that adopting a collectivistic perspective on leadership, by incorporating concepts like *distributed leadership* and *collective leadership*, could provide the cooperative movement with an approach in line with its identity and structure. Specifically, this perspective invites cooperative managers and cooperative associations to establish frameworks for collective innovation, enabling interested stakeholders to share experiences, skills, and visions around a collectively agreed-upon strategy. Case studies from the field, such as the CSEIs and inCooperazione, offer illustrative and promising examples.

Overall, this chapter has aimed to improve cooperative managers' and organizations' effectiveness in navigating digitalization's challenges, as well as to define the role of cooperative associations as facilitators of a collective digital transition for their members.

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# PLATFORM COOPERATIVES, A MODEL OF COMMONS AND SUSTAINABILITY

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## 1 Introduction

As the urgency to combat climate change mounts, the potential synergy between cooperatives and the commons as dynamic mechanisms for fostering sustainability and environmental resilience needs to be explored. On the one hand, cooperatives are inherently grounded in democratic principles and could be key actors in promoting sustainable development goals. On the other hand, the commons produce and protect resources outside the logic of the market in response to communities' needs.

Furthermore, the commons provide an alternative model to the commodification of nature, labor, and other key resources for the well-being of society at large. In stark contrast to what Karl Polanyi (2001[1944]) refers to as “the market economy’s unique disembeddedness”, i.e. a propensity for its drive for full self-regulation rendering economic relations of self-interest, the commons function with the presumption of the social *embeddedness* in the economy (Chanteau & Labrousse, 2013; Ostrom, 2005; Weinstein, 2013). The commons achieve this through corresponding institutional arrangements of resource management in a community setting. Thus, mindful of Karl Polanyi’s (1992) rich notion of substantive economy as an “instituted process of interaction between man and his environment, which results in a continuous supply of want satisfying material means” (p. 126), the commons and cooperatives are institutions capable of pushing societal organization beyond the existing dichotomy of for-profit accumulation logic and state authority. Aiming to create and sustain needed resources for the communal interest, both could become building blocks for a new sphere of substantivity, avoiding the formalized view of the disembedded economy and shaping the ensuing battle of adaptation between the society and its environment.

Integrating commons, a collective governance of resource access and use, and cooperatives, a stakeholder-oriented organization of economic activity in pursuit of the common good, into what we term in this chapter as commons-oriented cooperatives, can create a synergy in the society, rehabilitating the substantive economy in the sense of Polanyi (1944, 1992).

Ostrom (1990) has shown that common property systems, managed through shared governance as commons, can help communities build resilience from the bottom up that could extend to climate resiliency goals (Coriat, 2020). Commons have been traditionally linked to natural resources such as fisheries or forests. But the resources concerned can go beyond that, including online

(Hess, 2008), which are less constrained by scarcity. While cooperatives and commons have up to now lacked proper integration, we shall argue that the emergence of platform cooperatives opens a new path of alliances. These alliances can be seen as a part of anti-capitalist alternatives (Scholz, 2016) or as liberal and progressist models surrounded by cooperative and venture capital business (see Chapter 14). We delve into case studies that illustrate the integration of commons and cooperatives, examining how this integration has the potential to transform the digital economy services through platform cooperativism. Specifically, we will focus on the formation of alliances between commons and cooperatives, exploring the mechanisms and strategies that were originally assembled. Through this exploration, we aim to contribute to the ongoing debate on how these two concepts can work together to build resilience and overcome adversity within communities.

## **2 The emergence of a new cooperative phenomenon**

In 2014, Trebor Scholz, a scholar and activist, criticized the investor-owned sharing economy and pointed to online alternatives driven by cooperatives in ride-rental services and the marketplace. He proposed the term “platform cooperativism” to promote a fair alternative to venture capital startups, known as platform capitalism. Platform cooperatives comprise online platforms that share democratic ownership and governance of their software as their economic model. They mutualize resources and use personal data only for collective initiatives (Scholz, 2014; Mannan & Pek, 2021).

We distinguish platform cooperatives from corporate venture capital platforms in terms of how they differ in ownership structure, especially when considering the agreements between users and owners. Platform cooperatives propose a well-regulated environment of work and accountability vis-à-vis their members, consumers, investors, and workers (Acosta Alvarado, Aufrère & Srnec 2021; Vercher-Chaptal et al., 2021). Collective and democratic platforms can also be defined as “substantive platforms” when they seek to embed their actions in society and fight the commodification of work (Vercher-Chaptal et al., 2021), following the aforementioned perspective of Polanyi. In seeking to meet the challenges of the ecological and social transition, substantive platforms break away from the usual dominant practices in the digital economy.

These new cooperatives in the digital space face some key challenges to scale up, such as leveraging the network effect due to financial needs (Srnec & Eynaud, 2022), governance complexity (Bunders et al., 2022; Mannan & Pek, 2024), data quality and standardization (Bühler et al., 2023), or legitimacy and acceptance issues (Boudes, Ozman, and Srnec, forthcoming). Democratization of the workplace and horizontal governance are still challenged by the unequal commitment and engagement of members in platform worker cooperatives. Nevertheless, “platform worker cooperatives seem to have more equal patterns of member participation than traditional worker cooperatives” (Bunders, 2023).

A study of French platform alternatives has highlighted their connections to the commons perspective regarding the environment, community resources, and digital technologies (Broca, 2021; Vercher-Chaptal et al., 2021). In that context, it is worth noting that digital commons are informational resources and technology designed to be used by a community as shared and collectively managed online resources (Hess, 2008). For example, a Copyleft license, also known as reciprocal license, places the cooperative spirit at the heart of the software so that private actors cannot unduly re-appropriate shared resources (Maurel, 2018, see also Chapter 26). In recent years different types of cooperatives – worker-owned, consumers, multi-stakeholders, or proto-cooperative associations – have adopted collectively governed online solutions fostering plural exchanges and sharing of resources (business to business, B2B; peer to peer, P2P; business to client, B2C; or

consumer to consumer, C2C) all over the world.<sup>1</sup> We can thus conceive of platform cooperativism as a *movement* favoring the role of commons in achieving a socially and environmentally resilient society. Nevertheless, the sum of the structural and organizational needs may suggest that platform cooperatives won't soon be able to challenge venture capital platforms.

### **3 Organizational alternatives linking cooperatives and commons**

The interrelations in a mutual collaboration or a formal cooperation between cooperatives and commons can take different degrees and imply diverse forms. These forms of partnership, depending on the mechanisms or strategies that they privilege can foster local communities, foment open commons, or benefit the workers. We distinguish four different combinations.

#### **3.1 Commons-governing companies**

The emergence of platform cooperativism coincides with growing interest in widening the use and applicability of commons as envisaged by Hess (2008). This does not necessarily portend the end of the capitalist production logic. Serres (2023, Chapter 14), for example, analyzes shareholder-owned for-profit mission-driven alternative business models using the commons to reshape their activities. Such a hybrid organizational construct, which she referred to as 'commons-governing companies', helps mission-driven companies managing common goods (natural resources, safe food and water, etc.) achieve better social outcomes by mobilizing collective action involving internal and/or external stockholders around their provision of the commons. Serres' (2023, Chapter 14) interpretation of commons-governing companies shows a possible match between for-profit entities with the governance principles of commons, both of which are driven by collective interest. While such scenarios are certainly plausible, there is no consensus about the ability of the commons to transform the for-profit logic of producers subject to market regulation.

#### **3.2 Commons-cooperative alliances**

A more far-reaching alternative consists of combining commons and cooperatives. Guttman (2021) has pointed to the considerable overlaps between Ostrom's (1990) eight "design principles" underpinning the successful governance structure of commons – clear group boundaries, socio-ecological fit with local needs, participatory rule-making, self-monitoring, graduated sanctions for rule breaking, easily accessible conflict resolution, external recognition by local authorities, and nesting within larger networks – and the seven organizing principles for cooperatives proposed by the International Cooperative Alliance in 1995. These comprise voluntary and open membership, democratic member control, member economic participation (capital, surplus distribution, compensation), autonomy and independence, education, training and information, cooperation among cooperatives, and concern for community. Those overlaps provide a theoretical basis for the integration of cooperatives and commons in complementary fashion, with the cooperatives as the actors and the commons as the resources to be produced and sustained. As Guttman (2021) illustrates with concrete case studies, merging those two sets of principles has given rise to successful examples of what he termed "commons-cooperative alliances", such as Ecuador's Buen Vivir public initiative, the Enercoop PACA project in Southern France, or the communal OmniCommons space in Oakland, California.

### **3.3 Open cooperativism**

A major concept in the evolution of fusing together cooperatives and digital commons is the notion of ‘open cooperativism’ by Bauwens and Kostakis (2014). Open cooperativism is designed to ‘open up’ the cooperative world to civil society organizations that directly benefit society through the production of commons. Here market-based actors, such as cooperatives, connect with commons under conditions of reciprocity to co-produce ‘ethical market entities’. The theoretical concept of ‘open cooperativism’ has also been examined by Papadimitropoulos and Malamidis (2024, Chapter 26) as a phenomenon capable of challenging platform capitalism as a ‘counter-hegemonic impetus’. The authors argue that open cooperativism can bridge the gap between the collective objectives emanating from commons and the cooperative principles. However, few exploratory examples have been studied (Pazaitis et al., 2017) and their current stage does not allow to vindicate the diffusion of this model.

### **3.4 Commons-oriented platform cooperatives**

Open cooperativism foresees this new type of alliance, the commons-oriented platform cooperative. This type of alliance relies on multi-stakeholder network of commoners with at least one legal form (a cooperative or not-for-profit association) that protects their digital commons. Platform cooperatives fostering digital commons as well as other commons (information and knowledge, as community of practices or a new license protecting their open-source code) can build strategic partnerships among various interested parties and create this plural commons-oriented organization. The definition of the agreements within the involved parties (workers, users or beneficiaries, developers, local civic organizations, among others), or even through the institutionalization of their collaboration (merging, contract, or combined directory), allows this type of platform cooperatives to pursue positive network externalities while staying close to their communities. In this sense, they have developed institutional warranties to prioritize the basic and social needs of the people, sustained by practices of reciprocity and redistribution, while respecting the environment. In sum, this alliance represents an example of the human and substantive economy in terms of Polanyi (1944). Furthermore, the commitment of the commoners can prevent cooperatives from succumbing to the risk of degenerating with the design of a plural and open governance (Acosta & Srnec, 2020).

## **4 Case studies of platform cooperatives**

In this section, we introduce five case studies of platform cooperatives to illustrate how their multi-stakeholder networks built around digital commons online provide an especially potent version of commons-oriented cooperatives. Their expansion drive makes them well equipped to strengthen the resiliency of communities in the face of mounting social, economic, and ecological challenges. They thus embody the seeds of societal transformation, especially as they get nested in increasingly large and supra-national concentric configurations.

### **4.1 Loomio**

Emerging from the Occupy Movement in 2011 and developed in its first software version by New Zealand activists setting up a cooperative for that purpose two years later, Loomio ([www.loomio.com](http://www.loomio.com)) is an open-source platform encouraging collaborative, consensus-focused decision-making.

It has found widespread use among left-leaning populist movements (e.g. Chile's El Partido Pirate, Internet Party of New Zealand) in over 100 countries. The cooperative managing Loomio promotes this digital commons to collaborative organizations as a way to counter the excessive commercialization, specifically its datafication or data extractivism, of the Internet. Funding sources include crowdfunding initiatives, donations from registered users, as well as contracts with governments and businesses for special IT services.

#### **4.2 *CoopCycle***

Created in 2016 to help typically underpaid and overworked delivery workers self-organize, CoopCycle (<https://coopcycle.org>) is a network of 60 bike delivery cooperatives in 12 countries (mostly Europe, but also extending to Mexico, Argentina, and Chile) using its digital infrastructure to connect consumers, restaurants, and riders. Promoting sustainable logistics solutions, its digital commons, an online marketplace with a dispatch software, is protected by a Copyleft license ensuring exclusive use by cooperatives or worker collectives. The license aims to counter the commodification of labor and social relationships by big venture capital platforms. An international not-for-profit association, formed by volunteers, is responsible for protecting the digital commons and maintaining institutional public relationships. An international multi-stakeholder cooperative has been formed by the not-for-profit association and all the riders' cooperatives to share resources, support the digital tools, and help each other. The international cooperative is financed by all the cooperatives paying fees in proportion to their own revenues.

#### **4.3 *Mobicoop***

Resisting the commodification of collaborative carpooling practices and promoting carpooling as an environmentally preferable approach, the platform cooperative Mobicoop (<https://www.mobicoop.fr>) has grown since its inception in 2016 to over half a million users in 1,200 locations across France. Its commitment to collaborative carpooling practices is reinforced by offering a commission-free service, aimed at rendering shared mobility a non-capitalizable common good. The cooperative also offers white-label platforms to local authorities and businesses who can publish their own version of the mobility online software. Revenue generation is supplemented by donations from users, crowdfunding, and the cooperative capital, with stocks bought by every associated member. It uses a General Public License for promotion of its open-source technologies to develop its platform and has also created various thematic participative circles, open to non-members, to develop shared and plural governance.

#### **4.4 *Open Food Network (OFN)***

Created in 2012 in Australia and nowadays having spread to 19 countries, the international federation of cooperatives and not-for-profit organizations known as Open Food Network (<https://openfoodnetwork.org>) has developed a digital commons for food producers gathering a large number of communities of consumers, food producers, and workers. The project aims to promote ecologically responsible food distribution, helping local producers and consumers. Its digital commons, an online marketplace, is protected by a Copyleft license whose code is shared, accessible, and reusable by all. The platform is collectively designed and does not share personal data with third parties. It is funded by a proportional commission from the sales of producers and further supported by voluntary work of the worldwide community of open-source developers. Any person

can join OFN and participate in its governance. It has a collective charter, called Community Pledge, summarizing its rules of governance and for the protection of its commons. Connecting to other digital commons mobilizing short-food circuits (e.g. Data Food Consortium), OFN aims toward a global web of platform-driven communities of food production/distribution networks.

#### **4.5 CoopCircuits**

The French platform (<https://coopcircuits.fr>) operates a multi-stakeholder cooperative mobilizing short-food circuits. It has joined the international OFN and adapted its digital commons to the French context. It has a democratic governance distributed through diverse “colleges” comprising builders or every-day actors (i.e. entrepreneurs, workers, volunteers, founders), direct beneficiaries (i.e. food producers, distributors, NGOs), and indirect beneficiaries (i.e. consumers, supporters, foundations, public and private institutions, researchers, investors) whose votes are weighted proportionally to their daily engagement. Nowadays, CoopCircuits has 97 members, including 16 short-food circuit organizers, nine builders, three operational partners, and 69 supporters. The not-for-profit association can be joined by every food producer or coordinator of a marketplace paying a voluntary annual contribution.

### **5 Analysis and discussion**

Each of those five platform cooperatives mentioned in the preceding section exemplifies in its own unique way the pioneering form of the alliance between commons and cooperatives. These “substantive platforms” are supporting “digital social innovations” (Özman & Gossart, 2018; Qureshi et al., 2021) as they address social problems and improve the well-being of disadvantaged groups. From an organizational perspective, both institutional constructs rely on principles of accountable administration and can be characterized as models of responsible innovation (Stahl, 2023). Accountability, both internal and external, is an important element of their governance and plays a crucial role in building trust. At the micro level, they are committed both to promoting equality and protecting labor conditions for their employees. Their collective decision-making distinguishes either from the model of the venture capital sharing economy that outsources and relies on self-contractors. All this rests on how cooperatives as well as commons are governed. It is its governance that can render a cooperative a credible non-for-profit collaborative alternative to either venture capital business or public administration. And it is governance too that turns a resource into a commons by giving it a common property regime of collectively managed access, use, and reproduction through rules for continuous sharing. This aspect of commons, aimed at the maintenance and preservation of a needed shared resource, makes it a vector for sustainability as a societal project. It also avoids problems that cooperatives regularly face, such as cooperative degeneration, where a cooperative runs the risk of forcing itself into a venture-capitalist structure (Pastier, 2024; Rosner, 1984; Srncic & Eynaud, 2022; see Chapter 6). It may also be relevant to look at the structural distinctions discussed in Ruggiero (2023) between an idealized cooperative and an idealized capitalist firm to understand how commons can avoid such problems when integrated in the governance structure of cooperatives.

At the governance level, the distributed and horizontal power structure in place at the cooperatives Mobicoop, OFN, CoopCycle, and CoopCircuits corresponds in each case well to Ostrom’s (1990) design principles for the commons. By contrast, Loomio shows a more constrained governance in order to incentivize continuous development of the collaborative software driving its digital commons. But no matter what their governance structure or social mission, neither cooperatives

nor commons typically have the financial capacity to remunerate every worker or contributor. In the face of insufficient funding, they still depend on voluntary work, donations, and overwork of employees and founders. In other words, social capital is still a key element in bottom-up experiences among social enterprises (Richards & Reed, 2015; Woolcock & Narayan, 2000). By generating more and wider electronic fund-transfer flows as income, the innately more expansion-prone dynamic of platform cooperatives and their digital commons may alleviate these endemic budget constraints, at least when compared with the once-predominant locally anchored neighborhood cooperatives and natural-resource commons. The digital economy, even when organized along the lines of the social solidarity economy, is more likely to reach sufficient scale, a positive network effect, where even small transfers yield large aggregate sums in the end.

Our research has demonstrated that OFN, CoopCircuits, CoopCycle, and Mobicoop are appropriate examples of a “commons-cooperative alliance” (Guttman, 2021) devoted to social inclusion and climate transition. They have implemented digital tools to facilitate communication, interaction, and sharing of resources among different actors (user, producers, managers, all active members of the alliance) committed to changing environmentally harmful practices in the transportation and food distribution sectors. These platform cooperatives take action to facilitate behavioral change on a local level while also seeking to have a systemic impact on climate change through replication. Toward that objective, they have each created a responsible ecosystem, identifying agents who are answerable for the uses or consequences of their services. The integration of these mechanisms acts as a fence to prevent degeneration. Other platform cooperatives may build or use models of commons, but their governance structure is enclosed and thus not yet conducive to a commons-oriented cooperative. For example, some “substantive platforms” relied on a worker-cooperative status or a not-for-profit association and do not give free access to deliberations or include the needs and ideas of users or workers. When the membership of the organization depends on a cooptation mechanism, the commons is only governed by some people (e.g. Framasoft or the former French platform cooperative France Barter).

Widespread accessibility to the services of these platform cooperatives depends on the low cost of their digital infrastructure. This is assured by open-source technology, notably Copyleft licenses, which facilitates gathering free contributors or testers and so acquiring collectively shared knowledge as an ongoing process. Crowdfunding, donations, and public support reinforced additional income generation in the form of fees or in the case of Mobicoop through the white-label platforms for local governments, are all central strategic elements in developing their respective digital commons at low cost. On the other hand, due to their inherent budget constraints, the staff of each platform cooperative is small, and wages are lower than in the private sector. As such, high turn-over is a challenge. A lot of tasks, responsibilities, and social functions rely on a few employees and leaders. Spontaneous cooperation (Tortia & Borzaga, 2017) is a central internal coordination mechanism in the analyzed organizations. Engagement and personal motivation play an outsized role as a major resource for the survival of these commons-oriented cooperatives. Even if these experiences are at an early stage, we see that the general pattern of management is evolutionary, from a vocational model to its professionalization (through salarization and further division of labor). The role of leaders and the motivation of workers require the attention of these organizations (for extra managerial clues, see Chapters 14, 24).

Our case studies have indicated some differences concerning the role played by public or social actors. For example, Mobicoop’s transportation commons tries to link its carpooling routes to the public system, which is after all a key player in mobility and privileged ally in creating a responsible alternative to the private mode of transport and commercial offerings. The virtue of Mobicoop’s platform is rooted in the complementarity of peer-to-peer carpooling sharing, the collective

disposal of vehicles and the public transport offering. Public places also allow Mobicoop to create hybrid spaces for carpooling and advertising its offering. By contrast, OFN counts mainly on hybrid spaces managed by social actors, at times with the collaboration of private or public organizations. New riders' cooperatives associated with CoopCycle often depend on hybrid spaces supported by public actors. The digital knowledge commons used by OFN and Loomio depend more on an international community of small producers and users. In both of these instances, the public actor is less involved.

We also note different strategies among platform cooperatives to accumulate a collective capital, as for example crystallized in Mobicoop's participatory membership shares. OFN uses a not-for-profit charity, the Open Food Foundation, which encourages paid contributors to join and supporters to donate funds, if not services. After successful crowdfunding efforts, Loomio started in 2015 with successive rounds of raising what its coop termed "ethical capital" in the form of equal membership shares. Similar rules apply to CoopCircuits' membership shares that are distributed at a fixed price of 100 euros per share and whose members can buy more than one share. Irrespective of how surpluses (i.e. what is left of capital paid in after operating expenses) are distributed between reinvestment in the cooperative, other projects the coop wishes to support, and pay-outs to members, capital is structured to free the cooperative from having to respond to market signals or short-term profit considerations.

As new solutions to various social, economic, and environmental issues, the value of such commons-cooperative alliances is considerable yet challenging to calculate (see Chapter 8 in this Handbook). The global volume of users and transactions is not a fair indicator of their substantive value as commons-oriented platform cooperatives. Their value should be recognized in their capacity to serve local communities and its economies, creating an embedded value that only a new accounting method would measure (see Jourdain 2019). Platform cooperatives are digital social innovations offering affordable services to neighbors and small producers despite facing technical and economic challenges (see Chapter 27) that can hinder their growth.

## **6 Conclusion**

In recent decades, diverse alliances and interrelations between commons and cooperatives have flourished. Some of them have privileged a value orientation and a political narrative (against neoliberalism and platform capitalism, for example); this is the case of the open cooperativism project and the commons-cooperative alliances. At the same time, other organizational alternatives have focused on their managerial applicability and promises of market innovation, like the commons-governing companies. In turn, platform cooperativism could establish responsible ecosystems in society and across different markets if it endorses the commons and its multi-stakeholder networks. In these cases, we define them as "Commons-oriented platform cooperatives". Within them, the capacity of action and engagement by key players becomes crucial to their reproduction and scalability. Our study shows that communities are the cornerstone for creating commons-oriented platform cooperatives, whether they be local, as in the case of Mobicoop (the community of ride-companions) or international, as seen with OFN, Loomio, or CoopCycle (i.e. the community of users and contributors to the open-source shared technology). We have also observed that even if the public actor can play a significant role (providing legal protection or funding), its influence has been minor for the moment.

In addition, our research shows that the renewal of action for social cohesion and sustainability involves empowering and consolidating citizen initiatives led by actors rooted in the commons and the institutions of the social and solidarity economy. When coupling the commons with an active

community and cooperative form of ownership, collective action could be used to counteract the latter's risk for degradation and degeneration. More specifically, the commons can facilitate platforms to develop social knowledge networks to promote innovative solutions to social, economic, and ecological challenges. It is the synergy between the commons dimension and its embeddedness in a cooperative structure of multi-stakeholders which makes commons-oriented platform cooperatives substantive in the Polanyian sense of transformation (here as an alternative model to capitalism and embedded in the social solidarity economy).

Commons-oriented platform cooperatives can strengthen important environmental objectives that neither governments nor private companies might achieve on their own. The scale of its social and environmental impact and contribution to a resilient society depends on the underlying ecosystem, including the support that the public actors might provide. In sum, the unique combination of actors, principles, and resources embodied in this model of platform cooperativism encourages new social experiments in multi-stakeholder collaboration with which to pursue the worthwhile objectives of sustainability and social inclusion.

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### Note

- 1 The Platform Cooperative Consortium (<https://directory.platform.coop>) has developed an international map of platform coops. In France Plateformes en Communs of the association La Coop des Communs (<https://coopdescommuns.org/fr/plateformes-en-communs>) and the group Les Licoornes (<https://www.licoornes.coop>) gather jointly more than 20 platform cooperatives.

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# ON THE FOUNDATIONS OF OPEN COOPERATIVISM

*Vangelis Papadimitropoulos and Giannis Perperidis*

## 1 Introduction

The last decades are witnessing the rise of commons-based peer production – aka the digital commons – enabled by Internet affordances such as decentralization, networked computing, cost reduction, modularity, and open-sourcing (Aigrain 2012; Bauwens et al. 2019; Griffiths 2008; Morell 2010; Stalder 2005). The commons consist of distributed or common property resources and infrastructures, self-managed by user communities in accordance with collectively established rules or norms (Bollier and Helfrich 2015; Ostrom 1990). The digital commons, in particular, refers to a non-market sector of information, knowledge, and cultural production, not treated as private property but as an ethic of sharing, self-management, and cooperation within peers who have access to the Internet and free/open-source software (Benkler 2006). The digital commons present an alternative to intellectual property by promoting open access, collaborative innovation, and knowledge sharing. In doing so, they alleviate barriers to information, encourage community ownership, and contribute to knowledge democratization, fostering more inclusive, sustainable digital ecosystems. Commons-based peer production spins around Internet-enabled grassroots organizational models such as open cooperatives (Bauwens et al. 2019; Kostakis and Bauwens 2014).

We elaborate here on commons-based peer production as it plugs into the model of open cooperativism to counter the current hegemony of neoliberalism. Neoliberalism is a contested term that we interpret to be the ideological application of neoclassical economics to politics, championing the expansion of the capitalist socio-economic model – hierarchical management, profit maximization, privatization, individualism, entrepreneurialism, and market-driven competition – into state management (Brown 2015).

We set forth, instead, the politics of open cooperativism (Bauwens et al. 2019; Kostakis and Bauwens 2014) as a counter-hegemonic socio-economic model vis-à-vis neoliberalism. The model of open cooperativism places commons-based peer production at the center of multi-stakeholder collaboration between: (1) civil society organizations (NGOs, cooperatives, associations, foundations, etc.) producing commons; (2) ethical market entities (social enterprises, for-benefit corporations, etc.) adding exchange value on top of the commons use value; and (3) a partner state enabling commons-based peer production through funding, education, legislation, and infrastructures. The

main argument is that multiple stakeholders such as user communities and ethical market entities that co-produce or gain access to common-pool resources benefit from knowledge diffusion and innovation spillovers, as well as from low production and transaction costs, thus gaining a competitive advantage compared with closed proprietary socio-economic models (cf. Chapter 1).

Yet, immaterial and, especially, material commons incur production and transaction costs coupled with coordination and search costs that are subject to “market imperfections” most prominent in the case of public goods dilemmas. Whereas public goods are administered by state governments, common goods are self-managed by user communities (Ostrom 1990). Commons-based peer production is poised to address many of these “market imperfections” but still suffers from corporate cooptation and the lack of sustainable business models to safeguard the commons and provide livelihoods for user communities producing the commons. Public policy is crucial to nurture cooperative culture, commons-based institutions, and positive agglomeration externalities (Arando et al. 2012) as well as prevent market failures that lurk at the capitalist crossroads of a post-capitalist transition (Dow 2018: cf. Chapter 4).

This chapter resonates with several similar approaches in the Handbook (cf. Chapters 1, 4, 6, 17, 18, 20), with the difference lying in offering here a more holistic approach that places the commons at the center of open social innovation as envisaged in the model of open cooperativism. Section 2 juxtaposes neoclassical economics with commons economics. Section 3 examines the political theorization of the commons, boiling down to the counter-hegemony of the model of open cooperativism. Section 4 breaks down the three-zoned model of open cooperativism into its constituent parts, namely, civil society, ethical market entities, and a partner state. This chapter thus lays out the economics and politics of the commons as the foundational stones of the counter-hegemony of open cooperativism vis-à-vis neoliberalism.

## **2 Neoclassical economics vs commons economics**

Neoclassical economics portrays a model of the economy where economic agents interact through prices and quantities on conditions of scarcity and utility maximization (Bridel 2012). In neoclassical economics, capitalism (Braudel 1979) is considered the most optimal model for the allocation of scarce resources. A finite good is scarce and can be rivalrous if there are more users than goods. The use of a scarce good by one person subtracts from the total available, thereby excluding others. There are three types of goods: private, public, and commons (Table 26.1). Private goods are marked by high rivalry and exclusion, conditioned on private contract law, money, and the law of supply and demand. To consume a book, one needs to own money to buy it in the market. Public goods, on the other hand, exhibit low rivalry and exclusion. All citizens can access public education, parks, and highways. Common goods often blur with public goods. Some common goods can be excludable and rivalrous, while others can be non-excludable and non-rivalrous (Benkler 2006; Kostakis and Bauwens 2014; Ostrom 1990). Grazing lands, fisheries, and water can be rivalrous and excludable. Yet, nobody can be excluded from climbing a mountain, swimming in the sea, or breathing the air. Information, language, and knowledge – when not ‘enclosed’ by intellectual property rights – are both non-rivalrous and anti-rivalrous. While the production of a book or software may bear high fixed costs, the cost of reproducing an additional unit of an e-book or software is near zero, and their use by more people increases its value exponentially (Metcalf 1995). The anti-rivalry effects of information, knowledge, and culture translate into “network effects” most prominent on the Internet and digital platforms, but which have also been manifested elsewhere, such as with the spread of fax machines and telephones.

Table 26.1 Types of goods

	<i>Rivalry</i>		
	<b>High</b> <b>Low</b>	<b>High</b> Private goods Common goods	<b>Low</b> Club goods Public/common goods
Exclusion			

Whereas public goods are managed by state governance, the commons are shared or distributed resources/infrastructures (natural resources, technology, knowledge, capital, culture) self-managed by user communities in accordance with collectively established rules and norms (Bollier and Helfrich 2015). As such, the commons consist of three constitutive components: (1) a common property resource; (2) a community; and (3) a “commoning” activity (De Angelis 2017: 119). By commoning, we refer here to the collective management of a commons. A commons can be, for example, a limited-access pasture or open-access software that can both be collectively managed by their users. Democracy, egalitarianism, consensus, openness, bottom-up social innovation, sustainability, and value distribution are all core features of the commons. Research so far (Ostrom 1990) has demonstrated a vast diversity of public–private–commons partnerships and institutional arrangements spanning the globe with regard to the governance of common-pool resources.

The digital commons, more specifically, refer to online information, culture, and knowledge, which are propertyless and, thus, free and open to everyone within the community to access, use, modify, and copy (Birkinbine 2020: 22). The digital commons are co-produced by the community in terms of commoning that reproduces information, culture, and knowledge. Commoning in the case of the digital commons comes with a number of ICTs affordances, such as networked computing, lower costs, and decentralization coupled with transparency, accountability, merit-based economies, and inclusivity. The digital commons differ from Ostrom’s ecological commons (1990) in that they expand in space and time: they are global and thus not confined in a specific location; the Internet works 24/7, and its basic code is open-sourced (end-to-end principle, see Lessig 2001, 2004). The digital commons can avoid the free-rider problem most prominent in physical space, since information is by essence non-rivalrous and, beyond this, anti-rivalrous. One of the core attributes of information is that it “always wished to be free” (Wagner 2003). An agent who transmits information can keep and consume the same information, granting a very low opportunity cost compared with the utility transferred to the receiver. Therefore, given the limits of saturation effects, a great number of agents can consume the same information simultaneously. One thus cannot easily create a market to sell information due to its near zero cost of reproduction (Arrow 1962). Hence the creation of copyright and intellectual property rights turning the inherent abundance of information into artificial scarcity to be sold or rented in the market as a product or service.

On the flipside, open-sourcing was introduced with the creation of the GNU General Public License (“copyleft”) to combat various negative aspects of copyright. Copyleft allows the access, modification, and distribution of software code on conditions that it remains under the same license (Raymond 1999; Stallman 2002; Weber 2004). “Open-sourcing” has enabled the peer production of information, culture, and knowledge, which co-emerges with network effects generated in digital platforms on the Internet (Bauwens et al. 2019; Kioupkiolis 2021, 2023). Yochai Benkler (2006) coined the term ‘commons-based peer production’ to describe a non-market sector of information, knowledge, and cultural production, not treated as private property, but as an ethic of sharing, self-management, and cooperation between peers who have free access to

Table 26.2 Neoclassical vs commons economics

<i>Neoclassical economics</i>	<i>Commons economics</i>
Self-interest, individualism, utility maximization for firms and households	Diversity of agents and motivations
Perfect knowledge, privacy	Open knowledge, sharing, transparency
Perfect competition (zero-sum game)	Cooperation (win-win game)
Private property	Bundle of rights (access, withdrawal, management, exclusion, alienation)
Optimal allocation of resources on conditions of scarcity	Scarcity (natural resources, hardware) combines with the abundance of the commons (knowledge, design, software)
Supply and demand equilibrium based on price signals	Open supply chains, circular economy
Exchange value, commodities	Use value, social needs
Green growth	Degrowth/postgrowth

online platforms running on open-source software. Commons-based peer production simulates the physical (Ostrom 1990) into the digital space to bring about a particular institutional form of structuring the right to access, use, and control resources, which differs significantly from managerial hierarchies and markets (Table 26.2). The distinctive features of the digital commons are: (1) decentralized self-governance through the utilization of participatory, meritocratic (do-ocracy), and charismatic rather than proprietary or contractual models; (2) the centrality of non-monetary motivations; and (3) the permeation of state and firm boundaries (Benkler 2006). Commons-based peer production introduces new and radical forms of ownership, governance, operation, and financialization in a mission to empower communities against the pervasive economic inequalities and power asymmetries of neoliberalism.

Commons-based peer production retrofits traditional manufacturing to install a new mode of production in the model of *cosmolocalism*, which combines open-source software with hardware, 3D printers, and computer numerical machines deployed in “fablabs” and makerspaces. What is “light” and easily transmissible (software, knowledge, design) is shared online globally and what is “heavy” (hardware) stays local. Hence, the digital commons connect to material production through hardware to democratize the means of production and sustain more ecological, equitable, and fairer socio-economic models.

Commons-based peer production plugs into the model of cosmlocalism to introduce a simple yet radical idea: great improvements in production and management could be achieved by sharing resources, knowledge, and power “glocally”. Meanwhile, strict intellectual property rights lead to the underutilization of information and an inefficient use of knowledge. Exclusive private property rights may combine with a bundle of common property rights, such as access, withdrawal, and co-management (Schlager and Ostrom 1992). Sharing, openness, transparency, and self-management arguably result in a constantly improving collective repository of knowledge, best ideas, practices, and resources from which a diverse set of agents can draw and contribute back according to their needs and capacities (Bauwens et al. 2019; Benkler 2006; Bollier and Helfrich 2015; Ostrom 1990). Market exchange value (scarcity) adds up on top of the commons use value (abundance) to satisfy social needs. Eventually, cosmlocalism diffuses knowledge spillovers from anti-rivalrous effects, decreases costs, reduces waste, and fosters resilience, resulting in higher levels of work quality, social innovation, inclusion, and sustainability. Thus, cosmlocalism

advances cooperation, openness, circular economies, and post/degrowth (Kallis et al. 2018) as opposed to competition, privacy, planned obsolescence, and green growth respectively.

However, immaterial and, in particular, material commons (hardware) incur considerable costs coupled with “market imperfections” such as free riding, free driving, and asymmetric impacts from absent and incomplete contracts, most prominent in cases of public goods dilemmas. Commons-based peer production (Benkler 2006) addresses many of these “market imperfections” but still suffers from corporate cooptation and the lack of sustainable business models to safeguard the commons and provide livelihoods for user communities producing the commons. The need thus for a political project of the commons springs naturally from “market imperfections” inherent in the commons. We elaborate next on the politics of the commons as envisaged in the model of open cooperativism to help secure the sustainability of the commons.

### **3 The politics of the commons**

The significance of commons economics has to be examined in tandem with the political framing of the commons. The literature has documented three main contemporary normative approaches of the commons (Papadimitropoulos 2020): a liberal, a reformist, and an anti-capitalist.

Liberal scholars approach the commons as an alternative mode of production peacefully coexisting alongside state and market operation. Setting aside any anarchistic and libertarian threads in their work, Elinor Ostrom (1990, 2000), Lawrence Lessig (2001, 2004), and Yochai Benkler (2006, 2013) in general, do not challenge the state-capitalism nexus, suggesting that the commons develop most exclusively on the premises of civil society.

Reformist scholars consider the commons an alternative organizational model that does not oppose liberal democracy and the capitalist market, nor does it merely operate on the margins. Reformists such as David Bollier (2003, 2014) and Erik Olin Wright (2009), among others, seek to open up the state-capitalism nexus toward commons-based peer production in an increasingly less state or market-dependent manner.

Anti-capitalist thinkers posit the commons in terms of a radical opposition to capitalism and the state. Scholars such as Pierre Dardot and Christian Laval (2014, 2017), Massimo De Angelis (2017), George Caffentzis and Silvia Federici (2014), and Alexandros Kioupiolis (2017, 2021, 2023) confront capitalism head-on, aiming to render the commons autonomous vis-à-vis the state-capitalism nexus. Most anti-capitalist theorists stand in opposition to the concept of a “liberal-capitalist commons”, that is, a commons sympathetic to capitalism and the neoliberal state.

Yet, the political essence of the commons lies on a deeper ontological level. The commons seek to reverse capitalism’s ontological foundations and socio-political values such as individualism, profit maximization, competition, strict intellectual property rights, hierarchical management, etc. They suggest a relational (Bollier 2014; Bollier and Helfrich 2019) ontology that does not generate dualisms, such as individual-community and private-common. The relational ontology of the commons implies that every living organism relates to one another not hierarchically but in terms of need: humans depend on nature to survive; resources need humans to thrive. The moving away of traditional modern ontology toward a new relational ontology is called “ontoshift” (Bollier and Helfrich 2019). Digital commons suggest an ontoshift through everyday practices that alter dominant social meanings, thus transforming the way humans, nature, things, resources, cities, information, etc. are perceived.

Philosophers of technology such as Andrew Feenberg highlight the transformative potential of the digital commons. For Feenberg, alternative social values are being translated into differentiated technical artifacts that are biased toward diverse social interests (Feenberg 1999, 2002).

Technology is not a mere instrument that serves exogenous ends. It contains in-built values reflecting the interests of the actors participating in the design process of technical artifacts. In Feenberg (2010), the sum of the social values that are being translated into technical specifications creates a technical code that determines the technologies generated. Feenberg's theory aims at opening up the design process to include participants' values within the technical code in a manner that is not biased toward the interests of particular stakeholders, such as shareholders, and managers. In other words, he aims at democratizing technology and bringing about an alternative modernity through more inclusive technological infrastructures.

The digital commons echoes with Feenberg's aim of democratizing technology, since they generate values, meanings, and innovative technologies that reflect the interests of commoners, that is, user communities that co-produce commons in accordance with collectively agreed-upon rules and norms. Commons-based peer production (Bauwens et al. 2019) opens up the design space to include more people, interests, and values, thus opposing the model of technological determinism, along with the monopolistic power of corporations to determine technological designs at their will (Feenberg 2010).

Next, we aim to crystallize the work of thinkers as diverse as Ostrom, Bollier, Olin Wright, Kioupkiolis, and Feenberg into Kostakis and Bauwens' model of open cooperativism that seeks to establish the counter-hegemony of a commons-based post-capitalist transition. Thus, the model of open cooperativism is conceived primarily as a political project moving along the lines of democratization, value distribution, and sustainability to challenge the current hegemony of neoliberalism.

#### **4 The model of open cooperativism**

Research so far (Bauwens et al. 2019; Kostakis and Bauwens 2014) has identified a three-zoned model of open cooperativism that comprises: (1) the civil society producing material and immaterial commons; (2) ethical market entities adding exchange value on top of the commons use value to produce commodities for the market; and (3) a partner state enabling the collaboration between civil society and ethical market entities through funding, education, legislation, infrastructures, etc. We next describe each component of the model in detail.

##### ***4.1 Civil society***

Civil society operates alongside the state and the market to produce social value that is usually deemed unprofitable for profit-oriented firms and costly for governments. It is common in the literature to assign to the cooperative economy of civil society a social and environmental function (Zaimakis and Nikolaidis 2022). Cooperatives are often considered part of the social and solidarity economy. According to the European Union directive, social enterprises cater for the provision of cultural, health, educational, and environmental services (Varvarousis and Tsitsirigkos 2019: 98). As such, the social economy has been usually described as a "third sector" (besides the state and private sectors) identified with civil society.

Cooperatives differ from other forms of civil society organizations in that they seek to make profit just as profit-driven firms, the difference being that profit is equitably distributed among cooperative members in accordance with collectively established rules and goals. Cooperatives, in general, adopt the cooperative principles and values as defined by the International Cooperative Alliance.<sup>1</sup>

Platform cooperativism is a digital version of cooperativism that combines the principles of traditional cooperatives with algorithmic management to launch Internet-enabled worker-owned

cooperatives that operate on quite the opposite logic of platform capitalism (Scholz 2016). The most common definition of a platform cooperative is the following:

A cooperatively owned, democratically governed business that establishes a computing platform, and uses a website, mobile app or a protocol to facilitate the sale of goods and services.  
(Calzada 2020: 8)

Scholz et al. (2021) use the term “platform cooperative” to describe worker, data, multi-stakeholder, and producer cooperatives for whom a digital match-making business model is central to their operation. Another plausible definition of a platform cooperative would describe “an enterprise that operates primarily through digital platforms for interaction or the exchange of goods and/or services and is structured in line with the International Cooperative Alliance Statement on the Cooperative Identity” (Mayo 2019: 20). The term is thus used to cover a wide variety of cooperative types operating across a multitude of sectors in the platform and digital economy, portraying a diversity of organizational models.

Traditional and platform cooperatives cannot challenge capitalism for a plethora of reasons (Papadimitropoulos 2020; Papadimitropoulos and Malamidis 2024). To address this issue, Vasilis Kostakis and Michel Bauwens (2014) seek to infuse traditional and platform cooperatives with the principles of the commons. In contrast to traditional and platform cooperatives that adopt closed proprietary licenses, therefore, not producing commons, open cooperatives deploy open protocols, open logistics, open supply chains, and open value accounting to enable commons-based open social innovation. Open cooperatives bring together the community of all members, users and contributors who produce the commons, either for payment or as volunteers, with ethical market entities that co-produce or support the commons (Papadimitropoulos 2023b; Papadimitropoulos and Malamidis 2023).

## **4.2 Ethical market entities**

The Internet has allowed innovation to become social, turning it into a coefficient of networks, rather than an internal feature of R&D confined to the premises of companies beholden to shareholder value. Social innovation (cf. Chapter 17) is now at the heart of industrial process, with companies opening up their lines of production to integrate wider user participation in their value chains, via network effects generated by peer production (Bauwens et al. 2019), user-led communities, and crowdsourcing (von Hippel 2005; Tapscott and Williams 2006). Peer production has become a competitive necessity and a new baseline for successful business operation. Entrepreneurship is gradually getting divorced from hierarchical and centralized managerial control over production, and edge competencies replace core competencies as key competitive quality. Peer production gives rise to asymmetric competition, meaning that any for-profit company that does not integrate peer production is at a competitive disadvantage (cf. Chapters 17–20).

Ethical market entities are for-benefit companies and social enterprises that cooperate with civil society organizations to either co-produce commons or access commons in exchange for a fee. The main argument here is that any for-profit entity that is faced with competition from a for-benefit entity will face difficulties surviving (Bauwens et al. 2019). A prominent example is open-source software and the emergence of Linux as a strong contender for the operating system of computers, and which is already an essential part of the Internet’s infrastructure. Exclusive proprietary software approaches are no longer viable vis-à-vis open-source competitors. Similarly, companies that adopt open business models and can profit from social innovation, co-creation, co-design, and

crowdsourcing mechanisms will tend to out-innovate those that do not. The main argument is that multiple stakeholders such as user communities and ethical market entities that co-produce or gain access to common-pool resources benefit from knowledge diffusion and innovation spillovers, as well as from low production and transaction costs, thus gaining a competitive advantage compared with closed proprietary socio-economic models (cf. Chapter 1).

Free and open-source software is the archetype of the large-scale communal production of information, knowledge, and culture (Bauwens et al. 2019; Benkler 2006: 5). IBM, RedHat, Oracle, Google, and Microsoft have focused their business strategy on supporting open-source software communities. The problem is the co-optation of the commons (Birkinbine 2020) by these and similar firms and the subsequent precarity of commoners, volunteers, software developers, etc. Copyleft and open-source licenses permit the free access, use, modification, and commercialization of code. This allows companies to profit disproportionately compared with user communities producing digital commons.

To tackle corporate cooptation, the model of open cooperativism introduces mechanisms for benefit-sharing between ethical market entities and commons-based peer production. Bauwens and Kostakis (2014) build on the Peer Production License, designed and proposed by Dimitri Kleiner (2010), to propose the *Copyfair* license that allows for commons commercialization, but on the basis of reciprocity. Ethical market entities are for-benefit companies that can either co-produce commons or access commons produced by civil society organizations and FLOSS communities in terms of reciprocity, that is, in exchange for a license fee. For example, multinationals can use the code if they contribute, as IBM does with Linux. However, companies that do not contribute would pay a license fee, in order to secure sustainable livelihoods for user communities producing the commons.

Open cooperatives adopt multi-stakeholder forms of governance that would include workers, users-consumers, investors, and the concerned communities. Today, peer producers are largely oriented toward the “start-up” model and are subsumed to profit maximization, while traditional and platform cooperatives remain closed, use exclusive intellectual property licenses, and, thus, do not create a commons (at least a knowledge commons). In the new model of open cooperativism, a merger should occur between the open peer production of the commons and the cooperative production of value (Table 26.3).

Open cooperatives adopt open protocols, open logistics, and open supply chains that provide transparency and real-time information feeding into a circular economy co-designed to internalize negative externalities, reduce material/energy use, and balance out thermodynamic flows of production inputs and outputs (Bauwens et al. 2019). Contrary to the strategy of companies to purposefully reduce the actual lifetime of products – termed “planned obsolescence” – open cooperatives value interoperability, repairability, resilience, and adaptability. They employ modularity, indirect coordination (stigmergy) and open value accounting that equitably distributes value among multiple stakeholders. They seek to regenerate value and engineer processes rather than products and commodities. They connect to material production via distributed micro-factories for (g) localized manufacturing on demand to satisfy local needs for basic goods and machinery (cf. Chapters 13, 19).

Open cooperatives aim, thus, to transform the mainstream commercial sector into a generative market, which serves the accumulation of the commons rather than the accumulation of capital. Shared incentives would further be co-designed in the context of for-benefit associations, aiming to converge the corporate and the cooperative economy as in the case of open-source software (Table 26.4).

For-benefit associations as in the case of Linux or Mozilla foundation set consensus rules and incentives, fundraise and set the exchange rules within the commons and externally to other

Table 26.3 From capitalism to open cooperativism

<i>Capitalist enterprise</i>	<i>Traditional/platform cooperative</i>	<i>Open cooperative</i>
Information asymmetry, privacy	Information symmetry among coop members	Openness, sharing, transparency for multiple stakeholders
Profit maximization for shareholders	Value distribution among coop members	Value distribution among multiple stakeholders
Hierarchy, one dollar, one vote	Hierarchy and self-governance, one member, one vote	Self-governance, sociocracy, one member, one vote
Centralized proprietary R&D, patents, rent extraction	Closed proprietary licenses, not producing commons	Open protocols, open supply chains, decentralized coordination, commons
Planned obsolescence, negative externalities	Sustainability, internalization of externalities	Circular economy, repairability, adaptability, maintenance
Division of labor	Division of labor	Modularity, stigmergy
Salaries, surplus value extraction	Salaries	Open value accounting

Table 26.4 The three institutions that shape the model of open cooperativism

<i>Productive community</i>	<i>Linux</i>	<i>Mozilla</i>	<i>GNU</i>	<i>Wikipedia</i>	<i>Wordpress</i>
Entrepreneurial coalition	E.g. Linux Professional Institute, Canonical	E.g. Mozilla corporation	E.g. Red Hat, Endless, SUSE	E.g. Wikia company	E.g. Automatic company
For-benefit association	Linux Foundation	Mozilla Foundation	Free Software Foundation	Wikimedia Foundation	Wordpress Foundation

ecosystems, set the ownership/membership and sharing rules for the commons, define and enforce reputation, act as the interface to not-for-benefit entities, protect the commons through licenses, and manage conflicts (Bauwens et al. 2019). In short, they prefigure the role of a partner state at a macro-economic and political level.

### 4.3 The partner state

The concept of the partner state was first introduced by Cosma Orsi (2005, 2009) and then further developed by Kostakis and Bauwens (2014). A partner state ensures the stability of the macro-economic arrangement between contributory communities, for-benefit associations, and entrepreneurial coalitions. It enables the collaboration of civil society organizations with ethical market entities through infrastructural, financial, legal, and institutional support.

Scholars of various schools of thought have long emphasized the creative role of the state, on the one hand, to collectively produce value and bootstrap markets around publicly funded innovative technologies, and the predatory role of large, investor-controlled firms, on the other hand, to feed on collective innovation and value production (Mazzucato 2018). Companies have been free riding on prior public investment (i.e. share buybacks), with taxpayers, Internet users, and workers being stakeholders and key contributors to the innovation process.

A partner state moves away both from a distributionist welfare state and a neoliberal state by establishing mini-states of commons-based peer production ecosystems that implement direct

democratic procedures and practices. Likewise, developmentalist or neo-Keynesian versions of the state focusing solely on taxation, public investment, public ownership, and capital controls should be “updated” according to the principles of the commons. Representative democracy would be extended through participatory mechanisms (participatory legislation, participatory budgeting, online and offline deliberation mechanisms, liquid voting, real-time democratic consultations and procedures, proxy voting mechanisms, cf. Chapter 13). The state should be de-bureaucratized through the decentralization of public services via public–commons partnerships. Traditional and bureaucratic hierarchies should be transformed or replaced by poly-governance models of participation and deliberation that include user communities and other stakeholders (Bauwens et al. 2019).

Taxation of productive labor, entrepreneurship, and ethical investing, as well as taxation of the production of social and environmental goods should be minimized. On the other hand, taxation of speculative, unproductive investments, unproductive rental income, and of negative social and environmental externalities should be increased (Bauwens et al. 2019). In these ways, the partner state would sustain civic commons-oriented infrastructures and ethical commons-oriented market players, reforming the traditional corporate sector in order to minimize social and environmental externalities. The partner state would also engage in debt-free public monetary creation, while supporting complementary community currencies, digital public financial commons, and peer-to-peer lending.

A partner state would align education with the co-creation of productive knowledge in support of the social economy and the simultaneous open commons of productive knowledge. A partner state would distribute all publicly funded research and innovation under a commons-based license along with laws to enable municipal Wi-Fi and mesh-networks and “open data” regimes and resources that would allow local governments and multiple stakeholders to analyze Big Data from public sources to devise useful social policies and programs.

Big tech should recognize more actively the contribution of open-source software and the digital commons to their business models. A partner state should set transparent rules for the commercialization of the digital commons as well as for the participation of civil society groups and communities in a democratic dialogue over public goods, such as the Internet, Big Data, and Blockchain (Papadimitropoulos 2023a). Free and open-source software could become the default infrastructure in public administration and education (DeNardis 2011). State-endorsed open design protocols for information services, housing, ride-hailing services, and energy grids could foster open-source innovation and benefit local communities. A partner state should devise policies to support participatory governance and participatory budgeting of state-funded technological education, state-funded technologies of public utility and interest, such as open-source libraries, makerspaces, FabLabs, and technological parks hosting public–commons partnerships among multiple stakeholders, such as municipalities, civil society organizations, ethical market entities, freelancers, and digital nomads (Figure 26.1).

Thus, a partner state would make use of open-source technologies to gain on efficiency, agility, and adaptability, save on public expenditures, reduce trade deficits, boost innovation and collaboration, equitably distribute value among multiple stakeholders, foster sustainability and circular economies, enhance democracy, reclaim technological sovereignty and autonomy, and promote open-source business models to transform sectors of the economy toward a fairer and freer society.

The ultimate goal would be to reimagine politics in the model of open cooperativism between the commons, ethical market entities, and a partner state, setting out to establish the counter-hegemony of a commons-based post-capitalist transition vis-à-vis the current hegemony of neoliberalism.

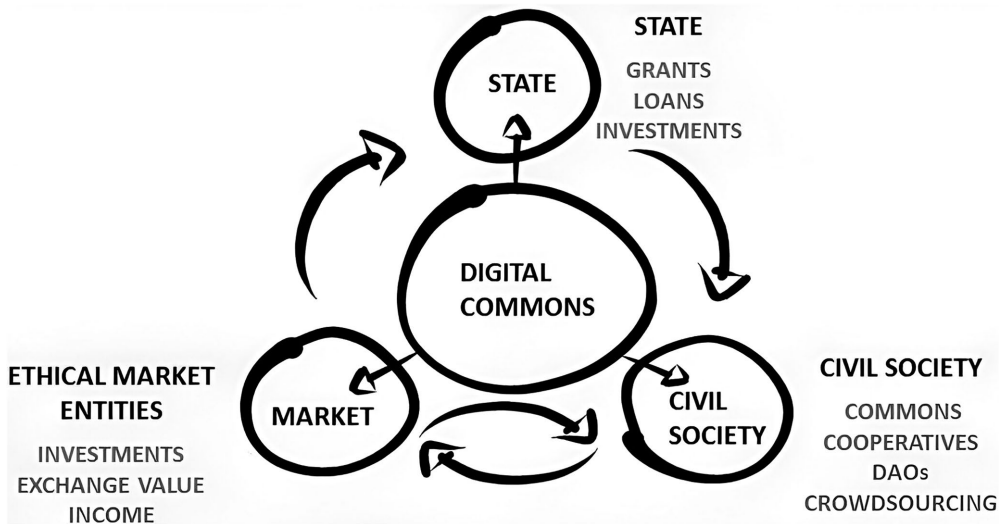


Figure 26.1 The partner state, ethical market entities and the commons.

## 5 Conclusion

The goal of the chapter was to elaborate on the model of open cooperativism. In doing so, the chapter juxtaposed neoclassical economics with commons economics, which lays the foundation for the model of open cooperativism. The chapter then went on to outline the politics of the commons as they set out to establish the counter-hegemony of open cooperativism vis-à-vis neoliberalism. Finally, we described in detail the model of open cooperativism as it breaks down into: (1) civil society organizations producing material and immaterial commons; (2) ethical market entities co-producing commons or accessing commons in terms of reciprocity; (3) and a partner state enabling the collaboration between civil society and ethical market entities. The core argument is that ethical market entities that co-produce or access commons in exchange for a fee gain a competitive advantage versus profit-driven firms adopting closed proprietary business models.

Eventually, a partner state incarnates the political project of the model of open cooperativism inasmuch as it diffuses knowledge and innovation across a chain of equivalence linking up the civil society, economics, and politics around a commons-based post-capitalist transition toward an ethical and sustainable economy. In doing so, a collective subject of the commons is necessary to embrace the model of open cooperativism in a mission to replace *homo oeconomicus* with *homo cooperans*.

## Note

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

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# COOPERATIVE ONLINE COMMUNITIES

*Morshed Mannan, Nathan Schneider, and Tara Merk*

## 1 Introduction

The Internet has enabled the rise of many communities and countless outpourings of cooperation—but comparatively few cooperatives. This chapter explores how online spaces have both enabled cooperation but constrained the practice of more formal cooperativism. Online communities are primarily organized around shared interests and activities and predate the rise of large social media platforms (e.g., Meta, ByteDance), yet some have come to rely on the technical infrastructure these corporate platforms provide. Online communities are not transient and have an important function as a civic space for discussion, as well as a safe haven for marginalized and minority communities (Castells, 2015; Cho, 2018). Online communities also have economies, as their operations may involve costs for such functions. Historically, similar spaces of gathering among like-minded people have been organized as cooperatives or cooperative-like structures (Putnam et al., 1992).

There is reason to believe that many users would find cooperative institutions welcome in their online communities. Concerns continue to mount about whether the investor-owned companies that own the dominant community platforms are trustworthy stewards (Gillespie, 2018; Mannan & Schneider, 2021). Users who serve as community administrators and moderators, however well-meaning, are rarely subject to transparency or held accountable for their decision-making (Seering et al., 2019), and participants lack due process for the judgments rendered over them (Schneider, 2022). Users have little recourse in disputes beyond mob-like behavior (e.g., ‘cancel culture’) and meanwhile, community leaders often find themselves burned out because they lack sufficient support (Seering et al., 2019).

Despite the desirability of cooperative institutions, our understanding of why online communities have not been able to form cooperatives or cooperative-like structures is still limited. In this chapter, we focus on technological and economic design as two key explanatory factors. In Section 2, we briefly show how technological and economic infrastructures have constrained the emergence of ‘formal’ cooperative online communities. Section 3 highlights key developments, across the domains of technology and economics that promise to expand the affordances of online community governance and reinvigorate formal cooperativism. Sections 4 and 5 present two cases

exploring how online communities are variously combining technological and economic infrastructures to formally govern themselves as cooperatives. We close with a discussion and outlook on the future in Section 6.

## 2 Constraints on the emergence of cooperative online communities

### 2.1 Technical constraints

To understand the technical constraints that have stymied the emergence of cooperative online communities, it is useful to briefly explain the concept of *affordances* first outlined by Gibson (1977). Affordances describe the possible action space available to an agent interacting with an object, i.e., the possible actions someone can perceive to undertake with a given object, which is physically possible and regarded as being relevant to their specific goals and cultural context. Consequently, it is important to review what the technical and economic structures that online communities rely on *afford*.

Schneider (2022) traces specific affordances encoded in various machines and policies that have historically enabled the formation of online communities over time. He shows how early technologies that enabled the emergence of online communities, such as bulletin board systems (BBS), mailing groups, and Usenets necessarily required a systems operator, owner, or administrator to launch the community. By default, these positions held outsized power within the community, including the ability to censor content, ban users or close the service altogether. This pattern continues on dominant digital platforms that house online communities today. For example, group chats and forums set the person starting them as the “owner” who has the right to appoint “administrators” or “moderators”. As such, while enabling online communities, many digital technologies encode powerful decision-making rights in the hands of a few, without requiring them to be elected or held accountable by the communities they serve. Schneider terms this dynamic “implicit feudalism”.

A key differentiator between early BBS communities and those on digital platforms today lies in the ownership of the technological infrastructures on which communities operate. Whereas BBS were typically owned and administered by individuals from their homes, contemporary digital platforms are owned and controlled by large corporations. By controlling the underlying infrastructure, platform companies hold administrative rights akin to those of BBS operators, but at an unprecedented scale. With a few technical tweaks or unilateral changes to their terms of service, these corporate operators can de-platform users, change how users interact with one another, and confiscate all their digital assets (Grimmelmann, 2014). Consequently, many technical infrastructures underpinning online communities today have not facilitated the emergence of formal cooperativism.

Other affordances inherent in the digital environment further exacerbate the difficulty of establishing formal cooperativism online. For example, as it is easy to create fake profiles online, there can be concerns that a user casts votes using multiple fake identities or bots (Antony & Revathy, 2023). Thus, without appropriate legal and technical guardrails, the potential of a ‘Sybil attack’ can undermine the confidence in democratic election processes within online communities.

### 2.2 Economic constraints

These technical constraints are coupled with economic constraints that deter online communities from organizing as cooperatives. In terms of financial self-sustainability, online communities rely significantly on volunteer labor, by users, moderators, and other community leaders (Abbing et al.,

2023). Online communities that maintain their own technical infrastructure also rely on direct capital contributions to cover expenses ranging, from server costs to website management. Without a straightforward path toward financial self-sustainability, there is a reliance on the generosity of individuals within the community, which may not be sustainable over the long run (Mansoux & Abbing, 2020). Although these online communities have their own native economies, they have traditionally lacked access to many (community-oriented) sources of financing. This may jeopardize the financial viability of an online community organized as a cooperative.

Furthermore, the emergence of centralized digital platforms has made it more challenging to develop financially viable online communities. While large social media platforms allow creating online communities free of cost and these platforms can help the communities gain greater exposure, they place such communities on the whims of The Platform operator. As Cory Doctorow evocatively explains, becoming reliant on corporate platform operators and their technical infrastructure can lead to them becoming part of an ‘enshittification’ lifecycle. These platforms are first “good to their users; then they abuse their users to make things better for their business customers; finally, they abuse those business customers to claw back all the value for themselves” (Doctorow, 2023). As users cannot easily exit The Platform, as digital platforms are not conveniently inoperable with one another, and they may not be a comparable platform to switch to, they are effectively locked in. Knowing this, the quality of The Platform is allowed to deteriorate, with the operator focusing on extracting value for their shareholders. This is a generalizable pattern across The Platform economy as this sector is dominated by for-profit corporations, rather than alternative business structures that are focused on being good stewards of the technical infrastructure and, consequently, the online communities that come to depend on them.

### **3 Enablers of online cooperative communities**

In spite of these technical and economic constraints, there is a diverse cohort of organizations and technologies that are creating enabling conditions for online cooperative communities to emerge and, in some cases, prefigure what such communities could look like. We describe three categories that broadly reflect this trend below.

#### ***3.1 Platform cooperatives and exit to community***

Platform cooperatives are businesses that function “primarily through digital platforms for interaction or the exchange of goods and/or services and [are] structured in line with the International Cooperative Alliance Statement on the Cooperative Identity” (Mayo, 2019). These cooperatives distribute control and financial rights to stakeholders of a digital platform, while capping returns to investor members (if any) and ensuring that these members are not allowed to have a greater share of governance rights than non-investor members. Thus, platform cooperatives are ultimately accountable to their stakeholder members, unlike corporate platforms that are ultimately accountable to their shareholders. Over the past decade, platform cooperatives have emerged in a range of sectors, from ride-hailing (e.g., The Driver’s Cooperative) to personal data management (e.g., Polypoly) (Mannan & Pek, 2021). These new platform cooperatives join long-standing cooperatives involved in web hosting and software development (Mannan, 2022). A heterogeneous assortment of technologies are used by platform cooperatives for their operations and governance, from applications developed by corporate platforms (e.g., WhatsApp) to open-source tools (e.g., OpenStreetMaps) to custom-built software (e.g., for order-management) (Jones et al., 2021).

Alongside these new organizations, there is also an effort to convert existing businesses into cooperatives and other stakeholder-owned enterprises. Drawing inspiration from the #BuyTwitter campaign in 2016–2017 that sought to convert Twitter into a user-owned cooperative, this movement posits an alternative to the two predominant liquidity strategies of corporate platforms, exit via initial public offering or exit via corporate acquisition (Mannan & Schneider, 2021). This third strategy is to exit to community, through a conversion into a community-owned enterprise. The Exit to Community Collective has sought to make this strategy more viable and attractive by developing a primer on the concept, a website to showcase dozens of examples of businesses existing to community, producing templates (e.g., model term sheets), connecting interested enterprises to legal and business advisers, and organizing educational events (E2C Collective, 2023).

### **3.2 Decentralized social media**

Homing in on social media, there are platforms that are designed to distribute financial and control rights among the stakeholders of social media platforms and/or decentralize “one or more of the following: data storage, content distribution, discovery, identity mechanisms and networking topology”. (Abbing et al., 2023) In addition to making social media platforms more accountable to their users, they give users more agency and choice regarding the social media infrastructure they rely on and are more inclusive to marginalized groups (Mansoux & Abbing, 2020). In ‘federated’ social media, several ‘instances’ individually handle user identity verification, data storage, and content display, but interoperate with other instances through open web standards and protocols (e.g., ActivityPub). Authority in these digital federated networks rests in the hands of the administrators of these instances. The Social.coop case presented in Section 4 can be considered an example of a type of decentralized social media organized as a platform cooperative.

### **3.3 Blockchain technology and DAOs**

Blockchains are a specific type of append-only ledger that allows people to transact value online, without a centralized intermediary like a bank or platform operator needing to validate transactions. Smart contracts extend the affordances of blockchains by allowing users to deploy applications onto a blockchain network, which executes when a set of predefined conditions is met (Alharby & Moorsel, 2017). Smart contracts can be used to create digital assets, i.e. tokens on top of a blockchain that can represent various rights, for example, ownership of a digital file or shares in an organization. Many Decentralized Autonomous Organizations (DAOs) use tokens to represent governance rights in their communities. At their core, DAOs can be defined as “a blockchain-based system that enables people to coordinate and govern themselves mediated by a set of self-executing rules deployed on a public blockchain, and whose governance is decentralised (i.e., independent from central control)” (Hassan & De Filippi, 2021).

Often, DAOs use tokens to vote on certain decisions. Token voting can be tied to a smart contract that executes the outcome of a vote autonomously by, for example, spending funds to a specific address or updating software in a certain way. DAOs have been used by online communities to govern open-source protocols (e.g., Uniswap), to raise money for various causes (e.g., AssangeDAO) or organize work collaborations (e.g., dOrg). Just like other online communities aiming to implement cooperative governance principles such as a one-member-one-vote policy, DAOs face the difficulty of dealing with Sybil attacks. To mitigate this issue, some DAOs have begun relying on various decentralized digital identity schemes (Merk et al., 2023) or proxy voting mechanisms, many of which have tended toward plutocratic governance (Barbureau et al., 2023). Despite these challenges,

DAOs expand the affordances available to online communities in terms of their economic and governance design as well as by reducing the reliance on centralized intermediaries in the implementation of both. The cases below were inspired by these organizations and technologies.

#### **4 Case 1: Social.coop**

Social media first emerged through non-commercial, collaborative practices before it became a lucrative business (Driscoll, 2022). Twitter itself developed through a series of experiments among social-movement activists (Halpin & Henshaw-Plath, 2022). One outgrowth of this legacy was Mastodon, a free and open-source platform that first appeared in late 2016 (Zignani et al., 2018); Mastodon adopted the ActivityPub protocol, a World Wide Web Consortium standard also used by other social platforms.

Following the aforementioned campaign to #BuyTwitter, members of the group and others decided to begin creating an alternative Twitter of their own, organized from the beginning as a cooperative: Social.coop. This social media platform cooperative deployed Mastodon on rented server space to create a new social network. Mastodon's interface closely resembles that of Twitter, but it can be deployed on an administrator's server, and users on one server can interact with users on a different server—as long as the administrators agree to let their servers “federate” with each other. This relatively decentralized network structure has been successful in isolating right-wing extremists who have penetrated several federated social media (Caelin, 2022).

In addition to its main offering to members, a Mastodon server, Social.coop adopted a series of tools to support a governance infrastructure. While most popular Mastodon servers are operated by volunteer maintainers whose power emanates from their technical skills, the purpose of Social.coop was to be a democratic cooperative funded and governed by all of its members (Schneider & Hasinoff, 2022). To enable this, the cooperative utilized The Platform Open Collective to collect member dues (currently starting at £1/month) and pay expenses; for the sake of transparency, Open Collective makes all transactions publicly visible. To deliberate on policies and make decisions, Social.coop utilizes Loomio, a platform developed by a New Zealand-based worker co-op that derived its methodology from the Occupy protests (Jackson & Kuehn, 2016). Working groups manage tasks such as technical maintenance and content moderation. To bypass the need for legal incorporation, Social.coop operates as a “virtual co-op” (Schneider, 2018); legally, it is a project of a UK-based cooperative, but in practice, it operates according to its own bylaws and processes.

As of late 2023, Social.coop has had over 800 members, though far fewer are active at any given time. It is not one of the larger Mastodon servers, but because of the “federated” design of Mastodon and ActivityPub, members can participate in a network with millions of active users. Still, they constitute a community together, and they can choose to browse just the “Local” feed of Social.coop members. They collectively decide on their own moderation practices. In this way, Social.coop grants its members access to the network effects of a large network without the pursuit of “scalability” at all costs that characterizes the dominant commercial social networks (Hasinoff & Schneider, 2022). While Social.coop does not compete directly with the likes of X or Meta, it does enable members a meaningful alternative in their lives, demonstrating that a radically different kind of social media is possible.

#### **5 Case 2: The Platform**

Some in the arts and creative industries have embraced blockchain technologies, particularly the use of non-fungible tokens (NFTs), as they argue that NFTs have the potential to create a more

inclusive art industry and new economic income streams for creatives (Kugler, 2021; Paul, 2021). Despite this potential, the industry quickly began to converge around a number of large marketplaces to create and trade NFTs, many of which are maintained by private companies (Gottsegen, 2021).

Recognizing the risk of repeating corporate platform dynamics, The Platform is a young cooperative community building an alternative type of marketplace and publishing venue within the NFT industry. Founded by a group of artists, academics, and technologists, The Platform's aims are twofold. Firstly, The Platform enables people to anchor context around their works on the blockchain, thus creating better provenance and curation around specific works. This is done by providing open-source layout templates (for books, paintings, magazines, audio, etc.) which are filled with various media elements each of which is called a Storyblock. A Storyblock can be associated with an NFT or simply point to a media file hosted elsewhere. By filling templates with relevant Storyblocks, artists and curators can present their works in the context that makes them valuable and meaningful (emotionally, historically, or otherwise), and which goes beyond metrics such as price or tradeable editions, usually displayed alongside works on NFT marketplaces.

Secondly, The Platform aims to harness and strengthen the community-based dynamics it relies on by operating as a DAO, incorporated as a multi-stakeholder cooperative in the UK. Five key stakeholder groups are involved in The Platform's governance: the core team, the advisers, the developers, and builders team, the creators/publication owners' teams, and the subscribers' team. Each stakeholder group can determine its own internal governance mechanisms and membership requirements. Members of a team have the right to propose and vote on proposals made within the team using blockchain-enabled governance tokens. Decisions that concern The Platform's direction across teams are made by a steering committee that includes representatives from each of the stakeholder groups (Project/Publication Team: Five seats; Subscriber Team: Two seats; Developers Team: One seat; Core Team: Three seats; Advisory Team: Two seats). Both the steering committee and the overall project's decision-making are explicitly anchored in cooperative values and principles. The Platform finances its operation by taking a 5–10% fee on all NFT sales across its platform, thus demonstrating both an innovative approach to cooperative governance and economic self-sufficiency. In the view of the founding team, this 'cooperative DAO' structure and using smart contracts and NFTs have key affordances, such as opening new sources of funding and expanding access to a vibrant ecosystem that is otherwise unattainable to more traditional cooperative organizations.

## **6 Discussion and conclusion**

Our cases point to various ways in which cooperative online communities depart from earlier online communities. On a technical level, they either aim to operate their own infrastructure, as in the case of Social.coop or rely on more decentralized technical infrastructures such as blockchains in the case of The Platform. This practice aims to reduce the communities' reliance on corporate intermediaries. Furthermore, both communities also rely heavily on leveraging open standards such as the ActivityPub protocol, to remain open and voluntary by allowing members to port their profile or projects over to a different community, start their own community, and cooperate with others using the same standards. On the economic and governance layers, both our case studies expand on traditional cooperative models, extending them in creative ways to work virtually and across borders by, for instance, accepting members from across the globe, incorporating token voting into their decision-making process or relying on a fiscal host and the Open Collective platform. This is a valuable contribution to the cooperative movement as cooperatives, particularly worker

cooperatives, have struggled to scale globally while continuing to adhere to cooperative values and principles (Bretos & Errasti, 2017; Mannan, 2018).

Despite these advances, our two case studies also reveal ongoing challenges faced by cooperative online communities. In terms of technical capabilities, online communities continue to rely on various layers of corporate infrastructure in their formation and day-to-day activities. While a DAO may be using tokens issued on a public blockchain to enact its governance, it will rely on Amazon Web Services servers to host its website. Similarly, while Social.coop may be operating its own servers, these servers may again be rented from a larger corporate provider. In that sense, many online communities, even if governed cooperatively, are likely to continue relying on corporately owned and maintained digital infrastructures as part of their operations. This is in line with Sandoval's critique that cooperative alternatives struggle to retain their distinct identity and advantages while operating within a capitalist platform economy (Sandoval, 2020).

Furthermore, despite experimenting with innovative new funding models, as in the case of The Platform, online communities face significant transaction costs to be formally incorporated as cooperatives, as they have to navigate administrative and legal systems that are unfamiliar with their operational and governance models, and lack predecessors. These transaction costs further increase with the integration of emerging technologies, such as blockchain, which itself remains a field of regulatory uncertainty (e.g., the legal status of crypto-tokens). There can also be concerns that these online communities, even if they create the conditions for democratic member participation, do not actually experience an uptick in participation (Mannan & Pek, 2023).

To overcome these challenges, more legal research and advocacy to reduce the high transaction costs of incorporating as a cooperative for online communities are required. This should be accompanied by more in-depth empirical research to understand best practices in cooperative governance mechanisms and discerning other challenges faced by cooperative online communities. Finally, there is a need for research on the kind of financial, technical, and policy support required to help initiatives that are developing cooperative-friendly technical infrastructures.

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# LINKING COOPERATIVES AND SOCIAL INNOVATION

## Bonds for transforming societies

*Carmen Guzmán, Lidia Valiente, and Francisco J. Santos*

### 1 Introduction

Today's social and environmental challenges require new solutions and new ways of addressing them, not only through innovation in the production of commodities or the provision of services (Morales, 2012), but also through the generation of a socio-political transformation that focuses on changing social values and attitudes (Moulaert et al., 2017). This is the essence of social innovation. Since cooperative societies base their activities on social and environmental values and principles, such as concern for the community and the education and training of members (ICA, 1995), these enterprises appear to offer an appropriate way to respond to these challenges. Moreover, the cooperative principle of these enterprises has the potential to enhance collaborative agreements with other institutions or organisations that could be considered as new forms of governance to respond to social needs (Campomori and Casula, 2023).

Given the above, the objective of this work is twofold: on the one hand, to find the common elements between social innovations and cooperative societies that explain why these firms are appropriate drivers of social innovation processes; and on the other hand, to analyse which kinds of social innovations are the most closely linked to cooperative organisations. Although several studies have already argued that cooperatives constitute drivers of social innovation (Murray et al., 2010; Mulgan et al., 2007), this work entails a detailed discussion of the elements involved in this relationship between social innovations and cooperatives: an analysis that has hitherto barely been touched upon (Rajasekhar et al., 2020; Gallego-Bono and Chaves-Ávila, 2020; Campopiano and Bassani, 2021; Nogales, 2023).

Regarding the structure of this chapter and considering the aforementioned objectives, the concept of social innovation is analysed in the following section, which includes their different types and their determinants of success. The third section presents the definition of cooperatives and their principles and values. In the fourth section, the links between cooperatives and social innovation are developed theoretically, while considering the different phases of social innovation and their success factors. Furthermore, various cases are studied from a practical point of view to identify which types of social innovation are carried out by cooperatives. And lastly, the conclusions are presented.

## 2 Social innovation

### 2.1 Concept

Although no universally accepted definition of social innovation has yet been established (Moulaert et al., 2017), one of the most commonly used definitions in the specific literature is that provided by the European Commission in its Guide for Social Innovation, according to which social innovations are the development and implementation of new ideas (products and processes). This implementation has two objectives: on the one hand, to meet social needs and, on the other hand, to improve social relationships and collaboration (European Commission, 2013). Furthermore, the literature also recognises that social innovations pursue another objective: the transformation of societies (Moulaert et al., 2017) by changing social attitudes and values, social strategies and policies, and social structures and organisational processes (Chaves and Monzón, 2018; Kyriazis and Metaxas, 2013). In this research, the authors consider Type 1 social innovations, which refer to meeting social needs or improving social relations, and Type 2 social innovations whose aim is transformative.

In this context, García and Palma (2020) have identified various characteristics regarding social innovation and distinguish between: (1) characteristics of the project itself; (2) characteristics of the relationships of the agents; and (3) effects of the project (Table 28.1). In this regard, the territorial aspect of the initiatives emerges due to a specific problem or circumstance of a specific place, and a bottom-up process is employed to solve the problem, which can be replicated in other areas. Furthermore, collaboration, participation, and the creation of networks are critical in the development of the initiative. In this respect, the social collective action plays a central role. The impact of the projects improves the quality of life of civil society, which sometimes requires political transformations or transversal actions in order to be successful.

From a general perspective, social innovations aim to create social value. In contrast, conventional or economic innovations focus on market differentiation for profit maximisation, that is, for the creation of economic value. In other words, social innovation differs from financial innovation, which consists of introducing new or improved products and processes into the market (technological innovation) and other actions related to organisational and marketing innovations (non-technological innovation) (OECD and Eurostat, 2005).

Table 28.1 Characteristics of social innovation

<i>Characteristics of the project itself</i>	<i>Characteristics of the relationships of the agents</i>	<i>Effects of the project</i>
Territorial element	Interconnection between different agents	Affect civil society
Replicability	Social collective action	Increase the quality of life
Creativity	Collaboration	Political transformation
Inclusive methodologies	Participation of affected people	Transversal phenomenon
Learning process	Proximity	Greater efficiency in the answers
Bottom-up process	Creation of networks	to the problems

Source: Adapted from García and Palma (2020)

## 2.2 Determinants of social innovations

Given that social innovation emerges from society to address a specific problem in a specific territory, it is possible to identify several phases previous to the initiative being put into practice. These phases constitute the social innovation process (Neumeier, 2017) (Figure 28.1). Firstly, there is the “problematism” phase, whereby the need is identified by civil society. Secondly, there is the so-called “expression of interest” phase, in which various actors and networks are willing to contribute towards solving the situation, since the solution will also contribute towards increasing their situation and welfare (Brennan and Pettit, 2004). Third, the “delineation and coordination” phase, which involves all the organising and collaborative actions for the initiative to be put into practice, requires an exchange of thoughts, know-how, skills, and mutual learning. This phase can involve the “tipping point”, as it is often at this moment that the agents concerned discover that carrying out their intentions of acting is more complex than previously thought and hence they abandon the initiative. However, if this phase is overcome, social innovation occurs with the consequent effects on society.

Throughout this process, there are factors affecting each step. Certain factors influence the social innovation per se (the final result); others influence all (or part of) the “participation process” composed of the first three phases (“problematism”, “expression of interest”, and “delineation and coordination”), and external factors influence every step of the process (Figure 28.1). Factors influencing the success of social innovation per se can affect any other innovation, such as degree of advantage and ease of use. Factors affecting the participation process are more closely related to the internal characteristics of the actors involved in the actuation. And lastly, external factors are related to those that affect the room for manoeuvre of social innovation actors (Neumeier, 2017). In this respect, for social innovation to be successful, it is crucial to know the *internal* and *external factors* affecting the participation process and the whole social innovation process.

Among the *internal factors*, we can distinguish between (1) *cultural and social elements* on the one hand, and (2) *knowledge and facilities* on the other. The *cultural and social elements* refer to aspects such as social concern, the propensity for collaboration and participation, and associative culture. These elements enable society to identify social needs and to join in strength to overcome them. Moreover, among *cultural and social elements*, the literature recognises the existence of a creative class and a cultural propensity for change. Effectively, it is necessary to sharpen one’s wits in order to find social solutions to the circumstances that need to be changed, and be willing to improve the situation instead of resigning to the current status quo. In turn, *knowledge and facilities* are related to features such as the knowledge of the local scenario and opportunities, the existence of means to establish new communications and networks, the existence of spaces to develop the initiative, the presence of other types of innovation, and the existence of cooperative mechanisms between university-science-business (Etzkowitz and Leydesdorff, 1998; García and Palma, 2019). These elements promote the fluency of social innovation development and are fundamental to the success of the “participation process”.

Lastly, *external factors* that determine the success of the social innovation process include (1) *political and institutional support* and (2) *certain elements of the productive structure*. Regarding the first element, support programmes for social innovations, social innovation laboratories and centres, public funding, education policies to foster innovation, efficient regulation, and an absence of obstacles favour the creation, development, and success of social innovations. And, of course, regarding the *productive structure*, the presence of social entities is significantly linked to the creation of social innovation, since they are, by nature, more sensitive to social needs. In this respect, and in the context of the factors that affect the success of social innovation, it is essential

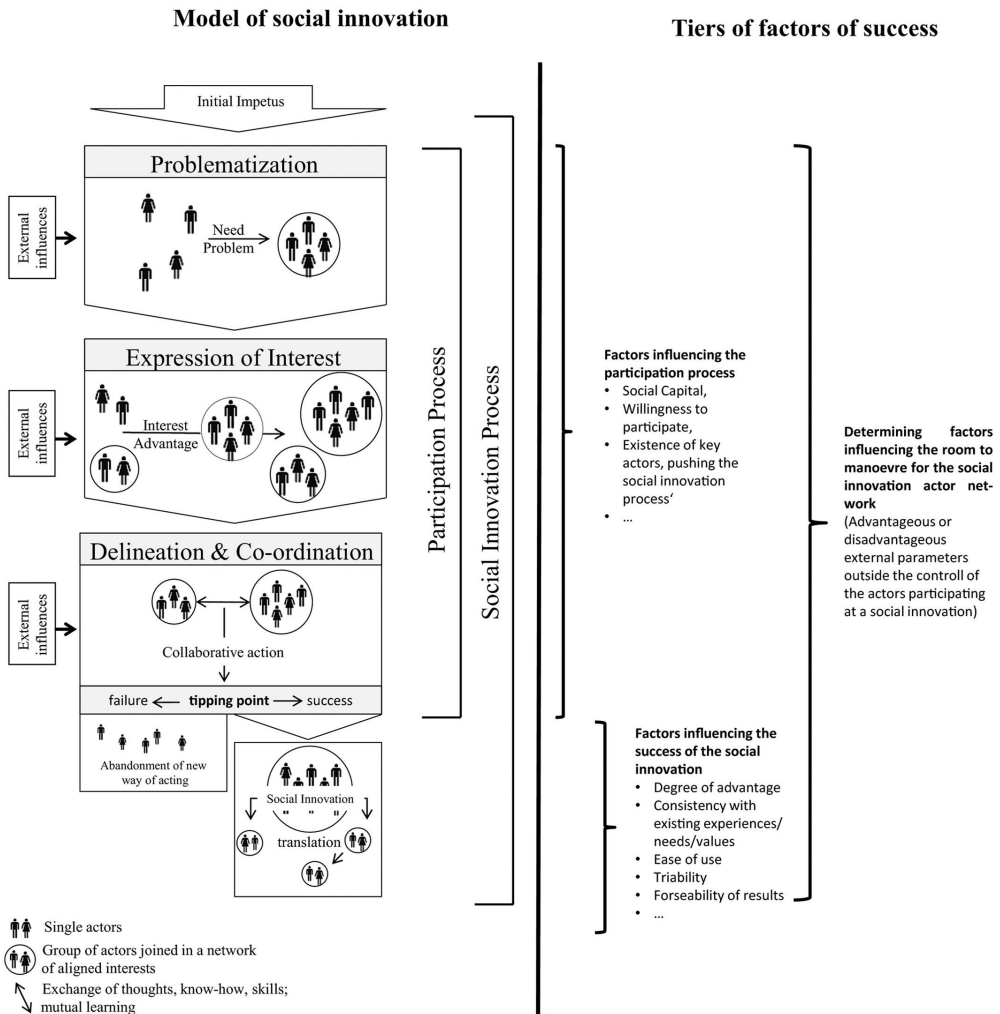


Figure 28.1 Schematic illustration of the social innovation process (left-hand side) and tiers of factors of success and their importance in different stages of the social innovation process (right-hand side).

Source: Neumeier (2017) (Permissions for image use granted by the Royal Geographical Society)

to recognise the major role played by public–private relations, since they facilitate the social entities’ actuation through cooperation agreements (Quandt et al., 2017; Wekerle, 1993). Furthermore, the possession of an active entrepreneurial activity contributes towards social innovation success, since it dynamises the economic resources of the territory. At the same time, it helps keep the entrepreneurial spirit alive, by taking advantage of the opportunities around local actors and finding solutions to emerging barriers. (Gallego-Bono and Chaves-Ávila, 2020). The existence of awards for social initiatives is also essential since it helps to give visibility to the lesser-known reality of social initiatives and, consequently, motivates the generation of social innovations (Brennan and Pettit, 2004; García and Palma, 2019).

### 3 Cooperatives: concept, principles, and values

A cooperative society is “an autonomous association of persons united voluntarily to meet their common economic, social, and cultural needs and aspirations through a jointly owned and democratically-controlled enterprise” (ICA, 1995). These enterprises carry out their activities based on diverse values and principles. The values are self-help, self-responsibility, democracy, equality, equity, and solidarity. There are seven principles: (1) voluntary and open membership, (2) democratic control by members, (3) member economic participation, (4) autonomy and independence from other organisations and governments, (5) education and training of members and information, (6) cooperation among cooperatives, and (7) concern for and sense of community (ICA, 1995) (Expanded explanation of these is provided in Introduction section).

The cooperatives’ principles underline the commitment of these firms not only to their members (internally) but also to the environment in which they operate when considering the various stakeholders (externally) (Cornforth, 2004). At the internal level, the principles of democratic control by members, member economic participation, and the education and training of members reflect the firm’s commitment to its members (Sacchetti and Tortia, 2016).

At the external level, the link between cooperatives and the environment, due to the principle of concern for the community, facilitates the detection of new social needs on the one hand, and, on the other hand, this link stimulates cooperative activity focused on responding to these unique social needs. The policies developed by the members of the cooperatives are applied in this way (ICA, 1995). Furthermore, given their experience in cooperation, and supported by the sixth principle, cooperatives are predisposed to cooperate with other organisations or institutions to achieve social objectives (Basterretxea and Martínez, 2012).

The affirmations above lead to the proposition that the “cooperative essence”, understood as the respect and practical application of cooperative principles (Guzmán et al., 2016), plays a crucial role in responding to the new social challenges based on social orientation in the performance of their activities. In this respect, cooperatives can promote activities to respond to social needs, thereby contributing to social welfare (Novkovic, 2008). Therefore, and due to the characteristics of the cooperatives described above, these organisations constitute ideal drivers of social innovation processes.

## 4 Cooperatives and social innovation

### 4.1 Links from a theoretical perspective

As stated above, the success of social innovation depends on internal factors (*cultural and social elements and knowledge and facilities*) and external factors (*political and institutional support and elements of the productive structure*).

Regarding the internal factors, as in the case of social innovation, *cultural and social elements* are present in cooperatives. To be precise, these elements are those included in the “cooperative essence”, that is, the practical application of cooperative principles (Guzmán et al., 2016). Specifically, the concern for community principle is linked with social concern. Furthermore, this commitment to the community helps identify the specific social problem, defined as the “problematisation” phase of the social innovation process. The principle of cooperation is linked to the willingness to participate or collaborate in responding to a social need, which also constitutes a key element in successful social innovations. When actors decide to collaborate, they demonstrate their willingness to solve the problem, which is termed the “expression of interest” phase in the

Table 28.2 Links between the phases of social innovation and the performance of cooperatives according to their principles

<i>Phase of social innovation</i>	<i>Related cooperative principle</i>	<i>Performance of cooperatives</i>
Problematisation	Principle of concern for the community	The commitment to the community helps to identify the specific social problem.
Expression of interest	Principle of cooperation with other organisations	The willingness to participate or collaborate to respond to a social need.
Delineation and coordination	Principles of democratic control by members and education and training of the members	Decisions are made collectively, and the education and training of their members is promoted.

Source: Authors' own

social innovation process. This is required for the promotion of any activity, especially those based on a social orientation. Moreover, the phase of “delineation & coordination” of the process of social innovation requires the exchange of thoughts, know-how, skills, and mutual learning. To this end, cooperatives provide a suitable means because their decisions are made collectively, and education and training of their members are promoted (Table 28.2).

On the other hand, the principle of concern for and sense of community and the principle of the education and training of the members, as well as that of democratic decision-making, are all linked to the element of the internal factors *knowledge* and *facilities*. The cooperative's sense of community contributes towards better knowledge of the reality of the environment, while training generates better qualifications for the cooperative's members. Furthermore, the democratic way of making decisions also ideally grants the participation of the organisation's members. This governance provides evidence of the need of the members to be involved, participate, and establish good channels of communication for making decisions in their organisational spaces. Therefore, as in the social innovation process, members of cooperatives are familiar with the environment in which they work and are aware of social needs. They also have the training to meet these needs, and participate in the development of the activity democratically with the resources the organisation provides. Together, these elements facilitate the development of activities focused on responding to social needs (Table 28.3).

Concerning the external factors, *political and institutional support* should be borne in mind in the case of cooperatives. These firms have demonstrated their capacity to generate quality jobs, contribute to the welfare system, promote social inclusion, and are considered a pathway towards economic models of a more sustainable nature (European Commission, 2022). Thus, institutions such as the European Commission (2022), the International Labour Organisation (2022) and the United Nations (2023), have pointed out the role and potential of cooperatives to address current challenges.

The *elements of the productive structure*, which is the other external factor, are also involved as a link between cooperatives and social innovation. Furthermore, regarding the productive structure, and thanks to the cooperation principle, cooperatives are more likely to collaborate with other institutions and organisations, thereby extending their productive structures beyond their own boundaries. Moreover, when cooperatives enter into cooperation agreements with other institutions and organisations, this contributes towards a transfer of knowledge, which at the same time influences the aforementioned internal factor of knowledge and facilities (Table 28.3). These

Table 28.3 Links between determinants of innovation and characteristics of cooperatives

	<i>Determinants of social innovations</i>	<i>Characteristics of cooperatives leading to social innovation</i>
Internal factors	Cultural and social elements	Principle of concern for community Principle of cooperation
	Knowledge and facilities	Principle of concern for community Principle of education and training of the members Principle of democratic control by members
External factors	Political and institutional support	Institutional and environmental recognition
	Elements of the productive structure	Willingness to cooperate

Source: Authors' own

agreements between cooperatives and other institutions can be considered as new ways of governance in response to social needs, which are regarded as social innovation (Campomori and Casula, 2023) and is also contemplated in Chapter 22 of this book. In this context, it is essential to bear in mind that the institutional recognition mentioned above could constitute an incentive to collaborate with cooperatives, given that cooperation with other organisations is more complicated nowadays due to the uncertainty and hesitation it involves.

#### 4.2 *Links from a practical perspective: examples and typologies*

Since cooperatives are drivers of social innovations, it seems appropriate to ascertain which kind of social innovations are developed by cooperatives. To answer this question, we first recall the two types of social innovations explained at the beginning of this chapter: (1) social innovations that meet a social need and/or improve social relations; and (2) transformative social innovations, which refer to those that focus on changing social values and attitudes, by transforming the organisation and structures of the current system to create social changes in a transversal way. Regarding Type 1 of social innovation, it is possible to classify the initiatives according to the objectives pursued by the projects: social, environmental, and cultural/heritage (Figure 28.2). In this context, it is common for many initiatives to achieve a range of objectives simultaneously. In these cases, the initiatives go beyond a specific goal to achieve changes in a broader sense, that is, they transform society from different perspectives, giving rise to Type 2 social innovations.

In the case of cooperatives, given that, by nature, their philosophy is committed to society, the environment, and the local territory, even when they start a social innovation for a specific objective or they are created to drive a particular social mission (Type 1), they very often tend to move towards Type 2, and transform the environment through the cooperative principles and values (Figure 28.2). Several examples are now presented to illustrate how cooperatives evolve from creating Type 1 social innovations to Type 2 social innovations.

Notwithstanding, before going into depth with the practical examples, it seems appropriate to ascertain whether other types of initiatives, beyond cooperatives, also meet the same requirements to qualify as good drivers of social innovations, and, if this is the case, then to determine whether they also lead to transformative social innovations. In this context, the case of social enterprises and public administration initiatives deserves attention.

In the case of social enterprises, there is an extensive literature linking social innovations and social enterprises, as the interests of social enterprises lie in finding innovative solutions to social problems (Saebi et al., 2019; Zahra et al., 2009). In this regard, the concept of the ideal type of social enterprise (Defourny and Nyssens, 2017) stands out. According to this definition, a social enterprise is a hybrid organisation that combines both economic and social missions, but also one that considers certain governance characteristics related to participation and democracy. Taking into account these characteristics, different models of social enterprises are found in reality (Defourny et al., 2021): (1) social business, which are for-profit social enterprises, with a market-oriented behaviour, serving the interests of shareholders, (2) non-profit social enterprises, which are less market-oriented and pursue the general interests of the community, and (3) social cooperatives, which are for-profit enterprises also with a market-oriented behaviour, but serving the interests of their members and the community. In this sense, although the first two models address social problems as the main objective of the organisations, social cooperatives are identified as the ideal type of social enterprises because they also include elements related to participation, democracy, and social cohesion (Borzaga et al., 2020; Defourny et al., 2021). In this context, the experiences of social innovation developed by cooperatives in Italy (Campopiano and Bassani, 2021) and in Africa (Littlewood et al., 2022) are well known for their transformative capacity.

Despite the above examples, social enterprises present a very different nature, as shown by the various existing models, and participation, democracy, and collaboration between stakeholders and other actors are often non-existent (Borzaga et al., 2020; Defourny et al., 2021). In this sense, these companies can solve social problems, but the scope of their abilities towards transformative social innovation are not always well-defined, since they frequently lack a concise legal definition.

In the case of the public sector, the literature recognises the key role it plays in the development of social innovation in two different ways. Firstly, through actions directly linked to the creation of social innovations. In this regard, we can cite as an example the public sector of the United States, which supports environmental projects through the Small Business Innovation Research programme. And secondly, and even more importantly, the public sector can promote social innovations through the creation of an ecosystem suitable for this type of initiatives (Mazzucato, 2018). This requires a public sector dedicated to public purposes, democratically defining the objectives to be met, and investing and innovating together with the rest of the economic actors to achieve them (Mazzucato, 2021). In this sense, a good example is the transforming project called Missions València 2030. València is a city of Spain that has created a strategy to respond to the needs of citizens through a new relationship between the municipal government and its citizens with the involvement of the entire innovation ecosystem, which includes not three, but five helixes (private sector, public sector, universities, civil society, and media) (UCL, 2021). This is a successful experience to create social innovations, or even can be considered as a social innovation itself, as this new “mission” of the state/government would be transforming the system to create social impact (Mazzucato, 2021).

However, despite the recognition of the public administration as a key role in the development of social innovations (Etzkowitz and Leydesdorff, 1998; Hulgård and Ferreira, 2019), research points out that many countries are not still prepared to implement social innovation policies or initiatives from the government, such as that of València, since they do not consider them as a priority or because they do not understand what these initiatives involve, with the consequent effects on civil society and collectives (Krlev et al., 2020). This current lack of interest and/or experience may be overcome in the case of cooperatives, since by nature, they emerge from bottom-up initiatives, at the margin of political interests, with the motivation of solving a specific social need. Moreover, thanks to their principles and values, cooperatives strive towards a wider goal.

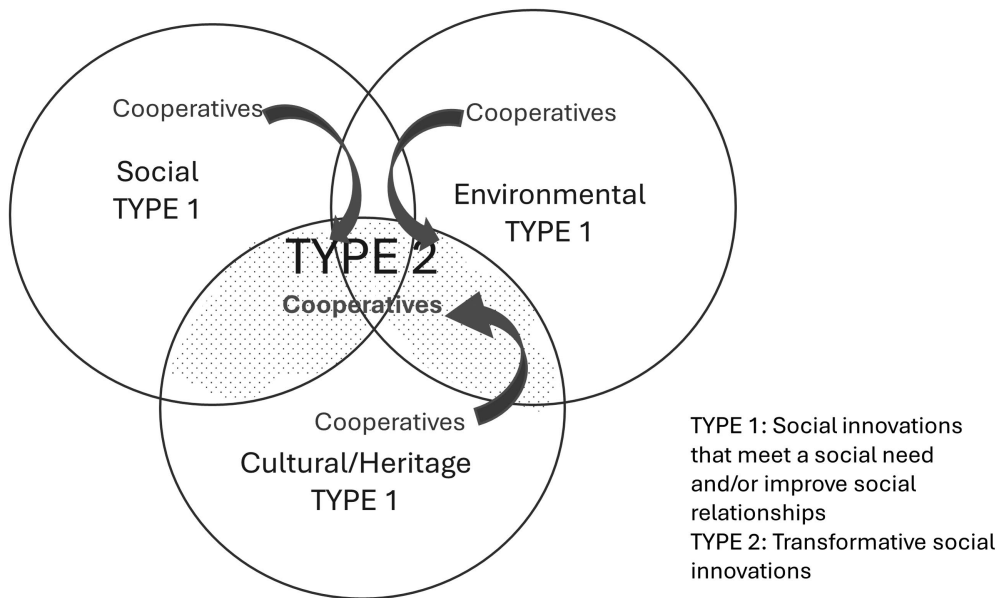


Figure 28.2 Social innovation typology and cooperatives.

Source: Authors' own

Regarding cooperative practical experiences, an example of a cooperative that evolves from social objectives of social innovations (Type 1) to transformative social innovations (Type 2) is provided by the case of Canadian Women Housing Cooperatives. This project started within the movement of housing cooperatives in the 80s in Canada, which included a specific line for women in situations of risk of exclusion to help them face life's challenges. This project collects various groups of women, such as teen mothers, immigrants, homosexual women, and women aged over 40. Women participate actively in housing management in these houses and receive a variety of essential services, such as training and childcare. Over time, this project has evolved towards objectives focused on the empowerment of women. This feminist movement strives to move women away from the secondary role that they are frequently assigned in society. For the success of this initiative, cooperation between social actors of varying nature (private and public of different territorial levels) has been fundamental. Thanks to the movement's insistence, special attention has initiated collaboration between housing agencies and social service agencies (Wekerle, 1993).

Another prominent case of collaboration is that of *Communitarian and cooperative organic rice farming in Hongdong*, South Korea. This is an example of a cooperative that evolves from environmental objectives of social innovations (Type 1) to transformative social innovations (Type 2). The main goal of this initiative, which started with the area's industrialisation in the 1970s, involves the introduction of various changes in the agri-food systems based on an organic focus and collaboration with small-holding farmers to offer food security and food safety. This goal entails actions from several perspectives in a transversal way. Educational programmes and the diffusion of their proposal and missions beyond their frontiers are included in this goal, and hence these farming villages are often present in the media and receive many visitors for agrotourism and agricultural education (Suh, 2015).

Regarding cooperatives that evolve from cultural/heritage objectives of social innovations (Type 1) to transformative social innovations (Type 2), the case of the *Mondragón Cooperative*

*Group* in the north of Spain provides a prime example. This group of organisations is an international reference in this context. It was created in the 1950s by a group of people with a social identity and shared values, led by José María de Arizmendiarieta, who joined and started a training school in the form of a social cooperative. This project has grown over time and currently comprises 95 cooperatives and 80,000 employees, and operates in the knowledge, finance, factory, and distribution sectors, selling in more than 150 countries. Mondragón is a very symbolic example of how common values of cooperation, participation, and democracy can lead to the constitution of a self-managed organisation in a conservative political context, as was the case of Spain at the time. For this reason, it can be considered a social innovation that, over time, has become a transformative movement of the geographical area by contributing positively to the meso-economic growth of the region, always with the support and collaboration of a range of social actors and institutions (Gallego-Bono and Chaves-Avila, 2020). A more expanded explanation of this initiative is presented in Chapter 26.

Lastly, another example of cooperatives that *evolve from cultural/heritage objectives of social innovations (Type 1) to transformative social innovations (Type 2)* is given by the case of *SMart (Société Mutuelle pour artistes)*. This cooperative, created in Belgium, involves workers and artists from the cultural sector. Since people involved in the cultural industry usually suffer from precariousness and intermittency in their work, in 1998, Julek Jurowicz and Pierre Burnotte created this bottom-up initiative as a social innovation to act as an intermediate between the artists and the clients. This umbrella cooperative manages all the contracts and fiscal issues of all the members/artists and protects them against abusive situations, by regulating their activity and making it visible. This successful experience has been expanded to other countries, and they have established independent Smart Coop offices with support from Smart Belgium and work with 90,000 freelancing artists around Europe. This is therefore an example of an activism movement for self-government that has transformed the cultural sector from the inside with the support and collaboration of institutional actors of various geographic levels. For the success of this social innovation, institutional arrangements are required, involving various stakeholders and making them aware of the need to transform the sector. In other words, it has been necessary to change the current system (Nogales, 2023). This experience of combining individual and collaborative action is also presented in Chapter 20, with reference to the Pegasus enterprise.

## **5 Conclusions**

The aim of this study is twofold: firstly, to find the common elements between social innovations and cooperatives that explain why cooperatives constitute a key entrepreneurial model for the implementation of social innovations; and secondly, from among the different types of social innovations, to analyse which kind of social innovation is the most closely linked to cooperative organisations. According to the research carried out, the following conclusions can be drawn.

Firstly, the common bonds between social innovations and cooperatives are found in the determining factors that ensure the success of social innovations, and include present participation, collaboration, knowledge, and commitment to the environment, which, at the same time, are found in the cooperative essence or philosophy of cooperatives (Neumeier, 2017; García and Palma, 2019; Guzmán et al., 2016). In this respect, these coincidences in the two aspects would explain why specific authors assimilate both concepts and maintain that cooperatives are drivers of social innovations (Mulgan et al., 2007; Murray et al., 2010).

Secondly, the type of social innovation most linked to cooperatives is that of transformative social innovation. The explanation for this is that cooperative philosophy leads to initiatives being

carried out that consider the well-being of society and assure the sustainability of the environment, which implies acting in different fields to reach its various objectives. In this respect, certain authors consider that cooperatives have been per se social innovations since the beginning of their existence, as they transform the dominant system, improving society's quality of life (Morales, 2012).

Third, in line with the examples given in this chapter, it can be concluded that new governance based on cooperation exists for the success of cooperative social innovations, which supports previous studies on social innovation (Campomori and Casula, 2023). Therefore, given the associative nature of cooperatives, if they are highly collaborative regarding the development of social innovation, then they have to enhance this characteristic even more, since agreements of a different nature with other local and national actors, both public and private, are needed for the system transformation.

The ideas outlined above suggest that cooperatives constitute an ideal entrepreneurial model for the public sector, since they solve social problems from the private sector through the implementation of social innovations in a holistic way. However, local stakeholders remain insufficiently aware of this form of entrepreneurship. Hence, cooperatives should be included as a possible form of business creation in official educational programmes worldwide, which is still a pending task.

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# RELATIONAL, ECOLOGICAL COOPERATION WITH AND AS PART OF MORE-THAN-HUMAN WORLD(S)

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## 1 Introduction

While anthropology might be the most cooperative of the social sciences methodologically, it also has much to show us about how to cooperate by looking at the ways communities have worked in relation with one another (and the natural world) across time and space as shown in Carabini's Chapter 13. Like most scientific disciplines steeped in colonial practices (Latour & Woolgar, 1979; Nandy, 1987; Varela, 1999), anthropology's unique flavor has been in striving to know the exotic Other (Asad, 1973; Lewis, 1973) and in the worst of cases has used this to support imperialist expansion and war (Kipp et al., 2006; McFate, 2005). Yet, when done well, the true beauty of anthropology is that it shows us there are other ways to live, do, know, act, be, wonder, relate, imagine, and re/produce (Graeber, 2007; Tsing et al., 2017; Lyons, 2020; Pandian, 2019). This lens is not a trivial one – as the current world-ecology (Moore, 2016) finds itself on the brink of collapse (Tsing, 2015), the call to imagine and embody other ways to live as part of that ecology is a necessary and urgent task.

This chapter wonders how the cooperative movement might deepen its capacity to cooperate by engaging in practices that design, imagine, and embody ways of knowing, being, and doing – ourselves and our cooperative movement – as part of relational, ecological worlds. Using an anthropological lens, I trouble the ontological coordinates of Western modernity, that the discipline itself and all of science is steeped in (Feyerabend, 1993), to wonder how the International Cooperative Alliance (ICA) that informs the global movement today, is ontologically captured, and how this runs the risk of re/producing a modern world that extracts and exploits more-than-human worlds, which includes we humans living as part of them (Abram, 2010). I home in on Cooperative Principle #7, "Concern for Community", to expand the international cooperative movement's ontological understanding of what is possible cooperatively by troubling how "community" and "sustainable development" is conceptualized and acted upon. To show this in practice, I turn to examples of relational ontological orientations that come from Indigenous communities around the world, as well as recent research stemming from biological and ecological sciences. I do this to make "real" (Ingold, 2004; Maturana & Verden-Zöller, 1993) the ways communities across time and space cooperate in relational, ecological ways, and to implode the ways in which Western

modernity conceives of “community”. I close with a curiosity on how the international cooperative movement may move toward other onto-epistemic possibilities in service of a world in crisis.

## **2 International cooperative movement caught by the modernist project**

Much of the world has already been or is soon to be ontologically occupied by Western modernity (Blaser & de la Cadena, 2018; Campagna, 2021), an epoch jetting toward solutions-oriented techno-fixes designed from the colonial logics that separate object from subject, humans from nature, mind from body, emotion from reason, inferior from superior, civilized from uncivilized, and on and on (Escobar, 2020). This Enlightenment-influenced dominant “reality”, or what John Law (2011) refers to as the “one-world world” describes a (one)-world-making project that is scooping up all other possible realities via practices, technologies, and designs that necessitate exploitation and extraction from the earth and our racialized bodies in order to push forward in the name of “progress”, as both a cause to the ecological crisis and its only possible solution (Tsing, 2015). Even ecological economics, with its desire to decommodify nature, continues to see “nature” as an object that is separate from us that needs to be saved, conserved, and protected (McCauley, 2006). In a similar vein, Escobar (2018) disrupts the hegemonic strangle of the modern onto-epistemic order by outlining four fundamental beliefs that are continually taken as common sense, which damage and re/produce this dominant world. These include the belief in the individual, the “real”, science, and the “economy” as the only possible domains under which to imagine, design, and enact futures (Esteva & Prakash, 1998; Fry, 2015; Ingold, 2000; Nandy, 1987).

The modern cooperative movement, even in its attempts to work toward a common future for all (Brundtland, 1987), emerged from a modernist project already caught by an ontological reality steeped in Western modernity – a search for a particular type of progress and way of worlding that we can reason and rationalize our way toward (Mignolo & Walsh, 2018; Tsing et al., 2017) – an embodied logic the movement carries with it even today. This modernist project can be read as an onto-epistemic way of worlding led by the European conquest of the Americas and the rest of the world, built on separations and the installation of a particular type of, and way of, being human. This entails a human that conquers and stands above all, makes rational choices, and that looks out for himself (McKittrick, 2015; Wynter, 2003). And while cooperatives in and of themselves do produce humans who become cooperative subjects through engaging in cooperative practices (Cornwell, 2012; Shear, 2019), the stress and urgency of capitalist markets and bureaucracies as a modernist worlding project often disrupt the very possibility of embodying ecological cooperation as detailed in Warren’s Chapter 11.

The Rochdale Pioneers, named by the ICA to be the founders of the modern international cooperative movement in 1844, were not immune to this ontological occupation (Blaser & de la Cadena, 2018). The dominant story goes that they were a group of weavers working in poor conditions for low wages who decided to pull their resources together to access goods at a lower price and to form more honest relations with consumers – who could also become members of the cooperative allowing buyers to have a say in decisions that were made and what they were purchasing. From there, in 1895, a group of representatives from different countries came together to develop and formalize the ICA – holding discussions, developing key principles, and making connections toward an international cooperative movement (Patmore & Balnave, 2018). In Gonza and Ellerman’s, Chapter 6, they point to how the ICA has washed over an earlier emergence of the cooperative movement in the UK that originated in the early half of the 19th century, instigated by a community of people known as the “Owenites”, whose movement was structured more radically

around collective-ownership of land and self-determining communities of shared work and subsistence (Pollard, 1967). This highlights the ways the cooperative movement even as it is narrated from a Western center has lost resonance with its origin story – which was seemingly more land and community-rooted – and continues to hobble along with varying levels of ontological fissure happening within today’s movement where cooperatives of all types lose sight of actual cooperative practices and the politics that informed the emergence of them (see Puusa’s Chapter 15 as an example of this).

When taking the current overlapping ecological crises into account, the cooperative movement cannot solely respond to and within a world that privileges (particular types) human dominance above all else, and continues to circle around the logics of Western modernity that rely on capital relations, thereby running the risk of reproducing – albeit in a “nicer” and more communitarian way – the exploitative, extractive world that consistently destroys the more-than-human worlds we are symbiotically interdependent with. Annie-Marie Mol (2002) brings to our attention that we, as humans, design the world with our technologies, systems, and structures and then the world designs us back. Therefore, if we design technologies and systems using a modern onto-epistemic order, this will just design us back to stay within that ontological order. This can be seen in the ways artificial intelligence is already re/producing anti-black violence and liberal norms that tell us to set boundaries that manifest in the avoidance of others to protect the self, further alienating us from community and care (Dancy & Saucier, 2021; Dixon-Román & Amaro, 2021; Motoki et al., 2023; Rozado, 2023). In disrupting the hegemony of how technology emerges within Western modernity, we can turn to the Lo-TEK (traditional ecological knowledge) movement that brings forth “technologies” and “innovations” that work in relation with an interconnected web of life where humans are not at the top of a hierarchy but rather part of an entangled system and therefore design systems in relation with their environments (Abrams, 2020; LaDuke, 1994; Menzies, 2006; Watson, 2019). In doing so, relational ontological technologies become part of the work. In the next section, I use the ICA’s 7th cooperative principle as a place to explore how we might ontologically innovate toward designing worlds that work in relation with, and as part of, ecological worlds.

### **3 Cooperative Principle #7: concern for community**

While all of the cooperative principles could be wondered alongside and seen from other ontological realities, the 7th principle, “Concern for the Community”, will help us understand how we might navigate toward other onto-epistemic realities. In the ICA Guidance Notes, the 7th principle states, “Co-operatives work for the sustainable development of their communities through policies approved by their members” (85). This principle refers to “community” in terms of the hyper-local within which the cooperative entity operates and exists, but also has extended its reach to care for the ways in which we engage and attend to global communities. In doing so, the ICA adapted the principles in 1995 to enact the “sustainable development goals” put forth by the United Nations, Brundtland Report (1987) (MacPherson, 2013). According to this report, sustainable development is seen as tending to and prioritizing the world’s poor while also tending to the limitations of technology on the state of the environment.

The language of the guidance notes relies on separations and inherits a dominant logic that likely would not make sense to a community from outside of the onto-epistemic order of Western modernity. It states, “The triple sustainable development logic of concern for economic, social and environmental sustainability tends to reinforce each other in that concern for social and environmental sustainability makes business sense and helps to sustain a cooperative’s economic success

(ICA, 2016:86)". While this triple logic is a valuable method for fording the crumbling road of modernity, it is arguably caught within an ontology steeped in separations that will inevitably only keep us within that world – a dangerous place as that world is the one collapsing. This ontology manifests for one, by dividing society, economy, and the environment as if these are separate domains outside of our own creation that can be controlled and dealt with by keeping them contained and separate (Miller, 2019); and two, with a fixation on the "economy" in the "capitalocentric" sense that sees capitalist markets and relations as the only way for communities to acquire needs (Gibson-Graham, 2006; also in Martignoni's Chapter 20). Here, we see a dominant reality fixed in place that puts blinders on our capacity to imagine anything outside of itself.

Visvanathan (1991) critiques the UN's sustainable development goals and the Brundtland Report for being fixated on one particular type of progress steeped in capital accumulation that has erased other ways of being, knowing, and doing in the world and asks the UN for "not a common future, but a future of the commons" (383). In 2017, a group of scholars and activists came together in Chile to create their own proposal for transformation of the common good in the midst of a global ecological crisis that decenters the version of a Western modern human as we know it and re-establishes our relationship with Earth. They call for "a new pact of coexistence" (468) that contains all life forms following five principles: interdependence, diversity, situated action, creativity, and hope (Bauer et al., 2019).

If we move back to the 7th cooperative principle, "Concern for Community", we might ontologically innovate using Lo-TEK design-thinking by troubling how the ICA and the cooperative movement is defining "community". What if the definition of "community" within the cooperative movement understood land, plants, animals, microbes, fungi, waters, skies, past and future generations, spirits and more to be a part of our community? In doing so, how might this definition unravel the reality under which we understand "sustainable development"? When thinking ontologically, there is a tremendous destabilization process that needs to happen that opens up our imaginations to possibilities we may have never known. The next section will highlight examples of how this is already being done in practice within communities – past and present – across the globe.

#### **4 Imploding Western modernity's notion of community**

In order to mend this embodied urge to re/produce separations between humans and nature; or society, environment, and the economy, and so on, the "ontological turn"<sup>1</sup> within anthropology (Holbraad et al., 2014; Viveiros de Castro, 2004) provides a framework for understanding that the world is made up of multiple realities, therefore multiple worlds, being done in different practices (Law, 2004; Mol, 2002; Viveiros de Castro, 2015). By looking at the deep-time wisdom of communities across time and space, we can better understand how and what technologies, designs, and practices operate in close relation with "nature", places, and environments – honing specifically into the ways these co-constructed realities are built through an embodied knowing that there are no separations between one another and our environments (de la Cadena, 2019).

The term "relationality" lays bare how distinct worlds make up an assemblage of all living beings moving, dying, relating, breathing, and growing in relation with one another. Imagine a less-perfectly-symmetrical kaleidoscope flowing in and out, picking off pieces here and joining another cluster there, caving in, retreating, coming back, connecting – like a big evolving orb of breath, wind, air, molecules, bodies moving in relation with one another. That is the reality under which all of life reproduces itself – the "real" of being alive that is often masked by modernist projects that rely on separations. Separating the economy, society, and the environment makes

them appear easier to understand and control – a distillation and purification process that is central to the origins of science and academic disciplines themselves (Rodríguez-Giralt, 2019) – which thereby occludes our capacity to see the ecological and relational economies that are constantly reproducing themselves (Miller, 2019).

Indigenous communities across time and space have organized and known their realities as an assemblage of beings in relation with one another. This is seen explicitly when analyzing the Wampanoag language, the people living on the lands on the coast of Massachusetts in the United States. In their language, they have no actual word for “land” as land is known to be a part of their bodies. Therefore, when the settlers came in to take, divide, and fence the land, it made no conceptual sense to the Wampanoag people, for how can you take part of someone’s body, it was not a possible thing to do. Yet in doing so, settlers made this possible, they separated land from bodies, using a lot of tactics but one of which was the very word “land”. Land suddenly became an object separate from us that could be stolen, traded, and fenced off (Booth, 2003; Hodge, 2019; Makepeace, 2011; Pistor, 2019).

The Lingit people native to Southeast Alaska have robust economies of care that consider their relations and exchanges not only with the neighboring Native communities but also with the Plant Nation, the Insect Nation, the Animal Nation, and the Fish Nation. Within these networks of care, you give and take in reciprocal manners that do not inherently see one nation as more needing than the other, and all nations and the beings within them are known as their relatives (Miller et al., 2021). While the cosmovisions among Indigenous communities situated in North America are surely diverse, there is synergy in the shared conception that creation is a living process where there exists kinship between all things and beings, both animate and inanimate, that we are our relations all the way down and therefore care for, and defend, one another (Forbes, 2001; Lacey, 1995). For example, in the Peruvian Andes, there is a community of people who know the lake as their mother and the mountain as their uncle. Still in the midst of defending their worlds, Indigenous activists in this community continue to fend off mining projects that are destroying their relatives, letting corporations and the state know that the mountain will get angry if mined into that will result in mudslides and other ecological disasters that will kill millions (de la Cadena, 2010).

I could go on with these examples, such as the Afro-relational essence through Ubuntu discussed in Molefe’s Chapter 5, a relational way of worlding that only knows personhood to manifest by being in harmonious relation with other humans and non-humans, from the past and future, living and nonliving (Metz, 2018). In Aboriginal Australia, there is a deep attachment to “Country” or place brought on by “Dreaming” and feeling with the sentience and ongoing aliveness of lands, rivers, rocks, earth, etc. that ancestors created and still live on, within, and as part of (Brigg & Graham, 2020; Moreton-Robinson, 2020). Or: take the 2500-year-old practice of Buddhism, centered on interbeing and the deep knowing that the self does not exist outside of all other relations (Nhat Hanh, 1975, 2008). Knowing our ontological realities in this manner disrupts Western modernity’s attempt to separate and individuate. It implodes the very idea of “community”, as is used in common phrase within modern circles today and therefore necessarily finds consensus across pluriversal ways of knowing, being, and doing that understand community to be all forms of life that exist within and as part of one another through deep time and into future time.

And certainly, Western science is recently catching up to this wisdom passed down, where biologists and ecologists are now “proving” our relationality down to our mythological individual bodies. As the “holobiont” shows us, our individual bodies are not individuals at all but rather bodies made up of billions of microscopic beings that keep each one of us alive (Gilbert, 2017). And

our bodies are not scientifically detached from the systems that even sustain them. As Haraway (2016) puts it, “we are symbiosis all the way down”. Or take the plethora of research on the collective behavior of ants that shows how different ant colonies adapt to different environments creating new systems and rules based on the environment they are in (Gordon, 2017; Kropotkin, 1902). All of which reveals more-than-human communities in relation with one another, and their environments. This is at the center of the “Gaia hypothesis” that shows how the earth is a self-regulating system that will perpetuate life beyond what we know, whether we are here as humans or not (Clarke, 2020; Lovelock & Margulis, 1974), and biological studies on interdependence that show that all things come into being only within in a system of dependence on one another – not as independent interactions (Sharma, 2015).

Indigenous scholar and ecologist, Robin Wall Kimmerer (2020), has a visual (see Figure 29.1) that helps us more fully visualize relational worlds. It has one model of the world where humans are at the top of a pyramid juxtaposed against an image that sees all of life in a circle of interdependence where no being is at the top. An ecological and relational framework for cooperatives would situate more-than-human worlds – the soil, the fungi, the bacteria, the plants, the sun, the winds – as both members of our cooperative movement and part of our understanding of the wider local and global community. With this, the ICA could expand the 7th cooperative principle to include more-than-human worlds in defining what “community” is, retooling the way they are thinking about “sustainable development” beyond just considering the futuring of life for humans, but rather to consider what futuring might look like for the planet as an assemblage of interrelations. This might even befuddle modernist notions of life and death as we all compost and become with one another in the great swirl of life (Haraway, 2016).

In navigating how to design, imagine, and create a cooperative movement in thickly settled centers of Western modernity, such as the United States where I write from, I implore us to imagine relational ontological technologies starting with a recalibration of how we understand community.

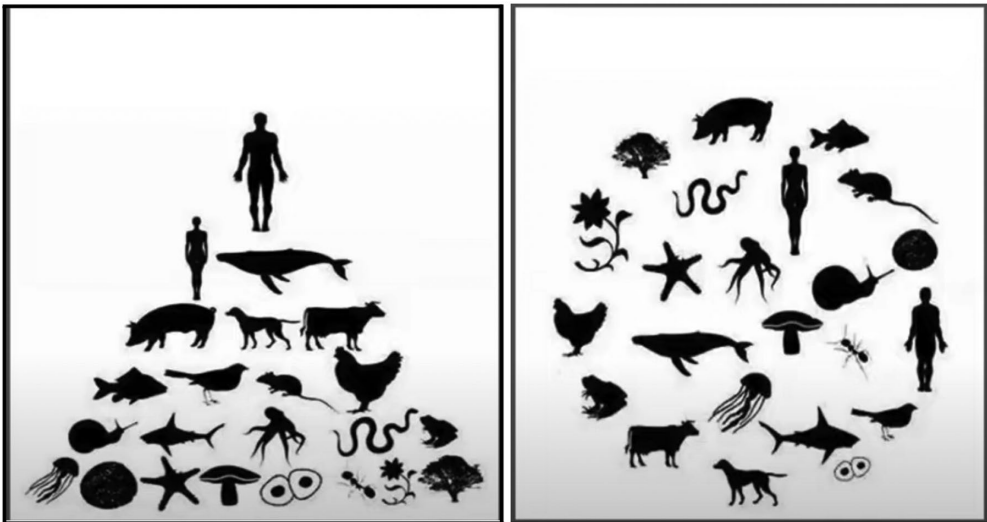


Figure 29.1 Screenshots taken from the following webinar presentation, Robin Kimmerer, “What does the Earth ask of Us?” November 12, 2020.

And how doing so might deepen our movement toward building truly cooperative relational, ecological worlds that the earth (that includes all of us) is in dire need of. I steer away from giving policy advice with the concern that policies are also made from an onto-epistemic order based in domination and control, but rather leave us wondering how we might engage in practices as a cooperative movement and as cooperative entities that implode our sense of community to include all of life, and how that line of thinking might inform the ways we design systems, structures, and beyond.

## **5 Conclusion**

To summarize my points, it really is quite simple. The modern onto-epistemic order brought forth by one-world practices, designs, and technologies relies on separations in order to dominate and control rather than to cooperate and care for and thereby erases other possible realities that our cooperative movement, historically and in the present day, has not been immune to (Rhodes, 2021). Most everything has been, or may soon be, ontologically occupied by this one-world worlding that are the same logics and practices that are destroying all of life on the planet. This chapter asks us to break away from the dominant onto-epistemic order that separates in order to control, contain, purify, and know, and to look at relational ontologies across time and space. I do so both by using an anthropological lens to understand the possibilities of pluriversal realities that have existed well before and in spite of the modernist project, and by digging into more recent biological and ecological research that “proves” our interrelatedness with all of life. In doing so, I ask how we might implode Western modernity’s idea of community, inspired by the ICA’s Cooperative Principle #7, “Concern for Community”, that swirls within a hierarchy that puts (particular types of) humans, their logics, and worlding practices at the top of an ontological order. And thereby bulldoze through the more-longstanding and consensual forms of “community” and “sustainability” – ways of knowing, being, imagining, relating, feeling, and doing where we, as humans, are one part of a larger relational web of life. Instead of offering blanket solutions, I ask the international cooperative movement and our more local cooperative entities to move toward relational ontological technologies by starting with reconfiguring how “community” is defined and understood, in local places. With this, I wonder what systems, structures, and ways of worlding we may create when our more-than-human communities join us in our cooperative organizing. As our planet burns and floods, this ontological transformation is urgent.

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## **Note**

- 1 The ontological turn is contested by many, in particular, Indigenous scholar Zoe Todd (2015) argues that the ontological turn prides itself in being a revelatory theory but reproduces colonial domination of thought by discounting and ignoring Indigenous and feminist scholarship that has always already been writing from other ontological realities.

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# SECTION V

## Sustainability

### Introduction

*Jamin Andreas Hübner*

With every passing year, the environmental destruction caused by the global spread of industrial capitalism becomes more and more evident. “Sustainability”—which aims to meet the needs of the present without compromising the ability of future generations to meet their own needs—has become perhaps the word of the century. Because all planetary life depends upon integrated ecosystems, there are fewer and fewer areas of social and economic life that remain untouched by need for sustainability. There is simply no realm of planetary existence that can be isolated from environmental activity and concern. The question facing our era of the “Anthropocene” (or “Capitalocene” in some scholars’ perspective), is if our species can adapt before the current “Sixth Mass Extinction” event is finished.

The cooperative movement emerged as a response to changing socio-economic patterns and the rise of industrialism in the late 1700s, so the movement was generally not more environmentally concerned than those organizations and people outside the movement.<sup>1</sup> In fact, it wasn’t until the 1995 General Assembly of the International Cooperative Alliance that sustainability became an official distinctive of the cooperative movement. The seventh principle, “Concern for Community,” was there defined as follows: “Cooperatives work for the sustainable development of their communities through policies approved by their members.”<sup>2</sup> Interest in this intersection has been building ever since. After 2012 was named the International Year of Cooperatives by the United Nations, 2011–2020 was also declared by the ICA to be a decade of cooperative growth. In its Blueprint for a Cooperative Decade, “sustainability” was one of its five pillars. In 2021, the ICA and European Union published Cooperation for the Transition to a Green Economy, which provided

An innovative overview on how cooperatives are acting to protect the environment, as well as mitigate and adapt to the impacts of climate change and environmental degradation. It elaborates on the links between cooperatives and Principle 7 of the ICA Statement on the Cooperative Identity, concern for community, including the access and management of natural habitats and resources through cooperative approaches (such as water, energy, or forests).

The case studies it examined “demonstrate that putting people at the centre of the enterprise whilst integrating environmentally friendly decisions are not incompatible aims, but rather mutually reinforcing, in line with the principle 7 on Concern for Community.”<sup>3</sup> Other collaborative events building on this momentum includes the panel “Cooperatives: allies of environmental sustainability and food security” at the 2023 Organization of Brazilian Cooperatives (OCB) at Espaço Brasil (COP28), among many others.

Some in the cooperative movement are more radical in their approach to environmental concerns than “sustainable development” and instead push for “degrowth,” “circular economy,” “ecosocialism,” and the like. For example, Cooperative Jackson in the United States is a comprehensive, locally grounded cooperative movement aimed at achieving ecosocialism. Its fundamental structure is built on a “federation of emerging local cooperative and mutual aid networks,” a “cooperative incubator,” “a cooperative school and training center,” and “a cooperative credit union and bank.”<sup>4</sup> Objectives include eco-villages, a network of 3D print factories, unionizing efforts and municipal reforms that enforce human rights. Elsewhere, such as in Italy, there are a number of new and growing organizations embodying the circular economy from different managerial and industrial approaches<sup>5</sup> and also research projects in that area, such as Climate Circular Coop ([climatecircularcoop.it](http://climatecircularcoop.it)) and the Circular Economy Collection of PortailCoop.<sup>6</sup> Many of these efforts are aimed at reforming existing firms within an industry instead of starting from the ground up, but the goals are nevertheless ambitious. There are countless other such case studies around the world that reveal more substantive proposals beyond the (“too little, too late”?) policies of public carbon taxes or subsidies for electric cars. However dramatic this divergence is, it likely reflects differences in the cooperative community in general, namely, those who see cooperative economics as supplementing or improving on existing capitalist economies versus those who see cooperative economics as a bridge to or foundation for a post-capitalist economy. All of these overlapping models, however, bring environmental concern to the forefront of economic activity and the cooperative movement in particular. It is not possible for cooperatives to serve their community for the long term if natural resources are depleted, if water supplies are diminished or contaminated, or if the biosphere itself is under imminent threat.

Discourse and research regarding sustainability and cooperatives is therefore an emerging field that is just getting off the ground. Some ethical models of cooperative and religious economic justice incorporate sustainability as a core value.<sup>7</sup> There is now conversation about UN sustainability goals and cooperative economics, but there is not yet a meaningful, sustained conversation or synthesis between ecological economics and cooperative economics (which may prove significant in the long term).<sup>8</sup> Substantive research is growing. For example, a 2023 article in *Sustainability* entitled “Circular Economy and Cooperatives” shows from a study of 165 cooperatives in Quebec that

Cooperatives contribute comprehensively to the circular economy, not just to downstream categories of recycling and revalorization but also to upstream categories of rethinking production and consumption, sharing, and durable use. They can contribute to an embedding of circular economy in regional economies and circular societies.<sup>9</sup>

A 2023 article in *Resources Policy* shows research relationships between the 17 Sustainable Development goals of the United Nations and cooperatives.<sup>10</sup> A 2022 article in *Sustainability* answers the question, “Does the competence of the operational management of cooperatives make it possible for cooperative members to overcome the obstacles that prevent their social and economic development?”<sup>11</sup> Other research has shown positive relationships between energy cooperatives and social cohesion,<sup>12</sup> examined the relationship between green cooperatives and sustainability in

a social enterprise context,<sup>13</sup> examined determinants of Eco-Innovations in agricultural production cooperatives,<sup>14</sup> and the relationship between circularity and agro-industrial cooperatives.<sup>15</sup>

The chapters in this section offer similar contributions to this growing intersection and also provide a snapshot of the current conversations. The first two chapters zoom out to the broader conversation and theory of cooperation and ecological concern. Mary Scott Cato provides an insightful look at this field in “Why a Green and Resilient Future Must be a Cooperative Future.” Christian Felber then offers a ten-point model of “Economy for the Common Good” that addresses both social and environmental concerns. Andreas Exner and Dirk Raith in “Social Economy and Ecological Sustainability” look at the status of the conversation regarding cooperation and sustainability goals. The next two chapters focus on worker cooperatives and sustainability. Marina Albanese tackles the question of “Are worker cooperatives green?” while Oier Imaz Alias and Jokin Bergara Eguren look at how the world’s largest worker-cooperative, Mondragon, addresses the sustainability agenda. Cécile Godfroid, Marc Labie, and Coralie Muylaert examine whether Product Service Systems are a viable route towards sustainability. Finally, in a more specific case study, Ludger Voigt and Dietrich von der Oelsnitz look at how 18 store founders understood and tried to incorporate sustainability into their firms.<sup>16</sup>

### Notes

- 1 On the general history of industrial pollution, see Francois Jarrige and Thomas Le Roux, translated by Janice Egan and Michael Egan, *The Contamination of the Earth: A History of Pollutions in the Industrial Age* (History for a Sustainable Future) (Boston: MIT Press, 2020).
- 2 See ICA, “Cooperative Identify, Values, and Principles.” Available online at: <https://ica.coop/en/cooperatives/cooperative-identity>.
- 3 ICA, (2021) *Cooperation for the Transition to a Green Economy*. Available online at: <https://ica.coop/en/cooperatives/cooperative-identity>
- 4 Kali Akuno and Matt Meyer (eds.), *Jackson Rising Redux* (Oakland: PM Press, 2023), p.26.
- 5 In Italy alone, for instance, consider the winemakers/distilleries Caviro and Cavale Cooperative, and in agri-food, CPR System.
- 6 See “Circular Economy Collection,” PortailCoop. Available online at: <https://portailcoop.hec.ca/collections/collection-circular-economy>
- 7 See Jamin Andreas Hübner, *Religion and Cooperative Economics* (London: Palgrave MacMillan, 2025).
- 8 The classic work on ecological economics is Herman Daly and Joshua Farley, *Ecological Economics*, 2<sup>nd</sup> ed. (Washington Press: Island Press, 2011).
- 9 Ziegler, Rafael, Cynthia Poirier, Marie Lacasse, and Evan Murray (2023). “Circular Economy and Cooperatives—An Exploratory Survey,” *Sustainability* vol. 15, no. 3, 2530. <https://doi.org/10.3390/su15032530>
- 10 Juan Lafont, Jose Ramon Saura, Domingo Ribeiro-Soriano (2023). “The role of cooperatives in sustainable development goals: A discussion about the current resource curse,” *Resources Policy*, vol. 83, 103670.
- 11 Walter Perpétuo Ribas, Bruno Pedroso, Leandro Martinez Vargas, Claudia Tania Picinin, and Miguel Arch-anjo de Freitas Júnior (2022). “Cooperative Organization and Its Characteristics in Economic and Social Development (1995–2020),” *Sustainability* vol. 14, no. 14, 8470. <https://doi.org/10.3390/su14148470>.
- 12 Maria Luisa Lode, Thierry Coosemans, Luis Ramirez Camargo (2022). “Is social cohesion decisive for energy cooperatives existence? A quantitative analysis,” *Environmental Innovation and Societal Transitions* vol 43, 173–199.
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- 14 Alizadeh M, Ommani A R, Noorollah Noorivandi A, Maghsoodi T. (2022). “Determinants of eco-innovations in agricultural production cooperatives in Iran,” *JAST*, vol. 24 no. 1, 1–12.
- 15 Barros, M.V., de Jesus, R.H.G., Ribeiro, B.S. *et al.* (2023). “Going in circles: key aspects for circular economy contributions to agro-industrial cooperatives,” *Circular Economy Sustainability*, vol. 3, 861–880.
- 16 Special thanks to Asia Guerreschi for her help in constructing this introduction.

# WHY A GREEN AND RESILIENT FUTURE MUST BE A COOPERATIVE FUTURE

*Molly Scott Cato*

## 1 Cooperative businesses and the green economy

Given space limitations, this chapter will not be able to cover in detail the theoretical connection between cooperative ownership and sustainable economic activity. It rather offers an outline of some of the key design features of the global capitalist economy that make it incompatible with a sustainable future—and demonstrate how a cooperative economy would operate in a distinct way that meets many of the requirements of a sustainable future. The ICA (2022) say in their report *Cooperation for the Transition to a Green Economy*, ‘As businesses driven by values, not profit, cooperatives share internationally agreed principles and act together to build a better world through cooperation’ and that ‘For cooperatives, an alternative answer to sustainability challenges is already embedded in the enterprise model, through the cooperative values and principles’. This begs the question, why should cooperatives have the values needed to build a sustainable world? They are certainly guided by different design features to those that dominate the predominant form of production, features that can be argued to be contributing to rather than resolving the climate and ecological crises (Cato, 2020).

The first and most pressing dynamic of a capitalist economy is to grow. For decades now, green and ecological economists have pointed to the link between this growth and the environmental destruction that is daily more evident. This case was first convincingly made by Nicolae Georgescu-Roegen (1971) and later taken up by his student Herman Daly. It has now spawned a whole ‘degrowth movement’ with its academic conferences and activists, although this is not as frequently linked to the cooperative alternative to growth-based capitalism as it might be.

In a co-authored paper (Fôn James and Scott Cato, 2017), I argued that capitalism is an economic system where ‘those who control finance use it to bring the other “factors of production”, labour and land, into a productive process. In order to reward continued investment in the mode of production, some of the productive value is extracted as surplus or profit’. Capital accumulation is inherent in the logic of the economic system and represents the extraction of value beyond what is necessary to ensure sufficient returns to labour or the well-being of society. The returns to capital represent a pressure for extraction that achieves no human improvement but increases stress on the factors of production, natural and human.

It also becomes clear that growth is a consequence of the need for accumulation of value by the entrepreneur. In this same paper (Fôn James and Scott Cato, 2017), I have previously made the case for the way in which the accumulation that is essential to the dynamic of a capitalist economy is wasteful when we are seeking to design an economy that can fit comfortably within planetary limits. As we argue, ‘The accumulative logic of capitalism has created a prolonged pattern of over-consumption and over-production, with consequent and inevitable environmental degradation and the eventual loss of resource bases’. Ecological Marxism envisages a crisis of over-accumulation, leading to a crisis in the capitalist mode of production that occurs when capitalist firms and states fail to renew or protect the conditions of production; the conditions of production are thus underproduced (O’Connor, 1988).

Ecological Marxism links the crisis of over-accumulation caused by this extraction to a crisis in the capitalist mode of production. What Foster calls the ‘second contradiction of capital’ occurs when capitalist firms fail to protect or regenerate the resource base necessary for their continued production:

The basic (and not very well publicised) fact is that by its nature, capital is bad at preserving things, whether the social well-being of people, land, community values, urban amenities, rural life, nature, or private fixed capital, including structures... There is no profit in maintenance of preservation, or actions taken, and resources expended, to prevent bad things from happening that would otherwise occur. The profit is in expansion, accumulation, and marketing something old or new at lower costs.

(O’Connor, 1998, p. 317)

In contrast to this model of accumulation and profit, the cooperative economic model is motivated by meeting people’s needs. Hence there is no requirement to constantly expand, and to ignore the limits of the planet in that expansion.

With the failure of effective demand in Western societies—something that was blamed by economist including Keynes for the Great Depression (Cato, 2013b)—the pressure has been to maintain consumption so that over-production does not lead to a crisis of capitalism. Hence, we have seen ruses such as built-in obsolescence and fetishistic consumption driven by the advertising industry forcing the pace of consumption, which is no longer driven by human needs or even desires but by the role of consumer as the saviour of capitalism (see Chapter 7 of Cato, 2013). In contrast, a cooperative economist would seek to define and fulfil needs, focusing on well-being rather than growth (Cato, 2017).

One model of a more sustainable economy that focuses on environmental efficiency is the ‘circular economy’ model, substituting for the linear model of the conventional capitalist economy. We owe this characterisation originally to proto-ecological economist Kenneth Boulding who described ‘a linear economy... which extracts fossil fuels and ores at one end and transforms them into commodities and ultimately into waste products which are spewed out the other end into pollutable reservoirs’. Rather than a linear form, he proposed an economy that had a circularity built in—‘a high-level cyclical economy’: materials should be used many times in different forms, rather than used just once, turned into waste, and disposed of.

Ziegler et al. (2023) present a study of cooperatives’ approach to what they term ‘circularity strategies’ based on a survey of 165 cooperatives in the Canadian province of Québec. They consider ‘circularity to be anchored in the mutualisation at the heart of the cooperative model, which emphasizes a shared taking of responsibility in response to needs’. And that cooperatives are

not just playing a significant role in sectors that can clearly be defined as falling into the circular economy—a primary example being recycling—but also that they pursue ‘upstream’ circularity strategies in terms of reducing consumption by focusing on sharing and durable use.

Cooperative businesses are also more efficient, in an environmental sense. They provide goods or services for sale in the market and they pay their employees; but they do not need to see surplus value extracted to be paid to shareholders. Hence, they do not need to ‘sweat their assets’ and over-exploit either the resources they use (and the environment they come from) or their workforce.

At the level of the individual enterprise, I have argued that cooperatives are naturally limited by the size of their membership (Cato, 2012).

Although some of the most successful co-operatives are very large, this can lead to a degeneration of their co-operative values. One important stage of development arises when the co-operative becomes too big for all its members to be in the same room at the same time to make decisions. The need to elect representatives reduces engagement and ends direct accountability.

Thus, cooperatives often choose to expand by creating groups, spin-offs, or networks rather than following the corporate model of exponential growth. This was the pattern originally followed by the Mondragon Group, although the pressure of a capitalist financial system meant it later adopted a more conventional business model.

## **2 Fair shares: the cooperative way**

The need to close the planetary boundary to safeguard our future adds additional salience to the issue of how the economy product is distributed, linking to another cooperative principle: that of equity. One of the reasons that growth is so vital to a capitalist society, beyond the economy, is that it enables questions of distribution and justice to be sidelined. Once we accept the planetary boundary and accept the finite nature of natural resources, the issue of how the remaining resources are shared immediately becomes salient. So, a green economy must necessarily be an economy where fair shares must replace the gross inequality that disfigures today’s global economy.

Cooperatives were founded because of a concern for social justice and the accelerating inequality in the global economy is a result of the extraction of value by a small number of owners. Just as the rise of industrial capitalism resulted in a massive increase in inequality, with accumulation of surplus value, creating large fortunes for those in ownership positions while the majority remained in poverty, so the process of globalisation has led to a second massive increase in inequality. The US Brookings Institution has recently identified this rapidly growing divide, noting that ‘Contemporary global inequalities are close to the peak levels observed in the early 20th century, at the end of the prewar era (variously described as the Belle Époque or the Gilded Age) that saw sharp increases in global inequality’.

While income and wealth inequalities are both high and rising within most societies, global data present an even clearer picture of concentration of wealth. The World Inequality Report 2023 reveals that in terms of income, ‘the richest 10% of the global population currently takes 52% of global income, whereas the poorest half of the population earns 8.5% of it’ while in terms of wealth, ‘Global multimillionaires have captured a disproportionate share of global wealth growth over the past several decades: the top 1% took 38% of all additional wealth accumulated since the mid-1990s, whereas the bottom 50% captured just 2% of it’.

Given evidence that an unequal society results in worse outcomes for everybody in that society (Wilkinson and Pickett, 2009), this is a serious matter in itself, but the other side of the coin of accumulation is the way it enables high-energy lifestyles that provide a challenge to our ability to reach net zero goals. Millward-Hopkins (2022) provides a detailed analysis of the complex relationship between inequality, energy consumption, and decent living standards for all. His conclusion is that ‘inequality substantially increases the energy requirements of securing decent living standards for all’. Looking at the same issue from the other end of the telescope, research published by Oxfam details how the world’s richest people are driving the climate emergency. In research conducted with the Stockholm Environment Institute, they found that, in 2015, the wealthiest 10% of people were responsible for around half of global emissions in 2015 and that the top 1% were on their own responsible for 15% of emissions.

So far, the focus has just been on energy, but we can make a wider point that the high-consumption lifestyles of the world’s richest people are putting pressure on the resources that the world’s people need to maintain decent lives. A cooperative approach to economics based on equity would thus facilitate our ability to live within planetary limits.

### **3 Case study: cooperative energy**

So far I have argued from principle that an economy organised along cooperative lines would not create a conflict with the natural world. This section will consider a sector central to the sustainability transition where cooperatives have made significant contributions to the transition towards a sustainable future: energy.

The growth of industrial capitalism is closely linked to the exploitation of fossil fuels, first coal and later oil and gas. Because these resources were found in specific places due to the location of seams of coal or reservoirs of oil and gas, they were easily enclosed and the value captured by entrepreneurs who became some of the most successful of the early capitalists. Because the fuel sources for renewable energy are the natural and unenclosed wind and sun, we can rethink the question of how energy is owned in the future sustainable economy.

Lode et al. (2022) explored the extent to which there is a connection between the ownership of energy in Europe and the nature of its ownership. Based on a regression analysis of various socio-demographic variables, they found that energy cooperatives are more likely to develop in areas that perform better on social cohesion indicators. This helps to explain the relative success of energy cooperatives in the countries of Northern and Western Europe (Sweden, Denmark, United Kingdom) and their relative lack of success in the countries of Eastern Europe and South Eastern Europe. Osti (2012) both challenges and confirms these findings, providing evidence of the pro-sustainability activity of social enterprises in Italy, but with a more social function than the energy cooperatives that have thrived in Northern Europe.

Denmark has been seen as a leader community-owned renewable energy for more than 20 years; this ownership model has avoided local opposition and supported Denmark in an impressively rapid transition from fossil fuels to renewable electricity generation. Restructuring of the Danish electricity market in 1999 enhanced the power of consumers with consumer ownership further supported by the Act on Renewable Energy, including the right for local ownership of 20% of onshore turbines, extended to large-scale solar PV by 2019 (Rønne and Gerhardt Nielsen, 2019).

The graphic demonstrates the rapid decline in the use of coal to generate electricity in Denmark, matched by a rapid rise in electricity generated by windpower (now approaching 60% of the total). The data assembled by Madsen of the International Network for Sustainable Energy indicate that

## Share of electricity production by source, Denmark

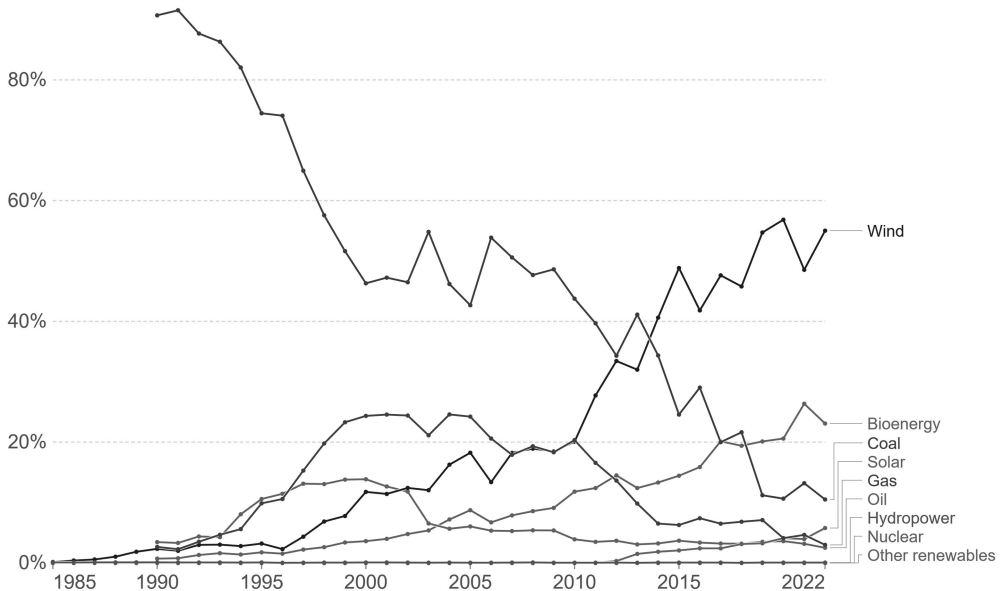
Our World  
in Data

Figure 30.1 Denmark: Share of electricity production by source (Madsen, 2022).

Source: Graph from Our World in data, [https://coops4dev.coop/sites/default/files/2021-09/Cooperation%20for%20the%20transition%20to%20a%20green%20economy\\_0.pdf](https://coops4dev.coop/sites/default/files/2021-09/Cooperation%20for%20the%20transition%20to%20a%20green%20economy_0.pdf)

some two-thirds of Denmark's district heating is organised through 350 consumer cooperatives and at least 3.500 MW of the total of 3.800 MW land-based wind power is owned by citizens, who have invested some €5m.

Costa Rica is leading the world in sustainable energy, regularly being cited as one of only a handful of countries that have achieved 100% renewable electricity generation. Again, cooperatives have played an important role. The ICA lauds the example of Coopelesca renewable energy cooperative, in the Huetar Norte region of the country, near the border with Nicaragua. Founded in January 1965, with the participation of 365 members and initial capital of 45,750 Costa Rican colonies (approximately US\$5,300), it began supplying electricity in May 1969 and has since installed 259 km of distribution lines, connecting 1,065 users (see also Villalobos-Guzmán, 2022). It currently has more than 104,000 members and electrifies an area of 4.770 km (Figure 30.1).

#### 4 Preparing resilient and resourceful citizens for an uncertain future

The intersecting climate and biodiversity crises are signals that the economy, as currently structured, is exceeding planetary boundaries and putting intolerable stresses on the natural world we entirely depend on for our livelihoods and well-being. So far, I have discussed how the very design of cooperative businesses can help to ease these pressures, suggesting that shifting away from shareholder-owned, profit-driven businesses towards those owned and controlled by their members could limit the impending environmental catastrophe. In this concluding section, I will suggest ways in which playing a part in a cooperative can help build the skilled citizens we will need to thrive in a climate-changed world.

The demonstrations by Fridays for the Future and other youth climate movements across the world have made very real the sense that the climate crisis is also a crisis of intergenerational inequality, with one generation undermining the future life chances of generations that follow. This has led to some action at the level of lip-service to including young people in policy-making. But even at its best, for example, in the work of UNICEF (2021), it consists of recognising that ‘the climate crisis is a child rights crisis’ and consulting young people about policies to be implemented.

The Guiding Principles of the UK-based advocacy group Teach the Future get closer to the heart of the issue, which is that the world young people will be living in will be a world of constant crisis and that they need to be prepared for this. Their first four principles cover issues of how sustainability knowledge needs to be about recognising interconnections and the need to think about the whole system. They have three principles that relate to the need to give young people capabilities and confidence to take positive action and to counter eco-anxiety. Their final three principles are focused on the need for young people to be prepared to think in terms of transformative change and to be experienced in both critical thinking and dealing with uncertainty.

These principles seem closely allied to key principles of cooperatives, which are about recognising the economy as a system and reconnecting producers and consumers; practical action to solve problems together; and especially being able to take a critical approach to the current economy and seek fundamental transformation. Most importantly, cooperatives help to build skilful, resourceful, and empowered citizens who understand how to work together to improve society as a whole. In the context of this world of uncertainty, crisis, and constant change, it seems clear that the sorts of empowerment, skills-building, and community that cooperatives offer could provide crucial support in the development of citizens who are better prepared for the climate-changed world.

## **5 Conclusions**

The development of a green and a cooperative economy can be argued to be inextricably connected. A green economy would not be a capitalist economy, focused on profit and accumulation, but an economy where production is dedicated to meeting needs, where consumption is kept at a level that does not challenge planetary boundaries, and where the production that can fit within planetary boundaries is shared fairly.

To achieve this sustainable economy of the future, we must question the principle of accumulation that is central to our existing economy and whether it is possible in a world where we acknowledge and respect the essential boundaries of the planet as a safe environment for our future. Acknowledging those boundaries in itself leads to a consideration of the issue of distribution of the resources that are available.

Finally, and perhaps most importantly, we need to support the citizens of the future in operating successfully in the crisis-prone, unstable, and unpredictable world that we are bequeathing them. The empowerment and confidence of working within cooperatives can be an essential part of this preparation of the resilient and skilful citizens of the climate-changed world of tomorrow.

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# SOCIAL ECONOMY AND ENVIRONMENTAL PROTECTION

## How to improve understanding

*Andreas Exner and Dirk Raith*

### 1 Introduction

Ecological problems are immediately caused by certain patterns of production and consumption with regard to resource extraction and processing, as well as waste disposal, including greenhouse gas emissions. Social inequality and exclusion are closely related to the social structure and processes of human nature appropriation, shaped by relations of societal domination by capital owners and the managerial classes. Highly unequal, institutionalized power relations threaten democracy, which always has remained weak even in those countries with most stable democratic traditions, being restricted to voting for parliaments. This limits the capacity of societies to govern social ecological transformations or to even set them in motion. For instance, the green conversion of enterprises or economic branches, the creation of green jobs, and necessary reskillings, require more democratic, socially just governance structures of respective enterprises, as well as within and beyond relevant economic sectors. Finally, social ecological transformation will not be possible without a substantial reduction in resource throughput at least in countries of the Global North (Bengtsson et al. 2018; Parrique et al. 2019; Brand and Wissen 2021). Yet rebound effects often counteract efficiency increases (Font Vivanco et al. 2016) per unit-reductions of resource intensity are offset by expanding production and consumption due to the cheapening of goods and services. Such effects are caused by market structures and processes. Deliberation on social boundaries of resource throughput, which are socially just, and democratic policy-making informed by sufficiency goals, are thus required.

In the following, we will adopt a holistic, transformative perspective, according to which a

systemic approach to SCP [sustainable consumption and production, authors' comment] thus recognises the benefits that enhanced efficiency can bring, the need for technological changes, and the value of having well-informed consumers, but it stresses at the same time the necessity of a range of additional measures for achieving sustainable consumption and production patterns.

(Bengtsson et al. 2018, 1536)

Against this backdrop, the debate on the possible role of alternative, cooperative economic models in terms of social economies in fostering social ecological transformation in a more systemic,

comprehensive way has gained traction. In this perspective, we will first briefly address respective political discussions, because they are shaping the social economy as economic imaginary, episodic object, and set of practices (Jessop 2012), meaning that the social economy is co-created by discourse and imagination, as is the case with other forms of doing economy. We will then focus (although not solely) on the cooperative as legal form, since it represents best the core features of the social economy imaginary and because the most relevant research on the contribution of the social economy to environmental protection is dealing with cooperatives. We will then proceed to discuss the literature on the environmental benefits and potentials of the social economy, emphasizing the need for more rigorous research designs, and conclude by suggesting a theoretical model for better understanding such benefits and potentials. Regarding solid scientific evidence, it cannot be claimed as of yet that the social economy is performing better regarding environmental protection than conventional economies. Although there are indications that some social economy entities are performing better than conventional ecological forerunners and that the social economy has untapped potential in this regard, more and more rigorous research is needed to really understand how the social economy relates to ecological environments and their protection.

## **2 Social economy imaginaries fostered by political institutions**

A range of international state bodies defines the social economy by referring to the primacy of social and/or ecological concerns instead of profit, to solidarity, and to democracy or participation (e.g., EC 2021). Thus, the EU is counting the legal forms of the cooperative, association, mutual benefit society, and foundation to this sector, together with those enterprises that intend to have social and/or ecological impact and pursue this as their primary mission – which are usually called social enterprises or businesses.

Interest groups have been addressing the contributions of social economy<sup>1</sup> to environmental protection for many years. For instance, the International Cooperative Alliance (ICA) added the principle of ‘Concern for Community’ to the list of core cooperative principles already in 1995. In 2023, the European Commission adopted a proposal for a Council recommendation on developing social economy framework conditions in which it assumes social economy entities being “at the forefront” of a “fair, sustainable and inclusive transition” (EC 2023, 1).

A broad range of international bodies including the UN General Assembly, the OECD, the International Labor Organization, or the World Economic Forum asserts a particular role of the social economy for the social and ecological transformation of economic structures. These claims, however, are usually based on rather circumstantial evidence, or on purported best or good cases, and on arguments referring to a supposed “true essence” of social economy entities with ideal-type properties. Certainly, many social economy entities actively contribute to environmental protection and the fact they are social economy entities does in some ways support this activity, as the scientific literature is demonstrating or corroborating. “But”, to quote the authors of the World Cooperative Monitor 2020 that contains a specific chapter on cooperative’s contribution to climate action (SDG 13), “we need data to prove such contributions. It is not enough to say cooperatives are environmentally and socially responsible businesses without the data and analysis to demonstrate it” (ERT 2020, 41).

## **3 State of research**

Only a few studies have addressed the ecological claims associated with the social economy or certain of its forms in a systematic, methodologically rigorous and theoretically nuanced way.

*The Oxford Handbook of Mutual, Co-Operative, and Co-Owned Business* (Michie et al. 2017), e.g., despite being renowned, does not even have a dedicated chapter on sustainability, environmental, or climate protection – and none of the other chapters does expressly refer to these topics either. The precise mechanisms causally articulating characteristic structural and processual properties of social economy entities with positive environmental impacts – both actually or as a potential in the future – are not well understood as of yet and have only begun to be conceptualized (also see some considerations that are relevant in this regard in the chapters by Caio Silva, Lucio Biggiero, and Jerome Nikolai Warren for this volume, and in the introduction). A major lacuna is to better understand the potentials of the social economy from a degrowth perspective – going beyond single-unit or sectoral comparisons of the performance of social economy and conventional enterprises regarding the environment.

The body of research on the social economy and its contribution to environmental protection has been growing steadily in recent years, but is still slim. First special issues of journals dedicated to the subject were published<sup>2</sup> as well as a couple of reviews (e.g., Tarhan 2015; Candemir and Duvaleix 2021) and survey-based studies on this topic (e.g., Lafont et al. 2023). Most of this research is exploratory or methodologically rather weak, often using self-reported data on sustainability performance (e.g., Mojo et al. 2015; Schmutz et al. 2017; Lafont-Torio et al. 2024). Many studies are qualitative without reference to quantitative environmental performance data or only include semi-quantitative information on ecological impacts without measurements (e.g., Morell et al. 2020), usually focusing on individual social economy entities, regions, industries, or on specific sub-topics such as impact-reporting methods.

Country- or region-specific case studies highlight pioneering contributions of the social economy to environmental protection (e.g., only mentioning some illustrative studies in English and in German here and in the following sections, Wloch 2014; Lafferty and Place 2019; Vallet et al. 2019; Lee 2020; Villalba-Eguiluz, Egia-Olaizola et al. 2020; Villalba-Eguiluz, Arcos-Alonso et al. 2020). With regard to social enterprises, which are one part of the social economy, respective reports on EU countries include national expert assessments of particular contributions of the social economy to the Green Deal or potentials in regard of it (EC et al. 2020). Industry-specific case studies have been done particularly for the energy sector (e.g., Capellán-Pérez et al. 2016; Klagge and Meister 2018; Schmid et al. 2020; Brazda 2023), agro-food systems (e.g., Forssell and Lankoski 2015; Moral and Uclés 2022), the circular economy and waste management (e.g., Van Zeeland 2013; Gutberlet 2019), micro-insurance (e.g., Gonzalez-Pelaez 2019), and local cooperatives protecting natural habitats (e.g., Laha 2019). According to this literature, social economy entities are promoting renewable energy and sustainable production techniques, reducing waste, and saving resources to protect natural habitats and vulnerable or socially wounded people from, e.g., climate change-related disasters.

Apart from some information on the immediate environmental impacts of social economy entities, there is a growing body of research on what is specific about social economy entities in how they create that impact, i.e., in the sense of mechanisms between specific social practices (including organizational structures as institutionalized forms of practices) on the one hand and environmentally relevant effects on the other. Studies emphasize in this regard that many social economy enterprises are (1) locally based and embedded, thus able to “support local strategies of inclusive, resilient and sustainable local development” to “localize SDGs” (Lee 2020); (2) community-based or community-supported, grassroots or bottom-up initiatives that not only accumulate social capital (Bauwens and Defourny 2017) but also invest it to create the momentum needed for collective action, including the development of local economies; (3) addressing the social bottom line, thus linking social and environmental issues, bringing in the perspective of social justice and inclusion

to environmental protection (e.g., Hudon and Huybrechts 2017; Gonzalez-Pelaez 2019; Bickford 2020; Lee 2020); and (4) linking environmental protection as a general concern with immediate collective interests of members by securing livelihoods and other needs, as in the case of energy coops, community-supported agriculture (CSA), recycling and upcycling schemes of work integration social enterprises or local citizen cooperatives.

In sum, research is indicating that there are further collective benefits of social economy practices going beyond environmental protection and that these might be intrinsically linked to the external, environmental impacts that (some) social economy entities (might) generate. In short, they might create a business case for environmental protection where conventional businesses cannot (also see Albanese in this volume).<sup>3</sup> Social economy entities might thus have a particular potential for fostering social ecological transformations, and there is a growing debate on specific forms of impact measurement for social economy entities acknowledging this insight, emphasizing that endogenous factors should not be ignored – as is often the case – in narrowly impact-focused reporting schemes (EC et al. 2020, 186; Rowston and Duguid 2020; Yakar Pritchard and Çalıyurt 2021; Bouchard and Rousselière 2022). In addition, the scientific literature is asserting that the structural and processual properties, including organizational cultures, of social economy entities should be better recognized and understood as enabling factors for transformative processes (Begiristain-Zubillaga et al. 2022) and also used as normative yardsticks (Novkovic 2022) for a more comprehensive impact measurement, that should also be applied to conventional businesses (Bouchard and Rousselière 2022, 263).

These results point toward the need of a conceptually more refined debate of the specific structural and processual properties of social economy entities in regard of economic, political, cultural, and social aspects linked to environmental protection and, if possible, improvement. In the political debate on the social economy, this is usually done by indicating some inductively inferred, deductively asserted or assumed essential nature of the social economy. In this regard, the scientific literature is often making reference to participative, inclusive, or democratic governance, more specifically stakeholder management (Freeman 1984; see EC 2022 for a recent example; Raith 2022). Thus, it has been argued that the specific structure and rationality of social economy entities may be conducive to environmentally beneficial forms of stakeholder governance (Seguí-Mas et al. 2018).

Renewed interest in the social economy as an alternative to capitalist relations of production, distribution, and consumption shed some light on the potential benefits of social economy entities in sustainably caring for natural resource commons (e.g., Hudon and Huybrechts 2017, Exner 2021a). Potential environmental benefits of social economy entities have also been assumed in debates on sustainable business models (e.g., Bocken et al. 2014) hybrid (e.g., Davies and Chambers 2018) and transformative businesses (e.g., Hug et al. 2022), and, most importantly, in the debates on degrowth and post-growth. A more radical strand of research on degrowth has been focusing on non-monetary forms of social economies (Exner 2014; Kallis 2017, 20). The mainstream strand has elucidated which properties formal businesses that operate on markets should have in order to support an economy of sustainable degrowth, ranging from alternative values and goals, ownership, and governance structures to alternative “growth strategies beyond growth” (Millstone 2017; Khmara and Kronenberg 2018; Gebauer 2018) that are characterized by sufficiency, cooperation, and a self-consciously activist or political role of enterprises in the process of transformation (Raith 2021).

These debates have certainly helped to somewhat clarify the particular potential of social economy entities to support social ecological transformations. Yet research on the social economy itself, i.e., beyond studies on stakeholder governance or impact measurement, has not added substantial analytical insight to the issue.

In general, the literature on the social economy tends to disregard cases that are environmentally problematic both in terms of direct and indirect impact, instead focusing on “success stories” (Bijman and Höhler 2023; see for a more nuanced understanding, e.g., Ajates Gonzalez 2018). One example of such problematic impact is the European Federation of Agricultural Cooperatives COPA-COGECA, declaring itself to be the “united voice of farmers and agri-cooperatives in the EU”, which is lobbying against the Green Deal (see, e.g., COPA-COGECA 2022)<sup>4</sup> and is defending environmentally harmful policies, mostly representing large-scale industrial farmers (Savage and Win 2023).

So far, the scholarly debate on the social economy and its potential contribution to environmental protection has not gone far beyond political claims. There is a dearth of case studies rigorously exploring mechanisms linking social economy practices to ecological effects, especially in fields other than the energy sector or alternative agro-food networks. Consequently, there is also a lack of rigorous review studies.

Besides major lacunae in empirical knowledge, theoretical arguments for the hypothesis that social economy entities perform potentially or actually better than other types of enterprise regarding environmental benefits are not developed in an appropriate way as of yet. There is a lack of scientific concern for how social economy entities may actually facilitate, promote, or even structurally enable in the first place such radically innovative approaches in comparison with conventional types of business.

The limitations associated with conventional organizational structures and processes of economic entities have been, quite in contrast, researched in detail, and are theoretically well understood, in particular referring to (1) structural causalities of the urge and compulsion to grow quantitatively (Exner 2014), (2) how this affects material throughput by these entities (which is to a large extent directly relevant for climate change mitigation and other such issues) (e.g., Parrique et al. 2019) and (3) why a decoupling of material throughput from economic growth to the extent necessary is not taking place (e.g., Parrique et al. 2019). In fact, besides a lack of empirical evidence, no theoretical arguments have been voiced that make a plausible case for a degrowth economy based on conventional economic practices and organizational forms. Debates on the potentials of conventional types of enterprise for the protection of the environment rather emphasize efficiency increases (and the transition to renewables), which, however, do not materialize the potentials associated with it, as empirical research has shown, and which has been explained theoretically in the scientific literature (e.g., Bengtsson et al. 2018). Under the premises of a growth economy, the transition to renewables, as research has documented, often increases or only transforms enduring social ecological problems instead of solving them (e.g., Exner et al. 2013, 2016).

#### **4 How to improve research designs**

Taking together political claims and scientific evidence, the debate on the potential or actual benefits of the social economy for social ecological transformations is hampered by a (1) lack of conceptual clarity, (2) dearth of high-quality studies and reviews, (3) lacunae regarding theoretical arguments for why social economy entities might harbor specific ecological potentials in contrast to conventional enterprises. In the following, we propose a refined social economy concept, indicate best methodological practices, and highlight the challenges of social economy research from a degrowth perspective.

The now established definition of the social economy used by a variety of international bodies (e.g., EC 2021) draws together different political concerns and perspectives represented by a range of social economy advocacy organizations and federations. This might explain two basic

inconsistencies of, e.g., the EU definition of the social economy: (1) it is combining legal criteria (cooperatives, associations, mutual benefit societies, foundations) with criteria pertaining to the declared mission of an enterprise (social enterprises or businesses), (2) it is associating legal criteria and self-declared intent with ascriptions of ideal-type properties and assumed environmental benefits. In this way, the study of social economy potentials or actual environmental performance becomes difficult, because the precise object of study remains unclear. Since most arguments asserting such potentials or performance refer to ideal-type properties, two questions arise: (1) how do different social economy types of enterprise reflect these properties in their real-world operations and (2) how are these properties causally related to environmental impact?

We suggest that research on such alternative, non-conventional forms of doing economy should first clarify the precise point of reference, be it legal form, self-declared intent, ideal-type properties, or certain actual characteristics of economic organizations. The first three options appear to be fraught with problems. (1) Legal form hardly tells much about concrete organizational properties commonly associated with the social economy. For instance, it is well-known that the cooperative as legal form covers a highly heterogeneous range of organizations, which do not necessarily display the ideal-type properties associated with the social economy in recent policy discourse (also see Lucio Biggiero's chapter). The formal requirement of a yearly assembly of members for example, is not in itself sufficient for democratic governance or even democratic decision-making at such an assembly going beyond formalities. (2) Self-declared intent, in itself, does not convey information on actual impact, and how this impact may relate to intent or other factors such as organizational properties of the entity in question. Thus, for instance, the actual performance of many social enterprises is hardly known to date, and claims replace precise qualitative and quantitative knowledge. (3) Ideal-type properties, although a legitimate way of construing political or scientific objects, are inappropriate to guide empirical research as such. They can easily be instrumentalized for political claims going beyond what is actually known. Hence, the (4) approach to clarify the conceptualization of the entities in question and to elucidate causalities linking properties thus conceptualized through empirical research seems to be the most promising avenue for further research on the ecology of social economies.

This said, it should be emphasized that the political definition of social economy entities broadly corresponds to (1) social movement conceptualizations of solidarity economies (Poirier 2014, Exner and Kratzwald 2021), which have contributed to put the social economy on the political (and scientific) agenda internationally, (2) most clearly resonates criteria of cooperatives established through economic practice, by coop federation standards, national laws, and empirical research. As we have argued, for a better understanding of whether and how social economy entities actually support social ecological transformations in view of environmental protection (and, possibly, improvement), a modified, more precise version of common definitions of the social economy appears helpful. This definition should focus on dimensions of economic practices and their interrelation that are unique to the social economy.

To conclusively answer the question of how social economy entities affect their natural environments, (1) specific social practices (economic processes, organizational forms, etc.) have to be clearly identified for being investigated qualitatively as well as measured quantitatively (see, e.g., Weber 1999; Weber et al. 2009, and Biggieri's chapter in this volume for approaches to quantitative measurement), (2) the environmental impact of such definite social practices has to be measured with quantitative indicators (instead of solely using practitioners' or stakeholders' assessment of impacts), preferably directly instead of using proxies (e.g., reduction of greenhouse gas emissions or quantified biodiversity restoration), and needs to be complemented with qualitative investigations (e.g., by addressing perceptions of stakeholders, local communities, etc.), (3) why and how

certain practices that are unique for the social economy lead to certain, measurable ecological effects has to be elucidated by in-depth qualitative research, preferably by extensive participant observation (see, e.g., Flieger 1997; and Carabini's chapter in this volume) coupled with interviews and document analysis investigating different or divergent perspectives on a certain enterprise, using a comparative approach (see Warren's chapter on how qualitative methods are also important to improve research on, e.g., social networks).

For answering the question of how the ecological performance of the social economy relates to goals of environmental protection and how it fares when compared with conventional economies, additional information is needed. To this end, (1) data of the kind circumscribed above have to be related to meaningful quantitative, measurable ecological goals. Since such goals vary depending on political or economic interests, values and scientific uncertainties, understanding and reflecting who defines ecological goals for whom in which way (based on which evidence) is crucial. Therefore, qualitative, critical and self-reflexive approaches have to be part of appropriate research designs. (2) Social and conventional economic entities need to be compared regarding measurable (and critically reflected) ecological goals. Without such benchmarking, only relative performance will be captured, not properly acknowledging that achieving certain absolute ecological goals, in the ultimate instance, is decisive, in a normative sense.

Such comparison could start with defining samples of enterprises that operate within a similar legal, economic, political, and infrastructural context, with roughly the same size (employees, turnover), and within the same economic sector, preferably focusing on enterprises producing the same type of output (goods, services of a certain kind). In the best case, the social economy entities that are compared with conventional enterprises are clearly defined in terms of a theoretically justified independent variable, e.g., organizational democracy. Methodologically, broadly comparable psychological studies, such as Weber et al. (2009) are a best practice in this regard. Specifically relating to the environmental performance of social economy entities, agro-food studies seem to be the most advanced. For instance, Baker et al. (2019) introduce a new measure for systemic food waste loss and production efficiency for comparing a CSA initiative with national average food loss and production efficiency in the UK, demonstrating that "when all stages of the food system were measured for waste, the CSA dramatically outperformed the supermarket system, wasting only 6.71% by weight compared to 40.7–47.7%", (ibid., 180), concluding that "reductions in the CSA system can compensate for lower yields, leading to a more efficient system overall" (ibid., 181). Although this study is methodologically rigorous, it should be noted that it is still exploratory, only comparing a single CSA initiative with a national average, and is using a proxy (waste) instead of calculating, e.g., food carbon footprint. Hawes et al. (2023), demonstrating what should be the gold standard in this type of research, compare the total carbon footprint of low-tech urban agriculture (including gardens operated by social economy entities) and conventional agriculture, using a large, representative, cross-national sample. They find that low-tech urban agriculture's carbon footprint is six times that of conventional agriculture, with social economy operations performing worst. Under certain conditions, low-tech urban agriculture, however, has a smaller carbon footprint than the average of conventional agriculture. This study also illustrates that it might be outright erroneous to assume that the social economy necessarily performs better environmentally than conventional economies (see for a similar critical result on a range of environmental impacts of agricultural cooperatives in Ethiopia, but based on farmer information only Mojo et al. [2015]). A couple of studies on agricultural cooperatives in China pursued rigorous approaches to assess cooperatives' environmental performance (also see the brief review in Bijman and Höhler [2023]). For instance, Deng et al. (2021) find that investor-owned firm-led cooperatives perform better environmentally than other farming operations in grape production

in Hebei when using cost–benefit analysis. However, this coop type has been described as “fake” (Hu et al. 2022). Moreover, biophysical assessments are ecologically more informative than cost–benefit analyses of environmental performance that are reflecting an economistic bias in research on agro-cooperatives (Ajates Gonzalez 2018). Another methodological example that is relevant for improving research on the environmental impact of the social economy is the rigorous review of studies on socioeconomic effects of agricultural certification schemes by Oya et al. (2018) in the sense of “fair trade” (thus belonging to a broadly defined social economy) that are using a Theory of Change approach to construct chains of causation. They find that such certification schemes in general do not improve total household income of producers, and that it is crucial to account for context when assessing impact.

Although rigorous empirical approaches are needed, research has also to consider limitations. For instance, such approaches are not able to shed much light on social economy potentials regarding systemic change in the sense of, e.g., degrowth. Reducing resource throughput cannot be achieved by efficiency gains or new markets for green products alone, and most probably only to a minor degree (Parrique et al. 2019). Most importantly, it requires a substantial downsizing of production and consumption while improving well-being and social equality, including a transformation of large parts of now fossil-fuel-dependent industries that cannot be fully replaced by green industries without jeopardizing downsizing. To elucidate such potentials under radically changing system properties, advances in the theorization of social economy processes and structures are needed.

## **5 Improving theoretical perspectives on the environmental effects of cooperatives**

Recent research has underscored the crucial importance of structurally anchored organizational democracy (Weber 1999) to understand the social impact of social economy enterprises. Psychological research has demonstrated that pro-social and democratic orientations among members of democratic enterprises are significantly higher as compared with non-democratic enterprises (Weber et al. 2009; Weber et al. 2020). This is probably the effect of members’ socialization within these enterprises, yet more research (preferably longitudinal studies) is needed to provide solid evidence in this regard. Schümann et al. (2021) found that the work-related experience of employees according to the degree of a positive socio-moral climate (which in general increases with organizational democracy), spills over to private responsible purchase intentions (see Vieta et al. in this volume on spill-over debates in general), but they did not investigate ecological aspects specifically. In general, intentions are not necessarily reflecting actual behavior. In fact, organizational democracy is frequently regarded as the crucial characteristic of cooperatives whether as legal or social form (Birchall 2011).<sup>5</sup> These findings point to a possible causal relation between how social economy members treat each other as well as their social, political, and ecological environment (also see, e.g., Exner 2019, 2020, 2021b, and additional reflections by Albanese in this volume). However, organizational democracy should not be confined to employees only in view of investigating the actual or potential impact on environmental indicators and qualities, since social economy entities in general, and cooperatives whether in legal or social form, specifically, also (or solely) include other types of members (consumers, stakeholders, service users). This conceptual approach allows to overcome a significant weakness of the EU social economy definition (EC 2021), which does not clarify how democracy and participation relate to each other. Organizational democracy clearly articulates participation with democracy in a way that excludes forms of participation that do not amount to co-determination, political representation, or self-management

regarding the governance of a particular entity. It moreover opens up the perspective to think about multiple levels of social economy activities in view of economic democracy and possible environmental benefits. These levels include not only the organizational characteristics of decision-making within a single social economy entity, but also inter-business relations, the relation of social economy entities (or cooperatives, more specifically) to stakeholders, as well as to state authorities and how they operate according to social economy principles, including organizational democracy (Exner 2021b).

Besides democratic governance, solidarity and the orientation toward the common good – either of its members or of society in general – are frequently mentioned in the cooperative literature as the defining characteristics of cooperatives. The insights on the crucial role of organizational democracy for pro-social and democratic orientations (see evidence cited above) seem to indicate that democracy, solidarity, and common good orientation are structurally related, and may have external effects shaping current environmental performance and potentials of alternative, cooperative enterprises in protecting and improving the environment.<sup>6</sup>

To summarize, the following heuristic model (also see Young et al. [2021]) could facilitate future research on mechanisms of environmental protection specific or unique to cooperatives in particular, and possibly to the social economy in general, at least tendentially. This model consists of the following dimensions:

(1) the common good, referring to some kind of immediate commitment to issues of general interest, i.e., welfare, particularly social or environmental goals, and the primacy of ethical values or purpose over profit. (2) solidarity, referring to some kind of effective collective interest of those immediately involved, in terms of mutual or collective self-help with regard to material needs instead of monetary gains and shared ownership both in material and psychological terms. (3) democracy, referring to some kind of inclusive or participatory governance, to different degrees and in relation to both internal and external stakeholders, in particular, in the sense of the concept of structurally anchored organizational democracy (including a conceptualization of degrees of democracy, see, e.g., Weber [1999]; Weber et al. [2009], and Biggieri's chapter).

This heuristic model may serve to (1) carve out a set of general hypotheses about mechanisms of social economy entities that connect their core features with environmental benefits, showing what has been possible in terms of environmental protection in a particular enterprise or enterprise network, and why – and what, (2) should thus also be possible in other cases, under certain circumstances, i.e., regarding potentials.

We developed this model in the frame of a project on mechanisms that may link social economy properties with climate mitigation impacts (Exner et al. 2023). Based on 29 case studies of social economy entities (mostly cooperatives, investigated through interviews) from a range of European countries, the following types of mechanisms can be suggested to formulate hypotheses for further research (also see Albanese, Micken et al., Warren and Voigt, and Oelsnitz in this volume for relevant further considerations): (1) Common good orientation: Non-capitalist goals make entrepreneurial initiative more flexible. It can thus immediately focus on or closely integrate environmental protection in economic activities that is facilitated by putting the concrete needs and concerns of members over profit.

Possible impacts directly related to environmental benefits are: (a) effective measures to reduce resource consumption of members and other users and to (b) transform energy systems toward renewables in socially ecologically sensitive ways.

Possible impacts indirectly relevant are: (a) pioneering entrepreneurial work in non-profit areas (also facilitating reduction of consumption countering rebound effects), (b) integration of social justice into business models (supporting a specific role of the social economy in a just transition),

(c) higher propensity to collaborate with other (social economy) enterprises (unlocking potentials regarding circular economies), (d) leveraging of active engagement of members in upscaling of innovations for environmental protection and improvement, (e) disposition for business models that do not rely on quantitative, resource-intensive growth, and can accommodate voluntary degrowth.

(2) Solidarity: Mutualistic values (as one factor informing non-capitalist goals), besides other possible effects, specifically facilitate cooperation between management and members. This allows for directly addressing consumption patterns by, e.g., consumer or producer–consumer cooperatives, and to implement members’ ideas for ecological improvements.

This is directly environmentally beneficial in the case of, e.g., consumer cooperatives that invest in counseling members to reduce energy consumption, or that are in close contact with members to personalize product range and package size, or that take a pro-active approach in raising the environmental awareness of its members and users. Indirectly, it can be beneficial by pooling the skills and strengths of members, which facilitates the economic sustainability of a social economy entity and societal impact.

(3) Democracy: An authentic democratic culture anchored in and articulated with democratic ownership enables to closely connect the material self-interest of members with environmental protection, since enterprise performance benefits them directly. Besides this direct mechanism, this property is also relevant indirectly by creating democratic legitimacy for ambitious environmental policies bottom up. Moreover, democratic culture and ownership can safeguard environmentally relevant values and goals against tendencies of conventionalization or mission drift and allow social economy companies to have a transformative impact on the broader society.

These and possibly other mechanisms linked to three unique dimensions of the social economy – being best illustrated by the cooperative as legal or social form – could mutually reinforce each other. For instance, an authentically democratic culture may facilitate mutualistic values – while these could in turn be conducive to authentic democracy.

## **6 Conclusions: research needs to become more rigorous**

The social economy is a promising type of doing economy in view of social ecological transformation. Yet the state of the art in scholarly research is underdeveloped in both empirical and theoretical terms and not sufficient to solidly back up respective claims regarding either the actual or the potential environmental performance of social economy entities, or unique potentials going beyond prospects that can reasonably be connected with conventional enterprises and economic structures under favorable conditions.

To further develop a scientific understanding of the actual and potential relevance of social economy entities for environmental protection and improvement, studies should put emphasis on a clear and well-argued theoretical foundation of their object. They should moreover focus on investigating causalities between specific social economy properties and environmentally relevant impacts, both direct and indirect, applying rigorous mixed-methods designs, including quantitative measurements of environmental impact, and analyzing the influence of organizational culture, societal discourses, the relation of social economy entities to (environmental) social movements, and other contextual aspects. Most social economy organizations are subject to market competition as are conventional economies, which is constraining their operations, and shaping their environmental impact. Therefore, it is important to analyze how general economic structures affect social economy practices and potential (see, e.g., Hu et al. 2022).

Given the limits and ambivalences of currently dominating ecological modernization views on sustainable production and consumption (see, e.g., Jänicke 2008), a more systemic approach

is required. This should connect in particular with degrowth debates. To this end, theoretical considerations in view of economic democracy encompassing four levels of organizational democracy (within- and intra-business, stakeholder and state relations) should be further elaborated and as far as possible empirically investigated.

### Notes

- 1 Which has also been called „solidarity economy”, “social and solidarity economy” or “social economy”, with closely related meanings (Poirier 2014).
- 2 Cf. *Annals of Public and Cooperative Economics* Vols. 88, 2017 and 93, 2022; *Sustainability* Vol. 12, 2020.
- 3 We understand conventional, i.e., non-social economy enterprises as encompassing both capitalist and non-capitalist forms of business. In conventional non-capitalist enterprises owners are also contributing their labor, whereas in capitalist enterprises, they do not. Cooperatives are, in clear contrast, member-owned. For other social economy entities, ownership is not democratic. Thus, members of an association or not necessarily co-owners of an association’s assets, although they are practising joint decision-making at one yearly general assembly at least.
- 4 Also see, e.g., a respective press release by BASF, <https://www.agrar.basf.de/de/Aktuell/Agrar-News/copa-cageca-fuer-ueberarbeitung-des-green-deals-284992.html>.
- 5 These two forms are not identical, since legal cooperatives may not be democratically governed in fact, and enterprises understanding themselves as cooperatives may take on other legal forms (Flieger 1997).
- 6 This hypothesis is further strengthened by psychological research on the relation between pro-social and pro-environmental values (Neaman et al. 2018, Lee et al. 2015), although no study on how pro-environmental values, attitudes or other ecologically relevant aspects of the economic activities of social economy entities and their members may relate to organizational democracy is known to the authors (yet see Schumann et al. 2021 for a first attempt in this direction).

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# ECONOMY FOR THE COMMON GOOD

## A cooperative and sustainable approach to the economy

*Christian Felber*

### 1 Introduction

The array of future-fit economic models is growing. Some of these alternatives focus on ecological sustainability (being “green”, “blue”, “circular”, “sustainable”, or “regenerative”) (Raworth, 2017; Pauli, 2017), on social cohesion and just distribution (being more “equitable”, “distributive”, “fair”, “just”, “cohesive”, or “inclusive”) (Piketty, 2014; Atkinson, 2018), or on stronger, broader, and deeper democratic participation (Albert, 2004; Schweickart, 2011). As a fourth pillar, some of these models build on systemic cooperation and solidarity (Giegold & Embshoff, 2008; Exner & Kratzwald, 2021).

There is a strong case for prioritizing cooperation and solidarity over competition and individual utility maximization in the economy. On the theoretical level, solidarity and cooperation belong to the basic sets of constitutional values (solidarity) and relational values (cooperation), whereas neither competition nor utility maximization belong to these value systems: both pseudo-values are only propagated in economics textbooks (Kasser et al., 2007). Second, research in neurobiology (Bauer, 2006 and 2008), social psychology, and educational science (Kohn, 1992) has born evidence that the motivational effect of competition is weaker than that of cooperation; besides, competition functions mainly through a negative driver – anxiety – (Kohn, 1992: 63), whereas the motivational force of cooperation results from flourishing relationships (Bauer, 2006: 61–62 and 203). The “discovery effect”, often ascribed to competition, can be assured by the freedom to conduct a business. Hence, there are strong arguments for building both, economies and businesses, upon cooperation and solidarity rather than on competition and utility maximization.

The Economy for the Common Good (ECG), similar to the Social and Solidary Economy and the Commons, promotes these values, together with those mentioned above. It builds on the democratic definition of “common good” (in each cultural context) and is a holistic alternative that considers itself an “ethical market economy”. The ECG model includes:

- 1 A definition of “economy” (different from most leading textbooks);
- 2 A clarification of goals and means of economic activities;
- 3 A consistent methodology of success measurement on the macro, meso, and micro levels;

- 4 The regulation of the use of profits;
- 5 Cooperation instead of competition as a new paradigm;
- 6 A differentiated approach to property, presenting a broad range of property types, conferring constitutional boundaries and conditions to all types;
- 7 A clear concept of the limitation of inequality (and power concentration);
- 8 A notion of money as a “public good” and the monetary and financial system as a public infrastructure;
- 9 An “ethical trade order” that constitutes an alternative to free trade and protectionism;
- 10 “Ecological human rights” that confer equal, but limited individual ecological consumption budget to every human.

Next to the ten cornerstones, the ECG goes hand in hand with a proposal to further develop, deepen, and strengthen liberal democracies, involving the citizens more actively in relevant political decisions and giving them more power than they have today; this “twin concept” of the ECG model on the procedural level is called “sovereign democracy”.

On the basis of the theoretical and procedural proposals, the ECG movement is also a strongly vivid movement, borne by some 5,000 actively involved citizens in 200 local chapters in 35 countries. Together, they have developed almost a dozen “real-life prototypes” that are applied by a growing number of companies, cities, schools, universities, and other organizations in many countries. Some of them are highlighted at the end of the chapter.

## **2 The ten cornerstones of the ECG model**

### ***2.1 Definition of “economy”***

Interestingly, economic textbooks are not consistent when it comes to what is included or excluded in “the economy”. But, if we don’t know what “economy” means, how can we study it? How can we evaluate its success? A trio of authors of the ECG movement propose the following definition for economics: “the science of the satisfaction of the needs of living and future human generations, in alignment with democratic values and ecological planetary boundaries” (Dolderer, Felber & Teitscheid, 2021: 7). This is a legitimate point of departure that needs a lot of further debate. But it at least provides a base for the discussion of the potential objectives of the economy and, especially economic policy; as well as for economic success measurement on all levels.

### ***2.2 Goals and values***

The well-being of the members of the household (oikos) was the original sense of the Greek *oikonomia*. Aristotle differentiated this eponymous concept of the modern word “economy” from its opposite *chrematistiké*, which was characterized by turning the means of money and capital into ends (Dierksmeier & Pirson, 2009). Whereas *chrematistiké* can be translated into modern language with capitalism, *oikonomia* was by definition a well-being economy or, in other terms, an ECG. This distinction was not an exception in the history of thought, but the rule. Claus Dierksmeier writes that “From Aristotle via Thomas Aquinas, up to and including Adam Smith, there was a consensus that both economic theory and practice needed to be legitimated as well as limited by a certain overarching goal (Greek: *telos*) such as the ‘common good’” (Dierksmeier, 2016: 35). Whereas economics as a science took a different route with the upcoming of the neo-classical school since the 1870’s until today, the constitutions of democratic nations still contain

the common good imperative for the economy. For instance, the Bavarian Constitution says: “The economic activity in its entirety serves the common good” (Art. 151). The Constitution of Columbia states: “Economic activity and private initiative must not be impeded within the limits of the public good” (Art. 333).

### ***2.3 Success redefined: common good product and balance sheet***

In an ECG, success is redefined and realigned with the common good, just as constitutions foresee. At the level of the national economy, a common good product (CGP) could replace the monetary GDP, measuring democratically defined goals that are aligned with widely supported values. According to experience, the citizens would include such goods as health, happiness, flourishing relationships, social cohesion, just distribution, fundamental rights, stable ecosystems, or peace. This would follow the growing trend of alternative metrics to GDP, from the “Happy Planet Index” to the “Better Life Index” (OECD), the “Gross National Happiness” (Bhutan) or the 17 Sustainable Development Goals (UN) (Ecogood, 2023a; Hoekstra, 2022). On the microlevel, the common good balance sheet (CGBS) shows how much a company contributes to the common good. Once, the CGP has been composed and anchored in constitutions, the CGBS would simply measure how much an organization contributes to its 20 sub-goals. The current (pre-)version of the CGBS measures, to which degree these economic entities factually live human dignity, solidarity, justice, sustainability, and democracy. Reporting questions include, for instance:

- Do products and services satisfy human needs?
- How humane are working conditions?
- How environmentally friendly are production processes?
- How ethical is the sales and purchasing policy?
- How are profits distributed?
- How diverse is the workforce and do they receive equal pay for equal work?
- How involved are stakeholders in core strategic decision-making?

The Common Good Reports are examined by independent auditors. The quantified and comparable outcome – up to 1,000 common good points – is published. To avoid greenwashing, negative aspects such as violations of human rights, profit-shifting in tax havens, or direct environmental destruction lead to the deduction of points (to a maximum of minus 3,600 points). The core of the proposal is to reward companies with high balance sheet scores with tax benefits, lower tariffs, better terms on loans, and priority in public procurement. These measures would make ethical and environmentally friendly products and services cheaper than ethically questionable ones, instead of suffering a competitive disadvantage due to higher costs and prices, as this is the case today. The “system error” of capitalistic market economies would be fixed (Figure 32.1).

By the end of 2023, almost 1,200 companies have implemented the CGBS. The firms come from all branches: agriculture, food, tourism, manufacturers, service providers of all kinds, or banks. Typically, pioneer companies collaborate with each other, and they scan their supply chain on ethical risks and switch to organic suppliers, renewable energy, and ethical banks. One company cut the budget for flights to zero and invested part of the saved money into a videoconferencing infrastructure. Another building company decided to not participate in the building of new houses, but exclusively engage in the (ecological) restoration of existing infrastructure. Several medium-sized family-owned businesses have changed the legal form into a foundation or a cooperative, in order to distribute property, risk, and responsibility more widely (Ecogood, 2023c).

VALUE	HUMAN DIGNITY	SOLIDARITY AND SOCIAL JUSTICE	ENVIRONMENTAL SUSTAINABILITY	TRANSPARENCY AND CO-DETERMINATION
STAKEHOLDER				
<b>A: SUPPLIERS</b>	<b>A1</b> Human dignity in the supply chain	<b>A2</b> Solidarity and social justice in the supply chain	<b>A3</b> Environmental sustainability in the supply chain	<b>A4</b> Transparency and co-determination in the supply chain
<b>B: OWNERS, EQUITY- AND FINANCIAL SERVICE PROVIDERS</b>	<b>B1</b> Ethical position in relation to financial resources	<b>B2</b> Social position in relation to financial resources	<b>B3</b> Use of funds in relation to the environment	<b>B4</b> Ownership and co-determination
<b>C: EMPLOYEES</b>	<b>C1</b> Human dignity in the workplace and working environment	<b>C2</b> Self-determined working arrangements	<b>C3</b> Environmentally friendly behaviour of staff	<b>C4</b> Co-determination and transparency within the organisation
<b>D: CUSTOMERS AND BUSINESS PARTNERS</b>	<b>D1</b> Ethical customer relations	<b>D2</b> Cooperation and solidarity with other companies	<b>D3</b> Impact on the environment of the use and disposal of products and services	<b>D4</b> Customer participation and product transparency
<b>E: SOCIAL ENVIRONMENT</b>	<b>E1</b> Purpose of products and services and their effects on society	<b>E2</b> Contribution to the community	<b>E3</b> Reduction of environmental impact	<b>E4</b> Social co-determination and transparency

Figure 32.1 Common good matrix for companies (Ecogood, 2023b)

## 2.4 Regulation of the use of profits

Profits, like money or capital returns, are economic means. How a company uses its profits should be transparent and limited in scope. Society regulates business and individual activity in a multitude of ways; the use of profits should be no exception. A company should be free to use its profits for investments in the business; reserves for future losses; dividend payouts to employees; or solidary loans to other businesses. A company's use of financial surpluses should be restricted to other activities, such as investments in financial services and dividend payouts to proprietors and shareholders who do not work in the company. Finally, some practices could be outlawed, including hostile takeovers or donations to political parties.

## 2.5 From “counterpetition” to cooperation

One cornerstone of the capitalist market economy is the concept that competition drives business. Riksbank Prize (Felber, 2019a: 165–175 and 2019c) laureate Friedrich August von Hayek wrote that competition is “in most circumstances the most efficient method known” (Hayek, 2005: 45). It is associated with a strong motivational effect and described as an efficient method of discovery and resource allocation. Against this widely held and taught belief, empirical research has shown that cooperation outperforms competition in motivating humans, the key to innovation and efficiency. Competition does, of course, motivate people, as proven by capitalism and market economies. But where one person succeeds only if another person fails, the main motivation is the fear that permeates market capitalism. Millions fear losing their jobs, their incomes, their social status, and their places in the community. Why encourage this state of mind and affairs? More philosophically, competition elicits delight in outshining others. But the purpose of our actions and work should not be besting others but, rather, performing our tasks well, enjoying our work, and seeing that it is helpful and valuable. Feeling better because others are worse off is considered as pathological in psychology (Kohn, 1992: 113). The word competition is derived from the Latin concept of searching together (cum+petere). Economics for the

Table 32.1 From “counter-petition” to “com-petition” = cooperation

<i>Active damaging of co-companies</i>	<i>Omission of help and cooperation</i>	<i>Cooperation on the individual level</i>	<i>Cooperation on the systemic level</i>
Price dumping	Non-disclosure of relevant information	Liquidity compensation, interest-free loans	Open source, creative commons licenses
Blocking patents	Incomplete information to consumers	Forward of orders	Participation in branch table for crisis resolution
Hostile takeover	Retention of remanent resources	Forward of labor force	Definition and aspiration of “appropriate size”
Advertising through mass media	Retention of unused means of production	Support with know-how	Participation in egalitarian product information system
Strategic lawsuits	Non-sharing of free labor force	Joint R & D	Participation in rescue fund
Bad result of CGBS	Poor result of CGBS	Good result of CGBS	Excellent result of CGBS

Common Good fosters true competition according to its original meaning of working together. Competition would not disappear. But its darker side would show up in a company’s CGBS. Aggressive behavior against competitors, such as hostile takeovers, price dumping, advertising via mass media, or enclosure of intellectual property, would earn companies’ low marks on their ethical scorecard and inhibit market success. Conversely, treating customers well or sharing know-how, resources, and the means of production openly with competitors raise business’ common good score (Table 32.1).

The theory of evolution informs us that not all species grow endlessly. On the contrary, most living organisms, after an initial, and necessary, period of growth, find their “optimum size” (Schumacher, 2019) that they keep until they die. Besides that, biologists and ecologists, after focusing on competition for centuries, have discovered that cooperation is the more fundamental pattern (Margulis & Sagan, 2000) even trees are feeding each other across species borders within complex symbiosis. In the words of Martin Nowak, the Harvard mathematician and biologist, “Cooperation is the master architect of evolution” (Nowak, 2012: xx).

In the current system, cooperation is negatively connoted as it can be used as a means to build cartels and monopolies and to maximize profits at the cost of the whole. To avoid such systemic failure, a strong antitrust regulation is also needed in an ECG. But in the latter, cooperation would principally turn into a means to increase jointly the common good, as this primary goal is measured in the individual CGBS. The current win-lose paradigm would accordingly give way to a win-win paradigm. The network of structural cooperation would be characterized by “Live and let live” rather than “dog-eats-dog-competition”.

## 2.6 Plurality of property types

Socialist economic theories value public and collective property highly while capitalism makes private property the supreme form of property. The ECG doesn’t rank property types but aims (through limits and conditions) to prevent the dominance of any property type. Furthermore, it includes all “stages” of the economy: markets, commons, public services, and households (a characteristic shared with the Doughnut Economics approach) (Raworth, 2017) (Table 32.2).

*Table 32.2* Types of property, fields of application, limits, and conditions

<i>Type of property</i>	<i>Public property</i>	<i>Private property</i>	<i>Collective property</i>	<i>Commons</i>	<i>Usage rights (not property)</i>	<i>Protection of Nature (no use)</i>
Field of application	Schools, theaters, central banks, money	Bicycle, home, company	Large production facilities	Meadows, fisheries, seeds, software	Water, energy, land	Areas of regeneration and reproduction of species
Examples	Infrastructure	Consumer goods	Basic goods	Commons	Nature	Protection areas
Limits and conditions	Privatization with the consent of the public	Size limit, common good balance sheet	Common good balance sheet	Legal framework for commons	Use enters in ecological rights	Rights of Nature; intrinsic value of nature

## ***2.7 Limitation of inequality***

The public health expert Richard Wilkinson and his team showed on a broad range of factors how equality in society is directly correlated to a better quality of life for all (Wilkinson & Pickett, 2010). In many countries, a large majority of the citizens would support a lower degree of inequality. A Financial Times survey and Harris Poll found that 78% of US respondents felt that inequality had increased too much. In the UK, it was 79%, in China 80%, and in Germany 87% (Thornhill, 2008). A linchpin of Economics for the Common Good is, therefore, limiting inequality. Limits could be placed on income, property, inheritance, or company size. To determine how to set boundaries, the international Economics for the Common Good movement uses systemic consensus. This effective variant of consensus decision-making measures resistance to a proposal within a committee or larger group. In systemic consensus, several proposals are presented and voted upon, measuring opposition against all proposals. The proposal with the least opposition wins. ECG speakers have tried this voting method in 25 countries from Sweden to Chile. The maximum incomes proposed used to be 3, 5, 7, 10, 12, 15, 12, or 50 times the lowest pay. The winner is usually factor ten, whereas the proposed extremes of unlimited inequality as well as full equality frequently meet with strong resistance. Today, Austrian top executives are paid 1,150 times as much as the lowest-paid workers. In Germany, it's 6,000 times more (Felber, 2015: 81), and in the US, some top executives are paid an incredible 350,000 times more (Ahmed & Creswell, 2011).

Apart from these limits against excessive inequality, additional measures such as higher and more progressive capital income taxes, financial transaction tax, and progressive wealth taxes would complete the picture of stronger social cohesion and more moderate inequalities. On the global scale, a tax of 1% or 2% on the wealth of high net worth individuals (HNWI) would bring in a handsome USD0.8 trillion to 1.6 trillion. That would be exactly the amount needed to fully finance the SDGs (Oxfam International, Development Finance International, 2015: 30). And such a moderate tax on HNWI assets is by far less than what these assets used to grow per year over the last decades. Their number has increased from 6 million in 1996 to 20.8 million in 2020, and their combined wealth from USD15.1 trillion in 1995 to USD80 trillion in 2020 (Capgemini, 1997: 2–3 and 2021: 6–7).

## **2.8 Money as a public good**

Just as business needs to view profits as the means and the common good as the end, priorities need to change in the realm of money and finances. Money should also only be a means to reach a higher goal. Making money a public good means first and foremost that sovereign citizens set the rules of the monetary system. In democratically organized assemblies, the people could define the new monetary and financial system. Its guiding principles would include the following:

- The central bank is a public institution whose organs are composed of all relevant stakeholders of society
- The monetary policy mandate and the objectives are determined by voters
- Only the central bank can issue money; private banks are simply intermediaries of “sovereign” money; the profit from money creation is renamed from seignorage to “sovereignage” (Felber, 2016/2020)
- Commercial banks’ goal should be to serve the public’s interests and not to distribute profits to owners
- Loans can be granted only for investments in the real economy that do not harm the public good, but not for leveraging investments on the financial markets; accordingly, ahead of the financial risk assessment, every finance – credit, equity, bond, and other – has to approve a “common good assessment” (which, through traditional lens, could also be considered as an “ethical risk assessment”). Only if no fundamental value is damaged and no common good expropriated – trust, clean air and water, democracy and peace – the financial assessment is done as well. The more favorable the finance conditions will be, the more the underlying project contributes positively to the (now measurable!) common good (Sieben, 2023).

Next to common good banks, regional common good stock markets would channel equity into reasonable and responsible companies, but company shares will not be tradable, and investors will receive meaning, utilities, and immaterial values instead of a financial ROI. Thanks to this, the allocation of money will follow the economy’s objectives and guiding values.

## **2.9 Ethical world trade**

The international dimension of a common good-oriented market economy would be ethical world trade. “Free” trade agreements embody the premise that more trade is always better. Yet, just like money or loans, trade should simply be a means for furthering the goals: human and labor rights, distributive justice, social cohesion, long-term sustainability, and democracy. Accordingly, the current system of multi-, pluri-, and bilateral free trade agreements is proposed to be replaced by a single multilateral ethical trade zone within the United Nations (UNETZ) (Felber, 2019b). Such a UNETZ would be based on four pillars:

- 1 The overarching umbrella is the commitment to even trade balances, an idea originally pronounced by John Maynard Keynes (1943).
- 2 Under this premise, all countries could be as open or protected as they wish to be (a truly “free trade order”). This new freedom – I call it dancer’s dress instead of “straitjacket” (Friedman, 2000) – would allow low-income countries to protect sensitive industries and unfold their own industrial, technological, and development strategy, as advocated by Cambridge economist

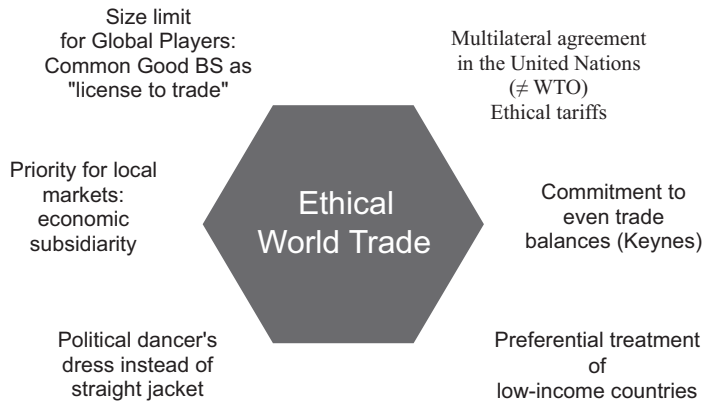


Figure 32.2 Ethical World Trade (Felber, 2019b)

Ha-Joon Chang (2003). Consequently, poorer countries would enjoy the same opportunities to support their infant industries, which developed countries took advantage of in their history.

- 3 Low-income countries are allowed for a certain surplus until closing the gap with richer countries. Instead of pulling away the “ladder of development”, over which the today industrialized countries climbed in their past with tariffs, subsidies, and other protection measures (Friedrich List), this ladder would be explicitly put at the service of countries that lag behind.
- 4 Countries that engage more for peace, human rights, climate stability, biodiversity protection, tax justice, and cultural diversity should trade more freely with each other than with countries that engage less or not at all for these goals. Refusing cooperation in human rights, labor rights, climate protection, or financial regulation would turn into a structural disadvantage.
- 5 Likewise, companies that engage more with the values and goals of the international community, published in their comparable sustainability report such as the CGBS should access the ethical trading zone more freely than companies that engage with less ambition. UNETZ would be considered as a global common that offers freer access to more responsible and sustainable businesses.
- 6 Finally, new elements would be added to the existing global governance architecture: a global fusion control, a Global Tax Authority and a Global Financial Authority (Stiglitz et al., 2009: 96) or a World Court of Human Rights (Kozma, Nowak & Scheinin, 2010) (Figure 32.2).

## **2.10 Ecological human rights**

The challenge of deep sustainability, especially given climate change and biodiversity loss, is so big that a highly diverse policy mix is needed. Up to date, most policy measures, from carbon taxes to subsidies for renewable energy and organic agriculture, have been relatively ineffectual. More ambitious proposals, like global resource management, haven’t yet caught on.

A radical – and liberal – measure would be creating and allocating per capita consumption budgets designed as ecological human rights. This idea builds on the “doughnut model” developed by the British economist Kate Raworth (2017), which expands upon the “planetary boundaries” concept of the Stockholm Resilience Centre (Rockström et al., 2009). Mother Earth’s annual gift of natural resources and ecosystem services could be divided by the total number of human

beings, priced sustainably, and allocated as a global per capita resource budget, e.g. 1.6 global hectares in the “unit” of the “ecological footprint”. Each consumer’s personal “ecological credit card” would be reloaded annually. Once its balance reaches zero, the ecological purchase power is expired (though, of course, nobody would be allowed to starve or freeze). With this equal ecological budget for all, consumers would enjoy freedom of choice so long as their lifestyles do not rob people living in other places and future generations of their sustenance: if they don’t endanger the global and intergenerational common good.

A two-step model could bring along further advantages.

- A The per capita consumption right to the extent of the inner circle of the Doughnut becomes an unconditional, non-negotiable, and inalienable human right.
- B The amount between the two circles, the actual doughnut, becomes tradable. Assuming that 1.3 global hectares are needed for one person to cover all basic needs, the resulting surplus reserve, comprising 0.3 hectares per person, and only that, would become a tradable commodity. Thanks to this mechanism, low-income people who lack the (financial) purchasing power to use up their whole ecological budget might sell what was left to better-off individuals who would have a softer “landing” in their decreasing consumption curve: a socio-ecological win-win situation.

### *Sovereign democracy*

The ECG model does not only propose more participatory ownership and governance models for companies, but also a deeper, stronger, and more direct democracy for nations. In such a “sovereign democracy”, the sovereign people would be the highest authority and hold the ultimate power, standing above the legislature, the government, every international treaty, and every law. Sovereign citizens could directly modify the constitution, laws, economy, and institutions they exercise their “sovereign rights” to:

- 1 Draft a constitution (elect a constitutional convention and vote on the results);
- 2 Change the constitution e.g. by a citizens’ assembly;
- 3 Elect a government;
- 4 Vote out a government;
- 5 Correct legislative decisions;
- 6 Directly put bills to vote;
- 7 Directly control and regulate essential utilities;
- 8 Define who has the right to issue money;
- 9 (Dis)approve the Parliament’s will to go to war;
- 10 Define the framework for negotiating international treaties and vote on the results of negotiations.

Thanks to these rights, the citizens could initiate direct decisions on fundamental questions such as:

- Do we want “*chrematistiké*” or “*oikonomia*”, capitalism, or an ECG?
- Should the central benchmark of economic policy be GDP or a CGP?
- Should the economy be based on structural cooperation or competition?
- Should money as a means of payment be issued by the public central bank or by private commercial banks?

- Should every person get the same limited individual ecological consumption budget or should environmental pollution merely depend on financial purchase power?

One concrete example: Most people seem to prefer a CGP to the GDP. In a representative survey ordered by Germany's Federal Ministry of Environment, only 18% of Germans wanted the GDP to remain a main benchmark for economic and social policy if all things equal; almost two-thirds preferred a more comprehensive life-quality indicator (Bundesministerium für Umwelt, Naturschutz, Bau und Reaktorsicherheit & Umweltbundesamt 2015: 22 and 35). Exercising their sovereign rights, the people could make a big difference.

### ***Implementation with real-life prototypes***

Since its origin in 2010, the international ECG movement has created a growing array of practical tools that are applied by companies (already described in Section 4), start-ups, banks, cities, regions, schools, and universities. Any one of these “real-life prototypes” can be refined, scaled up, and applied by any region.

**Start-ups:** For start-ups, the ECG movement has developed an ECG Business Canvas (Ecogood, 2023d). This tool helps them to ask essential ethical questions, to find a meaningful purpose, and embed them empathetically in the democratic society. Sustainable, Smart, or Circular Cities can give a grant to impact hubs on the condition that new start-ups apply the ECG Business Canvas or a similar tool.

**Banks:** Any bank can open up a “Common Good Center” with common good accounts (current account, savings account, business account, student's account) and ethical loans at the other side of their balance sheet. The Vienna-based “Common Good Cooperative”, which has marketed Austria's first common good current account, is up to help interested banks to make their first steps into Common Good Banking.

**Cities:** More and more municipalities apply the CGBS either on the whole administration, like Mertzig (Luxembourg), Eschlikon (Switzerland), Mäder (Austria), Steinheim (Germany), or the district Horta de Guinardò de Barcelona (Spain) (Ecogood, 2023e). Other cities and local governments decide the CGBS to be applied in public companies, e.g. Zaragoza, Stuttgart, Marburg, Münster, or Hamburg. Some cities are searching for ways to use ECG values and indicators in public procurement and economic promotion decisions.

**Common Good Index:** The first regions and cities are now heading for developing a regional/local Common Good Index (CGI). The ECG movement developed a participatory process that allows citizens to design the CGI directly. A convention could be composed randomly, but representatively according to age, sex, professions, income groups, and migration background. Convention members could collect their own proposals plus those from the population (through liquid democracy) and filter out the 20 sub-goals that enjoy the strongest support. Operationalized with indicators, the CGI's progress can be measured from year to year and be compared between regions. The first steps toward a CGI have been taken in Guarrón and Salamanca (Spain), in the city of Münster; and in the land of Baden-Württemberg (Germany).

**Universities:** The Universities of Flensburg and Kiel in Germany have concluded a three-year research project on implementing the CGBS in large corporations (Heidbrink et al., 2018). The University of Valencia in Spain established an ECG Chair in 2017 and concluded the first empirical study on 206 companies with a CGBS (Sanchis, Campos, Ejarque. 2019). The University of Applied Sciences of Burgenland offers an MA in Applied Economics for the Common Good. The University of Córdoba in Argentina has launched a three-month course “PINE” to introduce

alternative economic models to a broader audience (Universidad Nacional de Córdoba, 2023). Any university can offer a course, a study, or establish a chair for new sustainable economic models.

On the political level, a major success has been achieved in the European Union: In 2015, the European Economic and Social Committee (EESC) issued an own-initiative opinion, on base of which it “considers that the Economy for the Common Good (ECG) model is conceived to be included both in the European and the domestic legal framework” (EESC, 2015).

### 3 Conclusions and recommendations

Cooperation and solidarity belong to the established set of constitutional values (solidarity) and relational values (cooperation). On the contrary, competition and utility maximization are neither constitutional nor positive relational values. Whereas the current economic model and scientific doctrine favor competition, there are alternative economic models that build on cooperation and solidarity. This can be applied to both the micro level of companies and the macro level of the national and global economic order that incentivizes and rewards these behaviors structurally, rather than fostering “counter-petition” and individual utility maximization.

The ECG is one of the concrete and practical economic models that build systemically on cooperation and solidarity, next to the Social and Solidary Economy or the Commons movement, for instance.

It would be for the benefit of all these alternatives if they shared and compared their best cooperative practices and joined forces in order to lobby for the inclusion of incentives and rewards for cooperative and solidary behaviors in the economy, while the legal framework of the future economy should disincentivize and provide a structural disadvantage to behaviors and strategies of aggressive counter-petition and individualistic utility maximization.

The focus shifts from financial success indicators to a CGP (macro level), CGBS (meso level), and Common Good Assessment (micro level) contributing to deep sustainability of the economy. Ethical world trade and “ecological human rights” provide further for an inherently ecological design of this future-fit economic model.

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# ARE WORKER COOPERATIVES GREEN? SOME REFLECTIONS IN TERMS OF GOVERNANCE

*Marina Albanese*

## 1 Introduction

In 2015, the United Nations (UN) proposed its 2030 Agenda for Sustainable Development, which specifies 17 interlinked Sustainable Development Goals (SDGs) that balance the three dimensions of sustainable development: economic, social, and environmental.

The urgency and relevance of sustainable development require reflection on the role of the production system. Enterprises are important actors in socioeconomic scenarios, and their characteristics can play a role in development processes.

In recent years, various studies have highlighted cooperative firms as vehicles for improving the business sector in local areas and boosting economic development. Both the United Nations Task Force on Social and Solidarity Economy and the International Co-operative Alliance (ICA) Cooperatives Europe recognize the key role of cooperatives in promoting sustainable development. The International Labour Organization considers that cooperatives per se address sustainability due to their principles and values and are well placed to contribute to the triple bottom line of economic, social, and environmental objectives. Furthermore, the ICA asserts that

the co-operative model of business is based on ethics, values and principles that put the needs and aspirations of their members above the simple goal of maximizing profit. Through self-help and empowerment, reinvesting in their communities and their concern for the well-being of people and the world in which we live, co-operatives nurture a long-term vision for sustainable economic growth, social development and environmental responsibility.<sup>1</sup>

From this perspective, cooperatives represent a paradigmatic model of management and business conception very much in line with the new conception of the economy in which production is a means of satisfying human and planetary needs (Manera & Serrano, 2022). The economic literature shows that cooperatives are particularly aligned with the SDGs (Fernandez-Guadagno et al., 2020).

Cooperatives can be classified in various ways. According to Cato (2018), the three main membership types are consumer or retail cooperatives, producer cooperatives (groups of

producers), and worker co-operatives (employee-owned). This chapter focuses on worker co-operatives, based on an interest in exploring the effects of governance in terms of sustainability in worker-owned firms, in particular in relation to the green aspects of production. A worker cooperative is an enterprise owned and controlled by its workforce that Pérotin (2013) defines as

a firm in which all or most of the capital is owned by employees in the firm, whether individually or collectively; where all employees have equal access to membership regardless of their occupational group; and where each member has one vote, regardless of the allocation of any individually owned capital in the firm.

(p. 35)

The key point of our analysis is that worker cooperatives are at an advantage compared with other categories of firms as they are institutions in which employees control most aspects of their work and the firm's strategy, making it easier to internalize the SDGs than in traditional firms. In particular, in worker cooperatives, productive choices are made by workers who generally are part of the community where the firm is located. From this perspective, they provide sustainable and local employment, starting with their governance model, and are likely to have positive effects on their communities' economies and health.

The importance of the role of workers in decisional processes has been argued in the economic literature. Lanfranchi and Pekovic (2014) use French firm data to show that employees of environmentally registered or green firms report a higher perception of their usefulness and equitable recognition at work and are more likely to provide unpaid overtime.

Askildsen et al. (2006) empirically demonstrate that employee participation in decision-making through work councils encourages environmental investments, as employees are directly affected by externalities in the production process, more likely to live locally and to be more affected by their firm's pollution than conventional owners.

Fakhfakh and FitzRoy (2018) evidence that financial participation encourages better communication and decision-making in a firm, leading to a Pareto improvement. They note that

more satisfied and longer-term workers will then care more about workplace hazards. It is thus likely that these sharing firms will tend to internalize their environmental externalities and raise employee welfare by reducing harmful pollution. All together, these results suggest that profit sharing has various economic, social and environmental benefits.

Starting with these findings from the literature and considering that worker cooperatives' activities are mainly performed at the local level (Birchall and Birchall, 2011), the aim of this chapter is to study the role played by cooperatives in fulfilling the SDGs of the 2030 agenda related to climate change and environmental awareness.

We show that in this category of firm workers can express their preferences in the production process and promote sustainable development.

The chapter is composed of three other sections: in Section 2, we review the literature results on environmental awareness in worker cooperatives and model the utility function of the worker/entrepreneur to show that in some cases a strong incentive exists to make green production choices. In the third section, we discuss the potential benefits for local communities of the presence of worker cooperatives, and Section 4 concludes the chapter.

## **2 Worker cooperatives and climate change**

### ***2.1 Economic literature on worker cooperatives and environmental aspects***

Among the various challenges faced by cooperatives in terms of the SDGs, the environmental sustainability required due to climate change is very important (Filippi et al., 2023).

Although many studies focus on policies for reducing emissions harmful to the environment – from taxation to incentives for green investing – few contributions have focused on the role that the type of firm can play in promoting production processes with low environmental impact. In addition, the literature on environmental sustainability of worker cooperatives is scarce (Preluca et al., 2022).

The main contributions of the economic literature on the role of worker cooperatives in relation to environmental concerns started with the idea that one of the conditions related to economic democracy that would allow reduced greenhouse gas (GHG) emissions is the increased concern about environmental degradation due to the greater involvement of people in the decisions that impact their lives (Boillat et al., 2012). Moreover, Bayon (2015) affirms that “if work were under the control of workers, human work would be much more likely to be environmentally friendly, since under capitalism’s property rules and the imperative of growth, labour is forced to be environmentally harmful” (p. 191). Debord (2004) states that, unlike capitalist firms that must grow in accordance with the profit motive, democratic economic enterprises have the potential to subordinate the economy to environmental goals.<sup>2</sup> Another study, by Gunderson (2019), shows that worker cooperatives can contribute to climate change mitigation through their lower interest in perpetual growth compared with their traditional capitalist counterparts, which means lower energy and material use and thus lower GHG emissions (Preluca et al., 2022).

### ***2.2 Worker cooperatives and environmental awareness: a model of enterprise management***

In this section, we focus on particular characteristics of worker cooperatives, where the workers are the entrepreneurs, can decide the production techniques and often live where the firm is located.

Our argument relates to two hypotheses that establish the conditions by which worker cooperatives can promote sustainable development related to climate change more than other types of enterprises.

The first hypothesis is that individuals generally care about the environment, more or less, and the quality of their lives is influenced by environmental quality. This variable could be considered an argument of the utility function. The second hypothesis is that workers of worker cooperatives have an active role in production choices and can decide to reduce pollution if it lowers the quality of the environment. The combination of these two aspects is a powerful explanation of the active role of worker cooperatives in terms of sustainable development. We can have cases of workers particularly involved in green development topics, but if they are employees of an enterprise not interested in these aspects, they can do nothing. However, if these workers can express their preferences for production technology – green or dirty – they can play an active role in promoting green technologies. Moreover, if they live, as often happens in the case of cooperatives, where they produce, the incentive to be greener increases.

To explain this simple concept, consider workers as consumers whose utility function is modified by environmental quality. At the same time, they are entrepreneurs who can decide which technology to use for production – green or dirty.

### 2.2.1 Environmental quality

An increase in production can produce a corresponding increase in emissions, worsening environmental quality. Dirty production activity emits carbon dioxide in the atmosphere, but emission intensity depends on the abatement technology, as expressed in Equation 1:

$$m_t = \epsilon y_t^d m_t \quad (1)$$

where  $m$  is the level of carbon emissions,  $\epsilon$  is the carbon emissions per unit of output, and  $y$  represents production with a productive function associated with a high value of GHG emissions (i.e. dirty production).

Carbon emissions affect environmental quality ( $q$ ), defined as stock, as expressed in Equation 2:

$$q_t = (1 - \delta_q) \bar{q} + \delta_q q_{t-1} - m_t q_t \quad (2)$$

where  $\delta$  measures the persistence of environmental quality and  $\bar{q}$  represents environmental quality without pollution. We can see that the levels of  $q$  are related to the value of this variable at time  $t-1$ , the value of the parameter of persistence of environmental quality and the amount of carbon emissions (measured by  $m$ ).

Now, we will consider two agents: a representative worker and a representative firm.

### 2.2.2 Workers

As in Zhang et al. (2020), we consider that environmental quality positively affects the workers utility function. Workers maximize expected utility defined as consumption, environmental quality, and labour effort. The period utility function is shown in 3:

$$U_t(c_t, q_t, l_t) = \sum_{t=0}^{\infty} \beta^t \left[ \frac{c_t^{1-\sigma_c}}{1-\sigma_c} + \mu \frac{q_t^{1-\sigma_q}}{1-\sigma_q} - \frac{\kappa}{1+\eta} (l_t)^{1+\eta} \right] \quad (3)$$

where  $c$  is consumption per capita,  $\beta$  is the discount factor,  $\mu$  is the environmental quality weight,  $\sigma_j$  is the measure of risk aversion parameters,  $\kappa$  is the labour disutility, and  $q$  is the environmental quality.

Workers maximize expected utility subject to budget flow constraints (Equation 4):

$$c_t + i_t = w_t l + r_t k_{t-1} \quad (4)$$

where the variable  $r$  contains the rent of invested capital, and, in the case of cooperatives, we must sum earnings derived from the activity of entrepreneurs;<sup>3</sup> in this case, it represents the part of the profit of the worker.

### 2.2.3 Firms

The representative firm produces by employing labour and capital and can choose between two different ways of production.

Firms can employ high- or low-carbon production processes, combining capital and labour.

In the case of dirty production associated with positive levels of emissions of carbon dioxide into the atmosphere, the production function is as follows (Equation 5):

$$y_t^d = A_t \left( k_{t-1}^d \right)^\alpha \left[ (1-\theta) h_{t-1} L_t^d \right]^{1-\alpha_d} \quad (5)$$

where  $k$  is the amount of capital and  $L$  is the labour.

In this case, the value  $y_t^d$  is contained in Equation 1, and the levels of carbon dioxide emissions increase. In other words, if the firm uses high-carbon production (dirty) technologies, the level of  $m$  increases and the environmental quality value decreases.

In the case of green firms, the production function is as follows (Equation 6):

$$y_t^g = A_t \left( k_{t-1}^g \right)^\alpha \left[ (1-\theta) h_{t-1} L_t^g \right]^{1-\alpha_g} \quad (6)$$

In this case, the output is green and  $m$  is zero.

### 2.2.4 Worker choice

In the case of environmental awareness (parameter  $\mu$ ) being equal to zero in the utility function, the worker does not care about the levels of  $q$  (environmental quality) and decides to increase the levels of consumption and investments in relation to wages and earnings derived from investments. However, if environmental awareness (parameter  $\mu$ ) is higher than zero, the worker care levels of  $q$  (environmental quality) directly influence the utility.

If workers are employed in a traditional company, they do not have many instruments to modify production and emissions of carbon dioxide in the atmosphere. However, if the worker is also the owner of the firm and he lives in the some area where the production is realized, then it is probable that the worker decides to reduce the quantity of  $m$  and shift from dirty to clean production technologies.

This is a strong argument that in worker cooperatives, green production will be considered more than in capitalist firms, due to their governance structure.

## 3 Local community benefits

Worker cooperatives' ability to create more sustainable working conditions and their members' control over the firm's affairs, which allows them to internalize some of the externalities of the firm's operation, are likely to have positive consequences for the communities they operate in (Pérotin, 2013).

Worker cooperatives exhibit several characteristics that positively contribute to sustainability, and a considerable body of literature focuses particularly on economic and social aspects. Research shows that worker cooperatives can preserve jobs in deteriorating market conditions better than other firms can (Pencavel et al., 2006), foster higher levels of job satisfaction and employee well-being (Pérotin, 2013), and address income equality (Bretos, 2017) by reducing wage

differentials (Parker, 2017). Additionally, they can contribute to development in their community by directing some of their profits or surplus to community projects (Rothschild, 2009), and lead to their members' increased engagement in society and participation in political democracy (Preluca et al., 2022).

Scruggs and Benegal (2012) found that public opinion about global warming is variable and driven by the business cycle and economic insecurity, while Kahn and Kotchen (2010) found that increased unemployment is associated with a decrease in the probability that residents think global warming is happening and reduce investment in environmental protection. Conversely, a rise in environmental protection associated with economic growth contributes to a reduction in emission intensity.

This link between environmental protection and economic growth could be true in the case of traditional firms, but cooperatives also often have a social role that influences their choices and objectives (Albanese, 2020). This implies not only that worker cooperatives have the instruments, as shown, to reduce pollution, but also that their choices can be directed towards preserving environmental awareness also in cases of a negative phase of the economic cycle.

## **4 Conclusions**

Analysis of recent contributions in the economic literature shows that democracy plays a central role in sustainable development. In particular, in enterprises where the governance model is democratic, it is easier to make decisions in line with the SDGs. In this chapter, we tried to take another step and focused our discussion not on degrowth, a way indicated by most economic literature to reduce GHG emissions, but on the possibility to decide on an ecological transition from a production point of view.

In recent years, various studies have highlighted the value of such companies as a vehicle for improving the business sector in local areas (Bijman, 2018). It has also been found that the very nature of cooperative firms implies socially responsible behaviour (Perez et al., 2019). Meeting the needs of their partners, their democratic governance (one partner, one vote), and ownership and control by workers permit cooperative firms to be a model of sustainable economic development. Their people-centred approach differs from conventional capitalist firms that try to maximize value, as such firms are owned and controlled by capitalist investors and lack democratic governance.

We believe that democracy in worker cooperatives can promote the use of green technologies more easily than in a traditional company where the ownership may not be interested in environmental aspects. This could be particularly relevant if the owner(s) live(s) far away from the workplace, or it could simply be related to a strong interest in profit maximization.

However, worker cooperatives are not immune to challenges that could impede their long-term sustainability, with some arguing that this model is destined to fail (Dow, 2003). The presence of market pressures is a risk for their principles (Preluca et al., 2022) and could make cooperatives revert to capitalist practices, following what is known as the degeneration theory (Storey et al., 2014).<sup>4</sup> These arguments could reduce the quantity of worker cooperatives and their diffusion but cannot change the nature of such firms and their values.

As many contributions show, the worker cooperative is a model of firm with a high propensity for environmental awareness, which is very real and important nowadays.

Our considerations aim to represent only a starting point for reflection. Many other aspects should be explored. The relationship between GHG emissions and the presence of worker cooperatives in some areas could be a good starting point for taking a quick snapshot of how the presence

of these companies is related to environmental awareness. However, there are many variables to consider (e.g., size of the firm and the production sector) that make it difficult to verify from an empirical point of view what a theoretical model can predict. Another problem to solve relates to intertemporal choices and analysis of the long-term benefits of green production. The intergenerational nature of cooperatives could be a stronger guarantee of sustainable development compared with traditional capitalistic firms, not only in environmental terms but also from a socioeconomic point of view. These are only a few questions to be solved in research future agendas on the road to fully explaining the role of worker cooperatives in the green transition.

### Notes

- 1 An ILO survey of the cooperative movement indicated that cooperatives tend to be more preoccupied with local issues than national, regional, and international issues. Since their basic concern is to address their members' individual and communal concerns, their voice and presence tend to fade with any focus on the national, regional, and international scenes.
- 2 A final climate change-relevant aspect of economic democracy relates to its inequality-reducing potential. Inequality and GHG emissions are positively associated (Jorgenson et al., 2017) with mechanisms that contribute to environmental harm (Gunderson, 2019).
- 3 In worker cooperatives, the workers also own the enterprise. In analyses based on the traditional cooperative model (Vanek, 1970), the maximized value is the average income, and the value of the residual that is realized is distributed in full among the members.
- 4 Examples of degenerative practices include employing non-member workers, concentrating power in the hands of management, or prioritizing growth and profit-seeking above member needs.

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# SUSTAINABILITY IN MONDRAGON WORKER COOPERATIVES

## The challenge of implementation<sup>1</sup>

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### 1 The theory: cooperation and sustainability

More than three decades have passed since the Brundtland report (1987) relocated the framework of the sustainability debate. One can look to the future to list the evils that lie ahead or address the possibilities generated by combating them. This conviction has marked the development of, among others, Agenda 21 (1992), the Millennium Development Goals (2000), and, more recently, the Sustainable Development Goals (hereafter, SDGs) (2015).

Compared with the antecedents, Griggs et al. (2013) and Sachs (2012) argue that three features of the SDGs stand out: their universality, comprehensiveness, and governance. Universality refers to the global scope of the agenda. Comprehensiveness, on the other side, speaks about the intertwined nature of its social, economic, and environmental dimensions. Regarding governance, finally, the 2030 Agenda requires collaboration between governments, institutions, international agencies, civil society, and firms.

Moreover, calls for partnership and cooperation underline the importance of the private sector (EC, 2019). The potential contribution of firms is justified due to innovation capabilities and financial resources (Cordova & Celone, 2019). However, bringing private companies and corporations into processes that hitherto primarily included public administration and civil society organizations generates distrust among civil society organizations (Koehler, 2015). Private firms are expected to put the transformational nature of the sustainable development agenda at the core of their business models (Pedersen, 2018). As the authors explained elsewhere, “(...) partnership requires trust and building trust requires coherence between a general commitment to shared goals and concrete actions oriented to their implementation” (Imaz & Eizagirre, 2020: 11). As a whole, the European Commission, as pointed out in the report *Towards a Sustainable Europe by 2030*, considers the co-responsible practice of companies and innovation in business models as ‘horizontal enablers’ for the 2030 Agenda (EC, 2019). Also, the commission suggests that firms in the social and solidarity economy can play a crucial role.

The contribution of firms in the social and solidarity economy (hereafter, SSE) and, more concretely, cooperatives to the sustainable development agenda is defended by their participatory and sustainable nature (Wanyama, 2016), their triple role as economic actors, social groups,

and democratic organizations in close relationship with the local territory and vulnerable groups (Schwettmann, 2014), and their ability to respond to the structural determinants of exclusion, and inequality, and their emphasis on active citizenship and democratic participation (Utting, 2018). For example, as Albanese points out, workers being generally part of the community where the firm is located, worker cooperatives are better placed to make productive choices aligned with SDGs than traditional firms (Albanese, this volume).

However, the pro-social history and democratic culture of SSE firms do not immunize them regarding environmental challenges. In the case of SSE firms operating in high-income countries, for example, resource and energy use tends to exceed safe ecological limits. However, reducing it might challenge pursuing continued economic growth and wealth distribution, as degrowth scholars point out (Hickel, 2019; Parrique, 2019). In other words, social and economic growth can come at the cost of environmental sustainability. Conversely, advancing toward environmental sustainability can be perceived as coming at the expense of social and economic wealth.

In this chapter, we assess the relationship between cooperation and sustainability, based on our experience in a particular case: the Mondragon Cooperative Experience (hereafter MCE). We ground our reflection on research conducted independently by both authors between 2019 and 2021. On the one hand, we conducted 38 in-depth interviews with members of 19 cooperatives. Participants were high-ranking executives (6), experts on sustainability or cooperativism (6), regular cooperative members (13), and young cooperative members and workers (13). On the other hand, we conducted six in-depth interviews with sustainability directors of six different cooperatives of the group, a workshop with nine sustainability directors from nine different cooperatives, and a seminar with 14 participants including sustainability directors and members of different governing bodies (i.e., Management Council and Governing Council)<sup>2</sup>

The following sections reflect on the compound assessment of the results of these research projects on the question of motivations, drivers, and barriers to implementing the sustainable development agenda in cooperative firms.

## **2 The practice: cooperation and sustainability in Mondragon cooperatives**

### ***2.1 The context***

Our research was conducted in the Mondragon cooperative group, a tightly integrated network of cooperative enterprises founded and based in the Basque Country. Established in 1956, Mondragon today consists of 93 cooperative companies and 104 affiliates and subsidiaries in four continents, with nearly 70,000 employees (Mondragon, 2022). Mondragon companies' total revenue in 2022 was €10.6 billion, about 40% from advanced manufacturing firms, slightly more from retail and allied sector enterprises, and the rest from finance and knowledge businesses.<sup>3</sup>

Concerns about sustainability are not new in Mondragon, a group of cooperatives with solid industrial implantation. However, debates around the 2030 agenda have given it fresh impetus. The Mondragon Congress recently approved adapting its mission and socio-business policy for 2021–2024 (Mondragon 2020). The mission refers to Mondragon as an active agent of sustainable development (social and environmental) and committed to preserving the heritage we leave to future generations.

More practically, the directive on Disclosure of non-financial and diversity information by large companies and groups (2014/95/EU) approved by the European Commission established a series of criteria by which, from 2018 onward, companies must present a Non-Financial Information Statement. The large cooperatives of the Mondragon group have, therefore, had the obligation

to describe and publish their contribution to the sustainable development agenda through non-financial reports. This obligation boosted a reflection on the performance of cooperatives regarding the different dimensions of sustainability (i.e., social, economic, and environmental) and trade-offs among them.

## **2.2 Motivations, drivers, and barriers**

The literature on the opportunities and challenges for implementing responsible innovations in firms underlines that different motivations can lead to transforming business models. For example, Garst et al. (2017) suggest distinguishing between instrumental, moral, and relational motives. They underline that those motives are complementary because, for example, instrumental motivations can lead to morally reasonable decisions. Nonetheless, whether developments take a virtuous or vicious path depends on drivers and barriers. For instance, Auer and Jarmai (2018) found that although the regulatory framework and finance are the most powerful drivers for responsible innovation in firms, growth and cost reduction expectations, organizational and management structures, and collaboration with other actors or networks can make the difference depending on the context.

In the Mondragon context, our interviewees agree that cooperatives were considered better placed than conventional firms for the sustainability challenge. Still, they seem to have lost their advantage due to certain “complacency.” In their words, the sustainability agenda arrived “like a tsunami,” catching cooperatives off guard.

First, as one of our interviewees summarized, motivations to address the debate on sustainability in the Mondragon case are supply-side, not demand-side. In other words, the primary motivation is not endogenous to cooperatives; it is the regulatory framework, and the motivation to comply is mainly instrumental. Other motivations are also mentioned. For example, some participants refer to the commitment of cooperatives to sustainability as a contribution to the ‘emotional salary’ of worker-members, a non-financial incentive for workers to commit to cooperatives’ socio-business projects. Also, sustainability is considered an opportunity to ‘renew’ cooperative ideals, tightly linked to ‘old’ values (e.g., hard work, commitment, and long-term), making cooperativism more attractive for younger generations and talent recruitment. The basic idea is that the socio-business project of cooperative firms must ‘make sense’ for cooperative members because cooperative members are not driven solely by instrumental motives.<sup>4</sup>

Second, regarding implementation, we have identified that, among the different drivers listed by Auer and Jarmai (2018), organizational and management structures and collaboration with other actors operate as the main drivers of the 2030 agenda in the case of Mondragon cooperatives.

On the one hand, partnership to advance the sustainable development agenda locally requires collaboration among different stakeholders. Indeed, it is usually underlined that, in the case of firms, a positive contribution of SDGs is that they provide a helpful framework to report social or environmental activities (e.g., funding of cultural projects or collaboration with local associations) and contribute to their visibility, aligning in-company efforts with an agenda shared locally and globally by other stakeholders (Imaz & Eizagirre, 2020). However, collaboration is still uncommon, even among the group’s cooperatives. In this regard, corporative superstructures make a difference, according to our interviewees.

Mondragon cooperatives are organized in a network divided into four different areas (industry, retail, finance, and knowledge) governed by a corporate structure hosting departments (e.g., sustainability or social management) providing services to member cooperatives. Basterretxea et al. (2012) pointed out that corporate supra-structures can help cooperatives overcome the so-called

‘firm effect.’ The ‘firm effect’ is defined as differences in performance “due to factors that are intrinsic to the firm itself (...)” (2012, 359). For example, performance can be directly linked to a firm’s size because it can impact its capacity to invest in innovation. Indeed, most Mondragon cooperatives are small- to medium-sized enterprises with limited resources. Therefore, corporate structures that provide cooperatives with financial, technical, and administrative assistance can act as drivers for implementing the 2030 Agenda.

On the other hand, our interviewees underlined the importance of three main aspects of organizational management: the engagement of the general manager, the inclusion of sustainability in the strategic plan, and the alignment of the Governing Council with the Management Council.

Firstly, the engagement of the general manager is considered essential by our interviewees so far as the transformations required to implement the sustainability agenda are multidimensional and involve several departments. The leadership of the general manager provides the mandate to bring the commitment to the agenda down into the management structure. The means differ from case to case. The systems and/or quality departments usually play the leading role. In other cases, there is a specific department about sustainability (e.g., the prevention and environment department) and, in other cases, a transversal commission composed of members of different departments. Together, the variety of means suggests the necessity to complement the role of the general manager with a more distributed leadership model (see Cousin et al., this volume) in the center of which our interviewees place the figure of the sustainability director.

Secondly, the importance of appointing a sustainability director in the Management Council, a technical team to assist the different departments involved, and the inclusion of sustainability as a relevant dimension in the strategic plan is stressed. The basic idea is that the challenge is structural, and implementation requires structural measures. This is also relevant for the profile of the sustainability director so far as it should be capable of mobilizing a great variety of actors, determining the full range of pertinent topics, and guaranteeing their proper examination through a series of different forums within the firm.<sup>5</sup>

Finally, the alignment between the Management and Governing Councils is another essential aspect that our interviewees usually underlined. In cooperative firms, the Governing Council is an elected body. The General Assembly, conformed by all worker-members, democratically elects the Governing Council among its members. It plays a crucial role in the governance of the socio-business project of cooperatives, for it is the one in charge of looking after its strategic orientation and, for example, appointing or dismissing the general manager. In other words, if structural changes are needed, the commitment of the Governing Council is essential.

In this regard, our interviewees highlight a high level of alignment and point out the positive contribution of specific measures: the inclusion of sustainability indicators in the scorecard of the Governing Council or control sessions of the Management Council and mixed commissions to follow up on their evolution. In other words, no noticeable tensions are identified, and it is pointed out that, in some cases, the agenda works as a cohesive element: the sustainable development agenda integrates the social dimension of cooperatives more understandably for a more business-oriented mindset.

Together, the engagement of the general manager, the role of the sustainability director, the inclusion of sustainability in the strategic plan, and the alignment of the Governing Council back up the idea, introduced at the beginning of this section, that cooperatives are better placed than traditional firms to internalize SGDs in the firm’s strategy. The positive disposition of general managers and department directors and the alignment of the Governing Council can be interpreted as the result of the operation of an expressive rationality driving collective action toward shared purposes that benefits from the so-called cooperative difference, a more humanistic approach to governance (Novkovic et al., 2023).

### **2.3 Meaning and appropriation**

To sum up, the primary motivation behind the debate on sustainable development in Mondragon cooperatives does not seem to respond to an endogenous trigger. Market demands and institutional regulations appear to be the main reasons for taking steps. However, instrumental motives can result in virtuous transformations. Indeed, we have also underlined that in the case of Mondragon cooperatives, organizational and management structures and collaboration with other actors or networks operate as drivers to enhance a virtuous path toward sustainability. Moreover, specific measures suggested by our interviewees (e.g., appointing a sustainability director or inclusion of sustainability indicators in the scorecard of the Governing Council) show the importance of bringing the sustainable development agenda closer to the core of cooperatives' socio-business project.

All said, most of our interviewees recognize that, in practice, the sustainable development agenda speaks mostly about a process following a top-down logic and involving, first and foremost, what has been called the techno-structure of cooperatives: departments and business units.<sup>6</sup> Mobilizing the techno-structure ensures an effective response to the short-term implementation challenge. However, the risk of this approach is that the agenda is conceived as mainly a technical issue, and this vision limits the transformative potential of the agenda regarding cooperatives' business models. As Bauler et al. (2022) argue, most of the low-carbon scenario analyses are outputs of quantitative models without considering the social and cultural aspects of the transition.

In short, as one of our interviewees underlined, the agenda must be understood as an opportunity rather than a challenge to mobilize all its transformative potential. To that end, given cooperatives' democratic nature, a top-down or technocratic implementation strategy shows its limitations.

On the one side, the agenda represents a change in how sustainability is conceived, from a vision of sustainability limited to environmental concerns to a comprehensive vision of its different dimensions (economic, social, and environmental) and, especially, their interactions. This way of approaching sustainability expands the range of dimensions linked to its development in the context of firms (e.g., product footprint, risk, debt, materiality, and supply chains), underlining its direct and multidimensional relationship with the heart of the business project of cooperatives.

On the other hand, cooperatives are democratic organizations where the final authority rests with the General Assembly. However, several of our interviewees underlined that, although necessary, opening discussions on implementing the sustainable development agenda to the collective of members can be potentially conflictive. The reason is that advancing toward environmental sustainability could conflict with social and economic goals. In other words, the decisions can pose contradictions that cannot be resolved technically and reclaim less hierarchical decision-making processes.<sup>7</sup>

In the context of our research, we identified five different discursive frames on sustainability linked to regulation, competitiveness, work/workers, (de-)growth, and cooperative identity (Bergara, forthcoming). The first is focused on a legal-rational vision and grounds the reflection on sustainability on the necessity to respond to institutional regulations. The second finds in sustainability an opportunity to open new markets with high added value and a chance to grow, and it circumvents the scope of the sustainability agenda to the energetic transition. The third mobilizes uncertainties and distrust. In this discursive frame, work rules as the central value of cooperativism and the costs of environmental sustainability are feared due to their potential impact on the capacity of cooperatives to create wealth (grow) and distribute it (create quality jobs). The fourth discursive frame refers to the role of cooperatives as firms. It concerns the obligation to follow market rules (e.g., competitiveness, efficiency) and the difficulties of leading on environmental issues vis-à-vis other firms.<sup>8</sup> Finally, there is also a segment of cooperative members who find

environmental sustainability a moral duty toward the community and understand cooperatives are well placed to play a leading role.

Together, discursive frames reflect the internal diversity regarding the vision of cooperative members on the challenge of sustainability and explain, at least to a certain extent, the precautions regarding opening the (internal) debate on its implementation to the collective of cooperative members. However, the diversity of perspectives, or cognitive diversity, is a critical ingredient of decision-making in democratic organizations when dealing with complex challenges (Landemore, 2012). Whether governance structures facilitate or hinder collective deliberations will depend on the degree of democratization of decision-making processes at each firm. But, as such, the diversity of perspectives in cooperative members' discourses places cooperatives in a better position, in comparison with more traditional firms, to deal with the challenge of sustainability.

### **3 Final considerations**

One challenge for cooperatives is to balance economic and production objectives with social and ecological goals. Until now, cooperatives have been guided by the positive outcomes of their financial balance. In the 20th century, cooperatives could solve the conflict between capital and labor satisfactorily. However, the ecological crisis introduces a new element that transforms everything: production, consumption, and way of life. Thus, cooperatives must redefine their projects in terms of their economic and social goals, which inevitably include ecological issues.

Secondly, to advance this commitment, our interviewees underlined the importance of the engagement of the general manager, technical assistance, and the alignment of the Governing Council. However, they also highlighted the importance of including sustainability dimensions and indicators in the strategic plan. The reason is simple: the transformational potential of the sustainability agenda requires more than technical solutions. It requires deep strategic commitments. An independent socio-ecological institutional framework focused on environmental issues might facilitate the coordination between departments, take the lead in managing the socio-environmental agenda, and reduce the workload in other departments.

Thirdly, individual cooperatives benefit from their collaboration and partnership in the group context, which provides suitable venues to advance collectively on the path toward sustainability. Considering that most Mondragon cooperatives are small- to medium-sized enterprises with limited capacities for innovation, the financial, technical, and administrative assistance of the Mondragon Group in the transition toward more sustainable business models is crucial. Also, it is evident that the sustainable development agenda must be applied at different rates and in various ways. To improve the ecological footprint results of all cooperatives, the focus must be placed on those with high carbon intensity. In this case, the group could facilitate the reduction of emissions in the most harmful sectors, making more resources available for those environmentally harmful cooperatives to finance the energy transition.

Fourthly, discursive frames reflect the internal diversity regarding cooperative members' understanding of sustainability. Also, they help anticipate potential sources of tension due to trade-offs among the agenda's social, economic, and environmental dimensions. For example, we found the perception that, among cooperative members, environmental sustainability challenges the alignment between economic profitability (i.e., growth) and job creation (i.e., wealth distribution). Whether environmental sustainability challenges economic profitability remains an open (and contested) question, but if, as degrowth scholars suggest, handling environmental sustainability requires degrowth, we can anticipate tension could intensify in response to concerns about the cooperatives' social purpose (i.e., the capacity to maintain and create quality jobs). In our

view, the key lies in cooperatives' capacity to assess sustainability's transformational potential as an opportunity rather than a challenge. We are convinced that abandoning brown industries and creating new job opportunities in clean sectors may be an opportunity to preserve the cooperative culture (i.e., creating jobs and distributing wealth) as the Mondragon cooperatives take decisive steps toward decarbonization. But these transformations need to be navigated.

To conclude, our analysis suggests that we need a better understanding of how cooperatives' governance structures and processes facilitate or hinder the navigation of sustainability transitions. The Mondragon case shows that we can no longer operate based on the presupposition that cooperative differences facilitate sustainability transitions. Concrete structural measures can make a difference in concrete cases and circumstances, but a more generalizable conclusion will require a more sophisticated methodological approximation of our study case. In this sense, combining a more relational approach to mapping cooperation within and between organizations and using assessment criteria comparable to more conventional capital-based corporate firms, as suggested by Biggiero and Warren in this volume, provides a promising line for future research.

### Notes

- 1 Both authors have contributed equally to this chapter, the ordering responds to the alphabetical order. The corresponding author is Oier Imaz oimaza@mondragon.edu
- 2 Discussion in section 2.3 is based on the former (in-depth interviews) and discussion in section 2.2 on the latter (in-depth interviews, workshop, and seminar).
- 3 The Group's history, functioning, and many of its challenges have been described and debated extensively elsewhere (Altuna Gabilondo, 2008; Barandiaran & Lezaun, 2017; Basterretxea & Martínez, 2012; Bretos & Errasti, 2017; Freundlich, Grellier, & Altuna, 2009; Kasmir, 1996; Ormaechea, 1999; Ortega, 2021; Ravn et al., 2023).
- 4 Isabelle Ferreras explains this: "Work, for those who do it, is a fundamentally expressive experience. This is, in fact, one of the fundamentals of my argument, that those who invest their labor in firms are motivated by expressive rationality. By this, I mean that the work experience resonates with meaning that is mobilizing concepts of what is just and unjust in the life of a community – what political philosophers generally refer as the political." (2017, 5).
- 5 Calvin Pava defined deliberations in firms as follows: "Deliberations are reflective and communicative behaviors concerning a particular topic. They are patterns of exchange and communication in which people engage with themselves and others to reduce the equivocality of a problematic issue." (1983, 58).
- 6 The technosstructure refers to departments and business units. On the other hand, the sociostructure refers to institutional bodies, namely, the Governing Council, the General Assembly, and the Social Council.
- 7 As Biggiero notes (Biggiero, in this volume), in some cases, the tendency for highly hierarchical power and low democracy is inevitable, regardless of good principles. Indeed, if we compare cooperatives and investor-owned firms, their differences cannot be categorized as a dichotomy (democratic vs. non-democratic). The difference lies in the form (coercive/democratic) and degree (strong/light) of hierarchies.
- 8 To the extent that markets are competitive, it is argued that progress in sustainability can lead to a loss of competitiveness if other companies do not take these steps. As Dow points out in his chapter, it is important to remember that the conditions for optimum market competition are not fulfilled, because some forms of imperfection appear. It is therefore important to carry out further research into these imperfections from the point of view of cooperatives.

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# CONTRIBUTIONS OF COOPERATIVES TO THE CHALLENGES OF THE CIRCULAR ECONOMY AND PRODUCT-SERVICE SYSTEMS IN THE CONTEXT OF ENVIRONMENTAL TRANSITION

*Cécile Godfroid, Marc Labie, and Coralie Muylaert*

## 1 Introduction

The recent and current global environmental and social challenges are leading us to rethink the configuration of economy and society, in the perspective of balancing climate and ecological considerations with socio-economic concerns. The literature refers to this as transformation or transition toward sustainability, defined as “fundamental changes in structural, functional, relational, and cognitive aspects of socio-technical-ecological systems that lead to new patterns of interactions and outcomes” (Patterson et al., 2017, p. 2). These terms are also gaining in popularity in the public discourse, following the publication by the United Nations of the set of the 17 Sustainable Development Goals to be achieved by 2030 (Patterson et al., 2017).

Nevertheless, the economic models that will allow a transition to more sustainable societies are yet to be firmly established. Among those models, Product-Service Systems (PSS) are believed to be among the systems able to contribute to the challenges of this transition (Roman, Thiry, Muylaert, Ruwet, & Maréchal, 2023). PSS are defined as business models selling a service that a product provides without the need for the user to own the product itself (known examples of PSS are clothing libraries, care sharing, or rental services).

So far, PSS have mainly focused on economic and environmental dimensions (Annarelli, Battistella, & Nonino, 2016). This is understandable as PSS are often associated with the circular economy (Van Niel, 2014) that breaks with the present dominant paradigm of the linear economy (Boutillier, Laperche, & Picard, 2014) that adopts a take-make-waste perspective. However, the actual contribution of PSS to environmental sustainability is not yet unequivocally established, and there is no empirical evidence of widespread better environmental performance (Roman et al., 2023; Kjaer, Pigosso, Niero, Bech, & McAloon, 2019; Annarelli et al., 2016). Furthermore,

so far, there are various firms that implement PSS only as it improves their competitiveness and profitability but without any environmental concerns (Graça, 2021; Vaileanu-Pau & Boutillier, 2012); in some cases, it may generate positive externalities in terms of environment, in others, not at all. It therefore appears that this model, although promising sustainability, is already being misused by some traditional companies. Finally, the contribution of PSS to the transition may be limited due to their poor ability to recruit and retain enough consumers (Tunn, Bocken, Van den Hende, & Schoormans, 2021; Roman et al., 2020; Hazée, Delcourt, & Van Vaerenbergh, 2017), jeopardizing their economic viability. Indeed, it has been shown that consumers often prefer to retain control over the goods they use (Tukker, 2015; Catulli, 2012; Intlekofer, Bras, & Ferguson, 2010; Halme, Anttonen, Hrauda, & Kortman, 2006). This is one of the obstacles to consumer take-up of PSS offers. In this respect, the ability of PSS to be an economically viable model applied on a significant scale remains a major challenge.

Today, there is a consensus that we have to rethink the configuration of our economy toward more sustainable models. To achieve this, economic, environmental, and social dimensions have to be simultaneously taken into account. For those reasons, this chapter postulates that if PSS firms really wish to favor a transition toward more sustainability, they should adopt the concept of triple bottom line (TBL) developed by Elkington (1998) encompassing environmental integrity, economic prosperity, and social equity. This is in line with some of the findings of Gatersleben (2001) in an empirical study where she shows that people will be more inclined to accept environmental consumption alternatives if the social dimension is also taken into account.

In terms of potential positive environmental effects, PSS offer the potential to reduce waste associated with production and consumption while promoting end-of-life options (Bal & Satoglu, 2020), such as refurbishment and re-use, which are key elements of circular economy-related strategies (Haber & Fagnoli, 2021). By making a good available to multiple customers (simultaneously or sequentially), the PSS model also intensifies the use of goods (Roman et al., 2023; Tukker, 2004) and may favor in some cases a more conscious use of the product (De Jesus Pacheco et al., 2022), less energy consumption through for instance the sharing of infrastructures (Sarancic, Pigosso, Pezzotta, Pirola, & McAloone, 2023), and prevention of pollution (Blüher et al., 2020). Regarding positive economic effects, Sarancic et al. (2023) mention that PSS offer the possibility to obtain additional, more predictable and recurring revenue streams. Finally, regarding social aspects, we can mention that PSS may offer an access and a use to resources that some citizens would not be able to own (Sarancic et al., 2023).

Some papers have examined the link between PSS and TBL. Nevertheless, our review of the literature has led us to argue that the definition of TBL is often too generic. Indeed, even when some authors such as Tseng et al. (2019) or Kondoh et al. (2014) use TBL to analyze whether PSS are sustainable or not, they often do not refer to any precise TBL criteria. Furthermore, not all authors use the same indicators. As an example, Ries et al. (2023) take emissions and pollutants as environmental indicators while Sarancic et al. (2022) take product longevity. Finally, we must recognize that the social aspect of the TBL is little discussed and developed in studies on PSS (Blüher, Riedelsheimer, Gogineni, Klemichen, & Stark, 2020). In addition, TBL seems to be used above all to analyze the environmental side, leaving the social one largely untouched (Lee et al., 2012). But, as mentioned by Halme et al. (2004, p.125) “there is the need for a concept of sustainable services in which the social sustainability aspect is also recognized with equal attention”.

This leads us to suggest the following research question: Could PSS supplied by social economy cooperatives better contribute to a TBL sustainability when compared with what conventional for-profit firms do?

Social economy organizations are neither capitalist nor state organizations and are gathered into what is often called the third sector (Defourny & Nyssens, 2017). Gui (1991) explains that two conditions should be fulfilled for being considered as social economy organizations: the right to residual benefits should not belong to the shareholders and the right to residual control should not belong to the public state. There is no unanimous definition of the social economy organizations but most of them focus on both their legal form (associations, cooperatives, mutual, and public-benefit foundations in most countries, and sometimes some specific private companies) and their common values or principles (including participative democracy in decision-making, autonomous management, and the priority given to service to the members or to the community rather than for profit) (Defourny, Gronbjerg, Meijs, Nyssens, & Yamauchi, 2016). In terms of contribution to the social and environmental transition, social economy has largely innovated by setting up initiatives in fields, such as employability, personal care, or territorial development.

For almost 200 years, cooperatives have played a major role in providing services to people excluded from some conventional markets, thanks to the establishment of mutual and solidarity mechanisms. Are they good candidates to favor PSS in a transition perspective? That is the question.

## **2 Literature review on PSS and social economy cooperatives**

We carried out a systematic literature review on Scopus to find all the articles analyzing PSS and cooperative. The search reveals 70 documents (as of June 19, 2023) linking the terms cooperative and PSS, but in many cases, the term cooperative did not refer to cooperatives as organizations. Therefore, after reading the 70 abstracts, only 12 documents appear to be of interest to our research question, and after reading the texts, only two articles really shed light on it, illustrating how little literature has been devoted to this issue so far.

First, Pereira, Carballo-Penela, González-López, and Vence (2016) examine the impact of PSS deployed by agricultural cooperatives on farming eco-efficiency. They argue that agricultural cooperatives already incorporate various features of PSS. Indeed, agricultural cooperatives offer both products (such as material inputs) and services (such as marketing services, technical advice, maintenance), and members of cooperative are particularly looking for the access to the function of the products and services that they collectively own. The collective use of heavy equipment, as for instance, combine harvesters constitutes a good example of this. The authors show in their empirical study that there is an improvement of farming efficiency when PSS is deployed by agricultural cooperatives. They conclude that “economic benefits can be aligned with environmental gains in farms that integrate into service cooperatives” (p.91).

Second, Gelbmann and Hammerl (2015) examined the contribution of re-use eco-work integration social enterprises to the three dimensions of sustainability. They argue that these should have competitive advantages in favoring sustainability compared with conventional firms such as their long tradition in re-use activities, their credibility in balancing the three dimensions of sustainability, and their social mission that may encourage potential customers to buy in such enterprises. They indeed show that re-use eco-working integration social enterprises contribute to the three dimensions of sustainability but when re-use activities evolve from a niche to a dominant practice, the contribution of those organizations is not sufficient anymore since the demand for re-used goods has already overcome its supply. In this vein, it can be useful for such organizations to collaborate with conventional waste management companies.

In conclusion to this literature review and with due respect to the authors mentioned hereabove, we can say that there is a true gap in the literature as for understanding what role social economy cooperatives could play in the implementation of PSS in a true transition perspective.

### **3 Theoretical frameworks**

#### ***3.1 To examine our research question, we suggest to mobilize two theoretical frameworks***

Firstly, we will look at the multi-level perspective, a transition approach. Transition approaches help us understand some of the complexity of the changes required for a transition. More specifically, the Multi-Level Perspective (MLP) is an approach that theorizes the transition of our production regimes, in particular toward more sustainable configurations. It highlights the fact that this transition takes place within a so-called socio-technical system (Geels, 2011), where different technical and social elements are constantly interacting (Maréchal, 2012).

The advantage of this approach of transition lies in its ability to explain how innovations – whether environmental or not – emerge and how they can replace, transform, or reconfigure existing systems (Geels, 2011). MLP sees transitions as non-linear processes resulting from the interaction of developments at three analytical levels (Geels, 2011): niches – the locus of radical innovations – the socio-technical regime – the locus of established practices and associated rules stabilizing existing systems – and the socio-technical landscape – the context that influences niche and regime dynamics (Rip & Kemp, 1998 in Geels, 2011).

Examining PSS under this theoretical framework, we can argue that the firms of the regime have developed the linear economy, which has numerous environmental and social impacts. Linear economy is strongly associated with the globalization and hypercompetition (Delbecq & Fayol, 2018) that characterize our societies and constitute the key elements of our socio-technical landscape. This very same socio-technical landscape, when it evolves, is also the context for the emergence of niches, innovations that rethink problems at their roots, often in opposition to regime practices (Geels, 2011). PSS are potentially good examples of that. In response to a landscape altered by the rise of ecological considerations, companies try to address environmental impacts with radical innovations known as PSS.

Secondly, we use the framework of the five conditions for a strong sustainable potential of PSS developed by Roman et al. (2023). It includes (1) accessibility enhanced by products adapted to unowned uses, associated services contributing to a more sober and informed use of the product and convenient and simple logistics, (2) substitution, PSS must replace more resource-intensive supply systems (Kjaer et al., 2019; Matschewsky, 2019), (3) systemic dematerialization by increasing the immaterial content of the offer and minimizing rebound effects (Behrendt et al., 2017) linked in particular to logistics, (4) territorial anchoring that reinforces the relevance of the offer within a cooperative network (Roman et al., 2020; Ademe et al., 2017), and (5) contribution to sobriety by integrating this dimension right from the design stage (Sandberg, 2021; Niessen & Bocken, 2021).

### **4 Potential contribution of social economy cooperatives to PSS**

Based on the MLP presented hereabove, we can argue that social economy cooperatives should contribute to the development of PSS in a sustainable way. Indeed, while PSS still belong to niches, social economy cooperatives have been part of the socio-technical regime for long time and have both more experience and more clearly defined bylaws. Indeed, as mentioned by Schwabe (2020, p. 108), “citizen-projects such as cooperatives are important incubators for opening up and reinforcing more sustainable development paths” (Schwabe, 2020). Therefore, using more solid anchors like social economy cooperatives could enable PSS to deploy themselves.

We then examine whether PSS deployed by social economy cooperatives may better satisfy the different conditions developed by Roman et al. (2023) for a higher sustainability.

First, in our societies, some people have no access to some basic goods and suffer from material deprivation. By favoring the common use of assets, PSS could become an option for making those goods available to these people. Since social economy has often been considered legitimate to provide goods and services that fulfill customers' needs neither met by government nor by conventional firms, PSS offered by social economy cooperatives may be more inclined than PSS offered by conventional firms to satisfy the accessibility condition.

Second, regarding the condition of substitution, our opinion is less clear-cut since we are not convinced that a social economy cooperative deploying a PSS offer will necessarily develop better solutions that are more likely to substitute classical offers than PSS-based solutions developed by conventional firms.

Third, since socialization is often a major motivation of people participating in social economy cooperatives, such organizations have a high potential for offering immaterial content when deploying PSS. One of the authors of this chapter (Muylaert, 2023) conducted focus groups on six PSS offers (two in clothing, two in mobility, and two in tools). Only one of the offers stood out, attracting only positive perceptions (whereas for the other offers, there were always consumers who were not attracted). Its attractiveness stemmed from the fact that this PSS offer gave the impression of being a human project that brings together people with a common hobby or passion. This finding is clearly anecdotal, but it shows that in addition to its function of selling the use of objects, PSS should be above all places for socializing in order to attract and satisfy consumers. Since in cooperatives, consumers are also often members, they may be more involved in the development of the organization activities. Therefore, it can be easier to identify their true needs and the possibility to deploy a PSS offer that would satisfy them. As a result, by being provided by a cooperative structure, the social impact of PSS could be higher. Furthermore, reducing clients' adoption barriers through a better identification of their needs may favor the economic prosperity of PSS and their potential to have a bigger environmental impact.

Fourth, in terms of territorial anchoring, social economy cooperatives are often built on a group of people who perceive themselves as belonging to the same community. As PSS are often based on the idea of sharing resources between people living in the same geographical area, being articulated with organizations that are themselves often geographically well-rooted can clearly be an advantage, particularly in the cases where dilemmas and conflicts among PSS participants could arise. Indeed, when people belong to the same communities, they tend to share the same values and cultural characteristics, making understanding and compromises probably easier to reach than when remoted individuals must be connected.

Fifth, in terms of contribution to sobriety, social economy cooperatives may also have an important role to play. Indeed, literature shows that when the ownership of an asset is not properly defined, this asset may be overused or undermaintained by users of this asset. This phenomenon is usually referred to as the "tragedy of the commons" (Hardin, 1968). It can generate adverse impacts at the three levels of sustainable development. The way electric scooters are left abandoned in many major cities is a good example of that trend. Traditionally, two solutions existed in the literature: either privatizing the asset, so that the owner looks carefully after it, or putting it under the supervision of a centralized force, typically public authorities. However, Ostrom showed that a third way exists through communities managing properly assets they care for based on precise rules. Based on Ostrom's theory of institutions for collective action, the concept of commoning can probably be useful to understand how efficient PSS could be put in place by cooperatives. De Angelis (2017, p.30) claims that commoning is the creation of "use value for a plurality" that

becomes a community, “claiming and sustaining the ownership of the common good” by building “relational values”. As explained by Albareda and Sison (2020, p.731), “this promotes collective forms of common resource governance and ownership in the pursuit of the common good, including collective entrepreneurial experiments, cooperatives, community-based enterprises and peer production initiatives”. Therefore, in theory, cooperatives that are constituted of members who have different things in common could be better suited than conventional firms to maximize the use and maintenance of shared products. Furthermore, numerous social economy cooperatives are active in fields like repair cafés or second-hand shops where PSS are often advocated for.

After reviewing the five conditions suggested by Roman et al. (2023), it seems to us that for four elements out of five, there are good grounds to suggest that social economy cooperatives could play a positive role in developing PSS in a sustainable way.

## 5 Conclusion

Our mode of development linked to a linear economy is questioned every day more. In this context, PSS, a branch of the circular economy, appear as particularly relevant since they are claimed to contribute to environmental challenges while providing services to customers. However, the literature on PSS is far from unanimous about the real environmental impact of PSS. Furthermore, although today a real transition to sustainability should include environmental, economic, and social dimensions, the potential social impact of PSS is poorly documented.

Knowing that PSS are often used by traditional enterprises for which profitability often remains the company’s main objective at the expense of the other two dimensions, our study examines whether PSS supplied by social economy cooperatives could better contribute to a TBL sustainability when compared with what conventional for-profit firms do.

When studying the results of conventional firms, it is usual to discuss its effectiveness and its efficiency. Some authors (Robbins, DeCenzo, Coulter, & Né, 2017) also suggest looking at the “effisens”. For an organization, the effectiveness is the fact to reach its objective. Its efficiency is linked to its ability to reach its objective while minimizing the resources used. As for “effisens”, a rarer concept, it aims at identifying if the objective and the way an organization operates makes sense for its members and society.

In the context of this research, PSS organized by social economy cooperatives could be considered effective if the services they provide to customers generate a utility to them comparable to the ownership of the product used. Efficiency as always will be linked to the minimization of the resources used. In some cases, social economy cooperatives could be able to do it even though this is probably the least established argument. As for effisens, as shown in our analysis, it is clear that social economy cooperatives have a very promising profile in order to provide PSS in a TBL perspective. Will it be really the case? This remains to be seen.

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# PROJECT-BASED COOPERATIVES AS A MEANS FOR CIVIC ENGAGEMENT TO ACHIEVE SUSTAINABLE DEVELOPMENT GOALS

*Ludger Voigt and Dietrich von der Oelsnitz*

## 1 Introduction

Sustainable development, as one of the grand challenges (George et al., 2016), has become a common goal for societies in general and organizations in particular (Besio et al., 2022). A framework to achieve sustainability is provided by the sustainable development goals (SDGs) of the United Nations. Goal 12 of the SDGs addresses responsible production and consumption. Particularly, finding the right strategy to mitigate issues related to plastic waste has become imperative (Dey et al., 2021). In addition, in contrast to organic materials, plastics degrade at an exceptionally slow rate (Andrady, 2015). Even in Europe, which boasts one of the highest recycling rates worldwide, only 30% of plastics are recycled (Geyer et al., 2017). Consequently, the majority of negative ecological impacts across various levels of biological organizations that comprise the maritime ecosystem are attributed to plastic (Rochman et al., 2016). However, packaging represents the largest segment of the plastics market (Geyer et al., 2017), and one initiative to reduce packaging materials is the concept of zero-packaging grocery stores (Beitzen-Heineke et al., 2017; Rapp et al., 2017; Zeiss, 2018). While packaging for food is estimated to account for only 10% of the total energy inputs, but helps to ensure that the other 90% of energy inputs to the supply chain are not wasted (Verghese et al., 2015). Therefore, packaging protects food to keep it fresh and safe, including information about ingredients and fulfilling marketing aspects (Rundh, 2013; Zeiss, 2018). While Brennan et al. (2023) suggest that consumers are either working hard to reduce both packaging and food waste or they rely on food packaging benefits for mitigating food waste, Beitzen-Heineke et al. (2017) show that people in zero-packaging stores only buy the amounts they need and so reduce food waste. However, cooperatives are a practical opportunity to break down grand challenges into collective and local ones (Schröder & Walk, 2013) and provide a means for experimenting with alternative economic concepts, thereby contributing to the implementation of radical sustainable consumption (Besio et al., 2022).

To enhance a better understanding of achieving sustainability in practice, this chapter aims to explore how the founders of cooperative zero-packaging grocery stores facilitate the transformation

toward sustainable development. Our research focuses on the founders of cooperative zero-packaging grocery stores in Germany. To achieve this objective, our chapter is structured as follows. In the next section, we introduce the concept of packaging-free shopping and provide empirical evidence from the existing literature on cooperative zero-packaging grocery stores. Following that, we outline the qualitative research methods employed in our study. Subsequently, we present our empirical results. In the following section, we engage in a discussion on how the analyzed cooperatives can be viewed as project-based organizations as a means toward sustainability. Finally, we conclude the chapter with practical implications and closing remarks.

## **2 (Cooperative) zero-packaging grocery stores**

Zero-packaging grocery stores operate with a distribution system that exclusively offers packaging-free products to their customers (Louis et al., 2021). In contrast to conventional stores, they not only provide unpackaged fruits and vegetables but also offer items such as detergents, soaps, cosmetics, and beverages, as well as pasta, flour, rice, cereals, and legumes (Rapp et al., 2017). To facilitate this approach, customers either bring their own containers to the stores or purchase reusable ones available in the shops (Beitzen-Heineke et al., 2017; Louis et al., 2021). This means that customers buy containers, such as bottles and bags, only once and reuse them over time (Rapp et al., 2017). Additionally, customers fulfill their containers directly from the larger bulks and pay by volume or weight depending on whether the products are fluid or solid (Louis et al., 2021). Consequently, customers are more likely to buy only products that they need and therefore, they do not only reduce plastic waste but also food waste (Beitzen-Heineke et al., 2017). This alternative way of consumption offers the opportunity for a sustainable and healthy lifestyle (Beitzen-Heineke et al., 2017; Rapp et al., 2017; Zeiss, 2018). Further, these established practices for unpacked products strengthen the relationship between the stores and their customers (Louis et al., 2021).

However, this shopping practice can be more time-consuming for customers, as they need to plan ahead and bring various containers for their purchases. On the other hand, there is a positive environmental impact, as it reduces the use of disposable packaging, not only at the consumer and retail end but also throughout the supply chain because zero-packaging grocery stores also influence the practices of their suppliers (Beitzen-Heineke et al., 2017). Nevertheless, it has to be considered that transport and cleaning, etc. will also consume energy as well as resources (Bartl, 2014). Building on this introduction to the concept of package-free shopping, we now proceed to present empirical evidence concerning cooperative zero-packaging grocery stores as documented in the existing literature.

In their ethnographic study on a Swedish Food Store Co-op, Fuentes et al. (2019) aimed to understand how the practice of package-free shopping takes shape and becomes established. Through interviews, focus groups, and in-store observations, they highlight that package-free shopping involves both changing habits and overcoming the practical challenges of carrying your own containers when shopping. Therefore, reshaping the practice of shopping requires consumers to break established routines and establish new ones. They also demonstrate that package-free shopping is viewed as a practice that contributes to the reduction of unnecessary waste, making it a sustainable and simplified way of life. In summary, Fuentes et al. (2019) emphasize that the development and temporary stabilization of package-free shopping involve reframing the shopping practice, re-skilling consumers, re-materializing the store, and equipping consumers differently. However, they also point out that package-free shopping is not yet a widely normalized practice; it faces specific challenges and is sometimes overshadowed by other competing sustainable options.

Louis et al. (2021) conducted an online survey with a total sample of 1,407 consumers in an area designated for packaging-free sales within a university cooperative convenience store, which exclusively sold solid, unpacked bulk products. They investigated the effects of perceived identity, process identity, and perceived relational proximity of the grocery store and its bulk area on consumer satisfaction, trust, and loyalty toward both the store and its bulk area. Their results indicate that perceived identity, process identity, and perceived relational proximity have a positive influence on consumer perceptions. However, in terms of consumers' trust in the grocery store and its bulk area and their intentions for future behavior toward them, only perceived identity proximities have a positive and significant impact. The satisfaction with the grocery store and its bulk area significantly and positively influences trust and intentions for future behavior toward both. Therefore, their research empirically establishes that unpacked products serve as a strategic tool for retailers and stores to create or strengthen relationships with their customers. Unpacked products and the proximity they establish between consumers and stores serve as the initial link in developing and maintaining a relational chain between consumers and the store.

In their qualitative study, Voigt and von der Oelsnitz (2022) conducted interviews with founders of cooperative zero-packaging grocery stores in Germany to explore their motivations for establishing these stores as cooperatives. Their research highlights that these founders are deeply ingrained in society, driven by a commitment to a better society and sustainable development. Furthermore, they emphasize how the personal values of these founders, combined with cooperative values and principles, shape the operations of cooperative zero-packaging grocery stores, and guide their pursuit of goals. These goals encompass not only the provision of unpacked, fair, organic, regional, and seasonal products but also the offering of various educational programs in collaboration with local educational institutions. These programs aim to promote the concept of packaging-free shopping and support consumers in adopting healthy and sustainable lifestyles. Additionally, these stores view themselves as hubs that bring together different initiatives to advance sustainability in the regions where they operate. Therefore, these stores do not only tackle the SDG of responsible consumption but also good health and well-being, quality education, as well as sustainable cities and communities.

In summary, these studies explored various aspects of package-free shopping practices. They shed light on the challenges associated with shifting consumer habits and underscored the environmental benefits of package-free shopping. Additionally, they demonstrated the significant relationship between cooperative zero-packaging grocery stores and their customers. Furthermore, these studies unveiled a strong commitment to sustainability and the pivotal role played by these stores in promoting responsible consumption, education, and sustainable communities. The next step is to consider how these practices can be scaled up to have a more widespread impact.

### **3 Methodology**

#### ***3.1 Context setting***

Our empirical study focuses on Germany. Following the amendment of national cooperative laws in 2006, there was a surge in cooperative foundation formations. Subsequently, there has been an average of 200 cooperative foundations established each year, with the exception of 2020 due to the COVID-19 pandemic (Stappel, 2022). A substantial portion of these foundations, particularly renewable energy cooperatives, actively contribute to sustainable development (Herbes et al., 2021). According to the National Association of Zero-Packaging Grocery Stores (Verband der Unverpackt-Läden), Germany currently boasts over 260 such stores in operation, with more than

100 in the planning stage. The first zero-packaging grocery store in Germany opened its doors in February 2014 (Goldkorn et al., 2017), while the first cooperative store of this kind was founded in 2018 (Voigt & von der Oelsnitz, 2022).

### **3.2 Data collection and analysis**

At the beginning of our explorative qualitative study, we conducted an inventory of legally registered zero-packaging grocery stores in Germany. We identified a total of 17 such stores. Subsequently, after contacting all these stores via email, our sample comprised 12 cases, representing a 70% positive response rate. All respondents were founders, and except for one individual, they were also board members or executive managers. Interviews were conducted by the first author of this chapter using video-calling software or via telephone calls in July and August 2021. In three cases, two founders from the same cooperative participated in the interview, and in one case, four founders were part of the interview. The interviews ranged in duration from 45 minutes to 2 hours. Overall, our final sample consisted of 12 semi-structured interviews with 18 founders of zero-packaging grocery stores in Germany. Table 36.1 provides an overview of the final sample.

To triangulate the interview data, we studied the cooperatives' bylaws and the official websites of the cooperative stores. The interviews were transcribed verbatim and then coded according to a structured content analysis using MAXQDA software (Kuckartz & Rädicker, 2023). Several steps were undertaken in the analysis of the data. First, we conducted an overview of the founding process to identify linkages between previous civic engagement and networks. Second, we examined each cooperative's and individuals' interpretations of cooperative values and principles and how they are applied in the context of zero-packaging grocery stores, along with their alignment with the cooperatives' goals. Third, we explored the future development of these stores and their role in the transformation toward sustainability.

*Table 36.1* Sample of interviewees

	<i>Interviewee</i>	<i>Founding year</i>	<i>Number of members</i>
Cooperative 1	I1	2019	150–200
Cooperative 2	I2a	2020	150–200
	I2b		
Cooperative 3	I3a	2021	200–250
	I3b		
Cooperative 4	I4	2021	150–200
Cooperative 5	I5	2021	150–200
Cooperative 6	I6	2019	750–800
Cooperative 7	I7	2018	250–300
Cooperative 8	I8a	2019	150–200
	I8b		
Cooperative 9	I9	2020	100–150
Cooperative 10	I10	2019	400–450
Cooperative 11	I11a	2020	150–200
	I11b		
	I11c		
	I11d		
Cooperative 12	I12	2020	550–600

## 4 Results

### 4.1 Civic engagement and network

All the interviewed founders are actively involved in civic and societal activities within their region or have been engaged in the past. Some have had to reduce their involvement due to time constraints caused by managing the store. These engagements encompass a wide range of areas, including politics, children and youth work, refugee aid, sports and education programs, voluntary fire brigade, and church-related activities.

I have a longstanding involvement in children's and youth work, including working with scouts in the Catholic community. I am engaged with the Catholic Church as a parish council member, and I am also active in local politics, serving on the municipal council and district council, and I am actively involved in a political party.

(110)

Primarily, the engagement centers around the realm of sustainability and climate concerns. The interviewees have not only made donations to non-governmental organizations (NGOs) active in this field but also fostered connections with various local initiatives. This networking is aimed at pressuring politicians for increased climate protection and sustainability measures and at collaborating on joint projects. Moreover, they have taken steps to educate children, especially, about sustainable lifestyles and the actions that contribute to their success. Their involvement also extends to practical aspects like plastic waste collection.

I was involved in the urban gardening project, in the open climate alliance, and in the climate camp.

(17)

Moreover, the interviewees not only engaged with existing structures and initiatives but also embarked on their own projects when they identified unaddressed needs. A prime example of this proactive approach is the establishment of a forest kindergarten. Rooted in their civic engagement experiences and their history of initiating projects, they conceived and brought to life the idea of a cooperative zero-packaging grocery store. Encountering the complex process of forming a cooperative due to legal requisites, they received support from individuals and organizations within their network. Many of these supporters became members of the cooperative themselves, including mayors, parish members, and individuals from sustainability initiatives. Notably, some of these network members possess professional backgrounds as lawyers or have expertise in public relations, further enriching the cooperative's foundation journey.

### 4.2 Aims of cooperative zero-packaging grocery stores

As was the case during the founding process, the store continues to be perceived as a collaborative project. On one hand, members work together following Raiffeisen's motto "what one cannot do, many can", aiming to collectively enable the option of unpackaged shopping. On the other hand, this endeavor actively encourages the deep involvement of various stakeholders. For example, customers have the opportunity to make suggestions for the expansion of the product range. Due to the challenge of sourcing suitable suppliers who align with the desired packaging and transport

approach, a thorough dialogue is maintained with them. This aims to demonstrate the feasibility of alternative packaging and transportation methods while also exploring the suppliers' capabilities, taking economic factors into consideration.

It is always about the attitude toward different stakeholders including suppliers, the environment, the team, customers, and members.

(14)

The selection of suppliers is based on criteria that can also be regarded as principles of cooperative zero-packaging grocery stores. While the main goal is to avoid plastic, products in these stores should also be fair and regionally produced, unpacked, organic, and seasonal. These principles extend along the entire supply chain and take into account various stakeholders. For instance, concerning the principle of fairness, a product should not only be produced or cultivated under fair working conditions but also be bought from suppliers at a fair price and sold to customers at a fair price.

We have come up with five criteria as a principle. That means fair, regional, unpackaged, organic, and seasonal. These five criteria, according to which we also select our products and suppliers.

(I2b)

These principles and the associated idea of sustainable consumption and lifestyle not only play a decisive role in the selection of suppliers and products but also communicate to the outside world through additional educational offerings. These include, on the one hand, informational events with a focus on children and young people, and on the other hand, workshops where participants can, among other things, make their own soap from packaging-free ingredients. In this way, consumers are further educated to become prosumers. The aim is to develop the store into a hub for networking with sustainable initiatives and as a community gathering place in the region. Consequently, many of these stores also incorporate a café within their premises.

We are also planning to broaden our offerings by organizing small events in the shop during evenings. We could invite individuals engaged in sustainability-related activities to give talks, host short seminars, or conduct cooking classes right here. Additionally, we have considered the idea of inviting school classes to our shop, engaging with children in discussions about the subject to drive progress. Our objective isn't just to run a shop that manages to sustain itself; we aspire to advance this cause within our community, making it more visible and impactful.

(I11c)

### ***4.3 Future of cooperative zero-packaging grocery stores***

In the future, the founders envision two potential developments for their stores. The first involves expanding upon the existing business idea. While some prefer moving to larger premises, others are inclined to establish multiple smaller shops. Interestingly, none of the founders intend to extend their stores beyond the region. Regarding growth, the interviewees also emphasize the expansion of their operational structures. This encompasses the development of a supplier network and the necessity to reduce reliance on voluntary work. The second prospective development is a

socio-ecological transformation, where unpackaged shopping becomes the norm and the concept is adopted by other retail establishments, potentially rendering the original cooperative zero-packaging grocery stores.

For me, there are two scenarios. Either the free-packaging shop disappears because the big supermarkets adopt the idea of climate protection and everything in the sector changes, making free-packaging shopping possible in regular supermarkets. Alternatively, packaging is developed that is less problematic than plastic. Or, the shop will need to become even more professional.

(I12)

Most of the interviewees emphasize that the second future development is the most desirable scenario for them. They believe that their stores can play a role in driving a transformation toward sustainable consumption. However, they also recognize that achieving this goal requires a larger movement. As a result, some of them voluntarily support the establishment of other zero-packaging grocery stores.

I believe that our store will no longer exist in ten years because by then a radical change will have taken place in society, and the idea of free-packaging shopping will have become prevalent in all supermarkets. That is my vision for the next ten years.

(I11a)

## 5 Discussion

### 5.1 Cooperative zero-packaging grocery stores as project-based organizations

The results of our study indicate that the founders of cooperative zero-packaging grocery stores aim to transform the retail sector into a sustainable and plastic-free one, demonstrating the viability of this approach through the cooperative model. According to the definition that project-based organizations are formed to achieve specific project outcomes (DeFillippi & Arthur, 1998), these analyzed cooperatives align with this definition by pursuing the transformation of retail establishments into platforms for sustainable consumption. In contrast to some other project-based enterprises, the human resources within these analyzed cooperatives are neither temporary nor highly variable (DeFillippi & Arthur, 1998). Furthermore, a stable group of individuals has not only existed since the cooperative's foundation but has also evolved over the years through their previous civic engagement. Consistent with the literature, cooperatives prioritize employment security as one of their primary goals, aligning with cooperative values and principles, as well as the influential role of membership (Tortia, 2022). This is further underscored by the fact that all founders, except one, still hold positions as board members or managers within the cooperatives. Moreover, these networks were not solely established for the purpose of exploring the idea of founding a cooperative zero-packaging grocery store but have continued to expand until individuals with the necessary information and skills became part of the network to found such a store. This aspect aligns with the principles of project-based organizations. Ferriani et al. (2009) suggest that project initiators are connected to a broad network of collaborations, a result of past collaborations, and the medium through which future collaborations develop. This network serves as a repository of information. Additionally, the interviewed founders have a history of initiating their own projects and engaging in civic initiatives, such as founding a kindergarten. This partially aligns with

the characteristics of leaders in project-based enterprises who consistently launch and organize projects (Ferriani et al., 2009).

Following the argument put forth by Fichter and Clausen (2016), the primary challenge toward sustainability is not a lack of innovation but rather the diffusion of these innovations throughout the economy and society. Cooperative zero-packaging grocery stores, as project-based organizations with the aim of sustainable transformation, have the potential to contribute to diffusion in two significant ways. First, to serve as real-time examples, demonstrating that alternative consumption practices are not only viable but also practical. Second, to raise awareness through networks, promoting sustainable personal behavior and reaching various sectors of society. However, free-packaging shopping is often associated with extra effort and the need for changed routines, which can serve as additional barriers to transformation (Beitzen-Heineke et al., 2017). To address these challenges, the provision of additional educational offerings and workshops by the stores can play a crucial role. These initiatives encourage self-reflection on environmental issues and can contribute significantly to overcoming these barriers, ultimately having a positive impact on the transformation process (Marken & Hörisch, 2019).

However, while initiatives aimed at reducing or eliminating packaging are relatively young and often small in scale (Zeiss, 2018), as exemplified by the cooperative zero-packaging grocery stores analyzed here, the potential they hold for broader societal impact requires expansion beyond their existing networks and communities (Besio et al., 2022). Therefore, open membership as a core principle of cooperatives (Cabaleiro-Casal et al., 2019) along with their participatory organizational structures, has the potential to engage a diverse range of stakeholders in these unconventional organizations, such as cooperative zero-packaging grocery stores. This inclusivity can lead to the consideration of a multitude of concerns and allow various stakeholders to shape and influence the activities of these stores (Besio et al., 2022).

While the understanding of project-based cooperatives presented here is comprehensive, it is worth noting that project-based organizations are not entirely new within the cooperative sector. This concept has been particularly prevalent among cooperative groups in Italy. A cooperative group is a business consortium, led by a cooperative that either wholly or partially owns a collection of legally independent subsidiaries, including project-based companies. These project-based entities have been observed in various industries, such as construction, where cooperatives have collaborated with larger private enterprises to compete for significant public projects that would be unattainable individually, for example, undertaking the construction of a large public hospital. However, it is important to note that many of these project-based companies are not converted into cooperatives and are typically dissolved shortly after completing the project (Ammirato, 2018).

## ***5.2 Cooperation between civic society and business***

This chapter is also connected to the broader literature on cooperation between civic society and business. When individuals or groups within civic society work together to advance a common set of interests such as sustainable development, societal initiatives emerge. These groups often form organized relationships known as NGOs (Doh, 2008). While collaborations between firms and NGOs offer the possibility of bridging the gap between business practices and issues of sustainability, such partnerships are challenging (Burchell & Cook, 2013). Therefore, Rodríguez et al. (2016) emphasize that both firms and NGOs need to overcome their differences through a process of alignment to enable such collaborations. This process includes aligning an NGO's mission with the profit-oriented behavior of firms and adjusting firms' organizational structures to accommodate an NGO's activities. In line with this, Johnson (2016) underscores that shared values are the

foundation for cooperation between NGOs and firms. Various examples highlight the benefits of such partnerships. For instance, Harangozó and Zilahy (2015) demonstrate that the cooperation between medium-sized enterprises and environmental NGOs in Hungary, founded on value-based management, could not only promote sustainable development but also offer financially quantifiable benefits to participating enterprises. This illustrates that cooperating with civic society to promote sustainable development extends beyond just cooperatives.

### **5.3 Limitations and future research**

This chapter is not without limitations. Our data collection was limited to Germany, which has a specific legal framework for cooperatives. Additionally, the sample size consisted of only 18 founders, and while they provide valuable insights, this affects the generalizability of the study. Future research in different geographical contexts, where consumer behavior regarding environmental products and civic engagement structures may differ, will be necessary to validate our proposed understanding of cooperative zero-packaging stores as project-based organizations aimed at sustainable transformation. Moreover, extending the study to include non-cooperative zero-packaging stores could allow to explore whether our proposed understanding as project-based organizations can be applied to other forms of enterprises in this sector. During the data collection phase, which occurred during the COVID-19 pandemic, our interviews were exclusively conducted online through video calls or telephone calls. While this method was necessary for safety reasons, it might have resulted in less engagement from interviewees compared with face-to-face communication. Additionally, to minimize personal biases, we triangulated our interview data with cooperatives' bylaws and official websites. Finally, since the cooperatives are still in their early stages, it is not yet possible to assess their actual potential for transformation toward sustainable development.

### **5.4 Practical implications**

Our study indicates that aspiring entrepreneurs aiming to start a business toward sustainable development can greatly benefit from establishing a network with various sustainability initiatives before the founding process. Such networking helps in gathering information and connecting with individuals possessing diverse knowledge and skills. These resources prove invaluable not only during the foundation phase but also in the ongoing operation of the business. They also play a crucial role in spreading the sustainable concept to society and reaching different customer segments. The specific organizational structure of a cooperative goes beyond mere networking with various stakeholders. It involves a more robust collaboration by integrating them at the highest level as members. This membership allows them to participate in the decision-making process and fosters a greater sense of belonging to the organization.

## **6 Conclusion**

Unconventional organizations, like the cooperative zero-packaging grocery stores analyzed in this chapter, possess transformative potential (Besio et al., 2022). While cooperatives, in general, tend to have longer survival times (Burdín, 2014), our chapter offers a unique perspective. Cooperatives founded with the intention of driving widespread transformation can be viewed as project-based organizations. These entities rely on networks established through the civic engagement of their founders, with the primary aim of implementing their practices within conventional organizations.

As cooperatives provide a practical means to address grand challenges at the collective and local levels (Schröder & Walk, 2013), collaboration and the integration of various stakeholders play a crucial role. Once this goal is achieved, there may no longer be a reason for their continued existence, as the project's purpose—the successful implementation of sustainable practices within other organizations and society at large—has been fulfilled.

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