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The cooperative as a driver for sustainable development

VILLE PÖNKÄ

1. Introduction

Cooperative law has been rather systematically ignored by corporate law scholars – and legal scholars in general.¹ This is unfortunate, since cooperatives operate in similar business sectors to corporations and, like the corporate form, the cooperative form offers entrepreneurs a versatile business structure. Cooperatives range from local producer cooperatives consisting of only a few members to large multinational and multi-purpose cooperatives with millions of members and turnovers counted in billions.² Furthermore, in several countries cooperative law and corporate law share many similarities, and there are even jurisdictions where no cooperative-specific legislation exists; i.e., cooperative regulation is covered by another body of law, usually corporate law. Hence, cooperative law is easily accessible to corporate law scholars, and it offers an interesting platform for comparative studies.

The modern corporation is often praised – at least in terms of efficiency – as the ultimate form of association. The purpose of this Chapter is to challenge this claim by demonstrating the possibilities of the cooperative business model as a driver for change. In other words the aim is to examine (1) how cooperatives differ from corporations, especially in terms of sustainability and the role of cooperative law in this context, (2) to what extent cooperatives, in theory and practice, facilitate sustainability, and (3) how cooperative law should be developed to ensure that person-oriented cooperative societies do not transform into capital-centered cooperative corporations.

This study suggests that although cooperatives and corporations share many normative and functional similarities their core structural characteristics are essentially different. Such factors as mutual purpose, open

¹ See similarly G. Fajardo, A. Fici, H. Henry, D. Hiez, D. Meira, H.-H. Münkner and I. Snaith, *Principles of European Cooperative Law. Principles, Commentaries and National Reports* (Cambridge: Intersentia, 2017), p. 14, A. Fici, “An Introduction to Cooperative Law”, in D. Carcogna, A. Fici and H. Henry (eds.), *International Handbook of Cooperative Law* (Berlin: Springer, 2013), pp. 3–62 at 15 and H.-H. Münkner, “Worldwide Regulation of Co-operative Societies – An Overview” (2013) Euricse Working Paper n. 53 | 13, p. 24.

² See, e.g., Study on the Impact of Cooperative Societies on the Competitiveness of Their Craft and Small Enterprise Members. Final Report to European Commission D.G. Enterprise and Industry by London Economics. Ref. Ares(2014)76496 - 15/01/2014, pp. 205–6 and C. Carini and M. Carpita, “Are Co-operatives Small? Evidence from the World Co-operative Monitor”, in J. Michie, J.R. Blasi and C. Borzaga (eds.), *The Oxford Handbook of Mutual, Co-operative, and Co-Owned Business* (New York: Oxford University Press, 2017), pp. 261–75. See also the International Co-operative Alliance’s Global300 Report 2010.

membership, democratic member control, and strict restrictions on asset distribution distinguish cooperatives from corporations and constitute the essence of the cooperative identity. Furthermore, concern for community is one of the cornerstones of the international cooperative movement and it is stated even in the International Co-operative Alliance's (ICA) principles that "[c]o-operatives work for the sustainable development of their communities through policies approved by their members". Hence cooperatives are organizations that aim to promote not only the interests of their members but also the needs of the society as a whole.

The research questions are approached utilizing a functional comparative method. First the international regulatory framework of cooperatives and the main principles of the cooperative movement are introduced briefly (sections 2 and 3). Next, the focus shifts to the elements that distinguish cooperatives from corporations (section 4). Here the emphasis is on normative factors that make the cooperative an alternative for the corporation as a platform for sustainable business operations (section 4.1). The main purpose is to elaborate how, in practice, cooperatives carry concern for the community, why they promote sustainable development better than corporations and to question whether they do it enough (section 4.2). The last part of the Chapter summarizes the main research findings by discussing the future of cooperative law (section 5). This concluding analysis aims to show that due to globalization the cooperative movement is facing several challenges that it must tackle so that cooperative societies do not transform into cooperative corporations – or become extinct.

2. The International Sources of Cooperative Law – A Brief Overview

Comparative studies indicate that national cooperative laws are relatively heterogeneous.³ For example, in Europe alone there are at least six formally different models of cooperative legislation ranging from the “no cooperative law at all” model (e.g., Ireland) to the “wholly independent cooperatives act” model (e.g., Austria, Finland, Germany, Portugal, Sweden and the United Kingdom). In some countries there are also separate laws for different types of cooperatives (e.g., France and Italy) and in several jurisdictions cooperative-specific regulation is spread to different bodies of law, e.g., corporations acts and civil codes. Furthermore, there are countries, such as the United States, where cooperative law is a matter of regional/state competence, hence no general/federal cooperative legislation exists.⁴

³ See, e.g., C.Q. Cocolina et al., “The power of cooperation – Cooperatives Europe key figures 2015”, Report, Cooperatives Europe (2016), Fajardo et al., *Principles of European Cooperative Law*, pp. 137–717 and Fici, “An Introduction to Cooperative Law”, pp. 10–5.

⁴ A. Fici, “Cooperative Identity and the Law” (2013) 24 *European Business Law Review*, 1, pp. 37–64 at 41.

A novel trend in cooperative law is the introduction of so-called social (or non-benefit or general interest) cooperatives. This movement stems from Italy, which is often praised as the first country to pass a law on social cooperatives in 1991.⁵ Since then a similar model has been adapted in countries around the world including EU member states like France (the collective interest cooperative), Greece (the social cooperative), Portugal (the social solidarity cooperative) and Spain (the social initiative cooperative).⁶ Although social values are an essential part of the cooperative movement – as the saying goes, “cooperatives are about need, not greed” – cooperatives should not be confused with non-profits: Ultimately cooperatives are member-centered service organizations with a “mutual purpose”.⁷ This purpose distinguishes them from social enterprises, such as social cooperatives, although in many jurisdictions the purpose of the traditional cooperative can be non-profit and in some jurisdictions, such as the UK, cooperatives and social enterprises are even regulated in the same Act.⁸

On an international level, the cornerstones of cooperative law are the 1995 International Co-operative Alliance’s Statement on the Co-operative Identity (ICA Statement), the 2001 United Nations Guidelines on creating a supportive environment for the development of cooperatives (UN Guidelines)⁹ and the International Labor Organization’s (ILO) Recommendation No. 193, published in 2002, concerning the promotion of cooperatives (ILO R. 193). These sources of soft law all aim to promote a globally shared conception of the values and principles of cooperatives, which were first introduced in the ICA Statement and thereafter officially recognized in the UN Guidelines and ILO R. 193.¹⁰ ILO R. 193, whose main purpose is to maintain cooperatives as distinct legal entities, is sometimes considered the main source of public international cooperative law.¹¹ In practice, however, both the UN Guidelines and ILO R. 193 are merely expressions of best practices in drafting cooperative law while the ICA Statement is a set of general principles aimed at the cooperative movement.¹²

⁵ A. Fici, “Recognition and Legal Forms of Social Enterprise in Europe: A Critical Analysis from a Comparative Law Perspective” (2016) 27 *European Business Law Review*, 5, pp. 639–67. See also Chapter 21 of this Handbook.

⁶ C. Gould, “The Co-operative Business Model: The Shape of Things to Come”, in J. Michie, J.R. Blasi and C. Borzaga (eds.), *The Oxford Handbook of Mutual, Co-operative, and Co-Owned Business* (New York: Oxford University Press, 2017), pp. 598–609 at 606.

⁷ A. Fici, “The Essential Role of Co-operative Law and Some Related Issues”, in J. Michie, J.R. Blasi and C. Borzaga (eds.), *The Oxford Handbook of Mutual, Co-operative, and Co-Owned Business* (New York: Oxford University Press, 2017), pp. 539–49 at 540 and 547–8.

⁸ Social cooperatives are not introduced here further as the topic has been discussed earlier in Chapter 47 of this Handbook.

⁹ Supportive Environment for Cooperatives. A Stakeholder Dialogue on Definitions, Prerequisites and Process of Creation. Report of an Expert Group Meeting held in Ulaanbaatar, Mongolia, 15–17 May 2002 (Division for Social Policy and Development Department of Economic and Social Affairs, UN, New York 2003) Annex I.

¹⁰ C. Borzaga and G. Galera, “Promoting the Understanding of Cooperatives for a Better World. Euricse’s Contribution to the International Year of Cooperatives”, Conference Report, EURICSE, University of Trento (2012), p. 14 and Münkner, “Worldwide Regulation of Co-operative Societies”, p. 20.

¹¹ See, e.g., H. Henry, “Public International Cooperative Law”, in D. Carcogna, A. Fici and H. Henry (eds.), *International Handbook of Cooperative Law* (Berlin: Springer, 2013), pp. 65–88 at 67 and 71.

¹² Münkner, “Worldwide Regulation of Co-operative Societies”, p. 20.

The European Cooperative Society (SCE), on the other hand, is an association form provided by Council Regulation (EC) 1435/2003 on the Statute for a European Cooperative Society [2003] L 207/1 (SCE Regulation).¹³ The main purpose of the SCE is to facilitate cooperatives' cross-border and transnational activities and it has been described as the cooperative equivalent to the European Company (SE).¹⁴ This is an apt comparison, and although the SCE Regulation has had only limited success,¹⁵ some authors nevertheless believe that it has significant "symbolic value".¹⁶ Furthermore, there are several other regional attempts to harmonize cooperative law such as the Organization for the Harmonization of Business Law in Africa's Co-operative Regulation of 2010 and the Mercosur's Common Co-operative Statute of 2009.

3. Cooperative Principles and Principles of Cooperative Law

The famous analysis by John Armour, Henry Hansmann, Reiner Kraakman and Mariana Pargendler introduces five core structural characteristics of the modern business corporation, including (1) legal personality, (2) limited liability, (3) transferable shares, (4) centralized management under a board structure, and (5) shared ownership by contributors of equity capital. The authors argue that in virtually all economically important jurisdictions, there is a basic statute that recognizes these characteristics, i.e., they are universal attributes of the corporate form.¹⁷

Similar systematizations do not exist for cooperatives. However, there seems to be a general consensus regarding the elements that constitute a cooperative society. These elements are expressed in the ICA Statement as seven Co-operative Principles (Cooperative Principles), including (1) voluntary and open membership, (2) democratic member control, (3) member economic participation, (4) autonomy and independence, (5) education, training and information, (6) co-operation among cooperatives and (7) concern for community.¹⁸

Although these principles are often perceived merely as recommendations or general guidelines, comparative studies indicate that they have influenced national lawmakers. In many jurisdictions the ICA Statement has been followed quite precisely. In some countries (such as Indonesia, the Philippines, Singapore, Uruguay

¹³ Council Directive 2003/72/EC supplementing the Statute for a European Cooperative Society with regard to the involvement of employees [2003] L 207/25 supplements this statute with rules on the involvement of employees.

¹⁴ A. Fici, "The European Cooperative Society Regulation", in D. Carcogna, A. Fici and H. Henry (eds.), *International Handbook of Cooperative Law* (Berlin: Springer, 2013), pp. 115–51 at 116.

¹⁵ The reasons for the limited success of the SCE Regulation have been explained briefly in the Commission Report (COM) 2012 72 final on the implementation of the SCE Regulation.

¹⁶ Fici, "Cooperative Identity and the Law", pp. 38–9 and "The European Cooperative Society Regulation", p. 122.

¹⁷ J. Armour, H. Hansmann, R. Kraakman and M. Pargendler, "What is Corporate Law?" in R. Kraakman et al. (eds.), *The Anatomy of Corporate Law. A Comparative and Functional Approach* (3rd edn. Oxford: Oxford University Press, 2017), pp. 1–28 at 5–15.

¹⁸ For a comprehensive overview regarding the Cooperative Principles see H.-H. Münkner, *Co-operative Principles and Co-operative Law* (2nd revised edn. Wien: Lit Verlag, 2015).

and Venezuela) the ICA Statement has even been included, as such, in the national cooperative law. In most jurisdictions it has been adhered to in drafting cooperative law, but without mentioning the Cooperative Principles explicitly.¹⁹ There are also countries (such as Luxembourg and the Netherlands) where the national lawmaker has categorically ignored the ICA Statement.²⁰ Such lack of knowledge is something that the international cooperative movement should react to since ignorance of the Cooperative Principles weakens cooperative identity and facilitates the so-called corporatization of cooperative law.²¹

For legal scholars the Cooperative Principles appear somewhat vague and proclamatory in nature. Indeed, only the first four principles offer national lawmakers concrete guidelines on how to draft cooperative law. The last three focus exclusively on the cooperative movement, i.e., they deal with questions of how people (both cooperative insiders and outsiders) can be made more aware of the nature and benefits of the cooperative business model (the fifth principle) and how cooperatives should operate to best serve the interests of their members and the community as a whole (the sixth and seventh principles). In jurisprudence, Fici has particularly emphasized the need to detail and renovate the ICA Statement²² and fortunately the ICA has taken action on this matter. In 2015 it published a study called “Guidance Notes to the Co-operative Principles” (Guidance Notes 2015), which seeks to explore and encapsulate how cooperatives should apply the Cooperative Principles in the modern business environment.²³ Also, the “Study Group on European Cooperative Law” (SGECOL) was established in 2011 in Trento, Italy to build a bridge between the abstract ICA Statement and cooperative law. In fall 2017 the SGECOL published a set of model principles called the “Principles of European Cooperative Law” (PECOL 2017).

As implied above, the Cooperative Principles are *general principles*, not *legal principles*. This means that national lawmakers have to translate them into concrete legal rules, such as the rule of one member, one vote and the open door principle.²⁴ Since the ICA Statement leaves room for interpretation there are several different “translations” of the Cooperative Principles. Normative irregularities are, however, not problematic as such. What is troubling, though, is that these differences are not limited to trivial matters, but also concern fundamental questions. For example, some laws, such as the Finnish Cooperatives Act of 2013, allow it to be stipulated in the cooperative’s bylaws that the *sole* purpose of the cooperative is to generate profits for the

¹⁹ H.-H. Münkner, *Ten Lectures on Cooperative Law* (2nd revised edn. Wien: Lit Verlag, 2016), p. 35. In Sweden, e.g., the ICA Statement has been cited in the draft legislation of the 2017 amendment to the Act on Economic Associations of 1987 (i.e., Swedish Cooperatives Act). See Statens offentliga utredningar 2010:90. En ny lag om ekonomiska föreningar 324–6.

²⁰ Fici, “Cooperative Identity and the Law”, p. 53.

²¹ V. Pönkä, “Are Cooperative Societies Transforming into Cooperative Companies? Reflections on the Finnish Cooperatives Act”, Available at SSRN: <https://ssrn.com/abstract=3072280>. Forthcoming in (2019) 30 *European Business Law Review*, 1.

²² Fici, “Cooperative Identity and the Law”, pp. 63–4.

²³ See <https://ica.coop/en/blueprint-themes/identity/guidancenotes> [Accessed March 2018].

²⁴ H. Henry, “Co-operative Principles and Co-operative Law Across the Globe”, in J. Michie, J.R. Blasi and C. Borzaga (eds.), *The Oxford Handbook of Mutual, Co-operative, and Co-Owned Business* (New York: Oxford University Press, 2017), pp. 39–52 at 48.

shareholders.²⁵ This means that a cooperative can operate like a de facto corporation while enjoying goodwill associated with the cooperative business model and gaining regulatory benefits only available to cooperatives.

This example is a stepping-stone to the final observation regarding the ICA Statement: Its vagueness and openness to interpretation seems to facilitate the so-called corporatization of cooperative law, i.e., a phenomenon where national cooperative laws are starting to resemble corporate laws. Corporatization eventually leads to deterioration of the cooperative identity, the heart and soul of cooperatives, which the ICA Statement explicitly aims to preserve. To prevent corporatization cooperative law scholars and research institutions should through international collaboration create similar abstractions for cooperatives as Armour et al. have elaborated for corporations. This theoretical framework should be designed to promote the mutual purpose of the cooperative form, which encompasses the main essence of the cooperative identity: Cooperatives are business organizations that aim to promote the aggregate welfare of their members as consumers, suppliers and/or workers.

4. Cooperative as a Platform for Sustainable Business Operations

4.1 General Observations

Enterprises are traditionally categorized into non-profit organizations and for-profit businesses. As mentioned above in section 2, cooperatives are not to be confused with non-profits, nor do they seek profits in the same sense as corporations. Some authors perceive cooperatives as hybrids combining elements of corporations, partnerships as well as social enterprises.²⁶ However, while they share some structural characteristics with other business entities, cooperatives should be ultimately understood as mutual enterprises. The mutual purpose refers to the internal goal of the cooperative, which is to promote the multifaceted interests of its members, not the interests of, e.g., investors. In cooperative law theory members of the cooperative are said to possess a “double quality” or “dual role” since they are simultaneously members and users of the enterprise.²⁷ In fact, the legal nature of membership is one of the core structural characteristics of the cooperative form and an element that distinguishes them from other private organizations.

²⁵ V. Pönkä, “Osuuskunnan jäsenen erottamisesta” [Expulsion of a Member of a Cooperative] (2016) 5 Lakimies, pp. 667–90 at 672.

²⁶ See, e.g., H.-H. Münkner, “Germany” in G. Fajardo et al. (eds.), *Principles of European Cooperative Law. Principles, Commentaries and National Reports* (Cambridge: Intersentia, 2017), pp. 253–345 at 278.

²⁷ See, e.g., Fici, “An Introduction to Cooperative Law”, p. 26 and “The Essential Role of Co-operative Law”, pp. 542–3, who calls the first dimension of the cooperative membership an “organizational relationship” and the second dimension a “transactional relationship”. Fici also argues that these two relationships are connected, and sometimes they are hardly distinguishable from one another, but ultimately the organizational relationship and the transactional relationship never entirely overlap.

In corporate law theory the debate around the so-called shareholder/stakeholder dilemma seems to be never-ending – and in some instances somewhat deadlocked. On the other hand, amongst cooperative law scholars there is hardly any disagreement regarding the purpose of the firm, i.e., whose interests should the cooperative promote. The main reason for this difference is that, since the introduction of the Rochdale Principles in 1844, the cooperative movement has been established on essentially different values than the corporate form. Studies on the history of corporations, and, in particular, on the privilege of limited liability, show that the corporate form was initially created to serve high-risk business ventures necessitating huge amounts of capital.²⁸ The corporation is ultimately a risk management instrument while the cooperative is by design inclined towards greater sustainability than other business organizations, and especially corporations. They place people, not capital, at the center.²⁹ This does not mean that cooperatives do not seek to promote (economic) efficiency. It only means that they understand efficiency in a different manner than corporations and that efficiency cannot – or at least it should not – supersede the social values related to the cooperative business model.

In practice, the double quality of a member refers to the member engaging in the activities of the cooperative for the purpose of her/his livelihood. Since the cooperative member is not an anonymous *investor-owner*, but a *member-owner*, she/he makes decisions not solely on economic benefit, but also taking into account the impact on the community.³⁰ As a consumer, supplier and/or a worker of the enterprise, the member has, in general, a better understanding of the consequences of the decisions and undertakings of the firm than the shareholder of a corporation has. This means that in decision-making situations cooperative members do not tend to think like profit seeking investors but rather like ordinary people, whose personal welfare is at stake. Both corporate shareholders and cooperative members are, of course, driven by self-interest, but in cooperatives self-interest is expressed – as Johnston Birchall puts it – “collectively”. In other words, without the strength in numbers the cooperative cannot satisfy the needs of individual people. Furthermore, the cooperative business model invokes the sense of “collective interest” in some members and makes it easier to identify those who want to become more involved with its activities.³¹³² Therefore, one can argue that cooperative members are more accountable for the undertakings of the firm than corporate shareholders

²⁸ See, e.g., Robert W. Hillman, “Limited Liability in Historical Perspective” (1997) 54 *Washington and Lee Law Review*, 10, pp. 615–27.

²⁹ Gould, “The Co-operative Business Model”, p. 601. Then again, it is important to note that cooperatives place their *members*, not other stakeholders such as employees, in the center. Hence, cooperatives are not altruistic organizations, but businesses seeking to service their members by simultaneously carrying concern for the community.

³⁰ *Ibid.*

³¹ Johnston Birchall, *People-Centered Businesses. Co-operatives, Mutuals and the Idea of Membership* (Houndmills: Palgrave Macmillan, 2011), p. 206.

³² *Ibid.*

are.³³

In most jurisdictions cooperatives have governance structures similar to corporations,³⁴ and the fourth Co-operative Principle (“Autonomy and Independence”) does not prohibit delegated management with a board structure as long as the general meeting (or “assembly”) of the members remains the supreme authority of the cooperative, being in charge of all fundamental decisions, including board elections.³⁵ This means that in cooperatives, just like in corporations, the members of the board have a significant role in determining how the enterprise promotes sustainability, and how it carries concern for the community. However, in contrast to corporations, cooperatives, like unincorporated business entities in general, give their boards more freedom to diverge from the owners’ profit-maximization expectations.³⁶ In fact, cooperative members often expect not only economic promotion but also social and ecological promotion in return for their participation.³⁷ As Münkner puts it, cooperative directors have to combine “operational efficiency with member-oriented successfulness, social and ecological responsibility, fairness and transparency”.³⁸ Furthermore, efficiency (i.e., successfulness) is understood differently in the cooperative context than in law and economics influenced corporate law theory. As for corporations, efficiency is commonly associated with profit-maximization while in cooperatives (and other member-owned businesses (MOBs)) it is measured in terms of member benefits. Simply put, corporations often seek market opportunities while cooperatives normally aim to service their members.³⁹

Due to corporatization, cooperative law scholars are increasingly concerned with how the cooperative identity, i.e., the mutual purpose, is protected – or, in worst case, lost – through legislation.⁴⁰ In some countries cooperatives are given a wide discretion regarding their purpose and, as mentioned, there are even laws that allow cooperatives to operate like de facto corporations. Cooperative law scholars tend to object to such normative flexibility and argue that cooperative identity (i.e., the mutual purpose) should be protected

³³ See similarly Dan Gregory, “Towards a new economy based on co-operation” in R. Harrison (ed.), *People Over Capital: The Co-operative Alternative to Capitalism* (Oxford: New Internationalist Publications, 2013), pp. 58–75 at 63: “[C]o-operatives and social enterprises are set up with a responsibility to worry more about the externalities of their trading activity.”

³⁴ See, e.g., Cocolina et al., “The power of cooperation”.

³⁵ Fici, “An Introduction to Cooperative Law”, p. 53.

³⁶ L.E. Ribstein, *Rise of the Uncorporation* (New York: Oxford University Press, 2010), p. 254.

³⁷ See, e.g., C. Gide, *Consumers’ Co-operative Societies* [translated from the French by the staff of the Co-operative Reference Library, Dublin] (New York: Alfred A. Knopf, 1922), pp. 19–20, who has described the cooperative as an organization with multiple, changing objectives.

³⁸ Münkner, *Ten Lectures on Cooperative Law*, p. 45.

³⁹ See similarly Birchall, *People-Centered Businesses*, p. 206, H. Henry, *Guidelines for Cooperative Legislation* (3rd edn. Geneva: ILO 2012), pp. 38–9, Margaret Lund, *Cooperative Equity and Ownership. An Introduction* (University of Wisconsin Center for Cooperatives, 2013), p. 39 and Münkner, “Germany”, pp. 325–6.

⁴⁰ See, e.g., Henry, “Co-operative Principles and Co-operative Law”, pp. 47–8.

through mandatory provisions of law.⁴¹ This model is desirable especially in jurisdictions where the legal order grants cooperatives privileges (e.g., tax benefits) that are not available for other business entities. Hence it is necessary that the enterprise, which is registered as a cooperative and which enjoys the cooperative-form-specific benefits, also operates like a cooperative, not like a corporation. Finally, it is important to emphasize that although the cooperative identity needs to be preserved through legislation, cooperatives cannot be required to be “fully mutual”, but only “mainly mutual”.⁴² For example, activities with non-members should not be prohibited since this would only prevent cooperatives from developing their operations. Interaction with non-members is also sometimes necessary for the cooperative to fulfill its social responsibilities.

4.2 Practical Implications

After establishing that in theory the cooperative is a favorable platform for sustainable business operations, it is necessary to elaborate what this means in practice. The purpose of the following analysis is to give a general overview of how the cooperative business model promotes sustainability. Cooperative researchers often highlight the economic, social and environmental benefits of MOB by providing individual examples of well-performing cooperatives,⁴³ but such examples rarely tell the whole truth. Accordingly, the focus here is on broader phenomena instead of casuistic case studies.⁴⁴

First, it seems that in times of (economic) crisis cooperatives (and especially cooperative groups⁴⁵) can be more resilient than investor-owned enterprises such as corporations. Several studies indicate that cooperatives endured the 2008 financial crisis better than corporations.⁴⁶ For example, large European cooperative banks, which suffered considerable losses on wholesale banking operations and structured products, nevertheless received A credit ratings in April 2009.⁴⁷ Also later studies support the initial observation that cooperative (stakeholder) banks were less severely downgraded during the financial crisis than commercial (shareholder) banks were.⁴⁸ Cooperative banks accounted for only 7 percent of all the European banking industry

⁴¹ See, e.g., Fici, “An Introduction to Cooperative Law”, pp. 14–5 and Münkner, *Ten Lectures on Cooperative Law*, p. 75.

⁴² Fici, “The Essential Role of Co-operative Law”, p. 546.

⁴³ J. Birchall, “The Performance of Member-Owned Businesses Since the Financial Crisis of 2008”, in J. Michie, J.R. Blasi and C. Borzaga (eds.), *The Oxford Handbook of Mutual, Co-operative, and Co-Owned Business* (New York: Oxford University Press, 2017), pp. 570–84 at 572.

⁴⁴ See also M.E. Gertler, “Synergy and Strategic Advantage: Cooperatives and Sustainable Development” (2004) 18 *Journal of Cooperatives*, pp. 32–46, who has adopted a similar approach on the topic.

⁴⁵ G. Ferri, P. Kalmi and E. Kerola, “Organizational Structure and Exposure to Crisis among European Banks: Evidence from Rating Changes” (2014) 3 *Journal of Entrepreneurial and Organizational Diversity*, 1, pp. 35–55 at 52.

⁴⁶ Borzaga and Galera, “Promoting the Understanding of Cooperatives”, pp. 7–8 and 10, Birchall, “The Performance of Member-Owned Businesses”, J. Birchall and L.H. Ketilson, *Resilience of the Cooperative Business Model in Times of Crisis* (Geneva: ILO, 2009), pp. 13–4 and Guidance Notes 2015, pp. 91–2.

⁴⁷ H. Groeneveld and B. de Vries, “European Co-operative Banks: first lessons of the sub-prime crisis” (2009) 4 *The International Journal of Co-operative Management*, 2, pp. 8–21.

⁴⁸ Ferri, Kalmi and Kerola, “Organizational Structure and Exposure to Crisis”.

write-downs and losses between the third quarter of 2007 and first quarter of 2011, although they had 20 percent of the market.⁴⁹ Researchers tend to agree that a key factor for survival was that most cooperative banks remained true to their traditional business model and reduced risk-taking throughout the crisis.⁵⁰

Also, workers' cooperatives have – over and over again – demonstrated the resilience of the cooperative business model and, in fact, these cooperatives have often even increased in number during recessions as new start-ups and as a result of takeovers of falling businesses.⁵¹ A comprehensive survey by the European Confederation of Industrial and Service Cooperatives (CECOP – CICOPA Europe) indicates that, just like cooperative banks, workers' and social cooperatives survived the 2008 financial crisis better than corporations of the same size, active in the same sectors and present in the same communities and regions. Especially in countries with a strong level of cooperative implantation and experience (such as Finland, France, Italy, Spain and Sweden), the crisis did not affect workers' and social cooperatives as adversely as in countries with a less established cooperative sector.⁵² In general, the resilience of workers' cooperatives is believed to result from the use of short-term emergency measures such as reduction of costs and working hours/wages, use of reserves, subcontracting and changes in production. In the long-term workers' cooperatives have utilized such strategies as investment in training for workers, technological innovations and product changes. The distinct governance structures of these MOBs have allowed them to take necessary actions, sometimes very quickly, to save jobs – or even the enterprise itself.⁵³

The main point of these two examples is to show that cooperatives can soften the impact of a financial crisis by the mere fact that they survive and continue to carry out business.⁵⁴ The resilience of the cooperative business model facilitates sustainability by saving jobs, businesses and personal savings and furthermore it helps to inspire hope for economic revival. The 2008 financial crisis is not the only recession during which cooperatives have proven their capabilities for survival. Even during the Great Depression, which took place mostly in the 1930s, cooperative credit unions continued to grow.⁵⁵ Furthermore, it seems that cooperatives are not only able to endure hard times, but the cooperative movement sometimes even thrives in times of

⁴⁹ J. Birchall, *Resilience in a downturn: The power of financial cooperatives* (Geneva: ILO, 2013), p. 24.

⁵⁰ Birchall, "The Performance of Member-Owned Businesses", p. 574 and *Resilience in a downturn*, p. 24 and Groeneveld and de Vries, "European Co-operative Banks", pp. 17–9.

⁵¹ Birchall, "The Performance of Member-Owned Businesses", p. 579.

⁵² H. Eum, D. Dovgan and E. Terrasi, "The consequences of the global crisis and the resilience of cooperative" in B. Roelants, D. Dovgan, H. Eum and E. Terrasi (eds.), *The resilience of the cooperative model. How worker cooperatives, social cooperatives and other worker-owned enterprises respond to the crisis and its consequences* (CECOP – CICOPA Europe, 2012), pp. 6–16 at 10–1.

⁵³ Eum, Dovgan and Terrasi, "The consequences of the global crisis", p. 12.

⁵⁴ Birchall and Ketilson, *Resilience of the Cooperative Business Model*, p. 13.

⁵⁵ I. MacPherson, *Hands Around the Globe: A History of the International Credit Union Movement and the Role and Development of World Council of Credit Unions, Inc* (Victoria, Canada: Horsdal & Schubart Publishers, 1999), p. 22.

crisis. History knows many significant cooperatives that have sprung out of people's hardship and suffering.⁵⁶

Second, cooperatives facilitate sustainable development by growing organically rather than inorganically through risky acquisitions. It is believed that cooperatives usually expand by strengthening their membership base, by increasing members' cooperative benefits and by building horizontally and vertically integrated co-operative networks.⁵⁷ Especially co-operation among cooperatives (as expressed in the sixth Cooperative Principle) is considered an ideal means for growth.⁵⁸ Then again, empirical studies indicate that also M&A activity is present in the cooperative sector and even occasional cooperative "merger waves" have occurred.⁵⁹ Furthermore, some research findings suggest that cooperatives grow through mergers and acquisitions (M&As) roughly as commonly as listed corporations. These same findings, on the other hand, conclude that cooperatives' M&A performance is mostly driven by large mergers of equals instead of acquisitions and that the composition of growth is, all in all, quite different between cooperatives and corporations.⁶⁰

Although cooperatives are often perceived as slow-growing organizations, in reality they grow at similar rates as listed corporations.⁶¹ Growth cannot, however, be a value in and of itself as there is always a risk that while growing in size, the distance between the cooperative and its members grows simultaneously.⁶² Consequently, there is a considerable cohort who believe that cooperatives should not pursue growth.⁶³ On the other hand, growth is sometimes inevitable for cooperatives to survive the competition against corporations and to best serve their members in the long-term. Also, as cooperative membership is open (as expressed in the first Cooperative Principle) organic growth is natural for cooperatives and something they should not try to proactively resist.⁶⁴ But even organic growth has its risks and especially when membership is promoted without new members having the opportunity to understand the nature of the cooperative they are joining or where they are granted membership without making a personal capital investment in the enterprise.⁶⁵

⁵⁶ Birchall and Ketilson, *Resilience of the Cooperative Business Model*, pp. 5–9. For example, during the Great Depression hundreds of workers' cooperatives were established by unemployed people. M.J. Kaswan, "US Worker Cooperatives" in J. Michie, J.R. Blasi and C. Borzaga (eds.), *The Oxford Handbook of Mutual, Co-operative, and Co-Owned Business* (New York: Oxford University Press, 2017), pp. 527–38 at 529.

⁵⁷ Münkner, *Ten Lectures on Cooperative Law*, p. 46.

⁵⁸ Birchall, "The Performance of Member-Owned Businesses", p. 582 and Fajardo et al., *Principles of European Cooperative Law*, pp. 119–21.

⁵⁹ See, e.g., T.J. Richards and M.R. Manfredo, "Cooperative Mergers and Acquisitions: The Role of Capital Constraints" (2003) 28 *Journal of Agricultural and Resource Economics*, 1, pp. 152–68. For example, in Finland between the mid-1970s and late 1980s the number of cooperatives diminished from ca. 10000 to ca. 2000, mostly due to mergers.

⁶⁰ V. Bérubé, A. Grant and T. Mansour, "How Cooperatives Grow" in M.T. Borrusso (ed.), *McKinsey on Cooperatives* (McKinsey & Company Industry Publications, 2012), pp. 4–11. It is important to note that cooperatives provide a rather effective defense against hostile takeovers through asset lock, democratic ownership and disallowing dividends. Gregory, "Towards a new economy based on co-operation", p. 62.

⁶¹ Bérubé, Grant and Mansour, "How Cooperatives Grow", pp. 4–11.

⁶² Münkner, *Ten Lectures on Cooperative Law*, p. 46 and Draft PECOL 101.

⁶³ Gould, "The Co-operative Business Model", 607.

⁶⁴ Guidance Notes 2015, p. 6 and 80.

⁶⁵ Guidance Notes 2015, p. 17.

Therefore, the directors of the cooperative have to take advantage of innovative means of financing that, on one hand, seek to maintain cooperative identity and, on the other hand, take into account the cooperative's need for external capital.⁶⁶ Also, it is crucial that the directors assess critically the need for the society to pursue growth and, in particular, whose interests growth actually serves – the members', the community's or the directors'.

Third, as MOBs, cooperatives support their local communities and facilitate the development of rural and remote areas. According to the 2016 annual report of the European Association of Co-operative Banks (EACB), in Europe alone cooperative banks serve ca. 210 million customers – around half of the population of the EU – mainly consumers, retailers, small and medium sized enterprises (SMEs) and communities. Cooperative banks play a particularly significant role in the SME-sector as they finance about one-third of SMEs in Europe. Furthermore, cooperatives contribute to the development of infrastructures (such as roads, electricity production, waste management and telecommunication services) of communities where the public sector or corporations do not provide sufficient facilities and services.⁶⁷ This not only concerns rural and remote areas; there are many examples of cooperatives supporting the infrastructure in urban settings.⁶⁸ Especially in developing countries cooperatives often provide essential services in densely populated areas and simultaneously help to prevent workers from being exploited by international corporations, middlemen and criminal organizations.⁶⁹

Michael E. Gertler has observed that cooperatives tend to be long-lived compared to other private enterprises and their presence contributes stability to local economies. Corporations, on the other hand, are mobile and can move in response to pressure for socially and environmentally acceptable practices.⁷⁰ As mentioned above in section 4.1, cooperative members are more accountable for the undertakings of the firm than corporate shareholders are since as users of the enterprise cooperative members have to personally

⁶⁶ Richards and Manfredo, "Cooperative Mergers and Acquisitions", p. 166.

⁶⁷ Cooperatives are also a credible alternative to public utilities and corporations as providers of infrastructure facilities and services. While public utilities are often perceived as inefficient and corporations as unreliable operators, cooperatives combine their advantages by aiming for customer satisfaction – which is likely to translate into higher welfare of the community. Of course, cooperatives also have their disadvantages (e.g., the production of infrastructure facilities and services often necessitates substantial investments and the cooperative model does not particularly excel in capitalization) but, nevertheless, there are many examples of cooperatives competing successfully with public utilities and corporations in the infrastructure sector. See also P.A. Mori, "Community Co-operatives and Co-operatives Providing Public Services: Facts and Prospects" in J. Michie, J.R. Blasi and C. Borzaga (eds.), *The Oxford Handbook of Mutual, Co-operative, and Co-Owned Business* (New York: Oxford University Press, 2017), pp. 184–94 at 189–92.

⁶⁸ L.H. Ketilson, "Developing and Sustaining Communities: The Role of Co-operatives" in J. Michie, J.R. Blasi and C. Borzaga (eds.), *The Oxford Handbook of Mutual, Co-operative, and Co-Owned Business* (New York: Oxford University Press, 2017), pp. 348–60 at 351.

⁶⁹ See, e.g., Guidance Notes 2015, p. 89 and M. Medina, "Waste Picker Cooperatives in Developing Countries" in M. Chen, R. Jhabvala, R. Kanbur and C. Richards (eds.), *Membership Based Organizations of the Poor: Concepts, Experience and Policy* (New York: Routledge, 2007), pp. 105–21.

⁷⁰ Gertler, "Synergy and Strategic Advantage", p. 37. See similarly Henry, *Guidelines for Cooperative Legislation*, p. 81.

face the economic, social and environmental impacts of their decisions.⁷¹ The locality of cooperatives also means that they cannot chase market opportunities like corporations and for many MOBs it is virtually impossible to move production to countries with lower labor costs and inferior environmental standards. Local cooperatives can, of course, achieve national and international reach through co-operation⁷² and some of them even venture into foreign markets. As for such ventures the ethical dilemma is whether to offer memberships to people of other countries and how to engage a multinational membership in governance.⁷³ For multinational cooperatives and cooperative groups there are always similar ethical concerns present as for multinational corporations if foreign collaborators are denied from membership or they are given unequal rights in relation to domestic members.⁷⁴ Therefore, it can be argued that cooperatives should internationalize mainly through organic co-operation.

Finally, there are many examples of cooperatives proving useful to those who want to pursue sustainable choices in their everyday lives. Since cooperatives are not guided by strict profit-maximization expectations they can be run to benefit multiple stakeholders and, consequently, they can promote multiple objectives. The ICA strongly believes that especially younger generations, who are not bred on strict competitive values and who are suffering the greatest degree of social and economic disadvantage as a result of the 2008 financial crisis, find the cooperative business model aligned with their solidary preferences.⁷⁵

Empirical research findings and non-academic surveys indicate that cooperatives seem to excel particularly in sustainable energy production. According to the estimate of the CECOP – CICOPA Europe there are about 1000–1500 cooperatives only in Europe producing renewable energy.⁷⁶ In Germany, where the government has set ambitious goals of 80 percent renewable electricity by 2050 and 60 percent overall renewable energy by 2050, cooperatives are believed to play an essential role in achieving these objectives.⁷⁷ Researchers also argue that successful renewable energy cooperatives have positive impacts, not only on the environment,

⁷¹ Then again, cooperatives can also externalize environmental and social costs on others. Such risk is present especially in larger cooperatives that may venture into foreign markets and operate like corporations.

⁷² Gertler, "Synergy and Strategic Advantage", p. 38.

⁷³ Birchall, *People-Centered Businesses*, p. 208.

⁷⁴ As Fajardo et al., *Principles of European Cooperative Law*, p. 50 have argued, cooperative members should not be allowed to profit from transactions involving non-members with the same economic relationship with the society by denying membership from them. This means that the principle of equal treatment protects both members and such non-members who are transacting with the enterprise. However, some multinational cooperatives and cooperative groups, such as the Mondragon group, have been accused of giving some of its new foreign members fewer rights. Robert A. G. Monks and Nell Minow, *Corporate Governance* (5th edn. Cornwall: John Wiley & Sons), p. 408.

⁷⁵ Gould, "The Co-operative Business Model", p. 600 and Guidance Notes 2015, pp. 64–5.

⁷⁶ "Cooperatives as Builders of Sustainable Development – Applied to Industrial Artisanal and Service Producers' Cooperatives", CECOP – CICOPA Europe's Report (2014).

⁷⁷ A. Bilek, "Revitalizing Rural Communities through the Renewable Energy Cooperative" in R. Bertram (ed.), *Series on the German Energy Transition 3* (Washington, D.C.: Heinrich Böll Stiftung 2012), pp. 3–6.

but also on economic and social levels. They support local economies by providing employment opportunities, by partnering with other local organizations and by creating additional business opportunities.⁷⁸ Hence, renewable energy cooperatives carry concern for the community in several different ways.

Fair Trade is another remarkable example of the cooperative as a platform for sustainable business operations. Several researchers argue that Fair Trade and cooperative movements have much in common and that several key principles of Fair Trade have been inspired by the cooperative ideology.⁷⁹ Nowadays there are many cooperatives that aim to develop Fair Trade import and retail activity and, in fact, the vast majority of Fair Trade importers have adopted the cooperative form.⁸⁰ For example, Fair Trade premiums paid to coffee farmers are channeled through these cooperatives. Research findings also indicate that subsidized cooperatives are often able to offer producers prices that are significantly higher than those of their corporate competitors.⁸¹ All in all, cooperatives seem to work as a link between Fair Trade and capitalistic markets.

Then again, although cooperatives are often used as platforms for sustainable business operations, it is evident that the cooperative form per se does not guarantee that the entrepreneurs will actually seek social and ecological promotion. There is no reason why renewable energy producers or Fair Trade importers could not utilize the corporate form. Furthermore, there is no empirical evidence showing that cooperatives would act altruistically in situations where the interests of their members and other stakeholders (such as employees) are in conflict. Yet, the cooperative is often perceived as a sustainable alternative to the profit-oriented corporation and, as explained above in section 4.1, the cooperative form has some built-in features that aim to ensure that cooperatives carry – or, at least, that they can carry – concern for the community.

5. Future Challenges of the Cooperative Movement

The common thread of this Chapter is that although cooperatives and corporations share many similarities, they are ultimately different business forms with different histories, background ideologies and objectives.⁸²

⁷⁸ M.D. Tarhan, "Renewable Energy Cooperatives: A Review of Demonstrated Impacts and Limitations" (2015) 4 *Journal of Entrepreneurial and Organizational Diversity*, 1, pp. 104–20 at 108–11.

⁷⁹ See, e.g., C. Gendron, V. Bisaillon and A.I. Otero Rance, "The Institutionalization of Fair Trade: More Than Just a Degraded Form of Social Action" (2009) 86 *Journal of Business Ethics*, 1, pp. 63–79 and A. Nicholls and B. Huybrechts, "Fair Trade and Co-operatives" in *The Oxford Handbook of Mutual, Co-operative, and Co-Owned Business* in J. Michie, J.R. Blasi and C. Borzaga (eds.), *The Oxford Handbook of Mutual, Co-operative, and Co-Owned Business* (New York: Oxford University Press, 2017), pp. 470–9.

⁸⁰ Nicholls and Huybrechts, "Fair Trade and Co-operatives", pp. 472–4.

⁸¹ A. Milford, "Coffee, Co-operatives and Competition: The Impact of Fair Trade" (CMI Report, Chr. Michelsen Institute, 2004), pp. 64–7.

⁸² See differently H. Hansmann, *The Ownership of Enterprise* (Cambridge, Massachusetts; London, England: The Belknap Press of Harvard University Press, 1996), p. 12 and "All Firms are Cooperatives – and so are Governments" (2013) 2 *Journal of Entrepreneurial and Organizational Diversity*, 1, pp. 1–10 at 6–7.

These differences explain why the cooperative is – in several ways – a better alternative for sustainable business operations than the corporation. Cooperatives are people-centered service societies with multiple objectives, whereas corporations are capitalistic profit-oriented organizations focused primarily on shareholder value maximization. Concern for community is an organic part of the cooperative business model, whereas altruistic measures in the corporate context are often artificial and motivated by investor interests. However, the question yet remains whether cooperatives facilitate sustainability enough or whether they put too much emphasis on their members' interests. After all, cooperatives are business organizations, not social enterprises, and there is no empirical evidence showing that cooperatives would act altruistically in situations where the interests of their members and other stakeholders are in conflict.

Paradoxically, the attributes that distinguish cooperatives from corporations are the same ones that make them vulnerable in the rivalry between business forms. The greatest challenge for the cooperative movement is to prevent corporatization of cooperative law. As mentioned above in sections 2 and 3, some legislative and scholarly attempts have been made to preserve cooperative identity and to facilitate the development of international cooperative law and, moreover, to increase awareness and understanding of the cooperative business model. Such efforts are highly important as are the endeavors of national and international organizations to convince politicians and national lawmakers that cooperatives really matter and that there is no benefit in reducing the diversity in business forms - the straightforward result of transforming cooperatives into corporations. Hopefully these efforts eventually lead to universal understanding regarding the core structural characteristics of the cooperative form.

Corporatization of cooperative law is driven by several factors and especially the limited financial capabilities of cooperatives seem to reinforce this phenomenon. There is no doubt that in terms of capitalization corporations exceed cooperatives. After all, corporations were initially created to serve high-risk business ventures necessitating huge amounts of capital, while cooperatives, as democratic MOBs, cannot utilize similar sources of finance as corporations. Corporate shares and cooperative shares are, for example, not equivalent instruments; corporate shares are used to gather equity from (anonymous) investors, whereas the cooperative share is merely a condition for membership, i.e., an "entrance fee".⁸³ These contributions are the main source of cooperative capital and if the firm needs additional funds, they must be raised by ensuring member democracy and without giving any external control to investors.⁸⁴ These conditions inevitably mean that cooperatives are not perceived as particularly compelling investees. Then again, the borrowing capacities of

⁸³ Fici, "An Introduction to Cooperative Law", pp. 35–6 and 38.

⁸⁴ Münkner, "*Ten Lectures on Cooperative Law*", pp. 159–64 and Fici, "An Introduction to Cooperative Law", p. 54 and "Cooperative Identity and the Law", p. 49.

cooperatives do not seem to differ much from corporations and even if they might not be able to grant lenders similar covenant protections (e.g., veto rights over certain operational decisions) as corporations; the limited financial capabilities of cooperatives concern mainly equity financing.

In 2013 Cliff Mills predicted that cooperatives will soon invent instruments similar to corporate shares⁸⁵ and, in fact, cooperatives around the world have, already for some time, issued so-called investor shares.⁸⁶ In light of the second Cooperative Principle (Democratic Member Control), it is reasonable to question the propriety of cooperatives to grow through similar means of funding as corporations, since eventually novel financing instruments might rather facilitate corporatization than help cooperatives preserve their identity. As Münkner has argued, due to the dual nature of the cooperative, there might be no cure to their limited financial capabilities and, therefore, it must be accepted that cooperatives are not meant for economic activities that require high and stable equity capital from the outset, and which are excessively prone to heavy business fluctuations or risks.⁸⁷

As implied above in section 4.2, cooperative growth, in general, is a controversial topic as some scholars find even organic growth problematic while others consider growth inevitable and aligned with the first Cooperative Principle (Voluntary and Open Membership). There is, however, no doubt that uncontrolled membership policies may dilute the commitment of old and new members, alienating them from the cooperative activities. Even more troubling is the possibility that the Cooperative Principles (and in particular the rule of one member, one vote) facilitate a phenomenon known as managerial empire building in such cooperatives where there are no “majority members” controlling and supervising the directors. This is not only a theoretical problem, as there is already some evidence that especially in cooperatives with a dispersed ownership structure business value is not always channeled – directly or indirectly – to the members.⁸⁸ Unfortunately, these studies do not indicate how cooperative assets are actually used and this is undoubtedly a topic requiring further investigation.

Finally, although cooperatives work for the sustainable development of their communities, they should not be confused with non-profits. Cooperatives are ultimately business enterprises seeking to service their members and *simultaneously* to carry concern for the community within which they operate. One can perhaps

⁸⁵ C. Mills, “Past, present and future” in R. Harrison (ed.), *People Over Capital: The Co-operative Alternative to Capitalism* (Oxford: New Internationalist Publications, 2013), pp. 40–56 at 54.

⁸⁶ F.R. Chaddad and M.L. Cook, “Understanding New Cooperative Models: An Ownership-Control Rights Typology” (2004) 26 *Review of Agricultural Economics*, 3, pp. 348–360. Also some national cooperative laws have introduced investor shares, which are intentionally meant to resemble the shares of a company. For example, the Finnish Cooperatives Act of 2013 permits the use of such financial instruments.

⁸⁷ Münkner, *Ten Lectures on Cooperative Law*, pp. 159–69.

⁸⁸ S. Pöyhönen, *Omistajaoikeudet ja omistaja-arvo osuuskunnissa* [“Ownership rights and owner-value in cooperatives”] (Hämeenlinna: Talentum, 2011), pp. 133–7.

argue that the dual nature of the cooperative refers not only to the dual role of the members but also to their twofold role in society. By supporting their members, cooperatives support their local communities through policies approved by their members and, consequently, it can be argued that member interests are a better operative proxy for the general good than shareholder interests. The cooperative certainly has the potential to be a driver for change and although it might not be in itself sufficient to secure sustainability, the cooperative business model is a significant contribution, which should be utilized more than it is today.