

CO-OPERATION FOR THE COMMON GOOD

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SUMMARY

In this pamphlet, we argue that cooperatives are enterprise for the common good, in contrast to investor-owned businesses which trade for private benefit.

We support this conclusion by looking at the law under which cooperatives are registered; at cooperative heritage including the Rochdale principles and the ICA principles; and at the way a number of progressive societies are identifying themselves.

We then briefly explore some of the implications, both external to the cooperative movement and internal.

Externally:

- It helps to establish clear water between cooperatives and businesses trading for private benefit, at a time when a popular understanding of the real differences is so important.
- It becomes logical to seek formal public recognition in the UK of the value of cooperatives. Such recognition would itself then provide justification for the strategic encouragement and promotion of cooperatives, and their appropriate treatment in legislation.
- It provides a strong basis for exploring the cooperative ownership of privatised public services, and the building of an alternative economy.

Internally:

- It helps to provide a clear basis for exploring future developments in governance especially of large societies
- It is an important building block in the development of the argument for cooperative capital – something fundamentally different from investor capital
- It further informs how societies are developing their reporting and accountability to members



CO-OPERATIVES ARE ENTERPRISE FOR THE COMMON GOOD

Over the last few years, we have been involved in extensive informal discussions with a number of friends and colleagues within the movement, and particularly in the larger retail societies, about the fundamental purpose of cooperatives today.

The starting point for these discussions was to consider how the governance of larger societies might evolve in the future. The problem we encountered was that ideas about how cooperative governance might develop can all too easily be influenced – or even dominated – by thinking imported from the governance of investor-owned companies. Whilst at times it may be appropriate to apply such thinking to cooperatives, we needed to press the pause button.

Much vital and thoughtful work has taken place, from the Cadbury report (1992) onwards, in relationship to the development of the corporate governance of public limited companies, but that work originated from and was designed to focus on the very specific purpose of PLCs, namely the generation of an economic return to investor shareholders.

In a sense we can be rather jealous of the clarity and simplicity of purpose of a PLC, because when we turn to look at cooperatives, it is not nearly so straightforward. Of course, we can always go back to the Rochdale Principles, or the modern manifestation of them in the ICA Statement of the Cooperative Identity (1995), but those are designed for a different purpose and are not necessarily so helpful in articulating fundamental purpose.

So we have spent some time seeking to answer the questions: What is the purpose of cooperative governance? In summary, we came up with the following:

Co-operative governance seeks to facilitate a fairer and more just approach to business, which

- Seeks the common good by properly taking into account the interests of those most affected by the business, usually customers, workers and local residents, but also recognising wider interests including the providers of capital, volunteers and future generations
- Strives to avoid harm, exploitation and oppression
- Has ownership arrangements appropriately dispersed among relevant constituencies, not concentrated by capital

We would summarise this even more briefly by saying that co-operatives strive to be enterprises trading for the common good, where investor-owned companies trade to maximise gains for private benefit¹. This brief summary obviously needs much more discussion, but it seems to capture a fundamental distinction of great importance in the contemporary context.

We are also much encouraged in this by the 1995 Background Paper to the Statement on the Cooperative Identity², which at paragraph 5 reads as follows:

¹ We acknowledge of course that there are investor-owned companies which aim to achieve social benefits through their work as well as generate profit, but this broader purpose is not reflected in their governance or enforced by external regulation

² <http://www.uwcc.wisc.edu/icc/issues/prin/21-cent/background.html>



Throughout its history, the co-operative movement has constantly changed; it will continuously do so in the future. Beneath the changes, however, lies a fundamental respect for all human beings and a belief in their capacity to improve themselves economically and socially through mutual self-help. Further, the co-operative movement believes that democratic procedures applied to economic activities are feasible, desirable, and efficient. It believes that democratically-controlled economic organisations make a contribution to the common good. The 1995 Statement of Principles was based on these core philosophical perspectives.

Dr. Ian MacPherson

Having arrived at this provisional conclusion, we have then tested it by looking at three different areas to see whether they support the conclusion, namely:

- UK Cooperative law
- Cooperative heritage
- How societies identify themselves today

A summary of our conclusions on these three areas follows next.

UK CO-OPERATIVE LAW

In English law, we have separate legislation for establishing co-operatives and companies³. There are some fundamental differences in nature between them, and we will just briefly look at 3 of them.

MEMBERSHIP

The members of a co-operative are all equal and have one vote each irrespective of the number of shares which they hold.⁴ They all have the same right to participate in the affairs of their co-operative, which they democratically control. The members of a company, by contrast hold their rights of control over the company in proportion to the number of shares they own. Greater power and control over the company can be acquired by buying more shares.

Although both a co-operative and a company are enterprises, a co-operative is an enterprise where people come together as equals, and strive collectively and collaboratively to achieve something together; whereas a company is a mechanism for operating a business whose ownership and control is open to whoever is able and willing to acquire it.

CAPITAL

Members of a co-operative are required to provide a minimum level of capital as a condition of membership. Historically, we have a tradition in the UK of withdrawable share capital, like a deposit account, where shares remain at the same (par) value. Co-operatives are permitted to pay a limited amount of interest on capital, but the primary mechanism for distribution of

³ We acknowledge that it is possible to enshrine co-operative principles in other legal structures, including in companies. However here we focus on co-operative societies as registered by the Financial Conduct Authority.

⁴ This isn't expressly enshrined in statute, but the principle is enforced by the Financial Conduct Authority as the registrar for co-operatives, on the basis that it is implicit in the definition of a co-operative



profits is as a dividend related to the members' trade with the society. On a solvent winding up of a co-operative, after all debts have been paid and members' capital has been repaid, the rules of the UK retail societies provide for that capital surplus to be passed to other co-operative societies, or to Co-operatives UK.

In a company limited by shares, shareholders own a proportionate share of the underlying value, and of the company itself, through the number of shares they own. There is no restriction on the amount of profits which can be distributed to shareholders and company law is clear that the company exists for the benefit of its shareholders (shareholder primacy). On a solvent winding-up, all of the capital surplus remaining after the payment of debts is shared between shareholders in proportion to their shareholding. Everything, in other words, belongs to the shareholders; there is nothing for anybody else.

MERGERS

When two companies merge, usually one company buys out the shareholders of the other for a cash sum, and takes over the enlarged business. It is essentially a financial transaction, decided between selling shareholders and an acquiring company, with the main focus on the value of the business being acquired.

A merger between two co-operatives is effected by a "transfer of engagements" – a concept unknown in company law – whereby the members of co-operative A vote in a members' meeting to transfer engagements to co-operative B.⁵ The effect of such a transfer is that all the assets and liabilities of co-operative A automatically pass to co-operative B when the resolution is registered; the members of co-operative A become members of co-operative B; and co-operative A is left as an empty shell which is subsequently removed from the register.

In others words, a merger between two co-operatives is more like a coming together of the two groups of members into one co-operative. No payment is made by one group to the other, because the aim of the merger is the continuity of both businesses, not a realisation and extraction of value.

These three areas briefly illustrate how in law a co-operative is different in nature from a company: ⁶ because participation as a shareholder in a company is more of a financial transaction, whereas membership of a co-operative is more of a personal relationship; because the shareholders of a company between them own 100% of the value of the company, whereas the members of a co-operative have a share in the ownership, but part of the underlying value does not belong to and cannot be claimed by them; because a merger between two companies is a commercial sale transaction to capture the value of a business for the benefit of a different group of shareholders, whereas a merger between two co-operatives is a bringing together of two businesses into one for the mutual benefit of their members.

These legal differences point to a fundamental difference of purpose. A company carries on business solely for the private benefit of the shareholders at the time; whereas, although a co-

⁵ In accordance with the legislation, a 2/3 majority in favour of the transfer is needed, and a subsequent confirmatory resolution is needed at a further members' meeting.

⁶ I believe that these differences of nature are also manifest in the legal relationships with workers, customers etc. For companies, these are simply legal contractual relationships. In a co-operative, such relationships are more than just transactional. English law does not recognise this, though in Latin America for example activities between a co-operative and its members are "co-operative acts" and subject to different laws.



operative is trading for the benefit of its members, it is essentially a self-help mechanism enabling people collectively to meet their shared needs in a broader social context. It has a purpose which goes beyond the immediate business itself. This means looking beyond the personal, private needs of individual members, accepting the importance of collective needs, but also looking outward to wider interests including others affected by the business, wider society and future generations.

Such collective activity with others, or solidarity, contains an element of generosity or self-sacrifice: something (influence, power, financial opportunity) is given up by the individual, for the benefit of the collective. Viewed another way, the individual takes a personal risk through the co-operative, in the hope (and trusting) that as a consequence, both the individual and the collective will be better off. There is a fundamentally social element to the whole enterprise, alongside the economic.

This means that compared with a company, participating in a co-operative means giving something up; but as a result of the whole co-operative enterprise, something comes back both for the individual, and the community as a whole. It's for the common good.

This has no parallel either in company law, or the investor-owned corporate world. The idea of sacrifice has no place in a culture focussed so completely on personal gain.

CO-OPERATIVE HERITAGE

This broader social purpose and focus beyond the needs and interests of the organisation itself, can be traced back to the early origins of cooperation.

The first constitution of the Rochdale Pioneers (the so-called "Law the First")⁷ clearly states that the underlying purpose was to improve the financial, social and living conditions of its members. Opening a shop selling essential provisions was part of this, but so was providing work, employment, housing and indeed establishing a new society served by enterprise. The business was simply the means to a much bigger end.

The Joint Stock Companies Act had been passed in 1844 (the same year that the Rochdale shop opened) to widen access to the incorporation of joint-stock companies which until then required a royal charter or private act. In 1852 Parliament passed the first Industrial and Provident Societies Act, and this provided a formal basis for the establishment of cooperatives, many of which had already been established on the Rochdale model.⁸ This legislation had specific social as well as economic aims.⁹

But it wasn't just the legislation which had the broader social purpose; it was what cooperatives did and how they operated: only supplying the purest provisions procurable, ensuring that full weight and measure should be given, sharing the surpluses to be distributed in proportion to purchases made, and

⁷ <http://www.rochdalepioneersmuseum.coop/about-us/1844-rule-book/>

⁸ Prior to the Industrial and Provident Societies Act 1852, many cooperative societies including the Rochdale Society of Equitable Pioneers had been established under the Friendly Society legislation, probably unlawfully

⁹ See Acting on Principle: How co-operatives became legal <http://www.archive.coop/wp-content/uploads/2014/10/acting-on-principle-NOV1402.pdf>



the traditions around the broader use of surpluses. These were contained in model rules adopted by many societies, which included as standard as standard rules the payment to a central Congress fund, promoting instruction and culture among members by forming an education fund to which a fixed percentage of profits were committed, and promoting social and provident purposes.¹⁰

In due course a separate organisation (the Co-operative Union) was established with two specific objects, one of which was to diffuse a knowledge of the principles of co-operation by advice and instruction, literary, legal and commercial. Clearly embedded in co-operative thinking is the responsibility to share the knowledge of this precious idea – for the benefit of all.

The seven ICA Principles continue to reflect this outward looking nature of co-operation; whilst the first three principles (which include open membership) are broadly about internal organisation and management of co-operatives, the fourth (Independence and Autonomy), fifth (Education, Training and Information), sixth (Co-operation amongst Co-operatives), and seventh (Concern for Community) are all expressly outward looking and about engagement with the world outside.

HOW SOCIETIES IDENTIFY THEMSELVES

- A brief review of the home pages of the websites of the largest UK retail co-operatives, compared with the homepages of investor-owned competitors, reveals a common pattern.
- Their homepages strongly feature membership, participation and ownership
- They all feature community in some way: making a difference, supporting communities, local businesses and suppliers, being a business for the community, being there for the future, and in some cases even referring to the common good
- On the homepage, the core business of selling food is not so dominant – in some cases it even seems secondary to the nature of the organisation as a co-operative
- In most cases, membership and community are two of the main tabs on the home page alongside the different areas of the society's business

Much more could be said – about their individual focus on values and principles, explaining what it means to be a co-operative, campaigning on social justice issues – but three important points emerge from this very brief look at societies' websites.

First, individual participation or membership, and member ownership, is at the forefront of how these businesses present themselves to the public. How they are owned and democratically controlled is as important as what they sell. Second, these businesses are all looking beyond the society itself to the community within which they are trading, to their impact on that community, supporting and striving to make that community and the world beyond a better place. Third, they are projecting these features

¹⁰ There is a fascinating illustration of how societies delivered on this broader social purpose in the Co-operative Archives. In a history of the Bury District Co-operative Society there is a list of all regular grants made by the society in its first 50 years from 1864. By 1905 the society was making annual grants to 17 local organisations including hospitals, schools, charities and voluntary organisations.



prominently on their home page, their shop window, alongside and sometimes before projecting their core business.

In other words, a key part of the promotional message of these large co-operatives today, and how they distinguish themselves from investor-owned businesses, is how they benefit a wide range of people, members, communities and future generations. This isn't about corporate social responsibility, or philanthropy; this is about enterprise serving a much bigger and wider objective, and the corporate entity itself having a fundamentally different reason for existence.

Of course there is much more to how societies present themselves, and there is no intention to draw superficial conclusions just from looking at home-pages. But it illustrates a significant change in how societies talk about themselves today, and not just within the movement. Compare this with the advice of the Co-operative Commission in 2001. Chapter 1 (Re-establishing the Co-operative Advantage) at paragraph 7.4 stated:

Hence we see the issues for the Co-operative Movement – in terms of the new vision required to sustain and expand the Movement in the twenty-first century on the basis of the establishment of a sustainable virtuous circle – as three-fold:

- *A reinterpretation of the historically valid principles and social goals of co-operation in modern concepts and language and connecting with modern concerns*
- *Strong marketing of the Co-operative advantage at national level in terms of the already suggested form of “Effectiveness, Responsibility and Reward”*
- *A clear and positive distribution of the surplus between redevelopment and expansion and community and individual member dividends.*

How things have changed since 2001. Undoubtedly the more outward-looking features of cooperation are resonating with customers and staff today, and therefore becoming more significant in how societies view and project themselves. The language and philosophy of the common good echo the social goals of the 2001 Commission.



IMPLICATIONS

Reaching a conclusion that cooperatives are enterprise for the common good may seem to be rather insignificant. The immediate reaction might be – so what?

Superficially it might appear to be little more than cooperatives finding a language and way of talking about themselves which they can be comfortable with, but we believe that the implications are more profound than that, and so we will look briefly at those implications, first from a perspective outside the cooperative world, and then from within.

EXTERNAL IMPLICATION

DISTINCTIVENESS

Maintaining a clear identity which distinguishes cooperatives from other, particularly investor-owned businesses is fundamentally important. If we wish to see a dramatic increase in the size of the cooperative economy, this will only happen if there is a sound reason why ordinary people as customers, potential workers and savers should choose to engage with cooperatives in preference. Cooperation needs to be, and to be perceived to be preferable. At the moment, we lack a clear basis for that.

For older generations and others who may retain a knowledge of the part that cooperatives and other mutual organisations played in the UK's social history, there may still be a residual empathy and support. But for many if not most people who have no knowledge of this relatively niche area of history, a cooperative is just another business. They may not see membership as different from a loyalty scheme; the opportunity to vote or stand for election may not be seen as significant; and democratic control might not suggest anything particularly positive.

Within communities, people are also aware that other retailers provide significant support to local causes, charitable and otherwise, and mainstream “corporate social responsibility” may be indistinguishable from the support that their local retail society might be providing.

In other words, the core principles which are at the heart of cooperation do not necessarily provide ordinary folk with an immediately obvious distinctiveness, likely to affect their everyday decision-making. Crucially, those principles do not readily spell out what is at the heart of cooperation – namely carrying on business fairly for the benefit of all, rather than just for investor-owners.

The context today is particularly helpful for cooperatives, with the growing public disquiet with the way customers are treated by utility companies, banks and others, about PLCs paying excessive levels of remuneration to executives and not paying their fair share of tax. Many recognise that this is because the shareholders are the main priority, but there is often a resigned acceptance that this is inevitable.

The message that cooperatives are owned and controlled by their members does not provide an adequate response, because this is much more about what the business is FOR and how it behaves, rather than about who its owners are.

An assertion that cooperatives exist for the common good rather than for private interest meets the criticism head on. By talking about organisations which seek a fairer and more just approach to business, and properly take into account the interests of those most affected including customers and workers, we engage directly with the features for which investor-owned businesses are so often criticised.



Clear and concise language about PURPOSE, and why they exist, helps to put clear water between cooperatives and businesses trading for private benefit. We have not had this clear articulation before, or this clear sense of shared purpose which so directly relates to the public dissatisfaction with big business.

In terms of building an alternative economy, one which works for everybody and not just investors, real clarity of purpose is essential. It needs to be emphasised that in no sense does this seek to replace the ICA values and principles. For the reasons set out above, we believe that they remain fundamental and are the foundation upon which cooperative business needs to be based.

FORMAL RECOGNITION

In 2002, the International Labour Organisation (ILO), which is an agency of the United Nations, adopted recommendation 193, Recommendation concerning Promotion of Cooperatives.

ILO Recommendation 193 formally recognises cooperatives, and recommends (amongst other things) that the promotion and strengthening of the identity of cooperatives should be encouraged; that measures should be adopted to promote the potential of cooperatives in all countries, irrespective of their level of development; and that Governments should provide a supportive policy and legal framework consistent with the nature and function of cooperatives and guided by the [ICA values and principles]. It goes on to state that the promotion of cooperatives should be considered as one of the pillars of national and international economic and social development.

An ILO recommendation does not have any binding force within nation states. In research to be published soon,¹¹ the recognition or explicit mention of cooperatives in the national constitutions of nation states has been studied. The research finds that worldwide, one in three constitutions contain cooperative-specific articles in their texts; and that the number of such cases increased from 1900 to 2016. The research examines the impact of such constitutional recognition on two nation-states, Portugal and Italy, and finds that it creates a supportive environment for cooperatives, and justifies and obliges preferential tax treatment for cooperatives compared to for-profit companies.

We do not have a written constitutional document in the UK. However, we have other ways of formally recognising different types of organisation. For example, charities are formally recognised for generating public benefit, and consequentially they are treated differently in statute law for certain aspects of taxation.¹²

If cooperatives carry on business for the common good, and this can be verified, then there is an argument that the contribution they make can and should be formally recognised. Deciding what such recognition should entail is a separate question, but as well as the possibility of different treatment for

¹¹ Douvitsa, I. (2017). National Constitutions and Cooperatives: An overview. (to be published)

¹² A similar trend can be identified in recent legislation in Wales. The Social Service and Well-being (Wales) Act 2014 expressly requires the promotion of cooperatives and certain other types of organisation (section 16). The Well-being of Future Generations (Wales) Act 2015 similarly sets higher level economic, social, environmental and cultural objectives, which creates the space for cooperatives to argue for their broader benefits



fiscal purposes, other possibilities include how cooperatives are treated in certain regulatory environments, and in relation to competition and procurement law.

We are not arguing that cooperatives should have statutory privileges. We are putting forward the broad argument that if cooperatives trade for the common good, their contribution to the common good can and should be formally recognised. The simple reason for this is that it would provide a legitimate reason for Government to seek to encourage the emergence of cooperatives in particular trades or sectors. Trading for the common good usually entails a cost – to the enterprise itself, to its workers, maybe its customers or users. It is recognition of this cost – and the corresponding benefit to the common good – which arguably deserves recognition.

Currently, cooperatives are treated no differently from any other type of legal entity in the UK. The movement continually strives to ensure that there is a level playing field in terms of the start-up and operation of cooperatives compared with investor-owned companies; but we do not seek to argue that the other costs willingly borne by cooperative trading (the sacrifices referred to above) in order to achieve social goals should be recognised.

It is time to start talking about such recognition. It happens in other jurisdictions, and in cases has resulted in the very substantial emergence of cooperatives in a particular sector, answering a very particular and outstanding need.¹³ We have such needs in the UK – such as in social care – and the formal recognition of the contribution which cooperatives can make to the common good could play a part in addressing this challenge.

CO-OPERATIVE OWNERSHIP OF PRIVATISED PUBLIC SERVICES

The ownership of public services continues to be a major battle-ground between the left and the right. Should the state be the owner as the ultimate custodian of the public good, or should ownership be in the hands of investors, leaving market-forces to be the driving force of efficiency and sustainability?

On the left, this is closely linked to the former wording of clause IV of the Labour Party constitution and its reference to “common ownership”, which subsequently became treated as synonymous with public (state or municipal) ownership. The author of the constitution, Sydney Webb, subsequently wrote in the Observer: ‘This declaration of the Labour Party leaves it open to choose from time to time whatever forms of common ownership, from the co-operative store to the nationalised railway and whatever forms of popular administration and control of industry that may in particular cases commend themselves.’¹⁴

“From the co-operative store to the nationalised railway” is a pluralistic approach to ownership.¹⁵ It argues that the exact form of ownership and governance should reflect the needs of the particular service. Social care is likely to need something different from railways. But the underlying point is that

¹³ See for example the emergence of social care cooperatives in Italy discussed by Pat Conaty https://www.uk.coop/sites/default/files/uploads/attachments/social_co-operatives_report1_0.pdf

¹⁴ This argument is set out more fully by Peter Hunt in *Post Office: Made Mutual, Mutuo* (2010)

¹⁵ In today’s language “forms of popular administration and control of industry” would most likely be described as “forms of governance and ownership”



whatever the specifics in each case, core services need to be owned and operated for the common good.

It would be foolish to suggest that the Rochdale model of ownership is a panacea for this thorniest of questions. But it would be equally absurd, in the debate about the ownership of core public services, to fail to take seriously an established, internationally recognised and proven set of ideas and principles which provide the basis for organisations carrying on business for the common good.

The basic questions about the future of public services are:

- who is most appropriate to be the ultimate owner of services to ensure that they continue to operate for the public good (the custodianship role)?
- what is the most appropriate driver of efficiency to ensure long-term economic sustainability?

Limiting our answers to the first question to a binary choice between the state and investors will fatally inhibit imaginative thinking, and irrationally rule out the idea that ordinary people – users, workers and others whose daily lives are affected by a particular service – can play a significant part in the custodianship role.

In addressing the second question, we have decades of experience to illustrate the disadvantages of investor-ownership driven by the pursuit of profit, and state ownership subject to constantly changing political agendas and the undeniable tension between national/local government and the operation of individual services.

The provision of services is an enterprise activity, which needs people with experience of enterprise and organisational arrangements designed for enterprise; but enterprise for the common good, not for private benefit.

INTERNALLY

CO-OPERATIVE GOVERNANCE

The last few decades have seen major governance challenge for all types of organisation including companies, charities and cooperatives. Governance constantly evolves to adapt to a changing world and to meet new challenges. Cooperatives are no different and their governance, particularly of large and complex cooperative businesses, needs to evolve.

A particular problem for cooperatives, and indeed other organisations which are not investor-owned, is that much discussion about the development of governance is dominated by the corporate governance of public limited companies. The Cadbury Report in 1992 was probably the beginning of modern thinking on governance, and it recognised that governance needed to be designed to achieve the purpose for which the organisation existed, as reflected by today's UK Corporate Governance Code: "The purpose of corporate governance is to facilitate effective, entrepreneurial and prudent management that can deliver the long-term success of the company."



But of course the purpose of corporate governance for public limited companies is not the same as the purpose of governance for cooperatives. Everybody knows that the former is all about the maximisation of economic return for shareholders; but we have lacked a similarly concise articulation that explains why cooperatives exist and the purpose of cooperative governance. The result is a danger that in the absence of such clarity, our thinking about the details of how cooperative governance should evolve is both unclear, and risks being diverted by ideas imported from investor-owned businesses.

Our articulation of cooperative purpose is helpful in this context. It provides a basis for considering issues such as whether or not to establish different constituencies of interest, the role of independent directors, and the role of elected representatives. We plan to publish a further paper on cooperative governance early in 2018 with a view to stimulating discussions about this important subject

Co-operative governance seeks to facilitate a fairer and more just approach to business, which

- *Seeks the common good by properly taking into account the interests of those most affected by the business, usually customers, workers and local residents, but also recognising wider interests including the providers of capital, volunteers and future generations*
- *Strives to avoid harm, exploitation and oppression*
- *Has ownership arrangements appropriately dispersed among relevant constituencies, not concentrated by capital*

CO-OPERATIVE CAPITAL

An important issue in the background to the growth of the cooperative economy is funding. In its first half century or more, the movement grew at an astonishing rate, not only because it provided an extremely effective self-help mechanism enabling people to get access to good quality basic provisions at a fair price, but also because it provided a way for people to build up capital in their society through undrawn dividends. As a result cooperative capital grew from £28 to £23 million in that fifty year period. There were regular debates in Congress about what to do with all the capital, and it funded cooperative development in a wide range of fields, and in some cases created the basis for future public services.

Capital in cooperatives is capable of funding activities in many new fields today, but unlike a hundred years ago, cooperatives do not have the same capital resources. A fundamental reason for this is that our modern financial services industry is built upon an assumption that people (usually referred to as “investors”) are simply looking to secure the maximum return and growth on their savings. There is a wide range of financial services products built around shares in public limited companies, and most people’s savings and pensions are based around these products.

Few people today would think of putting their available funds into a cooperative. There is a significant market for ethical investments – that is to say financial services products based on investments in businesses which expressly exclude the arms trade, tobacco etc. But such investments often still seek to maximise the return for investors.

Societies which are overtly operating for a wider social purpose, or common good, effectively offer something else for savers. For those who want to receive some compensation for the use of their capital whilst they do not need it for the time-being, but who also want their capital to be put to good use in the meantime, there are very limited options. Similarly for those who specifically wish to avoid investing their savings in profit maximising businesses.



This is a big subject to explore, and we cannot do it justice in this brief publication. All we seek to do in the present context is to highlight the significance of a clear articulation of cooperative purpose based around the language of the common good, and draw attention to the possibility of it providing a broader basis for societies to seek to attract members' capital, should they wish to do so. If we want enterprise for the common good, we need capital for the common good.

REPORTING AND ACCOUNTABILITY

Claiming to trade for the common good and the wider purposes set out above immediately opens societies to challenge. The very claim needs to be set out in some detail, and evidence provided to justify it. And it needs to be subject to scrutiny, debate and challenge.

Societies are already involved in reporting on their social goals, on social responsibility, and on ethics and sustainability. Such reporting is the basis of accountability to members, and societies expect to be challenged and to have to respond at public meetings, online, and in dialogue with members and others.

Adopting a more formal claim about the basis on which they trade is clearly a very serious step to take, and may well require more detailed and sophisticated reporting, probably on a more broadly accepted basis across the movement. However this isn't essentially a new thing to be doing.

Of course it is relevant to note that investor-owned companies report on corporate social responsibility as well. Company law requires quoted companies to prepare a strategic report which must (amongst other things) include information about environmental matters, the company's employees, and social, community and human rights issues.¹⁶ Such reporting is required "to the extent necessary for an understanding of the development, performance or position of the company's business." Interestingly, increased new reporting requirements have been introduced and are now in force¹⁷ as a result of a recent EU Directive. Such reporting now includes information to the extent necessary for an understanding of the impact of the company's activity.

The more fundamental point to make is that shareholders in companies invest in order to secure an economic return, and this is underpinned by the codified duties of directors.¹⁸ Whilst there is a point at which failure to live up to expected standards of behaviour can ultimately have an impact on reputation and share price, for investor-owned businesses social reporting is more of a defensive activity and fulfilling imposed requirements, rather than a core purpose of their business activities.

Cooperatives are already in a different position, because members ARE interested in how their society behaves; unlike company shareholders, their primary interest is not in return on capital invested, and whilst they have an interest in their society prospering economically, they are likely to be alert to the society's social responsibility. For cooperatives, social responsibility reporting is therefore a positive activity, in support of a society's express objectives as a trading entity with social as well as financial goals.

¹⁶ Section 414C Companies Act 2006

¹⁷ Sections 414CA and 414CB which apply to financial years beginning on or after 1st January 2017

¹⁸ Section 172 Companies Act 2006



TO CONCLUDE

In its Blueprint for a Co-operative Decade, the International Cooperative Alliance set out five headings under which it sought to pursue its strategic objective for the cooperative form to become (amongst other things) the fastest growing form of enterprise by 2020.

The central theme of the Blueprint is identity – cooperative identity. We have set out above how we believe that a clearer articulation of cooperative purpose based around the common good provides a powerful way of securing such identity against businesses which exist for private benefit of investor shareholders.

Two further themes of the Blueprint are supportive legal frameworks, and reliable cooperative capital which guarantees member control. As explained above, we believe that both of these objectives can be substantially advanced through a clearer understanding and promotion of cooperative purpose.

In other words, not only does this approach appear to be timely in a UK context where there is a real thirst for fairer business which respects those most affected by business activity; but it also seems to be consistent with the broader objectives of cooperation more widely in developing the strategic role cooperatives can play in the future.





Cliff Mills writes constitutions for co-operative, mutual and member-based organisations. These have included leading retail co-operatives societies, NHS Foundation Trusts, tenant and employee-owned social housing providers, and a range of other sectors including leisure services, community health, primary care, youth services, community shops, energy and probation.

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