



## Cooperative Economies in a Global Age

A thesis submitted in fulfilment of the requirements for the degree of Doctor of Philosophy

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## **Declaration**

I certify that except where due acknowledgement has been made, the work is that of the author alone; the work has not been submitted previously, in whole or in part, to qualify for any other academic award; the content of the thesis is the result of work which has been carried out since the official commencement date of the approved research program; any editorial work, paid or unpaid, carried out by a third party is acknowledged; and, ethics procedures and guidelines have been followed.

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# Table of Contents

<b>List of Figures</b> .....	<b>vi</b>
<b>List of Acronyms and Abbreviations</b> .....	<b>viii</b>
<b>Summary</b> .....	<b>9</b>
<b>Chapter 1 Introduction</b> .....	<b>12</b>
1.1 Context.....	12
1.2 Research Aim and Scope.....	16
1.3 Research Approach .....	17
1.4 Thesis Structure.....	17
<b>Chapter 2 The promise and limits of globalization</b> .....	<b>20</b>
2.1 Neoliberal Globalism .....	20
2.1.1 <i>The problem with Capitalism</i> .....	24
2.1.2 <i>Why neoliberalism grew so dominant</i> .....	27
2.1.3 <i>Limits of neoliberal globalization</i> .....	29
2.2 Alternative economic principles .....	34
2.2.1 <i>Justice Globalism</i> .....	37
2.2.2 <i>Competition and cooperation</i> .....	39
2.3.3 <i>Solidarity Economics</i> .....	41
<b>Chapter 3 Origins and types of cooperative economies</b> .....	<b>47</b>
3.1 Historical overview of cooperatives .....	47
3.1.1 <i>Origins in the industrial revolution</i> .....	47
3.1.2 <i>The rise of the cooperative movement</i> .....	49
3.1.3 <i>Downfall and marginalisation</i> .....	51
3.1.4 <i>Rediscovery through the new left</i> .....	53
3.2 Cooperative economies .....	55
3.2.1 <i>Typology of cooperatives</i> .....	56
3.2.2 <i>Cooperative governance</i> .....	61
3.2.3 <i>Focus on Worker Cooperatives</i> .....	65
3.3 Cooperative Globalization.....	69
3.3.1 <i>Internationalisation through networks</i> .....	70
3.3.2 <i>Types of cooperative globalization</i> .....	76
3.3.3 <i>Fair Trade</i> .....	84
<b>Chapter 4 Empowering Cooperative Economies</b> .....	<b>91</b>
4.1 Research Approach .....	91
4.1.1 <i>Methodology</i> .....	91

4.1.2	<i>Case Study Selection</i> .....	99
4.2	Case Studies .....	102
4.2.1	<i>Equal Exchange</i> .....	103
4.2.2	<i>Cooperative Coffees</i> .....	106
4.2.3	<i>Mountain Equipment</i> .....	110
4.2.4	<i>Growmark</i> .....	113
4.2.5	<i>Sumac and Planet Bean</i> .....	116
4.2.6	<i>Mondragon</i> .....	120
4.2.7	<i>The Co-Operative</i> .....	126
4.2.8	<i>Fonterra</i> .....	130
<b>Chapter 5</b>	<b>The Age of Cooperation .....</b>	<b>136</b>
5.1	Case studies discussion .....	136
5.1.1	<i>Globalizing cooperative networks</i> .....	136
5.1.2	<i>Governance &amp; practices of international cooperatives</i> .....	144
5.1.3	<i>Advantages of transnational cooperative economies</i> .....	150
5.2	The road ahead.....	153
5.2.1	<i>Towards cooperative economies</i> .....	153
5.2.2	<i>Further research</i> .....	162
5.2.3	<i>Outlook: A humane economy</i> .....	164
<b>References</b>	<b>.....</b>	<b>170</b>

## List of Figures

Figure 2.1: Capitalism’s Shortcomings.....	26
Figure 2.2: Core ideological claims of justice globalism .....	38
Figure 2.3: Solidarity Economy Map of New York City (partial).....	44
Figure 2.4: Concepts and Issues of Solidarity Economies .....	45
Figure 3.1: Types of cooperatives with related economic sectors .....	57
Figure 3.2: Principles of cooperation.....	62
Figure 3.3: Collective and hierarchical cooperative governance .....	63
Figure 3.4: Governance of Worker Cooperatives.....	64
Figure 3.5: Divisions of power in worker coops .....	67
Figure 3.6: The governance of global value chains .....	71
Figure 3.7: How to start a network – From the idea to the network and Cooperation.....	72
Figure 3.8: Regional and global cooperative networks.....	74
Figure 3.9: Centralised and decentralised networks .....	75
Figure 3.10: Modes of Cooperative Internationalisation .....	77
Figure 3.11: Types of cooperative globalization.....	78
Figure 3.12: Multi-Stakeholder Cooperatives Membership Classes.....	80
Figure 3.13: Cooperative Fair Trade Supply Chain.....	81
Figure 3.14: Producer cooperative network.....	83
Figure 3.15: A Fair Trade Supply Chain.....	84
Figure 3.16: Fair Trade Principles.....	85
Figure 4.1: The logic of comparative case studies.....	93
Figure 4.2: Shortlist of case study cooperatives.....	100
Figure 4.3: List of final case studies .....	101
Figure 4.4: Case study interviews .....	102
Figure 4.5: Equal Exchange’s Governance structure .....	104
Figure 4.6: Fair Trade Supply Chain Comparison.....	105

Figure 4.7: Cooperative Coffees' multi-stakeholder network.....	108
Figure 4.8: Multi-stakeholder environment of MEC .....	111
Figure 4.9: Growmark's Business Areas .....	114
Figure 4.10: Mondragon's global network of subsidiaries.....	120
Figure 4.11: Governance of Mondragon's cooperative network.....	122
Figure 4.12: The Co-Operative Group, its principal subsidiaries, joint arrangements and associates.....	126
Figure 4.13: The Co-Operatives Group's Governance Structure.....	128
Figure 4.14: Fonterra's new capital structure.....	132
Figure 4.15: Fonterra's network structure .....	133
Figure 5.1: Economic Democracy mirrors political democracy.....	137
Figure 5.2 & 5.3: Federated Cooperative Systems & Solidarity Cooperatives.....	138
Figure 5.4: Pathways to cooperative globalization.....	139
Figure 5.5: The governance of cooperative networks.....	145
Figure 5.6: The elements of cooperative governance.....	146
Figure 5.7: Building blocks for cooperative ecosystems.....	155
Figure 5.8: Union Cooperatives Structure.....	160
Figure 5.9: Popular strategies towards cooperative economies.....	164



## **List of Acronyms and Abbreviations**

ATO	Alternative Trading Organization
CBD	Central Business District
CEO	Chief Executive Officer
CFO	Chief Financial Officer
EU	European Union
FLO	Fairtrade Labelling Organization
FTF	Fair Trade Federation
GPD	Gross Domestic Product
ICA	International Cooperative Alliance
ILO	International Labour Organization
IMF	International Monetary Fund
MCC	Mondragon Cooperative Corporation
MEC	Mountain Equipment Cooperative
NGO	Non-Government Organization
PR	Public Relations
SSE	Social and Solidarity Economic
TTIP	Transatlantic Trade and Investment Partnership
UN	United Nations
WFTO	World Fair Trade Organization
WTO	World Trade Organization

## Summary

Globalization is often heralded as a success story in bringing the world closer together, spreading peace and prosperity, and expanding access to cheap goods and services. Yet, the rapid expansion of free markets and unchecked capital flows has made life more insecure and stressful for many, increased inequality and created poor working conditions in many parts of the world. While these negatives could be accepted as the price for an ever more democratic, peaceful and wealthy planet, or brushed aside as a natural phase of growing pains, the downsides of our current wave of globalization can also be read as a consequence of diminished political control that has given into the demands of capital over the needs of humans.

In its early days, capitalism needed a ruling class that sponsored not only the capital, but also the ideas and entrepreneurial know-how to manufacture goods and deliver its services. With economic success, employers and workers gained the necessary knowledge, and in many cases the capital, to create their own businesses. We could have an age of educated, enlightened workers and socially responsible corporations, but we are we still compliant to the 1 % and their Ponzy schemes. In every area of our lives we value our freedom to choose, to be in charge, and to decide what we want to do. Yet, at our workplace, most of us submit to a “feudal” order of hierarchies and orders, not even participating fully in the earnings of our labour, instead leaving much of the profit to senior management, owners, and faraway shareholders.

Workplace democracy starts when employees have their say in organizational matters, manage themselves and get equal pay for equal work. Owning their share of that workplace is just one way of being valued for their contribution. An involvement in the decision-making process and a fair share of operative power also differentiate cooperative from corporate businesses. The grip of the neoliberal mantra that there is no better way can only be broken through highly visible successful alternatives that inspire the imagination and offer more choice. A cooperative workplace extends the freedom and promise of democracy into our working lives.

This doctoral thesis looks at the theory and practice of cooperative economic networks with an integrative understanding of sustainability as a way of living and working that does not compromise the social, economic, or environmental needs of the future. It has been established that cooperative economies can be excellent vehicles for sustainable development and social change, but there is ongoing distrust and suspicion against cooperative workplaces as they are different to the commonly known structure of employed workers.

Cooperative enterprises are a resilient form of market organizations because they place a high value of education, training, and ongoing innovation, are part of community that shares good advice, and their members are loyal customers or workers. As technological progress and the liberalisation of international trade and finance are levelling the economic playing field, it becomes more difficult for cooperatives to keep up with their global competitors and at the same time remaining faithful to their values. If a coop wants to adhere to the cooperative principles of self-control and member ownership it is problematic to engage with overseas businesses or coops of a less democratic nature.

This research discusses to what extent and how cooperatives can network across borders and throughout their home regions on equal grounds, without compromising their values and principles. It analyses how existing coops deal with globalization and which approaches seem most promising. Little is known about the effects of networks in cooperative economies on any scale, especially on an international level. The field of cooperative theory is just being rediscovered and cooperative economists have been using neoliberal theories of globalization rather than developing their own ethical economics. To this day, many cooperatives do not consider internationalisation as an ethically viable option for their businesses because they have only seen how neoliberal globalism plays its tricks on workers, communities, and the environment.

It is at this convergence point of regionally embedded coop networks that open up to form global equal business partnerships that this thesis situates itself. Utilising critical discourse analysis and qualitative research, this work examines 8 international networks of cooperative enterprises as case studies through in-depth expert interviews onsite in Canada, New Zealand, the United Kingdom, Spain and the United States. It does so in answering the following research questions: What are cooperative economies and where do they come from? What can cooperative economies and cooperative enterprises contribute to overcoming problems and injustices caused by the current economic system of globalization? What problems and barriers do cooperatives face when globalizing and to what extent can they be resolved?

This thesis identifies three types of cooperative globalization, namely glocal cooperative networks, international multi-stakeholder cooperatives, and transnational cooperatives. Consumer, producer and worker cooperatives can follow two major pathways to develop into a larger and more hierarchical transnational federation of cooperative systems or engage more directly with their partners in an international network of solidarity cooperatives. The business models in a cooperative globalization are plentiful but the core principles are found to be quite similar: resilience through diversification, education, and innovation, strategic decision making power of the membership, an experienced board of directors that is kept in check through direct

member control, well-trained management and staff, effective and continuous communications, as well as transparency, openness, and legitimacy.

The study demonstrates that cooperatives can be just as efficient and effective as corporate designs, diversify and network in similar ways as competitive ventures, and can not only avoid the disadvantages of neoliberal globalism, but replace it with a kind of justice globalism. Regional cooperative economies and cooperative globalization can be married to become the cornerstones of a fairer and more sustainable world order that is already under way and is being developed in parallel to the established system.

# Chapter 1

## Introduction

### 1.1 Context

*"We want the people who are doing the work to govern the company."*

- Rodney North, Equal Exchange

Cooperative economies are all around us, but are often not recognised as cooperatives. They have different governance and networking models and are often not even called cooperatives. What unites them is a dedication to democratic principles, some more and some less hierarchical, but always with a focus on participation and strategic member votes to complement day-to-day work-related assessments as well as more long-term strategic decisions. To accommodate everyone's opinion is challenging and can slow the decision making process, but at the end of the day the result is more insightful decision making as basically the whole company is involved (Pendleton 2001, Kalmi and Klinedinst 2006, Lower 2010).

Cooperative globalization is all about networking (International Co-operative Alliance 2013). As networking takes extra time it comes at a cost. The smaller the partner organizations that network, the higher that cost usually is, although it can be outsourced to a degree to save time. Solutions include the creation of a clearing house or a communication office, unit, or branch, that will undertake the networking and sometimes marketing for a number of small businesses, potentially also including overseas partners. Another option is to schedule personal interactions around regular events that are already happening, like general meetings, visits, trade shows, conferences, and retreats.

The advent of low cost day-to-day online connectivity such as Sametime, Skype, and cheap overseas calls, makes it possible and easier for small businesses to partake in global relationships. All these avenues of international cooperation require communicative skills and often cultural understanding that need to be factored into the overall costs of going global. Networking costs have come down significantly throughout the last decades, but they can still be a burden for small workplaces that might be better off carving out a niche for themselves in local and regional speciality markets. Most medium-sized and larger organizations will benefit from working together with a carefully selected number of partners – international or domestic – if they put some initial effort into setting up efficient communication practices.

Economic democracy is capable of including the interests of future generations, the environment, and society at large into day-to-day business decisions (Vanek 2011). This ability stands in sharp contrast to capitalist economics where sustainability often is not a factor – or just a CSR afterthought. Although the ability can exist in those businesses as well, but it is usually not executed. That is why the United Nation (UN), the International Labour Office (ILO), and the European Union (EU) have all created programs to strengthen the social economy in recent years (Birchall 2013, ILO 2015, Cooperatives Europe 2010). In addition to the environmental concerns, the production of the commons has often been neglected as the State is perceived to take care of economic justice. Yet it is only commutative and distributive justice that policies and regulations are set up to uphold, and the creation of contributing justice has been relegated to the civil society.

Long before the days of the global financial crisis, many people have wished for a fairer, more democratic way of doing business with each other. The global cooperative movement has a variety of working solutions for this but has gone somewhat under radar. Generations of labour pioneers have tried and developed fundamentally different ways of organizing work, trade, and businesses (Curl 2009). In its ideal form, it is a more humane economy, based on equality instead of greed, care for the environment instead of its exploitation, and on the notion that we can achieve more by working together in cooperation than by competing against each other (Sennett 2015).

Cooperatives can offer a solution to many of the injustices caused by the dominating competitive economic system around the world (Duchrow and Hinkelammert 2004, Williams 2007, Mason 2015). Employee-owned worker cooperatives are particularly well-suited to democratise the economic sphere. Workplace democracies offer great potential for social change because they question the rule of capital over labour and the unequal distribution of power and wealth (Freeman and Haynes 2007, Pencavel 2012, Alperovitz and Speth 2015). A democratic economy of employee-owned enterprises puts not only key economic decisions, but also the ethical and environmental responsibilities of those businesses into the hands of the workers. However, many cooperatives do not consider internationalisation as an ethically viable option for their businesses because the cooperative principles make it difficult to engage with businesses of a less democratic nature (Reed and McMurtry 2009, Chieh and Weber 2015, Murphy 2015).

Cooperatives rely on other cooperatives to interact and trade with, places with similar ethics and therefore similar pricing and priorities (Cheney 1999, Williams 2007). Not only are day-to-day contacts and mutual trust and acknowledgement important for cooperatives, they also need to do business with local and regional peers to reduce their environmental footprint and to strengthen each other (Fairbairn 2004).

While cooperative businesses have been researched with regard to their response to economic crises, and regional cooperative networks are often seen as part of the global justice solution (Emily Kawano et al. 2008), little attention has been paid to cooperative networks that cover several countries. Often, the cooperatives that work internationally are caught in an ethical dilemma, whether to uphold their standards within the cooperation or not (Reed and McMurtry 2009). Furthermore, an ideological rejection of any type of economic globalization makes it difficult for many coops to even think of engaging with anyone beyond their own borders. Only recently, the core principle of cooperation between cooperatives is being applied to internationalisation, and the study of cooperative globalization is emerging as a new field of international cooperative economics (Williams 2007, Zamagni and Zamagni 2010, Gress 2011).

Just as our political system needs active participation to stay balanced and healthy, our economy depends on individuals who engage with the shortcomings of capitalism and confront hierarchies of power with democratic ideas of inclusion and social cohesion. Too many people are driven out of their jobs through outsourcing, redundancies or burnout, and have experienced stagnating wages or juggling multiple jobs, while profits and bonuses often stay on a high level. This development has usually been attributed to globalization, and while it is true that the recent pressures on labour are caused largely by unchecked capital flows to where they yield the highest returns, this is an inherent consequence of capitalist economies that has been understood since the first crises of industrialization more than 150 years ago. The division of society into haves and have-nots is as artificial as the right to own property or the rule of a king and can be overcome politically once the realisation sinks in that no law of nature dictates or even favours inequality amongst people, let alone the enrichment and profiteering of a small elite over the many that do the actual work (Milanovic 2010, Piketty 2014).

Many social movements have fought for more equality, both in the workplace and in society as a whole, and many of their achievements, such as shorter work-hours, health insurance and pensions, are now being challenged through laissez-faire economics, austerity measures and doctrines of unlimited growth. The more recent experiences of the Occupy movement, food and water riots and Social Forums have highlighted the need for systemic changes for both, our democracies and our economies (Byrne 2012, Reitan 2012, Steger et al. 2012). Globalization does not have to be a 'winner takes it all' of neo-colonial empires and corporate fiefdoms, it can be shaped like any other socio-economic process by political rules and socially conscious citizens. The system does not just consist of faceless bureaucracies and international institutions, but is being remade every day by millions of decisions that are often based on beliefs that reinforce the mainstream story of 'dog eat dog' economics.

Yet the idea that continued growth through more productivity, long hours, and hard work is the only way to organize modern societies is still very much alive (Westra 2015). A recent wave of happiness studies tells us that economic growth only makes people happier up to a certain point. Beyond it, the social, environmental, and personal costs outweigh the benefits of further growth and it can lead to inequality and insecurity (Layard 2006, McKibben 2008, Graham 2011). We have structured our economies in a way that keeps everybody going for more, although most nations of the global North had already reached a wealth around the 1970s to enjoy life to its fullest. People trying to achieve more has actually resulted in the fact that, except for a small elite and its enablers, work and life has become more challenging again, because of stagnating or declining wages accompanied by longer hours and an ever increasing workload, rather than the promised shorter work due to automation and productivity gains. At the same time people in the Global South never had the chance to achieve the wealth and work benefits and still struggle to live from their hard work (Roach 2008, Hart-Landsberg 2013).

In Western democracies, the increasing inequalities have created disappointment and frustration, both with politics and with the current structure of our economy (Stiglitz 2012). People who can no longer fare on a full-time wage, who cannot afford to live in the city they grew up in, or who simply cannot earn a livelihood any longer, have started to organize and protest in earnest (Ghimire 2011). As a consequence, the economic elite and politicians get more and more isolated and have to fence themselves in (Duchrow et al. 2006).

The social rifts are growing stronger with every quarter of unequal growth and have long begun to destabilise our societies with many liberal parties being pushed a long way to the right, and with the extreme right gaining more power. These movements feed off a population that has given up on the practice of solidarity that has been denied to them so often (Streeck 2014). The response from the left has been more diverse, with solutions for our unequal and unfair system are ranging from gaining stronger national control over tariffs, capital, and trade regulations to the disposing of the World Trade Forum - sometimes accompanied by the suggestion to create a more legitimate international trade body - and to the complete localisation of all economic activity (Kriesi et al. 2009). The only camp that seem to lack any radical ideas would be the political centre, which has long been compromised through the status quo and its lack of conceivable alternatives, its endless reforms, and its unwavering belief that more of the same will eventually make everybody happy (Reich 2016).

Yet there are plenty of alternatives, and cooperative enterprises are one part of the solution to overcome the inequalities and injustices of the current economic system. Cooperative workers participate in business decisions and receive an equal pay. This workplace democracy takes effect on the level of the respective business, but it can also radiate and impact other businesses.



The extent to which cooperative principles can influence globalization and international economics will be analyzed in this thesis.

## **1.2 Research Aim and Scope**

This thesis will investigate whether and how local, regional, and global cooperative networks can help build democratic economies, particularly focusing on approaches to international cooperation by cooperatives. It seeks to advance the understanding of cooperative economies, and their networking options on the regional and international marketplace. This will be done by analysing a number of cooperatives working on an international level and their governance structure and practices towards global cooperation. The study intends to determine paths towards supporting a more just globalization and favouring and impeding factors.

The overarching research questions of this thesis are:

- What are cooperative economies and where do they come from?
- What can cooperative economies and cooperative enterprises contribute to overcoming problems and injustices caused by the current economic system of globalization?
- What problems and barriers do cooperatives face when globalizing and to what extent can they be resolved?

These research questions have been developed from the obvious need for a fairer world economy and a fairer path to globalization in order to avoid the exploitation of poorer countries and workers, and to share profits of business more equally. They have also been formed by the growing perception that cooperatives can offer solutions to these problems, but have mostly been overlooked by current research as well as the global justice movement. Thus, there is a need to examine coop networks to identify favourable practices for building and maintaining international networks. To provide the background for this research chapter 2 and 3 will address the context of the current form of globalization, alternative models to this and the history and presence of cooperatives.

This thesis examines cooperatives and cooperative networks. Different types of cooperatives can be distinguished and chapter 3 will explore those different types, while chapter 4 defines which types of cooperatives are studied and why. Furthermore, the study concentrates on cooperatives in Western countries, although those cooperatives cooperate with businesses and coops in different countries all over the world. This allows a comparability of cases as the cooperatives have been built on similar cooperative principles. Naturally, differences exist between different

countries and business and coop types, but overall their experiences can be compared, especially as the 'cultural' background of cooperation is not too different. However, it needs to be kept in mind that responses and approaches to global cooperation depend on the industrial sector, the decisions of the coop, its workers and further local factors. This supports the notion that there cannot be 'one' way to cooperative globalization and sets limits to the potential generalisation of the results of the case studies. This will be taken into account in the analysis and conclusions.

### **1.3 *Research Approach***

This work is neither purely economic nor a contribution to the social sciences alone, but rather multi-disciplinary in its scope and ambition. As a thesis in global studies, this research draws on any discipline that promises answers to its specific questions, which includes the fields of psychology, anthropology, biology, ecology, systems theory, and geography. Consequently, a multi-method approach has been applied to this research.

From the literature, the theoretical framework for the empirical study has been developed and case studies have been selected in regards to their network scale and participative practices. While the effort to identify cooperatives with members in other countries was intense, very few networks met this criterion. A broader search, based on a looser definition of transnational cooperatives, filtered only by language barriers and through the companies' willingness to participate, eventually led to the selection of eight networks of varying scale, reach, and horizontal integration. The empirical research is mostly based on qualitative research while the primary collection technique consists of eight expert interviews accompanied by eight informal conversations with practitioners from each cooperative networks as well as relevant experts.

Further data collection techniques have been used in the form of a content analysis, to compare and contrast the information gained through the interviews. These techniques include the review of literature and analyses of documents, websites and newsletters in a discourse analysis. The interviews and informal conversations with experts have been evaluated and analysed in order to answer the research questions. For the conclusions, the results of the empirical study have been brought together with the theoretical framework and the literature review. A more detailed description of the research design is given in chapter 4.1.

### **1.4 *Thesis Structure***

This thesis begins with laying out its theoretical underpinnings, by exploring today's globalization through neoliberal globalism and its alternatives in chapter 2. Why and how global

capitalism is problematic for many people and for the planet is analysed in chapter 2.1, with a closer look at the underlying issues with our economic system (2.1.1). An overview of the reasons for the prevailing dominance and consequences of neoliberalism (2.1.2) is followed by a closer analysis of capitalism's social and environmental impacts and the limits of laissez-faire economics (2.1.3). Alternative organizing principles for a just globalization are examined in chapter 2.2. Equality, sustainability, and participation are at the heart of the social justice movement (2.2.1) and are identified as cornerstones of a more humane economic order in a discussion of the roots of competition, cooperation, and trust (2.2.2). How a solidarity economy of fair market rules, open structures, and democratic workplaces could work is then defined and discussed through recent examples (2.2.3).

Chapter 3 explains cooperative economies, their development and potential. It starts with an explanation of what constitutes a coop and depicts the different types of coops (3.1.1). Then it details the beginnings of cooperatives in Northern England during its industrial urbanization in the early 19<sup>th</sup> century (3.1.2), highlights the first highs and lows of the movement (3.1.3), its downfall (3.1.4) and rediscovery (3.1.5) to the state of cooperatives today (3.2). A typology of coops is developed from that rich history (3.2.1) to conclude with a discussion of how they are managed (3.2.3) and to comprehend why worker cooperatives are most suited to bring about the economic, environmental, and social changes identified in the previous chapter. How a cooperative globalization (3.3) could be organized through cross-border membership (3.3.1) and how this works for different kinds of coops (3.3.2) is described, supplemented with a more detailed description of the theory and practice of fair trade (3.3.3) as a key characteristic of justice globalism and cooperative globalization.

In chapter 4, a methodology is developed that is based on the methods of content analysis, comparative case studies, and guided expert interviews (4.1.1). To select the cooperatives for this research, a list of relevant worker, consumer, and producer coops with international engagement was compiled (4.1.2), contacted, and narrowed down to eight in-depth case studies (4.2). These are the New England-based cooperative 'Equal Exchange' (4.2.1), the US-Canadian solidarity coop network 'Cooperative Coffees' (4.2.2), the consumer cooperative 'Mountain Equipment' (4.2.3), the 'Growmark' network of farm services (4.2.4), the worker cooperative 'Sumac' based in Guelph, Ontario (4.2.5), 'Mondragon', the largest worker cooperative in the world, based in Spain (4.2.6), the UK's 'Co-Operative Group' (4.2.7.), and finally New Zealand's dominating dairy producer, the 'Fonterra' cooperative (4.2.8).

The purpose of chapter 5 is to analyse and draw together the findings from the case studies and the literature. Reflecting on the findings from the case studies, the chances of a broader transition into an Age of cooperation with cooperative economies and clever marketing as

facilitators are quite real (5.1). Following the research questions, pathways for a cooperative globalization are put forward (5.1.1), the transformational powers of economic democracy are discussed (5.1.2), and the advantages and challenges for international cooperative networks are analysed (5.1.3). The work concludes by proposing the next steps towards a fair globalization (5.2.1) discusses possibilities for further research (5.2.2) and provides an outlook for a humane economy (5.2.3).

## Chapter 2

# The promise and limits of globalization

*“The simple fact of the matter is, if we cannot make globalization work for all, in the end it will work for none.” – Kofi Annan (Annan 2001)*

This chapter explores why economic globalization has created unequal wealth growth rather than good lives for all (2.1), and what can be done to humanise the impact of our interconnected high-speed world on societies and individuals (2.2). Because what is commonly understood as globalization today is strongly influenced by neoliberalism – as a form of capitalism, which’s shortcomings are briefly discussed (2.1.1) – chapter 2.1.2 will take a closer look at the formation of the neoliberal belief system in order to explain how this ideology came to dominate much of our political debate, public regulations and economic decision making. As capitalism operates on the assumption of unlimited growth, analysing this myth of growth and uncovering the mounting costs of neoliberal economics will conclude the overview of our current type of globalization (2.1.3).

As an answer to the rampant economic development that has characterised so much of the recent decades in both the Global North and South, a new form of globalism has taken roots in the minds and undertakings of worldwide social movements that are seeking to reconcile the wealth generating powers of capitalism with the values of equality, justice and fairness (2.2.1). These global justice movements and their economic alternatives are based on cooperation and common needs rather than being built on competition like our mainstream economic system (2.2.2). Alternative economies are modelled around Solidarity and the needs of the community, and have already proven their viability in many initiatives, ethical businesses, and workplace democracies around the world (2.2.3).

### **2.1 Neoliberal Globalism**

Globalization is often heralded as a success story in bringing the world closer together, spreading democracy and prosperity, and expanding access to cheap goods and services. Yet the rapid expansion of free markets and unchecked capital flows has made life more insecure and stressful for many, increased inequality and created poor working conditions in many parts of the world. While these negatives could be accepted as the price for an ever more democratic, peaceful and wealthy planet or brushed aside as a natural phase of growing pains, the downsides

of our current wave of globalization can also be read as a consequence of diminished political control that has given in to the demands of capital over the needs of humans.

A standard definition of economic globalization today is “the development of an increasingly integrated global economy marked especially by free trade, free flow of capital, and the tapping of cheaper foreign labour markets” (Merriam-Webster 2016). International economic activity has been occurring for hundreds of years, but since the 1970s, through technological and communication advances, a new level of capital movement and outsourced production has been reached, which has led to an intensification of the existing tendencies (Ellwood 2001). The cost and time factors associated with distance have decreased, which has increased global competition of nations as well as regions to attract capital investments. Beyond this economic sphere, globalization also has a cultural, a political, and an ecological dimension, that can be brought together in the concept of the ‘global imaginary’, that describes a growing consciousness of people around the world who feel that they now belong to a global community in addition to their national identities. (M. B. Steger 2008) A broader definition would therefore be that “(g)lobalization refers to the expansion and intensification of social relations and consciousness across world-time and world-space.” (Steger 2003:15)

Financial globalization took off after the economic crisis of the early 1970s when the world economy slowed down as markets for mass-produced goods began to saturate in industrialised countries. The collapse of the Bretton Woods agreement in 1971 triggered an enormous growth in international financial transactions. (L. T. Friedman 1999) This in turn fuelled a rapid expansion of world trade and the relocation of processes to lower-wage countries. Transnational corporations that emerged during the 1960s were able to switch investment to any part of the world which offered the most profitable conditions for an activity (Foster and McChesney 2012). Thus, “Globalisation emerged as a technological and political-economic system of control, integrating far-flung cities, regions and even nations in new international production and financial exchange systems.” (Gleeson und Low 2000:38)

Globalization and the connected economic changes have been considered by some to mark a shift in eras from what is known as ‘Fordism’ to ‘post-Fordism’ (Nash 2010). Fordism refers to the boom period from the end of World War II to the beginning of the 1970s in the industrialised Western world. It has been named after Henry Ford, to reflect the pioneering mass production methods and rules of management applied in his car factories in the USA in the 1920s and 1930s and the concurrent rise in the welfare state and Keynesian economics which awarded a large role for government in managing the economy (Amin 2014). Under this Fordist paradigm, Western countries experienced remarkable economic growth fuelled by a virtuous circle of growth based on economies of scale, increased mass demand due to rising wages, increased

profits based on full utilisation of capacity, and increased investment in improved mass production equipment and techniques. (Axford 2013)

The period since the stagnation of the world economy in the early 1970s is said to be a shift away from 'Fordism' as the salience of so many of the key elements of mass production and mass consumerism, such as full employment, mass markets for cheap standardised goods, manufacturing, the welfare state and the centrality of the national state as a unit of organization, has been fading (Sparke 2013). Accordingly, this phase has been named 'post-Fordism', although several other terms have emerged, such as post-industrial, post-modern, fifth Kondratiev and post-collective (Amin 2013). Some scholars have questioned the scale of the supposed shift by pointing to the endurance of Fordist mass industrial production in many countries (Wolf 2004), but overall the consensus prevails that a transformation is taking place and changes the structure of the global economy (Patomäki 2010).

One important characteristic of post-Fordism is seen in the trend from the manufacturing to the service sector. Employment in the service sector, particularly in business, finance and community services, as well as retail and wholesale trades, has been growing rapidly in Western countries since the 1970s. (Darian-Smith 2003) Although advanced economies have not entirely de-industrialised and much manufacturing still remains, the proportion of the workforce engaged in manufacturing has fallen as industries have relocated to countries with lower wage costs (Sassen 2007), leading to increased unemployment in industrialised countries, since the loss in manufacturing jobs has been larger than the growth in service-oriented jobs (Ellwood 2001). Because of more efficient production modes, there is still economic growth, but it is no longer coupled to higher wages or more jobs. As many of the poorest households lack the skills needed to find employment in post-industrial societies and are often excluded from prospering areas with open positions, there is a growing social, financial and spatial polarisation (Went 2002), while "service employment growth has been concentrated at two extreme ends of this labour submarket, producing mostly high-paid and low-paid jobs, with not much in-between." (Gleeson und Low 2000: 42)

More flexible patterns of production have led to the demand for workers to be flexible in response to market needs, as firms are getting leaner by reducing the size of their permanent, full-time labour force and making use of the services of sub-contractors instead. (Beck 2005) Low income jobs demand flexibility and mobility through increasing casual and part-time jobs, high income and knowledge-based jobs offer flexible patterns like tele-working, home-working and flexible hours to employees. At the same time, negative socio-economic effects of this new division of labour in the global North are "capital flight, deindustrialization, infrastructural decay, rising unemployment rates, enhanced fiscal constraints, budgetary crises, destructive

inter-urban competition and greater economic uncertainty” (Brenner 2002:14). Connected to this is the general transition towards specialization, inter-firm networks and just-in-time production, which have been described as key characteristics of post-Fordism. (Amin 2014)

While some observers focus on the greatly diminished level of control at the local level (Robinson 2014), others see concurrent tendencies towards the localisation of economic activities that encourage the geographical clustering of productive activity and regional specialization in particular products. (Panic 2011) They argue that economic processes, while playing out on world-wide markets, are at the same time dependent on localised production bases. Companies with place-specific clusters of non-substitutable locational assets, including labour, technology, infrastructure and other place-bound externalities or untraded interdependencies can benefit from ‘glocalization’ (Hamelink in Lechner und Boli 2013). Drawing on examples of the Third Italy, the German State of Baden-Württemberg and high-tech regions, such as Silicon Valley, it is suggested that local agglomerations of companies working in the same industry accelerate response times to changing markets, foster innovation, and benefit from the proximity, which can build solidarity and trust, encourages personal contacts, offers a greater pool of skills and know-how and finally can ease access to input and output markets. (Cowen 2002)

While globalization has led to a change from manufacturing to service societies in the global North, the South has long served as the workbench and resource pit. (Steingart 2008) Thomas Friedman speaks about a ‘Golden Straitjacket’, where developing countries have to accept privatization, liberalization, deregulation, reduce corruption, privatize pensions, downsize their governments and balance their budget. “Unfortunately, this Golden Straitjacket is pretty much ‘one-size fits all’ (...) It is not always pretty or gentle or comfortable. But it’s here and it’s the only model on the rack this historical season.” (Friedman 1999:105) There is only one way into the global ‘free’ markets, and that is to give up sovereignty and prescribe to the neoliberal medicine coming from the WTO, the World Bank, and the IMF. Along the way, economic and cultural diversity is lost, and just a few industries that have the largest comparative advantage on global markets make countries that join international trade agreements more volatile and dependent on the global economy than before. (Nester 2010)

In the global North, democracy and capitalism developed during the same period, and are thus strongly interwoven, up to that it is difficult to distinguish where political power stops and the control of economic forces begins. Capital in an economic sense encompasses both the stationary equipment used to produce goods as well as the human workers to oversee, use or manage these facilities. In classical capitalism, the machinery, grounds, and materials are privately owned, giving all power to the proprietor, making the workers dependent on an entrepreneurial class.



Over time, more complex arrangements of ownership have developed, with companies owing financial returns to their investors, larger conglomerates or equity holders. For the workers, these diversified forms of ownership make things more difficult, as they then have to satisfy the expectations of various stakeholders in addition to honouring their commitment to multiple levels of management. Failure to do so can lead to the loss of jobs in more complex organizations even if the work is done well. This dependency on others is the defining element of capitalism, which has been described as “a particular way of organizing the economic activities of a society. It can be defined along two primary dimensions: the nature of its class relations, and its central mechanisms of economic coordination.” (Wright 2010:22)

The difference between the contracting parties lies solely in the ownership of the productive means: workers offer their skills and time, while the capitalist or the group of investors creates the opportunity to put them to good use. Obviously workers could buy, start or invest into their own business, however as they are often lacking the financial resources it is difficult to do this alone, and was even more so at the beginning of industrialisation and capitalism, when workers could barely support themselves. However, when workers band together and cooperate they can be able to have their own business together and this is precisely what this thesis examines and a more detailed presentation of how this works will be given in chapter 3. Such an undertaking would elevate a person out of the class of workers into the circles of entrepreneurs, making them independent or collaborating worker owners, and potentially capitalists in their own right. (Ertuna 2009) The variations of ownership and control are plentiful, and the lines between capitalism, cooperativism, and collectivism are fluid. Since the vast majority of people are dependent on an owning class, however, ours is still very much an age of capitalism.

### 2.1.1 The problem with Capitalism

*“The proposal of any new law or regulation of commerce which comes from this order [the dealers] ought always to be listened to with great precaution, and ought never to be adopted till after having been long and carefully examined, not only with the most scrupulous, but with the most suspicious attention. It comes from an order of men whose interest is never exactly the same with that of the public, who have generally an interest to deceive and even to oppress the public, and who accordingly have, upon many occasions, both deceived and oppressed it.”*

- Adam Smith (*Smith 1775/2007:200*)

What better historical figure to start a discussion of capitalism with than Adam Smith? Admired by many as the founding father of free markets, and hated just as fervently for it by others, Smith was but one of the universal moral philosophers from his age of enlightenment. Just like his peers, his was a quest for a wholly humanitarian society, and he was not going to leave markets unchecked by the sovereign. In his famous ‘Wealth of Nations’ he wrote: “The interest of

manufacturers and merchants is always in some respects different from, and even opposite to, that of the public. To widen the market and to narrow the competition is always the interest of the dealers.” (Smith 1775/2007:200) A strong proponent of locally regulated business activity, he opposed many forms of international capital flows or corporations – particularly after he learned about the way the East India Company and other explorative trade empires treated the natives – and he was fully aware that large enterprises would try to monopolize, build cartels, and influence politicians every time they had a chance.

Markets are a double-edged sword: the same drive that creates them, namely making a good deal, is the drive that distorts them. If left alone, markets move towards monopoly, so it is up to the state to enforce free interaction. This is what Smith’s famous ‘free’ markets are actually about: being free for all the people to function as needed and free from the distortions of capital. So, even in its early days, the enormous productive forces released through capitalism were thought to be in need of the most stringent rules to prevent them from destroying all those invisible hands that feed them.

While capitalism has changed over time, its defining features of reinforcing class structures that lead to hierarchical organization and managerialism still remain untouched. In fact, its evolution has not only been partial and gradual, but has formed a dominating coherence with ideas and institutions that continuously reinforce each other. Whenever a crisis or movement disrupts its hegemony, capitalism has shown remarkable flexibility in co-opting the new impulse for its own transition. (Kotz 2015) In regards to its power relations, capitalism is not too far removed from feudalism and traditional clan structures – albeit with the crucial distinction of having the freedom to opt out at any time – which might make it such a familiar and seemingly natural way of life. Today’s multinational corporations defend and lobby for their interests much like kings and chiefs, “(a)nd like the old regimes, the structure of corporate organization follows the hierarchical principle of gradations of authority, prerogative, and reward. It is undemocratic in its structure and modus operandi and antidemocratic in its persistent efforts to destroy or weaken unions, discourage minimum wage legislation, resist environmental protections, and dominate the creation and dissemination of culture (media, foundations, education).” (Wolin 2010:269)

Classical theory usually contrasts market economies with planned economies and uses the prerogative of individuals pursuing private interests in the exchange of goods or services that are coordinated in the aggregate as by an invisible hand. Taken together, these decentralized markets in conjunction with a stable supply of dependent workers create an enormous incentive to lower expenditure and the cost of production while increasing productivity to beat the competition. Thus, the race of undercutting, expansion, and exploitation takes its course, with the

irresistible price of ever faster, ever bigger profits driving the greatest engine of wealth generation that is known to man.

Erik Olin Wright has analysed the shortcomings and alternatives to capitalism with a rigor and depth rarely found in the social sciences today (E. O. Wright 2010). He identified a set of propositions (see figure 2.1) to show that capitalism has inherent flaws that cannot be overcome or reigned in, or else they would have been remedied by now. Since there seems to be no solution to this serious conundrum within the capitalist mode of economics, an alternative system would have to break with the unimpeded free market approach of classical economics and solve the power imbalance between a wealthy, owning managerial and a property-less working class.

*Figure 2.1: Capitalism's Shortcomings*



*Source: Own chart after Erik Olin Wright (Wright 2010: 24-25)*

### 2.1.2 Why neoliberalism grew so dominant

*“Neoliberalism is in the first instance a theory of political economic practices that proposes that human well-being can best be advanced by liberating individual entrepreneurial freedoms and skills within an institutional framework characterized by strong private property rights, free markets, and free trade.” (Harvey 2005:11)*

Neoliberalism is a pure form of capitalism without any security or welfare nets, where the State only functions to support free market activities, including legal and defence structures to protect private property. Since this radical capitalism has not been fully achieved yet, the drive to dismantle existing welfare schemes and social security programs is inherent to its fundamentalist advocates: “(...) Neoliberalism refers to a body of ideas and practices that emphasize individual responsibility and freedom (to choose); supports deregulation, privatization and fiscal discipline; and assumes that the more allocation tasks done through markets rather than states, the better.” (Biebricher and Johnson 2012:202-3)

The term ‘neoliberalism’ as we understand it today was reintroduced by disappointed Chilean scientists who fought the economic restructuring of their country in the 1970s. A US-installed junta introduced radical free market policies based on the ideas of a group of economists from the University of Chicago. Among them was Milton Friedman, an influential political adviser, who in the 1960s helped with President Johnson’s controversial ‘war on poverty’, and in the process became disillusioned with government in general. “The government sets out to eliminate poverty, it has a war on poverty, so-called ‘poverty’ increases. It has a welfare program, and the welfare program leads to an expansion of problems. A general attitude develops that government isn't a very efficient way of doing things.” (Friedman 2002) These conclusions were long proven wrong, as the poverty rate already dropped by 30 % during the first four years of the initiative, and the long term impact of policies introduced under the overarching ‘Great Society’ legislation, such as improved health, reduced racial inequality, and increased human capital, are now seen as successes. The perceived failure and consequential resentment of these government programs can be traced back to extreme promises, grossly inadequate funding, and apolitical, long term implementation that actually favoured poor counties rather than the precincts where congressmen, Democrats supporters and swing voters lived – mistakes that a politically more savvy President Roosevelt stayed clear off when he oversaw the universally applauded New Deal, although it failed to end the Great Depression (Bailey and Duquette 2014).

Neoliberal ideas found fertile ground among economists, politicians and decision makers confronted with the changes brought about by globalization, such as increasing unemployment, inflation and interest rates. Particularly the oil crisis in the early 1970s increased the perception

that the Keynesian interventionism was not capable of dealing with the problems of globalization. There are different explanations for and interpretations of the emergence of neoliberalism, most of them based on the oil crisis. One is that increases in wages during the oil crisis led to inflation rather than a decrease in unemployment, causing multiple other problems. Another interpretation is that Milton Friedman built on and presented the ideas of the Austrian economist Hayek as the best solution to deal with the problems and the seemingly unstoppable market forces in a way that convinced politicians and decision makers. A more class-related explanation does not believe in the power of the ideas, but understands the economic regime change in the 1970s as a restoration of the power of the capitalist class as a consequence of class fights that were caused by the oil crisis. Financial economists argue that the end of the Bretton Woods system and the emergence of international exchange markets at the beginning of the 1970s paved the way for a 'financialization' of world trade. The old real economic model was exchanged by a financially driven model and the Fordist framework of state power was changed to a framework of deregulation and devotion to market rules. This led to neoliberal policies being deployed in most Western nations, most famously by Margaret Thatcher in Britain and by Ronald Reagan in the United States (Harvey 2005, Chomsky 1999)

Put starkly, the crucial political issue of our times concerns the incompatibility between the culture of everyday reality to which political democracy should be attuned and the culture of virtual reality on which corporate capitalism thrives. Despite claims that the opportunity to be stakeholders, or to form start-ups, to revel in consumer choices, or just to get rich demonstrates the democratic possibilities of capitalism, there is no political affinity, only a disjunction between democracy and a system that assumes inequality among investors and reproduces inequality as a matter of course, depends upon individual self-interest as an incentive, practices a politics of misrepresentation, and hence is inconsistent with such democratic values as sharing, caring, and preserving." (Wolin 2010: 288-9)

Neoliberalism is an ideology, a development model, and a form of governance with the main economic threads of deregulation, privatization, and the reduction of the state quota. (Stiglitz 2003) As an ideology, it describes the world in a coherent way that reduces complexity to those that prescribe to it, and paints a picture of how the future would look like if all its ideas came into fruition (Steger and Roy 2010). The skilfulness in which neoliberalism is spun as an image of expanding global markets that will improve life for everyone as the only way forward may be the greatest strength of this deeply economic ideology, that values the power of free markets, multinational enterprises, and global supply chains much higher than the needs of the people. The proponents pushing this extreme ideology are "global power elites that include managers and executives of large transnational corporations, corporate lobbyists, influential journalists

and public-relations specialists, intellectuals writing for a large public audience, celebrities and top entertainers, state bureaucrats, and politicians.” (ibid.:11) Neoliberalism has also been described as a project to solidify the class system, “(...) based on the thorough domination of labour by capital.” (Kotz 2015:43)

The effects of neoliberal policies are manifold, complex and difficult to trace back to neoliberalism, but they are nonetheless evident. Chomsky (1999) argues that neoliberalism has led to the privilege of a few rich people at the expense of the majority; that large enterprises and cartels dominate politics and policy in the USA and elsewhere, and that this undermines democracy. A typical example of the support of syndicates and large enterprises by government for Chomsky is the World Trade Organization (WTO). Overall it can be said that neoliberal policies have led to the withdrawal of government from the responsibility for many of its previous undertakings and to the operation of market principles for the tasks that are left. Government acts on a market-orientated basis with an emphasis on individual responsibility rather than community or state responsibility. “Neoliberalism has, in short, become hegemonic as a mode of discourse. It has pervasive effects on ways of thought to the point where it has become incorporated into the common-sense way many of us interpret, live in, and understand the world.” (David Harvey 2014:12) With the global financial crisis in 2008, renewed scepticism has emerged as to whether capitalist or free markets are actually the best way of organizing economic life and alternatives have been discussed more strongly again. These alternatives will be presented in section 2.2, while the next section will look at the limits of neoliberal globalism.

### **2.1.3 Limits of neoliberal globalization**

*“It is easier to imagine the end of the world than it is to imagine the end of capitalism.”*  
Frederic Jameson, 2003 (Jameson 2003:76)

Political institutions have long been influenced by economic and financial elites in various ways, but the level of lobbying, campaign contributions, and revolving doors seems to have grown to a stage where democracy is compromised and policy is written by special interest groups (Schick 2014, Chomsky 2016) Large factions of Western populations have long given up on politics as a means of changing society and are cynical about this system of governance, are disengaged, and do not participate any longer. Some governments are better than others in enforcing limits to the sphere of influence large private organizations enjoy on elected representatives, yet it looks like neoliberal globalism always finds some new loopholes and supranational trade agreement to impose its will on Nation States (Hart-Landsberg 2013). The current destructive mode of Globalization is not inevitable – it has been very consciously shaped and fought over since the

early days of Colonialism in bitter political, military, and economic battles. Keeping control over the narrative and the hegemony of the global order is the ultimate price for any ideologue, power monger, and narcissist. Distributing this power more evenly, as would be the key to a fairer version of Globalization, can only be achieved from below, by those most exploited or left behind through the current scheme. The intimate entanglement of Democracy and Capitalism with its history of class struggle and many a failed Socialist or Communist experiment does not help to excite citizens to take action and organize for change (Frank 2000).

It is not just the sorting of people in winners and losers, the shrinking middle class, and the brainwashing slogans of politicians, neoliberalists, and special interest that have stopped whole populations to consider alternatives and try new lifestyles that are more in sync with their social, psychological, and environmental needs. Living with Neoliberalism also wreaks havoc on one's soul, destroys human traits specific to each competing class, and leaves people with a deep sense of hopelessness (Putnam 2000). The losers in this system suffer from existential alienation, victimization, and material loss, while the winners have given in to their addiction and greed or simply the drive to keep going without falling back (Duchrow et al. 2006). Changing beliefs and behaviours back is naturally very difficult, yet, it is made much easier if practiced every day and in concert with others. That is why the way we work is so critical to the way we see the world and our place in it, and why changing the day to day experience away from hierarchy and obedience towards an empowering sharing of power and decision making will not only improve our job satisfaction and our workplaces, but also strengthen the foundations of our participative democracies and enable us to build a more inclusive economic globalization.

The inequality debate, that had been going on since the Great Recession, reached a new height when Thomas Piketty published his landmark study on *Capital in the Twenty-First century*, in which he analyses all available tax data from multiple countries going back as far as the 19<sup>th</sup> century (Piketty 2014). This longitudinal research suggests strongly that capitalism will destroy democracy through its in-built ever growing inequality unless it is tamed through regulation. Piketty prescribes a global progressive wealth tax of 2 % each year, with the national income tax going up to 80 %, to prevent the already emerging class of super heirs from becoming too powerful, create oligarchies, and throw the world back into rigid class structures. Critics from the economic field have focused on Piketty's supposedly flawed methodology (Góes 2016, Homburg 2015), while Marxists think that he mixed up wealth and capital, and are sour because he admitted to never having read the original 'Capital' (Harvey 2014). An alternative explanation for the rising inequality under capitalism comes from Nobel laureate Joseph Stiglitz, who argues that massively increased urban land value has created the huge inequalities seen in recent decades rather than wealth accumulation (Stiglitz 2015). The effects of increased inequality,

segregation, monopolies, exploitation, and wealth concentration are the same that Piketty sees, but Stiglitz argues for a much more diverse set of policies to counteract these worrying tendencies: "(...) higher minimum wages, stronger unions, better education, and stronger enforcement of anti-trust laws and corporate governance laws, (...) capital gains taxes, the preferential treatment that mainly benefits people at the very top, and better redistributive policies." (Parramore 2014: last paragraph)

The flaws of the current free trade regime, that critics like Unger (2007) see, are so deeply ingrained in its neoliberal logic, that they can only be addressed in a renegotiation of the very terms that the current compromise between free trade and protectionism is based on. A fairer free trade system would have to be highly flexible to allow each participant to try and revise what mix of national rules and international agreements works best for them. This changes the nature and of course the idea of free trade to minimize protectionism and to have an ultimately unregulated movement of goods and capital. Only such a flexible arrangement, its proponents say, would avoid a static world order where every country would be confined to the niche that they carved out for them in a Ricardian utopia of never changing comparative advantages. The division of labour has to remain in flux and unhinged from institutional dogmas, as countries grow and their skills grow to trade more complex goods and services on the world's markets. Future growth would have to be based on innovation, and could not be extracted from strangled markets that cannot evolve beyond their allotted state, as declared by the World Trade Organization.

Such a flexible trade system would ensure that "the greatest opportunity [is given] to the most people in the most ways, (...) that the best market economy is the one that gives the greatest opportunity to the most people in the most ways, that a free economic system must be based on free labour, and that the capacity to use governmental power for the purpose of broadening opportunity can be exercised to advantage only insofar as the state ceases to be in the pocket of privileged and moneyed interests—all these are platitudes of contemporary discourse, embraced with the greatest enthusiasm by those who collaborate with the dictatorship of no alternatives under which the world is now bent." (Unger 2007:3) He concludes in saying that "(...) we have become accustomed to the idea that all we can do with globalization is to have either more or less of it, or to have it either more slowly or more quickly. [The counter principle] is to build, step by step, an open world economy in whatever way offers the best promise of reconciling global openness with room for national and regional diversity, deviation, heresy, experiment. The point is not to maximize free trade; it is to maximize the possibility of coexistence among different development strategies, institutional systems, and forms of social life, and then, on that basis, to advance freer trade." (Unger 2007:180)



In the early 1970s, one year after the Club of Rome presented its ground breaking “Limits of Growth” (Meadows et al. 1972), the German-British economist Ernst Friedrich Schumacher in his seminal “Small is beautiful” (Schumacher 1973/2000) offered a less gloomy account of the emerging ecological crisis when he focused on common sense solutions rather than impressive computer models. Yet he was one of the first to popularize the view of capitalism being inherently unsustainable, hurtful to people and to the environment. Schumacher did not stop at uncovering the dogma of growth being always good, but laid the foundation for later works on happiness being more important than gross domestic product in stating that “(t)he substance of man cannot be measured by Gross National Product” (Schumacher 1973/2000: 20). Rising numbers of mentally ill people suffering from precisely those condition that he predicted, such as stress, anxiety, and depression, are a testament to the unfulfilling nature of an economy built for technocrats, not emotional beings.

In spite of his glaring reckoning with capitalism, Schumacher’s work was quickly derided as an ‘eco-bible’ and cast to the wind and the bookshelves of back-to-the-land communes as soon as the Oil shock was left behind and the rising neoliberal school of thought took over. From today’s point of view, however, it is fascinating how his arguments against what is now widely acknowledged as the golden post war period of the New Deal resemble today’s critique of Neoliberalism: “An industrial system which uses forty percent of the world’s primary resources to supply less than six percent of the world’s population could be called efficient only if it obtained strikingly successful results in terms of human happiness, well-being, culture, peace and harmony. I do not need to dwell on the fact that the American system fails to do this, or that there are not the slightest prospects that it could do so if only it achieved a higher rate of growth.” (ibid.:119)

Psychologist Byung-Chul Han credits neoliberalism with being so smart as to exploit freedom itself. Since everybody who wants to be successful has to be an entrepreneur selling themselves, choosing to be a servant of capital, voluntary exploitation is the most efficient form of serfdom and a clever evolution of capitalism. In a Hegelian society with its complete obedience to the sphere of work, all aspects of life become streamlined, even expressions of freedom, such as play, communication, and emotions. Entrepreneurs can usually only bond with each other over a common goal, and fail to form friendships free of an immediate personal gain. But ‘being free’ traces back to ‘being with friends’ in the Indo-European proto language, giving ‘freedom’ and ‘friends’ the same roots. And most people still only feel free in a network of long-standing, loving relationships rather than living through an atomized existence of rugged individualism that Neoliberalism is trying to force upon them. Freedom can only be found in community where individuals realize themselves through each other. (Han 2014)

Individual freedom, as cherished by neoliberal globalism, has been seen as a deceit of capital since the times of Marx. “Only within the community has each individual the means of cultivating his gifts in all directions; hence personal freedom becomes possible only within the community.” (Marx und Engels 1932/1998:86) Competition in free markets is based on the freedom of the individual to subordinate itself to the goal of capital to multiply. On its own, capital cannot grow, so the emphasis on individualism that has attracted whole generations to believe the (neo)liberal narrative is a good way to ensure a steady supply of helpers to further the excesses of capital. Each worker today is master and servant at once, freely handing over their life to their own enterprise, and entering a constant class struggle that is raging within themselves. Han (2015) sees an inner conflict of wanting to slow down while at the same time feeling that slowing down is not possible but instead having to bow to the relentless call of the market, along with the self-exploitation and stress of managing the enterprise they have become tired people and makes them fatigued, burnt out, aggressive or depressed. (Han 2015) This development can also be seen in more and more people turning towards meditation and other techniques in order to slow down during their free time, which is supposed to help them to become more productive at work as well.

The contradiction between the means and the relations of production cannot be resolved within the capitalist growth logic. When the farmers in India could not afford to buy another year’s worth of seed from Monsanto that would work with their fertilizer, they saw it as a completely personal failure and killed themselves in the hundreds of thousands rather than blaming the skewed system and organizing to change it. (Shiva 2006) The genius of neoliberalism is to make everybody part of the regime, to align their interest with that of the elites, and to think and act like an entrepreneur. Only those that have not bought into the system yet because they are unemployed, studying or from another era might rise up against it. But this small modern proletariat stands no chance of changing the actions of the new, all-encompassing bourgeois, that has chosen not to live free but serve capital and their self-interest.

As a rationale for this critical choice, a collective longing to be free of responsibility by following capitalism as a religion, has been offered as early as 1921. (Benjamin 1991) In the face of a god, everyone is a sinner who gives up their freedom to be forgiven and follow his rules. But “capitalism is presumably the first case of a blaming, rather than a repenting cult. (...) Therein lies the historic enormity of capitalism: religion is no longer the reform of being but rather its obliteration (...). [God] is not dead. He is drawn into the realm of men. (...) The ‘worries’ are the index of this guilty conscience of hopelessness.” (Benjamin 1991:100) So there goes another ‘mental illness’, as Benjamin calls the worries, that accompanies the many side-effects of capitalism, endlessly perpetuated through social and corporate media. People know that we

cannot escape catastrophe if we keep going at this pace, but they are too invested with their mortgages, lifestyles, and careers to give in to the guilt and rather keep blaming the system.

Another reason why neoliberalism seems so hard to leave behind is the lost sense of alternatives. Thatcher and Reagan were instrumental in cementing the view that the current order is the best we could hope for not only in the hearts and minds of multiple generations - they went right after changing souls. Societal rifts had grown over two decades of major cultural changes, ecological awakening, and political instability. By the end of the 1970s, President Carter was informed that “30 % of Americans were ‘pro-growth’, 31 % were ‘anti-growth’, and 39 % were ‘highly uncertain.’” (McKibben 2008:9) Never again should a prolonged recession, an oil shock or some social movement be able to shake the trust in laissez-faire capitalism. It became ‘Morning in America’ and the Iron Lady wanted her money back to prove that there is no alternative and no society – just individuals outrunning each other. As Bill Clinton put it: “It’s the economy, stupid!” His treasurer later summed up the new gospel nicely: “[the administration] cannot and will not accept any speed limit on American economic growth. It is the task of economic policy to grow the economy as rapidly, sustainably, and inclusively as possible.” (Quoted in Collins 2000:227)

## **2.2 *Alternative economic principles***

*“Economists built us a wonderful set of tools for getting More. And those tools work (...) [But] we need an Einsteinian economics, a more complicated and relativistic science that asks deeper questions.” (McKibben 2008)*

A collection of research on economic alternatives (Marios et al. 2015) concludes that change can only come from below, that it needs to break with capitalism once and for all, and that it should share a few key strategies and principles that were found to be at play in struggles to overcome neoliberalism around the world. Worker-led resistances and aspirations through collective mobilisation, economic organization, and international unification should be accompanied by equitable social reproduction to challenge gender inequalities, the differential exploitation of female workers, and the defence of women’s rights. Renewing and democratising the public sector as a powerful stimulus for collective ownership, to improve public services, and to regain democratic control over a country’s monetary resources is just as crucial as social and environmental justice as a cause and a means to unify worker and their social allies, with the goal of material equality to allow free and equal participation in processes of production and reproduction.

According to a group of thirty thinkers that met at the World Social Forum and published their collaborative work as “The Human Economy” being human means basically two things: self-reliance and belonging to others (Hart et al. 2010). In other words, people are both economic and social, and much of modern behavioural science, philosophy, and ideology sees this conundrum as a major source of conflict. Indigenous societies have been more successful than the Western tradition to bring those two sides of our existence together. A unity of self and society will be at the basis of a more humane economics, and Hart et al. have identified four other cornerstones for a human economy: it should be made and remade for practical use by the people, it should answer many common situations with complex institutional arrangements that reflect the variety of human lives, it should respect the needs and wants of all people, and it has to include all of humanity (Hart et al. 2010). The rise of the service sector is seen as a potential return to people doing more for each other than making and buying ever more things. Many facets of the human economy have already been pioneered by those alienated from the industrial era where they created their own alternatives in parallel and on top of the existing ways.

### *Regionalism*

The notion of the ‘region’ is a very ambiguous one and is used from different points of views and on different levels. On the spatial level, regions can be defined as an area of several countries, states of a country or small areas of a few towns (MacLeod 2001) or by means of different criteria, such as a cultural region, economic region, linguistic region or transport region (Allen et al. 1998). MacLeod (2001) argues that regions are defined through the focus of the research. For this dissertation, a region is understood with regards to its spatial scale and is defined as a sub-national, territorial unit that is on a level between the national state and the local level, defined by means of functional links, such as commuting patterns, social and economic interdependencies (Westle and Segatti 2016).

With regards to pollution and resource consumption, regions are a more applicable entity than localities in environmental terms. An approach to design the use of resources more efficiently, or to completely avoid it, are regional material cycles, for example, for water and energy provision, waste disposal and also regional product cycles (Wheeler 2008). This includes the ‘downscaling’ of material flows in order to reduce routes of transport. The concept of ‘food miles’, for example, suggests that food should be sourced as closely as possible to where it will be finally consumed, in order to avoid transport emissions and costs (Garnett 2000).

Regarding governance levels, the regional level is still close enough and tangible for citizens. It incorporates local aspects of sustainable development while regarding these aspects with a

regional viewpoint. As well as being the level where many sustainability issues occur, the regional level also offers particular possibilities to introduce and implement cooperative network structures and achieve the interdisciplinary integration that is so important for sustainability (Berger 2003). Because in many countries the regional level has low political institutionalisation, it offers the opportunity to break open institutionalised departmental traditions and silos in favour of an integrative problem perception.

### *Happiness*

The economics of happiness attempts to understand welfare and subjective well-being of people through economic research. This new approach developed from the frustration that economic research would often equate high income or being rich with happiness and see it as the aim most people would strive for. "The study of individual happiness has enriched economics with many new and sometimes challenging (preliminary) insights." (Frey and Stutzer 2012:12) The four most important factors of happiness in economics are income, employment, social capital and health, supplemented by others, such as the political regime, the level of education in a country or the environmental situation.

Even though happiness economics points to the fact income is not the most important factors of happiness, it is one of the important factors. There is more than absolute income and it is the relative income that's important to one's happiness (A. Clark et al. 2008). This means that "people form aspirations about their income based on social comparisons and due to processes of adaptation to previous income" and that their "reported subjective well-being is found to strongly depend on the discrepancy between household income and the reported aspirations". (Frey and Stutzer 2012:6-7) Employment is also seen as important for subjective well-being as there is a difference in happiness between having employment or being unemployed. Unemployment leads to lower subjective well-being because of a loss of personal relationships, self-esteem, social status and the structuring of every-day life. For people being employed it has been found that autonomy in the workplace is an important factor for happiness (Frey and Stutzer 2010).

As a factor that is not related to the financial situation, but rather to the social situation is 'social capital'. "It turns out that happiness depends much on personal relationships, i.e. the quantity and quality of social relations that people have with family, friends, work mates and fellow community members." (Frey and Stutzer 2012:8) This does not only refer to the feeling to be a valuable member of society, but also to be able to socialise with people, which is supported by studies who have found that volunteering increases subjective well-being. Health is another factor that strongly influences happiness and not surprisingly a relationship between ill-health

and lower subjective well-being has been found. However, it is difficult to say that there are clear causal effects from health to happiness, as it is possible that happy people will not report physical health problems, as they do not consider or perceive them as strongly as unhappy people. It might even be the other way around and happiness may be beneficial for health, particularly through its positive influence on mental health (Diener et al. 2010).

Public goods can also contribute to individual happiness, such as environmental degradation, a poor health or education system. The economics of happiness also offer the opportunity to rethink the assumption of economics that people make decisions based on logical and economic grounds. On the one hand happiness research can explain that while people attempt to decide in the way that they believe is the most beneficial to them, they may make the wrong decisions as they overvalue income and status symbols in comparison to leisure and social engagement. In that way they decide for a certain way because they expect to get more happiness from it, even though they may not. This is related to conspicuous consumption and buying more to be happier. "Too much effort (...) is invested in gaining status and acquiring 'positional goods'". (Frey and Stutzer 2012:12) Recently, a World Happiness Report (Sachs et al. 2013) has been published, developing the aspects on subjective well-being further, and has been taken up by many think tanks and corporations along with their corporate social responsibility, transparency, and sustainability efforts.

### 2.2.1 Justice Globalism

*In a socially just society, all people would have broadly equal access to the necessary material and social means to live flourishing lives." (E. O. Wright 2010:8)*

The idea of social justice puts human flourishing at the centre of society. Equal access to the social and material means of life is understood in a post-modern way of and includes things like life-long learning and the cultivation of talents. In the sphere of work, social justice is done when self-direction and skill development are part of the job, and when there is equal opportunity for everyone. Nobody should be hindered to live a fulfilling life because of their gender, race or disabilities, and people have to be valued for what they are (Porta 2007).

Social Justice is being practiced and developed through the hundreds of organizations that form the World Social Forum, an annual gathering of activists, thinkers, and people from all walks of life. They share a progressive vision that can be described as alter-globalization – another way of connecting the world – and have a core set of shared values, such as equality, restorative and redistributive justice, participative democracy, transformative change, universal human rights, and global solidarity (Steger et al. 2012). Within its diversity, the social justice movement has

been found to have often repeated ideological claims that can form the common ground for a joint vision of the desired changes (fig. 2.2): “Justice globalism should be considered a congealing political ideology offering an alternative conceptual framework for collective political action.” (Steger and Wilson 2012:440)

*Figure 2.2: Core ideological claims of justice globalism*

1. The world is in the midst of serious global crises, brought on by the moral and economic failure of neoliberalism.
2. Market-driven globalization has increased inequalities, injustices, and violations of rights, especially for workers and people in the Global South.
3. Active participation of local and global civil society in international political and financial institutions is essential for developing just and sustainable solutions to the world’s multiple crises as well as for keeping governments and corporations accountable.
4. Democratic and transparent governments have an important role to play in upholding rights and protecting communities from the excesses of the market.
5. Alternative forms of globalization that place the needs and rights of people before corporations are urgently needed to secure a just and sustainable future for people and the planet.

*Source: Emerging Core Ideological Claims (Steger and Wilson 2012:449), re-use as public domain*

The link between justice globalism and the cooperative movement are value-driven economies, such as cooperative networks that are based on solidarity, equality, and sustainability greatly enhance the quality of life not only of the worker owners and customers, but also serve the community and the environment. A collection of research on economic alternatives (Marios et al. 2015) concludes that change can only come from below, that it needs to break with capitalism once and for all, and that it should share a few key strategies and principles that were found to be at play in struggles to overcome neoliberalism around the world. Worker-led resistances and aspirations through collective mobilisation, economic organization, and international unification should be accompanied by equitable social reproduction to challenge gender inequalities, the differential exploitation of female workers, and the defence of women’s rights. Renewing and democratising the public sector as a powerful stimulus for collective ownership, to improve public services, and to regain democratic control over a country’s monetary resources is just as crucial as social and environmental justice as a cause and a means to unify worker and their social allies, with the goal of material equality to allow free and equal participation in processes of production and reproduction.

## 2.2.2 Competition and cooperation

*“Sociability is as much a law of nature as mutual struggle.”*

- Peter Kropotkin (*Kropotkin 1902/2009:7*)

Part of the destructive nature of capitalism is its ability to conquer the minds and souls of the people living in it. At first it erodes the personal and social defence against its competitive and alienating nature. Then it broadens its base through structural adjustments of social and economic practices and uses its material successes to silence and incorporate its critiques. This powerful grip that the competitive principle has on our economies, our societies, and our personal lives is not the way we evolved as a species though, but rather a choice that we make every time we act on it. Our reading of human nature and its development has often been influenced by social norms, religious views, and moral values that impeded an objective view at our biological nature.

Our primate ancestors could only survive through working together in groups. Social skill developed as a means to overcome adverse circumstances in an often hostile environment. While the “survival of the fittest” (Spencer 1864:444) was certainly true for individual gains and a good deal of procreation, it was considerate and balanced cooperation that enabled primates to come up with tools and strategies that secured them the top spot at the head of the food chain. “Selfishness beats altruism within groups. Altruistic groups beat selfish groups. Everything else is commentary.” (Wilson and Wilson 2007:345) A completely selfless animal has little chance to survive in the long run – a gang of greedy, selfish individualists has none (Waal 2010).

Darwin himself saw “sympathy as (...) the noblest part of our nature” (Darwin 2004/1871:88) and promoted an enlightened and civilized society with government aid for the weak and social policies that would rise above the laws of nature as he understood them. Naturally, his cautious and holistic insights on the struggle for existence, that he saw in the context of “(...) dependence of one being on another” (Darwin 1859/1964:62), were often used without his humanist ideals in mind. Contemporary and subsequent naturalists coined the terms “Darwinism” and “Natural Order” as ideas that could justify inhumane, Malthusian systems of laissez-faire capitalism, warfare, and empire. Later year liberals would of course deride those seemingly natural principles as “Social Darwinism” and further cemented the view that nature was brutal and wicked. Humankind, therefore, in the eyes of the progressives, has to rise above its evolutionary origins and adopt the higher principles of caring and sharing as encouraged by religious ethics the world over for millennia (Wright 1994).

This binary thinking of virtues versus nature has gradually given way to a multifaceted approach to the evolutionary sciences. Where early psychologists subscribed to the Freudian



interpretation of the human condition as a perpetual battle against an unhappy fate (Fromm 1942/2001), biologists wagered that although we are mere vehicles for our gene pool with a tendency towards selfishness, this does not mean that we have to adhere to that behaviour, but actually have a choice. Game theory then found that the best possible outcome for the most realistic version of the Prisoner's Dilemma is for the self-interested players to cooperate – “nice guys finish first” (Dawkins 1976/2006:202). The ethical behaviour of being kind, forgiving, and without envy turns out to be the most successful when operating in a social context, proving Hobbes' concept of a social contract based on aggressive and self-interested individuals wrong (Ridley 1998).

History can be read as a process of ever greater cooperation. Warring tribes and clans merged first into fiefdoms and kingdoms, then into nation states and unions of nations, and eventually into a global multitude of likeminded factions (Hardt and Negri 2004). The clash of cultures has grown in scale and the battles over ideals, power, and resources are now fought along the lines of continents and spheres of influence rather than hunting grounds. Contrary to popular perception, the majority of people on this planet today live in peaceful coexistence and while it seems unlikely that human nature has fundamentally changed throughout the rise of modernity, “the sheer abundance of [the decline of violence], operating on so many scales of time and magnitude, has an aura of mystery”. (Pinker 2011:527) Human nature provides us with motives of aggression such as greed, fear, and dominance, but it also equips us with sympathy and self-control. It is up to us to counteract the inclinations towards violence and control, and listen instead to the better angels of our nature. The powerful message of hundreds of studies and datasets on the decline of violence in the world is “that moral truths are out there somewhere for us to discover, just as we discover the truths of science and mathematics” (ibid.).

Science can no longer uphold the firewall traditionally raised between its 'academic' findings and the real world with our differing views, values, and morals (Harris 2010). We have found enough truths in the life sciences to prove that human nature is indeed based on cooperation rather than the long-cherished winner-takes-it-all approach. Neuroscientists have shown in various recent experiments that traced brain activity of cooperative behaviour, finding a genetic disposition towards empathy and compassion (Keltner 2009). Only in human societies, power goes to the most emotionally intelligent, we have learned to forgive and to work out our conflicts peacefully, and we rely on face-to-face interaction to fully utilize our ability to empathize and read emotions.

Freud's terrifying and devastating portrait of human nature was so evocative and powerful that it has continued to frame the public perception of the human story all the way to the present day, with consequences that reverberate across every aspect of society, from the way we parent

children to the conduct of social life, the workings of commerce, and the enactment of public policy (Rifkin 2009). “A radical new view of human nature is emerging in the biological and cognitive sciences and creating controversy in intellectual circles, the business community, and government. Recent discoveries in brain science and child development are forcing us to rethink the long-held belief that human beings are, by nature, aggressive, materialistic, utilitarian, and self-interested.” (ibid.:8)

From this foray into human nature, it follows that trust is the foundation of any relationship, and the most important form of social capital in any given group of people (Gambetta 1988). Even contracts and legal agreements require a certain form of trust of the parties involved, since they all *trust* to benefit from the intended interaction. Thus, “the organization of firms not only is an object of economic interpretation in terms of transaction costs, but also allows sociological and even ethical interpretations in terms of a sphere of trust and community.” (Shionoya in Shionoya and Yagi 2001:12). Trust enables a community “(...) to work together for common purposes in groups and organizations” (Fukuyama 1995:10). The traditional ways to create trust are shared values, and the depths of trust granted depends on the culture and history of the community. According to Fukuyama (ibid.), trust can even be extended to all people of one society, enabling large organizations to innovate and exchange ideas in a spontaneous way. Hayek (1992), on the other hand, proclaimed that only small groups with people that know each other at least passingly can create trust in their common commitment, and that the attempt to extend this small scale principle to larger groups, let alone whole societies, will always fail because people do not feel obliged to one another if they never met or worked together. Trustful confidence in others reduces complexity and makes the actions of others more predictable, it helps to judge a situation without lengthy research, and it can make things work quickly and efficiently without comprehensive knowledge of the others motifs, skills, and achievements (Luhmann 1968/1982).

### 2.3.3 Solidarity Economics

Solidarity economy puts human needs at its centre, based on voluntary cooperation, self-organization, and mutual help (Emily Kawano et al. 2008). Economic transactions take all participants and their needs into account, and in doing so emancipates itself from the market logic. Cooperatives have long been part of this movement, as many Solidarity economic initiatives usually spring up in peripheral areas, disadvantaged neighbourhoods, and other regions being bypassed by global capital. Community businesses and commons projects empower people in structurally weak regions and offer stability, income, and subsistence. (Giegold und Embshoff in Giegold und Embshoff 2008) Many different names are in usage for this type of community economy, ranging from the alternative, social, and commons economy to

the local economy and the third sector. Within the European Union, the strong *social and solidarity economic* traditions of France, Italy, and Spain have led to the abbreviation SSE to summarize all the above community activities.

With such a broad definition, many civil society organizations, governments, and non-government organizations are allied or networked with a host of umbrella organizations that exist regional, national, and international levels of the social and solidarity economy (Dalton 2014). The urgent impulse to form another network whenever a new group has formed is facilitated by the necessity to gain public recognition and access to social partners, accelerated by the natural tendency of social activists to network and a missing flexibility of existing organizations to accommodate new approaches (ILO 2014). Established organizations rarely mix with younger ones and each network is concerned with the needs of its members rather than taking a more global perspective. In some contexts, even the notion to see non-profit cooperatives as a social enterprise is contested (McMurtry and Brouard 2015). This explains why the movement is so fractured and multi-faceted, but could also hold the key to its future. “Partnerships and networks are a key success factor for the development of the SSE.” (Solidarity Economy Academy 2011:53) The Italian-based think tank for the social and solidarity economy elaborates: “Most networks begin as advocacy groups, but rapidly create their own services and/or development tools to attain common objectives. Building from the bottom up is characteristic of successful networks and federations. The strongest networks are those that are based on local and regional structures. They benefit from the support of a wide range of partners and their contribution to socio-economic development can be clearly demonstrated in the field.” (ibid.:70)

The social economy needs to be a multi-faceted structure, because it is social needs that create economic practices, and the needs and the solutions to answer them are manifold (McMurtry 2009). To complicate matters further, the last decades have seen the rise of the social enterprise as a group of actors that care about creating social value in a substantial way (Ana María Peredo and McLean 2006). Their activities can range from NGOs to community banks, where the goal of the enterprise are exclusively social, to companies like Ben & Jerry’s that have prominent social goals amongst others, and does only stop of including corporate social responsibility programs such as socially conscious branding. Much closer to the Solidarity economy are community based enterprises (CBE), that depend paramountly on community participation, as they are born out of the economic stress of being bypassed by globalization or other processes outside of people’s control, but that have much social capital, the relevant skill sets, and the necessary information or resources to empower themselves (Peredo and Chrisman 2006). The roots of such community based enterprises go usually much deeper than the crisis that brings them into

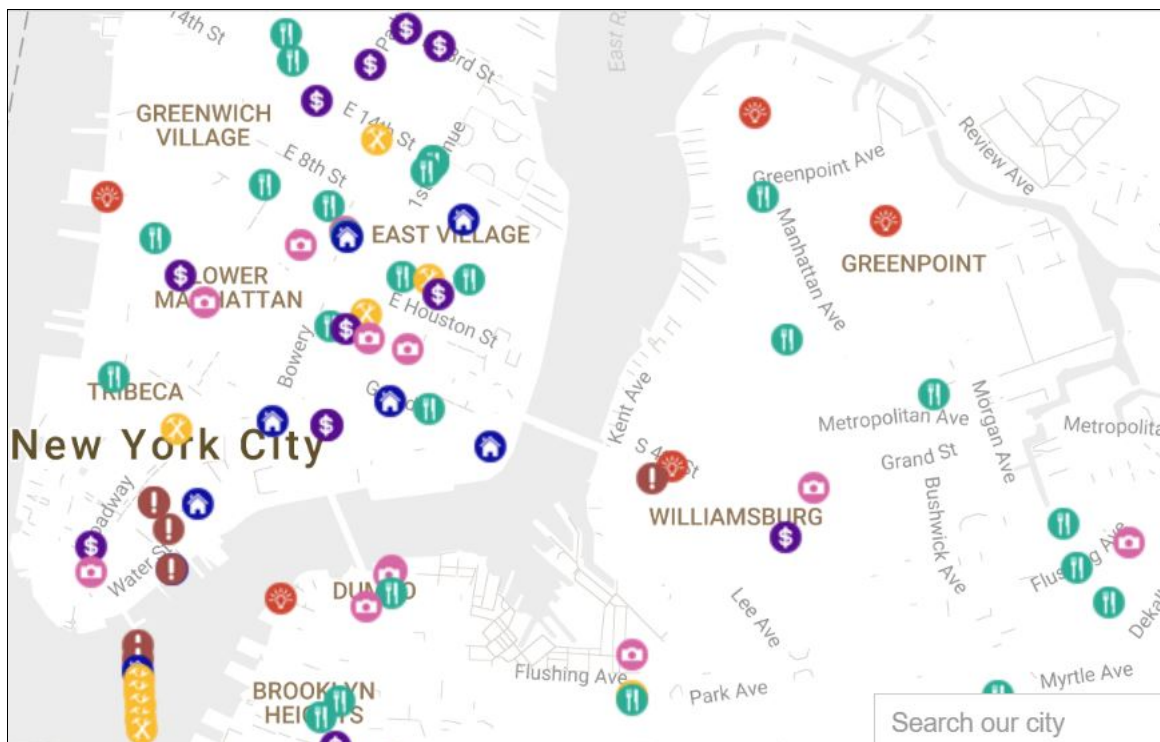
being and is grounded in local culture and tradition, making the necessary response more of an evolution than an overnight start up, and explaining the great success of many such ventures.

Social and community enterprises have much in common, but it is their focus on people over profits that grounds them within a greater justice movement. In fact, it can be said that for these organisations "(...) [f]inancial performance is not the sole criteria for success." (Casey & Dalton in Barraket 2008:160) They stood ready to fill up the once government funded third sector in many Western countries when neoliberal policies took over and relegated the needs of remote and economically challenged communities to the welfare of others. „Community organisations have moved from the periphery into a central role in discourses of service delivery and policy development." (Casey and Dalton 2006:15) Although advocacy frameworks differ wildly, even from State to State, and some organizations and causes have more influence than others, this development at least gives a voice and sometimes some real power to community organisations that more often than not are doing their duty without recognition.

Out of this rich tradition of community, social, and solidarity enterprises, a more radical movement that challengingly calls itself 'the solidarity economy' has been gaining considerable traction throughout the crisis years. Most prominent in Eurozone countries with high (youth) employment, it uses the same anti-capitalist language as the Occupy, the global justice, and the alter-globalization movements, yet focuses predominantly on entrepreneurial activities, subsistence initiatives, and local economies in order to make a living. At the same time, the actors in solidarity economy networks work for the transformation of the conventional economic system that has so utterly failed them, rejecting the logic of maximising profit and growth for growth's sake. The majority of enterprises in the solidarity economy are using cooperatives as their business model and are highly networked (Petropoulou 2013, ILO 2014). These networks "(...) are self-reinforcing through diversity: the greater the diversity, the stronger the network. Its strength lies in weaving, and in the inclusive quality of ties among its members. Growth inside a Solidarity economy network, does not mean becoming bigger: it means multiplying and complementing one-another - creating more trust and value relations." (Nardi 2012:12) Such maps are a very useful feature of solidarity economies in Brazil, Italy, Quebec, and the Eastern United States to connect people and enterprises, building supply chains, strengthening the network and scaling up the solidarity economy (fig. 2.3).

Solidarity economies in this new understanding are often resisting a global economy because of its unsustainable long-distance supply chains as an expression and a source of consumerism. They usually advocate close links between production and consumption, ideally in the form of personal relationship, direct contact and trust.

Figure 2.3: Solidarity Economy Map of New York City (partial)



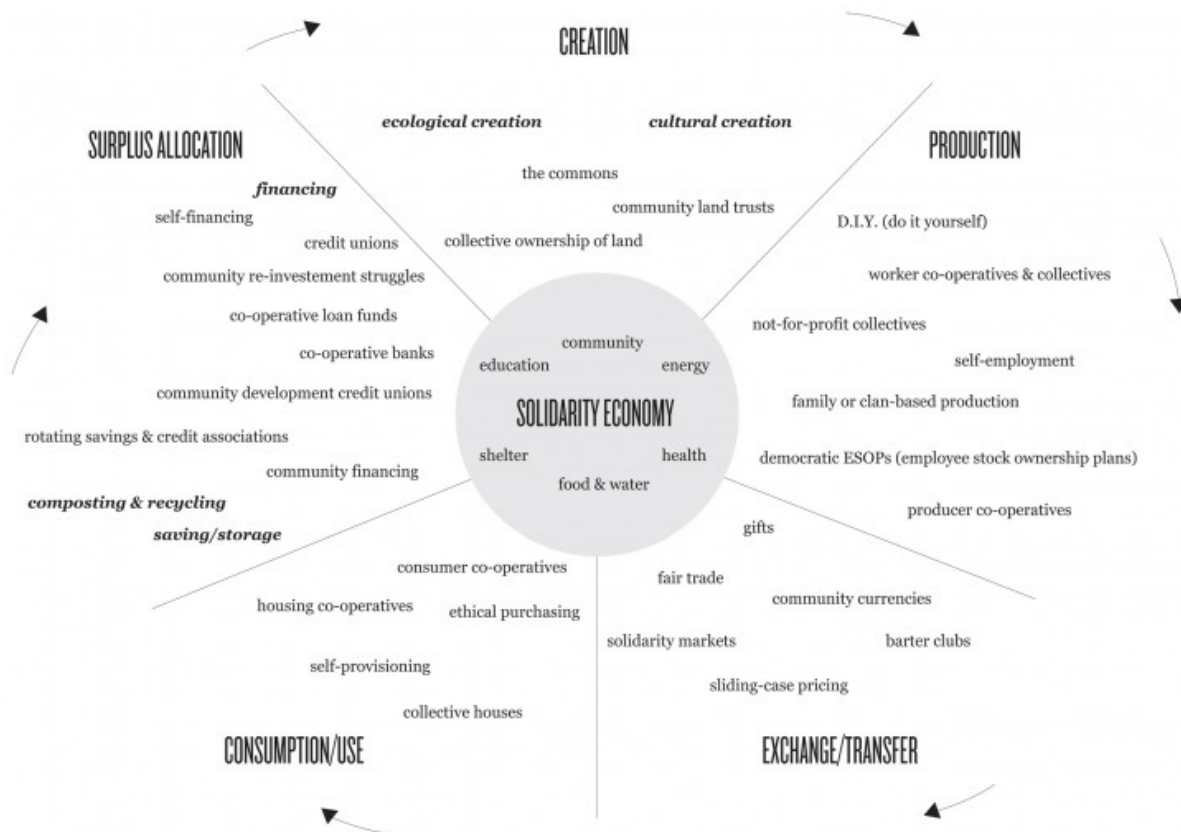
Source: Solidarity NYC Website (Sustainable Markets Foundation 2016), creative commons license

Critical consumers meet ethical producers that might well be consumers of their customer's goods and services, micro finance, local currencies, and sharing practices are utilised, and some regions in Spain and Italy (as well as the whole country of Brazil under President Luna from 2004 to 2011) have chosen to try Solidarity economic principles for their third sector and parts of their welfare systems.

A good definition for this inclusive approach to local economies would be "(...) all of the diverse ways that human communities meet their needs and create livelihoods together." (Miller in Kawano et al. 2008:30) Figure 2.4 visualises these economies as interdependent flows of activities with their collective expressions in organizational forms. The sphere of creation on top encompasses all cultural and ecological expressions such as ideas, skills, narratives, observation and experimentation. The realm of production is all about democratic organization of labour and governance, centred around the values of cooperation and solidarity. Transfer and exchange is an area concerned with fair trade and markets, a gift and barter economy, as well as sliding scale pricing to accommodate the needs of all participants regardless of their wealth. The field of consumption and use covers more cooperatives for housing and purchases, community supported agriculture initiatives and self-provisioning collectives, but also includes institutions of participation in regards to budgeting, neighbourhood councils, and municipalities. Finally, the area of surplus allocation is covering all financial matters through solidarity institutions that

make sure all surplus is used to reinvigorate the economic cycle (hence the inclusion of recycling and composting). This whole economy is governed through accountable participation, policies and procedures on all legislative levels.

Figure 2.4: Concepts and Issues of Solidarity Economies



Source: *Solidarity Economy - Key Concepts and Issues* (Miller in Kawano et al. 2008), creative commons

The self-organizing, deeply democratic form of the Solidarity economy puts it firmly in the global justice movement as well as into the rich tradition of Latin American justice movements (Zibechi 2010). Recent experiences from Greece’s burgeoning solidarity cooperative economy confirm these observations and add the dimensions of hope and independent achievements for those left behind by the powers of the day: “The concept of creative resistance of one or more collective networks may be more relevant than ever to a simple institutional repetition of the concept of association. (...) In this direction, there is the imperative of creating libertarian sites of experimentation.” (Petropoulou 2013:81)

The strong emphasis on networks, born out of necessity as well as the underlying social movement tradition, leads to a pro-active global exchange of ideas, practices, and digital tools, but is unlikely to grow into an international economic democracy. But given the energetic youthfulness and experimental nature of the movement, there might just be some kind of fair

trade or transnational knowledge work happening as we read: “The solidarity economy approach rejects the need for a vanguard, a blueprint or rigid ideology. Rather it builds organically on existing and emergent practices, informed by principle as well as theory. It is a humble project that does not presume to have all the answers and that claims this humility as a strength, not as a weakness. This pluralistic approach is in resonance with the spirit of building, in the words of the Zapatistas, ‘a world where many worlds fit.’” (Kawano et al. 2008:13) While such a laid back approach is a great way to include as many actors and stakeholders as possible, it creates a real danger for the whole Solidarity economy to be co-opted to work within the system it set out to replace, to be used as a cheaper third sector or to be confined to the fringes of the economy that no private investor is interested in. “(...) [T]o challenge the liberal normative and economic frame within which it has been put”, writes Canadian social economy scholar John Justin McMurtry, “(...) this radical reordering of the liberal political and economic order (and indeed the state-centric) is a necessary step for the realization of moral and economic claims of the SSE.” (McMurtry 2013:13)

## **Chapter 3**

### **Origins and types of cooperative economies**

This chapter explores what cooperative economies are, where they came from, and how they evolved. After a historical overview that introduces the concepts and theories of cooperation (3.1), a typology of cooperatives will be given (3.2.1), accompanied by an outline of common principles and governance styles (3.2.2) with an emphasis on worker cooperatives and their democratic practices (3.2.3). The third sub-chapter (3.3) defines and outlines the core concepts of cooperative globalization through networks (3.3.1), specifies its different types (3.3.2), and explores the ideas and practices behind the fair trade movement (3.3.3).

#### **3.1 *Historical overview of cooperatives***

Cooperation has been a key element of human interaction from the earliest times. Most aboriginal societies were operating cooperatively, from early hunter-gatherer clans to well organized First Nation and Pacific Islander tribes. Even peasant village life tended towards helping each other fulfil the demands of the clerical and political tyrants. The settlement of the 'New World' can be seen as a hotbed of social experiments and cooperative communities where suppressed notions of voluntary independent partnership could be realised (Curl 2009). Yet, the cooperative business model that we know today has its roots in the struggle for humane working and living conditions during the industrial age, and is part of the greater social movement towards fair labour and equal distribution of wealth.

##### **3.1.1 *Origins in the industrial revolution***

The first wave of cooperatives started in Europe during the early 19<sup>th</sup> century as a response to the shortcomings of the industrial revolution. Although there had been local fire insurance mutuels from the early 1700s in the UK, New England, and Philadelphia, as well as some small producer cooperatives such as a French cheese maker group, it took another hundred years until the fundamentally unjust early capitalist system was challenged by a wide range of political activists and philanthropists (Williams 2007). Charles Fourier in France, Hans Krueger in Germany, and Welsh industrialist Robert Owen in both Scotland and Indiana set up cooperative communities that drew on utopian principles, philanthropist capital, and equitable ownership. These large-scale efforts enjoyed considerable public support as they were the culmination of decades of intellectual debate about human nature and collective action. Owen's vision of a 'new



society' promoted cooperation over competition and was expressed in socially engineered communities of newly built villages, complete with schools, farmlands and industry, confidentially labelled 'Harmony'. When all of these experiments failed after a few years due to management problems including financial incompetence and a heavy reliance on private donations, the capitalist theories of self-interest, top-down hierarchies, and owner leadership seemed confirmed (Harper 1992).

A decade later, in 1844, some 28 skilled workers in northern England that had been made redundant after an unsuccessful strike for better working conditions, decided to pool their limited resources and set up a food coop so they could save on basics like sugar, flour and oatmeal. This modest approach to cooperation was drawing on the same values as the previous large-scale Owenite experiments, but was part of the more pragmatic experience of cooperative storekeeping that had spread from southern England where it originated decades earlier (Cornforth et al. 1988). What made these self-titled 'Equitable Pioneers' special was a grounded vision of cooperative community where labour would eventually be free from capitalist exploitation but would achieve this on its own accord without philanthropic funds. The food coop was designed as only a first step to a large cooperative society that would seed-fund worker owned factories as suppliers and help start more cooperatives. To this end, the Rochdale pioneers merged a range of ideas that had proven to work elsewhere individually, and brought them together for the first time in their 'Rochdale Principles of Cooperation' (see figure 3.3). These guidelines proved so popular that they led to the creation of many new cooperatives throughout the North of England and Scotland and went on to evolve into the Cooperative Movement's universal Charta (Harper 1992).

Having developed a great blueprint for successful consumer cooperatives, the Rochdale pioneers went on to create the producer cooperatives they had envisioned for their new society, but did not fair too well. The problem with starting worker owned businesses was that the coop gradually imposed the interests of its 'thrifty' consumer members on the worker owners. This means that producer and consumer coops had different aims, namely to increase the wages and profit for the company and respectively to keep the prices of the products down. This meant that it was more difficult for the workers to govern themselves and that they decided for a capitalist model in order to meet the increasing demands of the consumers and to obtain new capital – a process that would repeat itself countless times throughout history and is now known as demutualisation. Shortage of capital remains the biggest problem for producer cooperatives to this day, closely followed by the consequently suppressed ability to diversify and adopt in times of recession and change. Large consumer cooperatives such as the Rochdale successors of the Co-Operative Wholesale Society turned to having their own factories with hired labour and no

worker control in order to keep prices low. Only occasionally, limited experiments in profit-sharing, participation and wage bonuses were granted to those subsidiaries, but were quickly abandoned in most cases (Thornley 1981).

The inherent conflict of interest between consumer and producer cooperatives divides the whole movement even today and threatened to lead to its collapse more than once. For every benefit that the producers gain, the consumers lose benefits. An integrated economic system with retailing and production closely linked and complementing each other, as envisioned by many, seemed to be out of reach (ibid.). The openness of consumer coops made it difficult for them to look eye to eye on value-driven partnerships. It did not help that most producer cooperatives in the Victorian Age consisted of highly skilled entrepreneurial people who were a precursor of the middle class and met with growing suspicion by the average dependent worker.

Credit Unions and mutual insurance societies were a crucial element of cooperativism from the start. Pooled financial resources were used to lend money to cooperatives or protect members from economic harm. Their invention is credited to Hermann Schulze-Delitzsch of Germany, who introduced an urban credit union system. However, it only took off when Friedrich Raiffeisen used it in rural areas where capital was much harder to come by and banks were in short supply. The way Raiffeisen tied agricultural marketing and supply cooperatives to rural credit unions opened up the economic development of the countryside and was quickly picked up in Europe and North America, where it became the dominant organizing principle of farming for more than a century (Colvin and McLaughlin 2014). A tight network of local credit unions and mutuals covers central Europe to this day, with Raiffeisenbank still a familiar name in Austria and Germany. Some of the for profit models like Rabobank in the Netherlands and Credit Agricole in France have grown into major global financial players while others have joined in the World Council of Credit Unions based in Wisconsin to heavily promote not for profit cooperative institutions in developed countries (Birchall 2013).

### **3.1.2 The rise of the cooperative movement**

The first International Workingmen's Association that had grown out of London agreed – despite its many factions that a system of coordinated worker owned cooperatives would be the preferred economic order in a just state. It also warned that the cooperative experience up to then had shown that it could not defeat private capital and hence needed political allies like the First International to destroy the wage system and develop a new social order. When the workers of Paris decided in 1871 that they had had enough, the international labour movement, with all its prominent critics of capitalism, supported them and helped stage a socialist model society of complete and direct democracy. Workers took over their factories and ran them

cooperatively for a couple of months until the overthrown owners returned to the city. Although this Paris Commune was short-lived and ill-prepared for the inevitable capitalist backlash, it gave the labour movement great hope and confirmed the revolutionary potential of cooperative economies (Röpke 1960). As Marx commented, they had “the form at last discovered under which to work out the economic emancipation of labor” (cited after Curl 1980: 30).

American cooperatives faced the same issues, but had a tendency to accept outside shareholders, while allowing departing members to keep their stocks, which created a difficult governance situation. Made popular by the first National Labour Union after the Civil War, cooperatives were hailed as “a sure and lasting remedy for the abuses of the present industrial system (...) and [the Union] would urge their promotion in every sector of the country and in every branch of business” (Curl 1980: 27). Lack of capital was to be countered through cheap government loans that were at the core of the first national labour party’s program to fight “Wall Street’s control of money and credit” (ibid.). However, when alarmed employers moved to destroy the Union and its party, public support of cooperatives went down with them. The great depression that followed during the 1870s saw a growing underground labour movement due to excessive blacklisting, outlawing of worker organizations, and horrific working conditions that culminated in a brutal class war between government backed capital and labour with over 100 killed (Adamic 1983).

It was only then that the public climate swung back in favour of coops in the US. The ‘Knights of Labor’ came out of hiding and gained a million members for their social agenda, which promoted the 8-hour workday, race and gender equality, and cooperatives as the organizing principle of choice. It took another decade for the broader cooperative movement to reorganize itself. During the 1880s three million people joined the Farmer’s Alliance in extensive networks that successfully mixed supply and producer cooperatives and aimed at a cooperative commonwealth. Employers had been mobilising too, and when Labour re-joined forces to form another party, the employers started cracking down on strikes and cooperatives, refusing to sell machines, raw materials and rail lifts to them. Banks would no longer lend money to cooperatives; businesses and customers were targeted by police and vigilante groups’ violence, and within two years almost all large cooperatives had closed (Curl 2009). However, another depression rebooted the cooperative idea in the 1890s and prompted even the Unions to adopt the Rochdale principles for consumer cooperatives.

At the same time in England, a new national producer cooperative association was succeeding with the same strategy that had sparked the consumer movement: namely by bringing together tried principles and the experience of the previous failures in a defined model that included co-partnership with consumer societies as shareholders. With a clear separation of both

cooperative types, along with participatory management and limited shareholder control, this new type of worker cooperatives did at last fulfil the promise of a cooperative society that could produce and consume goods in a cooperative co-partnership. Many producer cooperatives were started during that time, which persist to this day, and over time they no longer seemed so challenging to capitalism in practice (Cornforth et al. 1988).

Producer cooperatives did well in marginal markets and industries, while wholesalers continued to grow across Europe. Through the works of Charles Gide, who tied the French emancipation tradition to the Rochdale principles at the turn of the century, and Friedrich Raiffeisen, who popularised his highly efficient brand of German agricultural cooperatives across the Western world, the cooperative movement had entered the mainstream. As most countries in Europe and North America had developed multiple cooperative umbrella organizations to foster development and growth, popularity of the cooperative principles was at a historic high, and the founding of the International Cooperative Alliance in 1898 signalled that they were here to stay (Williams 2007).

### **3.1.3 Downfall and marginalisation**

With rising living standards and improved working conditions due to the European social contracts and the New Deal in America, the early 20<sup>th</sup> century produced only few new cooperatives and more mergers and demutualisations. The pioneering spirit was gone and membership in most cooperatives declined while the labour movement had moved on to promoting government operated businesses and interventions, leaving its uneasy friendly relationship with cooperatives to deteriorate. An influential British study concluded that producer cooperatives were anti-social in that they only benefited those who work there, were prone to fail, and imposed price and quality on consumers (Cornforth et al 1988). Open consumer cooperatives, on the other hand, would benefit all and stop the profiteering at the public's expense. This assessment matched many people's beliefs and worked well for unions and governments. It also supported the consumer coops that displayed open hostility towards their producer counterparts.

Deprived of ideological and practical support, almost no more producer cooperatives would be formed for decades, although many continued to operate in craft industries where automation was not feasible. At the end of World War I, a short-lived Guild Socialism excited the British labour movement, and led to the creation of a large number of building 'guilds' that were modelled after cooperative principles. Subsidised by local authorities as a non-profit way of providing affordable housing, the Unions backed what they saw as a push to run industry as a service to the community. When the subsidies dried up after enough dwellings had been built,

however, most of the guilds collapsed within two years of their founding (Thornley 1981). The other major catalyst for new cooperatives was the Great Depression of the 1930s, when many workers started producer cooperatives and joined consumer coops on both sides of the Atlantic. However, no major innovations were made in those gloomy days as dictatorships took over in Germany, Italy, Spain, Portugal and Eastern Europe, and most cooperative efforts were crushed by the re-emerging war machines and the subsequent destruction of Europe.

With the rise of communism in some countries it was an early hope that socialist economies could be organized through the means of cooperatives, especially since Lenin and other revolutionaries had been long-time supporters of bottom-up economics. However, these hopes were misplaced, as more and more communist regimes turned dictatorship and even those with a formal commitment to people power mostly used participation as a disguise for tightly controlled societies. As state-run cooperatives were a favoured economic instrument with many communists and dictators around the world, they discredited cooperation. However, these collectives violated the free democratic nature of cooperatives and dictated their use and methods rather than empowering workers to set their own goals. Within centrally planned economies, Eastern European cooperatives were tools for governments – many of them tools to the ideological Soviet powerhouse themselves – to fulfil national production quotas, deliver social services, and educate their members in communist ways. The coops served as vehicles to transform private firms into state property and to implement central plans in most areas of the economy from agriculture, industry and handicraft to consumer and housing cooperatives (ILO 2000).

In the 1950s, Yugoslavia invented its own brand of cooperativism, known simply as 'self-management', in the form of an indirectly controlled market economy that consisted of competitive, democratic firms under the watchful eye of politicians who would determine the more significant decisions. However, neither the – rather naive – plan that mindful citizens would elect to include the public interest into their company's decision making, nor the idea that the ultimately responsible government representatives would know what was best for the workers would prevent these 'self-managed' companies from market failure once the savings dried up and the post-war boom was over. They joined the slow decline of other socialist societies, but kept going long enough by a steadily declining stream of government funds to inspire the emerging counterculture in the West, where they continued to be upheld as a working solution for participatory economics until the collapse of the country that bore them (Liotta 2001).

Massive collective production efforts were also a common feature of post-colonial States from Madagascar to Sub-Saharan Africa to Vietnam. The cooperative principles had been introduced

as development tools by colonial powers, often enough with a similar twist of top down governance as communist rulers imposed on their workers. State farms and joint agricultural collectives served as a means to increase agricultural production and productivity, which left workers exploited and weary of the discredited term cooperative. Genuine cooperatives, however, were regarded as dangerous competitors for power by such regimes. This is the reason why even today many associations of free workers in Africa and South America that operate under cooperative principles will not call themselves cooperatives (ILO 2000).

In more democratic countries from the Indian subcontinent to South-East Asia and South America, free cooperatives have been able to form and produce food and handicrafts, as local self-help organizations, and as micro finance institutions (Dalton and Wilson 2012). Credit Unions were particularly successful in Bangladesh, where the University-incubated Grameen Village Bank took off in 1976 to inspire local lending schemes and emancipate women in developing countries (Yunus 1999). Indonesia promoted cooperatives to rebuild its economy after colonial rule and used state funding as a method of imposing political will on many of the 100,000 cooperatives still active today (Williams 2007). India expanded its considerable number of cooperatives that had been developed by the British from the early 20<sup>th</sup> century into the largest cooperative movement in the Global South with half a million coops serving more than 200 million members today. As happened in many developing countries, the Indian government took charge of its country's cooperatives and utilised them as an economic development tool for state planning. While coops in India historically failed to strengthen entrepreneurship, they did improve conditions for people of lower castes and have experienced enhanced democratic governance during the last decade (Zamagni and Zamagni 2010).

### **3.1.4 Rediscovery through the new left**

In the developed world, a growing counterculture was looking for ways to escape discriminative work relations from the late 1960s well into the 1980s. Young people turned to collectively organizing their own working environment as a vehicle for self-realisation, societal change and localising the economy. (Cox 1994) As one of the more fruitful solutions for radically changing power structures in both society at large and local communities and companies in particular, a renewed consumer, housing, and worker cooperative movement emerged out of the many freewheeling experiments of the time (Karides et al. 2008) These participatory businesses enjoyed a disproportionately high volume of attention by the public and scholars alike, who often scrutinised still forming organizational practices and were quick to dismiss democracy in the workplace as an economic principle. However, when more mature governance structures, consolidations and networking efforts kicked in to make this new wave of cooperatives

competitive, economic globalization took off and left only the most committed, best organized and strongest rooted efforts to carry on. (Flieger et al. 1995)

Where once a disillusioned baby boomer generation fought for change, it is now a growing number of aware citizens from all walks of life who can build upon living examples of eco-technological solutions, human scales, and community economics. Various social movements have come together in the early 2000s at well publicised 'Social Forums', and although the multitude of organizations agreed on central ideologies (Steger et al. 2012), they could not and did not want to form a common agenda or institutions. Civic societies around the world are strong and highly connected though, and as the financial crisis of 2008 put on display the many structural problems of our unjust economic system, democratic enterprises enjoyed renewed interest. The appeal of cooperation as an organizing principle is less forgone than the ecological limits of growth and peak oil however, and the economic answers of the global justice movement are not as readily available, though much more confined, than its environmental agenda.

South America's slow process of democratisation, partly influenced by Western socialist thought and partly by neoliberalism, gave birth to a whole new wave of cooperatives. Brazil already had a small but growing cooperative scene when legislation was put forward in the early 1970s to further develop the model. When crisis struck in the late 1990s, the following left swing resulted in President Lula's support of cooperatives on a broader basis, and the thousands of often merged coops are responsible for 5 % of Brazil's GDP today (Lima 2007). Famously, in the wake of its own crisis of 2001, Argentina rediscovered its old labour practice of recovering factories after their owners went bankrupt and the invested capital was just sitting there, ready to be used. The closed production facilities were taken over by newly formed worker cooperatives that often clashed with trust holders but eventually succeeded after the movement got organized and lobbied parliament (Klein 2008).

The farthest reaching response to decades of neoliberalism and crises in South America is Venezuela's 'Bolivarian Revolution', which promotes cooperatives as a fundamental tool of social inclusion that goes further than purely economic activity. Before Hugo Chavez was elected, 800 coops struggled to survive in a hostile climate and were regarded as subversive. Since 1998, more than a quarter of a million cooperatives have registered due to interest free government loans, waived income tax, and rent-free property leases. This massive economic experiment is only possible through the nationalised oil business, but even with only an estimated 40 % of cooperatives actually functioning, this 'Endogenous Development' activated millions of people to shape their own economic fortunes. "It's a huge success. (...) We were workers for others, we were employees, but today we are business people, and we are not only producing for the state, but for our community." (Fox 2007:paragraph 35) This unique approach to cooperatives is

closer to being the 'socialism of the 21st century' in a 'new geometry of power', as Chavez put it, than market driven economics. However, being set up unsustainably as a parallel economy, with the failure to establish institutional change for the Bolivian *Misiones* and the reliance of unlimited petrodollars, Chavez' model was not working in end. There were no strategies on how to finance the transition of nationalised firms, no investments in infrastructure, and no distribution systems developed (Buxton 2016). "The Bolivarian revolution is a failure not because its ideals were unachievable but because its leaders were as corrupt as those they decry." (Hall and Patrick 2016: paragraph 24) Yet Venezuela's bold move to create a comprehensive cooperative economy, however flawed in its execution, inspired large numbers of cooperatives in the Americas and around the world to think big and to be ambitious.

### **3.2 Cooperative economies**

While cooperative development more or less followed the same patterns in the industrialised world, some countries focused more on agricultural support networks backed by credit unions and insurance mutuals as seen in Austria, Benelux, Germany, Japan, and the United States, while others have created more consumer driven cooperative economies as found in Spain, Switzerland and the UK (International Co-operative Alliance 2015). Only a handful of nations stand out that managed to develop cooperative activities throughout a broad range of sectors and regions: Canada, France, Italy, and the Scandinavian countries. Finland currently enjoys the economy with the largest proportion of cooperative businesses in the world, a result of economic and political liberalisation from the Russian dominance with coordinated networks, legislation, and sectoral leader coops (Zamagni and Zamagni 2010). The old communist countries still struggle to overcome an understandably negative public opinion towards cooperative economies in light of the model's past abuses. Almost all former Soviet cooperatives have been sold, privatised or returned to their pre-communist owners and new legislation is not supportive either. It will take a new generation of cooperatives – and maybe a new name – for democratic enterprises to rise again (ILO 2009).

Demutualisation was particularly strong in the neoliberal climate at the end of the 20<sup>th</sup> century. Highly consolidated European consumer cooperatives started arguing the merits of limited liability in the 1970s, as capital growth could no longer be achieved through mergers due to national cartel laws. The 1980s and 1990s saw major German, Spanish and Swiss retailers go public and abandon their cooperative practices (Galor 2008). Other consumer cooperatives simply went under with the rise of the mega supermarkets and increasing global competition. The now thriving Co-Operative Group in the UK was only saved by a massive intervention, but others in the new world were broken up or sold completely (Jayaratna and Coutts 2009). In



North America, on the other hand, farmers rediscovered the cooperative model which helped many to remain independent when their banks wanted to sell them to big agribusiness. The fast growing organic farming movement added fresh ideas to the cooperative agriculture scene, spurred domestic fair trade, and gave new relevance to eco-minded local food coops (Farnworth et al. 2008).

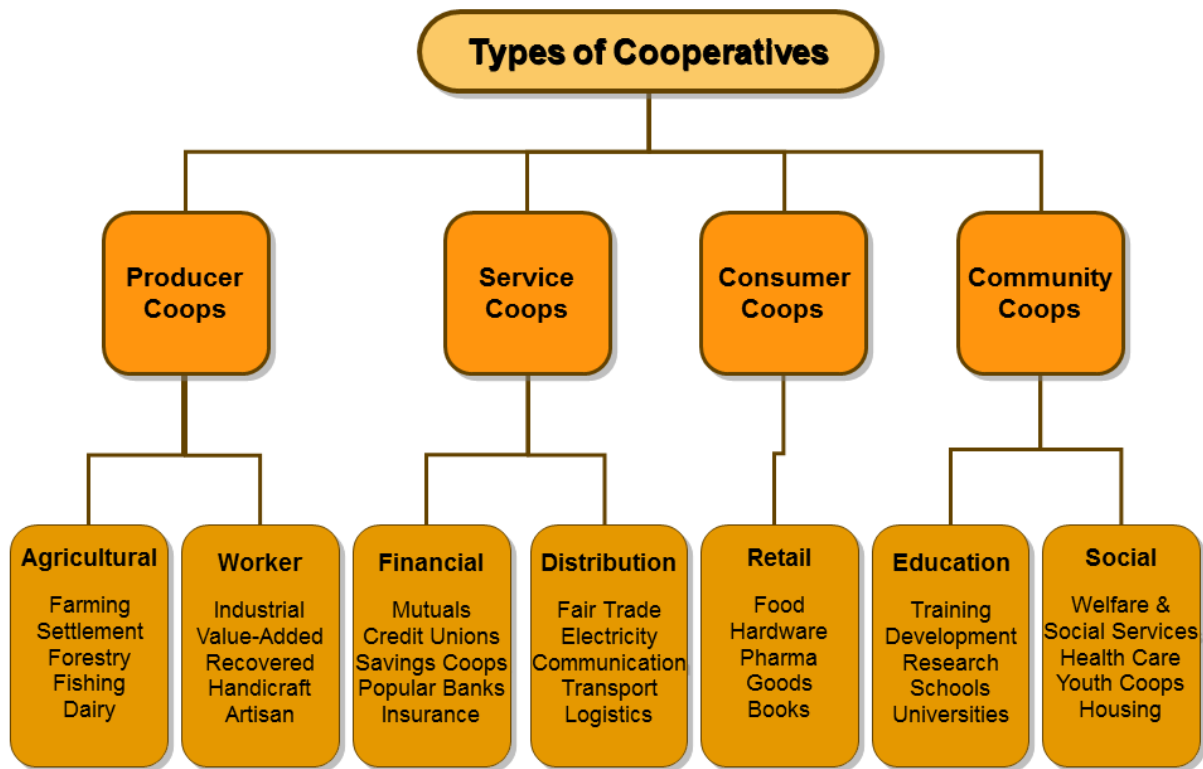
A growing awareness for ethical consumerism, and with this 'fair trade', started back in the 1970s and slowly made its way into the mainstream. Many cooperatives now utilise or spearhead the fair trade movement to highlight their high environmental and labour standards, some out of an inherent conviction, others to answer or please their membership (Barrientos and Dolan 2006). The first cross-cultural cooperatives are being established with members from different countries and socio-economic backgrounds to share the benefits of producing and marketing fair trade goods eye to eye as co-owners of the same global business. Consumer coops engage in thorough monitoring and mindful sourcing of their products, enforcing fair working conditions in their subsidiaries or engaging with local labour organizations to ensure good practices in supplier-owned factories (Gibson-Graham 2003). 'Greening' their operations and adhering to fair labour standards throughout the supply chain is a common challenge to all enterprises, yet cooperatives are held to a higher standard through their long tradition of democratic practices and can serve as champions for a fair economy (Kapstein 2008).

### 3.2.1 Typology of cooperatives

Cooperative enterprises come in all shapes, colours and sizes. They work in every economic area and have proven to be adoptable to all kinds of political systems. Major market sectors of cooperative activity include agriculture, wholesale, trade, housing, development, banking, insurance, industrial and handicraft production, services, schooling, vocational training and universities (International Co-operative Alliance 2015). Most cooperatives in one area follow similar practices and these common traits can be grouped into a number of major types: producer, service, consumer and community cooperatives (*fig. 3.1*), with agricultural and worker cooperatives sometimes singled out as their own types. Consumer cooperatives are the most common and best known form of cooperation in the industrial world, while producer cooperatives are a regular feature of agricultural regions in the Global South, and service coops are now found around the world (Raynolds 2012). The speciality of agricultural producer cooperatives is that they are usually owned by independent farmers who use them to pool their purchasing and marketing power, often backed by credit unions and insurance mutuals with employees instead of members. Worker cooperatives, on the other hand, are owned by the

people who work there and are usually organized as producer cooperatives with an emphasis on participation, the reason for setting them apart (Williams 2007).

Figure 3.1: Types of cooperatives with related economic sectors



Source: Own diagram

Two types of cooperatives will be analysed in this study: consumer and producer cooperatives, with the latter being divided into agricultural and worker cooperatives. Service and community cooperatives will be analysed as parts of cooperative networks, as they are rarely governed by their employees and are less likely – with the exception of a few financial cooperatives – to operate internationally. Each type of cooperative has multiple models of ownership and networking, but all can be distinguished as either being participative, market oriented, or both.

A significant distinction of consumer cooperatives is their openness to encourage membership for any person who wants to join, usually for a small once-off fee, a minor annual contribution, or for free. Producer and service cooperatives have a closed circle of members that either includes only people that work there, a defined group of owners such as farmers or fishermen, or a number of larger organization or shareholders that have a financial interest in their business. Community cooperatives tend to cater to a wider circle of stakeholders, yet invite

membership only from their community. Worker controlled cooperatives often trade with inclusive partners that can be offered membership or the exchange takes place through networks that are either long-term partnerships or temporary alliances (CICOPA 2014).

### *Producer cooperatives*

Producer cooperatives have many faces, be it artisans who work together to save on rent and marketing costs, factory workers in various industries, or craftsmen who share facilities and bring their goods to the market. Not every cooperative that sells goods is a producer cooperative but rather a service cooperative that exists to market the members' work and to sell it to the public. The difference lies in the control that workers have over the organization. If a cooperative exists to outsource recurring activities to a dedicated pool of staff, they often do not offer them membership because they are only hired by the board or the management to serve the members and their common interests. If these staffers can be members as well, they share decision making power with owners who expect certain outcomes and are likely to have different priorities than the workers. A complex governance process will reflect that and can strongly stall or even incapacitate the business, which is why many producer cooperatives are owned by different people than the ones doing the work (V. Smith 2006).

Agricultural cooperatives can consist of members working together to produce their goods, such as fishermen sharing boats and equipment or foresters owning their mill and land cooperatively. More often though, a group of farmers owns supply and marketing businesses where members can save on fodder, chemicals and machinery, while selling their foodstuffs to the cooperative for processing and value-adding. These farmer-owned cooperatives usually employ staff and management, often former farmers themselves, to work for them (Macpherson 2007). Managers are appointed by an elected board of directors and strategic decisions can be put to a vote, but the level of participation within the organization depends on management styles rather than democratic principles. Although some management personnel might be active or retired producer members, there is little chance for staff representation through participatory means other than what influence is offered them through their professional roles. This is different in collectively owned farms like those found in the Global South and on many organic farms of the developed world, where processing, marketing, and distribution is done directly by the members on jointly operated equipment and local markets (Hardesty 2005). It takes a lot more effort and risk though, and exposes the whole operation to the volatility of markets and climates, which is why even cooperatively owned farms tend to engage with specialized service coops or firms and are part of larger organizations as safety nets (Inderhees and Theuvsen 2009).

### *Worker cooperatives*

Worker cooperatives, at the other end of the spectrum, offer membership only to the people that work there. No outside members are allowed and staff is usually subjected to an initial learning period when they join the cooperative before they can become full members. The need to purchase of a share of the business is often necessary for new members and keeps casuals and temporary workers from easily gaining control of their workplace, although these barriers can be overcome through gradual or fractional ownership options (Mellor et al. 1988). Worker cooperatives are highly democratic workplaces that offer legal ownership to the people who are doing the actual work. They might have public investors or silent partners, but the strategic decision making lies with the worker members and their representatives in boards and management, not with the investors (Dhillon 2016).

Most worker cooperatives are primarily concerned about the benefits for their immediate membership, to the point where this tendency to be self-centred has drawn considerable criticism from their peers in more open cooperatives (as outlined further in chapter 3.2.3). An emerging subset of worker cooperatives, however, is specifically seeking membership in their business partners, cooperative or otherwise. These coops recognise the importance of establishing a long-term bond between members at home and trusted partners located elsewhere and are willing to open their cooperative to members in other countries. Overcoming the challenges of distance, language, and culture, it is this particular brand of worker cooperatives that creates and practices a new governance style of international participation through cross-border membership and is the most promising alternative to the established top-down global leadership of many other cooperatives and corporations (Korten 2009).

### *Service Cooperatives*

The marketing and distribution of finished foodstuffs hence is often done by service cooperatives that are either farmer-owned or jointly-owned by multiple farmer cooperatives. One such cooperatively owned supply, processing or marketing business can work for and even own different cooperatives and privately or publicly owned companies. Credit Unions and mutual insurance cooperatives serve both farmers and their cooperative businesses locally and regionally, enabling the whole system to invest in innovations during good years and survive during harder times. It quickly becomes clear why agricultural cooperatives are usually mixed networks of member-owned and conventional businesses with a complex web of interdependencies that have a tendency to operate across borders as well (Dana and Schoeman 2010). Service cooperatives that are community owned or government funded continue to play a

key role in electrification efforts in the developing world, the building and operation of power generation facilities, and local infrastructure (Williams 2007).

Other forms of service cooperatives include all kinds of financial services that are offered to their members. Credit Unions and mutuals welcome anyone who wants to join and practice an open membership policy, just like private banks. The difference is that customers own a piece of their bank and can vote on the direction of the institution, its investment and borrowing policies. Cooperative banking tends to be community-oriented with a focus on the needs of its customers rather than on the returns for 'disconnected' stakeholders (MacPherson and Emmanuel 2007). Credit Unions, in particular, favour the local and prefer national and international umbrella organizations that can lobby and promote their cause over an active globalization strategy of their own. National coop banks and cooperative development funds borrow money to cooperatives and similar value-driven businesses rather than individuals, often with specialized advisers and incubator programs (Williams 2007). There are a few international financial cooperatives, but the risk of falling out of favour with their membership is too great for them to lend to sub-prime markets, speculate on currencies or engage in any other Wall Street behaviour.

### *Consumer Cooperatives*

Consumer cooperatives are even more welcoming than financial institutions when it comes to their membership. Without anything to lose and much potential business to gain, they offer free to nominal membership to anybody who wants to join. In fact, many people use the services of consumer cooperatives frequently without signing up, despite the incentives in form of regular returns on spending or other benefits (Co-Operative Group 2010). They see them as just another retail business, an understandable notion, as many private supermarkets now give discounts and rewards for 'membership cards' to track consumer behaviour. The idea of consumer cooperatives is to engage members in a dialogue about the values and sourcing of the sold merchandise, and ask them to help shape the cooperatives practices. Based on the impetus to band together for greater member benefits, consumer cooperatives thrive through frequent patronage. As most people who work there are also members of these community oriented open businesses, consumer cooperatives have a unique participatory culture that puts them right between producer and worker cooperatives (Campbell 1987).

### *Community Cooperatives*

Self-help and educational cooperatives form the last major portion of cooperative economies. These community coops are often found in the Third Sector, when government and private enterprise fail to notice the need for social services, or do not have the incentives to act. Social cooperatives tend to be community services such as child care, youth centres or foster homes, that people organize as they are not provided by someone else, but are lacking in the community (ILO 2000). Membership consists of the circle of interested individuals who benefit from these services and, although usually open to anyone, the nature of self-help cooperatives results in limited active membership and supporters who join just to help others. The work is often outsourced to paid employees or carried out by members themselves, causing similar conflicts of interest as found in producer coops, when staff become members, due to the usually small scale of these undertakings. Educational cooperatives are similar, except where they are wholly owned by another business or coop to train their future or existing staff (Bakaikoa et al. 2004).

Cooperative Housing is a form of cooperation for and through members only that is widespread throughout Europe and growing in North America, where people build their own villages complete with community centre and amenities, while creating the social fabric of their future home as they make it (Burnham 1998). Public or private partnerships in the sector are not uncommon and can take many forms with different challenges, the least of which being the question of outside control through external funding. There is great work being done both voluntarily and out of need in community cooperatives around the world, however they do not have any incentives to globalize other than the exchange of ideas and their promotion through international civil society organizations (McCain 2010).

### **3.2.2 Cooperative governance**

The basic idea behind economic cooperation is that solidarity amongst people can be fostered through democratic practice in the workplace. It is neither assumed that humans are cooperative creatures by design, nor concluded that our nature is inherently individualistic and competitive. Instead, both traits are seen as part of the human experience and can be promoted or quelled. Cooperatives are designed to bring people together, make them think about their choices, and develop their capacities to trust, share, and create community (Shah 1996).

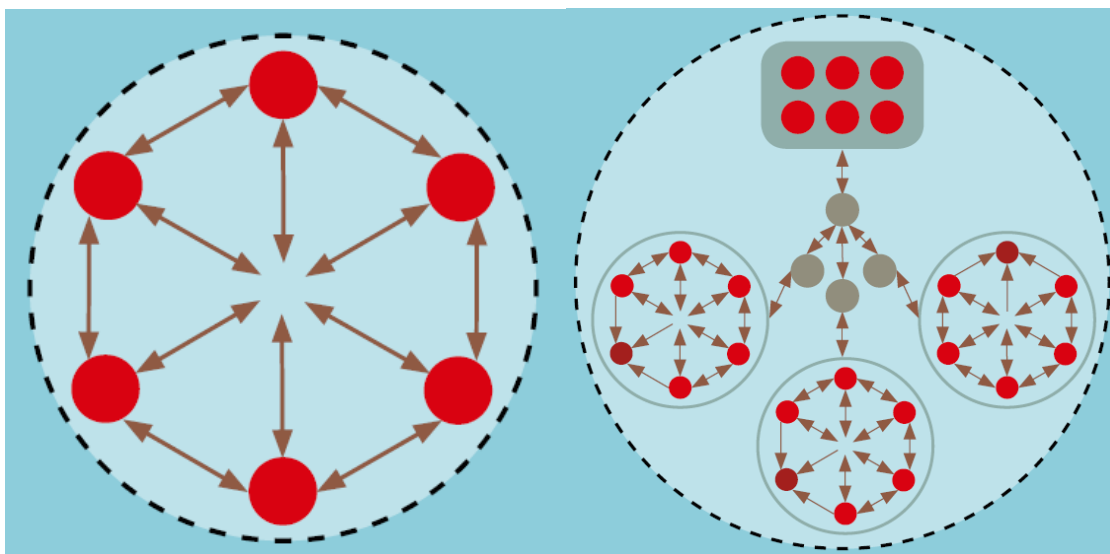
Figure 3.2: Principles of cooperation



Source: *Co-operative identity, values & principles* (International Co-operative Alliance 2016), free license

The principles of equity, equality, self-help, self-responsibility, democracy, and solidarity described in figure 3.2 are meant to encourage these same qualities outside of work through day to day practice. It took several decades of trial and error for these guidelines to emerge and be merged into a coherent blueprint for cooperative success in mid-19<sup>th</sup> century England. These principles have been applied in most developed and many colonial countries and served as a founding document of the International Cooperative Alliance (ICA) in 1996. A hundred years after being the foundation for the Rochdale cooperative, the ICA added a seventh principle to reflect the community dimension of cooperation, leaving the others virtually untouched. The ICA defines a cooperative as “an autonomous association of persons united voluntarily to meet their common economic, social and cultural needs and aspirations through a jointly-owned and democratically-controlled enterprise.” (Mills and Davies 2013:41) Cooperatives consist of people who work together to solve problems or reach common goals, sharing “the ethical values of honesty, openness, social responsibility and caring for others.” (ibid.)

Figure 3.3: *Collective and hierarchical cooperative governance*



Source: Co-operatives UK's Worker Co-operative Council 2012:4, free license

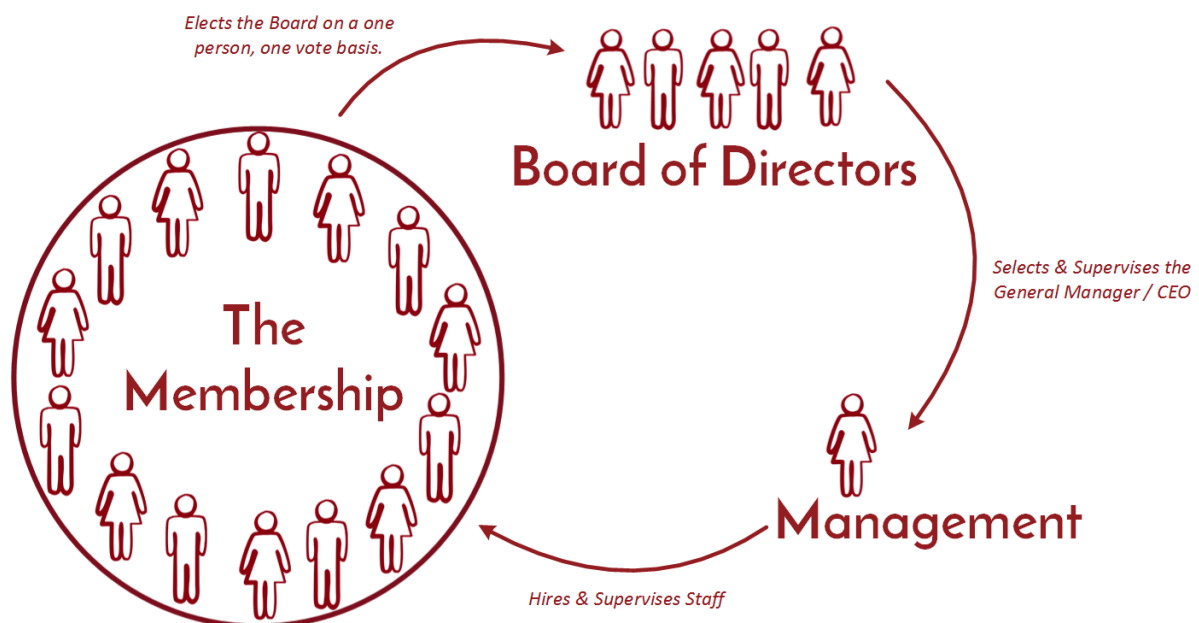
What sets cooperatives apart from other business models is that ownership, control, and benefit are all enjoyed by their members rather than individual owners, shareholders or investors. Being a member of a cooperative is different from being a customer, employee or patron of that business because the motivation is to meet the needs of the members and goes beyond just making money. Only members can own shares of equity. Investor-owned companies grant each owner control in proportion to their number of shares, driving the desire to acquire more shares to gain a majority vote. Cooperative members have one vote per person, no matter how much or how little they contribute to the joint effort, eliminating the need to dominate the decision



making process and distributing control of the enterprise evenly. The main governance body is the board of directors that leads the cooperative and is elected by the members. In that way, most cooperatives are like representative rather than direct democracies with the board making strategic decisions on behalf of the membership (see fig. 3.3). Managers and other high level positions can be appointed or elected by the board or elected directly by the membership (Northcountry Cooperative Foundation 2006).

The right to participate in the cooperative firm comes with membership. Whereas many consumer cooperatives grant membership easily and with no or very little commitment, producer cooperatives require members to buy a share of the company and worker cooperatives usually offer membership only to people who have already worked there for some time. The more members a cooperative has, the less power they have to influence the ways it operates. In large consumer cooperatives, such as the Co-Operative Food in the UK, it is common to join and then ‘forget’ about it, exercising the member’s right to participate only through ones buying power (Shah 1996) Jointly-owned producer cooperatives, especially in large farming networks, see the same kind of disengagement at poorly frequented annual meetings and through low voting rates. Worker owned cooperatives defy this trend partly because of their usually smaller size, but mainly because the members there decide about their own day to day working life and have the highest stake in active participation (Perotin 2014, see fig. 3.4).

Figure 3.4: Governance of Worker Cooperatives



Source: *Democratic Governance* (Hammer 2013:11), © ICA 2013, fair use permission

Member benefit is different from profits in that it rewards patronage rather than capital input. Cooperatives often operate at cost or have to reinvest their profits just like any other business. If a net income over expenses is achieved and investments leave a surplus, it is redistributed to the membership in relation to their engagement with the cooperative. For consumer members that means a patronage refund based on the amount of money spent, whereas producer members get a dividend relative to the volume of goods that they have sold to or through the cooperative. Worker cooperatives measure their returns based on hours, pay level or seniority, often combined in some equitable formula. All types of cooperatives value and reward frequent activities that are beneficial to all members through their benefit system, whereas investor-owned firms usually solely encourage capital input. Due to the lack of speculative investment, cooperatives are taxed only for the earnings they retain after they have distributed their surplus to the membership, which in turn is taxed on those returns individually. This special treatment has caused much debate amongst investor-owned companies who are being taxed before they hand out dividends to their shareholders, which are being taxed on the same money a second time (Northcountry Cooperative Foundation 2006).

### **3.2.3 Focus on Worker Cooperatives**

Democracy is a key feature of all cooperative activity in principle, but is less common in day to day practice. The tendency to delegate, outsource, and disengage often grows along with the size of the organization (Altman 2006). However, it is not just the big cooperatives or networked systems that turn to hierarchies and away from participation. Through the experience of running their own business, many members become more focused on the technical and economical side of their cooperative than on its democratic roots. Some cooperatives cannot be identified as such by their practice and have lost touch with their former principles, but resist a more consequent incorporation for reasons of convenience. Overall, worker coops still tend to be the most democratic form of cooperatives (Pencavel 2012), although in all types of coops great efforts are being made to engage the membership.

The World Declaration on Worker Cooperatives, approved by the International Cooperative Alliance in 2005, concludes that “workers can be exploited by so-called cooperatives” (International Organisation of Industrial Artisanal and Service Producers’ Cooperatives 2005:3) and has established the following criteria for worker cooperatives: democratic self-management, the creation of governable sustainable jobs, improvement of the members’ quality of life, working with dignity, and social responsibility, as well as establishing that the majority of members in a worker cooperative should be workers (ibid.). The key difference to conventional businesses and indeed many other forms of cooperation is that labour hires capital and

management, and not the other way around. Shared ownership allows their members to prioritise their own goals and benefits without being subject to approval from people who do not have to live with the consequences of these choices every day (Jossa 2014).

Worker cooperatives have proven to be highly flexible and can work in any business sector. Existing businesses are easily converted into a worker ownership model and there is a wealth of advice on founding new worker coops. Leadership can be assumed by any member that gets elected into the board, and senior management is appointed and fully accountable to the membership through the board of directors. Most employees are owners as well and new workers are offered ownership after a period of time, although this important principle has been weakened in expanding worker coops (Cheney 2006). Worker owners fully control their businesses, and design their own policies in the form of bylaws, governance procedures, and strategies. "One member, one vote - That's what it all boils down to" (Northcountry Cooperative Foundation 2006:40) says one owner of Isthmus Engineering, the Wisconsin worker coop that was featured amongst others in Michael Moore's documentary 'Capitalism - A love story'. Collective decision making of course takes more time than top-down hierarchies, but the outcomes are in the best interest of the business and its owners. "If you like to give or follow orders, this is not for you." (Fox 2007: 4)

Worker owners contribute and benefit equitably from their business capital, they share the risks and gains of ownership, and decide on how to allocate net income or losses. "Worker cooperatives are the only legal business structure that guarantees workers an equitable share in company proceeds [and] consciously promotes and facilitates self-determination: in a worker cooperative, members really do control their own destiny." (Northcountry Cooperative Foundation 2006:8) Management styles and governance modes are made by the people who work there. They can choose to delegate more or less, design their own hierarchies and participatory culture, and find their own balance between consensus and efficiency. Some rights and responsibilities are common features amongst worker cooperatives however, and these include capital requirements for membership, risk and profit sharing, as well as a commitment to productivity and investment of labour. Typical governance styles (as outlined in figure 3.5) are based on information sharing, transparency, communication, the willingness to develop ones leadership potential and to serve on the board or as a manager, accountability, participation in decision making, and to balance individual needs with the needs of the cooperative (Adams and Hansen 2012).

Figure 3.5: Divisions of power in worker coops

<b>Worker members</b>	<b>Board of Directors</b>	<b>Senior management</b>
Adopt and amend bylaws	Defines yearly goals as well as policies necessary to implement goals	Prepares budgets, production, marketing and all other plans and policies approved by the board
Elect Board of Directors	Selects management, defines duties and sets salaries	Defines duties of division and department heads
Ratify annually and review the goals of the business plan	Controls finances via ratification of budgets and budget changes, and the approval of loans	Hires and fires within framework of personnel policies (this power can be delegated)
Ratify any drastic alteration of the business plan or philosophy	Ratifies personnel policies with the exception of hiring and firing, where it recommends policies to the membership who then make the final decision	Coordinates the implementation and administration of policies
Review sale and purchase of major assets	Evaluates performance of the senior management	Evaluates employees (this power can be delegated)

Source: *Divisions of Power in a Worker-Owned Cooperative* (Northcountry Cooperative Foundation 2006:9),  
© US Federation of Worker Cooperatives, used with permission by the new rightsholders

Worker cooperatives have a stabilising effect on their members and communities. The tension between social values and market pressures forces successful worker owners to become good with business and good with people at the same time. Worker cooperatives therefore attract community-minded entrepreneurs who choose to be collectively independent rather than dependently employed (Schoening 2006). The failure to communicate this challenging nature of worker coops causes great problems, as less self-motivated people can only make up a certain part of the membership for the business to work. As socially conscious organizations, the development of their members' business skills is a common strategy to draw from a bigger pool of skilled workers. It works best in marginal areas and high margin sectors such as fair trade, environmental services, and speciality goods (Altman 2006). A high entrepreneurial spirit enables worker coops to prosper even in extremely competitive industries, just as much as a low-risk preference in the membership leads to a more conservative business style. Along with the difficulty to attract investments without offering great premiums and the consequent

temptation to go capitalist to achieve faster growth, these governance challenges have been made responsible for the scarcity of worker cooperatives (Meyers 2005). Yet, psychological and institutional barriers, such as the inability to think outside the standard employee system and try out a new type of working environment have rarely been addressed.

The separation of ownership from control created the corporate governance problem more than hundred years ago, when it started to gradually replace feudal peasantry with wage dependency. It was one thing to ask a private owner or even a pool of investors for better working conditions, more participation or responsible management, but it is virtually impossible to address these demands with faraway fund managers and a multitude of complex financial products that make up the ownership of many corporations today (Ellerman 2006). Employees who are discontent with this system feel powerless and do not even begin looking for alternatives. Many people know about cooperatives, but do not perceive them as a means of making a living for themselves, or do exactly know how they work. Consumer and producer cooperatives dominate the common knowledge and, while there is very little knowledge of workplace democracies, it is mainly as a perception that they are not good enough for 'serious' business.

Deep seated habits and beliefs have to be changed to accept more rights and responsibility at work. The impetus to remain in the familiar and heavily promoted employment system is bolstered by a common submission to leadership, the fear of too much freedom and responsibility, as well as a fondness of the yin and yang principle of attracting opposites, with dependent work in one area of life, counterbalanced by the freedom of choice through democratic consumerism in the other (Black and Robertson 2009). In such an environment, workplace democracies pose a great challenge to people, by asking them to develop their skills as well as their personalities, while managing their business cooperatively.

So, why should we go through all the trouble to democratise the workplace at all? Conventional wisdom has it that leadership is a good thing, with hierarchy and representation as its organizational expressions. People in developed countries see themselves more as consumers than as citizens. As one member of the world's largest worker cooperative Mondragon put it: "When I'm at the Mall I'm king. But when I'm at work, I serve the king." (Cheney 2006:188) That might be why consumer cooperatives are the most popular form of participatory economics and why democratic workplaces are such a far-fetched idea for many. Traditional economic theory does not tire to point out that democratic practices at work have serious limitations in terms of the size of the organization, its capital growth, and the motivation to engage with it at all. 'You can't have the monkeys running the zoo' is still a common expression of discontent with the very notion of workplace democracy. However, engaging employees through participation has been an important productivity tool over the last two decades (Lower 2010).

Self-management used to be a reaction to particularly harsh periods of industrialisation or a logical consequence of the high appreciation of democracy and independence in most other parts of life. With the detrimental forces of shareholder capitalism and its rogue financial institutions fully exposed in the light of the global financial crisis, there is no longer the excuse that corporate participation and responsibility will eventually lead to an inclusive economy that values life over profit (Korten 2010). Worker cooperatives are just one way to a sustainable future, and other forms of economic democracy are available, but none of them have been tested and refined for 200 years. Even if public corporations can be democratised, the ideas and principles for this new economy will have to come from somewhere else. “Democracy is a method for people to govern themselves, not a method for property owners to govern their property.” (Ellerman 2006: 346) This is why the pioneering efforts of workplace democracies are worth the extra trouble.

One distinction between worker cooperatives, however, arises from this work’s focus on global engagement. Most worker cooperatives are mainly concerned about the benefits for their immediate membership, to the point where this self-centricity has drawn considerable criticism from their peers in more open cooperatives. An emerging subset of worker cooperatives is specifically seeking membership in their business partners, cooperative or otherwise. These coops recognise the importance of establishing a long-term bond between members at home and trusted partners abroad and are willing to open their cooperative to members in other countries. Overcoming the challenges of distance, language, and culture, it is this particular brand of worker cooperatives that creates and practices a new governance style of international participation through cross-border membership and is the most promising alternative to the established top-down global leadership of many other cooperatives and corporations.

### ***3.3 Cooperative Globalization***

Cooperation amongst cooperatives is one of the founding principles of the cooperative movement, as stated in the 6<sup>th</sup> principle (fig. 3.2). It has led to a high degree of organization and propelled the cooperative idea onto many labour agendas, national and international support institutions. The perception of being part of a greater movement with ethical values that go beyond the day to day business has established a conscious network culture in even the smallest of cooperatives. Global solidarity between cooperatives and with other social movements prepared the ground for cooperation across borders. A cooperative form of globalization as socially embedded network economics has been emerging over the last three decades. This cooperation draws on values rather than structures, positioning it as a diverse alternative to profit governed corporate globalization (McMurtry in Reed and McMurtry 2009). This section

describes out the current options and inherent potential of cooperation amongst cooperatives, the risks and gains of international business engagement, and the importance of networks, regional economies and fair trade for cooperative globalization.

### **3.3.1 Internationalisation through networks**

Networks are essential for the human potential to be realised. Science and common knowledge conclude that social networking gives us the key to happiness through regular interactions with others, fulfilling our nature as social creatures and opening up worlds of possibilities (R. Wright 1995). Companies are first and foremost social networks with the common goal of doing business together, and in their very name emphasising the social nature of the group (the French root of the word 'compagne' even means 'friend'). As a group of people with common interests, a company extends that social nature onto its relations with business partners, customers, and clients. These external relationships are another type of social network, this time with an even narrower common interest, and make up the businesses' economic network. Every company has a wealth of relationships to other firms, individuals, and business networks, many confined to their economic sectors and regional markets, others encompassing multiple markets and activities around the world (Novkovic and Sena 2007).

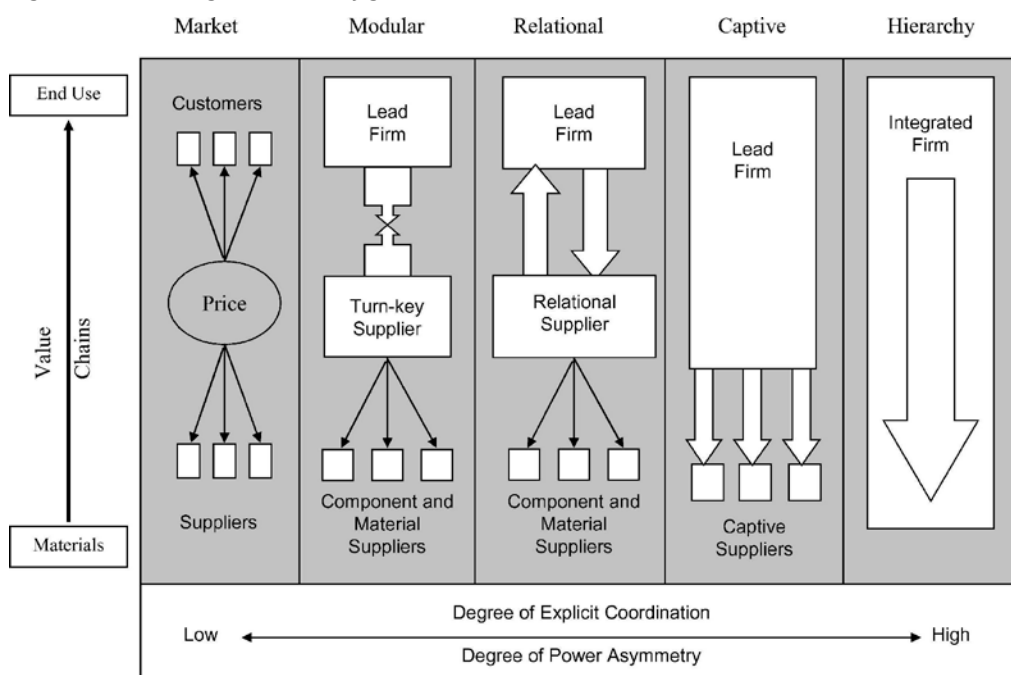
Networking has been made a lot easier through modern communications technologies, namely the internet and the computerisation of the workplace. The information age is built on the free flow of knowledge through technology, but since people and workplaces are still tied to a geographic location they need to be connected through networks. Manuel Castells (Castells 1996/2010) even talks of the "network society" as a novel culture founded on instant global information exchange and the connection of distant locations through shared functions and meanings, which he calls the "space of flow" (Castells 1996/2010:149). Dynamic interactions over any distance connect real-time continuous communities regardless of their location and have extended the reach of people and businesses by levelling the playing field.

In this environment, business networks are much more competitive than single companies. Where it used to be enough to combine various processes at one location or more recently coordinate the links between organizations of the same supply chain, the network society requires businesses to form and exit partnerships dynamically, with quick and effective connections (Castells 1997/2010). The challenges in these ad-hoc cooperations are manifold: business processes have to be compatible and standardised, information has to be mobile, business modules should plug and play within different companies, and consensus has to be reached within the network and its management (Vervest and Zheng in Vervest 2009). Bonding people through networks can only happen after all hierarchies have been broken down, making

way for a joint vision, goals, and complete transparency. Networks are demanding and foster a ‘24/7’ accessibility and visibility – that is why any cooperation has to be chosen wisely and retreat should always be an option if one of the partners wants to leave (Vervest 2009).

Trust becomes one of the main commodities in such fast moving business environments, and can be achieved through a good reputation and knowledge of each other’s practices or through detailed contracts and impending sanctions. Shared visions and goals can build that trust initially, but face-to-face communication and an open, continuous information exchange are the most important criteria for ongoing trustworthiness (Potineke and Rogowski in Villa and Antonelli 2008). Clearly defined responsibilities and authorities help strengthen the relationship, yet, a trustful and cooperative atmosphere between partners will lead to more growth in their cooperation than any legal contracts ever could. It is the people who need to link before they can start the business process, and in order for them to see eye to eye all sides need to give up control (Putterman 2009). The network society, with all its risks and uncertainties for the individual, has brought the human dimension back into the world of international business, overcoming the erosion of trust that globalization seemed to imply for many (Casadesus-Masanell and Khanna 2003), and it might just extend the renewed focus on good relations onto the people working in it. Another building block of global networks are value or supply chains, that have their own modes of governance according to the degrees of coordination and power asymmetry in the organizing enterprises (fig. 3.6).

Figure 3.6: The governance of global value chains



Source: The governance of global value chains (Gereffi et al. 2005:89) © Taylor & Francis, free thesis re-use

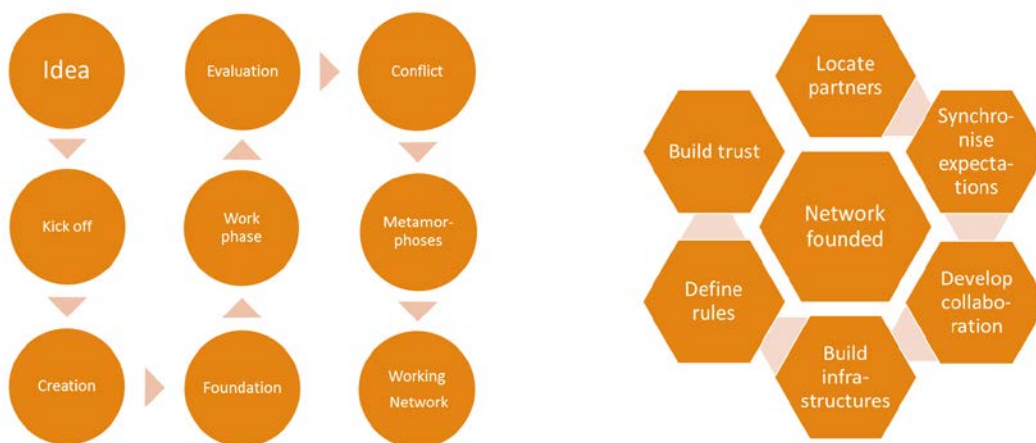


### Network Organization

Trust is central to any cooperation, and while instrumental trust, as the belief in the partners' cooperative behaviour based on regulations, sanctions and control, suffices for small interactions and in areas of low risk, a more solid type of trust is needed for complex environments, such as regional or international business networks. Maxim-based trust, as defined by Kant (1998) as self-commitment to a maxim allows for cooperation partners to grant advance trust, based on the reputation that the actor firmly believes in the value of their behaviour. Self-commitment and maxim-based trust improve the performance and operation of international cooperation (Fink et al. 2008), which faces greater uncertainty than partnerships within a single country (M. G. Harvey and Griffith 2002). As a long-term strategy to build solid business networks, self-commitment is a success factor that requires social and psychological management skills that have to reflect the company's values deep into its base (Fink et al. 2008).

Networking offers many chances to grow and sustain a business, but it comes with a high cost in time and resource commitment as well. In a global economy, the opportunities outweigh the challenges, and only the smallest of businesses can afford to keep playing alone. Networks help to focus on one's strengths and can counterbalance the weaknesses of each partner; if set up right. Choosing who to network with is the main criteria, just as in any partnership, and additional resources and management are necessary to keep the cooperation alive (Becker et al. 2011). Increased competitiveness, efficiency and more innovation for all partners can result in a well-managed cooperation, with improved products and services in stabilised or even new markets. The commitment to long-term partners, however, can also lead to the loss of flexibility when dealing with businesses outside the network, and any knowledge sharing or joint research breakthroughs can be one-sided, or even backfire when the partnership breaks.

Figure 3.7: How to start a network – From the idea to the network and Cooperation



Source: Own diagrams after Becker et al. 2011

Networks require their own management, facilitation and development, both inside each company and between the partners. A willingness to engage with new situations and work on the business relationships is asked not only from management but every staff, member and worker as well, to build the kind of trust and communicative skills that working in a broader circle requires. Many networking efforts fail simply because the people involved just lack the time, not even the resources, to work on anything other than their core tasks (Flieger et al. 1995). That is why it is a good idea to create a dedicated network administration position for starters, and then increase dedicated resources as the network grows in time to a full-fledged coordinating office or communications clearing house. Successful network management encompasses developing and monitoring the network's vision, team, trust and skill building, the promotion of the network externally as well as internally, facilitation of communication and engagement between the partners, and positioning the network in umbrella organizations and the broader community (Becker et al. 2011).

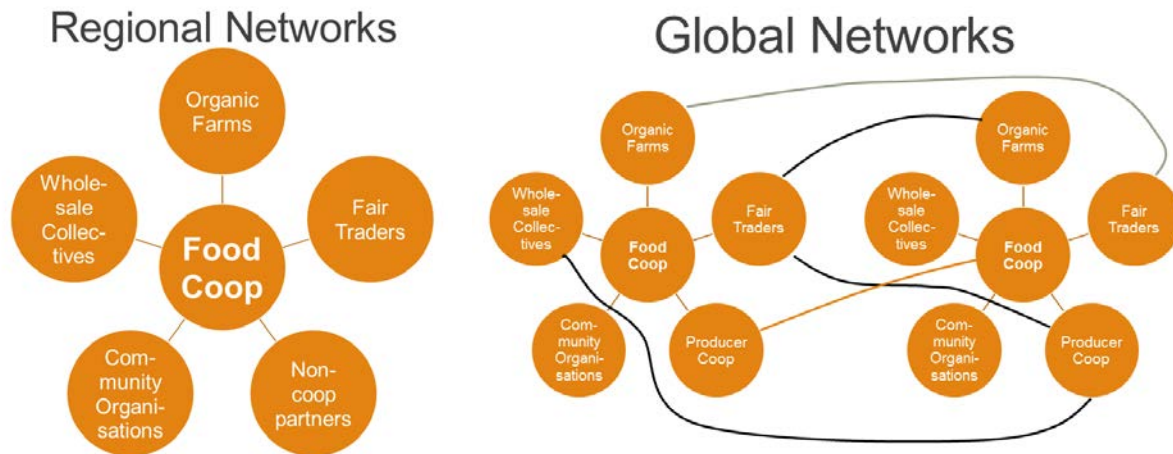
Effective networking is built upon a trusting openness for change, widespread conflict resolution skills, a solution-oriented work culture, and transparent commitment to the common cause. The network partners need to see eye to eye and engage their staff through flat hierarchies and built-in communication practices that can keep up with the fast moving culture of today's business world. It can be quite a challenge to create that kind of network culture, especially when the participating businesses have very different ways of doing things. Strategic decision making as a process is not easy to facilitate and harmonising different cultures requires a rapid boost of communication skills across all network partners. Horizontal integration through personal ties, common projects and day to day exchanges, such as video conferencing, integrative productivity tools and joint workgroups and will boost productivity, increase competitiveness, and sustain the networks efforts (Becker et al. 2011).

### *Cooperative Networks*

Cooperatives are well equipped for networking because their internal organization is based on trust, common values and reciprocity. Most people are members of cooperatives not only for their own benefit, but to improve the social fabric of their communities (Worms 2001). The social capital of a cooperative lies in its personal relationships, its transparency and its reliability. Sharing knowledge and trusting each other is common practice within cooperatives, making them preferred partners in reciprocal networks – even more so than capitalist firms (Levesque 2001). Solidarity is a form of integration that is often found in cooperative networks, but the main feature is the even distribution of control: “In moving from the traditional authoritarian, hierarchical organization to a locally controlled organization, the single greatest issue is control. Beyond money, beyond fame, what drives most executives of traditional

organizations is power, the desire to be in control. Most would rather give up anything than control.”(Senge 1994:290)

Figure 3.8: Regional and global cooperative networks



Source: Own diagram

Due to the comparative advantages of cooperatives, the degree of connectivity and the dimensions of integration can be high in cooperative networks (fig 3.8). Connectivity qualifies ongoing relationships within a network by measuring their frequency, intensity, transaction values, and the impact on the partner's behaviour (Buchan, Fatas, et al. 2011). The dimensions of integration can take many shapes, but the most common ones are horizontal, vertical, territorial, financial and technical integration. Mutualising costs and risks, knowledge transfer or supply and purchase pooling are examples of horizontal network integration. The vertical dimension expresses organizational integration, while territorial and financial integration measures the geographic characteristics and the lending practices within a network. Computer networks and productivity gains through technological or other dimensions of integration can lead to network externalities that will influence the whole market due to their effectiveness (Halary 2006).

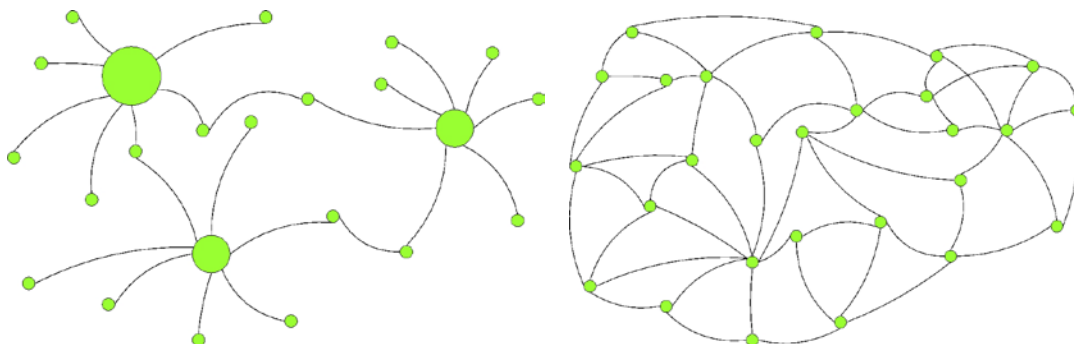
Cooperatives have an inherent incentive to network that has to do with their size. It is well known within the cooperative scene and academia that growth beyond a certain size limits participation and favours hierarchies (Burress and Cook in Fanfani and Maccarini 2010, Vervest 2009, Flieger et al. 1995). The 'trick' is to be aware of the dangers of growing too big and split up before the cooperative loses its 'identity' (Burress and Cook in Fanfani and Maccarini 2010). This can be done through the outsourcing of whole departments, common services and tasks into multi-stakeholder coops, the creation of new sister coops at other geographic locations, or by splitting the company along departmental lines and putting in place a new umbrella cooperative that binds the different components together. What will keep all these 'befriended'

cooperatives tied together is the sense of being part of the whole. Yet, each is small enough to know everybody who works there and to retain the flat hierarchies and horizontal decision making that is the trademark of small cooperatives. Such a home grown coop network can be regional in scope but may also span the whole country or even expand across borders. In the network society, what differentiates regional networks from global ones is only the distance between partners. The degree of interconnectedness can be the same or higher between cooperatives in different countries than it is between cooperating firms located right next door.

Regional business networks are known to increase productivity, innovation, and customer satisfaction through a broader range of products and services that can be readily accessed through the cooperating partners (Thorgren et al. 2009, Villa and Antonelli 2008, Jones 2009). Such networks are best created from the bottom up and with careful consideration as to who the partners should be. The larger the regional business network grows the more innovative it can be, and notably the size of the administrative unit plays an even bigger role in growing innovation than the size of the network itself (Thorgren et al. 2009).

These regional business networks are different from clusters of economic activity in that the participating businesses proactively seek and maintain voluntary long-term partnerships with complementing firms, regardless of their location. Regional business clusters are hubs of similar industries in close geographic proximity that benefit from the competitive advantages of aggregated competence and resources such as Silicon Valley or Hollywood (Porter 1998, Krugman 1991, Villa and Antonelli 2008). Economies of agglomeration can be useful to cooperative business networks as exemplified by Mondragon and the Emilia-Romagna region but are no prerequisite to successful networking. Geographic closeness and operating in the same industry are recognised as catalysts for meaningful cooperation, but it is the direct interaction towards shared objectives that binds intentionally formed groups of companies together in the long run (Thorgren et al. 2009).

*Figure 3.9: Centralised and decentralised networks*



*Source: Own diagram*

Networks can be centralised with strong hierarchies and powerful hubs or decentralised with a more evenly distributed pattern of equal relationships (fig. 3.9). Globalization has historically favoured centralised business networks, due to the high cost of communication, travel and expertise that cross-border engagement required (see chapter 2.1). Through the more recent decreased costs of travel and communication, flat hierarchies and decentralised business networks have started to become feasible, enabling smaller organizations to operate globally. Small and medium-sized businesses can now benefit from the international management lessons that multinational corporations have created for themselves, and find their own best practices (Nummela 2010). Although there are many examples of successful small business networks that bridge cultures and nations, research and text-book knowledge on them is beginning to surface.

### **3.3.2 Types of cooperative globalization**

Traditional internationalisation started with exports as the easiest cross-border interaction without the need for capital or management transfers. Licensing products abroad was the second step, followed by franchises or joint ventures in those countries. Subsidiaries and overseas branches make up the final stage of this linear approach to globalization, as it has developed over centuries (Andersson 2010).

The advent of global communications and trade deregulation has not only accelerated the speed and depth of economic globalization, but also dissolved the traditional steps towards multinational business operations. Industry characteristics, such as supplier capacity, capital intensity and information complexity now determine the modes of internationalisation, along with strategic decisions on marketing, cost reduction and product development. These internal factors are complemented by the size, location and sector of the foreign engagement and external factors, like political stability, public policies and investment incentives. For cooperatives, this choice is further complicated by the special legislation that they are subjected to and the restrictions that their principles impose on them (Reed in Reed and McMurtry 2009).

Staying true to the values of cooperation as expressed in the seven principles of cooperatives is the real challenge for cooperative globalization. Cooperative networks with little commitment to the underlying social ideals of cooperation can also engage in joint ventures and alliances with investor owned firms. Producer marketing cooperatives especially have shown no disagreements with wholly-owned subsidiaries that are hierarchically organized and have no say in the cooperatives affairs. However, this occurs in transnational worker cooperatives as well (Cheney 2006). Figure 3.10 summarises the modes of internationalisation observed in cooperative networks clustered by the type of relationships abroad.

*Figure 3.10: Modes of Cooperative Internationalisation*

Market	Partnerships	Hierarchy
Export	Joint Ventures	Subsidiaries
Import	Strategic Alliances	Transnational
Licensing	Joint Membership	Multinational

*Source: Own presentation based on Reed and McMurtry 2009:17*

The more internationalised a cooperative is in itself, the fewer alliances and less cooperation it needs (Villa and Antonelli 2008), and the greater a cooperative's adherence to their values, the more participative the mode of international engagement. The most democratic partnerships in globalized cooperatives at this stage are worker coops in the fair trade sector (Reed and McMurtry 2009). With joint membership still a rare and challenging business practice, they usually engage with producer cooperatives through long-term strategic partnerships. Multinational cooperatives with members from different countries are currently being developed.

Advantages of reciprocal economic networks range from knowledge exchange, shared innovation development and utilising the economies of scale to improved competencies through cross-fertilisation and specialization. Even large enterprises cannot develop all the competence they need on their own and corporations often engage in joint research and development with their direct competitors to stay innovative. The increased competition through neoliberal globalization with its wage differences and the omission of social benefits for many employees is a big challenge for value-based organizations, especially those that are controlled by their workers and have limited means. Networking represents a solution to that challenge, as it allows partners to pool resources, target larger markets, and add more value to their products. Entering the supply chain of investor-owned businesses often leads to demutualisation and cooperatives that do not find a niche yet unaffected by global competition usually falter. The global market forces many cooperatives to network in order to survive (Halary 2006).

The wealth of literature on Mondragon (a good overview in Cheney 2002 and as an introduction Osmond 2012, more in chapter 4.2.6), the Italian social cooperatives system (Restakis 2010, Smith 2001, Ammirato 1996) recently accompanied by a number of fair trade case studies (Bowes 2011, Nicholls 2010, Reynolds et al. 2007) suggests that worker cooperatives are best equipped to find their ways into global markets without losing touch with their cooperative principles. Worker cooperatives are particularly stable through their financial and ideological commitment to each other and through the freedom from shareholder control, which makes them dependable business partners that can invest time, money and efforts in building long-lasting networks. They also have the social skills that it takes to initiate new partnerships and

facilitate change in their internal and external relations. Perhaps due to the conscious choice of their business model, worker coops can capitalise on the strengths of their principles as a competitive advantage rather than a hindrance, develop innovative structures, and implement lessons from investor owned businesses more directly than representative and open membership cooperatives.

While the cooperative experience to compete with international businesses is as old as the movement itself, active participation in economic globalization only goes back a few decades (Buchan et al. 2011). Most studies have focused on agricultural producer networks, fair trade alliances, and regionally rooted worker coops with overseas partnerships or subsidiaries as the most globalized cooperative networks (Reed and McMurtry 2009). From that body of literature, three major types of globalization patterns can be observed: ‘glocal’ cooperative networks, multi-stakeholder cooperatives, and transnational cooperatives (fig. 3.11). These different types will be explained in more detail below.

Figure 3.11: Types of cooperative globalization

Glocal cooperative network	Multi-Stakeholder cooperative	Transnational cooperative
Strong local investments	Locally owned and operated	Members in core country only
Community-based identity	Multi-stakeholder members:	Subsidiaries and joint-ventures with non-cooperatives
Independent decision making	Workers, customers or	Might cooperate with coops
Cooperates across borders	investors at home or abroad	Hierarchies and internal politics
Equal partnerships	Balancing the local and global with local capital bases	Acts like a multinational corporation
Bridging cultures		

Source: Own diagram

#### *Glocal cooperative networks*

Cooperatives are usually firmly rooted in their local communities and many are quite comfortable to keep operating on the local, maybe at the regional level, without any desire to grow beyond those boundaries. Globalization has made it harder for those small cooperatives to survive by themselves and they usually need to network locally or within their region to make ends meet. Once accustomed to networking, they might discover similar local networks farther afield or even abroad and decide to try and cooperate with them. This makes particular sense in trade-based businesses with steady trading partners, not surprisingly often constituted of fair trade associations in the cooperative context. Each cooperative in such a network remains primarily concerned with its membership and potential partnerships at home, while reaching

out to another similarly situated value-based business in another country to form a new cooperation.

Good examples of glocal cooperative networks are fair trade partnerships, such as those formed by many 'Northern' retailers with their collaborators in the global South. These grassroots networks are often based on personal friendships that have developed into strong trusting relationships with mutual respect and support. These networks usually form long-lasting trade partnerships with a short supply chain. They attempt to add as much value for themselves as possible by processing their goods right where they are produced and doing most of the steps to the finished product between the partners (more on fair trade in chapter 3.3.3).

Another prominent example for a highly interwoven cooperative network are the industrial clusters of the Emilia Romagna region in northern Italy. Drawing on rich socialist traditions in conjunction with a dense small business landscape, the district is home to more than 8,000 cooperatives in every sector of the economy (Borzaga et al. 2010). Best known for its artisan approach to production, where only a small number of firms produces finished goods and most companies are working on highly specialized parts or ingredients, collaboration has been at the heart of the regional economy since its industrialisation. Such a system can be easily exploited by large companies that will dictate conditions on their subcontractors, just as it has happened in Japan, the U.S, and even in Emilia Romagna itself around the turn of the 20<sup>th</sup> century (Restakis 2010). As a reaction, and some say because of the high percentage of voters economically involved with the craftsmanship of their local cooperatives and active in political associations, regional governments throughout the last century tended to protect their local economies through policies, regulations, and public-private development agencies. To support ownership diversity, these agencies promote decentralised small business networks and provide them with many services, ranging from business development, marketing and training to research and technical consultations (Zamagni and Zamagni 2010).

Emilia Romagna's cooperatives are increasingly collaborating with member- and investor-owned businesses around the world, which is both a necessity in response to incremental globalization, as well as a consequence of the emerging leadership role of larger firms that have grown to a size that allows them to shape economic circumstances rather than just react to them. Being cooperatives themselves, these anchor firms engage with their suppliers in respectful partnerships and their growing capital base allows them to directly invest into production processes that benefit the region as a whole. The increased outreach and presence on global markets has fostered a knowledge transfer back into the regional networks that in turn has led to more cooperation for innovation and problem-solving at home. Despite being one of the most expensive production locations in Europe, businesses that tried to outsource staff into



low wage countries have relocated them back into Emilia Romagna, once they found that they relied more on the skilled workers and collaborative culture than cheap labour (Restakis 2010).

The case of Emilia Romagna shows that cooperation has the power to ‘humanise’ capitalism in the sense that the success of one enterprise leads to the success of all of its partners. In contrast to the Anglo-American model that aims at dominating a market through the destruction of one’s competitors, competition in the cooperative economy is used to elevate overall economic performance and therefore to share the fruits of success even with one’s competitors. Continued quality, reliability and flexibility have made the region’s businesses trusted partners with a great reputation and global reach, while being strongly rooted in their local communities. Through its sense of shared purpose and a common concern for all enterprises to be successful, cooperation can stop delocalisation and engage with distant partners at the same time (Halary 2004).

#### *Multi-stakeholder cooperatives*

Cooperatives with multiple stakeholders are a relatively new model that can be found anywhere from primary industries and high-tech firms to trading companies. Using one principle of so-called New Generation cooperatives – financially more flexible yet less value-guided businesses – these stakeholders can be a mix of workers, customers and investors either at home or abroad, granting a broader capital base for the cooperative.

*Figure 3.12: Multi-Stakeholder Cooperatives Membership Classes*

	<b>Short Term Need</b>	<b>Long Term Objective</b>	<b>Non-financial Contribution</b>	<b>Equity Contribution</b>	<b>Stake in Outcome</b>
<b>Consumers</b>	Accessible location and price	Access to specialized good or services; predictable pricing, supply	Purchasing power	Generally low	Low-high, depending on alternative supply sources
<b>Producers</b>	Production costs covered	Reduced risk; sustainable source of income; market development	Industry knowledge; specialized product	Medium-high	Low-high, depending on alternate distribution channels
<b>Workers</b>	Reliable work; fair wage	Safe, respectful, gainful employment	Industry knowledge; firm-specific knowledge	Low-medium	High
<b>Community Members</b>	Existence of resource in community	Healthy and vibrant local economy	Possible special expertise	Low–sometimes quite high	Low-medium

*Source: Same title (Lund 2011:10), © Ohio Employee Ownership Center, used with permission*

Each group of stakeholders can be given a different set of membership rights and participative power, sometimes none at all, as in the case of silent investors who can only hope for the cooperative to generate some returns, sometimes full rights for all stakeholders (see fig. 3.12). The latter model is the most interesting for a globalized cooperative, as it allows full membership across borders and creates all kinds of practical challenges for the day to day interactions amongst different stakeholders and cultures (Freeman et al. 2010).

An example of multi-stakeholder cooperatives are the solidarity cooperatives of the Canadian province of Quebec. Drawing on a rich regional cooperative tradition that includes wide policy support and a thriving credit union system, it grants cooperatives to give full membership to people outside the country. 'Cooperative Coffees' is one of those cooperatives that spans two countries as a marketplace, and nine as producer partners, which has created a unique structure and legal framework (figure 3.13). Coop Sol, the cooperative's Canadian communications arm, is registered under Quebec laws as a solidarity cooperative, which allows for international members. The Atlanta-based sister cooperative in turn is registered in Minnesota, which grants flexible investment and expansion rights, and could initially hire Canadian staff only as independent consultants or through employment at a Montreal member café. It is this special legal status in Canada - itself a consequence of Quebec's active cooperative scene - that now allows the whole network to offer membership to its producer partners. The Canadian office is responsible for the planning and logistics of coffee contracts, environmental issues, internal and external communications, quality control, as well as special projects. As a tri-lingual office they serve as a communications centre and clearing house between members of Cooperative Coffees, support members, and producer partners (described fully in the case study in 4.2.2).

Figure 3.13: Cooperative Fair Trade Supply Chain



Source: Just Coffee Website 2010, fair use permission

The European Cooperative Society is another example of multi-stakeholder cooperatives. Introduced via directive all across Europe in 2003, it has flattened many of the barriers for cooperatives to engage with businesses across European borders, allowing them to compete on a more equal footing with capital-driven companies (Levy et al. 2011). Transnational involvement of cooperatives has been bolstered through a Statute and an accompanying directive on worker involvement. These new types of Trans-European cooperatives can be created from scratch, merged out of any number of existing national cooperatives, or converted from a cooperative network that has already established relations across borders into this new legal entity. It basically eliminates the need to create national subsidiaries and allows for a more democratic conduct within the transnational cooperative (Gautier and Mizuno 2011). Its impact will be analysed in chapter 5.2.1.

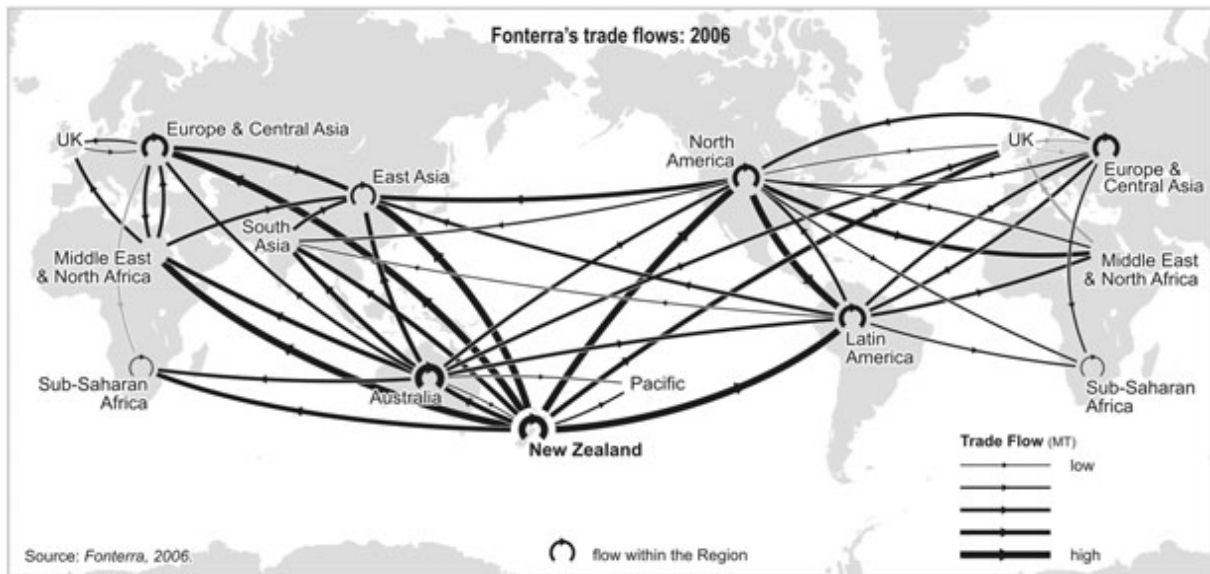
#### *Transnational cooperatives*

Transnational cooperatives entertain a highly hierarchical network of trade agreements with cooperatives, investor-owned businesses and transnational corporations. Mostly found in the agricultural sector, this complex web of flexible partnerships serves as an extended marketing and value-adding facilitator for their domestic farmer members, where the focus is larger global market penetration with more expensive products. Figure 3.14 shows such a producer network through the flow of export and import within the business networks of New Zealand's dairy cooperative Fonterra (more in chapter 4.2.8). Engaging with a wide range of industry, research, and trade partners, a globe spanning net of relationships between owners and subsidiaries ensures continued diversification and innovation with benefits for the whole network. For their competitiveness to increase, Fonterra invests in research and development, and applies economies of scale to an extent where they buy raw milk products outside their membership to be more profitable, and integrate their operations to a large degree (Doyon 2005).

In order to diversify and grow beyond their core business, transnational cooperatives engage in a variety of partnerships, joint ventures and subsidiary buyouts, with a high degree of hierarchy and top down management styles. Employee participation is usually lowest in acquired businesses that are subservient to the member owners of the core cooperative, not much different to any dominant business relationship (Etxagibel et al in Atzeni 2012). In some cases, efforts have been made to include the staff of dependent subsidiaries in the decision making process of at least their own firm. But worker involvement with strategic decision making at headquarters is limited to owner members and usually takes the form of political manoeuvring campaigns for board elections and annual meetings. Naturally, individual workers or members in large networks are far removed from each other and their voices have little impact on the direction of the transnational as a whole. Theoretically, this could be counterweighted through

democratic processes within the network and strong participative practices in the constituting firms. In reality though, the power relations in transnational cooperative networks are often tilted towards serving the core membership through broader and deeper market penetration, using partners to realise its ambitions rather than negotiating a common vision for the network as a whole.

Figure 3.14: *Producer cooperative network*



Source: *Fonterra's trade flows* (Gray and Le Heron 2010:8), © John Wiley and Sons, used with permission

Management of such transnational cooperatives with their macro marketing approach acts much like their publicly owned counterparts in global corporations, with the main difference being the closed circle of shareholders. Orders and contracts become the main mode of interaction, and the shared success of the network is the only binding force between firms. This is far from a reciprocal partnership of equals, and the desire to build trusting relationships gets lost in the never ending quest for growth and shifting alliances.

Producer cooperative networks tend to dominate or monopolise their domestic industry through multiple mergers before going global becomes the only way to keep growing (Dana and Schoeman 2010). The principles of member ownership, benefit and control are exercised very effectively, while those that entail the social responsibilities to open membership, inter-cooperation, and concern for community are often neglected. With only one leg in the cooperative camp, the remaining principles are easily left behind and demutualisation becomes a common occurrence (Reed and McMurtry 2009).

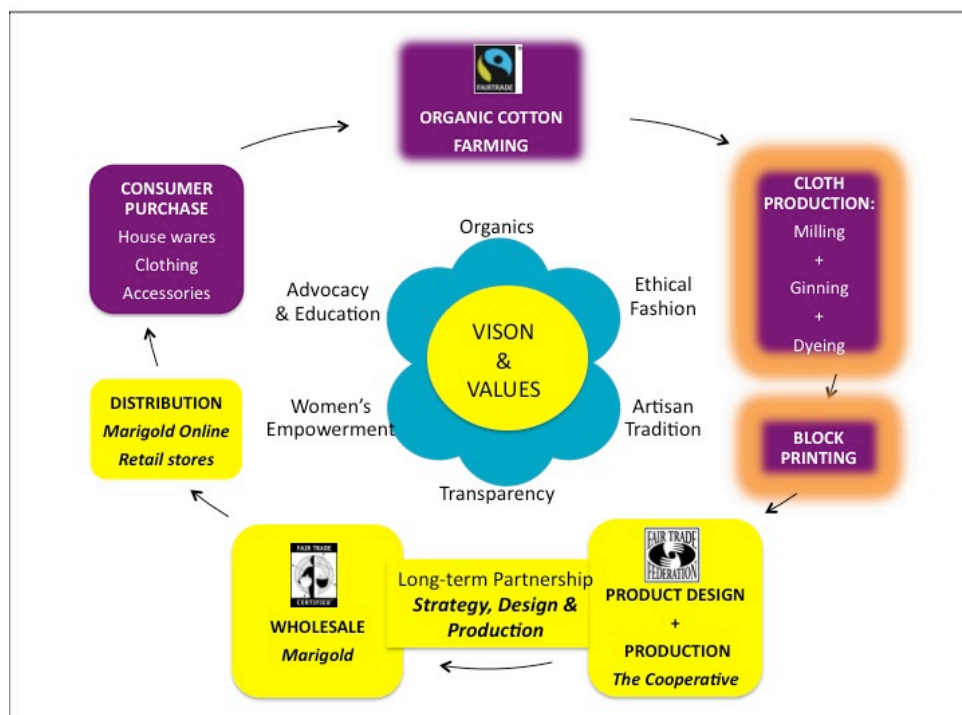
### 3.3.3 Fair Trade

One way to equal economic relationships is the fair enumeration of producers through reciprocal trade agreements that guarantee minimum prices for certain commodities. This practice has become known as ‘fair trade’ since it emerged in the 1970s. It provides some security to participating producers and allows them to plan ahead, knowing how much they can invest into the production process and still come out on top.

#### *How it works*

Early fair trade schemes started through the personal contact of prospective sellers from the Global North and farmers in the Global South who saw an opportunity to create more reliable livelihoods for each other. They agreed on long-term partnerships for the production, marketing and sales of premium-priced products that would emphasise the fair nature of the relationship as its main selling point. Some of these arrangements go beyond trade relations and engage in community development projects with parts of their profits, others have funds set aside to help producers through tough times or reinvest in education, health care, and working conditions of their partners (Bowes 2011). The fair trade price is locally determined through long-term contracts and with advance payments, asks for minimum labour standards such as no child labour, and helps to build capacity, marketing outreach and technical expertise.

Figure 3.15: A Fair Trade Supply Chain



Source: *Vision & Values* (Marigold Fair Trade Clothing 2016), fair & free use

The fair trade movement started with artisan and handicraft products sold at small world shops in the early 1970s, and only turned to large scale commodities such as coffee, cocoa, and bananas in the late 1980s and early 1990s. After a decade of steady growth with many small cooperatives and fair trade initiatives joining the movement, it was through the more recent offerings of fair trade products at large supermarket, coffee and chocolate chains that sales have really picked up in the 2000s. Today, the fair trade market supports millions of people throughout the world who are organized in hundreds of producer cooperatives or democratically run associations in more than 60 countries of the Global South (Raynolds 2012). Fair trade is built on a set of economic and social principles (fig. 3.16) that are meant to empower producers and their communities through increased income, education and bargaining power. Joining a fair trade agreement is supposed to reduce the entrepreneurial risk and improve access to credit and knowledge, enabling producers to invest into their futures.

*Figure 3.16: Fair Trade Principles*

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### **Fair Trade Principles**

1. Creating better income opportunities for economically disadvantaged producers
2. Strengthening farmers' organization and capacity
3. Payment of a fair price
4. Promoting gender equity
5. Improving working and living conditions
6. Enhancing environmental protection

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*Source: Own presentation after Ruben 2008:21*

All these positive impacts of fair trade for the participating producers and their communities have the theoretical potential for negative impacts elsewhere. Critics of fair trade (Ruben 2008; Nelson and Pound 2009; Griffith 2012) point out that the premiums paid for its products are compensated with consumer spending cuts in other areas. Proponents argue that this redistribution of wealth helps the producers of fair trade commodities much more than it hurts producers of less 'vital' goods in the Global North (Nicholls and Opal 2005; Hutchens 2009), and that the money is saved in other less important or rather more dispensable areas, such as going out, media or vacations (Ballet and Carimentrand 2010; Wheeler 2011; Lee and Lee 2010). The argument concludes in seeing a global trade reduction caused by fair trade only as a bad thing if

interpreted through the eyes of current economic values. However, reduced production and consumption of unessential goods is, for large parts of the fair trade movement, a major aim.

Less controversial negative implications of fair trade practices can be its tendency to offer more gains to larger land owners and plantation farmers, due to the current focus on agricultural production volume rather than labour input. Smallholder farms with limited land will only benefit from fair trade arrangements if they operate at or above a subsistence level, where the premiums can be used towards achieving greater quality of life. The inequality between peasants with too little or no land who can only offer their labour and farmers with an abundance of land will rise because fair trade values output over labour. Incomes of the workers can only rise if wages would rise directly, rather than paying premiums for greater production volumes (Masseland and Vaal in Ruben 2008). This issue may only be resolved through fairer payment in labour intensive sectors, such as industry, knowledge work or services, adding to the positive regional economic development component of traditional fair trade and furthering the more integrative concept of a fair economy.

Impact studies of fair trade (Nelson and Pound 2009, Wheeler 2011, Nicholls 2010, Ruben 2008, Tucker 2011, Jaffee 2007) surmise that there is an overall benefit to producers as well as their communities when taking into account quality of life indicators such as welfare, empowerment, and participation. Most critical studies analyse only the difference in income between fair trade farmers and non-participating neighbours, but do not study whether they feel better off through the social and environmental benefits that the premium offers them. This kind of criticism, however, fails to engage with the new realities created through fair trade's impact on the community as a whole, benefiting everyone – fair trade member or not – with more local economic stability, higher capital flows, positive environmental impact, strengthened bargaining power, and empowered communities (Nelson and Pound 2009).

### *Mainstreaming*

Mainstreaming fair trade products through big box supermarkets and food producers have created a particular set of challenges, and ushered in a new era of ethical mass consumption that is welcomed by many producers and reluctantly embraced by fair trade pioneers. The concern is that through large volumes and involvement with corporate players that are not as committed to the cause as its original founders, the whole concept will be watered down and eventually dissolve back into just another standard supply chain. Bridging two contested institutional logics, namely the neoliberal market logic of maximising returns and the civil society logic of social moments with its advocacy, social change and trade justice is an untried venture that makes for uneasy partnerships (Nicholls 2005).

These uneven partners have different understandings of each aspect of fair trade, making it possible to agree on the same principles, while filling them with very different meanings. Economic benefits are maximised sales for the corporate partners, while the movement sees maximising development as the main objective. Yet, they can both agree on their partnership being beneficial economically. In terms of quality, the large corporations care most about high margins, while for the movement capacity building is the main qualitative benefit. Even the agreement that the whole deal should be done in a sustainable way has different meanings, as the corporate side is keen on locking in suppliers with predictable conditions and stable prices, while the movement perspective cares mainly about the ongoing support and long-term relationships it can offer to the suppliers. As long as both camps will mutually benefit from these arrangements, these contested meanings can continue to co-exist, as they have been throughout the last decade mainly due to high commodity prices. Fair Trade base prices have often been way under market prices since they were set at a time of very low commodity prices. While producers have been getting better deals since the market price rose up again, the community premium is still based on the much lower baseline, making it very cheap for wholesalers to purchase certified fair trade products (Alexander and Nicholls 2006).

Another issue with mainstreaming fair trade is that supply has not kept up with demand in a rapidly growing market. It takes time for farmers to form cooperatives and many are already organized in dependent arrangements and contractual agreements that they cannot quickly get out of. So, in order to source enough commodities to satisfy the mass consumption market demand, large plantations have been certified with the sought after fair trade label to bolster the volumes. These corporate factory farms are not democratically run, and often lack the kind of labour standards associated with fair trade to begin with, but it is argued that making them more labour friendly and more democratic is a good use of the certification scheme (Raynolds et al. 2007). Critics of this argue that the real cause of fair trade is to empower small farmers, their self-governed organizations, and that this process can be slowed down or even compromised altogether when fair trade certified plantations exist (MacDonald and Marshall 2010).

A major benefit of mainstreaming fair trade is that it raises awareness and brings more advocacy to trade justice issues. People who would never set foot into a 'one-world store' or a food coop will see fair trade products on the shelf right next to their usual choices and have a chance to try ethical consumption for themselves. This builds a much larger ethical market, where consumption as politics has a considerably higher outreach than through the traditional fair trade outlets. It can be said that the fair trade idea has gained a lot of momentum through this recent growth, and many people are sympathetic to its direct approach to helping producers get their fair share (Hutchens 2009).



### *Certification*

From the very beginning, fair trade advocates have sought out existing social movements that were sympathetic with their cause, using already available networks of trusted relationships to reach more people than what would have been possible with starting their own grassroots network. Faith-based organizations, schools, businesses, women's projects and food cooperatives all offered the social capital needed for the new movement to create economies of scale by networking the networks (Carrier and Luetchford 2012). With this scale came power too, and fair trade pioneers started lobbying supermarkets to take their products onto their shelves, pointing at the existing customer base and the availability at competing outlets. People in those networks were educated about the exploitation of farmers in the Global South and wanted to participate in the sustainable alternative that is fair trade. This gave advocates the leverage needed to compel supermarkets and wholesaler into stocking fair trade products, as a significant amount of their customers would switch over to the competition if they did not enter the fair trade market themselves. As Jeroen Douglas of Solidaridad in the Netherlands recalls the early days of Max Havelaar, one of the constituting fair trade organizations at the time: "We really had to fight and force supermarkets to open market space, and the only way to do that was to mobilise grassroots campaigns - and that is really the clue to our success." (Hutchens 2009: 83)

With the growth of the fair trade market in the 1990s, it became clear that the various projects and initiatives would benefit from a standardised code of conduct to be recognised as a source of good quality commodities, gain consumer trust, and enforce a common set of labour practices. A small number of umbrella organizations were created to certify and promote fair trade products. The Fairtrade Labelling Organization (FLO) dealing with commodities in most parts of the world, while the World Fair Trade Organization (WFTO) is concerned with handicraft and other products. The third organization is the Fair Trade Federation (FTF) that operates exclusively in North America and evaluates whole businesses rather than individual products. While there are still small, countrywide certifiers, such as UTZ in the Netherlands or supermarket chains like Wholefoods in the Western U.S. that started their own labelling initiatives as late as 2007, FLO is the major player with over a thousand certified products to inspect. Together, these organizations certify over two thousand fair trade businesses around the world (Nicholls 2010), and their mission is to make fair trade easily recognisable in the marketplace, to advance the idea of a more equal economic conduct, and act as clearing houses, watchdogs, and facilitators of fair trade.

The Fairtrade Labelling Organization monitors about 80 % of the fair trade commodity market, mainly consisting of coffee, tea, cotton, bananas, and other tropical fruits. It is rooted in a social

movement that set out to develop practical economic alternatives beyond neoliberal markets and unjust trade practices – a fair globalization. Created as an association of 24 alternative trading organizations (ATOs), including 19 national labelling initiatives and three producer networks, FLO was established in 1997 to set the minimum price for the commodities, outline fair trade rules, and establish quality standards. The Fairtrade Labelling Organization coordinates policy making and certification amongst its members through third party annual audits carried out by FLO-cert. FLO-cert is also unified the diversity of fair trade labels into a new single logo, the international Fairtrade certification mark, which is used in over 50 countries and has become one of the highest valued and best known brands in the world (S. Smith 2010).

A guaranteed commodity price is calculated by FLO each year, with the 2011 price being US\$1.25 per pound, with a 20 cents organic premium, and a 10 % fair trade premium of currently 10 cents. Small farmers must be organized democratically in associations that they own and govern by themselves, with equal rights to vote and democratic decision making required of them in order to become certified. They cannot use any chemicals and get pre-export lines of credit of up to 60 % of purchase price if they comply.

The way Germany-based FLO is funded is slightly controversial because producers carry the largest financial burden. They pay an initial (1,400-3,400 Euros in 2011) and an annual fee (1,100-2,700 Euros) to be audited, while labellers pay an initial 500 Euros for their application and then are audited each year for another 1,200-2,600 Euros (Nicholls 2010). More than half of that money goes into promoting fair trade as a brand, which has arguably benefited the movement as whole, but there is more and more unrest in the producer and marketer group, with some of them willing to go it alone now (ibid.).

The World Fair Trade Organization on the other hand, is more principle-based with no external monitoring and relies on self-reporting through its members. Because most associated vendors and certainly the craftspeople themselves have very limited resources, trust in proper conduct and self-monitoring of their agreed democratic principles that are outlined in a 20 point charta is the main characteristic of WFTO certified products that range from textiles and woodwork to handicrafts. Often, the countries in which these producers are based have no labelling initiatives of their own and are happy to be part of the WFTO as an open umbrella organization with no fees to pay and no enforcing of their practices, but with a firm commitment to fair trade principles (Ballet and Carimentrand 2010). Criticising the World Fair Trade Organization for its lack of hard evidence that democratic principles and fair trade are actually being adhered to is easily done, but since the loosening of certification standards at FLO to accommodate the recent rapid growth, customers and producers alike are re-evaluating the merits of labelling in general.

All three major labelling organizations emphasise the need for small producers to have non-discriminatory, transparent, and democratic structures. For hired labour as well as independent producers, FLO and WFTO ask for social rights, security, training, collective bargaining access, health and safety regulations, minimum employment requirements, freedom of association, and support to realise community projects through the fair trade premium. Labelling, monitoring, and branding are seen as critical by most actors in the fair trade arena, and even though there has been a lot of scepticism about the opening up of standards to allow for higher volumes, there is a strong pull towards the FLO certification scheme, as an instantly recognisable label and one of the best known and well trusted brands in the world (Kolk 2012). Some supermarket chains and grassroots organizations that do not agree with the increasingly mainstream attitude of FLO any more, have now started their own certification efforts to be either more loose or a lot stricter with what they see as fair trade. Unlikely as it seems currently, the dominance of one organization as the public face of fair trade could easily lead to an abandonment of certification altogether, as the fees of this system become an increasing burden for producers, while at the same time marketers are selling their wares based solely on the personal promise of proper conduct with their trusted partners.

#### *A new trade regime*

The fair trade movement is notable because it gives people something they can do for the common social good and thus makes them feel that they act in accord with their beliefs. Where most protest movements either stop at the critique of the status quo or face so many barriers to their ultimate goals that it becomes a very daunting task, ethical consumerism is a relatively easy way of not only making a difference, but also making participants feel good about themselves every time they go shopping (Hutchens 2009). Moreover, the significant growth of the fair trade market sends a strong signal to politicians and businesses alike, reinforcing the demand for a more equal global economy with real figures and growing percentages. The collective power of multiple decentralised social networks enables the fair trade movement to punch well above its weight. Weak as the fair trade initiators may have seemed, through their wealth of social resources and their ability to enrol, enlist, and convince large numbers of supporters, but also because the demand for fair trade goods is increasing, they have become powerful social actors in a networked world.

## **Chapter 4**

# **Empowering Cooperative Economies**

Out of the full spectrum of alternative economic practices that have been outlined in the previous sections, this chapter focuses on cooperative enterprises and how they network across borders. Chapter 4.1.1 presents the methodology for this thesis and describes how the case studies were selected (4.1.2). The organizational networks of these case studies are then portrayed and analysed in regards to their international network dimensions, governance structures, and democratic practices (4.2).

### **4.1 *Research Approach***

This section explains the research approach for this thesis and the process of case study selection. It describes the reasons for selecting this approach as well as data collection techniques, procedures for analysis and the advantages and limitations of the research approach. The primary collection technique was interviews with experts in the field, while further data collection techniques, such as the review of literature and analyses of documents, websites and newsletters, have been used to compare and contrast the information gained through the interviews. The case studies were selected on the basis that they were democratic, member-owned businesses with an ongoing international cooperation.

#### **4.1.1 Methodology**

Naturally, the decision for a certain of method and research approach is influenced by the methodological knowledge and choices of the researcher, the context and objective of the research, the researcher's interests and background and also by external requirements and impacts (Berg 2008). The researcher's values and background can influence the choice of topic and also the direction of research through the perspective of the researcher on certain phenomena (Flick 2004). My interest in the topic of this thesis has developed through my studies in human geography as well as my work as a business consultant. Furthermore, growing up in Germany in the 1980s and 1990s – the transition years from a social welfare state to a competitive global player – critical thinking and deep humanism have been the basis of my personal development since elementary school. Hence, both libertarianism, and classical labour positions ranging from Marx to Keynes have played a major role in my (political) coming of age, along with communitarianism, utopian socialism, and best practice economics.

The focus of investigation in this thesis are cooperative economies, and in particular the influence of globalization on cooperatives. This perspective has been developed and explained in the preceding chapters. The aim of this research, as stated in chapter 1, is to identify in which way cooperative economies can contribute to overcome problems of globalization and what problems they face with regard to international cooperation. The focus lies on testing and building theory relating to cooperative economies and their networking. This aim requires a hermeneutic analysis of actions, statements and documents of organizations and individuals in order to examine different cooperatives and their approach to internationalisation (Freeden in Freeden et al. 2014).

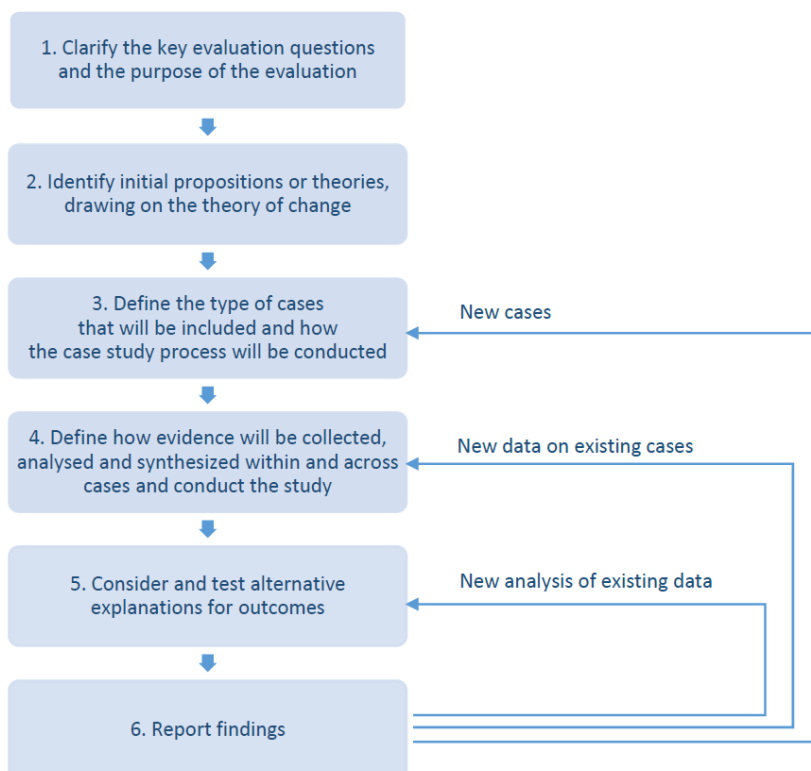
A multi-method approach is utilised in this thesis and the primary collection technique consists of interviews with experts in the field (Bogner et al. 2009), while further data collection techniques were the review of literature and analyses of documents, websites and newsletters (Gee 2010). The interviews were undertaken to learn about the governance and practices of the case studies, the experts' attitudes and perceptions towards international networking and cooperation with other businesses and cooperatives as well as hindrances, potentials and important influencing factors. The literature review helped to build a base of knowledge that was necessary to develop the research design and select the case studies (Yin 2008), while the analyses of documents, websites and newsletters could be contrasted with the interview results and also allowed to compare stated aims and (published) reality (Foucault 2002).

#### *Comparative Case Study Approach*

A comparative case study approach has been selected for this work, as a research strategy that focuses on comprehending the dynamics present within individual settings and is used to investigate complex phenomena within a real-life context (Yin 2008). Case studies attempt to achieve a holistic understanding of a phenomenon as it occurs within a bounded system through an in-depth investigation, using various data sources (Kohlbacher 2006). The use of case studies permits the investigation of particular features and offers the possibility of going into more detail. The case study approach allows the researcher to look in-depth into organizations and stakeholder constellation and considers the context in which the examined phenomenon occurs (Cassell and Symon 2004). Furthermore, the approach enables a more holistic understanding by obtaining information over a period of time using multiple research methods (Yin 2008). Therefore, in this study, a case study approach permits more insight into in-depth details of the governance structures and practices in globalising cooperatives, which helps understanding the complex realities of international economics.

Criticisms of the case study approach focus mainly on the lack of rigour and limited possibility for generalisation (Berg 2008). The perception of lack of rigour comes from the iterative nature of case study enquiry and the difficulty of reproducing the exact circumstances, which is seen as possibly leading to a bias in the conclusions. This is why research design, methods of information gathering and drawing of conclusions are made more explicit and open to evaluation, with multiple sources of evidence being used (Yin 2008). The limited basis of case studies for scientific generalisation is caused by the fact that a case study represents a single instance of a phenomenon, which can mean that it is unique and possibly the result of specific circumstances (Berg 2008). This bears the risk of overgeneralising. Even with multiple case studies the findings are usually not representative. This criticism conveys the belief that case study research should seek statistical generalisation to explain or predict phenomena in other situations. However, qualitative case study research does not search for statistical generalisation, but a generalisation of the results (Stake 2006). The objective is to contrast the empirical results with previously developed theory and to build, extend or refine theory, rather than obtaining representative results (Kohlbacher 2006).

Figure 4.1: *The logic of comparative case studies*



Source: *Comparative Case Studies* (Goodrick 2014:3) © UNESCO, free license

The case study approach utilised for this study presents many benefits and some limitations. The major advantage of a case study approach is the depth and richness of information that can be collected using multiple data sources (Yin 2008). Given the complexity of global economics and the factors contributing to cooperative governance, the depth of information that case study strategies provide was considered necessary. Through the selection of several case studies instead of one in-depth study, the opportunity to draw generalised conclusions exists, albeit not statistically significant ones. In comparing different case studies with one another, it can be assessed what is particular to one cooperative and what seems to be a general influence or result (Flick 2004). Comparative case studies search for theoretical generalisation and structuring to enhance or find a new theory and have a higher abstraction level than the single case study. This allows me to compare internationalisation practices within cooperatives of different size and character.

International comparative case studies have to consider the different political, social, cultural and historical context of the countries and case studies, which have the potential lead to very specific characteristics and developments. Yet, although they differ in several aspects, the selected case studies also have considerable organizational similarities and related contexts, as they are all internationally working cooperatives. Because of the common need to compete on the world market while staying true to cooperative principles, the approaches in different countries and types of cooperatives can be compared.

Case studies are analysed in an interpretative and typifying way (Yin 2008). A first step is the case-by-case analysis, which includes detailed case study write-ups for each case as found later in this chapter. The descriptions are often basic, but are significant to the generation of understanding because they enable familiarisation with each case as a stand-alone entity. The next step is the search for cross-case patterns and case similarities and differences (Stake 2006). The results of these steps are compared with existing literature and research as done in chapter 5 (Kohlbacher 2006).

### *Expert Interviews*

There are two main techniques for investigating human behaviour, and with this attitudes and perceptions of stakeholders, through qualitative research: interviews and observation (Berg 2006). Since all of the case studies are located overseas and could only be visited for a short period of time participant observation was not a practicable method for this research. Thus, interviews were chosen as the most suitable technique, supported with the analysis of other data. An advantage of interviews is that the researcher can interact with the interviewee, specify questions and probe for detail. Expert interviews were selected as a research method because

they try to reconstruct the explicit and implicit knowledge of people working in the field – knowledge that cannot be gained through documents or observation, yet determines the actions. Experts in this sense are people who participate in the field of interest for the research and who possess privileged access to information about a certain area (Bogner et al. 2009). The expert's exclusive experiences and knowledge won from the participation in the field is the object of the expert interview. The experts are supposed to have a larger distance to the field and to be capable of grasping broader interrelations beyond their own feelings so that they can be asked more complex questions. In contrast to conventional interviews, experts are asked about situations and other people, and not about their own opinions and behaviours.

A potential disadvantage of expert interviews is to rely exclusively on second-hand accounts from others which can result in the collection of biased or wrong information (Flick 2004). Reason for this can be that there is a difference between what people say and what they do or believe, or that the interviewer misunderstands or misinterprets the response. Interviews and their analysis are also time consuming, raising questions about their efficiency in obtaining data (Yin 2003), but I accepted the considerable amount of time needed to conduct and analyse the interviews, because I believe that the advantages of this method outweigh its disadvantages. The potential problem of bias has been addressed through the triangulation of methods in this work, which makes it possible to check and compare the data collected in the interviews with other case studies and literature (Flick 2004). Also, each interview write-up has been confirmed with the respondents to exclude misunderstandings.

From the wealth of interview techniques available to the qualitative researcher (Berg 2006), I decided to conduct face-to-face interviews so that I could establish a dialogue and a relationship with the interviewee. Typically, expert interviews are semi-structured because this does justice to the thematically restricted interest of the researcher in the expert as well as to the expert status of the respondent (Bogner et al. 2009). Semi-structured interviews are a combination of structured and unstructured interviews. In structured interviews, the researchers usually ask the same predetermined questions so that they can be easily categorised. In open interviews participants talk freely about their experiences as the investigator searches in-depth information and is focused on exploration. In semi-structured interviews these two approaches are combined by asking a set of scheduled questions to all interviewees to achieve a degree of common information, while at the same time, giving the researcher flexibility to develop questions that are specific to each participant and to probe beyond their responses (Berg 2006). In comparison to the open interview the semi-structured interview is more of a dialogue where the interviewer asks interposed questions. This gives the interviewee the opportunity to introduce topics he or she considers as relevant, even if these topics were not intended by the



researcher. Questions can also be asked in a different order or manner in response to the characteristics of each individual participant. Through this the quality of information obtained can be improved, but it can also lead to a biased information collection because the interviews differ between the participants, which can result in some participants providing more comprehensive data than others (Flick 2004). This bias has to be taken into account during the analysis.

### *Conducting of Interviews*

Before a semi-structured interview is undertaken, an interview guide with intended questions or topics is prepared. The development of the interview guide provides the opportunity for the researcher to develop a sound understanding of the research topic. The interview guide provides structure for the interview, but is not a fixed schedule or questionnaire. It is an aid to memory, to avoid the conversation getting off track, but offering the possibility to ask spontaneous questions in order to explore new or interesting issues as the participant raises them. Thus, the interview guide helps to have a relatively open and flowing conversation, which promises broader results, but at the same time together with the common context of the experts, it secures the comparability of results (Bogner et al. 2009).

The interview guide can be updated and revised during the research if it seems necessary to include more topics that have arisen as a result of the previous interview. Questions should be open-ended, clear and concise, and they not communicate any judgement or seek to get a particular response (Hay 2010). Careful attention has to be paid to language, as expressions can mean different things to different people (Berg 2006). As interviews were conducted in different countries, this was of particular importance for my research.

The pyramid interviewing strategy was used, an approach that asks questions that are easy to answer at the beginning and proceeds to more abstract and general questions, with the most sensitive questions towards the end of the interview (Berg 2006). This provides the opportunity to establish a rapport with the participant before more sensitive issues are raised, and encourages participants to voice their opinions (Wengraf 2001).

### *Interview Guide*

The following interview questions have been discussed with the interviewees, focusing on organizational aspects of the international partnerships as well as on equality issues and workplace democracy throughout each cooperative network.

### Theme I: Cooperation

1. How would you describe your cooperative's ethics, its mission, and values?
2. How do you think your cooperative values make a difference in the way you do business?
3. Could you describe how the cooperative principles are deployed in your organization?
4. What do you think about diversification and partnerships with non-cooperative businesses?
5. Would you accept a shift towards less cooperative practices in order to stay competitive?

### Theme II: Globalization

1. Do you think globalization is a good thing for your cooperative and its members?
2. What model of economic internationalisation does your cooperative utilise?
3. Do your international partner cooperatives share your own values and work practices?
4. Is the globalisation of your cooperative benefiting your members at home and abroad?
5. Do your employees abroad enjoy the same rights and benefits as the ones at home?
6. Are members and employees in your cooperative being treated as equals?
7. How does your cooperative deal with wage differences in your partner organization?
8. What kind of governmental and policy changes would help you globalise more ethically?

### Theme III: Participation

1. What decision making processes are at work in your cooperative?
2. How much influence do employees have on management decisions?
3. Do you think that democratic decision making is an obstacle or a necessity?
4. Are there areas where employee participation could be improved in your cooperative?
5. Would you recommend your business model in the light of economic globalisation?

Recordings of all interviews have been conducted which allows the researcher to concentrate on content and keeping the conversation going through follow-up questions as they do not need to concentrate on taking notes. The main disadvantage of recording interviews is the possibility that participants feel uncomfortable and less forthcoming (Wengraf 2001). To minimise this potential, the respondents were asked before the interview whether they would consent to being recorded, or if they would prefer not to be. All participants agreed, however one person wanted to release the consent form that every interviewee signed only after they had approved the write-up.

It is widely accepted that no set number of what constitutes enough interviews can be specified for qualitative research, as it depends on the research context (Schostak 2006). As a rule, it can be said that enough interviews have been undertaken when no new information will be obtained from further interviews, or when no more suitable respondents can be found who have the needed knowledge and experience, the capability of reflection and who have the time and will to be interviewed (Bogner et al. 2009). For this research, time was of the essence, as I only had a certain period of time at my overseas interview locations. Setting up appointments two to three months before the interviews proved advantageous in most cases, while in others it took

some additional phone calls and on-site networking during my stay in order to secure an appointment.

In the course of three months in mid-2010, I went to talk to members of my eight case studies in person. About half of the cooperatives that I had selected agreed to do an interview, and I visited the others nevertheless in order to try whether being there in person would facilitate finding an interviewee. For three case studies I was not able to find a member of the cooperative who was willing to participate, but I was able to speak to them informally and talked to knowledgeable researchers in affiliated or specialized institutions. However, these unrecorded conversations did not qualify as case study interviews, as they were conducted with academics and researchers close to the cooperatives, but not affiliated with them. Upon multiple further attempts and the cancellation of agreed phone interviews in all three cases, I decided to analyse these three cooperatives as secondary case studies (see also section below on case study selection) and to use the external information gained along with the literature available. As the three case studies are all large and well-known cooperatives there was detailed information available.

#### *Interview Transcription*

In order to be able to analyse and compare the data of the interviews they have to be transcribed. Although the transcription takes a significant amount of time, there are advantages for the researcher because the researcher re-engages with the data, and becomes more familiar with it. The precision of the transcriptions depends on the interview technique and the research aim. For expert interviews, the interview is generally not completely transcribed, and the relevant information is collected selectively while the knowledge interest guides the decision as to what parts of an interview are transcribed (Schostak 2006).

#### *Content Analysis*

The analysis was carried out by moving from a first understanding of the individual interview to an aggregate interpretation of all interviews. Intensive and repeated reading of the interviews led to headings for all text passages of each interview, organizing and weighting the material by organizing sections in which the same or similar topics are dealt with together (Neuendorf 2002). After this the researcher parts from the text, summarises the interviews in their own word. This leads to the development of categories as an empirical generalisation, and the interpretation of the empirical results with regards to the theoretical framework, the research questions, and the existing theory. It is necessary to return to the different steps throughout the analysis in order to avoid bias, misunderstandings and misinterpretations.

Secondary data sources were used in combination with the interviews. This provides the background knowledge necessary to develop the theoretical framework, select case studies, find interviewees and prepare the interviews (Yin 2003). Additionally, it makes it possible to compare the stated aims of policy documents and other sources with the reality and can assist in comparing the results of the interviews or discovering inconsistencies within the results. The results of the secondary data analysis also contribute to the results and conclusions of the research as a whole. Secondary data sources for this thesis have been academic literature on cooperative businesses, economic globalization, worker-owned enterprises, regional development and networking; international conferences on cooperative research and building cooperative networks; research, policy, and governance documents on my case study businesses; newsletters and websites of umbrella organizations, government agencies and cooperative businesses; as well as visits to the case study communities. Content analysis has been utilised to systematically evaluate the cooperatives' communications with the public and the membership, which proved especially useful in analysing their websites, publications, and bylaws (Neuendorf 2002).

The study of the academic literature, visits and participation at relevant conferences and research institutions allowed me to develop the theoretical framework. It also pointed out interesting potential case studies or gaps within the existing research. The analysis of research documents provided insights into the case studies and revealed potential interviewees. Through networking at international conferences and with regional cooperative organizations, I gathered more contacts and valuable information in informal talks that went into the analysis anonymously or with a public reference if available. The visits to each case study region enabled me to get my own impression of the companies and the surrounding community, while internet sources allowed me to remain up to date with important changes. The empirical results were brought together with the analysis of the secondary data, and compared with the analytical framework and the existing literature in search of consistencies, inconsistencies and explanations.

#### **4.1.2 Case Study Selection**

In qualitative research, case studies are typically selected for theoretical and not statistical reasons, and the decision process is based on specific reasons why a particular group of cases is needed (Eisenhardt and Graebner 2007). Potential candidate cases were selected and screened through the collection of sufficient data to decide whether a case met the pre-determined criteria of the theoretical framework and which of the cases met them best.

To select the case studies, a large number of cooperative networks and umbrella organizations were scanned for qualifying case studies that fell into the typology of international cooperatives developed for this work. The International Co-operative Alliance's Global 300 list (ICA Website 2010) of the biggest cooperative member businesses served as a starting point, and then the search was expanded to all identified English-language national, regional and sectoral cooperative organizations, government agencies and some regional development agencies. Worker cooperative networks in Italy, Spain and Germany were also analysed and approached either by phone or in person, in order to learn about prospective case study firms in these countries. The visit of international cooperative conferences and research institutes in Australia, New Zealand, the US, Canada, England and Germany resulted in valuable connections that led to personal suggestions of many companies that were analysed along with the findings from the literature and the internet.

*Figure 4.2: Shortlist of case study cooperatives*

<b>Networked Worker Coops</b>	<b>International Consumer Coops</b>	<b>Global Producer Coops</b>
Bishopston Trading Co, UK	ACE Hardware, IL and 50 Countries incl. CAN/UK	Discovery Organics Wholeseller, Vancouver
Cocoa Camino, Ottawa	Capricorn, Perth WA, South Africa and NZ	Federated Cooperatives Limited, Saskatchewan
Danobat Group, Hesse, Germany	Interflora, NZ/CAN/UK and many more	Fonterra, Auckland NZ and Global Partners
Equal Exchange, Boston MA, OR and MN	John Lewis Partnership, London UK	Growmark System, Bloomington IL, MN and ON
Isthmus Engineering, Madison	Mountain Equipment Coop, Vancouver BC	Murray Goulburn Co-operative, Brunswick VIC
Just Coffee, Madison WI	Ravensdown, NZ, South Africa and WA	Organic Valley Family of Farms, LaFarge WI
Just Fair Trade, Leicester	REWE Group, Cologne and Dortmund, Germany	The Co-Operators, Guelph ON
La Tierra Coop, Quebec	The Co-Operative Group, Manchester UK	Universal Coop Ltd, Eagan MN
Lega Coop Network, Emilia-Romagna Italy		
Mondragon Corporate Cooperative, Spain		
Suma Wholefoods, UK		
The Phone Coop, Chipping Norton UK		

*Source: Own presentation*

At first sight, the pool of globally active cooperatives was relatively large. However, when those cooperatives were screened against the selection criteria of being democratic and member-owned businesses which have an ongoing international engagement and stable cooperative relationships in other countries, the list grew much smaller. The cooperatives on this shortlist were approached via email and follow-up calls and asked to participate in this study (see fig.

4.2). The selection focus was on Australia, New Zealand, North America and Europe (Germany, Italy, Spain, UK). This focus was caused by the long history of cooperative development that many of these countries have. Further reasons for this focus were practical language considerations and the fact that the situation for companies in globalization can be considered comparable as they are all Western countries and have similar policy and governance structures so that the cultural background is not too different.

A closer analysis of the shortlisted cooperatives revealed that the degree of employee participation would be the key to distinguish between formal member-ownership and democratic practices. As there were not enough consumer and producer cooperatives in the shortlist that share control with the workers, I had to include some less participative companies that were still democratically governed through their membership. From the 30 contacted cooperatives, around ten were willing to talk to me. The selection of the eight case studies was made according to three criteria. The first criterion was the willingness to participate in the research. The second criterion was the type of cooperatives to be examined, so that a balanced spectrum of cooperative models could be discussed and their practices compared (fig. 4.3). The third criterion was the geographic distribution of locations, as my preference was to have case studies from each region, North America, Europe and Australia/New Zealand.

Figure 4.3: List of final case studies

Coop Type	Fair Trade Worker Coop	Networked Worker Coop	Consumer Coop	Producer Coop
Primary Case Study	Equal Exchange, USA	Coop Sol/Coffee, Canada/USA	Mountain Equipment, Canada	Growmark Coop System, USA/Canada
	Sumac/Planet Bean, Canada			
Secondary Case Studies		Mondragon, Spain	The Co-Operative Group, UK	Fonterra, NZ/Australia

Source: Own presentation

I set out to interview the cooperatives listed in figure 4.3 in order to get insight from two representatives of each category. Primary case studies were cooperatives where I was able to speak to and record at least one member for one to two hours with their written consent to use their names and attribute them to their statements (fig. 4.4). In this way, eight members of the primary case studies were interviewed over the course of two months. Secondary case studies are cooperatives where I was able to talk informally to or email with members and/or affiliated

researchers, but could not get them to do a full interview (fig. 4.4). These conversations lasted usually around an hour as well and included an oral consent to use the names and information of participants. Because of the informal nature of these conversations I did not record, quote or attribute any of the information relayed through these eight members. Additional conversations with researchers, cooperators, and members from Cooperative Coffees, Mountain Equipment, Mondragon, The Co-Operative Group, and Fonterra were held during five coop conferences, many meetings at over two dozen research organizations, and at least one visit to each of the cooperatives studied between 2009 and 2012. Since they were of a more casual nature, which is why I did not ask for permission to use them in these case studies, I have only used the insights gained at these occasions.

## 4.2 Case Studies

This chapter describes the selected eight representative examples of internationally active cooperatives and the respective findings. After a brief profile, the governance structures and globalization practices are portrayed with an emphasis on the networks and international partners. Drawing on personal interviews, on-site observations, and comprehensive document reviews, these case studies will complement and challenge the findings of the theory and then inform the concluding discussions of practical needs and future potential of cooperative economies in the next chapter.

*Figure 4.4: Case study interviews*

<p>Primary Case Study - Interview partners</p> <p><i>Equal Exchange</i>: Public and Media Relations Manager, Bridgewater MA @ 15 July 2010</p> <p><i>Cooperative Coffees</i>: Relations Manager, Import, Forecasting and Inventory Manager, Communications Manager, Montreal, QC @ 7 July 2010</p> <p><i>Mountain Equipment Cooperative</i>: CEO, Vancouver BC @ 10 June 2010</p> <p><i>Growmark</i>: Administrative Director - Member Services, Bloomington IL @ 21 June 2010</p> <p>Ontario General Manager, Kitchener ON @ 29 June 2010</p> <p><i>Sumac and Planet Bean</i>: Sumac CEO and Planet Bean Public Relations Manager, Guelph ON @ 30 June 2010</p>
<p>Secondary Case Studies - Conversation partners</p> <p><i>Mondragon</i>: International &amp; Public Relations Managers – Talked @ 8 November 2010</p> <p>Mondragon University Lecturer - Met @ 9 September 2010</p> <p><i>The Co-Operative Group</i>: Research Coordinator, Co-Operative College – Met @ 10 August 2010</p> <p>International Development Advisor and Fair Trade Manager, The Co-Operative Group – Emailed @ 17 August 2010</p> <p><i>Fonterra</i>: Professor of Geography, University of Auckland – Met @ 12 May 2010</p> <p>General Manager, Global Trade, Fonterra - Emailed @ 13 May 2010</p>

*Source: Own research, obtained permission to identify interview partners in writing, anonymized for public access to satisfy RMIT University's privacy policy ([www1.rmit.edu.au/browse;ID=eisllwhc1mb](http://www1.rmit.edu.au/browse;ID=eisllwhc1mb))*

### 4.2.1 Equal Exchange

Equal Exchange is a fair trade cooperative from Massachusetts with about 100 worker members. Three friends founded the cooperative in 1986 and challenged many common practices directly from the start, telling early investors that they would probably never see their money again. They also took on the Reagan administration's trade embargo on Nicaragua by importing their first batches of coffee beans from just that country to show their solidarity. Their democratic culture even led to the departure of one of their own founders due to differences over expanding their trade with organic chocolate, cocoa, chocolate, tea, and bananas into a nationwide franchise. Today, Equal Exchange has offices, warehouses, and cafés in Seattle, Portland, OR, St Paul, MI, Boston, and Bridgewater, MA, benefiting 39 small farmer cooperatives in 19 countries around the world, including two domestic farmers in California and Massachusetts (Equal Exchange 2015).

#### *Governance*

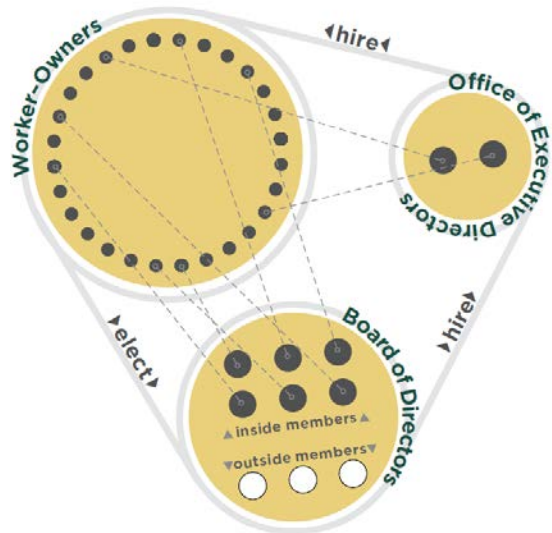
Equal Exchange was founded as a profoundly democratic business, and believe that after 25 years of operation they are now more democratic than ever. They attribute that to a gradual shift from the key founders influence towards more member control and a board of workers but no more long-time members. Furthermore, the Executive Director (who effectively serves as the CEO and is appointed by the board) is "extremely careful not to hinder the workers' ability to govern themselves." (Public Relations and Media [hereinafter: PR] Manager Interview on 15 July 2010) With Equal Exchange's strong approach to worker ownership, they made up the rules as they went, and many policies and institutions that are now in place had to be invented from scratch. This natural evolution led to a powerful egalitarian business culture to the point that some board members and former directors that wanted to grow faster left the cooperative and its sometimes over-cautious and protective governance style.

The cooperative was consciously set up as a for-profit business, wanting to prove that a democratic fair trade enterprise can support not only the producers and worker members, but also invest in and incubate other cooperatives. Equal Exchange's goals are "to bring to the workplace many of the rights and responsibilities that we hold as citizens in our communities" (Equal Exchange 2016), such as voting equality, freedom of speech, access to information, transparency, and equitable income distribution. They maintain a top-to-bottom pay ratio of 4:1, meaning that the best paid workers earn only four times the salary of the lowest paid workers; elect the board of directors; and fill six out of nine board seats with worker owners, while the remaining three go to external people or investors. The board hires and supervises



management, including the Executive Director, making everyone accountable to someone else and putting the workers in control of management (PR Manager Interview on 15 July 2010).

Figure 4.5: Equal Exchange's Governance structure



Source: Annual Report (Equal Exchange 2015:10), used through creative commons license

Managers, members, and entry-level employees alike receive an equal share of profits and participate fully in making business decisions. During times of 'growing pains', this full participation led to systemic reactive responses that were created out of necessity and built a highly democratic governance framework. As it matured, the cooperative created term limits for directors and a "worker owner coordinator" who facilitates meetings, sets agendas and organizes them (Equal Exchange 2015). They also established a cabinet of people as support coordinators, and developed an organizational chart to have complete clarity about who decides what. This required the anticipation of possible decisions and a response within the board was to implement "policy governance" which theoretically will answer all questions (PR Manager Interview on 15 July 2010).

### Practices

During the early 1990s, the cooperative realized that a Westcoast office was going to be a necessity in order to cover the market in that region. The office and warehouse in Portland, Oregon was started and it was decided to offer the new staff membership in the Massachusetts cooperative on the same terms as everybody else. The Westcoast office could have been created as a wholly subsidiary or even completely independent operation, but the membership felt that it would be more in tune with their values to fully incorporate those new workers 3,000 miles away. When it was time to open a distribution operation in the Midwest, the same principle of full

membership was applied to the St. Paul office. A second Westcoast office in Seattle became necessary, and all of their workers are also full members with the same rights and benefits as everybody else at headquarters (PR Manager Interview on 15 July 2010).

Embedding the cooperative culture of the Massachusetts location at the new sites has been a challenge, as in most cases none of the new members had worked at the headquarters before, and only few of them had any coop experience. This gap has been filled through Equal Exchange’s mandatory mentor and supervisor program for new staff that guides new workers through their first year and into membership. People in their first year cannot be members, and there are also temporary workers who do not have membership, so only about 80-85 % of total workers are members. New workers are matched with a mentor from another department to encourage a breaking down of the ‘silos’ (PR Manager Interview on 15 July 2010).

Notably, the expansion into retail has been designed by management with no membership for barista and other retail staff in mind. However, this is a highly contested practice within the cooperative and one barista in Seattle and one from Boston have successfully petitioned for membership. Retail staff with their high turnover and low career expectations are a significant challenge to the worker owner structure, and it is anticipated that making these jobs more attractive will lead to longer engagements with the cooperative that should result in higher membership rates of baristas (PR Manager Interview on 15 July 2010).

Figure 4.6: Fair Trade Supply Chain Comparison



Source: *A different way to trade* (Equal Exchange 2016), used via creative commons license

With future growth in mind, Equal Exchange has multiple options to accommodate more capital investors and is even exploring to go public with their class B shares, under a scheme that would still bind their value to the cooperative, but would allow people to sell them on the market. Another path would be to split up in different entities and single out the retail operations or other parts of the business in order to make room for more investors under current US legislation. However, there is much scope to grow under the current arrangements and Equal Exchange is ready for it. It seems that Equal Exchange's business proposition works well, as they survived the global financial crisis with much lower losses in sales than the competition (Parker et al. 2013). Their company motto "to demonstrate, through our success, the contribution of worker co-operatives and Fair Trade to a more equitable, democratic and sustainable world", visibly worn on all their products, website and many café walls thus appears to be a case well made.

#### **4.2.2 Cooperative Coffees**

Cooperative Coffees is a fair trade import network of roasters and retailers in North America, with an Atlanta-based distribution centre, a communications and quality control office in Montreal, and a large number of producer cooperatives throughout the world. As a "solidarity cooperative", Coop Coffees applies a mixed membership model with roaster or producer 'user' members, 'worker' members at the network offices and distribution centre, and 'support' members, being the import cooperative itself. The network has 19 trading partners in nine countries ranging from South America to Asia and Africa, and strives for meeting the basic needs of each of those producer coops. Five of them have become full members in 2008 with others aiming for membership. All of them are democratically governed local farmer cooperatives in their own right. (Communications Manager Interview on 7 July 2010)

Cooperative Coffees started as a buying cooperative owned by its roasters in 1999. The small scale of each individual roaster made it a constant challenge to realise fair trade premiums to producers, and combining their buying power not only makes this challenge a little easier, but also allows producers to deal only with one cooperative rather than 23, giving them some certainty on quantities and a more stable partnership. In purchasing all of their coffees from their partner cooperatives, the network follows a 'green' fair trade strategy that includes outspoken support for cooperative workplaces, consumer consciousness, and environmental sustainability. All of Cooperative Coffees' producer partnerships have been developed through personal ties with regular visits and conferences, including financial and technical support as well as full membership. The desire to prove by example that alternative trade is possible and

profitable for both sides permeates the cooperatives culture (Relations Manager Interview on 7 July 2010).

### *Governance*

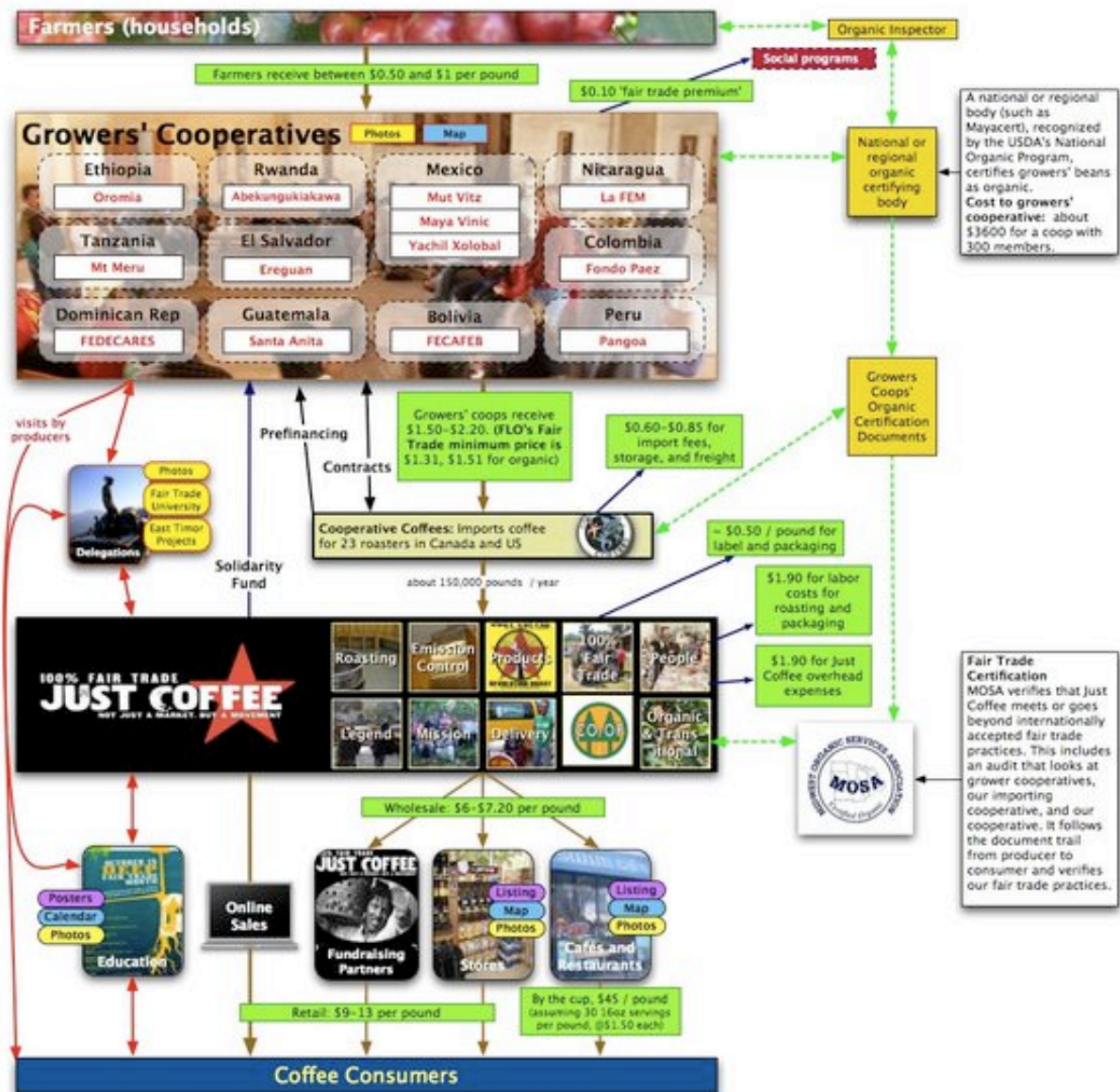
Most of their 23 roasters in North America (16 in the US and 6 in Canada) rely exclusively on Coop Coffee beans and double as cafés. Some roasters focus on roasting for their regional markets and others are adding value through cocoa and similar fair trade products that they sell nationwide. Apart from benefits, membership also brings responsibilities, which include a commitment to honest and accurate information-sharing amongst members, honouring purchasing agreements without reselling to non-members, and respecting other member's territory to avoid internal competition. The cooperative's board is elected by the whole membership, including producer voices, and develops long-term strategies and policies. The Atlanta warehouse manages logistics and mechanics of importation process in tandem with the Montreal office, which is also responsible for quality control together with a certified coffee taster (Import manager Interview on 7 July 2010).

Encompassing two countries as a marketplace, and nine as producer partners has created a unique structure and legal framework. Coop Sol, the cooperative's Canadian communications arm, is registered under Quebec laws as a solidarity cooperative, which allows for international members. The Atlanta-based sister cooperative in turn is registered in Minnesota, which grants flexible investment and expansion rights. It could initially hire Canadian staff only as independent consultants or through employment at a Montreal member café. It is this special legal status in Canada - itself a consequence of Quebec's active cooperative scene - that now allows the whole network to offer membership to its producer partners. The Canadian office is responsible for the planning and logistics of coffee contracts, environmental issues, internal and external communications, quality control, as well as special projects. As a tri-lingual office they serve as a communications centre and clearing house between members of Cooperative Coffees, support members, and producer partners (Relations Manager Interview on 7 July 2010).

Having five producer coops join the network as full members was a substantial change for the whole cooperative, as it only consisted of roaster members before. To have these new members fully engaged takes much more effort on Coop Sol's part, not just because of the distance, but also in terms of the different business cultures and language barriers. They have to work out how to shape decision making, set priorities and internal policies with the full range of membership represented. The goal is to create mechanisms for producers and roaster members to interact with one another, because currently, even the producer to producer member communication is a challenge due to language barriers. A new development strategy has been

debated as a result of the changes, and with the departure of the founder in 2010, there was a feeling that a more democratic network will emerge in the years to come (Relations Manager Interview on 7 July 2010).

Figure 4.7: Cooperative Coffees' multi-stakeholder network



Source: Just Coffee's Transparency (Just Coffee 2016), creative commons license

### Practices

A major effort goes into producer relations, not only with the combined headquarters, but especially between roasters and growers. To this end, Coop Sol organizes regular tours, both for growers to come visit roasters, and vice versa. The annual meeting is located in turns at a roaster and a grower location, which obviously results in a different audience, due to the time

and money involved to go there, but makes for a balanced two-way communication. Not only do roasters need to continually be made aware of their producers' situation, it is just as important to get growers talking to their customers and understand that not all is milk and honey with their wealthy northern business partners, especially with the effects of the global economic crisis reducing markets and margins. (Relations Manager Interview on 7 July 2010)

Coop Sol is the clearing house and communications arm of Cooperative Coffee, based in Montreal. They deal with membership participation, producer coops and public relations, and work hand in hand with their Georgia-based core cooperative. As experts for communications, they recognize the importance of personal face-to-face contacts and organize two annual conferences, one for roasters in North America, and one for producers in the Global South. These gatherings are most fruitful when members of both producer and roaster coops can mingle with and learn from each other. A common issue for example is the request for higher coffee prices on behalf of the producers. Most often, this request for an annual increase of a few cents per pound is approved by all roaster members, but it is just as crucial for the producers to understand the roasters market pressures. Thus it is helpful for roasters to get a first-hand account on how thin the margins are for producers and their cooperative members (Relations Manager Interview on 7 July 2010).

As an example of governance practices within the Cooperative Coffees network, I visited 'Just Coffee' in Madison, Wisconsin, a specialty roasting worker coop formed in 2001. They have deep connections with their independent 16 green bean suppliers and spend a percentage of every bag of coffee sold on bringing growers to visit US coops and funding community projects for their partners. That is on top of the premium fair trade price that growers get from Cooperative Coffees. Their coffee goes to other coops, mainly food and housing coops, and to mail order, but there is no café or retail outlet, only a counter at their workshop (Valiente-Riedl 2013).

Just Coffee values transparency and publishes their annual financial statement, transaction documents and contracts online - even salary and balance sheets are posted online. The worker coop has managed a steady growth throughout its first decade, being able to pay their members better and buy more beans from their partner cooperatives. There are no "bosses" or "employees" at Just Coffee, all their worker members treat each other equally, and decisions are made democratically. They aim to maintain long-term relationships with their producers in the same non-hierarchical, empowering way they have at their workplace. All of the four worker members I talked to said they enjoyed working cooperatively and felt that the level of participation for them was excellent. No formal hierarchy exists in the office, but the founding members and those who have been there longest are consulted more often which could be called a 'natural' hierarchy.

Just Coffee would recommend their business model to others, but are conscious of the dangers of franchising or growing too fast. Therefore, they look closely at new roasters and producers that might want to join the cooperative in order to ensure high standards and quality. Certification is also very important to Just Coffee. Their position is that having multiple logos and certifiers, such as UTZ and FLO, can be beneficial but also confusing, with some members going as far as not using any certifiers, in order to encourage customers to do their own research and vote with their spending (Relations Manager Interview on 7 July 2010).

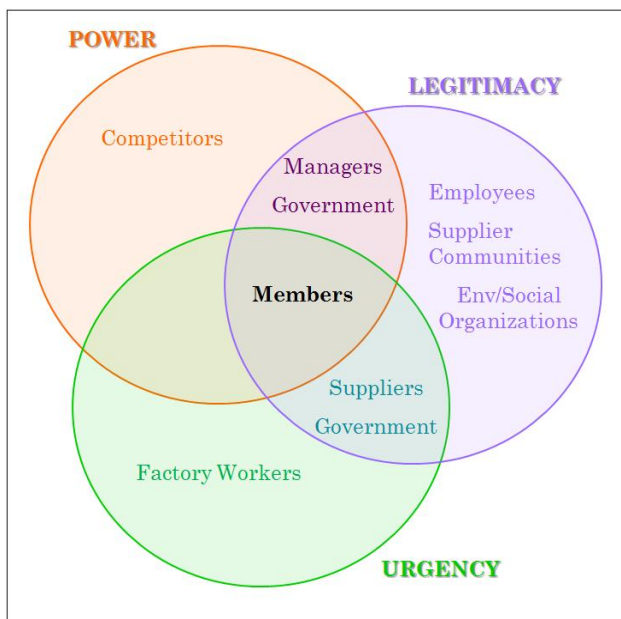
### **4.2.3 Mountain Equipment**

Vancouver's Mountain Equipment Cooperative (MEC) is a 3-million-member strong Canadian consumer institution for outdoor equipment, community outreach, and environmental action. They started with a small group of climbing enthusiasts who were unhappy with the choice of equipment in their local market back in the early 1970s and grew slowly and thoughtfully into the 14 stores that they operate in all provinces today. MEC is known for its ethical sourcing, fair labour practices, and cooperative culture. They distinguish themselves from their competitors in their mission to get Canadians to spend more time outdoors being active and championing environmental causes locally and nationally through initiatives (e.g. green buildings, facilitating the swapping of used gear, and giving 1 % of all sales to a global NGO support fund). Although one third of their gear is MEC branded and they maintain partnerships with a dozen Canadian manufacturers, the bulk of these products are made by non-cooperative factories in Asia, with monitoring and fair labour practices in place to ensure their mission of delivering great equipment at "the lowest reasonable price" is met (MEC 2016).

#### *Governance*

As a consumer cooperative, all of their more than three million members can vote the board directors every year. The 2012 turnout with 0.5 % of the membership was below previous years, but MEC points out that most members vote with their purchasing power, engage directly with retail staff or give feedback online (Norah et al. 2014). There are also annual general meetings and local gatherings that members can attend. The CEO is actively encouraging and looking for new ways of member participation, as MEC acknowledges how difficult it is to engage them, yet knowing that the members are its life-line and critical to their success. Indeed, a 2007 survey found that 96 % of the members are either proud or very proud to be a member of the cooperative, with 89 % trusting MEC to have their best interests in mind (Speck 2007). More recent participatory methods are special resolution votes on the internet, more member research and a national advocacy campaign (CEO Interview on 10 June 2010).

Figure 4.8: Multi-stakeholder environment of MEC



Source: Stakeholders' Map (MichelMP 2016), fair use

Nine independent directors make up MEC's board for an alternated three-year term, managing the coop with their financial, sustainable and cooperative leadership. A conflict of interest policy safeguards their independence and they cannot be managers at MEC nor have close relations with employees or each other. In an effort to better represent the membership, MEC encouraged more diverse candidates in recent years, and one third of its board is female, but it has proven difficult to get minority representation, due to the nature of elections. The board hires a CEO who cannot be a board member and works closely with him and senior management, governing through policy review and development (MEC 2015).

Five standing committees focus on finances, governance, sustainability, human resources, and communication. As every member can run for the board, MEC often needs to complement their leadership skills through training, and just like many other cooperatives it seeks new ways to develop or secure professional directors. For example, they undertake skill assessments, podcasts and interviews during nomination, have a Board Development Policy, and annual anonymous confidential peer evaluations. MEC also hires external expertise in the form of consultants and assessors, and has friendly relations with other outdoor retail companies such as REI, itself a U.S. based consumer cooperative, Patagonia and Nike. They believe in partnering with whoever provides the best services for their membership, and are neither adverse nor especially attracted to working with other cooperatives (CEO Interview on 10 June 2010).



*Practices*

Staff participation is an important focus at MEC, and with most employees also being active members of the cooperative they foster and demand democratic workplace practices. A 72 % engagement level of their 1,500 staff is being met with open doors, flat hierarchies, and a culture of participation. An intranet for networking and feedback was established in 2009, and the global financial crisis has boosted appreciation for MEC's democratic business approach. 90 % of staff feel comfortable raising concerns openly and 84 % believe their manager displays integrity and ethical conduct (Speck 2007). A whistle-blower policy assures that concerns can be voiced anonymously, while protecting employees from reprisals. Retail wages and career opportunities remain contested, although MEC is in the upper quarter of retail remuneration and they prefer to source management from office staff at their retail outlets (CEO Interview on 10 June 2010).

In a large cooperative, each manager is different and that creates inconsistencies in the level of real decision making power, if just as a result of personal style. MEC tries to find ways to homogenise participatory processes throughout the organization. Since MEC is fully dedicated to empowerment, the difference in formal and informal decision making power is not too substantial. Every staff member can walk right into the CEO's office, talk to the middle management or their own supervisors, and often they do. Only minor issues have surfaced under their whistle-blower policy, and people generally feel very much empowered and valued. It is common practice at all levels of MEC to not just ask people to do something, but to explain why it needs to be done so that everybody can understand the big picture (CEO Interview on 10 June 2010).

In the interview, the CEO stated that running a cooperative with many stakeholders is first and foremost about prioritising, making sure the membership and staff are served, and to achieve the objectives of materiality. He emphasised the complexity and speed of today's business world and thinks that many of the things they do at MEC would not be possible in a non-hierarchical workers coop with many meetings and discussions. It is rather the flat, but well-established hierarchies of CEOs, a small middle-management, and store managers that enable MEC to react quickly and compete with the rest of the market. It is always difficult to anticipate future demands, but with regular surveys, studies, and consultancy participation they try relentlessly to meet those (CEO Interview on 10 June 2010).

"MEC demonstrates what can be done through collective democratic ownership. Despite our size and scope, we are still governed by one vote per member. No member has a larger or smaller influence over the company, and no one extracts personal equity from the actions of the

company. As always, membership is open to anyone who buys a share.” (MEC 2011). With regard to their overseas factories, the CEO stated that the selection criteria for choosing suppliers are not so much about getting the best volume deals, but more about demanding certain standards of their contractors; a concern that is voiced from more and more customers. However, enforcing their own standards in a different cultural and economic context does not induce the kind of self-propelling change that MEC wants to see. Banding together with other retailers and agreeing on fair labour standards with an independent NGO monitoring their implementation has proven much more sustainable.

#### **4.2.4 Growmark**

Starting as a local Illinois farm supply company back in the 1920s, Growmark has always been a cooperative owned by cooperatives. Although the initial focus was a reliable fuel supply for nine Illinois farming cooperatives, the then called ‘Farm Services’ quickly merged with similar regional cooperatives from Iowa and Wisconsin to become a one-stop-shop for farming supplies to its members. Today, Growmark Inc. has almost 40 member cooperatives with more than 6,500 people working in its core area of Illinois, Iowa, Wisconsin, Ontario and ten other States. At its headquarters in Bloomington they employ more than 400 staff. Together, they serve more than 100,000 member farmers through a federated network of supply and management cooperatives, spanning its five divisions of Agronomy, Grain, Energy, Logistics, and Facility Planning across the United States, Canada, and Mexico. Growmark provides its member cooperatives and other customers with energy products, crops nutrients, crop protection products, seed, structures, equipment, and grain marketing services, warehousing, logistics, as well as training and marketing support (Growmark 2016a).

##### *Governance*

Growmark is proud of its cooperative values and displays the full Rochdale principles on their homepage, saying that although comparable to a large corporation, they still maintain “a close personal relationship with their customers and improving the local economy”, because “(c)o-ops proudly deliver value to their community and their members” and “(i)ntegrity is a deep-seeded value.” (Growmark 2011:4) Growmark calls their particular brand of federated cooperatives ‘the Growmark Way’: “We are a member-owned cooperative, governed by a board of directors comprised of active farmers committed to the best interests of all members. This governance structure provides great transparency to decision making. We are committed to operating under sound business ethics and principles, and we support business practices that protect our natural resources.” (ibid.:5)

Figure 4.9: *Growmark's Business Areas*

Source: *Precision Agriculture Conference Website* (© Precision Agriculture 2015), used with permission

Given its unusual size and federated organizational system, Growmark has many levels of hierarchy and a diverse governance structure. It all starts with the farmer members and their individual cooperatives in the form of supply stores and buying coops who have an ownership interest in Growmark or one of its many partner coops or subsidiaries. All of these coops have general managers or CEOs who are responsible to the membership and their board of directors. This layer of local coop managers could be called the middle management, and it is superseded by a regional structure of interstate governance that brings together all those managers and local CEOs in the Midwestern core region (Illinois, Wisconsin and Iowa), Ontario, and the Eastern Midwest. There are a few coop members in remote areas such as Arizona, Nebraska or South Dakota, but they mostly use only a limited number of Growmark's services and are usually part of other coops that feature more prominently in their home region. At the top of the organization sits the corporate headquarters of Growmark in Illinois - incorporated as a Delaware company to save on taxes - that share offices with the Illinois farm bureau and a rural insurance mutual. Growmark has a CEO, a board of directors and a slim layer of senior management that consists of a handful of vice presidents for each major portfolio (Member Services Director Interview on 21 June 2010).

As a regional cooperative, Growmark is led by a 16-member board of directors, comprised of active full-time farmers elected by their member cooperatives. These board members take part in strategic planning, the further development of the federated network, and oversee ethical compliances within the system to ensure transparency and open communication on all levels. A

special certified 'Cooperative Director Program' is in place and regular training for board members and other management personnel is mandatory, which is known to be a key factor in successful cooperative management. The 'Growmark way' guides the board's decision making with its emphasis on sound business ethics, environmental stewardship, and scientific crop input recommendations. Aside from sustainable and ethical business practices, Growmark reaches out into their communities through supporting charitable organizations and educational institutions, aiming for more 'master farmers' with a college degree to make a difference (General Manager Interview on 29 June 2010).

### *Practices*

Growmark puts a lot of effort into maintaining its democratic nature. They hold monthly meetings in every department at HQ that last one and a half day, in order to report and get feedback on everything happening. The rather flat hierarchy for a federation of this size and geographical area is an integral part of their cooperative culture and every member or staff can write an email to their CEO (just known as 'Bill' to most) or any other manager and get an answer within days, albeit from the person most knowledgeable in that area. The key to the federation's success, according to the interview, is indeed the emphasis on expertise. Everybody at Growmark is regarded as an expert in their area and farmers as well as regional staff trust and cherish their advice. They are not necessarily former or active members, although that would be the ideal case, as my interview partner believes. He was a farmer member himself before working at HQ which has helped him a lot to understand the culture and values of the place (General Manager Interview on 29 June 2010).

Overall, Growmark has a high level of transparency and puts much effort into ensuring participation of every member and regional coop through regular regional meetings with all members at their HQ. The last round has taken three years and 36 meetings with senior management (vice presidents and CEO) in order to hear every member out. They have annual meetings as well, one in Chicago for all members, and one for each region and cooperative. However, those are more about reporting than feedback and many members will not attend because they can get their needs met through the regular channels. One of the interview partners even calls them "Dog and Pony Shows" because mostly retired coop members attend and the level of interest with newer members has demised significantly within the last 15 to 20 years. Growmark also holds a caucus on a regular basis and has its membership divided in five zones for that (General Manager Interview on 29 June 2010).

One of the more recent round of mergers saw a complete network of cooperatives in the Canadian state of Ontario join the Growmark family voluntarily. Jaye Atkins from what is now

Growmark Ontario talked to me about the merger and how they continue to grow after they have consolidated five of their former United Cooperatives of Ontario into the one Growmark coop they are now. This took much effort and they had to let all the management of those coops go, making about 200 people redundant, which was more than half their staff, within the last five years. Most of those cooperatives had not made money in four to nine years, and the competition from big box wholesalers and the changing buying habits of their membership (not getting everything at the coop anymore like they used to) was a real challenge that they could not hold up against. They focused on the three things they are good at, agronomy, grain and petroleum, and merged with Growmark, who were really seen as a saviour at the time (Member Services Director Interview on 21 June 2010).

Even after the lay-offs, Growmark is still regarded positively in Ontario, or at least better than any other non-cooperative company that could have taken over, or than bankruptcy. It has been a long and difficult process, but they feel that they are on the right track and have gained all the expertise and advantages of the Growmark network, which is a few years ahead of the game in Canada and up to date in the US. They look forward to growing stronger still (General Manager Interview on 29 June 2010).

When asked about possible policy changes on behalf of the government that would ease Growmark's and its membership's efforts to grow, they stated the harmonisation of regulations, a continuity in international and domestic economic policy, as well as the elimination of trade tariffs within NAFTA and beyond, especially with the European market. Although Growmark has had ownership interest in a French company for a while and has been watching the European markets, they cannot enter because of the highly regulated nature of European agriculture and trade (Member Services Director Interview on 21 June 2010). With the *Transatlantic Trade and Investment Partnership* (TTIP) stalling and not likely to happen any time soon (although they might just enter European markets through the coming EU-Canadian treaty), they focus on their vision "to be the best agricultural cooperative system in North America." (Growmark 2016b)

#### **4.2.5 Sumac and Planet Bean**

Planet Bean is a fair trade specialty roaster for the greater Guelph/Kitchener/Waterloo area. It has three cafés near its headquarters in downtown Guelph and hundreds of regional wholesale customers. Most of Planet Bean's customers live within 150 km of their headquarters in a suburb of Guelph, Ontario. The coffee operations are the most viable end of an ongoing effort to start and try out socially just cooperatives locally and internationally, which is now concentrated through the SUMAC umbrella cooperative that Planet Bean belongs to and helps to fund. A fully realised worker cooperative, Planet Bean struggles with the same issues most retail

businesses that rely on imported goods are facing, namely high exposure to exchange rate changes and fast overturn of casual staff. The global financial crisis hit hard through the US Dollar prices of their fair trade beans. As a workplace democracy, tensions are mounting up to resolve the common issue of participation for non-member casuals in the shop fronts versus full member staff in the back office and roasting facilities (CEO Interview on 30 June 2010).

As a regional company, Planet Bean has no illusions about its insignificant size for the producer cooperatives and associations it buys its beans from. They have established good business relations with a couple of heavy weight coffee producer associations and supply more than 200 regional wholesale customers with their fair trade organic coffee. Much like Equal Exchange, with whom they maintain friendly relations, Planet Bean had no template for its business model and developed most of its governance structure out of practice and necessity. There is hierarchy but there also is democracy (CEO Interview on 30 June 2010).

### *Governance*

Planet Bean has a fairly traditional hierarchy with a CEO (who is also the president of the board), a Chief Financial Officer (CFO), and several managers for different parts of the operation. I talked to Bill Bartlett, manager of marketing of communications, who is president of SUMAC and serves on the board of Planet Bean. His boss is the CEO of Planet Bean, but he is the boss of the CEO of Planet Bean through his presidency of SUMAC. This is their attempt of democratising power relations: "It's the face to face relationship that we're trying to bring back into this economic stuff" (CEO Interview on 30 June 2010). The workers can fire managers, the CEO or members of the board through votes at Planet Bean's membership meetings.

A democratic structure makes people confident to speak their mind. Whether or not their input will be taken up depends on the management team that they are working with. Creating competency and understanding of the management roles is key, as workers communicate with many managers and no worker committees formalise this exchange. Deciding on what to do is a very fluid process. Worker coop staff meetings are held regularly by necessity with the CEO and management present as needed. New member meetings are held as needed, too. Barista development happens outside of the member context, so the roasters take care of that, just as the production members take care of production issues etc. For disciplinary issues Planet Bean has their policies and there will be lengthy conversations and consultations with other members before somebody is terminated or cut back (CEO Interview on 30 June 2010).

What sets Planet Bean apart from other coffee coops is its goal to start a whole family of cooperatives in the region that are self-financing and worker-owned. This has always been their intention and after 20 years of trial and error, the coffee business has emerged as the most

viable vehicle to fund their new ventures. SUMAC is actively seeking the most ethical approach to everything they do and even source their take-away containers from a sustainable, socially certified factory in China. Everything in their two cafés is organic and fair trade, down to local milk, soy, and baked goods. Their ambition only stops at the store furniture and items they do not sell to customers, although all of their machinery for roasting and packaging comes from ethically sound businesses as well (Planet Bean 2016).

The overarching SUMAC cooperative was only established in 2006, when Planet Bean was generating enough revenue to be able to branch out into other retail areas, but more importantly, when a working organizational structure was established that could be rolled out into other cooperative businesses. The idea behind SUMAC is to establish a working structure that offers all the experience with management, finance, and workplace democracy to new cooperative businesses directly from the start and can move quickly and grow into different areas. The idea is that the more divisions SUMAC has, the more stable the cooperative as a whole can become over time, sharing all benefits with every member across divisions (SUMAC 2011).

Once a Planet Bean member becomes a SUMAC member, the pay check changes from Planet Bean to SUMAC and they are a member of the overarching community cooperative, not only its coffee branch. Worker owners traditionally own the businesses that they work for, but SUMAC enables them to also start and run other coops through direct ownership. The goal is to enable members to realise their dreams and run the kind of business they want as a start-up out of SUMAC and still remain part of the cooperative family. “Finding capital is a nightmare” (CEO Interview on 30 June 2010), that is why SUMAC wants to be able to fund all their divisions themselves.

### *Practices*

It took many discussions and a very steep learning curve to make the coop succeed with its democratic governance structure. The interview partner emphasised how difficult it is to run a worker coop, especially the conflict between part-time staff and full members. Planet Bean is not introducing weighted membership yet, but is aware that frictions will continue to grow, as most of their baristas and retail staff are students with no interest in joining the coop. Workers can only become a member after having worked at least 25 hours per week for more than a year. The initial up front membership cost of \$5,000 has been reduced to \$100 and a salary packaging deal was established to ease membership (CEO Interview on 30 June 2010).

“It’s important to make decisions at some point and to realise where intelligent participation is in order and where it is better to call the shots within your team” (CEO Interview on 30 June 2010). The highest paid person never receives more than three times the basic wage. Retail

wages are relatively low with people only earning 10 CAD per hour so that the CEO only earns 30 CAD per hour. To compensate this, Planet Bean has created an 'equitable equity equation' which bases equity accumulation on wages. Planet Bean still has a group of silent investors but is actually making a profit, allowing them to experiment with other ideas under the SUMAC header. They aim at buying out their investors to become independent, and think about a structure where external investors can play a role in the cooperative without compromising its self-control in order to capitalize themselves (CEO Interview on 30 June 2010).

Planet Bean has no producer members right now, but has talked to some of their partners with capital about potential membership. However, it seems this will take a while. Most of their producers are already organized in cooperatives, but sometimes they do business with associations that effectively operate like a cooperative but are not legally coops. That is partly due to the perception of coops in certain countries. For example, Planet Bean works with the Coffee Farmers Union in Ethiopia, which is a massive cooperative with 120,000 farmer members, but does not call itself a coop because of the bad experience with state-run cooperatives under the previous Marxist regime (Dhillon 2016).

Planet Bean tries to create benefits for producer coops in the global South through establishing contacts into the Canadian cooperative scene, such as arranging loans with The Co-operators, a large national credit Union, and showing them around Ontario's coop sector for inspiration. This added value works for both parties, as Planet Bean does not buy too much coffee from its producers but can offer them access to its networks: "We're tiny. We're absolutely insignificant for any of these coops." (CEO Interview on 30 June 2010). Planet Bean joined the Ethiopian trademark agreement as the first company in Canada which improved their relations with the Ethiopian cooperatives. Now the Ethiopians understand that Planet Bean cares and wants to be engaged.

SUMAC has also started a textiles project as not many coops have worked in that area yet. Here, they try to bring together ethically-run Indian mills with cotton farming widows who lost their husbands through economically induced suicide. My interview partner stated that this their way of paying back a tiny little bit of the wrongs that have been done to Indian farmers through Western agronomy businesses. SUMAC is committed to jump-starting a whole new market for the upcoming products in Canada. Many of those women have started to grow cannabis as a better income source and would gladly turn towards something legal, if there were any margins in it. SUMAC tries to bring them together with Ginny cooperatives and textile manufacturers in their home towns and regions so they can add all the value to their product themselves. Talks have been undertaken with other cooperatives, such as GayLea supermarkets, Mountain



Equipment Coop, and The Co-operators (CEO Interview on 30 June 2010), and this would have been a significant project, but it seems to have faltered when last checked in 2016.

#### 4.2.6 Mondragon

The Mondragon Cooperative Corporation (MCC) was founded in the Spanish Basque region's city of Mondragon as a community experiment in cooperative economic development in 1956. A young catholic priest had started a technical college a good 10 years earlier and selected five students to start working on an idea for an independent social economy, based on his teaching on solidarity and participation. Today Mondragon has grown into a multinational corporation with ownership and subsidiaries in 41 countries, and sales into more than 150 nations around the world. Without giving up on its community-focus and democratic worker-ownership, the Mondragon Cooperative Corporation (MCC) is the one worker cooperative that has successfully globalised and can compete with other multinationals. That change from a local to a regional and now international cooperative network happened gradually over decades and reflects the world's economic globalisation in most steps – with one major difference: Mondragon is still focused on creating wealth for its community through its unique brand of cooperativism, and offers good job security and benefits to its members (Williams 2007).

Figure 4.10: Mondragon's global network of subsidiaries



Source: Sales and production presence around the world (MCC 2016:Home) © MCC, used with permission

Accounting, insurance, and later legal offices and research centres were all set up as their own cooperatives, intrinsically interwoven with the producer cooperatives and with each other. In

the late 1960s, an 'entrepreneurial division' was created as the collective intelligence of the cooperative system, where business advice and start-up coaching was just as readily available as management training and mentoring. After a major reconfiguration in 1991, the entrepreneurial division was replaced with a host of specialized business service cooperatives and the Mondragon network was organized into its sectors of industry, distribution, and finance – with each cooperative governed by its worker members through what they call *sovereign power*.

The way Mondragon funds itself is also elaborate. Every coop in the network puts 40 % of their profits after taxes into an investment fund that is used for research, training, and development, pays for a range of collective services, and acts as a solidarity fund that helps struggling member firms. Ten percent of the surplus is given to local charities and non-profit organizations, while the remaining half goes into individual pension accounts. Until they are paid out, the bank can use the pension money as very low-rate loans to its cooperatives. When they retire, the workers receive their last salary for the rest of their lives (Lewis and Conaty 2012). If a member temporarily falls short on orders or cannot meet the demand on its own, the coops lend each other workers. Taken all these financial, social, and business networks together, Mondragon can be seen as its own cooperative economy that protects its members from the moods of the markets and cushions the pressures of global competition and efficiency. It is a testament to the power of cooperative networks that only one of the hundreds of cooperatives founded at Mondragon went bankrupt in its 60 years of workplace democracy.

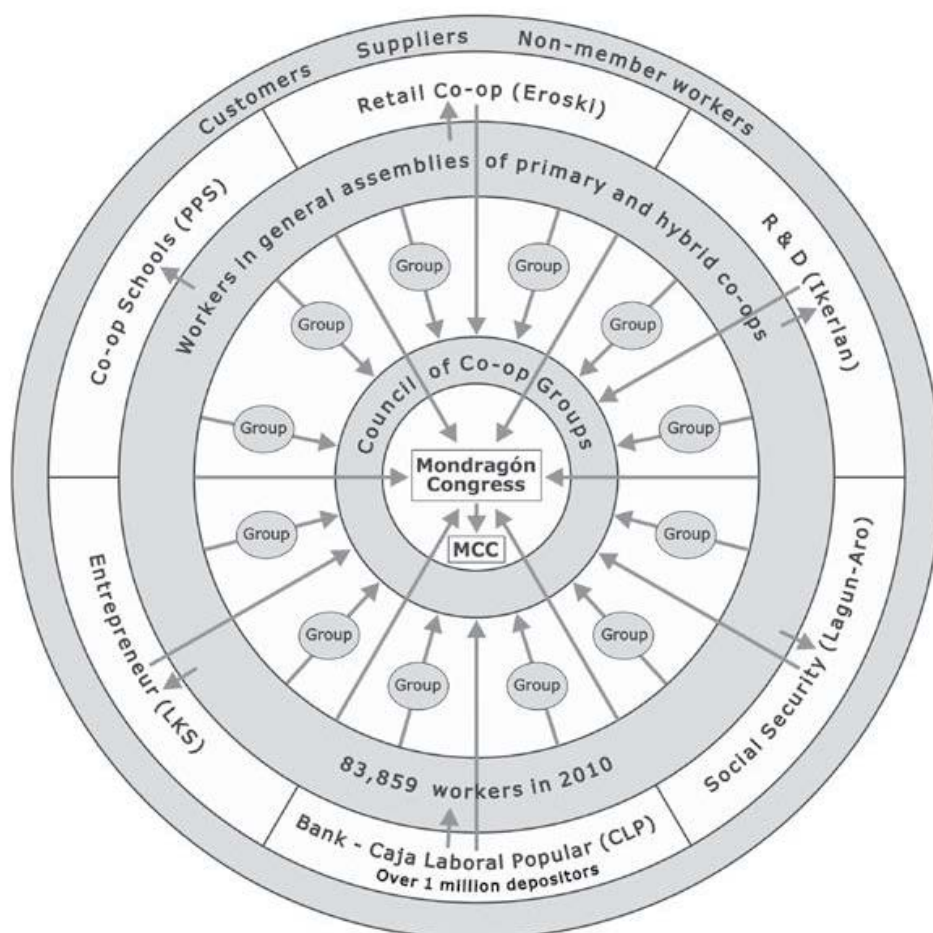
### *Governance*

Mondragon consists of 260 enterprises – only 103 of which are cooperatives – with over 74,000 people working in the group (MCC 2016) to create all kinds of technical products from white good appliances to large scale infrastructure-building equipment. Their expertise is on par with the competition and has been attributed to their focus on education, training and innovation, employing over 4000 members in three research and development centres and its university. Mondragon was incubated out of and as part of a technical college (Restakis 2010), now one of the best engineering schools in the country. The cooperative group has famously drawn upon its own bank from the very beginnings, while also starting a social security system and building on an existing technical school. The bank has grown into one of the largest financial group in Spain and has played a critical part in funding and developing new and existing cooperative enterprises. The University educates almost 5000 students at 10 locations, offering a complete cooperative curriculum from Bachelors to PhDs (MCC 2016).

Since the 1990s, MCC acquired many overseas factories in order to outsource some of its production to cheaper shores. At the same time, it grew its multi-stakeholder group of Eroski

supermarkets through buyouts, alliances, and acquisitions throughout Spain and the South of France. Along with other acquisitions and investor partnerships, Mondragon managed to almost triple in worker size during the last 25 years. That growth and global competitiveness came at a price however, and it means that one third of Mondragon's workers are employed by the members of the cooperative through subsidiaries. 95 % of new staff from investor-managed retailers that Eroski continuously acquires join the cooperative as worker members within the three years it takes to pay the fee (MCC 2016). The internationalisation of Mondragon led to five different types of employees: cooperative and temporary members in the Basque country make up 40 % of the total workforce - with 20 % of this being non-members as a buffer for global volatilities - while another 40 % of members work in the rest of Spain, mainly in the Eroski worker-consumer hybrid coop. About 1/5 of workers are non-members in the cooperatives' 128 subsidiaries, representing 1/3 of industrial staff and 1/4 of production (MCC 2016).

Figure 4.11: Governance of Mondragon's cooperative network



Source: Democratic Control Network of Mondragon Activities (Lewis and Conaty 2012:248) © New Society

Mondragon has always been a highly centralised and hierarchical business, mainly to achieve the best efficiency – the one aspect that less hierarchical cooperatives struggle with the most. A general council and cooperative council decide on strategic matters in a unifying way and supersede the previously existing seven industrial divisions, the financial and distribution group (Halary 2006). In the 1990s a social council was introduced due to the internal tensions of the expansionist paradigm shift, but its impact on foreign subsidiaries does not match the control it wields over the core cooperatives. A cooperative congress is held annually with hundreds of representatives - one representative for every 30 working members from all their businesses as well as members of the Permanent Commission - discussing their policies and revising the application of their values (Clark 2004). While most of the planning and strategy development is done within the other governing organs of the cooperative, it is the Congress that has to approve it. “The deliberations are widely debated on various levels, which allows a great number of members to participate in the debates.” (Azevedo and Gitahy 2010:18)

In 2003 the Congress adopted a new corporate expansion policy that outlined the principles for integration of newly acquired businesses. New cooperatives have to accept the Congress’ regulations and have to coordinate with all other cooperatives of their sub-group, with strategic planning conducted by the governing bodies of the group as a whole (Bakaikoa et al 2004). The Congress decided that new workers in non-cooperative acquisitions should be encouraged to participate in their subsidiaries decision making and that social and environmental policies have to be actively implemented both with the workers and within their foreign communities (Errasti and Mendizabal 2007). The General Council regulations for external expansion include an emphasis on autonomy, training and personal development for their international subsidiaries, with a management model that recognises the foreign cultural realities and respects the local norms. Transparency and equality are just as much part of these new guidelines as the promotion of cooperative businesses in the new areas (MCC Council after Errasti et al 2003).

Networking is highly integrated at Mondragon. The cooperatives share services and resources, but also pool to finance inter-enterprise loans, use the same intranet and offer one common internet purchase portal to their customers. Cross-fertilisation is ingrained through joint research centres and the university, but also happens through personal and structural knowledge exchange. (Halary 2006)

### *Practices*

As early as 1974, founder Arizmendiarieta talked about the creation of branches and the possibility of “a transnational cooperative as the result of democratic agreements among cooperative organisations in diverse countries.” He encouraged people to look deeper at the

roots of globalisation and concluded “that the equivalent to the multinational is, with the necessary provisions, integrated cooperativism” (Errasti and Mendizabal 2003: 564). There is a firm believe within Mondragon that the same values and principles that have guided the experience locally can be rethought and applied internationally as a kind of global solidarity. During their extensive field work, Azevedo and Gitahy (2010) found that the discussion about internationalisation includes the creation of a socioeconomic globalisation policy that is aimed at the foreign subsidiaries as well as their surrounding communities, the development of new management and communications technology to establish stable relationships between the branches, and a new form of multinational management that is in tune with the democratic values of the cooperative movement.

I talked to some staff of Mondragon’s subsidiary businesses in other countries, and all of them held the Basque owners in very high regards and often pointed out that efforts were made to change their capitalist business model into cooperative worker-ownership. More often than not this did not happen due to legal difficulties and contractual obligations, and in many countries it is virtually impossible to become members of the Basque cooperative because laws for such a business model, such as the Quebecoise solidarity cooperative, do not exist yet. The 2006 European Union directive on the creation of cross-border cooperatives has yet to be realised between Mondragon’s European subsidies and the core membership.

Mondragon sees its expansionist development as a necessity forced upon it by the globalised economy. Even its co-founder José María Ormaechea states that “a renewal process designed to identify new possibilities” (MCC Website 2011: FAQ) was in order after half a century of regional cooperative growth. He also stresses that “the Mondragon Experience continues to maintain the basic elements of its identity” (ibid.) and that education, work and solidarity are still at the core of the cooperative network. For Mondragon, the cooperatisation of their new dependencies is still on the agenda, and they remain hopeful that it can be achieved despite of the differences in national laws and corporate cultures. Such an international conversion from investor-owned to community-driven businesses is unprecedented in modern history and poses a real challenge to Mondragon. Much as the smaller cooperatives analysed in this chapter, they have to build the road as they travel, and building of cooperative values takes time.

Mondragon’s continued health and survival is largely based on its involvement with non-cooperative businesses that they have bought both throughout Spain and internationally (MacLeod 1997). MCC’s membership is still struggling with the necessity of becoming a corporation with non-cooperative divisions and customers, but there is a strong argument that without those subsidiaries they could not be part of the global economy in the profound and influential way that they are now. In what is known within Mondragon as ‘the debate’, many

have argued that sticking to the original worker-owner approach for all their enterprises will cost them jobs rather than create new ones, but that becoming part of the global capitalist system will enable them to continue their democratic experiment at home in Mondragon. “A deep-rooted alteration in cooperative identity has been observed throughout the whole Group as a consequence of purchasing operations and the creation of subsidiaries. (...) Fagor’s cooperative members have somehow become capitalist employers.” (Errasti and Mendizabal 2007: 290)

The current centre-periphery model where all the innovation and knowledge work remains exclusive to the core member businesses is highly problematic as it is unequal and contradicts the coop idea. In many of MCC’s acquisitions, attempts are made to participate the workforce and empower them to the point of shared ownership, but this is seen as a long and winding road. While this unique approach to convert capitalist ventures into worker-owned cooperatives is gaining a lot of approval in the mainstream, the cooperative movement is getting restless with the ongoing discrepancies between vision and reality. The close-knit community spirit of the cooperative corporation was shaken up for the first time in 2008, when two highly profitable cooperatives voted to leave Mondragon, as all voluntary member businesses can. There was a feeling of betrayal of the community that made them strong, and that was shed off once no longer needed to avoid the fair share necessary to keep the system going (Wright 2010).

Many observers (Redondo et al 2011, Reed and McMurtry 2009, MacLeod 1997) have urged MCC to take a stand and accelerate the conversion, with their critique ranging from pointing at their responsibilities as a cooperative to foster participation and ownership (Azevedo and Gitahy 2010) to disappointment of the half-hearted expansion of their values (Errasti et al. 2003) to discontent about their current capitalist practices seen as a sign that Mondragon has ‘sold out’ (Cheney 2003). Joseph Stiglitz pointed out after a visit at Mondragon that cooperatives have the responsibility to think about how to avoid job losses through relocation – a notion that conventional multinationals do not necessarily possess (Errasti and Mendizabal 2007). The challenge that Mondragon faces throughout the coming decades will be to facilitate the development of an international cooperative network, while staying true to its constituent cooperatives (Smith 2001).

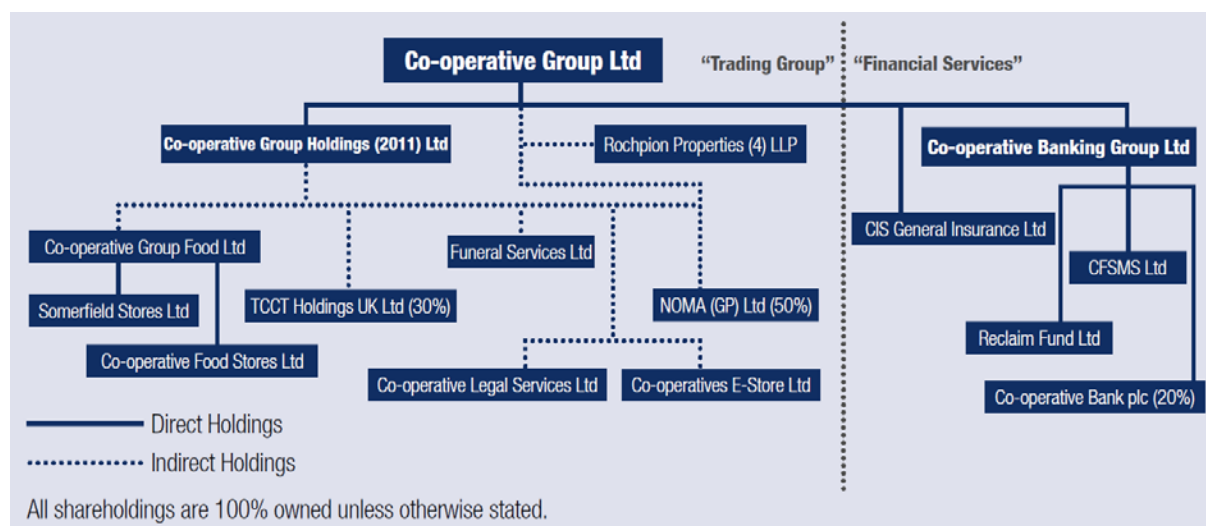
The two classes of workers that now exist within the group, and sometimes even work side by side in the case of the Eroski network, are being addressed through a multi-year initiative to cooperativise most of the Spanish operations in one large retail coop. Soon to be completed, this transformation will make up to 3/4 of Mondragon worker members again and hopefully renew initiatives to democratise the group’s foreign subsidiaries (Bajo and Roelants 2011). The 2015 Annual Report points in that direction: “we have proposed a new organisational model to

respond to the heterogeneity of Mondragon and the challenges of the global market pivoting around 10 innovative projects; and we have prepared a new proposal for *Funds and Instruments of financial inter-cooperation*, which pivots on the profitability and sustainability of the businesses, maintaining inter-cooperation and solidarity among all parties.” (MCC 2016:annual-report) As the founding father used to say: “If we are not economically efficient we cannot be socially effective.” (Don Jose Maria Arizmendiarieta in Thompson 2001:1)

#### 4.2.7 The Co-Operative

The world’s largest cooperative consists of ten divisions, each named after its core business and ranging from food, travel, clothing, pharmacy and property to legal and financial services, motor trading, farms and funeral care. Headquartered in Manchester, England, the Co-Operative (or The Co-Op, as it is better known) draws on a hundred and fifty years of cooperative experience and can trace their roots back to the Rochdale pioneers. Originally known as the Co-Operative Wholesale Society, the Co-Op grew steadily, merging with other large societies and cooperative groups to encompass 85 % of the UK’s cooperative retail business, employ 70,000 people, and gain a national retail market share of 7 % with all of its groups (Co-Operative Group 2015). This case study focuses on the group’s food division with almost 3000 outlets throughout the United Kingdom in order to highlight implications of large-scale ethical consumerism and democratically governed retail networks on the fair trade movement.

Figure 4.12: *The Co-Operative Group, its principal subsidiaries, joint arrangements and associates*



Source: *Subsidiary undertakings* (© The Co-Operative Group 2015:81)

After a decade of growth, renaming and rebranding, the group adopted a new vision in 2010 that includes profit sharing with and response to their members, being an ethical leader and an

exemplary employer, aiming “to inspire others through co-operation.” (Co-Operative Group 2010:7) It was the rebranding effort after the merger with United Co-Operatives in 2007 that launched an unprecedented marketing campaign titled ‘Good for everyone’ and firmly put the cooperative principles back in the public’s minds. Trust and confidence in the ethical operations, honesty and openness of the Co-Operative amongst members and non-members alike gained them the distinction of the most ethical and most trusted UK brand (National Consumer Council 2009). The group capitalized successfully on their momentum with a doubling of sales, profits, and membership in just three years and notably right through one of the worst economic downturns. Moreover, the group is making steady progress in its goal to supply all of its primary commodities from the fair trade market, an ambition unparalleled for a chain of 2,800 retail outlets. Yet, the Co-Op is highly committed to this and its other “(...) challenging but achievable targets for both our business performance and our social goals because that is what our members ask for and expect.” (Co-Operative Group 2010:0)

### *Governance*

With almost six million members in their consumer coop, the Co-Operative Group is organized in seven regions with 48 areas, both with their own boards of elected representatives. A group board of twenty members spearheads three subsidiary boards for food, finance and specialist businesses, complemented by a Values and Principles Committee that ensures compliance with the ethical desires of the membership. All financial matters including remunerations, even for the board-appointed CEO, is made transparent bi-annually and bonuses for the management are used as an incentive. Members have huge influence through bi-annual member meetings in every local area, consumer feedback and regular thematic consultation initiatives, where ethical, environmental and social policies are debated and set. It was through this member participation that the Co-Op adopted its ground breaking fair trade strategy and started addressing climate change in every aspect of their operations (Co-Operative 2010).

The introduction of a new *member council* of 100 lay people continues the ‘relaunch’ of their co-op difference and a return to the *One Person One Vote* principle (Co-Operative Group 2015). Along with their constitutional reforms, that include a new group board with “commercially driven but co-operatively minded” (ibid.:6) directors, the member council was added as a key pillar of the group’s governance structure (fig. 4.12) “to represent members and to act as guardian of the Co-operative’s Purpose, Values and Principles, together with the Society’s Constitution, with the power to hold the Group Board to account.” (ibid.:45) The council meets six times a year, elects its own president and Senate of 15 members, and is in regular dialogue with the group’s board. Its members and committees are engaged in a flow of information with all levels of the business and they can ask questions to the management. A ‘Stakeholder Working



Group' has been set up to coordinate the discussions between the board and the council, which consists of four elected representatives of each. The 1 % of their 8 ½ million members (90,000 people) who voted in the first election of the new board and council took part in a national experiment in economic democracy that has not been seen on this scale in decades (ibid.:40). On top of giving all members a direct vote on half of the board's directors, the former surplus-dependent reward system was replaced with a fixed 5 % benefit of all spending on the group's own goods and services into each Membership account, to be spent on the next purchase or saved for the future (Co-Operative Group 2016).

Figure 4.13: The Co-Operatives Group's Governance Structure



Source: *New Governance Structure* (© The Co-operative Group 2014:38)

As a fair trade pioneer, the Co-Op popularised the concept, and is on its way to source 100 % of their own branded goods in a fair and ethical way, with 200 products already traded fairly in all of their 2,800 stores that cover every postcode of the United Kingdom (Cooperative Group 2010). This unique scale and range along with affordable pricing through the volumes involved, solves the main barriers that fair trade was facing in the past (Nicholls and Opal 2005). The largest range of fair trade products in the country - from the early adaptors of coffee, tea and chocolate to wine, fruit, nuts, sugar, honey, beansprouts, spring water and cotton - is being expanded to all of their Co-Op branded goods, including non-foodstuffs as well. Each of its producers can be identified on their website, with educational information and the Co-Operatives' community investment projects in the area outlined by product (Co-Operative Group 2016:/our-ethics/fairtrade).

Pushing suppliers to adopt their ethical conduct and seeking out new producers that can comply with their standards, the Co-Op works on projects that support producers beyond fair trade and invests in a supplier training program at 800 sites in six countries to create better workplaces. A team of Co-Op staff is helping farmers in Africa to band together as cooperatives and get fair

trade certification to become suppliers for the group. At home, they campaign for debt alleviation with an 'Unfinished Business' campaign and train their staff to understand the fair trade market. An important factor in their sustainable adaptation of fair trade was to educate internal marketing and buying people about the differences and potential of the new market, and then link them with the policies to follow consumer demand to genuinely implement the Co-Operatives values. Going forward with the same understanding of the realities and long-term goals seems to be key to the broad and sustained rollout of fair trade products throughout the entire network (Co-operative College 2010).

### *Practices*

The food division is responsible for more than half the group's net revenue and the fifth largest food retailer in the UK, serving 17 million customers every week. For their £1 membership fee, members get cash returns twice a year based on their volume of business. A quarter million take part in the annual votes. Being Britain's largest farmer with its farming division enables the group to source locally and ensure that their domestic food production is done in line with its ethical and environmental policies. The Co-Ops transparency reached new heights with the introduction of an iPhone app that can scan their labels and displays the location of the farm and information on how the food has been grown. Its finance division declines around 1 billion pounds of credit each year to businesses that are deemed as unethical by its members, investing the same amount instead in renewable energy projects and creating a social banking unit. The group's Enterprise Hub actively promotes and supports new cooperatives with over seven million pound being invested in start-ups across the nation, funding the international development of cooperatives with millions of pound each year (Co-Operative Group 2015).

The most prominent example for the groups special relationship with fair trade organizations is their 2002 foray into chocolate. When their previous supplier Kraft could not be convinced to enter the fair trade market, the Co-Op turned to Divine Chocolate, an established player with strong credibility and strong producer relations. "What we are doing together is much broader than just making money. (...) We have used [their] story in marketing messages, which screams credibility, which is an incredible asset. Links back to the producers have always been a very strong part of our strategic message on fair trade." (Co-Op branding head David Croft cited in Doherty 2007) Flexible payment terms, waived listing fees and shared promotional costs are common practice in the group's non-exploitative and developmental fair trade business and contradict the usual criticism that large scale fair trade operations have drawn (Blythman 2005). Co-Operative Food entered the fair trade market out of a conviction that grew from within its democratic structure, beginning in the early 1990s, paving the way for a larger customer demand that has pulled other retailers into the conduct, although with a different

motivation and fairly mixed results. “The one company who has had the most impact on fair trade in the UK is the Co-op. Their national advertising in magazines and television, also the Co-op coming in on their own label, has created fair trade awareness there’s no doubt about that.” (Co-Op ethics committee member David Smith cited in (Doherty 2007:8)

The Co-operative is highly committed to its fair trade range and starts a new marketing campaign almost every year to educate the public and boost its already high sales. With less than 1 % of all foodstuffs sold in the UK being fair trade (Bergan 2010), Co-Operator John Bowes continues to push the agenda in tune with the Co-Op’s new ‘Join the Revolution’ credo: “We need to raise the bar and we can’t afford to stand still because the share of Fairtrade goods is still very modest and there is a lot of work to be done in transferring wealth.” (Bowes 2011:12) The push to convert its whole food brand to fair trade is the logical culmination of almost twenty years of value-based engagement “is not based on sales and the information packs we have produced are not commercial documents, this demonstrates the depth of our commitment to fair trade.” (Strategic Fairtrade Development Manager Brad Hill cited in Doherty 2007:9)

With its long-term, inclusive and realistic strategies, the Co-Operative group showcases the potential of value-based democratic businesses in the most hostile and difficult of marketplaces, both at home and with their fair trade partners around the world. Notwithstanding its long tradition it slumbered for a long time during the 1980s and 1990s and was not expected to survive (Bowes 2011), yet it recovered and grew to new levels of success that surprised even the most outspoken advocates of the cooperative idea. Although its rapid growth will have to slow down one day, the Co-Operatives commitment to its ideals shows no signs of weakening and has in fact risen to new heights, serving as a great model for other countries and cooperatives as to what is possible through ethical cooperation today.

#### **4.2.8 Fonterra**

Fonterra is one of the world’s largest dairy cooperatives and New Zealand’s biggest business, monopolising the countries dairy industry and also expanding strongly into new export markets and value-added products. With partial ownership of non-cooperative dairy companies, subsidiaries, and exports into 140 countries around the world, Fonterra does most of its business with other dairy cooperatives. Its more than 10,000 farmer members own shares in relations to their supply and could only trade them with each other in a recent bid to stabilise the capital stock. The fierce debate over Fonterra’s cooperative identity peaked in 2007-2010 when farmer members overwhelmingly voted against going public and opted to trade amongst each other instead (Shadbolt and Duncan 2014). Many observers thought that Fonterra was set up to fail as a cooperative from its creation in 2001 (personal conversations), but now it appears

that the drive towards demutualisation has been dampened by the farmers themselves, possibly helped by the uncertainties experienced throughout the global financial crisis and the need for tighter control of the supply chain in the wake of the 2008 infant milk powder scandal in one of its partial subsidiaries in China (Rydberg 2009).

Fonterra's predecessor, the New Zealand dairy board came into being in 1923 to control all exports from the country's more than 400 dairy cooperatives. Merger after merger, mainly as responses to economic globalisation, left only four dairy cooperatives in the late 1990s and the fierce competition between the two biggest ones led to the believe that NZ would profit even more from a single dairy company. After the first vote failed, parliament approved the merger of these two competitors with the dairy board in 2001 and Fonterra was born, controlling 96 % of the national dairy market (Trechter et al. 2003). Consequently, the only way to grow in this situation was to extend their overseas export networks and to source additional milk ingredients abroad.

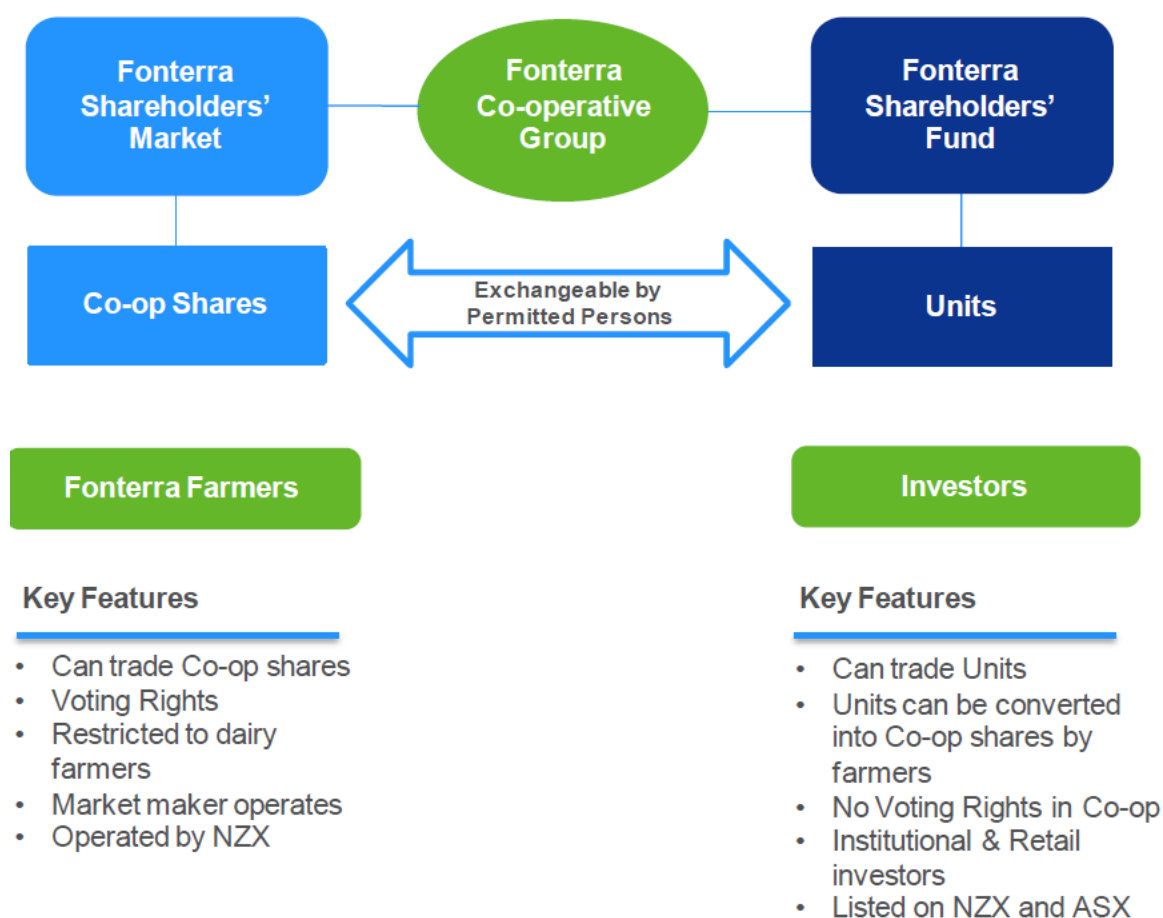
The producer cooperative has been highly successful in expanding its business in the last decade and stands now as the largest milk ingredients exporter in the world, with value-added products from yoghurt and ice cream to sports drinks being produced or exported overseas. Much of this growth was owed to the deregulation of the dairy industry along with the massive merger, which allowed for external companies to export and market Fonterra's products without tariffs and made way for acquisitions and new partnerships (Gray and Le Heron 2010). Today, Fonterra is well on its way to become the world's biggest dairy cooperative and has established sound partnerships with multinationals such as Nestle (its largest customer), BASF (a major research partner) and the Dairy Farmers of America (for research and ingredients supply). It should be noted, however, that the environmental impact of the increased dairy farming that was spurred by Fonterra's creation is significant and has not yet been addressed.

### *Governance*

Fonterra is run by over 40,000 employees who are hired to serve the farmer members. A board of 14 directors is controlled by a Shareholders Council with 35 representatives from the regional chapters. Four of the directors are elected by the council, while the other nine directors and the councillors are voted for by the membership. A 'milk commissioner' is appointed by the council to facilitate between the two governing bodies in case of dispute and a leadership team of ten people is headed by the CEO all appointed by the board (Hardesty 2005). Sourcing outside equity is possible through interest bearing capital notes without voting rights, but does not offer enough capital for Fonterra's further growth which is a common constraint in cooperatives and hoped to be resolved by the new share policy. With virtually no national competition, the milk

price is set by the board of Fonterra along with external representatives and audited against international competitors, resulting in an almost stagnant pay out to the farmers. Surplus is instead handed out through the 'fair share price', which is set in the same centralised fashion as the milk price and paid through a dividend per share (Dana and Schoeman 2010). Financially, Fonterra is performing on par with large NZ corporations and international dairy exporters, which suggests that the course taken was in fact necessary to keep the cooperative solvent in a global economy.

Figure 4.14: Fonterra's new capital structure



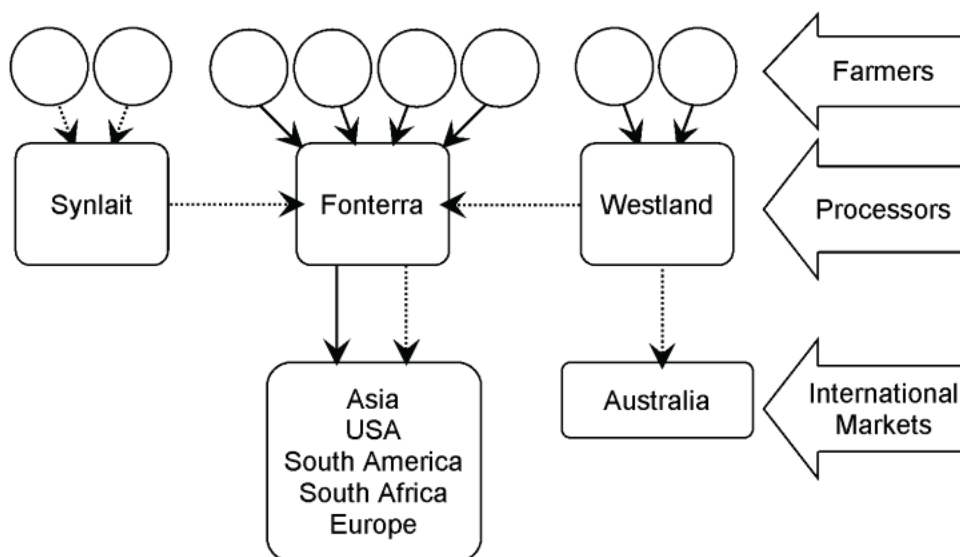
Source: *Cooperative Capital Structure Innovation (Shadbolt and Duncan 2014:441)*,

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The former dairy board has continued its path towards demutualized by allowing outside investors to buy shares from farmers and invest into the still growing cooperative via a second class of shares called Fonterra Shareholders Fund Units (fig 4.14). Since they have been traded on the stock exchange in late 2012 they have brought in capital of around 600 million NZ\$ until mid-2016 from Australia and New Zealand. This had already been proposed beforehand, but was only accepted a few years later, after considerable lobbying amongst farmers, a global

financial crisis, and successful public relations work on behalf of the management. “The ‘Co-operative share’ under TAF [Trading Among Farmers, the name for the right to sell member shares] is no longer a ‘cooperative share’. It has become a derivative of a cooperative share. It is a repackaged loan with a note saying I can ask someone else instead to repay me this loan. With uncertain conditions even. This is how banks create a financial crisis! (...) TAF drives Fonterra from a cooperative to a farmer-owned business.” (van Bekkum 2012:9) It needs be noted that such concerns were mostly dismissed in the cooperative debate in New Zealand (Shadbolt and Duncan 2014). The analysis of and reporting on cooperatives in New Zealand has largely shifted from a community focus towards a corporate perspective, so it seems that Fonterra’s decision has influenced the debate.

Figure 4.15: Fonterra's network structure



Source: NZ dairy industry structure after the formation of Fonterra (Dana and Schoeman 2010:76)

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A few years after the initial public offering, 80 % of dairy farmers in NZ operate at a loss (O'Brien 2016) and are working hard to overcome the shock of the global milk flood that more than halved their payments from 2014 to 2016 and forced some farmers out of business, into the arms of Chinese joint ventures or into organic markets. The percentage of farmer members of the total membership of what Fonterra just calls shareholders now has shrunk by another 14 % between 2011 and 2015 to 3,379, which now makes less than 1/3 of the cooperatives' 10,753 'members' actual dairy farmers. In the same period, Fonterra's number of employed staff rose by 31 % to a total of 22,000 people world-wide that are governed by the group's board and the shareholder's council. (Fonterra Co-operative Group 2015). Despite all of these clear signs and a current effort to waive the requirement for the Group to take milk from new members, its

CEO Theo Spirings insists on the cooperative difference: “Danone and Nestle, they just buy milk as they require. We are a cooperative, we have to take all the milk. We have to take it in and we have to create value off everything - we will never be the same.” (Fonterra CEO in O’Brien 2016: paragraph 24) However, Professor Keith Woodford from Christchurch’s Lincoln University, who has studied Fonterra’s story since the days of the New Zealand dairy board, identifies the problem as quite a different limitation: “The problem is we put all our eggs, or nearly all our eggs, in that whole milk powder basket. We locked ourselves into this one product and Fonterra lacks the capital at hand to now change direction quickly.” (O’Brien 2016: paragraph 12)

Fonterra has three types of partnerships (Reed in Reed and McMurtry 2009), including joint ventures with other cooperatives, charitable trusts and multinationals corporations (figure 4.14). Wholly-owned subsidiaries and partial ownership of overseas companies have also included the buyout of a foreign cooperative. This leads to the fact that staff outnumber members by a large number. The external sourcing of their raw milk is done through partnerships with other cooperatives and also non-cooperatives in various countries, although European dairy cooperatives such as Arla and Avebe have made an effort to create transnational cooperatives in order to stay true to their identity (ibid.). An in-house research centre and biotech lab places heavy emphasis on creating new value-adding technologies and the company is marketing itself as a leader of health products with their motto “Dairy for live” (Fonterra 2015).

### *Practices*

Fonterra’s cooperation with other dairy cooperatives around the world can be seen as proof that the traditional principle of cooperation amongst cooperatives is successfully applied to the global marketplace. No other cooperative in any sector does such a high volume of trade with cooperatives in other countries. This could mean that there is great potential for international inter-cooperation in other areas as well. Using traditional business strategies and making good use of the economies of scale enabled this cooperative to successfully globalise. However, the caveat is that Fonterra did not redefine inter-cooperation for the global economy and is dealing with other cooperatives in the same way they are dealing with capitalist ventures. No effort has been made to draw on the cooperative spirit in order to facilitate collective action, and Fonterra utilised many modes of internationalisation that are at odds with cooperative practices (Reed 2009). Furthermore, there has been no change in the way they engage their employees, let alone offer them membership, and their 2010 annual report states that “we need to work hard to improve their engagement” (Fonterra 2010:20), showcasing a loss of cooperative identity in the growth process.

The weak cooperative culture at Fonterra has led to profound criticism of their business model. With only some of the principles of cooperation being practised, namely member ownership, benefit, and control, the conscious omission of open membership and community engagement disqualifies this type of new generation cooperative to call itself a cooperative in the eyes of traditionalists (Reed 2009). While the debate about public shares and demutualisation has led to a renewed sensibility towards Fonterra's cooperative values, it remains to be seen whether this will lead to a revival of cooperative practices. Currently, it is difficult to tell that one is dealing with a cooperative. Without actively promoting their cooperative values, the pushes to demutualise will continue eventually.

The internationalisation of Fonterra has led to a conflict of interest between the farmer owners on one side and external investors and subsidiary co-owners on the other. Managing these conflicting expectations requires a new set of cooperative/corporate skills and has yet to be time-tested. New Zealand has successfully shifted competition between cooperatives to competition between international businesses (Dana and Schoeman 2010). As a state-sanctioned monopolist, "(...) Fonterra needs 'a license to operate' that is publicly and politically accepted" (Gray and Le Heron 2010: 9) and still differs in significant ways from traditional multinationals. As a product of the New Zealand cooperative movement and part of a two-hundred-year old pioneering effort of shipping goods around the globe, Fonterra draws on a deep experience of facing the challenges of democratic governance and economic globalisation. It has great potential to create a new model of cooperative globalisation, if it can stay true to its democratic roots and redefine its cooperative practices for this new era.



## Chapter 5

### The Age of Cooperation

*“We know that networks of co-operation work better than geniuses acting alone or groups bent on destroying each other.” Bill Clinton (Williams 2014: paragraph 8)*

This chapter summarizes the case study results structured after the research questions, and analyses them with regard to their different governance structures, practices, and reach. From the case study discussion (5.1) it draws conclusions as to what options cooperatives have for organizing their international cooperation (5.1.1), which advantages and disadvantages they entail (5.1.2), and which pathways to globalize seem to be the most promising or fitting for what types of cooperation (5.1.3). Chapter 5.2 merges the case studies findings with the insights derived from the literature (5.2.1), points out in which areas further research is needed in order to answer some of the still remaining questions and to build on the research findings (5.2.2). The chapter then closes with an outlook on cooperative economies in a global age (5.2.3).

#### **5.1 Case studies discussion**

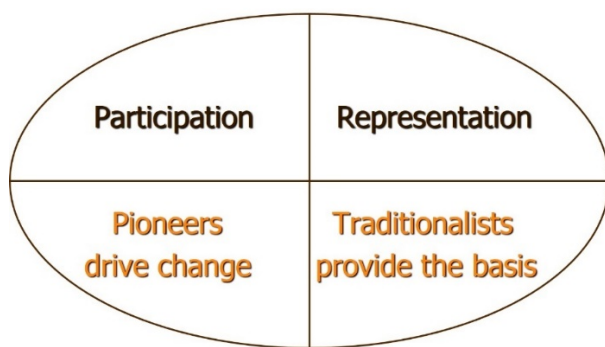
Adopting too many of the current globalist practices make cooperatives and democratic businesses vulnerable to elitism, managerial rule as well as the iron law of oligarchy (Michels 1911/2001) – which suggests precautionary steps to avoid absolute control of the leadership in any growing organization, and advocates for a decentralized and participative administration – and have already resulted in a high amount of demutualization over the past decades. At the same time, it is not an option to just seek out niche markets and avoid global competition if the goal is to prove that a more equal and participatory economic system is possible. The time has come for even the smallest cooperative network to engage internationally, as communicative resources that were only affordable for the largest businesses in the past are now carried in everybody’s pocket, good practices and time-tested models have been established, and society at large is tired of the same old neoliberal lies and ready for an economic alternative.

##### **5.1.1 Globalizing cooperative networks**

To answer the first research question ‘What are cooperative economies and *how do they network?*’, the network options for cooperatives are transnational cooperatives (Growmark and Mondragon), multi-stakeholder cooperatives (The Co-Operative Group, Cooperative Coffees,

Fonterra) or glocal coop networks (Equal Exchange and Just Coffee). Building on these types of cooperative globalization that were described in chapter 3.3, the case studies found two ways to achieve internationalization that can be applied to any type of cooperative or globalization strategy: federated cooperative systems with elected representatives of member-owned societies or cross-border cooperatives with full participation for all partners. Both routes mirror the political realities of Western democracies (fig. 5.1). The pioneers are small, highly motivated groups with an agenda of change that will eventually become part of the mainstream but is first tested and refined, as represented by the fair trade networks of Equal Exchange, Coop Coffees, and Sumac in the case studies.

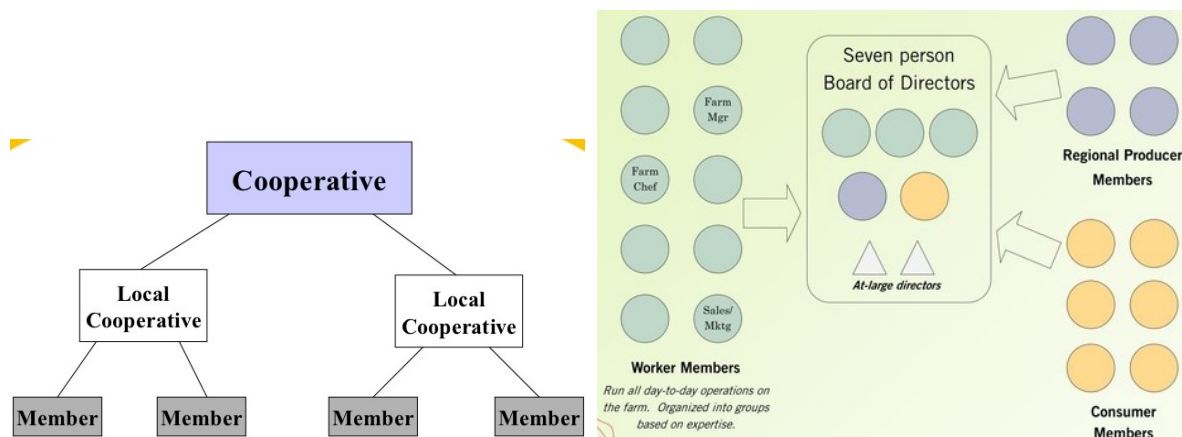
*Figure 5.1: Economic Democracy mirrors political democracy*



*Source: Own diagram*

The main stream of representational democratic setups has multiple levels of hierarchies, which results in a power structure of elected office bearers, management, and directors that operate to a code of conduct and who have to answer to the membership as a whole. Political campaigns and factions, as seen in the cases of Fonterra, Growmark, and the Co-Operative Group are an attribute of those federated systems, where the membership is removed from day-to-day strategic decision making out of the necessities of scale, and can only vote periodically on major issues and the senior jobs (fig. .5.2). The level of participation does not hinge on the size of the network alone, however, and there is a wide variety of cooperative cultures within those large federations.

Figure 5.2 &amp; 5.3: Federated Cooperative Systems &amp; Solidarity Cooperatives

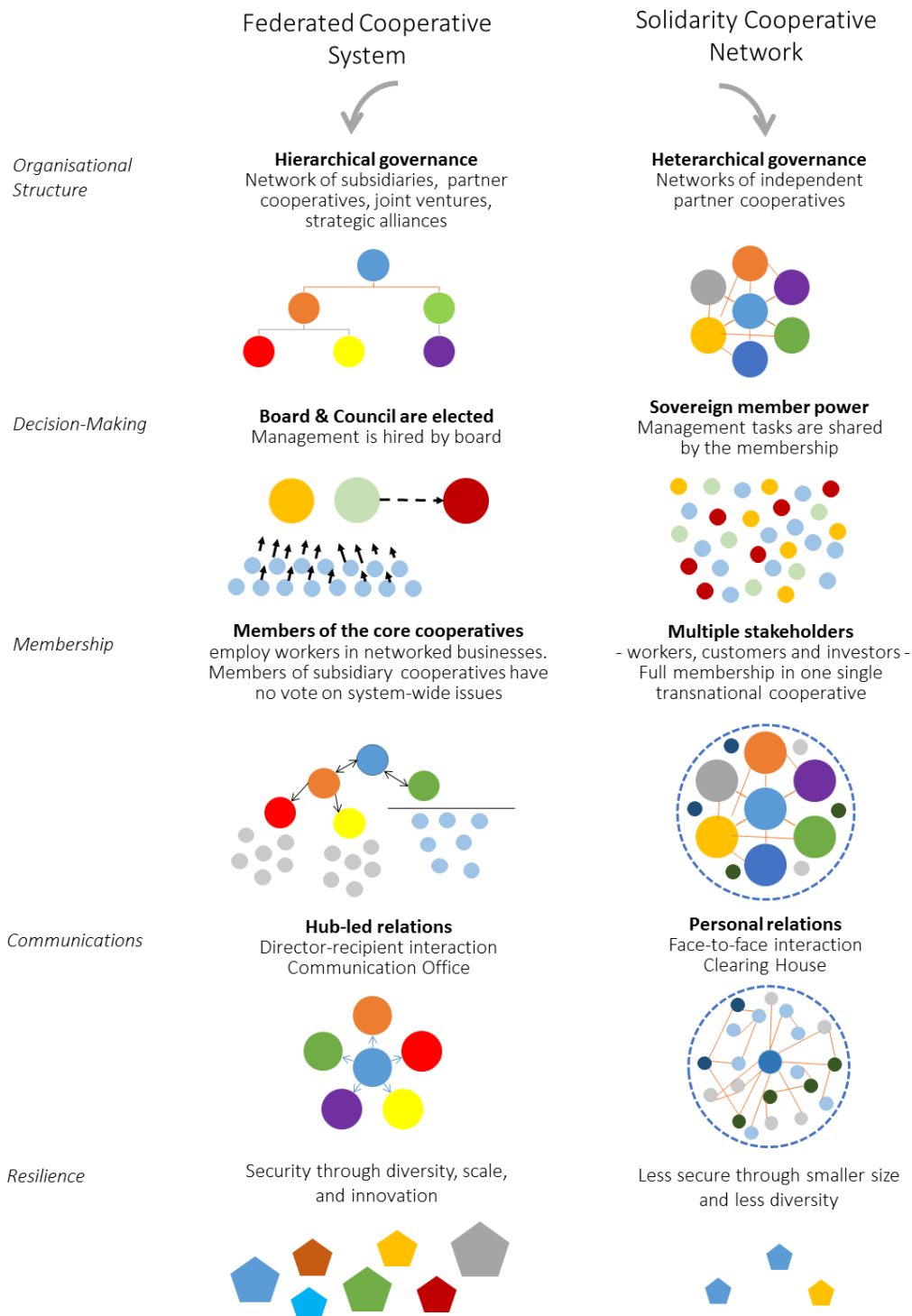


Sources: Canadian Co-operative Association 2009:20 & Our Table Cooperative 2016: paragraph 7, fair use

Smaller cooperative networks, on the other hand, can afford to be more inclusive, ask the whole membership on questions of mid-level strategies and practices, and govern through much flatter hierarchies (fig. 5.3). They are the pioneers of new participatory models and they often still have to find their own cooperative culture, so that every step along their way is a chance to define who they are as a group, with a strong influence of the personalities and nationalities involved. This process takes time, as all innovation does, and since these are typically younger networks, they have to go through the growing pains of developing their own code of conduct that large federations already have established. Work in cross-border cooperatives – big or small – is more demanding than in national or regional networks, due to the different languages and cultures involved, and can benefit from a communications office (like the one Coop Coffees operates) or a clearing house that facilitates, organizes, and oversees the networking processes (as found at the Co-Operative Group and Mondragon).

The challenges of cooperative federations (The Co-Operative Group, Growmark & Fonterra) lie in their necessary hierarchies. Coordinating one level of the network with another can be difficult, finding directors through a process made for smaller structures can interfere with the needed abilities, and the risk of thinking too narrowly and with one's original perspective is inherent for people new to large organizations. Having the right management and a good board becomes more difficult with every cooperative added to the network as new expertise is required to incorporate new activities. The board is responsible for choosing management, but its way of giving them freedom to excel or limiting their power all make up the success or failure of the federation. The example of Growmark shows that with a good mix of trained people, integrated yet diverse enough cooperatives, and a strong emphasis on innovation, synergies can be created that give traditional cooperatives the security and resilience they need to expand into another country and lead the way in their areas of expertise (Fairbairn et al. 2015).

Figure 5.4: Pathways to cooperative globalization



Source: own diagrams based on case studies

### *Organizational structure*

Federated cooperative systems such as Mondragon, Growmark or Fonterra have hierarchical governance structures with a mix of partner businesses - democratically run or investor-owned - and often a number of dependent subsidiaries, with no say in their own nor the federation's strategies (fig. 5.4). The bigger the network, the more levels of management will be required to keep it running. Solidarity cooperatives are Heterarchical organizations, which means they have either no hierarchy at all - technically making them collectives, where everybody has a say in everything, but in practice some natural hierarchies will develop even there - or they can have a number of hierarchies that will change in regards to the issues and expertise. They are also multi-stakeholder networks of independent partners, but all of these partners should be cooperatives or other types of workplace democracies in order to honour the principle of Solidarity.

### *Decision-making & Membership*

When it comes to making decisions, the member cooperatives of a federated system are governed by their own membership, but can only vote the board and the council of the federation once a year at an annual meeting - or via the internet. Directors and management is usually appointed by the board, although they could be elected like president's if they were up for the campaign. Decision making power is distributed quite evenly in Solidarity cooperatives, with each cooperative not only governing itself, but also running the network. The required skills are acquired rather than hired, making growth a bit slower but ties a lot closer, especially where all are members of one single Solidarity cooperative instead of networked multi-stakeholder coops.

### *Communications*

Efficient and effective communication is key in all types of networks. Federations have to deploy a director-recipient model of interaction, often through an office for communicating with the hub, which is sometimes called headquarters or core, but mostly just referred to by the name of the federation. Solidarity cooperatives are usually small enough for personal interactions and can have (semi-)annual meetings of the whole network to get to know each other, make network-wide decisions, and vote on the issues. They can also opt for a clearing house where information is collected and made sure that everybody knows what they need or want to know, which is especially handy once multiple languages are in play. Members can and often do contact each other directly, the clearing house's job is more of a facilitator who introduces people and projects to the network and can be a bit of a headquarter if it chooses to keep an eye on timelines and contracts.

*Pathways to scale*

Both ways towards cooperative globalization are complementary to each other and can be mixed and merged at will. More importantly though, once a Solidarity network grows beyond the size of personal relations, it will most likely want to federate if it doesn't choose to split up. There is a natural progression towards hierarchy in growing organizations, which does not mean that they are less democratic – they just employ representative methods – yet the degree of participation and power is diminishing for the regular membership, unless one chooses to have a go at management or wants to run for the board. Smaller organizations and networks are more personal and can experiment with democratic forms more freely than their larger cousins. Both are needed to run an economy, however, especially a global one, and each has their respective environments where they can thrive and develop. In practice, however, federations of cooperatives are much more likely to go global than Solidarity coops, and not just because of the mostly missing legislation for members in different countries, but due to the need to stay on top of all the issues concerning the network. Sometimes it's just easier to delegate, outsource, and represent than trying to keep it small enough to know the whole company.

Consortia, network contracts and cooperation amongst cooperatives are certainly options for federated networks of workplace democracies. Once the system starts having full subsidiaries, joint ventures with profit-maximizing companies or allies with global shareholder firms, it deviates from the path of democracy and risks to slide down a slope of losing its principles. Although evidence from the case studies suggests otherwise, such partnerships with investor-owned or public businesses could potentially lead to the cooperativisation of those non-democratic enterprises, maybe through a slow process of education, exchange, and lobbying. Granted, it has been tried and tested at Mondragon, but calling this worker coop federations' internationalization strategy half-hearted would be hopeful at best.

*The Mondragon challenge*

Besides the fact that many countries, especially the ones with low wages, have no legal framework for worker cooperatives, often not even one for owner participation, “[t]o many in Mondragon it borders on outlandish to suggest that the co-ops try to persuade foreign workers, most with very modest incomes, to make investments in co-ops that would only lose value for some period of years. Different groups in Mondragon are analysing legal and financial arrangements that might overcome these barriers.” (Maussen 2015) That makes employee participation and shared management the best chance for the cooperatives' international subsidiaries: “the Mondragon subsidiaries have gradually assumed some of the parent cooperative's elements in advancing toward increased self-management while improving the

mechanisms of information and communication with their workers.” (Flecha and Ngai 2014:679) When one of the core cooperatives at Mondragon went bankrupt in 2013 it shook the worker members throughout the corporation to the core. Tensions between the different classes that made up its membership were amplified by participatory deficits, and Europe’s 5th largest producer of electrical appliances, Fagor Electrodomésticos, became a casualty of its own French subsidiary going under in the aftermath of the global financial crisis. Ever since the globalization of its factories started, there were only two extreme positions to be heard from the congress: either a return to the cooperative principles with slower and maybe less international expansion, or even more emphasis on the corporate management and hierarchical side of the federation (Flecha and Ngai 2014). But wouldn’t it be a third way to achieve a little more democracy in little less overseas subsidiaries than going for all or nothing?

*“Mondragon has achieved more in implementing workplace democracy than any other large multinational firm and yet it has failed to extend and deepen its democracy. This is in part because Mondragon’s conception of democracy is tied to an ideology based on personal relationships, equality, and solidarity. The diversity and conflict that arises within firms that extend beyond a few hundred workers requires a new conception of democracy that strives to accommodate all of the different values of workers. (...) Most importantly, Mondragon’s narrow conception of democracy has prevented it from adopting procedures that give greater control to workers, provide representation for different groups, and encourage competition of ideas. It has also prevented countless workers from being assimilated as members of the cooperatives because to do so would decrease the equality and shared culture of the current membership which would almost certainly invite conflict.” (Christiansen 2014:61-62)*

A common pitfall during the growth of cooperative networks is the tendency to outsource some areas to non-cooperative subsidiaries that report to one of the core cooperatives, but have no formal say in the decision making. This has been an issue for all large cooperative networks examined, but while Fonterra, Growmark, and the Co-Operative Group have been expected to act much like multinational corporations in the governance of their federations, most of the criticism from within the cooperative movement has focused on the model worker cooperative of Mondragon because of the stark difference in the governance they practice at home and the apparent lack of democratic engagement they display in their international subsidiaries. This type of owner-member ‘elitism’ can be found in the smallest of cooperatives, where it is not uncommon for the cleaners, maintenance or service staff to be employed rather than offered membership.

*Pros & Cons*

International multi-stakeholder cooperatives, such as Suma and Cooperative Coffees, seem to be most rewarding in terms of the benefits they create for the membership and their community, but also most demanding on each cooperative's commitment to communicate and collaborate. Even within the cooperatives that make up those networks, every member (as seen in the Suma Cooperative), but at least a pool of liaison workers (Equal Exchange) or ideally a dedicated, international team (Cooperative Coffees) needs to set aside time for personal communications and building relationships with their co-workers and cooperators – whether they are sitting across the desk, across the country or in the other hemisphere.

Democratic businesses that are doing well in the current economic environment are either trying to imitate corporate hierarchies to an extent that they have silently given up on their core values (Fonterra), encourage participation only within small teams or at annual general assemblies (Growmark), or can be demanding on their members and expect high decision making skills from them (Mountain Equipment). While the last strategy seems to be the most attractive for its purity of vision and truthfulness to their values, it fosters a cooperative elitism in that it asks for so many extra skills, overtime, and additional effort from its members that only the best and the most resilient of people get a chance to take part in the supposedly fairer and more equal economy that is being created, and even they tend to drop out after a few years because of the constant pressures, wear and tear.

So, what about the middle ground, strong day-to-day participation within departments overseen by an elected council of managers that also keeps an eye on international subsidiaries through a gradual, if experimental, opening of hierarchies, otherwise known as the 'Mondragon way'? It could be said that they lost their ideological purity which they pursued in the early years, but at the same time they have proven themselves a highly desired workplace and partner that is more inclusive in whom they hire and less demanding on people's commitment than more uncompromising workplace democracies. It is Mondragon's economic success that makes it such a well-studied and closely watched model for cooperative globalization, but it is its highly self-aware and critical thoughtfulness when it comes to its struggle to maintain cooperative values in this global age that still makes the Basque federation such a closely watched coop.

This leaves prospective cooperators with a range of choices from keeping a low local profile over putting in the extra hours and going the extra mile to achieve true participation, efficient global networks, and even full membership across countries, to joining a cooperative that is more willing to compromise and accept some level of hierarchy and subsidiarity in order to accommodate a larger range of people and businesses as part of its rather representative



democratic network. It takes more than a few innovators to create a new economic system. Just as there will be no pushing the boundaries of economic participation without the pioneers, there will not be much of a movement without the broad visible presence of large cooperative networks that can attract precisely the type of talent needed to start the more cutting edge workplace democracies that the future of economic democracy depends upon.

### **5.1.2 Governance & practices of international cooperatives**

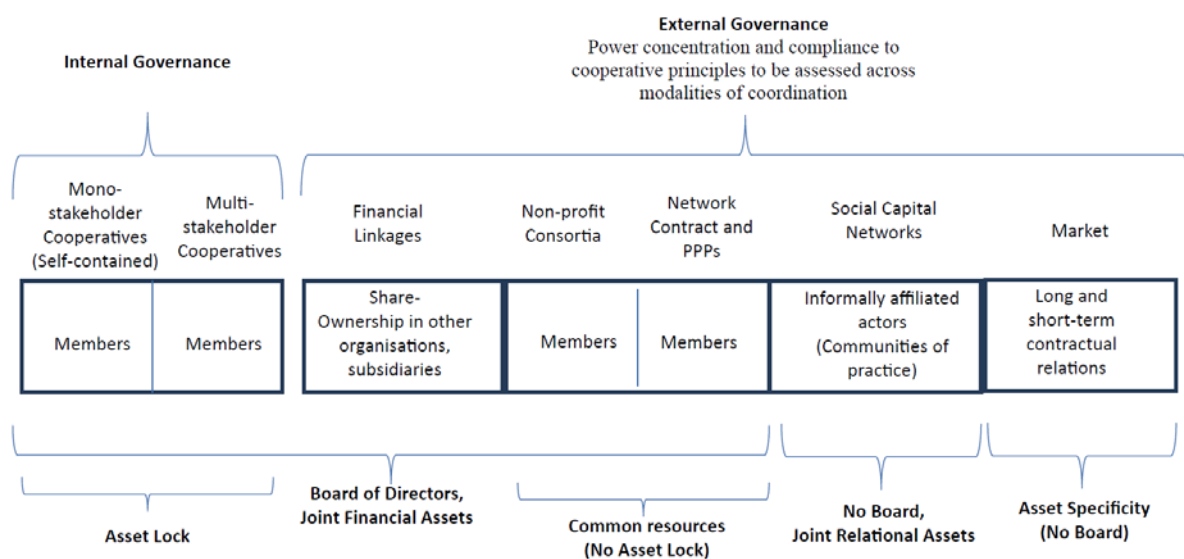
Answering the second research question '*What problems do cooperatives face in the global age and how can they be met?*', based on the case studies, is much less than previously thought a matter of dealing with national legal structures, different living and working standards, and diverse cultures, but has much more to do with the internal governance setup and decision making practices throughout the network. While a lot of these aspects are typical for all organizations that grow beyond their nation state – and can in fact be found in regional networks and cluster of companies without any international engagement – the distinct cooperative difference of democratic decision making results in a wealth of participatory models found in the examined case study networks.

Governing in traditional firm networks is usually undertaken through special personnel or teams that do not fully take part in the basic tasks most workers are employed for. In worker (Equal Exchange, Just Coffee, Mondragon) or solidarity cooperative networks (Suma, Cooperative Coffees), the network governance can be an additional task that all members have to learn, it can be shared between parts of the membership or delegated to special teams. Maintaining a dedicated governance team is a costly affair, however, and is rarely seen in cooperative networks, yet seems to be the most elegant solution as it sets the other members free to focus on their core tasks. In federated networks of larger cooperatives (Growmark, Fonterra, the Cooperative Group), the operation of a governance or strategy office is typically shared between middle management, and each department nominates liaison personnel to network in its area of expertise.

The additional dimension of network governance is part of the external relationships and communications that exist in any cooperative (fig. 5.5). Multi-stakeholdership shares strategic control and surplus allocation with a multiplicity of patrons. The constellation of stakeholders should reflect the distributional needs and previous market failures relevant for the planned products or services. Stakeholder agreements should make sure that they stick to the cooperative principles of equality, mutuality, and democracy, while possible incentive systems should encompass different perspectives, reduce potential conflicts, and take the interdependent interests of all stakeholders into account without exploiting competitive

advantages but rather in the spirit of a mutual benefit. “Multi-stakeholdership is therefore meant to reduce the production of negative externalities whilst producing positive externalities.” (Sacchetti and Tortia 2016:8) A cooperative of cooperatives is the preferred networking mode, as it is consistent with the democratic principles, but not always possible due to legal constraints, market requirements or language barriers. Other partnerships such as financial participation or subcontractors can make an effort to include those workers into the network’s heterarchical, participatory, and democratic governance structures. Surplus, finally, is distributed according to participatory mechanisms that address the needs of all stakeholders.

Figure 5.5: The governance of cooperative networks

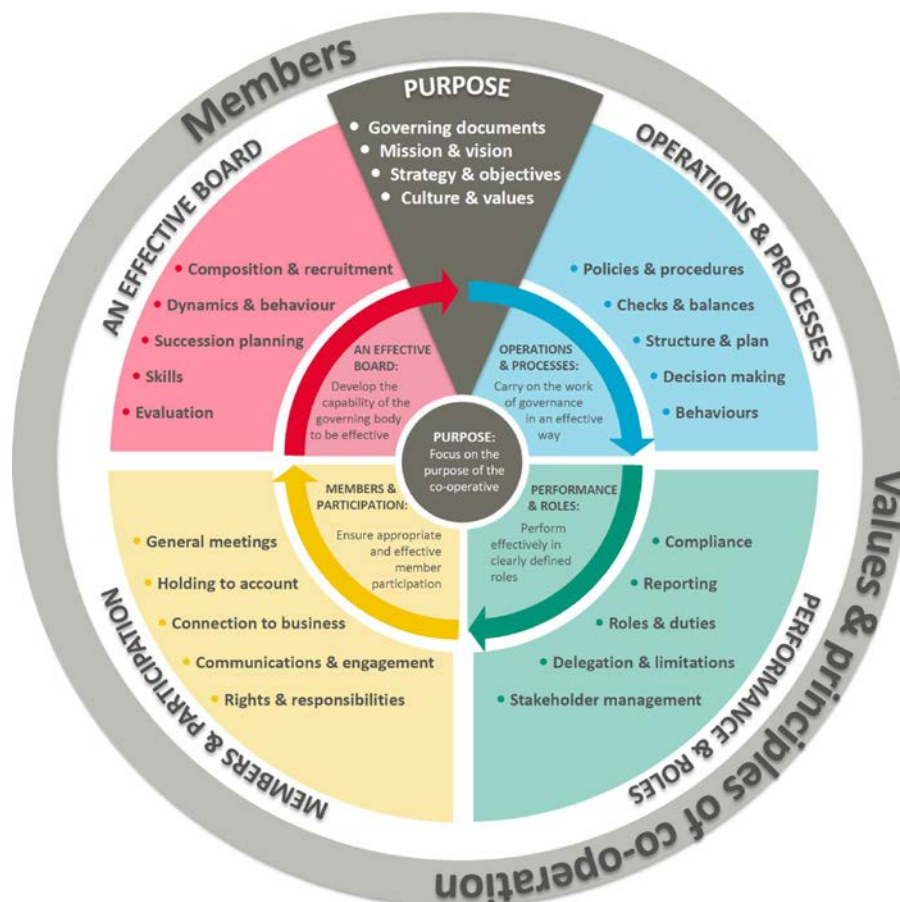


Source: *The extended governance of cooperative firms* (Sacchetti and Tortia 2016), creative commons license

Shared control always comes at a cost. Additional skills must be acquired, more time is needed to communicate, agree on the issues, and maintain the relations, which all takes an extra effort on top of people’s core responsibilities. One way of dealing with this is to embrace the new tasks and make every member an expert of one or more aspects of the network practices, while reducing their core workload and finding new members to fill the gaps. Another is to train an elected, voluntary number of people to rise to the new set of challenges or establish a network hub, within one of the member cooperatives or at a new location, that focus solitarily on the governance of the interconnections. Independent clearing houses in the form of specialized service cooperatives that facilitate communications, strategies, and meetings of multiple networks without exclusively being tied to one, might be an option for larger cooperative federations, but have not been found in the discussed case studies.

The Co-Operative Group (Birchall 2014) has developed a set of principles that it calls ‘member centrality’ to ground their governance upon (figure 5.6). Based on a review of sixty of the world’s biggest coops, their main recommendations for large cooperative boards are “1. ensure its purpose is central to its members 2. promote the right operating system to build and sustain competitive advantage 3. align incentives so that governance sits effectively with the wider economic participation of members 4. nurture, secure and retain the allegiance of members.” (Birchall 2014: 2) They conclude that the best governance models are reinforcing member participation, that the effectiveness of distributing authority hinges on member representatives, outside experts (!), and skilled managers, and note that open, evolving, and participative governance systems will lead to better performance, more diversity, and good practice. “The secret of good governance in co-operatives is to take it seriously, to invest in it, learn how to do it, and over time to test, prove and improve governance and business performance.” (ibid.) Boards should adopt a code of conduct, and supplement it with ethical guidelines that surpass the code, create their own performance rating system, or explain why a commonly used code is not good enough for their identity.

Figure 5.6: The elements of cooperative governance



Source: The Co-Operative College's Hive Online Course (2016) © The Hive

*Consumer coops*

Cooperative governance in general is to a large extent built on trust, either through personal and interfirm relations or through transparency, openness, and legitimacy. In consumer cooperatives, such as the Co-Operative Group and Mountain Equipment, this trust is also conveyed through economic improvements for the membership. As long as the cooperative focuses on the needs of its members, it is perceived as a good investment. Even with online questionnaires, smartphone evaluations, and comment cards in their shops to keep the membership engaged, the participation rate for the annual board election of Canada's Mountain Equipment cooperative hovers only slightly above 0.5 %. (Presolly 2012) This is a typical rate for a large consumer cooperative, as participation tends to decline with more and more members getting on board to enjoy the cooperative's growing benefits, but who might not necessarily care about its governance structure. In recent years, Mountain Equipment has been applying all the good governance advice on experienced management and has up to 5 % growth in sales to prove its working. Yet, long-time members, founders, and former managers were disappointed and accused the current management of losing its way.

It is worth zooming in on this debate, as it is archetypical for what is happening to many consumer coops once they grow past the point where they are directly connected with the membership: "Any intelligent person should be able to get on that board and do a good job. It's a values-based organization and that's what things should be based on. If there are too many people with sophisticated backgrounds, they will have a mindset or bias there because of the type of person you're asking for." (Chris McNeill, a former chairman of Mountain Equipment, as quoted in Silcoff und Strauss 2015: paragraph 10) Other former managers have a different viewpoint though: "You can't have nine people who have just come out of the woods from a hike trying to run a \$350-million business. (...) I guess you can ask, 'Does a democratic organization entitle (...) every member to run for the board?' I don't think it does." (Bill Gibson, former chair & CEO, as quoted in *ibid.*: paragraph 12) The question has been raised whether the cooperative has simply grown too big to be governed democratically, and some argue that member participation all the way up to the board is more important than further growth: "There's nothing that says in the rules of the co-op that we need to be a big corporation. The question for MEC and a lot of co-ops across Canada is, 'Is the democratic nature of co-ops a strength or has it been a liability?' I'd argue the reason MEC has been so successful is because of the diversity on the board." (Steven Jones, who was not allowed to run for the board due his lack of management experience in a complex organization, as quoted in *ibid.*: last paragraph) So, there is a debate about who can be elected to the board and whether any of the many members can run for the board, regardless of their qualifications.

*Federated coop systems*

The drive to diversify has never been lacking at Growmark, the mid-Western network of farmers, suppliers, energy and logistics cooperatives that has weathered the financial and the food price crises of recent years quite well. They believe they even offer better performance to happier customers than ten years ago. (Sfiligoj 2015) With a surprisingly young staff, strong ties to agricultural education institutions, and a host of lobbyists in Washington D.C., Growmark has no intentions of demutualizing or going public. Jim Spradlin, its CEO, values the cooperative network of his federation for its ability to react quickly to change, such as unforeseeable weather or market events: “When I look at our organization, I see a complete system dedicated to cooperation. One of the beauties of the cooperative system, and logistics in particular, is we can move resources around to ensure the product gets to where it needs to be.” (Sfiligoj 2015: paragraph 9) Despite the volatility of global markets, growing overseas competition, and the challenges of climate change, the management of the unique US-Canadian network’s coordinating headquarters seems to be genuinely excited to further improve its services and products, while being at the forefront of agriculture research, transport times, and efficient farming: “It all starts with people. We need to recruit, attract and retain elite talent [in] an effort to elevate our organization and its employees through a more focused and detailed training program in the areas of leadership, business acumen and marketing, as well as technical areas.” (ibid.: paragraph 33)

Just like Growmark believes in the power of cooperative systems, high-tech, and education, and as the Co-Operative Group has its own college and think tank, Mondragon thrives on innovation through information sharing. But its University, vocational training and research programs only grew over time out of the successful network of worker coop start-ups in this remote Basque valley. What started it all was an encyclical from 1891 on the “Rights and Duties of Capital and Labour” from which a young catholic priest, Jose Maria Arizmendiarieta, drew inspiration for a trinity of interdependent institutions that would help to create a local democratic economy independent from the State: a technical school, a social services cooperative, and a cooperative development bank. To this day, this setup provides the foundation of an expanding business network that runs on direct democracy, solidarity, and innovation.

The controversy surrounding Mondragon’s international expansion is a reflection of the challenges and the search for answers that a cooperative globalization is facing. Its Basque membership is struggling with its own decision to obtain international subsidiaries with employed workers, but is at the same time highly sceptical of granting them full membership. A firm believe that effective cooperation depends on trust that can only be built through personal interaction and that a local community grounded in common circumstances is needed to create

solidarity keeps Mondragon from truly globalizing its highly successful cooperative economy. Exporting its special blend of self-managed interconnected firms has been tried in other Basque regions, including the restructuring of ailing investor-owned businesses, but has proven to be a difficult and lengthy process that is not perceived as a feasible option for Mondragon's subsidiaries (Wright 2010). A few businesses acquired by Mondragon in Poland, China, and South America were invited to find ways to establish more democratic practices but either rejected outright on grounds of cultural traditions of hierarchy or the effort stalled because of differing understandings of workplace democracy. Unfortunately, due to its bad experiences with unions at home and abroad, the worker coop conglomerate even shies away from encouraging worker councils, co-determination or empowerment within acquired firms (Cheney in Parker u. a. 2013).

### *Solidarity Networks*

The American Equal Exchange cooperative network with roaster members in North America and producer partners around the world has considerably extended its reach in 2014, when it partnered with its UK name sibling and the Canadian La Siembre cooperative network. Equal Exchange UK was independently founded in Edinburgh ten years earlier than the Boston-based coop but shares a very similar business model with strong personal ties to producer and roaster cooperatives at home and abroad. La Siembre is one of the fair trade pioneers in the Ottawa region and established its own network of 18 producer cooperatives in 9 countries that support 36,000 family farmers. Both new partners are worker cooperatives with equity-holding members that democratically control its social capital and both of them got into financial after fair trade goods were available at big chain supermarkets. These new partnerships are based on a tradition of collaboration, common values, and very similar governance structures and practices in order to build capacity and process efficiencies (Equal Exchange 2015).

Equal Exchange's early grow was made possible through private silent investors, but the initial loan was granted from the Cooperative Fund of New England, a regional incubator for food coops that has brought together investors, technical expertise, and cooperatives since 1975. In recent years, their product range has expanded into fruits, oils, and nuts, or what they call 'fair foods' through a partnership with UK-based alternative trade organizations Traidcraft and Tropical Wholefoods (Equal Exchange 2015). They keep growing with more locations across the U.S. to move more products and to engage more people in alternative trade. An online classroom for cooperative education and collaborations with Seattle-based Pinchot University follow through with their mission to promote the cooperative fair trade idea. During the years after the crisis from 2009 to 2014, Equal Exchange managed to double their sales and created a

website and app (Cooperative Coffees 2016) that informs customers about the entire process and the circumstances that their product went through from the farmer to the roaster.

The Sumac cooperative of Guelph, Ontario, has expanded into mobile catering with a coffee food truck, and has opened another store on the campus of the local University (Saxon 2016). As a 'community worker cooperative', they continue to explore other social business ventures and are engaged with the local first Nation tribes but have not realized the project with Indian garment widows yet. Yet they continue to inspire regional cooperative development through their outreach, teachings, and collaborations. Similarly, the small Just coffee cooperative of Madison, Wisconsin, did not grow in the last years but have focused their efforts on helping the producer cooperatives they are partnered with to develop sustainable communities, as part of the 'On the ground' cooperative development initiative (On The Ground 2016) through microfinancing, education, clean water projects, food security programs, and gender equity courses. Federated cooperative systems (The Co-Operative Group, Mondragon, and Growmark) can have the same impact in poorer countries if they choose fairly traded products, as the Co-Operative Group has done, but have a broader ability to influence the local labour movement, and spread cooperative and participatory thinking in the places they have partner businesses in.

### 5.1.3 Advantages of transnational cooperative economies

*"Co-operatives are better because they give individuals **participation** through ownership, which makes them inherently more engaging, more productive, and both more useful and more relevant in the contemporary world." – ICA's Blueprint for a cooperative decade (Mills and Davies 2013:4)*

In response to the third research question 'What do cooperative economies contribute to overcome the current crises?', the case studies proved that democratic workplaces are fair employers, care for the environment, and are strongly based in their communities. Through their alternative trade networks (Equal Exchange, Just Coffee & Cooperative Coffees), cooperatives are actively improving education, health, and living conditions in the Global South, as well as empowering workers at home and abroad, while enabling customers to choose products that are furthering global equality, fair trade, and sustainable development.

More broadly speaking, the inherent participation that is practiced on many levels of cooperative economies leads to motivated staff with better ideas that can easily be communicated throughout the organization, and improve productivity because people are happier and more engaged at their workplace. Many of the shortcomings of investor-owned businesses simply do not exist in democratic firms: workers have real power to influence where the organization is going and usually include their own well-being and that of the communities they live and do business in into their decisions. They can opt to grow slowly (Equal Exchange),

fairly (The Co-Operative Group) or not at all (Just Coffee) to stay true their collective values or to focus on their core business, and they can decide to be good bosses if they have to grow quickly through the purchase of subsidiaries (Mondragon) or by entering joint ventures (Fonterra) in order to compete in mature markets. Cooperatives also appeal to both sites of the political spectrum: conservatives thrive in the ownership and business aspects of the entrepreneurial form, and progressives see them as part of a larger solution to society's ills, while the democratic form appeals to the middle.

A major advantage of cooperatives is that they are usually obliged through national legislation but more importantly through the accountability to their membership to disclose all finances, including remuneration for the management. This results in much lower distortions of CEO payments and prevents managerialism, because it only attracts people with high ethical values rather than those with a high demand for luxury. Most cooperatives do not pay more than five times the salary to their managers and directors that the lowest paid worker gets (Dhillon 2016) and many have implemented whistle blower policies or a grievance system to report any unfair behaviour within their network. In terms of transparency, Mountain Equipment goes so far as to publish a list of suppliers that they keep current on their website, detailing every partner's labour rights and compliance records and has them independently tested regularly. The Co-Operative Group sources all of their chocolate, coffees and available fruit from fair trade organizations, and encourages British farmers to follow similar rules at home to provide its network with fair dairy products and produce.

A stranger to speculation and the kind of financialization that has plagued capitalism since the dawn of the neoliberal era, cooperatives are typically good with money. Cautiously investing their profits before paying out the surplus to the membership in form of rebates, member accounts or pension funds, coops take the long view on financial matters. A commitment to quality, service, and community makes them resilient to crisis and usually keeps them out of trouble. As member-owned businesses they contribute to more diverse ownership forms in the economy, which has proven to contribute to a stable financial sector. (Michie 2007)

As the International Cooperative Association puts it: "Co-operatives are better because they are a business model that puts people at the heart of economic decision making and bring a greater sense of fair play to the global economy. (...) By placing human need at their centre, rather than profit, co-operatives overcome short-termism and introduce real choice in how business is done." The *Blueprint for a Cooperative Decade* (Mills and Davies 2013:4) goes on to say that "co-operative members believe in the ethical values of honesty, openness, social responsibility and caring for others." (ibid.:41)



Organizational psychology and management science tell us that when people are heard and know that their contributions are having an impact, their job satisfaction is high, they are very invested, and they volunteer to champion projects much more easily than those in less supportive environments. The cooperative workplace at its best increases intellectual stimulation, trains flexibility, offers educational opportunities, and lets people know what happens with the parts they are working on through transparency and inclusion in the management and strategy of the firm. Such an empowering workplace in turn leads to efficient, productive, creative, innovative, and engaged workers, that are highly engaged and capable of managing themselves. All these are sought after employment skills and features often expressed in corporate mission statements, yet nowhere do they come more naturally than in a democratic workplace full of stake holding individuals.

Sustainability is the last feature built into cooperatives and may yet prove to be the most important one. The cooperative principles alone should make sure that business decisions are rooted in the community and their care comes naturally as long the actions are taken close to the participating membership. With growing network sizes comes usually less inclusion, however, and the further the partners or subsidiaries are removed from the core, little to no effort is made to think about their community and environmental needs. Larger cooperatives have adopted ecological standards as part of their accountability agenda or created a corporate social responsibility strategy, but that is only a small step towards the full spectrum of what comprehensive sustainability, that includes the social, the economic, and the environmental dimensions, entails.

The more participative the cooperative is governed, the more members are heard when it comes to sustainable – or, for that matter, any other – issue, without a concern about investment returns other than their own. In multi-stakeholder networks, the temptation to push negative externalities upon some contractor at the end of the supply chain is considerably lower when every part of the system is part of the decision making. This works especially well in smaller networks and solidarity cooperatives that are very directly dealing with the consequences of their actions and have an immediate interest not to burden their own and their partner's children and grandchildren (International Labour Office 2013).

## 5.2 *The road ahead*

*"The secret of change is to focus all of your energy, not on fighting the old, but on building the new." – Socrates*

Since firms influence the people who work there, business culture strongly influences a society's values in general. If people are to be encouraged to organize their working life around democratic principles, economic education would have to offer a wider range of drivers than self-interest and profit-maximisation that influence business decisions. "The intellectual tradition of civic economy, rooted in civil humanism [...] teaches that we can have human society and fraternity inside a normal market economy, if only we want to." (Zamagni 2010:94), Responsible consumerism and informed purchases are increasing the power of individuals through their buying choices, helped in no small way by the internet and smartphone applications that can describe in detail how a product was made upon a simple scan of its barcode. Choice is also at the core of the renewed push of some legislators to open their economies to a more diverse range of business models. Pluralistic economic forms are a fundamental expression of freedom of choice and have long been neglected. An equal opportunity framework is needed for regional and global economies to allow a level-eyed co-existence of all kinds of business models. A financial market for social enterprises, for instance, would be advantageous for cooperatives which usually have difficulties to obtain capital.

As the utilitarian economist John Stuart Mill put it during the founding days of cooperative enterprises: "The form of association (...) which if mankind continues to improve, must be expected, in the end, to predominate is not that which can exist between a capitalist as chief and work-people without a voice in the management, but the association of the labourers themselves on terms of equality, collectively owning the capital with which they carry on their operations and working under managers elected and removable by themselves." (Mill 1848/1909: Book IV, chapter 1, paragraph 2)

### 5.2.1 **Towards cooperative economies**

*"The only thing that will redeem mankind is co-operation, and the first step towards co-operation lies in the hearts of individuals."  
- Bertram Russell (Russell 1954/1992:212)*

Cooperation across borders is not only possible, but can be extended into full membership of the overseas partners if continued communication is facilitated. The case studies suggest that this deeper level of participation does not require more resources than meaningful international

cooperation does, but that the legal and internal governance structures have to be developed and set up first.

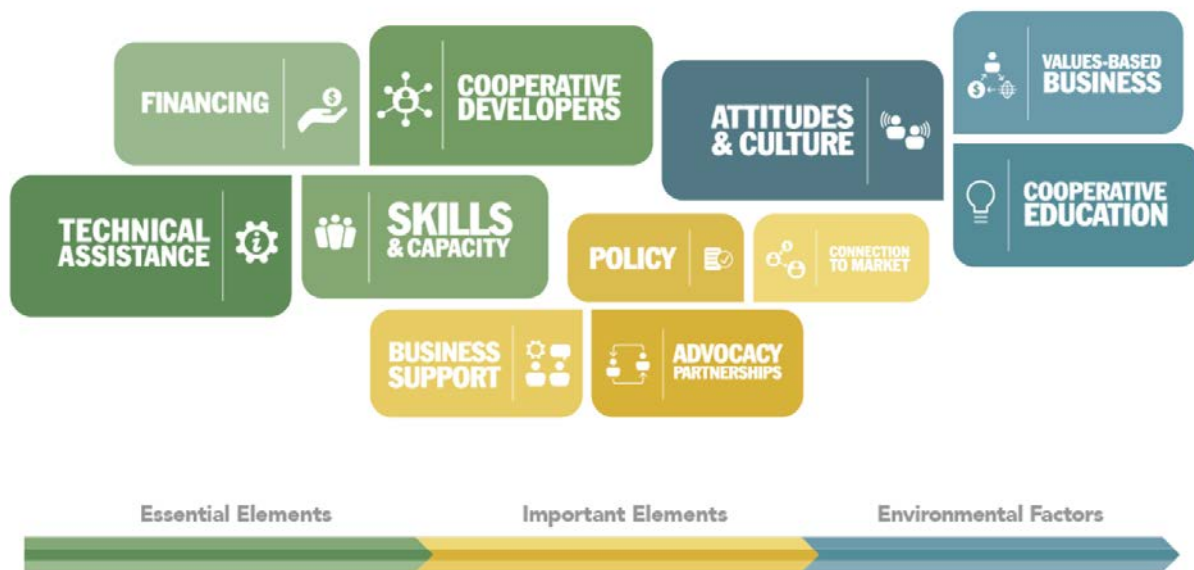
There are many critics that react rather hostile to the notion that globalization can in fact be made more inclusive and less naïve. Their thinking excludes any type of long-distance transport, let alone international enterprises, and values global networks only for the free exchange of ideas, but not for goods or services. Interestingly, the established practices of these groups of 'back to the roots' 'eco types' can serve as excellent blueprints for building networks of mutual cooperation, merging the ideals of the 'small is beautiful' camp with those of the fair trade pioneers. Local clusters of befriended and cooperating collectives or social businesses have sprung up all over the world in the last decades, and their experiences in governing democratic economies are important for a level-eyed globalization of cooperating business networks. The most innovative companies in the high-tech industry such as Google, Apple, and Fairchild have discovered the same truths that these collectives have known by heart: that face-to-face time and frequent meetings with all stakeholders are key to a culture of mutual trust and thriving ideas. Developing everyone's communications skills and taking much care in choosing with whom to work with, partner with, or hire seems a necessary precaution in order to stay competitive in the global age. Too often cooperative businesses have faltered when they faced new challenges because their culture was not flexible enough to quickly adapt to new situations.

The Oakland-based "Democracy at Work" Institute calls these local clusters of like-minded companies 'ecosystems' and has analysed successful clusters throughout North America and a range of cooperative networks in Europe and Latin America to learn about their make-up (Hoover and Abell 2016). While the Institute focuses on worker cooperatives as most suited for the development of low-income local economies, to reduce inequality, and to foster sustainability, its strategy is quite useful for building all kinds of cooperative networks and calls for a closer look. A central element of this model is to reach density of high-impact coops as a tipping point for building social capital and creating the collective capacity to solve problems together. Achieving scale in a network does not mean growing individual coops beyond reason, but rather aims at the multiplying effects of generating and mobilizing resources that enable new coops to be born within the ecosystem. Networks offer a chance to create wealth and good jobs within their membership through a stability, longevity, and capacity that lone cooperatives or small local clusters of social enterprises and movements cannot hope to achieve (*ibid.*).

According to a range of best practice studies (fig. 5.4), cooperatives wanting to build an ecosystem to achieve scale should begin with assessing their finances (grant funding, loans, and investment capital), making sure that they have the required governance, management and core skills (including growth-oriented leadership), and finding professional technical and network

development advice. Once the ecosystem of cooperatives is up and running, it can grow further through the establishment of industry peer networks, shared business services, and potential economic development programs, while beginning to advocate their values and benefits through business partnerships, social movements, and government officials. At this stage, policy barriers and incentives become important to sort out and the ecosystem will benefit most from pro-cooperative laws, regulation, tax codes, and government support. Exploring further supply chain connections, key industries, and community agreements help to solidify the network's connection to its markets, clients, and potential anchor institutions. The final phase of establishing a cooperative ecosystem would then be to legitimize and popularize its value-driven businesses by focusing on the strength, embeddedness, and reach of the cooperative sector, as well as to connect with similar social enterprises and employee-owned businesses. Raising cooperative awareness and the desire for change through a lively democratic network culture, value-centric marketing, and institutional education programs concludes the Institute's network advise. (Hoover and Abell 2016)

Figure 5.7: Building blocks for cooperative ecosystems



Source: Democracy @ Work Institute (Hoover and Abell 2016), creative commons license

The Democracy Collaborative, another American think tank connected to the renewed worker cooperative movement and its Federation, also emphasises the need to embed cooperatives within a movement for mutual, practical and financial support, the importance of an indivisible reserve, and the drive for scale to be heard by government, the business community, and other coops. European networks like Mondragon, Coop Italia, and the British worker coop movement have played an important role in inspiring young Americans that were left unemployed by the global financial crisis to take matters in their own hand and start their own businesses together.

Key lessons include the development of as many networked coops as possible while accelerating the growth of successful ones, solving the capital problem, seeking the conversation with existing companies, as well as strengthening both regional and national support organizations to create sector-wide initiatives for education, research, and capacity building. (Abell 2014)

### *Capital*

The acquisition of capital is one of the weakest points for cooperatives, but is somewhat alleviated through mutual borrowing and lending in support networks and can be organized through a cooperative bank as part of the system. Matching citizens need for a good savings institution with the needs of coops for capital is one way to enable investment, while cooperative banking makes sure that the funds are used constructively and to stabilise the community rather than destabilize it. The self-imposed restraints and controls of cooperative financial organizations have been a safeguard for greater harm throughout the financial crisis and contribute to the resilience of cooperative economies. (Robb et al. 2010)

Clear guidelines and codes can set free risk capital from cooperative funders, while partnerships with other responsible financial institutions can expand the pool of accessible capital and foster the exchange of ideas and experiences, and open the door to ethical investment funds and aggregate institutions. Another common route in smaller cooperatives is to fund the company through member shares that cannot (or rather should not) be sold to non-members. Larger networks engage in group structure engagements with their subsidiaries and partners to create clusters of capital accumulation that can in turn broker arrangements with smaller coops and benefit from shared service structures (King 2016). The danger here is of course to get trapped in the logic of neoliberal globalism and to end up in the pursuit of profits to create shareholder value (Schwettmann 2015).

On the other end of the spectrum, single cooperatives or small local networks of cooperation are often hesitant to join 'another' network on top of all the day-to-day operations and relations. The case studies and research presented in this thesis have shown the benefits to be part of a larger alliance, federation or multi-stakeholder group of cooperatives, and that the extra effort will always pay off quite concretely in terms of skill sharing, mentorship, access to capital, broader educational services, learning in regional or larger clusters, and finally "(...) identifying the leakages in the cooperative enterprise and replacing them with linkages will help groups of coops to better understand their operations in the market and scale up or out, if desirable." (Sumner et al. 2014:59)

*Solidarity cooperatives*

The classic multi-stakeholder cooperatives, better known as consumer coops, have traditionally only dealt with two different sets of stakeholders: those working within the firm and their customers. As this has been difficult at times of growth or economic turmoil, when customers still want good deals and their surplus benefits although the staff cannot deliver, it is mostly a sound marriage of convenience when both parties know what they are getting themselves into and if they do not have their expectations set too high. In the Canadian province of Quebec, the 1997 Solidarity cooperatives law, that originally required at least three stakeholder groups, had to be changed to allow coops with only two different types of owners, because it turned out that getting three parties to invest into the same business proved much less practical than having only the usual two (Giuco 2014). This enabled many food coops to join the scheme, although recently more evidence from larger multi-stakeholder cooperatives with three or more stakeholders is surfacing (Leviton-Reid & Fairbairn 2011, Vazquez-Brust 2014 & Buckup 2012), recommending such multi-stakeholder businesses precisely because they are so full of diverse experiences and ideas: “Social capital represents not a comfortable alternative to social conflict but a way of making controversy productive.” (Putnam 2003:3) Robert Putnam, known for his critical analyses of suburban life in his classic ‘Bowling Alone’ (Putnam 1992), adds that shared space – it does not matter whether it is real or virtual – and story-telling is very important in building cohesion and social capital. “The supposed inefficiency (of involving multiple stakeholders) actually is essential for creating the virtuous circles of human connectivity that are basic to the organizations’s effectiveness and that have valuable spill over effects beyond the group itself.” (Putnam 2003:270-271)

Solidarity cooperatives, as multi-stakeholder cooperatives (as described in chapter 3.2.2) that built on commonalities and embrace the varying viewpoints a multicultural society brings with it are, in effect, “Solidarity as a business model” (Lund 2011:3) and can be defined as cooperatives with „(...) members of two or more parties joining together to travel a common path.“ (ibid.:2) Much like any other group that consists of a wide variety of people from all walks of life, the specific common cause or interest is critical to the success of such an organization. This has been proved to be true in housing cooperatives, where the ones that failed or didn’t even get built were those with no binding ideational narrative – that can be social, political or spiritual – to make it work (Sargisson 2010, Northcountry Cooperative Foundation 2004). Although it should be noted people who are interested in co-housing at all will already have a common set of beliefs about community and ecology (McCament and Durrett 1989). That is not always enough to create more than just a good neighbourhood – unless that is all the participants want, of course. In the case of Solidarity cooperatives, it is just too difficult to

balance diverging interests over time, and the factions will most likely leave the group and potentially start their own (Lund 2011:22).

The gain in higher quality services and lower transaction in Solidarity cooperatives costs more than makes up for the time spent debating, mainly through the trusting relations and the first-hand knowledge of local conditions (Girard 2009). “Solidarity (multi-stakeholder) cooperatives represent a rearticulation of the linkages between economic and social spheres in an environment where the global economy and new technologies call for a potentially unlimited mobility of capital, labour and knowledge. The local roots of solidarity cooperatives, which are owned and operated by local actors for the benefit of their members, represent an obstacle to this de-localization and maintain the balance between local socio-economic needs and the challenges and opportunities presented by the local economic system.” (*Jean-Pierre Girard as cited in Lund 2011:3*)

Elinor Ostrom, who brought the concept of the *commons* back into people’s minds in the early nineties and later got a Nobel prize for showing that they can be governed by the people, found that good governance can be achieved when all actors are involved in the making or remaking of a group’s rules. Founding something together, or giving it a fresh overhaul, for that matter, brings people together. People feel like pioneers, they achieved something together, and in the process, they learned to trust and care for each other – even if they started out as unlikely friends (Ostrom 2000). Gaining respect for each other’s differences and valuing the knowledge everybody brings to the table are other factors that enhance multi-stakeholder projects such as Solidarity cooperatives. According to Ostrom’s research, a fair ratio between personal investments and benefits, sound mechanisms for conflict resolution, and clear responsibilities and rights for each member are the key factors for successful management of the commons (*ibid.*). The similarities to multi-stakeholder cooperatives are striking, most likely because these coops have developed out of the Social and Solidarity economy (see chapter 2.2.3) and work best in a non-profit environment. In fact, many producer cooperatives never make a profit because they reinvest most of the surplus, put it into their member’s retirement funds, form a joint resilience account, and donate some of it to community projects.

### *The next steps*

Is it far-fledged to go one step further then and propose the creation of an international Solidarity cooperative? Based on the solid Quebecoise legislation, Cooperative Coffees has based its communications, import and marketing members in Montreal, includes roaster members all around North America, and producer members in various parts of the Americas. This is one of the first Solidarity cooperatives that work across borders, yet for them this feature is just a

logical consequence of their fair trade principles: “We believe that relationships can only be fair when people come to the table as equals. It is time for producers to have full representation and a strong voting voice in defining new directions in this movement.” (Cooperative Coffees 2016)

The ‘Next System Project’ brings both pathways toward cooperative globalization together, that developed out of this research’s case studies (see chapter 5.1.1 & figure 5.1), and promotes the creation of a ‘Cooperative Solidarity Commonwealth’ as a bottom up federation of local, regional, national, and international enterprises (Democracy Collaborative 2016). The interlocking structures all begin locally and grow bigger as rationally needed, in “a system of interlocking cooperative ownership structures in all industries and all sectors of the economy, where cooperatives and other community-based enterprises support one another by building linked supply chains, collaborating on projects, and sharing funding.” (Nembhard 2016:2) Networks of federations among Solidarity cooperatives and other forms of community-owned enterprises would make workplace democracies more commonplace and powerful, as an idea and as a movement. The time frame to grow this international Solidarity economy is counted in decades, not years:

*“Realistically, we need twenty to thirty years to slowly develop more cooperatives, through conversions and bottom-up development, and to strengthen and widen the solidarity economy. The theory of change behind this model of a cooperative solidarity commonwealth is that the more people that practice economic democracy, collective ownership, and economic transparency, the more they will come to expect to see these practices in the rest of their lives. People will work to make the changes necessary to enact this system. This is a model of change from the bottom up, based on practicing local economic solidarity and collective ownership. We spend at least eight to nine hours a day at work (spending more time at work than anywhere else each day). If we spend it engaged in economic democracy, we will transform our economic relationships and be more involved civically, as well as know more about financial choices, asset building, and collective decision making. More people will have skills to operate in, and manage, democratic workplaces. And they will expect, and work for, true democracy in all areas of their lives.” (Gordon Nembhard 2016:11-12)*

Another road towards cooperative economies is taken by the *open cooperatives* project (The Open Co-Op 2016), which sees cooperative alliances of cooperatives that work for the common good through co-producing the commons. All profits should be spent on social goals and externalities are built into the markets: “In the old system, we have competing entities and within these entities there is cooperation. In the new system it is the opposite—everyone cooperates around shared commons, but within this cooperation, there is room for competition

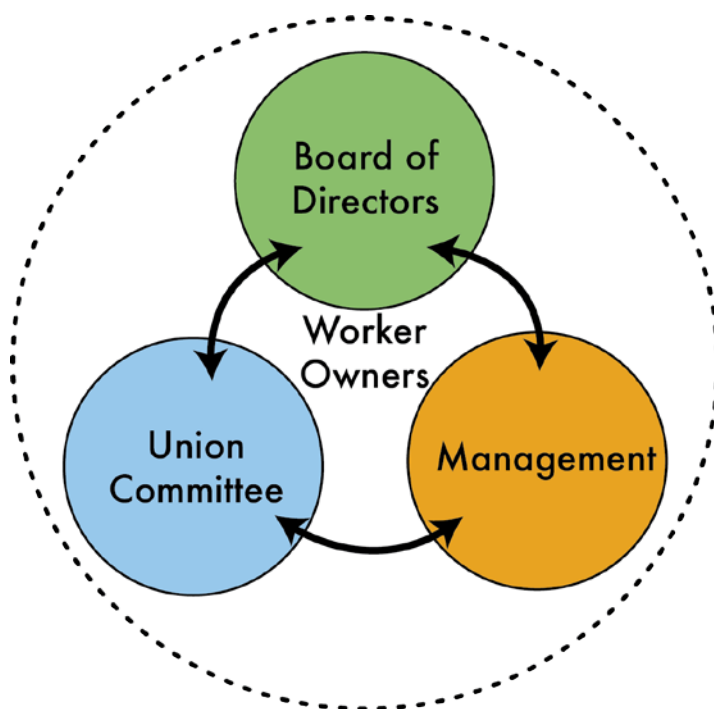


between various entities that build service and product models around these shared resources.” (Bauwens in Johnson 2016: paragraph 18) The peer to peer pioneer believes that the pieces of the puzzle are already here, but have not yet found a way to come together in a great example of what is possible.

### *Strategic Alliances*

One such piece could be to finally bring Unions on board in a substantial way. The tensions of the past are fading into the shadows of de-unionization and the renewed international solidarity movement. Interesting collaborations such as the United Steelworkers Union’s agreement with Mondragon, Cleveland’s Evergreen coop network, and the Cincinnati Union Co-Op initiative (Barker 2016) are first examples of this effort (fig. 5.8). Worker coops in particular can strengthen their member’s political interests and their standing in the community through guaranteeing Union standards as well as signalling openness to the struggle of the labour movement at large. It’s a natural partnership, given the common agendas for fair work, humane rules, and a just global economy (Dalton and Lyons 2005). Especially in the advocacy for fair international trade agreements and social economy legislation, an alliance between the cooperative and the labour movement would be beneficial. Alas, modernised unions could be an integral part of the cooperative economy, and help to build a much stronger “(...) movement for ethical economic practice (...) of national and international proportions.” (McMurtry 2009:30)

*Figure 5.8: Union Cooperatives Structure*



*Source: Cincinnati Union Cooperative Initiative (Barker 2016: paragraph 10), used with permission*

### *Legislation*

Most countries still allow membership in a cooperative only within the nation, which explains the imperfect participatory practices in transnational networks. Workarounds can be subsidiaries or partner cooperatives with internal participation, the adoption of a new business model for the whole network or going through token companies in places that already have the progressive laws and regulations that enable cross-country cooperatives and membership. First legislative forays in the U.S. to allow more flexible cooperative networks are 'limited cooperative association' and 'mutual benefit enterprises', but the laws are different from state to state (Gutknecht 2016), cross-country and cross-border regulations are sketchy at best, and adoption has stalled.

In Europe, where new policies exist to enable transnational membership, only a dozen networks registered as international cooperatives in the first 8 years of a new law for cross-country cooperatives that was 30 years in the making (DIESIS 2014). This can be explained with the nature of these regulations, that require a joint founding of a new international cooperative, that is unattractive to existing networks, and impractical for small start-ups that still have to try out their own business model. The official reason for the muted reaction is that the law is still quite new and cooperatives need time to organize and file the considerable amount of paperwork: "Bureaucratic, administrative and juridical obstacles are the main limits for creating a SCE [*societas cooperativa Europaea*]." (Cooperatives Europe 2010:12)

Yet the creation of a new comparative study group in 2011 that aims to "(...) find the common core of European national cooperative laws" (Fajardo et al. 2012:2) that can provide cooperatives "(...) with a definite and distinct legal identity vis-à-vis other business organizations." (ibid.) points at the deeper problem of still wildly differing cooperative traditions and legal frameworks in every country: "Member States have initiated reforms of their national legislation in a patchy process of transnational legal pluralism." (Cremers in Cremers et al. 2013:270) The Review of European Co-operative Societies summarizes the disappointing performance of the first comprehensive transnational cooperative legislation as follows: "Creating an SCE means matching different areas with different economies, legislations and practices – including those concerning industrial relations and worker involvement. It is therefore very difficult to understand them all, elaborate them and make them work simultaneously in a new European governance scenario." (DIESIS 2014:23)

At the global level, the United Nations has urged governments in their resolution for the International Year of Cooperatives in 2012, to encourage and facilitate cooperative economies and their development, amongst twelve other points. The International Labour Organization has

already reviewed its recommendation on cooperatives from 2002, highlighting again the importance of a supportive policy and legal framework that protects the cooperative identity, and calling for the promotion of all types of cooperatives as one of the pillars of economic and social development. All three institutions agree that governments need to facilitate cooperatives' access to investment capital, business support, and credit. (Mills and Davies 2013) While these lobbying efforts are honourable and might well be more fruitful in these times of large-scale social and economic changes, the demands for political support are as old as the cooperative movement.

The critical task of establishing cooperative networks remains therefore on the business level, namely the formation of a steering coalition that creates a common strategic vision based on its goals, lessons from others, and building on the strengths of its member organizations in order to expand and grow the networks into a new mainstream. Whether through transnational federations, glocal networks of digitally connected regional clusters or an integrated multi-stakeholder approach – there are many ways to realize economic alternatives on any scale, but they will make a much deeper impact in concert with political movements that keep pushing for change, dismantle the consequences of neoliberal globalization and demand an economic system that is open for all the people. Political change would help, as cooperative economies work best in a fair economic system, but can build their own parallel structures until a tipping point is reached when institutional frameworks can be democratized to build the kind of global economy that fosters cooperation amongst all of humanity instead of allowing the one percent to continue their rule over the rest of us.

### 5.2.2 Further research

*“Cooperatives must be examined using their own theories of economics, sociology, and philosophy.” – John Justin McMurtry 2009*

The considerable gaps in cooperative research have started to fill up a bit through the International Year of Cooperatives in 2012 with all its great conferences and speeches that were pushing for more cooperatives and knowledge about them to be created. While there still are not many studies on the internationalization of cooperatives (Cheney et al. 2014 raise the questions whether and how practices of worker owned cooperatives are transferable to subsidiary firms) and a comprehensive theory, there are virtually none that can outline a global policy framework or major milestones towards institutional reforms and international rules that would end the enforcement of neoliberal globalism in favour of an open system of global governance that factors in the real costs and benefits of the different economic models.

Promising pieces of such a legal framework already exist in national and even international dimensions, and are worth examining to identify building blocks for a fair system of global economic governance. European cross-border cooperatives, for example, were introduced in 2006, but have not been studied much as there was not a good uptake of this new legal form. Maybe it was not needed because the coops that wanted to be international had already found their own ways around the existing structures? Or was it the wrong design that was put into law after over a decade of debating and adjusting it? Regional examples include the Quebecoise social economy, the Coop Italy network, and the cooperative ecosystems that have been going strong for decades, yet have not been studied using a longitudinal approach with the intent to find time-tested elements worth trying out in an international setting.

Governance of Solidarity and multi-stakeholder cooperatives is quite understudied as well, especially given that the existing research on multi-stakeholder networks has only asked actors about their perceived performance of the systems, and did not focus on the processes (Leviten-Reid and Fairbairn 2011). The still young transition town movement as well as various hotbeds of the sharing economy have generated a lot of attention and would also be worth a selective look in search of a global solution (Spratt et al. 2009). Mapping existing Solidarity economies with its many coop has been started locally throughout the United States and in some countries like Britain, Brazil and Italy, but an effort to bring it all together in a global database underlying a zoom able map is looking to gain support (Luna 2016, RIPESS 2016, Tygel and Nardi 2012).

A cooperative globalization in the truest sense would be organized as a single large cooperative with members participating on all levels of its governance. Such an organization does not exist yet, and the closest thing there is (Mondragon) is facing all kinds of ideological difficulties to reconcile its global practices with its core beliefs. Whether this type of participatory economic globalization could be created and operated successfully poses a very interesting, yet open question. A broader, team-based research effort with experts from different disciplines would be necessary to answer it than a mere doctoral thesis can hope to deliver. One key feature of such a purist solution would be a new cooperative imaginary in the sense that members from different local cultures would have to understand and trust each other with only the common fabric of their shared beliefs as a basis. The resulting trans local relationships would have to form a new transnational identity that can counteract the strong effect of local autonomy: “the imagination as social practice” (Appadurai 1996).

While large parts of the social justice movement are still scratching their heads in search of such an economy, the cooperative movement has a 160-year-long head start in trial and error, yet it still needs to undertake many a case study in order to present a range of best practice options.

### 5.2.3 Outlook: A humane economy

During the International Year of the Co-Operative in 2012, the non-profit magazine *The Ethical Consumer* set up a website to ask all members of cooperatives in the UK about what one thing they think must have to change in order to make cooperatives the dominant business model. (Ethical Consumer 2012) The most common answers were put to a vote and what surfaced can serve as a guide for the way forward. Educating people about how to work cooperatively was voted the most important thing on the road to a cooperative economy, starting with children creating and tending to their own cooperative at school so they can get the skills and the confidence to cooperate with their peers (see Fig 5.9). Sustainability and social justice came in second, while the third most voted thing that people see as a key to an economic democracy was networked cooperation to give small, local coops a way to prosper while staying genuinely democratic and firmly rooted in the community. Health over growth was the next big thing and echoes what has been identified as one of the biggest problems with capitalism (see 2.1.3), and getting more people to become ethical consumers was, perhaps unsurprisingly, given the questioner, almost as important to participants as more local and non-profit coops.

Figure 5.9: Popular strategies to realize cooperative economies

<i>What one thing needs to change to make co-operatives the dominant business model?</i>
1. We must LEARN how to work in cooperatives. It must be taught.
2. Sustainability and social justice principles should be required of all co-ops
3. Networked co-operation - giving the local and the small the power of the big
4. We must learn - and learn to communicate - the value of health over that of growth.
5. Getting the public to choose co-op before capitalist!
6. Promote local co-operatives - people are passionate about local issues
7. Non-profit coops
8. A co-operative government
9. Social Entrepreneurship and Co-ops in education
10. Spread the word

Source: *The Ethical Consumer Co-Operative Survey in 2012* (Ethical Consumer 2012), fair use

An interesting idea was to have a cooperative government, and how the participant who put it forward would have it work: “Instead of a hierarchical party system with leaders, every party should have to be organized like a co-operative. Each paid member would be equally valued, with no prime minister figure. And every party member who pays to support the party should be allowed a vote or a say in how things are run. That way, the government would have to be sympathetic to co-operatives and that business model. Co-operatives are much more likely to be fair, too.” (Harrison 2013: Afterword, page 3) Whether that system would be less prone to corruption than our current representative democracy is an open question. As pointed out in the agenda for further research (5.2.2), new forms of governance would help, but the case studies in this research suggest that this is true mainly for the global and supranational level, such as a more democratic European Union or an emancipated Commonwealth. The beauty of cooperative networks is, however, that they can work in any political environment. Yet they would benefit, just like we all, from more participative, legitimate political governance.

The changes required for a socio-economic order that will reduce inequality rather than accelerate it through its shock doctrines of further wealth concentration and climate change will not be introduced by sensible politicians or socially conscious corporations but have to be brought in from below (Klein 2014), through organizing, campaigning, and establishing institutions, organization, and mindsets that are “(...) based on the values of self-help, self-responsibility, democracy, equality, equity and solidarity.” (Mills and Davies 2013) Thanks to the United Nation’s International Year of Cooperatives in 2012, a lot of such efforts are under way, such as high level lobbying at global institutions to improve access to capital, legal recognition of diverse ownership forms, and a better financial framework that does not favour investor-owned business structures and does away with the many loopholes and concessions for multinational corporations. The goal is to have stronger negotiating positions once those recommendations are starting to be implemented at the national level. Since the cooperative movement has grown mostly *despite* the lack of supportive legal and financial environments, this would be a welcome change, but not a necessary one to continue the growth of cooperative economies.

Replacing the destructive neoliberal myth that there are no alternatives to the current economic system with a vibrant fabric of working alternatives cannot be stressed enough in its importance to open up the energies and creativities of the mainstream towards building humane economies. Cooperatives are one way to combine the reciprocity of social and personal gains in enterprises and networks, they minimize wastefulness through their efficiency, and provide an economic and practical basis for social justice through their equity building and practiced solidarity. It is in fact through the growing global justice movements and their attractiveness for people that feel

or know that the answers to the many gripes that plague the world today lie in more democratic structures with openness, diversity, and accountability at the heart of a better world. But historically, these groups have had little to do with cooperatives, mostly because of the ongoing uneasiness of unions and former colonial states with the cooperative movement.

Cooperatives have been around for so long and have been co-opted, exploited and steered off their value-based tracks that a lot of bridges are still burnt and many people just do not think that they are good enough for the complex current and future challenges. Any institutional form will be corrupted and betray its original principles in a fraction of instances, and it is the responsibility of today's cooperatives, especially of the large networks that may have lost sight of those principles in the past, to win over the sceptics with great democratic practices and renewed participative efforts. That is exactly what The Co-Operative Group in the UK is doing with its Rebuild & Relaunch program, a return to democratic structures and equity-creating membership. With more and more people being fed up with the bankruptcy of economic ideas than at any point since the last major crisis of the 1970s, the time to build cooperatives, network and promote them is now. Visibility is key because we've been told for decades that socialism does not work and social enterprises are money-losing ventures rather than for-profit organizations that can build a self-sufficient social economy – complete with health-care and pensions – on their own.

Aggressive marketing is needed if cooperatives want to take this chance and try to grow into the mainstream and the consciousness of people. Every time I talked to students, colleagues, and friends outside the field about my research, they were excited and surprised that they had never heard about workplace democracy and the idea of being their own bosses – even before learning that by doing so they could save the economy from itself. During the last Great Depression of the 1930s, Communism and Socialism were still powerful new ideas and a serious threat to capitalism – even cooperativism was a lot fresher and had less baggage than today (Harvey 2010). In order to compete, programs such as the New Deal in America and the reconstruction of Europe's social democracies had such good chances of being implemented (Krugman 2009). These efforts to make capitalist societies more humane resulted in strong unionism, large middle-classes, and good welfare systems. Once it became clear that the other systems could not deliver the wealth and stability of capitalist democracies, these niceties were gradually dismantled and led to the current dead ends of stagnating wages, growing inequality, and rising debt (Piketty 2015).

The inaction of global leaders to implement any of the great ideas that were circulated after the Great Recession of 2007/08 (Davidson 2009, Sen 2009, Stiglitz 2010 & Krugman 2015) created not only the Occupy Wall Street movement and almost led to the nomination of a socialist

democrat as presidential candidate. It alienated large parts of the affected populations, gave rise to extreme right-wing parties across Europe, and helped create the tea party which in turn paved the way for a Trump presidency. A rare global survey, commissioned by the BBC in 2009, revealed that an average of 23 % of the 50,000 participants across 27 countries think that capitalism is fatally flawed, and a new economic system is needed. (Globescan 2009) In only two countries more than one in five feel that capitalism works well as it stands, the US (25 %) and Pakistan (21 %), while the French (43 %), Mexicans (38 %), and Brazilians (35 %) had the highest proportions of people that thought capitalism was beyond repair (ibid.). Surely, some of these disenchanted citizens could be won over to work towards economic democracy or at least to use it as customers, suppliers or consumer coop members.

Changing beliefs and behaviours of course is the hardest thing, yet it is made much easier if practiced every day and in concert with others. That is why the way we work is so critical to the way we see the world and our place in it, and why changing the day to day experience away from hierarchy and obedience towards an empowering sharing of power and decision making will not only improve our job satisfaction and our workplaces, but also strengthen the foundations of our participative democracies and enable us to build a more inclusive economic globalization. Societies are evolving and are always in flux, all power is temporary and threatened by new developments, and ecology tells us that nothing in our nature is stopping the transformation towards justice globalism. A humane economy can be achieved from within the current system, using its tools for a gradual transition into a new mode of production (Marx & Engels 1848/2008). Without such a transformation, "(...) the future will be nasty, brutish, and short." (Foster, Clark, and York 2010:36)

The future of cooperative networks on all scales depends on the willingness of working people to rise to the personal challenge of learning how to participate and cooperate while taking on more responsibility for the organization and governance of their company on the one hand. At the same time, informed consumers are needed to demand their goods and ask for the services these ethical companies can provide. It is no longer a chicken and egg problem since ethical workplaces as well as conscious consumers have exceeded critical mass, but rather a matter of scale, investment funds, and intelligent marketing. This is what large cooperative networks can already do today. What is needed are more pioneers that strive to expand the pathways of social empowerment as an experimental process in which the alleged limits of participation are pushed ever further. "As social animals we are capable of cooperating more deeply than the existing social order envisions" (Sennett 2015:280). The argument often made that a cooperative with equally participating members in multiple countries cannot function due to



cultural differences and missing trans local ties (Coleman 2006) must also be challenged after the recent successes of the open source movement.

Highly specialized individuals have to bend together for very specific projects that often build upon each other, requiring collaborations in groups of varying sizes, people, and nationalities over years and sometimes decades to not only give the world free software, but also to prove that truly global cooperation does not rely on more than a common vision and the shared value of open code. The systems these groups have created are just as complex and capable as anything the big corporate players have put on the market, and are often much more reliable – being used as a strong development foundation in most critical applications from server farms over security to finance these days – precisely because of their openness for everyone to have a look, improve, and troubleshoot them. Internet-based forms of cooperation that draw on the collective intelligence of the people involved can be found in many other areas of the economy now, reaching from open product designs, open source architecture, and creative commons licences to open universities and open governance (Malcolm 2008). Some of these cooperations defy market logic, such as Wikipedia and their various specialized Wiki surrogates that have found themselves unintendedly collaborating in anti-capitalist ways and were most surprised when they were told upon a visit by an English Geographer (David Harvey 2014) that what they were doing was most remarkable and indeed defining a new kind of enterprise.

Already, younger generations and digital natives have a much broader understanding of trust and collaboration, build and dismiss relationships more easily than their predecessors, and are both quicker to include new people and ideas into their lives but also less reliant on stable networks. How these social developments will play out in the formation of international cooperatives can only be glimpsed at in the examples of the open source movement, the sharing economy, and the solidarity economy. It is clear to me, however, that changing social practices and conventions will accelerate the growth of new global networks and attempt the creation of cross-border membership for all workers in a single trans national cooperative. The European Statute that regulates international cooperatives within the Union might be used much more frequently in the near future, and other early frameworks such as the Solidarity cooperative law of Quebec should find plenty of adopters in other States once the millennials and their successors start their own cooperative adventures.

This thesis has shown promising examples of cooperative economies that can change global and local economies for the better. We need to enable those cooperative economies to expand and influence other companies and people for the better. The growing fear of sliding down the social ladder as well as positive examples could motivate large parts of the middle-class to form an alliance with the losers of globalization, labour unions and social movements to try out new

working arrangements. Neoliberal globalism can be overcome through organizing power from below. Changing people's outlook on what is possible requires not only the promotion of visible pieces of a better economic order but also takes much emancipatory work to empower them. The vision that unites the global justice movement, the Solidarity economy, and the cooperative networks has a lot going for it: better lives, more humane societies, and fairer economies with active, long-standing, and trustworthy relationships in level-eyed cooperation and solidarity with nature and each other. Whether it can be achieved depends on the ability of millions to overcome their fears and worries, empower themselves, and work together. One coop at a time.

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