The Co-operatives of Ireland

edited by

ROBERT BRISCOE & MICHAEL WARD

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[1] The Centre for Co-operative Studies is a university research centre, which promotes education, training, and independent research and consultancy in all aspects of co-operative organisation.

Contents

Preface

This book and its companion volume (*The Competitive Advantages of Co-operatives*) were inspired by a collection of seven, innovative booklets published by FVECTA, the Valencian Federation of Worker Co-operatives. Their set of booklets was called *The Seven Bases of Co-operation* and outlined the ideas, values and strategies that had made worker-owned co-operatives a powerful force throughout Valencia. The *Seven Bases* argued that *co-operative principles* were at the root of the business success of worker co-ops in Valencia and the booklets are now being used as the basis of training seminars to further enhance co-operative competitiveness.

This present book and its companion volume attempt to do for Ireland what the Seven Bases did for Valencia. They set out to understand the competitive advantages of co-operatives in general and co-ops in Ireland in particular. But because worker-owned co-ops are in their infancy in this country, our books explore the values and strategies of *several* of the main co-operative sectors in Ireland – not just worker co-ops. As well as worker co-ops, we shall be looking at credit unions, agricultural co-ops, community co-operatives and other social enterprises.

These books fill major gaps in the literature on Irish co-operatives. *The Competitive Advantages of Co-operatives* provides the interested general reader with an introduction to the concept of the co-operative, its relevance in the age of globalisation and its many applications. It also outlines, with examples, the key competitive advantages of co-operatives in general and discusses some of the special management issues faced by co-ops. *The Co-operatives of Ireland* is a set of essays which focuses in on the Irish situation, exploring key issues confronting some of the main co-operative sectors in Ireland. Particular emphasis is given to credit unions, agricultural co-ops, worker co-ops, community co-ops and newly emerging enterprises in the Social Economy.

We would like to acknowledge funding support from the Septimus Programme of the European Union, which made these publications possible and facilitated our collaboration with FVECTA on the development and dissemination of co-operative educational materials.

Chapter 1

Introduction

This book is a companion volume to *The Competitive Advantages of Co-operatives* (Briscoe & Ward 2000) which provided a general introduction to the concept of the co-operative and discussed the competitive advantages and management dilemmas of this type of organisation.

The Co-operatives of Ireland is a book of essays about key issues confronting some of the main co-operative sectors in Ireland. It is not a comprehensive survey of Irish co-ops, which would be well beyond the scope of this present volume. It merely seeks to raise current issues facing Irish co-operatives in the following sectors: credit unions, agricultural co-ops, worker co-ops, community co-ops, and the newly emerging field of service-based social enterprises, which share many of the characteristics of co-operatives.

1.1 Outline of this book

One of the main aims of this book is to enable the reader to apply the ideas discussed in *The Competitive Advantages of Co-operatives* to co-operatives in Ireland. Applying the ideas of the first book to the essays in this book should raise many questions about the activities of co-operatives in each of the Irish sectors. Some of the questions you might like to consider when dipping into this book are the following.

- To what extent are co-operatives in Ireland applying the co-operative principles and characteristics?
- To what extent are they ignoring co-operative principles and characteristics and what effect might this be having on the success of co-operative business?
- Are they applying the principles and characteristics in such a way that they can benefit from the potential

competitive advantages of the co-operative form of organisation?

- How are Irish co-operatives handling the dilemmas that often emerge when managing a co-operative business? Might it be possible to manage these dilemmas more effectively?

The chapters which follow do not attempt to answer all of these kinds of questions for you. Instead, they try to give you an up-to-date overview of some of the major issues facing each sector, as well as information on some of the strategies and practices employed in the sector. They provide you with the raw material that you can use to make a critical but constructive analysis of the current state of play, and to identify new ways in which Irish co-operatives can benefit from the co-operative advantage.

Chapter 2, The spirit of credit union in Ireland
In this chapter, Michael Ward, reviews the co-op idea and looks at the functioning of Irish credit unions in the light of the co-operative characteristics of *activation of users; mutual aid* and *design for use.* He raises the issue of how the highly successful credit union movement might make even better use of the co-operative advantage.

Chapter 3, Ireland's multipurpose dairy co-operatives
In this chapter, Michael Ward starts with a brief overview of the current status of Ireland's agricultural co-ops. He then focuses in on the issues affecting the relationship between farmers and their co-operatives. He pays particular attention to the factors which led some of Ireland's largest co-operatives to create PLCs and the impact of this on relationships between member-farmers and co-ops. An appendix to this chapter, outlines some of the main theoretical approaches to analysing relationships in agricultural co-ops.

Chapter 4, Ireland's worker co-operatives
Hughes and Briscoe give a very brief overview of worker co-ops in Ireland and Europe, and then outline the apparent advantages of this type of organisation as well as factors that appear to have limited its growth in Ireland. The main body of their essay, however, is a summary of the new strategies for developing worker co-ops currently being employed by the Co-operative Development Unit funded by the Irish government. This new generation of worker co-operatives has a strong focus on business viability and incorporates a number of strategies for overcoming

the financial dilemmas that appear to afflict many worker co-ops. Questions arise as to the extent to which these new co-ops implement the co-operative idea and harness the competitive advantage of the co-operative concept.

Chapter 5, Ireland's community co-operatives

In this chapter, Briscoe, McCarthy and Ward outline some of the findings from a recent study of Irish community co-operatives. They summarise some of the main business strategies used by community co-ops and how they go about raising capital. They then review the dilemmas and problems facing these co-ops and suggest some ways in which community co-ops might address some of these problems by strengthening the co-operative character of their businesses. The chapter raises questions about how the co-operative idea might be applied effectively to the multi-purpose businesses of community co-operatives.

Chapter 6, Social Enterprises in Ireland

Strictly speaking, all the co-operatives discussed in this book are social enterprises, in that their primary aim is to deliver services rather than maximise profits. They are, however, a distinctive type of social enterprise, owned and democratically controlled by their users, which is not the case with all social enterprises.

In this chapter, Mary O'Shaughnessy discusses the *work integration social enterprise*, a newly emerging type of social enterprise, which is attracting attention in Ireland and across Europe. The author defines this type of social enterprise, presents an Irish case study of a network of these enterprises, and examines the extent to which they incorporate the key characteristics of a co-operative.

Chapter 2

The Spirit of Credit Union in Ireland[1]

by Michael Ward

The spirit of Credit Union is synonymous with the spirit of co-operation. It is the philosophy of democracy, mutuality and service, which underpins and gives life to the co-operative principles and thus the Credit Union operating principles.

At least in philosophical terms, a co-operative, whether it be a Credit Union or a Dairy Society, may be distinguished from other types of organisations by three distinctive characteristics. These characteristics define not only the relationship between a co-operative and its members, but also the way in which the co-operative should relate to those outside the organisation

The co-operative and thus the Credit Union approach implies:

a) treating people as *origins of action*, not as objects to be manipulated or serviced;
b) encouraging people to *work together* and help one another *solve mutual problems;*
c) designing useful structures processes, products and services so as to meet people's needs rather than for profit-making purposes alone. (Briscoe, et al. 1982, p.32)

These characteristics are the virtual antithesis of the principal features of the conventional or non-co-operative approach to organisational life. Let us briefly look at each of these characteristics and see what they tell us about the co-operative/Credit Union spirit.[2]

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[1] An earlier version of this chapter was delivered by invitation to the Irish League of Credit Unions Chapter Officers' Seminar, Dublin, November 1995.
[2] This discussion draws heavily on a book entitled *The Co-operative Idea*, by Briscoe et al. (1982) of which the writer is a co-author.

2.1 People as Origins of Action

This is the characteristic on which the Credit Union operating principles (Rochdale principles) of *open and voluntary membership*, *democratic control* and on-going *education* are based.

This characteristic is based on the assumption that within any given population, creativity and the ability to make meaningful decisions are widely distributed talents. People are capable of taking charge of their own lives, instead of being merely passive recipients of the things society and its institutions do to them.

It follows from this that in a Credit Union members should be *involved* at the most appropriate and feasible levels and be *equipped with the information, skills and awareness* necessary to be so involved. Every effort must be made to identify and meet the real needs of members by encouraging and facilitating their full participation. The Credit Union seeks to *empower* the members in the context of unity and fraternity rather than individualism and greed. The spirit of Credit Union involves *meaningful and effective participation.*

2.2 Mutual Aid

This is the characteristic on which the Credit Union operating principles of *non-discrimination in race, religion and politics*, *co-operation among co-operatives* and *social responsibility* are based.

Co-operative philosophy holds that the ability of people to take charge of their lives depends partly upon their willingness to work together with others in the same boat as themselves. It holds that by pooling their resources and talents, people can obtain a leverage on life that would be beyond any of them individually. Co-operative philosophy assumes that effective working together and sharing reduces anxiety in the face of uncertainty and provides the solidarity to deal with difficulties and obstacles.

Applying this characteristic to a Credit Union, one would expect a constant striving to bring together the different groups that make up a Credit Union – members, directors, employees – so as to identify overall needs and develop appropriate policies. Efforts would be made to include the entire range of social class groupings within the common bond.[3] One might expect action and behaviour to be premised on the belief that people and Credit Unions can work together for mutual benefit without exploiting each other. *Community building* and *partnership* would be regarded as important goals. Rights would be balanced against responsibilities.

The success of this mutual aid characteristic in operation would be evident from the creation of sufficient sources of credit to members at fair and reasonable rates of interest resulting from the pooling of savings and promotion of thrift.

2.3 Design Services for Use

According to co-operative philosophy, the way to satisfy human needs and solve problems is to combine in a democratic manner with others who are in a similar situation and to design an organisation and delivery system specifically for the purpose of meeting those needs. When the organisation is established, the members continue to monitor it and shape it in order to ensure that it goes on meeting those needs.

Design for Use is the co-operative characteristic on which the Credit Union operating principles of *service to members, return on savings and deposits* and *return of surplus to members* are based.

The prime objective of a co-operative is the economic and social betterment of its members and thus it follows that a co-operative should be self-consciously designed to provide services which are useful to its members rather than to make a profit at their expense. Therefore, the users themselves must be actively involved in designing and evaluating the service, having taking cognisance of their needs. This involvement in the process of need satisfaction enables users to become more clearly aware of the nature of their needs and increasingly knowledgeable and self-reliant.

A Credit Union would therefore define efficiency and quality of service in a very different and much broader way than would a conventional bank.

- Prudent but creative stewardship of the members' savings are a priority.

[3] Members of a credit union must be linked together by a *common bond.* This can include a common place of work, profession, community in which the members reside or work, or membership of a bona fide organisation or society (set up for a purpose other than setting up a credit union).

- The directors and management must be humble enough to really listen to the members and understand their needs.
- As a basis for loan approval, *character* would have to be more important than *collateral.*
- Credit unions would make every effort to ensure that there were no hidden costs in a loan, so that there are no nasty shocks for borrowers, such as add-on costs for insurance or for setting up and servicing the loan.
- Members with legitimate repayment problems would be helped to solve those problems, rather than being severely penalised and hastily threatened with legal action.
- In a Credit Union, the marketing function would have more to do with educating and communicating than with public relations and hard sell.

2.4 Being Just Alive Vs. Being Healthy

A Credit Union or other co-operative might be regarded as being *just alive* when it abides by minimal structural and legal requirements. The body of the Credit Union is intact, but is just lying there. For example, the *one person one vote* rule may be implemented to the letter of the law, but this may be virtually meaningless in practice if the members are not aware of their rights and entitlements and are not actively encouraged to participate and inform themselves before voting. Even those who attended the AGM may be acting blindly. A Credit Union in robust health, on the other hand, would take a much more proactive approach by putting the emphasis on reflective action following education and two-way communication. In a healthy Credit Union the spirit/blood, in the form of *participation* and *education*, will flow through the structure/body, giving it energy and vitality. This cannot be legislated for.

2.5 Applying the Co-op Characteristics

Let us now apply the co-operative characteristics to the reality of Credit Union activity in Ireland today and thereby establish the extent to which the spirit of Credit Union is alive *and* healthy.

Following the *origins of action* characteristic, we shall analyse the Irish Credit Union spirit by focusing on participation at the levels of ordinary Credit Union members, directors and committees, and volunteer work service. The *design for use* characteristic will draw us into a discussion on education and provision of services. By drawing on the *mutual aid* characteristic, we shall then focus on co-operation between credit unions and community linkages and development. But first, let us start with a background note on the Irish Credit Union movement.

THE IRISH CREDIT UNION MOVEMENT

As Ireland faces into a new century, its village, town and city landscape is dotted with attractive credit union buildings occupying prestigious positions on main streets across the country. These financial co-operatives have sprung up in less than forty years, and there are now some 530 individual Credit Unions with 2.1 million members, accounting for more than half of the Irish population.[4] Irish Credit Unions have savings totalling IR£2.86 billion, assets of IR£3.3billion and member loans of IR£2.04 billion. The average Irish Credit Union has 4,000 members and is based on the common bond of residence.

The Irish Credit Union movement is a voluntary movement. In keeping with co-operative principles, Credit Union directors and committee members are democratically elected by the ordinary membership on the basis of one member one vote and service is not remunerated. Each Credit Union is an independent, autonomous body in its own right, but some support, advisory and other services are centrally organised through the Irish League of Credit Unions (ILCU), the umbrella organisations for most Irish Credit Unions. Within the League structure, Credit Unions co-ordinate on a regional basis through Chapters. Credit Unions in Ireland are regulated by a registrar of Friendly Societies, with separate registrars for the Republic and for Northern Ireland.

2.6 Activating Credit Union Members

GENERAL MEMBER PARTICIPATION

In common with large consumer and producer co-ops world-wide, Credit Unions suffer from low levels of member participation in decision-making. The AGM is poorly attended and at any rate is not a sufficient structure for member participation. Meaningful participation in a large AGM gathering is impractical even if there were halls large enough to hold the crowd. Are we really

[4] Irish League of Credit Unions *Annual Report 1998.*

convinced of the importance of active member participation? The belief is often expressed that the vast majority of members who stay at home "are happy" and will only turn up when there are problems looming on the horizon. This belief is itself an indication that we are not totally convinced of the real merits of involvement, the real spirit of Credit Union.

The spirit of Credit Union cries out for meaningful member involvement, which requires tolerance of experimentation and learning, and of the time-consuming process of working through different options. New approaches are called for. In this regard, the Irish Credit Union Movement is to be complimented on its decision to survey regularly the opinions of members and non-members at the level of each Credit Union.

Nowadays, given demands on time, people tend to involve themselves in society to solve specific and concrete needs and problems rather than for more overall and abstract ideas. Perhaps it is therefore time to consider organising Credit Union members around specific issues and themes and/or sub-dividing the common bond membership into special constituencies (youth, women, unemployed, over 65s, etc.) and allow them to meet on their own from time to time. Many Credit Unions already recognise youth as a special grouping. More Credit Unions might consider providing meeting spaces and resource rooms which are only indirectly related to Credit Union business and in this way activate people and draw them towards the Credit Union.

Representative democracy as practised in Credit Unions requires a direct participative base to keep it vibrant. Perhaps one way of achieving this in Credit Unions would be to sub-divide the Common Bond into smaller geographical areas for advisory meetings. Perhaps it is also time to experiment with the traditional meeting format. One Canadian Consumer Co-op holds open member discussions at a round table over a meal with a note-taker at each table recording anything the members wish to mention about their co-op.[5] Would this work in the Irish pub Context?

In the final analysis, people will only participate when they can see that their participation brings results. Does it? Can it?

[5] See International Joint Project on Co-operative Democracy. 1995.

VOLUNTARY SERVICE

Behind the phenomenal growth of the Irish Credit Union movement is the unquantifiable energy and effort of thousands of volunteers at director, committee and work level, who selflessly give of their time and skill. This is the Credit Union and co-operative spirit at work. This voluntarism alone would be sufficient to demonstrate that the spirit of Credit Union is alive and healthy. However, let us take a critical look at the role of the volunteer.

Many Credit Union boards and committees would not appear to be representative of the membership in terms of age and gender, while in some Credit Unions the same people tend to occupy directorships, etc., for lengthy periods of time without interruption! According to a recent study,[6] 45c per cent of 62 credit unions studied had no board member aged 30 or less while two thirds of the credit unions studied had no youth involvement at committee level. How much effort do Credit Unions devote to the task of getting new people to stand for election? Perhaps Rule 73 should be amended and the nominating committee mandated to ensure that a variety of candidates with a range of talents, skills and social backgrounds are on offer, thus always causing a contested election to be held for each vacancy. People must be challenged and if necessary equipped through training and education to go forward for election and even make their election more probable by restricting the period of service in office to, say, two terms, after which a break of one term becomes mandatory.

This is not to suggest that long serving directors and committee members should wave goodbye to the Credit Union they helped develop, and ride off into the sunset. On the contrary, given their considerable experience and skill, it is essential that they continue to contribute to their Credit Union's development, albeit in a different capacity. They could, for example, teach on new educational programmes for the general membership, thus helping to preserve the spirit of Credit Union for the future.

In addition to reducing operating costs, volunteer work, as tellers, etc., reinforces the image and feeling that the Credit Union belongs to the members. It shows the Credit Union spirit at work. In the future, the maintenance and spreading of the Credit Union spirit will likely dictate that their work will change from helping with day to day operational matters, to greater involvement with policy development, education and communication. The Credit Union spirit of *Design for Use* may well demand more full-time staff thus enabling Credit Unions to open for longer hours and at more

[6] See O. McCarthy, R. Briscoe & M.Ward, 1999(a).

convenient times for users. Those Credit Unions, which have successfully embraced this process, are to be complimented.

It follows from the characteristic of *People as Origins of Action* that the employees in a Credit Union should be given a democratic vote in decision-making so that they can protect their interest in the Credit Union, which provides the main source of their livelihoods. An agreed mechanism for staff involvement which promotes trust between them and the directors and which is based on Credit Union Values and principles is therefore required.

2.7 Designing for Use

DESIGNING SERVICES FOR USE

Concepts such as *Quality Service* and *Ethical Investment* have been practised by Credit Unions since their foundation under titles such as decency, honesty and mutuality. Nowadays, conventional banks make much of their supposed implementation of these concepts, but neglect to tell us that they interpret them in a much narrower way than is the case in Credit Unions and Co-operative Banks. Credit Unions must be careful not to internalise the values of conventional business by using its concepts in an uncritical manner.

Unlike a conventional bank, for example, a Credit Union should never define quality as *customer-driven.*

> *The idea of quality as customer-driven is a basically shallow misrepresentation of the concept. There is no true quality without mutuality.* (Davis 1995, page 15)

Likewise, the marketing function in a Credit Union ought to be conducted in a much different way than would be the case in a profit driven commercial bank. In a Credit Union, the emphasis should be on education, communication and, above all, on encouraging people to participate in designing services to meet their real needs.

EDUCATION

Education is an integral part of the co-operative and Credit Union spirit. The Irish Credit Union movement has kept faith with Nora Herlihy's motto, "*No study, no Credit Union.*"[7] The study group period for a new Credit Union prior to registration with the

[7] Nora Herlihy is generally recognised as the founder and inspiration of the Irish Credit Union Movement.

Registrar and affiliation to the League is unique in the context of Irish co-operatives[8] and has contributed greatly to Credit Union success. In relative terms, Irish Credit Unions, individually and collectively through the League, devote much more of their resources and time to education and training, than does any other branch of the Irish co-operative movement. Furthermore, the spirit of co-operation permeates their educational programmes in that they teach each other and learn from one another. A desire to keep the spirit of Credit Union alive and healthy into the future can also be seen at work in the decision of the League to support Credit Union education at university level for Credit Union activists.[9] Those Credit Unions, which have introduced youth educational programmes such as mini Credit Unions in secondary schools, should also be applauded.

Credit Union involvement, whether as a director or a voluntary worker, is in itself and educative process. In this respect, the Irish Credit Union movement is responsible for the education and self-development of many thousands of people over the last three decades or so. This is another example of the healthiness and vigour of the Credit Union spirit in Ireland.

However, Credit Unions - in common with agricultural co-operatives - have somewhat neglected the education of the general membership. This is understandable given the large numbers of people involved. People are allowed to join Credit Unions with little or no co-operative education or even induction being provided for them. Only a few Credit Unions hold a *meeting for new members*. Educational talks for the general public, the potential members, are rare. Perhaps this is the reason why one of the students reading the UCC *Diploma in Credit Union Studies* concluded in his Diploma project that "people have a very limited and outdated perception of the Credit Union and the services it provides." The Lansdowne[10]s market research report supports this view by declaring that, "*even members exhibit worrying degrees of ignorance*" regarding Credit Union services. The report goes on to point out that non-members have a fairly high level of disinterest in Credit Union services and that there is even resistance to joining among substantial numbers.

[8] Some Irish worker co-operatives are now following a similar but less structured approach.
[9] The ILCU supports the National University of Ireland, University College Cork's *Diploma in Credit Unions Studies* and *BSc degree in Mutual and Credit Union Business*.
[10] Lansdowne Market Research. *Credit Union National Market Research Report*, 1995.

Clearly the Credit Union spirit among members is not as healthy as we would like it to be. Do we need to amend Nora Herlihy's motto to read, "*No study, no membership?*"

Education for members should have a positive impact on member participation, as the main objective of any such programme should be the preparation of members for meaningful involvement. An educated membership would in turn educate the general public and market Credit Union services.

Nora Herlihy was often frustrated at the lack of commitment in Ireland to education for co-operation. Nor is much scholarly attention given in business and economic studies programmes at university level to the co-operative and Credit Union approach to meeting needs and solving problems. These third level business programmes are the very ones from which many future Credit Union managers will be recruited. The conventional banks have realised the importance of university research by their support for university chairs and research centres. Is there a lesson here for Credit Unions?

In the modern age, general education for a mass audience must rely, at least in part, on good quality communications, especially the written word. *The Irish Credit Union Review* coupled with individual Credit Union newsletters have contributed in no small way to the health of the Credit Union spirit by keeping the membership well informed of Credit Union issues and by providing them with a platform for dialogue and debate. There is however a need to redress the disinterest and ignorance towards Credit Union and co-operative ways of working which is to be found in some of the national and local media. Perhaps it is time to consider the feasibility of a national co-operative journal, which would attract the support of the different co-operative sectors and appeal to the general public. Ireland could do with more quality journalists with an interest in co-operative affairs. Certainly, the financial pages of our newspapers would benefit at times from a Credit Union perspective. The promotion of more scholarly activity and interest in co-operative affairs at third level institutions should in the longer run help remedy this problem as graduates would be more likely to understand the nature of co-operative activity.

2.8 Mutual Aid in Credit Unions

CO-OPERATION BETWEEN CREDIT UNIONS

The Irish Credit Union movement takes seriously the principle of *co-operation between co-operatives* with formal arrangements at Chapter and League levels. The degree of co-operation between Credit Unions is considerably greater than that found among Irish agricultural co-operatives which really does justify calling Credit Unions a *movement.* Nevertheless, there appears to be some uncertainty among Credit Union activists concerning the future role of Chapter and to a lesser extent the League. Expectations and commitments may require clarification in this area.

Given the new Credit Union legislation enacted in 1997, and the ongoing debate about the development of new services, it is perhaps timely to consider new forms of co-operation and co-ordination for the future. The *drumlin group* of Credit Unions in County Monaghan has already shown initiative and creativity in this regard. It might make good economic sense, for example, if Credit Unions at Chapter level were to collectively share the costs of developing new services. For reasons of economy of scale, groups of smaller Credit Unions might do well to consider offering the more specialist services on a federal basis.[11] The alternative for smaller Credit Unions might be the less desirable option of becoming part of a much larger Credit Union, with consequent loss of autonomy.

DEVELOPMENT AND COMMUNITY LINKAGES

The spirit of co-operation is very much at work in the efforts of the Credit Union movement to reach out into the community and promote development. The Workers' Co-operative fund, though modest, has made a difference. Many Credit Unions, such as Clones and Tallow, have also made a huge difference locally by embarking on special development schemes. We should also not forget that every Credit Union, by its very nature, contributes to local development. The money saved locally is spent locally and all loans are backed by savings, which helps to keep inflation at bay. The Money, Advice and Budgeting Service (MABS[12]), could be termed pre-development activity.

[11] This would require careful study and consideration to ensure that the Credit Union spirit and operating principles are upheld and that any new developments are permissible under Credit Union Legislation.
[12] Money, Advice and Budgeting Service is an advisory service offered by credit unions in association with the Department of Community and Family Affairs.

Nevertheless, given the scourge of unemployment and its destructive impact on community life, the Credit Union spirit would suggest that Credit Unions, while protecting their core business, should constantly strive to support community employment initiatives and small business. In this regard, putting the Credit Union's organisational and money management skills at the disposal of new community and co-operative business ventures may be even more important than the provision of loans. Credit Union directors and management can also learn from small businesses and therefore be in a better position to professionally assess business projects that seek funding. A recent study[13] concludes that while credit unions do lend to local businesses they tend to do so under the normal lending criteria that apply to personal loans, which is likely to be very restrictive

Given that Credit Unions have always had and area/community focus, they are well positioned to contribute to European Union area-based approaches to development such as LEADER. The Credit Union spirit with its emphasis on *democracy* and *mutuality* has much to contribute to such development initiatives, but to date much of the running has been left to other groups.

THE FOUNDERS & COMMUNITY DEVELOPMENT

Nora Herlihy, Sean Forde and Seamus MacEoin would certainly urge us to redouble our efforts in the community development field. We should always remember that they started their co-operative life in the Dublin Central Co-operative Society with the aim of creating work for the unemployed.[14]

Credit Unions have their roots in community and mutuality. They emerged in order to allow people to solve community socio-economic problems for themselves. Keeping the spirit of Credit Union alive and healthy will require Credit Unions to constantly renew and re-interpret their community and mutuality focus. Credit Unions will need to ensure that all the new services they develop are not just for the benefit of middle-class, employed people. For example, chequebooks may not be a high priority for the unemployed. The vast majority of Irish Credit Unions are under-lent which should provide scope for engaging in social economy initiatives.

They say that desperate situations call out for radical action. In spite of the *Celtic Tiger*, many people in the Ireland of the new

[13] O. McCarthy, R. Briscoe & M.Ward, 1999(b).

[14] For an account of the broader co-operative background of the pioneers, see Chapter 4 of A.T. Culloty's *Nora Herlihy: Irish Credit Union Pioneer*. Dublin: Irish League of Credit Unions, 1990.

century are so impoverished financially that (apart from the MABS programme) they are hardly in a position to benefit from Credit Union services as they presently exist. Should/could Credit Unions help such people by facilitating them to organise themselves into a local economic trading system (LETS for short)? LETS schemes allow people to exchange goods and services without having to use the official currency, thereby allowing them to use their skills, thus increasing their self-esteem and providing themselves with necessities they would otherwise have to do without. [15]

2.9 Conclusion – Monitoring the Economic and the Social

Enough has been said to demonstrate that the spirit of Credit Union is still alive and healthy in the Ireland of 2001. However, Credit Unions do need to be careful about their diet if they are to remain healthy during the next century.

The spirit of Credit Union can only be kept alive and healthy in the Ireland of the future if we measure how well or how badly we are implementing that spirit on an annual basis and then take whatever corrective steps are necessary. In this regard, all Irish Credit Unions should consider doing an annual social accounting audit along the lines practised by some Canadian and Italian consumer co-operatives and, notably, the UK Co-operative Bank, to communicate their performance on *non-financial* as well as on *financial* objectives.[16] In this way, the spirit of Credit Union would always be in the foreground of planning and evaluation.

Historically, the co-operative approach has been an attempt to counter the concentration of ownership of the means of production and distribution and, ultimately, the means of livelihood, such as money in the hands of a few to the detriment of the many. We have still a long journey to travel, but there is a healthy Credit Union spirit urging us on.

[15] For more on LETS, see Douthwaite 1996, p. 61, seq.
[16] For further information on social accounting, please consult Pestoff (1995) and the International Joint Project on Co-operative democracy (1995), especially pp 134-138.

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Chapter 3

Ireland's Multipurpose Dairy Co-operatives[17]

Michael Ward

This chapter explores current relationships between Irish farmers and their dairy co-operatives with particular attention to co-operative involvement in PLCs. Following a brief background on Ireland's multipurpose dairy co-ops, the analysis begins by focusing on the user-member relationship, leading into a discussion on share valuation and co-operative member financing. It then focuses on the representative structures, farmer representatives and the communications process. An examination of the services offered by co-operatives to members/users, including rural development activities, will form a backdrop for a discussion on strategy and future direction, and the role of education. But first a word on methodology.

3.1 Note on Methodology[18]

As this analysis will discuss Irish agricultural co-operatives in general, it may not always accurately reflect the situation in a particular agricultural co-operative, especially given the great variety in Irish co-operative size, structure and activity. The analysis is problem-centred and therefore may come across as somewhat critical. Nevertheless, it takes as its starting point the great story of success, struggle and achievement, in terms of world class growth and development, of which all co-operatives (and the Public Limited Companies [PLCs] associated with Co-operatives) can be justifiably proud. This is a success story, which has been directed by ordinary farmers and their representatives. It has been achieved by fair trading and, unlike some private food businesses with no co-operative involvement, it has not been the subject of

[17] An earlier version of this chapter, entitled "New relationships between farmers and enterprises: the lessons from Ireland with the change of dairy co-operatives into public limited companies" was presented by invitation to the **COGECA Conference on Co-operative Governance**, Brussels, November 29th 2000.
[18] See Appendix to this Chapter for a brief summary of some of the theoretical approaches that can be used to analyse the relationships between co-op members and their co-operatives.

expensive tribunals attempting to remedy alleged wrongdoings against stakeholders.

The emphasis in this chapter is on the individual relationship between the farmer and his or her food processing enterprise, rather than on the relative economic performance of those enterprises as corporate groups. The contention in the chapter is that current relationships are largely a continuation of the older relationships of the 1980s and 1990s and require examination in this historical context. The analysis will therefore range over the last twenty years or so.

3.2 Background to Irish agricultural co-ops

Irish Multipurpose Dairy Co-operatives

According to the 1999 Irish Co-operative Organisation Society (ICOS) Annual Report, there were 34 dairy co-operatives in Ireland at the end of 1999, including co-operatives with holdings in PLCs. These co-ops had a total of 86,837 members, and net total sales of £7,557,360,000. Membership and milk supplier numbers vary from co-operative to co-operative depending not only on the size of the co-operative but also on farm size structure in their own geographical area. The number of co-operatives has steadily declined from the 1960s as a result of amalgamations.

The first example of a co-operative taking the PLC route in Ireland occurred in June, 1986, when Kerry Co-operative Creameries, Ltd., exchanged its assets for a majority shareholding in a public limited company (PLC) as a means of raising finance to assist in acquisitions. A number of other co-operatives were soon to follow the PLC route. Today, Kerry Co-op has a minority holding (of about one third) in Kerry Foods PLC, and Glanbia Co-op has a majority holding in Glanbia PLC. Golden Vale is a PLC with no co-op shareholding, although about one third of the PLC's shares are held individually by co-op members/users of Golden Vale Food Products Co-op, which has an association with the PLC and has a role in milk supply and assembly. Donegal Creameries (formerly Donegal Co-op) is a public company with farmer shareholding. In addition to co-op ownership in Kerry and Glanbia PLCs, individual farmers and employees also hold shares as individuals which further increases local control.

In 1999, there were a total of 28 milk processors operating on 31 processing sites (ICOS Strategic Review of the Irish Dairy Sector

2000). Some co-ops just assemble milk and sell it on by arrangement to a neighbouring processing society. In Ireland, the four biggest processors – Glanbia, Dairygold, Golden Vale and Kerry – account for about 70 per cent of the processed milk, or 3.7 million tonnes. However, processing is even more concentrated overseas. The recent merger of MD Foods (Denmark) and Arla (Sweden) to form Arla Foods means that this group will process 7 million tonnes of milk or approximately double that of the Irish Big 4. The two major co-ops in the Netherlands, Friesland Coberco and Campina Melkunie, process between them 85 per cent of Dutch milk or almost 9 million tonnes. In New Zealand, the New Zealand Dairy Group and Kiwi Dairies process 58 and 36 per cent of the milk respectively. (ICOS, 2000 - *A strategic review of the Irish dairy sector*)

ICOS

The Irish dairy co-operatives along with other rural societies, such as marts and fishing co-operatives, are members of the Irish Co-operative Organisation Society (ICOS). The ICOS, itself a co-operative, represents the interests of its member co-operatives nationally and internationally, and provides them with leadership and training.

Membership Organisation

Milk suppliers and traders are normally admitted to membership in the co-operative by purchasing a number of ordinary £1 shares in proportion to their milk supply/trade. They are then entitled to one vote (at shareholders meetings and elections) regardless of the size of their shareholding. Shareholders are organised into branches/areas, which also serve as electoral constituencies. Some co-operatives elect a number of area advisory boards which meet at area level, a few times per year, to advise on policy, while other co-ops elect a general committee from the areas, which meets centrally with senior management. The board of directors is usually elected from among the advisory/general committees. In co-operatives with a stakeholding in a PLC, the PLC board is normally elected by and from the co-op boards and includes some senior executives.

3.3 Non-user members and non-member users

Historically, there has been a tendency in the Irish co-operative movement for co-operatives to allow farmers to use the co-op services without becoming members. This defective co-operative-farmer relationship has survived into the twenty first century.

Typically, Irish co-ops and co-ops with a stakeholding in a PLC do not require users to be member shareholders in the co-op, nor do they insist that member shareholders, who are no longer using the co-op's services, redeem their shares though the option of share redemption is available.

For example, in a 1989 survey of 15 Irish dairy co-operatives with a total of 71,597 shareholders, 33,573 (nearly 48 percent) were dry shareholders and 9,129 (13 per cent) were dead or untraceable. The same survey also found that 7,557 milk suppliers, or 21 per cent of the co-ops' 35,558 milk suppliers, were not shareholders (Jacobson & O'Leary, 1990, pp.28-29).

Despite efforts during the 1990s, at individual co-op level and with the leadership and support of ICOS, the problem of inactive shareholders and non-shareholder users continues to be serious. So much so that ICOS felt obliged to issue a best practice share policy document in March 1999, ten years after the publication of its first policy position on membership and shareholding. This document makes the following conclusion.

> *"For many co-operatives the current shareholding structure is imbalanced because there is a high proportion of* inactive *shareholders.* Inactive *shareholders are shareholders who do not trade with the co-operative."* (ICOS Share Policy Document, 1999)

Reasons for non-membership

Possible reasons for non-membership include the following.

- Shareholding membership in Irish dairy co-operatives is not compulsory for users. Therefore, farmers can get the benefits of the services of the co-operative without having to invest their share of the society's equity capital
- In Irish dairy co-operatives, most profits are retained as unallocated capital, so there is relatively little growth in the value of individual share capital over time.
- When profits are distributed, it is often in proportion to the size of shareholding, not in proportion to volume of business, a

disincentive for new members who are therefore unlikely to get the full benefit of co-operative membership.

- Doubts about the ability of farmers' representatives to influence effectively the affairs of the co-operative and/or the PLC in the farmer's interest.
- Inadequate marketing of membership by management and representatives who do not consider the encouragement of shareholding to be part of their function.
- Non-members are more likely to be small suppliers who perhaps see themselves as having less to gain from membership in the co-operative. For example, Ward and Briscoe (1997) found that 66.1 per cent of non-members compared with 33.6 per cent of member suppliers supplied 30,000 gallons or less of milk per annum.

Inactive shareholders

The number of farmers/milk suppliers in all co-operatives has been in decline for some time, but they tend to remain on as inactive shareholders. In Ireland, between 1992 and 1999, farm numbers declined on average by 1.7 per cent per annum (Agrifood 2010). Equity redemption is not usually required when a member ceases to use the society's services. Non-user members are not motivated to take the initiative and redeem their shares because the shareholding is relatively small. And shareholding has remained small because of the failure of the co-operatives to allocate surplus to individual shareholders/users. Many retired farmers also like to remain in association with the co-operative

The membership problem

Control does not fully rest with active farmers who use the services of the co-operatives. One way of alleviating this problem would be to allocate non-voting stock to retired members in return for their voting shares. However, the holding of non-voting stock by retired members is not generally practised (although it is now recommended by ICOS) and, as we have seen, many users are not members. There is a danger, therefore, that decisions made in meetings and boardrooms will no longer fully reflect farmers' interests and needs. It should be pointed out, of course, that the seriousness of this control problem is reduced by the fact that a proportion of inactive farmers are also inactive as shareholders, and may even be in no position to cast their vote. It should also be noted that some co-operatives have amended their rules to make sure that only active shareholders are entitled to vote on any merger proposal or to be elected to the board, e.g., Mid West , prior to its recent amalgamation with Nenagh Co-operative to form Arranbawn Co-op.

Co-operative best practice in the area of membership would hold that:

- Substantial users of the co-operatives are required to become shareholders
- Shareholders are required to cash in their shares when they retire from active use of the co-operative's services
- To reinforce these policies, profit is distributed in such a way as to reward farmers for using the services of the co-operative. The usual practice would be to distribute profits to shareholders in proportion to their use of the co-operative's services. These distributions would usually be done in the form of bonus shares, thus allowing the retention of profits within the co-operative as a revolving fund. In summary, it is the users of a co-operative who are supposed to own, control and enjoy the benefits of the business. This can only happen when users alone are the active voting members.

In Ireland, in recent times, the ICOS have made sure that co-operative best practice is well understood, at least among co-operative leadership. Board members are generally aware of the practical benefits of active shareholding, stressing the importance of farmer commitment and farmer control if farmer needs are to be satisfied.

Concerns about co-operative best practice

In spite of the logic of co-operative best practice, and the support of ICOS, many Irish co-operative directors and members, while in sympathy with the above principles, are worried about the idea of **compulsion**. There is a general feeling that it is improper (at least in the short term) to *compel* people to join, and unjust to *demand* that farmers leave the co-op on retirement.

It could be argued, however, that the obligation for suppliers to join a co-operative is not a question of compulsion but a requirement based on the justice of all suppliers sharing equitably in the provision of capital for the effective marketing and processing of milk. Non-shareholder suppliers should be seen as receiving **capital subsidies** from those who have invested in shares.

Retired Farmers

In particular, there are concerns about any proposal to *require* retired farmers to withdraw from membership. Here are some of the points often raised by directors and members.

- Is it just and reasonable to exclude from membership the people who have demonstrated a lifetime of commitment and loyalty to the co-operative?

- Retired farmers have more time to get actively involved in the running of the co-operative. This is particularly useful where the farm is run as a family unit, allowing the senior member to take an active role in the co-operative while the younger ones concentrate on developing the family business.
- Age brings experience and wisdom. It might also be true that the older member is more loyal and dedicated to the co-op idea and more reluctant than the cash-strapped younger farmer to sell out the co-op for short term financial gain.

Strategies for addressing membership issues
We cannot dismiss lightly the strong feelings held by Irish co-operators about the inappropriateness of *requiring* milk suppliers to join or requiring inactive shareholders to withdraw. The basic principle that suppliers should be members does not address the politics of the relationship between the co-operative and its long-term, non-member suppliers, nor does it take into account the possibility of losing those in peripheral areas where options might exist for selling milk to another outlet.

Rather than recommending compulsory membership, it would be more appropriate in the Irish situation to consider a number of acceptable strategies and phased approaches which could be used to address such questions. Acceptable strategies are those which are viable and effective, but at the same time move Irish Co-ops toward Co-operative Best Practice **in a non-coercive, voluntary manner**. Some strategies of this kind have been presented by the ICOS in its share policy document of March 1999. These include an active share redemption policy and/or altering the voting rights of inactive shareholders. The allocation of profits or surplus to members' accounts through bonus shares and generally rewarding membership on the basis of use is likely to be the most effective way of encouraging users to become active shareholders.

The extremely low participation of women either as active shareholders or elected representatives also requires urgent attention. This might include positive discrimination measures of some kind and/or the introduction of family memberships to facilitate the involvement in co-op affairs of all family members actively working on a family farm. ***The right of co-operative workers to become shareholders*** with board representation, in keeping with the spirit of co-operative principles (Briscoe et al. 1982), should also be addressed.

The relatively slow progress in Ireland over the last decade in moving towards co-operative best practice in the area of membership, despite the best efforts of ICOS and others, would suggest a need for some type of **annual membership audit**. It is only by setting specific targets in this membership area, and measuring and reporting performance annually, that management and boards will be motivated to achieve results. Ideally, special responsibility for implementation of membership policies should be allocated to a named senior executive so that the board can hold someone responsible for this action. Indeed this arrangement might also be applied to other aspects of co-operative working.

It is recommended that in each co-operative's annual report, an additional ***social report*** be presented to members on the progress made during the year toward the achievement of the goals involved in co-operative working. In other words the application of social auditing for co-operatives.

3.4 Co-operative share valuation

Shares in Irish co-operatives have generally been issued at £1 par value. Traditionally, a very low percentage of co-operative equity (the net worth of the co-op) is allocated (less than 10 per cent) which means that around 90 per cent of member equity is not allocated to individual members. Failure to fully operate a co-operative share market (allocating bonus shares in proportion to use and equity redemption) has resulted in a widely diverging £1 explicit and a multiple of £1 implicit values for each share. A member's shareholding did not reflect his or her stake in the co-op's substantial unallocated reserves. Farmers perceived co-op shares as almost worthless pieces of paper, that is until the take-over and PLC activities of the mid-eighties brought attention to the real value of their shareholding. Indeed, in the mid-eighties, many Irish co-operative managers, perhaps somewhat unfamiliar with co-operative best practice, believed that the only way to give real value to co-operative shares was to restructure in whole or in part as a PLC.

Failure to allocate most of the reserves to individual shareholder accounts can lead to lack of efficiency in co-operative business. In the words of Jacobson and O'Leary,

> *"The management of the co-operative might view the reserves as interest free working capital... Then the true cost of operating the co-operative and the true profitability are distorted. The second pitfall is that a respectable*

> *patronage refund, while losses are absorbed by unallocated reserves, may misinform members about the true state of the co-operative's performance."* (Jacobson and O'Leary 1990, p. 62)

Jacobson and O'Leary (1990) recommended that a minimum of 75 per cent of annual profits be allocated (through the bonus share procedure) to individual shareholder-users in proportion to their use of the co-op. While there has been improvement, this target has not become the norm and co-operative share valuation problems continue to exist.

As stated in the ICOS March 1999 document on Share Policy, "most co-operatives have substantial accumulated reserves which are largely unallocated" (p.3) They have failed to deal adequately with the historic problem of unallocated reserves by a once off bonus share issue in proportion to existing shares.

For co-operatives that have a majority (Glanbia) or minority (Kerry) stakeholding in a PLC, the share valuation problem at the co-operative level continues to be a concern. They have only addressed share valuation problems with their PLC shares.

Co-operatives with ownership stakes in PLCs might solve their share valuation and unallocated reserves problems by allowing the PLC to gradually buy out the co-operative over a period of time. In the late 90s, both Glanbia and Kerry have moved in this direction. Another option would be to operate the co-operative fully in accordance with co-operative principles, by insisting that co-operative shareholdings in the PLC be treated on the basis of equality with all other shareholding, and that PLC dividends be in turn distributed by the co-operative to active users in proportion to use. This would give co-operative shareholders, who would be active users, a real sense of ownership and continued identification with the co-operative, as well as some real control over the PLC. This in turn would give practical witness to the promise made, at the time of partial PLC conversion, that co-operative control would be maintained into the future. However, in order to fully address the interests of inactive co-operative shareholders, a once off share bonus (which could be phased over time) would need to be made in proportion to existing shares.

Solving share valuation problems would enable co-operatives to financially reward users as entitled and motivate all users to become member shareholders.

3.5 Financing Co-operatives

The ICOS Share Policy Document (1999) asserted that the "*willingness of farmers to make capital contributions on an ongoing basis to fund future development of co-operatives has never been tested.*" (p.3). Yet Jacobson & O'Leary (1990, p.3) had pointed out the ironic fact that

> *the necessity to acquire sufficient finance to fund development has been advanced as one of the main reasons why many Irish agricultural co-operatives developed PLC subsidiaries (Kerry, Glanbia) or restructured themselves into PLCs (Golden Vale and Donegal)*

They went on to argue that the development of PLC subsidiaries was not an indictment of the usefulness of the co-operative system as a means of raising capital.

> *Rather it is an indictment of the failure of the leadership of co-operatives to implement viable equity redemption policies and to adhere to the principles of operating at cost and maintaining current member ownership.*(p.53)

They offer as proof of this assertion the fact that

> *The same farmers who were unwilling to make further investment in their co-operatives in Ireland in the 1986-1989 period were enthusiastic in purchasing shares in the same organisations when they reorganised as PLCs.* (p.53)

Clearly, the issue of raising capital can be addressed by following co-operative principles and operating a co-operative market for shares. In particular an active equity redemption policy is absolutely essential in order to give shares an economic value. This is still not practised and/or communicated as strongly as it might be in either traditional co-operatives or co-ops with holdings in PLCs. Failure to fully implement co-operative principles has meant, in the words of Jacobson and O'Leary, that

> *The owners of the co-operatives were unwilling to individually invest further in the co-operative because their additional investment would continue to have little meaning to them as individuals.* (p, 100).

Harte (1997) would probably argue that farmers' reluctance to invest in co-operatives results from the fact that they are simply protecting their interests and behaving rationally, given the horizon and portfolio problems. (See Appendix to this chapter)

In a PLC, surplus or profit is always allocated to individual accounts, albeit on the basis of individual shareholding rather than use. Jacobson and O'Leary (1990) point out that one implication of their study is that

> *if co-operatives were to fully operationalise their share market (through bonus shares and equity redemption) and thereby honour member ownership in the same way that the stock market enforces the honouring of investor ownership, then members might be much more willing to invest in their co-operatives.*(p. 101)

Jacobson and O'Leary further argues that

> *co-operatives can be as successful as PLCs in attracting investment when they treat member ownership with respect. ... Co-operatives can move swiftly in correcting this situation by adopting appropriate profit allocation procedures and equity redemption policies."* (p. 125)

Torgerson (1999, p.34) supports their point of view when he argues that well-managed co-operatives are well able to amass adequate capital. As evidence, he points to the fact that farmer-owned co-operatives in the USA have been more successful than conventional businesses at increasing their equity capital. Between 1980 and 1996, the top 100 co-operatives have increased their equity capital, as a percentage of total assets, from 29.4 per cent to 35.2 per cent. Over the same period, the Fortune 100 corporations have seen their equity capital decrease, as a percentage of total assets, from 44.9 per cent to 26.2 per cent. As additional evidence, he discusses the remarkable success of New Generation Co-operatives at building new, market-orientated, added-value processing businesses.

> *It is estimated that between 75-100 new cooperatives have been organized in the 1990s, with a combined investment of over $3 billion. This new phenomenon has occurred despite the fact that a number of existing regional cooperatives have operated in the same territory albeit largely marketing commodities in contrast to value-added products. The new wave cooperative idea has even extended to the livestock industry often regarded as the last bastion of independent behavior by farmers.* (Torgerson 1999, p.35)

Jacobson and O'Leary (p.126) sum up the financial capabilities of the co-operative model as follows.

> *The principles do not need changing. The co-operatives must start believing in their own principles.*

And David Thirkell (1998) of the Plunkett Foundation underlines the capacity of farmers to raise capital.

> *Farmers who perceive potential benefit will fund their own organisations because farming has capital capacity and ample borrowing power.* (Thirkell 1998)

Perhaps the above viewpoints are somewhat oversimplified in that farmers will always have to weigh the relative benefits of investing on farm versus beyond the farm. Given the costs of diversification and market development, substantial outside finance will always be required. The trick for both traditional co-operatives and those with holdings in PLCs is always to give an adequate return on that finance, without surrendering total control to the outside investors. A healthy balance between the number of inside user-investors and outside investors would be one possible mechanism. Another would be the attraction of ethical investment funds from those in sympathy with co-operative, mutual and sustainable ways of working.

3.6 Representative Structures

The constituency structures used by larger Irish agricultural co-operatives for the election of representatives to advisory committees, co-operative boards (operating committees) and, ultimately, PLC boards are the legacy of a long history of amalgamation. This history has left behind a patchwork quilt of geographical structures reflecting the terms of different amalgamation agreements and take-over deals at different times in the history of the co-operative. Inevitably, there are some anomalies between some of the constituent districts and areas, with a number of them alleging under-representation.

Opinion is often divided as to how to handle these issues. Proposals range from piecemeal change to complete restructuring. As a result, co-operative leaders are slow to attempt change, leaving the status quo with its subterranean rumblings, which occasionally impinge on rational decision-making. In some co-operatives, this has prevented the full integration of different branches, and geographical areas (even whole pre-amalgamation co-ops) into the new enlarged organisation. This militates against unity and consensus at board level and can have a destabilising impact on effective business operation.

The quality of decision-making at board level in some co-operatives is also compromised by the existence of relatively large boards (Mohn & Buckley, 1990). These *mega-boards* are products of previous amalgamation deals in which the amalgamating co-ops sought to maximise their influence in the new co-operative by maximising their numbers on the board. The retention of seats for long-serving members was also at times a political necessity if the amalgamation proposal was to be carried. Some co-operatives attempt to overcome the problems associated with large board size by delegating considerable powers to an operating sub-committee. For example, the new Connaught Gold Co-operative, resulting from the recent merger of North Connaught Farmers and Kiltoghert, and the new Arrabawn co-op, amalgamating Nenagh and Mid West Co-ops, have over 60 members on their main boards, with inner boards of 15 or 16.

Closely related to the representative issues are historical grievances about share allocations at the time of amalgamation. The main thrust of these concerns is that the assets of the old co-operative were undervalued at the time of amalgamation and were not adequately reflected in the shares allocated to members in the new amalgamated co-op.

The lesson here is that co-operatives should continually examine (especially at times of amalgamations or mergers) the appropriateness of existing organisation structures for democratic, co-operative electoral activities and processes, and their suitability for ensuring a high quality of representation and effective management of the co-operative on the members' behalf. Representative structures need to be examined in the light of existing trading patterns, geographical loyalties and traditions. The greater the opportunities available to ordinary farmers to participate meaningfully in co-op affairs, the less likely will be the demand for large boards. Boards will no longer be seen as the only way of exerting influence.

The relationship between the Co-operative and the PLC

Interactions with co-op directors and media reports indicate a variety of issues about the relationship of co-operative and PLC boards; these included:

- concerns about the functions still available to the full co-operative board;
- the timing and sequencing of co-operative and PLC meetings, and the possibility of the co-operative board providing input into PLC decisions;
- the need for clearer differentiation between the two boards;
- ways of improving communications between these bodies.

When co-operatives first restructured themselves along PLC lines, co-operative shareholders sought to maximise the co-op's influence by having its board, along with senior executives, appointed to the PLC board. Some farmers argue that the downside to this arrangement may be the *neutralising* of PLC directors when it comes to decision-making at co-op board level. Further problems may have arisen from the fact that the same management serves both the co-operative and the PLC.

While it could be argued that the co-operative viewpoint and interest might be better served by an entirely independent co-op board and management, the same could apply to the PLC which might not be in the co-operative interest.

There is a need for in depth empirical research on what has been happening to the relative power and control enjoyed by executive management versus farmer directors/members since PLC restructuring took place. In her 1993 study, Boyd concluded that senior management in one co-operative had assumed more control since PLC conversion but conceded that this was partly because of the increased complexity and volume of business activities rather than changes in organisational structure alone. Farmers in the organisation argued that they never had much control, while management maintained they were just responding to the fact that in a PLC *"outside investors vote with their feet"*(Boyd, p.112).

Elected Representatives

Elected representatives in co-ops, including co-op directors serving on PLC boards, are not fully representative of ordinary shareholder/farmer members. According to a recent Macra na Feirme study, there are relatively few board members under 35, but nearly one third of them are over 65. In the words of one farmer, quoted in Boyd (1993),

> *"The only man who can shift a board member is the undertaker. New young blood is needed in the thirty to forty age group."*

On some Co-operative and PLC boards, a few members are no longer active as farmers/milk suppliers, while others have handed over effective farm operations and management to their children. Board members also tend to be over-representative of the larger milk suppliers/farmers.

In Irish co-operatives, the service of older or somewhat inactive shareholders on boards is a sensitive issue, with many board members arguing that the older member often had more time to take an active role as a representative, and that older members often brought with them invaluable wisdom and experience.

Nevertheless, co-operatives with the support of ICOS are coming to grips with these issues by introducing a rule requiring retirement at age 70 and stipulating that only active shareholders may be elected to the board. The activation of younger farmers and women, many of whom jointly work the family farm with their husbands, also requires attention.

The experience of Irish Co-operatives would suggest that there is a need to take measures to increase the number of elections which are contested. Measures to this end might include:

- the establishment of a Nomination Committee to ensure that sufficient candidates stand for elections (an approach used by the Irish Credit Union movement;
- members might also be better able to judge the quality of candidates offering themselves for election by requiring candidates to issue short statements for consideration by electors.

Another way of helping to guarantee quality candidates for election is to maintain meaningful communications with the ordinary membership.

Communicating with members

The quality of communications between members and their co-operative has been an issue of concern in the larger organisations since their emergence as a result of the amalgamation process of the 1960s and 1970s. The communications issue would appear to have become more problematic with the development of PLC activity. This is because there are now *two* organisations - the Co-operative and the PLC – with shared management and some membership and directors in common, but with different roles and constituencies to address. For example, press releases targeted at the stock market by the PLC and its board, before all co-op directors have been informed, can cause problems on the ground at local level. Confidence in co-op directors and advisory committee members is reduced when they do not appear to be at least as fully informed as the mass media.

Use of modern IT might help alleviate this problem if, for example, all co-op directors and committee members were contacted by Email or fax, thus ensuring that press releases reached all simultaneously.

Co-operatives, such as Dairygold, are making use of the Internet to keep in touch with their member users. Their web site www.dairygold.ie provides an overview of Dairygold, its operation, activities and services. In addition, an interactive on-line service enables farmers armed with a personal password to monitor their accounts and get quick access to milk test results and historical records. Perhaps a natural next step would be the development of an interactive service on policy issues. Some argue that the Internet is a practical means of operationalising the co-operative idea, with its commitment to democratic participation.

As of yet, only a minority of farmers has access to the Internet or the necessary computer skills, even though Co-operatives such as Glanbia are now supporting the provision of IT courses for their members.

In addition, the existing local branch and area structure of co-operatives could perhaps be better utilised in the activation of local shareholders, by encouraging more information/communication meetings and discussion fora. Ideally such meetings should be facilitated by the local elected representatives rather than always relying on professional management.

3.7 Service to members

A co-operative is distinctive from other forms of business organisation in that its prime purpose is to benefit those who use its services. Groups of users, such as farmers, design their co-operatives to provide exactly the kinds of services they need, at or near cost. Financial investment and assets are a means to that end. This is very different, of course, from the objectives of a conventional firm where the main goal is typically to meet the profit needs of entrepreneurs and investors.

Because they do not have to satisfy outside investors, one might expect that co-operatives would give first priority to service to members such as milk price (or in the form of bonus shares in proportion to supply). On the other hand PLCs, given their need to maintain outside investor confidence, would be motivated to divert funds from services so as to increase investor dividends and asset acquisition.

Adrie Zwanenberg in his 1997 study of Irish Co-operatives put it this way:

> *"By taking the route of non-member financing both the nature and ultimate aim of the dairy co-operative are threatened. Non-member shareholders may be expected to be keen on maximising profit, with the highest possible dividends and, above all, the highest possible value for their shares. From this perspective, the milk price should be as low as possible and they may have good reason to abolish the obligation to accept all the members' milk. Whether or not this threat becomes serious depends on the extent of the members' control."* (Adrie Zwanenberg, 1997: pp. 108-109)

The relative performance, in terms of service, of co-operatives versus co-operatives with holdings in PLCs has not been subjected to in depth empirical study. However, Jacobson and O'Leary (1990) found a belief among co-operative leaders that fully-owned farmer co-operatives would perform better than PLCs in the medium to longer term. To use some quotes from their study:

> *We see advantages to remaining as a co-operative. In a PLC, the investors are going to have to get the money in the long run, not the suppliers.*
>
> *When you are a PLC, you forget about the small fellow.*
>
> *In a PLC, there are two groups of people to please – the users and the investors. If things get tight, you have to service the investors first.*
>
> *PLCs on average still won't be up there with co-operatives on price.*

In contrast, PLC leaders in 1990 felt that farmers would be better off in the long run because the PLC access to outside capital would foster growth and acquisitions to the benefit of farmers. They also felt that farmers would benefit from their individual investment in PLC shares, a belief which, ten years later, has really only become a reality in Kerry.

In the absence of in depth empirical research, the jury is still out regarding the relative performance, in terms of member service, of co-operatives versus PLCs with co-operative shareholding. Clearly

Kerry heads the PLC group and many co-operatives. The diversity and scope of the Kerry portfolio allows it to keep up the milk price and at the same time reward investors from its continuing growth. The quality of management and board direction must be an important issue. One might also ask what will happen in the longer term when the management who initiated the PLC route, but who clearly had farmers' interests at heart, retire or move on. When profits are plentiful, milk suppliers will do as well as in a co-operative, but what happens when profits are tight?

PLC conversion has accelerated the diversification into food processing activities which are not directly linked to or totally dependent on local indigenous suppliers of milk or other farm produce. This in itself means a shift in power away from the local farmer. Are PLCs more likely than co-operatives to support the use of GM foods or food ingredients developed under factory or laboratory conditions, thus lessening further their dependence on actual farmers to the detriment of both farmers and consumers? However, if there were no large-scale, trend-setting co-operatives like Dairygold or well-managed smaller co-ops like those in West Cork, with their joint venture cheese business, what would be the impact on the price of milk?

In conclusion, it seems not unreasonable to hypothesise that the more farmers organise co-operatively to own and control food processing and marketing, the greater the likelihood that these businesses will be run in their own interests rather than in the interests of outside investors. The extent of co-operative and/or local ownership in the PLC may be the crucial factor in the long run.

Remutualisation

There is evidence of some milk supplier dissatisfaction with PLC involvement in at least the primary milk processing activities. This has been fuelled by the desire of some PLCs to treat primary milk processing with the same capital return, profit maximisation criteria as their investments in secondary added value food sectors. This would obviously impact negatively on the farmer/milk supplier, particularly when margins in primary milk processing are tight. The issue is about how to reconcile the apparent conflicting needs of *user milk suppliers* (some of whom are also investors) and *non-user investors* within a PLC structure. The issue is brought into sharp focus by the existence of neighbouring farmer co-operatives whose single objective is to meet the needs of users by returning the maximum milk price that the market will allow, while making provision for the future.

This lack of a free hand in terms of *commercial* decision-making on milk price may be the reason why one Irish PLC (Golden Vale) has (among other options considered) offered to sell back the primary milk processing business to the farmer milk suppliers. A farmers' sub-committee has now made a bid for the local milk plants, together with the agri-stores and milling facilities and this is under consideration by the PLC.

Reaction from milk suppliers as reported in the media is rather mixed. Some farmers would like to see the primary milk business retained within the PLC structure but with commitments on milk prices for the future. It has been suggested that farmers are being asked to buy back the least profitable parts of the business excluding the added value brands which they themselves have helped build up over the years. Among those who would like to see it revert to farmer control there are concerns not only about long-term viability but also a belief that they should not have to pay for the business, given past investments, etc. This latter viewpoint would suggest that at least some farmers did not fully appreciate the meaning of PLC restructuring, i.e., that they agreed to sell their co-operative business in return for shares in a PLC. The sale value of the co-op assets, included the investments, etc., which had been made up until the time of the conversion.

At time of writing, the outcome of this remutualisation process is most uncertain, but perhaps the real significance is in the fact that it is being discussed at all. The Irish media reaction is also interesting in that remutualisation is receiving a neutral to supportive press. It draws attention to the suitability or otherwise of the PLC structure, at least in primary milk processing. It raises the issue of which activities should be demutualised and which should remain in co-operative control. For example, should PLC type activity be confined to overseas subsidiaries?

In any remutualisation process, farmer shareholders will have to be careful that they are not simply left with the least profitable parts of the business. Should this appear to be a danger, it might be much better for milk suppliers to simply negotiate membership in a neighbouring co-operative, if dissatisfied with the PLC arrangement. Co-operatives must ensure that they don't end up merely assembling milk supplies and organising farmers for the benefit of multinational companies.

Farmer satisfaction & co-op involvement in other sectors

In spite of the above problems, farmers in the dairy sector, which is dominated by co-ops, including co-ops with holdings in PLCs, are relatively happy compared to their colleagues in the poultry and beef sectors, which are dominated by private enterprises not owned by farmers. Clearly, some of that difference is accounted for by the market situation in the different sectors. However, it is not unreasonable to at least hypothesise that co-operative farmer control, or the lack of it, is an important factor. Even within the dairy sector, the fully farmer-owned co-operative businesses may be keeping competition alive to the benefit of all farmers.

In Ireland, the new century dawned to the spectacle of farmers blocking beef factories in protest at prices. While a government commissioned report concluded that there was no proof that a price-fixing cartel operated in the sector, the Irish Farmers Association maintains that the cartel was broken up by the farmers' January blockade. As evidence, they point to substantial cattle price increases since January. It should also be noted that Galtee Meats, a subsidiary of Dairygold, the only farmer-controlled beef processor in Ireland, was first to agree to farmer demands on price, forcing others to follow suit. Galtee has traditionally paid more for cattle than most other factories. Some Irish poultry producers are presently in dispute with poultry processors on a range of issues. The editorial written in one local newspaper has no doubt as to who is to blame.

> *A dealer relationship rather that a common-sense partnership now exists between producers and processors in the poultry industry and, as providers of the day old chicks and having control of the feed, processors have the whip hand. They also represent the industry in the market place and it is all too easy for them to unload market pressures rather than sharing the load. ... How much of an exaggeration is it to say that an archaic master-slave relationship exists in the poultry industry rather than an enlightened co-operative approach?*
> (*The Northern Standard.* Monaghan. September 14th, 2000)

The continuing relevance of the co-operative approach in all sectors of agriculture can also be seen from a growing interest among younger farmers in a ***partnership model*** of working the land. This approach allows them access to the land and milk quotas of older farmers who have no successor, or simply provides a means of sharing the workload and making farming attractive from a social point of view.

Rural development activity

The co-operative form of organisation is often perceived as the most suitable vehicle for promoting rural development and establishing small rural enterprises. Unlike most of their European counterparts, Irish agricultural co-operatives, although referred to as dairy co-operatives are multi-purpose societies. Traditionally, they have had a broad-based developmental role. More recently, both co-operatives and PLCs have involved themselves with EU programmes such as LEADER, as well as area partnership companies and County Development Boards. Co-operatives, such as Lakelands and Town of Monaghan, have drawn attention to the importance of servicing part-time farmers and provision of off-farm employment. The ICOS is also very much involved in rural development activity and offers consulting and advice to both LEADER groups and co-operatives. Could co-operatives do more? Are the marketing/processing requirements of food being given more attention than the needs of the producers of that food, especially small-scale producers?

The logic of overseas acquisitions by PLCs with co-operative shareholding is supported by many farmers, especially the larger ones, as essential for development in a highly competitive global food market. Other farmers, however, especially smaller farmers, are beginning to question who will really benefit from such development – milk suppliers and rural dwellers, or investors? Smaller farmers are increasingly realising that their future depends on the local availability of well-paid, off-farm and part-time employment. They are looking towards their co-operatives to provide leadership and investment to this end.

To quote from Boyd (1993),

> *Nobody is concerned about marginal farmers, once a co-operative is gone. The local community suffers badly* (Board member, Co-op with associated PLC), p.99.
>
> *We will only commit funds to the local area if it is advantageous for the company to do so.* (Senior PLC manager), p.99.

Given the declining numbers in dairying and the increasing scale and economies required at farm level, Irish co-operatives will have to consider adopting an even broader developmental role in the rural community if they are to meet the needs of existing members. This wider focus might also provide useful roles for the retired farmer. It would also provide a wider role for those co-operatives with investments in PLCs, in using their allocated surplus from the PLC.

The role or obligation of co-operatives in promoting broad-based development draws attention again to the membership issue. From a co-operative perspective, the development process must actively involve those "to be developed."

3.8 Strategy and future direction

While calling for in depth research in this area, a starting hypothèsis might be that there is a need for more clearly thought out member-dictated and member-informed goals and objectives capable of easy measurement. Medium to long-term strategic planning would appear to require more attention. Judging by the number of PLC acquisitions in the 1990s, which had later to be sold off, it would seem that some PLCs were more prone to inadequate strategic planning than many of the traditional co-ops.

In the PLC, in particular, the traditional but simple co-operative objective of *looking after the farmer* became somewhat blurred and confused with the addition of new stakeholder investors. Return on investment and growth are now ends in themselves, rather than means to meeting member farmer needs.

After PLC restructuring, farmer members are somewhat confused regarding the nature of their organisations as the following statements from farmers testify (quoted in Boyd).
A PLC is:

- a co-operative with a modern philosophy (p. 94),
- an organisation which has left behind its co-operative principles (p.94).

One strategic issue now being faced by all co-operatives is their scale of operation for the future, an issue which clearly involves member relationship issues.

Scale of operation - amalgamation
The ICOS in its document, *A Strategic Review of the Irish Dairy Sector* (April, 2000), argues that

> *Irish milk processing scale is falling behind that of its main competitors and that of its customers in the retail and food services sectors* [and that] *there is scope for increased efficiency and value added strategies to be implemented in the dairy sector.* (p. 5)

In recognition of the need, as they see it, for increased scale, investment and product diversification, and to offset changes in the policy environment, ICOS recommends that co-operatives seriously consider;

- combining at "regional level to process the main dairy products, either through mergers or joint venture investments" (p. 7), or,
- establishing "a single large scale processing business for the country's main dairy products." (p.8)

Farmer and co-operative response to date would not appear to favour the *single business* option, at least in the short to medium term. Instead the option of *merging at regional level* seems most favoured. But even here, progress may well be slow, with movement initially confined to the merging of smaller neighbouring societies. North Connaught Farmers and Kiltoghert recently amalgamated to form Connaught Gold, and Mid-West and Nenagh have amalgamated into the new Arrabawn Co-op. The possible remutualisation of part of Golden Vale PLC might lead in the medium term to a bigger regional amalgamation. It is important to acknowledge that there is already considerable co-operation between co-operatives and PLCs in relation to the use of processing facilities at both off-peak and high season. A natural extension of this would be the development of joint ventures or federations to spearhead new developments.

Irish co-operative farmer shareholders are relatively slow to agree to amalgamation. The merger of Waterford and Avonmore Co-ops and PLCs to form Glanbia Co-op and PLC in 1997 required a merger commitment to pay 3 pence per gallon of milk above the milk price audit average for the three years 1997 – 2000, as well as some selling of co-op shares in the PLC, which also benefited farmers financially. Many farmer shareholders have a strong sense of loyalty, pride in and commitment to their co-operative, which goes well beyond commercial considerations alone. They worry about the impact of amalgamation on local employment and the sustainability of rural communities, reflecting the multi-purpose nature of dairy co-operatives. Above all, farmers believe that healthy competition between co-operatives, in terms of services and milk price to farmers, leads to efficiencies and is an important method of facilitating farmer influence. Farmers may not have total confidence in the effectiveness of the existing democratic decision-making processes, especially when a co-op is in a near monopoly situation. This again draws attention to the importance of considerations such as active membership, surplus allocation, equity redemption, and representative structures, as discussed above.

The presence of co-operatives side by side with PLCs is an added complication in any Irish amalgamation activity, both in terms of financial structure, organisation strategy and member attitudes. The PLC tends to regard acquisitions, particularly overseas acquisitions, and in-house diversification as even more important routes (than amalgamation with local co-ops) to the kind of growth they require. The PLCs are less concerned with low margin primary milk processing and do not see their major profits coming from this source.

When deciding on the issue of scale, it is also important to keep in mind consumer preferences. Consumers are beginning to look for alternatives to mass-produced foodstuffs and not only desire traceability but also the local knowledge of farmers. A newly opened *farm fresh direct* shop in the South East is a recent Irish example. Products sold in the shop are purchased from farmers in the locality. Customers will have the opportunity to meet these farmers, as they will be staffing the premises on a rota basis. Smaller locally based co-operatives, or those with a decentralised structure, may be better able to link in to this type of consumer movement. Perhaps the best of both worlds can be achieved by amalgamating and centralising the processing of commodity products, while niche production and marketing can be handled more locally.

Education

> *The Irish Co-operatives have done better in building volume of business and financial strength than they have in maintaining the co-operative strength of their organisation.*

This observation, made by Joseph Knapp (1964), still holds true. The *duty to educate principle* has not been taken seriously enough.

In Ireland, the ICOS provides a member development educational programme open to all co-operatives. This is supplemented by the efforts of individual co-ops. The focus is largely on the board member and potential board member or younger farmer. The ordinary farmer shareholder has been somewhat neglected. In spite of a joint attempt by the Centre for Co-operative Studies, in University College Cork, and ICOS, there is as yet no structured educational programme, with formal university qualifications, specifically for agricultural co-operatives. This is in marked contrast to the situation in the Irish financial co-operative sector, where the credit union movement has funded the development of distance education diploma and degree programmes in Mutual and Credit Union Business.

In Irish agricultural co-operatives, *co-operative and member education* is not sufficiently seen as a way of adding value to the business. However, inadequate attention to education may be at the root of many of the problems identified in this chapter. A well-educated membership, especially directorship and management, will be extremely important if co-operatives are to hold their own as businesses and as user-controlled organisations. It should also be remembered, however, that the self-education engaged in by thousands of board, committee and advisory members over the decades and their willingness to become involved and learn on the job has contributed in no small way to the pivotal role now occupied by agricultural co-operatives. Long may that continue.

In conclusion, Irish farmers have come a long way from the gombeen and landlord exploiters of the nineteenth century and co-operatives have played no small part in the transformation. In an urban consumer-dominated age, there are still many people wishing to make money from farmers and who prefer to deal with them as isolated individuals. The need for collective co-operative action is as strong as ever.

APPENDIX TO CHAPTER 3

Conceptual Frameworks for analysing member-co-op relationships

There are a variety of theoretical approaches to guide an analysis of member co-op relationships. Three approaches touched on in this chapter are:

- **i.** Co-operative philosophy and principles
- **ii.** Agency theory and transaction costs
- **iii.** Capitalist integration theory.

These analytical approaches were not rigorously applied in Chapter 3; however, the reader is invited to consider the relevance of these ideas to the Irish context.

i. Co-operative theory and philosophy takes as its starting point the assumption that control of the organisation and provision of services by the service users themselves offers the greatest long-term efficiency, security, and empowerment to those users. In this approach, low user participation or user commitment is seen as a failure to implement co-operative principles fully or a failure to help users acquire the necessary skills to work co-operatively. Relationship difficulties may also be attributed to a dominance of the conventional bureaucratic structure in society, which might hinder co-operative ways of working.

ii. Agency Theory A number of recent researchers have used agency theory as a conceptual framework for analysing the relationship between farmers and their co-operatives. Agency theory helps us analyse the problems that can develop between *Principals* (in our case farmers) and the *Agents* who act on their behalf (in our case, the management and boards of directors of co-operatives. In his analysis of the emergence of Co-op PLCs in Ireland, Harte (1997) focuses on three sets of problems that affect the relationships between principals and their agents.

a) **The Horizon Problem** revolves around differences in the time horizons of agents and principals. Some principals may be seeking a quick return from their organisation (e.g., a high milk price), others may be more concerned with the long-term survival of the co-op and the sustainability of the services it provides to members. Agents (managers and board members) may have still other planning horizons. All of which can greatly complicate the decision-making processes of the co-op.

b) **The Control Problem**
The divergence of goals of principals and agents may be greater in a co-operative because the financial stake of members is relatively small, reducing the incentives to take difficult decisions, to innovate "*or to take unpalatable decisions such as disciplining management or initiating management change. ... By contrast, in a company, one or a few shareholders, by acquiring a substantial proportion of the equity can capture a substantial proportion of the benefits of an innovation or a management change and will therefore be more likely to take such action.*" (Harte 1997, p. 40)

c) **The Portfolio Problem** occurs in co-operatives when members' claims on the assets of the business cannot be freely bought or sold and when there are differences of opinion about which business activities a co-op should be involved in. Farmers may prefer activities directly linked with the viability of their farm business, managers may be more interested in business activities which will build the profitability of the co-operative, even if those activities have no direct impact on the sustainability of members' farms. Again, these divergent perspectives complicate the problems of management and decision-making.

Vertical integration involves the joint administration in the same firm of two or more stages of activity along the food chain – assembly, processing, marketing, etc. According to this view of organisation, "the need for co-operative vertical integration is dependent on the extent of dysfunction or failure in the market concerned." (Harte 1997, p.36) Therefore, if the market is competitive and likely to remain so, even with a reduction of co-operative activity, the increased transaction costs of vertical integration (resulting from the above agency problems) would probably detract from efficiency. In the Irish context, Harte (1997) and Nilsson & Gunnarsson (2000) argue that the support of milk suppliers for PLC conversion is an indication of their belief that the milk market works well and would continue to be competitive even with less co-operative participation. In Harte's words "persisting with a vertical integration strategy in these circumstances is inefficient on transaction costs grounds." (p.50)

Harte concludes that, because of the horizon, portfolio and control problems, the transaction costs in a co-operative are likely to be higher than those of a conventional company (p.41). He sees PLC conversions as one strategy for keeping transaction cost within bounds. It could be argued, however, that he underestimates the transaction costs incurred by a co-op (with a holding in a PLC) in the relationships between agents and two sets of principals (farmers and investors) with widely diverging interests and concerns. He might also be underestimating the probability of substantial market failure if co-operatives were to withdraw from the scene.

iv. Capitalist integration theory would explain a number of significant industry changes as attempts to further incorporate the farmer and rural dweller into modern capitalist society. The industry changes in question would include: the pressure on milk supplier numbers and size, forward contracting with farmers, greater concentration of primary milk production and food processing, domination by retail multiples and involvement of speculative capital as a result of co-operatives exchanging their assets for holdings in PLCs.

This incorporation of farmers and rural dwellers takes place on terms advantageous to the capitalist elite. This means that farmers are paid as low a price as possible for their produce (e.g., milk), while being charged as high a price as possible for the industrial products used in agriculture. The real value added in food is derived from presentation, packaging, mixing and restructuring, rather than from the nutritional value of the raw food commodities produced by farmers.

Therefore, farmer incorporation in capitalist society facilitates a transfer of resources out of farming and into the pockets of investors. The farmer food processing enterprise relationship is therefore one of subordination to capital. For a discussion along these lines, see Tovey (1982) and Tovey (1991).

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Chapter 3

Ireland's Worker Co-operatives

by Colm Hughes & Robert Briscoe

In this chapter, we shall focus in on one particular type of co-operative structure - the Worker Co-operative. This type of co-operative is *owned and democratically controlled by the people who work in it.* In many parts of the world, the worker-owned co-op has proved itself to be a useful tool for creating jobs and developing new community-based businesses.

Worker co-ops are in their infancy in Ireland. In 1980, you could have counted the number of worker co-ops on the fingers of one hand. By 1994, there were at least sixty six of them, with 306 full-time and 103 part-time workers; still small in numbers but a significant improvement on past performance. Today there are estimated to be about a hundred[19]. Most worker co-ops in Ireland (more than 60 per cent) are in the service sector, while most of the rest are involved in manufacturing. More recently, Ireland's Co-operative Development Unit has identified a number of promising growth sectors for worker co-ops:

- as a suitable vehicle for the employee buy-out of established family firms with no heir;
- as a vehicle for the employee rescue of all or part of firms which have decided to close down; and
- as associate companies providing complementary services and/or outsourced services to a major company.

We shall be exploring these options in this chapter.

Growth of worker co-ops has been more dramatic in Britain. In 1971, there were only six of them; by 1992 there were 1,115

[19] A problem when trying to estimate numbers of worker co-operative is that worker co-ops may register under at least four different legal structures, as an industrial and provident society, a company limited by guarantee, a company limited by shares or a partnership. In the last three of these, there is no easy way of identifying from available statistics which of the companies or co-operatives are worker-owned and operating as co-operatives.

worker co-ops employing 11,000 people.[20] In recent years, particular growth areas for co-ops in Britain have been

- *community care* (providing home care for the disabled and the elderly);
- *social employment co-operatives* - offering employment and training opportunities for people with learning, physical or sensory disabilities and the recovering mentally ill;
- *employee buyouts and conversions*[21].

One commentator has made the point that worker co-op statistics in Britain do not include conversions to employee-ownership using employee share ownership plans (ESOPs) and structures other than traditional co-operative ones.

> *Baxi Partnership, which is 100 per cent employee owned, employs 900 people and in 1992 had a turnover of £73 million; Taybus, structured as a co-operative, employs 640 people; and South Yorkshire Transport, currently in the process of conversion to employee ownership as the Mainline Group, employs 1,700. If we include, as we should, all democratic employee-ownership structures, then in terms of numbers employed, turnover, and net assets, the sector is enjoying a period of unparalleled growth brought about by the successful conversion of existing businesses in situations of privatisation, contracting-out of services and threatened closure*[22].

While the *numbers* of UK co-ops have increased markedly, most of them are very small businesses and the numbers employed are still a tiny proportion of the work force. The growth of co-ops has been more impressive in Spain. In the last five years of the eighties, over 13,000 new co-ops were launched. Of these, some 9,600 were worker co-ops providing jobs for over 81,000 people. In 1988, worker co-op sales in Spain had reached the respectable figure of US5.7 billion.[23] By 1996, sales of the worker co-ops in the Mondragon group alone had reached US$6 billion, and their worker members totalled nearly 29,407.[24] By 1999, Mondragon's sales had increased again by more than another 50 per cent and the

[20] *1993 Directory* Leeds, ICOM and Co-operative Research Unit , Open University, 1993.

[21] Catell, C. 1996. UK Worker Co-operatives: a flexible and innovative option. *The World of Co-operative Enterprise 1996.* Oxford: The Plunkett Foundation.

[22] Blackley, S.1995. The Future of worker Co-operatives in the UK. *The World of Co-operative Enterprise, 1994* Oxford: The Plunkett Foundation.

[23] Godoy, S. F. 1990. "More Mondragons." *Worker Co-op.* Centre for the Study of Co-operatives, Saskatoon.

[24] Greg MacLeod 1997, p.27.

workforce now totalled 46,861, an increase over 1996 of more than 59 per cent.[25]

3.1 The Strengths of the Worker Co-op

At first glance, the worker co-operative would appear to be a highly effective form of business organisation.

> *Since workers own their own enterprises they share directly in the success as well as the failure of the firm. This not only produces strong personal incentives to be productive but also considerable peer pressure on colleagues to do their share. Furthermore, it contributes to low rates of worker turnover and absenteeism when compared to capitalist firms.*[26]

What could be more motivating for most of us than to know that we are working for ourselves and for our work colleagues, and that the profits from our efforts will be shared fairly amongst us all? To add to our satisfaction, we would have the opportunity to get involved in the decision-making of the business, and would have a greater chance to acquire a range of skills and know-how than would be available to the employees of a traditional firm.

In such a situation, we would be much more motivated than employees in conventional businesses. There would therefore be less need for all the policing which goes on in a conventional company. This should provide a cost advantage to worker co-ops, as they ought to be able to cut overheads by dispensing with the costly armies of supervisors whose main function is to ensure that the workers do what they are supposed to do.

Other related competitive advantages stem from the ability of worker co-ops **to harness *social capital***[27] more effectively than conventional firms. Possible benefits of this would include the following.

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[25] Mondragon Corporacion Cooperativa, Annual Report 1999.

[26] Jackall, R. and H.M. Levin. 1984. *Worker Co-operatives in America.* Berkeley: University of California Press.

[27] Social capital is defined by Francis Fukuyama (1996, p.10) as *"the ability of people to work together for common purposes in groups and organisations."* See also Briscoe & Ward (2000, pp. 51-53)

- Most tasks in a business require effective **teamwork** among the employees. This should be facilitated in a co-op[28] where the teams own and control the business.
- Moreover, it should be easier in a co-op to harness the initiative and creativity of its work force.
- The quality of the end products of the business would tend to be more important to worker-owners than to mere employees.

The concept of a worker-owned and managed business would seem to fit well with the messages from the current business gurus who are stessing the importance of activating employees. Here are just a few of the current titles promoting worker involvement. Full listings can be found in the Bibliography at the end of this book

- *When workers decide: workplace democracy takes foot in North America.*(Krimerman and Lindenfeld, 1992)
- *Business without bosses: how self-managing teams are building high-performing companies.* (Manz and Sims, 1993)
- *Managing without management: a post-management manifesto for business simplicity.* (Koch and Godden, 1996)
- *The intelligent organisation: engaging the talent and initiative of everyone in the workplace.* (Pinchot, G & E, 1996)
- *The Age of Participation: new governance for the workplace and the world.* (McLagan and Nel, 1997)

3.2 The Weaknesses of the Worker Co-op

In spite of all the hype about the value of workers participating in the management and profits of a business, the worker co-op has not yet taken off in Ireland. In spite of the rapid growth in Ireland of other kinds of co-ops, notably agricultural co-ops and credit unions, the performance of *worker* co-ops is still lacklustre.

So *what* is going wrong? Although the concept may sound appealing in theory, it hasn't lived up to its promise in Ireland. The same applies to many other countries, like Canada, the USA and Japan, where other kinds of co-ops have flourished, but worker co-ops are only making a relatively modest impact.

[28] In this chapter, the words *co-op* or *co-operative* refer to a worker-owned co-operative (unless otherwise stated).

HOW BUSINESSES GET STARTED

One theory about why worker co-ops have not achieved their potential in most economies relates to the process of how businesses get started in the first place.[29] The *entrepreneur* is widely considered to be the engine of new business development and the source of economic growth. An entrepreneur setting up a new business would not usually choose to launch the business as a worker co-operative.

It is unlikely that conventional entrepreneurs, operating by the logic of the marketplace, would choose to give away their bright ideas, their control of the business and their investment opportunities to the people they have employed to work in the enterprise.

Occasionally, magnanimous entrepreneurs ***do*** give away the businesses they have painstakingly built up.

i) The British retail multiple, John Lewis, which incorporates the Waitrose supermarket chain, was given to its employees, now called *Partners*, and continues to operate as a successful worker-owned business.

ii) Similarly, in Ireland, Bewley's coffee shops were gifted to a trust on behalf of the workers.

iii) The British entrepreneur Ernest Bader gave away his prosperous plastics company to his employees, who now run it as a highly successful worker co-op (Schumacher 1974. p.230 seq.).

iv) Even more impressive was the generosity of the Swiss retailer Gottlieb Duttweiler who gave his massive Migros organisation to his employees and his customers (Briscoe, 1971). Migros has thrived under worker and consumer ownership and is now the dominant retailer in Switzerland, closely followed by the conventional consumer co-operative movement.

But such philanthropic acts are extremely rare. If it is true, as many would argue (Timmons 1988), that the primary impetus for new business development comes from the *individual entrepreneur*, then it is hardly surprising that worker co-ops have failed to live up to the exalted expectations of their promoters.[30] Though worker

[29] See Peter Abell, 1983.

[30] One of the reasons for the success the Mondragon Group of worker co-ops, in the Basque region of Spain, was their recognition of the entrepreneurship problem. To counter it, they developed their own banking system and invested substantial amounts in co-operative development through the bank's Entrepreneurial Division. See Ellerman, 1990.

co-ops, once established, can be highly successful businesses, there is less opportunity for them to get started in the first place.

Recent research in Ireland by Colm Hughes has reinforced the above arguments by showing that the whole support system for developing small businesses tends to be centred on the individual entrepreneur (Hughes 2000, p. 54 seq.). His research has also shown that the key people who give advice to new business start-ups, people like accountants, bankers, and employers' organisations were, for the most part, either ignorant about or hostile towards the concept of the worker co-op. There was a general tendency to see the worker co-operative as a weak business structure, which was used only in futile attempts to create and subsidise marginal jobs for the socially excluded (Hughes 2000, pp. 40-63).

3.3 New Strategies for Developing Worker Co-ops

As a consequence of his discoveries about the small business start-up process and its impact on the development of worker co-ops, Hughes set about developing strategies for altering the process to the advantage of the worker co-operative. In his capacity as Manager of Ireland's Co-operative Development Unit, his brief was to promote the worker co-operative sector in Ireland. He hoped to alter the business start-up process by influencing the main actors in the small-business support system. His aim was to change their attitudes toward the worker co-op as a suitable structure for business development. Given their existing negative attitudes toward the co-operative, this was a tall order.

Instead of selling the worker co-op as a structure for empowering the socially excluded, Hughes decided to promote it as a powerful corporate structure for operating highly successful businesses. He did this by identifying a number of significant business problems for which the worker co-op would appear to be an ideal solution. The strategy would then be to sell the concept of the co-op as a solution to the key problems experienced by the customers of accountants and bankers and the members of employers' associations (Hughes 2000, pp. 64 –92).

The problem situations he identified were:

i) **Family firms with succession problems.**
The worker co-operative would be a vehicle for transferring the business to the employees, thereby providing an exit mechanism for owners of family businesses without a suitable heir.

ii) **Larger companies with problems of retaining and rewarding excellent employees.**
The worker co-operative would provide a structure for setting up *associate companies* which would develop services, products and/or markets related to the parent company, but would be managed and controlled by a team of workers from the parent company.

Let's look at each of these problem areas in turn.

3.4 Family Firms with Succession Problems

According to a survey by the Chamber of Commerce of Ireland, 90 per cent of all businesses in Ireland are family firms, employing an estimated 50 per cent of the country's workforce. An alarming 70 per cent of these firms do not make it into a second generation of owners, and only 13 per cent survive to the third generation. Moreover, even though 66 per cent of the owners were over fifty years old, 70 per cent of family firms in Ireland have not made any plans for transferring the business.[31]

Even more frightening statistics emerged from a 1994 EU study, which revealed that at least 300,000 jobs disappear each year across the European Union as a result of poorly managed business transfers.[32]

The failure to transfer a family firm to the next generation would typically create immense problems for the family (perhaps forcing them to wind up the business and sell off the assets). It would also create problems for employees who would often lose their jobs after years of service (a source of grief to the family owners as well). The option, when there is no suitable heir, of transferring

[31] Reported in the *Irish Independent* (27/11/97) and quoted in Hughes 2000.
[32] Official Journal of the European Commission 94/C 400/01).

ownership to a co-operative of employees would appear to be an attractive one.

i) The employees know the business inside out and have established relationships with the customers and suppliers.

ii) The employees want to see the business continue and succeed. The consequences of its closure would be disastrous for them.

The survival of the family firm is also likely to be of great importance to the community as a whole and particularly to the other businesses and the professionals who deal with the firm.

One of the most difficult barriers to an employee take-over is their ability to raise the capital necessary to buy the family business as a going concern. This is one of the oft-quoted management dilemmas of a worker co-operative.
How is it possible for a group of ordinary workers to raise the capital necessary to buy or set up a substantial business?

To address this problem, Hughes proposed splitting the business into two parts, as follows.

i) There would be a Holding Company, to which would be transferred the main assets of the business, land, buildings and some of the more costly capital equipment. This company would continue to be owned and controlled by the family.

ii) There would also be a **Trading Company**, which would be structured as a worker co-operative, with the workers owning at least 51 per cent of the shareholding, and the family, the remainder. Each working member (including the family and the worker shareholders) would also hold one voting share to ensure democratic control of the business. The Trading Company would own and run the trading part of the business and would lease the assets from the holding company on a long lease, with an option to buy the assets.[33]

[33] Hughes 2000, pp. 74-75. Students of Irish co-operative history might notice a similarity between this approach to resolving the financial dilemmas of a worker co-op with the approach used in the nineteenth century at the Ralahine co-operative in County Clare. At Ralahine, the farm business prospered spectacularly when the workers took it over, but the workers lost their stake in the business when the landowner lost the whole estate in a game of cards. Hopefully, lawyers today are too vigilant to allow this sort of risk to be tolerated!

Advantages for the workers include the following.

i) They now only have to raise sufficient capital to purchase at least 51 per cent of the Trading Company

ii) The family remains involved in the firm after the transfer and can provide the business and/or technical skills that may be lacking in the work force.

iii) The family will have a vested interest in ensuring the business succeeds and will be motivated to transfer skills and know-how to the worker-shareholders.

iv) Jobs have been safeguarded and the assumption of increased responsibility by the workers should lead to business growth and the creation of more jobs.

Advantages for the family include the following.

i) There is a satisfactory business transfer. The business they have built up survives under a different ownership structure.

ii) They are able to *withdraw* partially from the business, sharing more responsibility with the worker-shareholders. But they are also able to *continue to participate* in the business to the degree mutually agreeable to family and workers.

iii) Because they are sharing management responsibilities with the workers, the family members may now have the chance to spend more time specialising in areas such as Marketing, with a beneficial impact on the growth of the business.

iv) The lease provides a continuing flow of income to the family, very important, as many small business owners have inadequate pension provisions

An added advantage for both is that splitting the business in this way is tax efficient in Ireland. Because assets were not sold, the family is not liable to Capital Gains Tax. Because the employees have bought their share of the business at current market price, they are not subject to taxes on Benefit-in Kind.[34]

3.5 The Creation of Associate Companies

The worker co-operative would seem to be a viable strategy for addressing the exit problems of family firms with transfer problems, but what about the problems of larger organisations? What role might the worker co-operative perform which would help solve problems for large-scale businesses?

[34] Hughes 2000, p.77.

Hughes saw the possibility that the co-operative might provide a solution to the problem of *satisfying the career aspirations of competent middle managers*, who through no fault of their own had little chance of rising any further in the company's hierarchy.

The setting up of an *Associate Company*, structured as a worker co-operative would enable the parent company to retain the services of highly-mobile and gifted employees, while giving them the opportunity to own and control their own company as members of a worker co-operative. The Associate Company would work in an area that would complement the activities of the parent company (providing new or existing services more efficiently, or developing new products or markets).

The formula for setting up the new co-operative would be as follows. Following agreement, identified personnel would be offered voluntary redundancy with the understanding that they would invest the redundancy money in a new associate company. Employees would purchase at least 51 per cent of the equity, with the parent company purchasing the remainder. The co-operative would be owned and controlled by its workers.[35]

Advantages for the workers would include the following.

i) The problem of financing the new business would be greatly eased by the redundancy payments and the financial participation of the parent company.
ii) They would have the chance to use their skills and initiative to the full by managing, owning and controlling a business.
iii) They would have the chance to share in the profits and future growth of that business.

Advantages for the parent company would include the following.

i) It would retain the services of excellent employees.
ii) Those employees would not be joining competitors.
iii) Through its association with a small, entrepreneurial co-operative, the parent company could enter new markets and with the minimum of disruption to existing activities.
iv) Promotional opportunities would be opened up for existing employees.
v) Existing employees would be encouraged and motivated by the creation of the associate company..

[35] Ibid. pp. 80-82.

3.6 Implementing the Strategies

PERSUADING THE INFLUENCERS

As a first step in the implementation of these strategies, an intensive publicity campaign was directed at accountants, bankers and employer associations, to make them aware of the usefulness of the co-operative as a vehicle for addressing the above problems. Hughes held numerous meetings with professional associations, and carefully targeted accounting firms and banks. He also wrote numerous articles for the Irish business press. The result was numerous requests from accountants on behalf of their clients, as well as direct approaches from family firms with transfer problems and major companies interested in the concept of the associate company.

FAMILY FIRMS TO CO-OPS

In 1996, the first family firm converted to a co-op. It was a small engineering firm, which manufactured abattoir equipment. The conversion appears to have been an unqualified success. In the first two years after the transfer, the co-op extended its premises, leased new equipment, increased employment from nine to thirteen, reduced its costs, and increased gross profit percentage and net profit. Because the business was now a co-op, the former owner was able to spend less time on production and more on marketing, for which he had a considerable flair. As a result, export markets were identified in the UK and Northern Europe, and exports accounted for 30 per cent of the co-op's sales after two years.

The second business to convert to a co-operative was a family-owned nursing home with twenty employees. The co-operative is currently planning to extend its premises. Other businesses which have successfully converted to a co-operative include a local newspaper, a pewter manufacturer, a fish processor, a furniture manufacturer, a motor repair firm, a coach operator and a rapidly growing speciality foods producer. Many more are in the pipeline.

ASSOCIATE COMPANIES

The first associate company was an information technology co-operative, spun off from Motorola, which grew from seven employees to thirty seven in its first three years of operation. Then came two spin-offs from Bord na Moná. One of these produces bogwood[36] sculptures, the other operates a marketing business for bogwood crafts. Telecom Eireann generated two more spin-offs. Others included a specialist jeweller and a transport company.

The number of these new co-operative applications has been growing steadily since they were first publicised in 1996. The Co-operative Development Unit (CDU) is receiving more and more requests for information and assistance, some from professionals on behalf of clients, some direct from business people who have read of the CDU's successes in the business press. This has been a promising start, though the rate of development of new co-ops has been limited by the modest personnel resources of the CDU.

3.7 Conclusions

While Ireland has not been famous in the past for its successes in the field of worker co-operatives, this could well be about to change. In the past, there had been a general tendency to see the worker co-operative mainly as a tool which inexperienced unemployed people could use to create jobs for themselves, or to rescue jobs in firms that were closing down. Many of the co-ops set up in such difficult circumstances did succeed against the odds. Those successes were in themselves tributes to the ingenuity and determination of the workers involved and the viability of the co-operative concept. But this approach is unlikely to establish worker co-operatives as major players in the national economy.

The strategies currently promoted by Ireland's Co-operative Development Unit (CDU) provide us with some important new ways of thinking about co-operative development. They take into account the nature of the business development process as it exists in most countries, with its reliance on the individual entrepreneur and professional advisors who have little knowledge of or sympathy with the co-operative idea. Starting with this recognition of the facts of business life, these strategies show us how we can use the existing system to promote new ways of launching and running successful co-operative enterprises.

[36] Bogwood is the name given to pieces of four thousand-year-old timber preserved in peat bogs. It is a material highly prized for the creation of works of art.

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Chapter 5
Ireland's Community Co-operatives[37]

by Robert Briscoe, Olive McCarthy & Michael Ward

The Irish-speaking communities of Western Ireland are battling for survival on the remote Atlantic periphery of Europe. The main weapon in their struggle is a scattered network of community-owned co-operatives. These co-operatives engage in a bewildering variety of business, social and cultural activities in their efforts to keep communities and the Irish language alive. This chapter outlines the range of strategies employed by twenty three of these co-ops, as well as the services they provide and the sources of capital available to them. It also suggests how the effectiveness of these co-operatives might be enhanced by more careful selection of business strategies, by strengthening the co-operative nature of their businesses, and by adjusting government support programmes to assist in the nurturing of sound co-operative businesses.

5.1 When all else fails start a co-op

There is a common tendency to invoke the co-operative approach only in exceptional circumstances, when more conventional approaches to meeting needs have broken down. In a prosperous, thriving locality, we expect needs to be met through the activities of entrepreneurs, supplemented with public services from government. It is only when the marketplace is not working well, that we attempt to *develop the community.* As a society, we start involving the people only when businesses are unable to make a profit from providing goods and services and when the costs of public service provision seem excessive.

The Gaeltacht co-ops evolved in just such unfavourable circumstances. They operate in regions remote from the main population areas, where the land is less fertile and markets are often too small for sustained business development. The islands

[37] A shorter version of this chapter was published by the Review of International Co-operation. (Briscoe, McCarthy and Ward, 1999)

have particularly costly access problems, but in one sense most of the co-operatives are operating on islands. Access is costly for most of them; with inflated prices for inputs and tortuous distribution chains for their outputs. The community co-ops have had the unenviable tasks of providing basic public services where government found the costs too high to justify; and running businesses in situations where conventional firms were closing down.

The co-ops were also seen as the guardians of the language and culture, not just of their own small communities, but of the nation as a whole. Through their activities, the Irish language has developed as a living language of commerce and government. It is a tribute to the community co-operatives that they have been able to perform these difficult tasks and provide cost-effective services in situations that had defeated conventional business and government alike.

THE RANGE OF CO-OPERATIVE SERVICES

The most comprehensive packages of services are offered by co-operatives on the off-shore islands. These island co-ops provide services usually associated with local authorities and public utility companies. They have brought piped water and electricity supplies to their communities; they upgrade and maintain roads; and operate local airstrips (providing land transportation for passengers as well as basic fire services). Other activities include: importing bulky commodities (such as building supplies and coal); helping upgrade the quality of housing and community and tourist facilities; building and running tourist complexes; marketing local produce; providing facilities for medical and other public services; and promoting small business development.

The value of co-operatives as defenders of rural communities and the Irish language is recognised by Údarás na Gaeltachta, the body charged by government with the economic and social development of Irish-speaking communities. Údarás channels government subsidies to nineteen of the twenty-three community co-operatives visited for this study, providing grants of up to IR£33,000 per year for co-ops on the mainland, and up to IR£40,000 per year for those on islands.[38]

[38] Údarás na Gaeltachta also supported the study on which this article is based.

5.2 How the co-ops get things done: a typology of strategies

Instead of giving detailed case studies of all the different co-operatives, this section attempts to identify some of the commonest strategies used by the co-operatives to serve their communities. Most of the co-ops rely principally on one of the following strategies, though some use combinations of two or more of them.

i) Sectoral Co-ops

In this approach, the co-ops adopt a strategy similar to the conventional user-owned and controlled co-operatives. They serve primarily one identifiable group of users (consumers, builders, farmers, and fishermen) even, on occasion, effectively limiting shareholding to that particular grouping. Business activities are typically conducted in the Irish language. This core business provides a nucleus for all the other developmental activities of the co-op. Funds from the sectoral co-op are fed into other development activities (social, cultural and economic).

The key advantages of this approach are as follows.

- The co-operative is built around one key business with services designed to meet the needs of one specific group of beneficiaries. This makes the business simpler to manage compared with co-ops that try to do everything for all major groupings in the community.
- Properly managed, this kind of co-operative can be very motivating for members, providing them with a stream of tangible benefits. These might include better-designed products and services and bonuses based on their usage of the business.
- In this context, *properly managed* means that the business, while being open to all who can make use of it, is designed to provide shareholders with some unique benefits not available to non-shareholders. This gives users an incentive to become shareholders and to get involved in the running of the co-op. It also has the marketing plus of making the co-op more clearly distinguishable from its competitors.

ii) Spin-off Generators

This strategy, like type i) above, starts with a core business, uses profits from this business to generate new businesses, but sells off viable businesses to individuals or co-operative groupings, rather than itself trying to run a varied portfolio of enterprises. This makes the business activities of the co-operative easier to manage and generates additional, major influxes of capital for continued development.

Closely linked with this is the notion of *downsizing,* where specific non-core activities of the co-op, such as transportation, are sold off to employees, who may set themselves up as independent business operators or worker-owned co-operatives. The co-operative may also provide services to the spin-off businesses, such as buying petroleum products in bulk, or providing office or accounting services. Sometimes this is done as a deliberate strategy, but usually (in the co-ops visited) the businesses are sold off reluctantly to overcome financial difficulties. In the latter case, the capital influx is used to keep the business alive rather than as finance for a new venture.

- This approach has advantages in that it simplifies the management process, by keeping the focus narrowed on a core business.
- It also disperses ownership and control of businesses throughout the community. The spin-off businesses are more likely to prosper, because they harness the motivation of individual entrepreneurs and groups of worker-owners.

ii) Promoter Co-ops

This approach involves acting as a catalyst for local development. Rather than spending most of its time running enterprises, this kind of co-op would attempt to assist local entrepreneurs access resources (such as information, work space, grants and sources of funding). It would also attempt to identify opportunities for local development and lobby for resources on behalf of the local community.

- Capital needs are modest, though the opportunities to earn sufficient income to ensure self-sufficiency are more restricted. This type of business can, however, have a major impact on local economic development and can multiply many times over the cost of subsidising its activities.
- This type of co-op may also represent and mobilise other special interest groups which can co-ordinate their activities through the co-operative.
- Care must be taken in the selection of managers to ensure that they have the facilitation and business skills needed to make this strategy work. It is also necessary to work closely with other development agencies, which use a similar approach to economic development, and to make the greatest use possible of their technical and training resources.
- The effectiveness of such co-ops should not be judged in terms of profitability but by criteria such as *costs per job created or*

person taken off benefit, and/or *the number of times income generated exceeds subsidies.*

iii) Infrastructure Co-ops

Several co-ops focus mainly on developing infrastructure and access, and providing services in areas where the usual providers (typically local councils and transportation and utility companies) are reluctant to get involved because of the high costs involved.

- This strategy can bring invaluable benefits to a community while earning considerable appreciation from local inhabitants.
- In many cases, it brings community members together, and mobilises their skills.

A closely related strategy is the provision of premises which can be used for providing and retaining vital services within the community, such as medical services, advisory services, sports facilities, etc.

iv) Heritage Business Co-ops

A number of co-ops concentrate almost exclusively on preserving and developing the Irish language, and increasing awareness of the local heritage and culture. This is done by developing businesses and services relating to local resources, culture and heritage. Businesses and services of co-ops using this strategy include: operating Coláistí Samhraidh (Irish Colleges); providing Irish language training to non-Irish-speaking residents; providing resource rooms and heritage centres; promoting the identification and documentation of local archaeological sites and marketing these as cultural tourism attractions; marking and publicising local walks; producing pamphlets on local fauna and flora; fostering the preservation of local craft skills; teaching computing skills to ensure community access to information and to facilitate low cost networking, etc.

- The business activities in this case are closely linked with the specific social and cultural goals of the co-operative, making this an attractive strategy. They also often provide spin-off boosts to the local tourist industry, additional income to the community, which should be taken into account when assessing the development impact and viability of this strategy.

v) Single Cause Advocacy Co-ops

New co-operatives, in their early days, may focus all their efforts on one major issue of burning interest to the whole community, such as improving access to the community by provision of a pier, a ferry, a plane service, or cable car, etc.

vi) Social Economy Business Co-ops

This approach involves using government's social welfare provisions as the basis for business activities for the co-op. This may be done, for example, by alerting pensioners to their home improvement entitlements, helping them apply for grant aid and using those grants to employ people to install those home improvements. The workers employed to do the home improvements will probably have been trained in a FÁS community employment scheme. An island co-op also used considerable ingenuity to build an award-winning tourism complex, while helping locals acquire construction skills and developing the capacity of the community to maintain its own infrastructure.

- This is an ingenious strategy for improving living conditions of residents while building the skill base of the community and creating local employment.

5.2 Approaches to capital generation

How do community co-ops build their fixed capital base and generate income to meet working capital needs?

i) Retained earnings of core business

Co-operatives running a profitable core business are able to use retained profits as one source of capital. While retained earnings are an important component of the capital of any business, sole reliance on this source in peripheral communities is likely to lead to a hand-to-mouth existence and long-term stagnation.

As we have seen, the financial strategy of several of the co-ops in this study is to use the profits from *existing* services to finance *new* services to the community. This tends to result in every aspect of the business being under-capitalised. The business grows in a piecemeal fashion, adding lean-to extensions to lean-to extensions as funds become available. In the long run, this leads to fixed assets which are unattractive to customers, inefficient and costly to operate (requiring excessive materials handling and over-staffing to ensure security of stock and premises). The high costs lead to lower profits, slower capital building, and the inability to service long-term debt as an additional source of capital.

This financial strategy (like several of the others discussed below) may also lead to the self-exploitation of managers and other key personnel who subsidise the business by working unreasonably long hours and/or by being grossly underpaid for their work. The problem of making provisions for management succession is particularly dire in most of the co-operatives.

ii) Contracting for service provision

Many co-ops earn income by contracting with local authorities, and public utilities to operate services and maintain infrastructure. Employment schemes are often used to train and pay for the workers needed to perform this work. Unfortunately, the money earned over and above the costs of operating the services and implementing the employment schemes does little more than contribute to the overheads of the co-op and provides little cushioning for accumulating capital.

iii) Securing capital grants for development

Most of the co-operatives have proved adept at securing capital grants through organisations such as Roinn na Gaeltachta, Údarás na Gaeltachta, Department of the Marine, etc. Some have also identified charitable foundations which have provided valuable funds, particularly for heritage and cultural activities.

A major problem for most co-ops is the requirement from many agencies for co-ops to provide ***matching funds*** of up to 50% of the total cost of a project; and to spend the required funds in advance of receiving the grant. These conditions frequently necessitate a major bank loan, which further burdens the co-op with high interest expenses. All of this creates such a severe problem for some of them that they have been prevented from making use of grants which have been earmarked for them.

To address these problems, it would be useful to review the questions of what can be used as matching funds and how grant payments may be scheduled in order to remove the need to enter into massive short term debt.

iv) Sale of spin-off businesses

The Spin-Off strategy (see above) starts with a core business, uses profits from this business to generate new businesses and avoids relying solely on retained earnings by selling off viable businesses to individuals or co-operative groupings, thereby generating additional capital for continued development.

v) Debt

Many co-ops are dependent on short-term bank debt for meeting their working capital needs, for raising matching funds in order to avail of grants, etc. Few if any of the co-operatives are in a position to use long-term debt, with the result they have to finance fixed assets from current liabilities, thereby creating a perpetual panic over cash-flow problems.

vi) Lease-back of assets

A number of co-operatives have alleviated severe financial problems by selling their real estate to Údarás na Gaeltachta and then leasing it back with provisions for repurchasing the assets over time.

vii) Fund-raising

A number of co-ops raise capital through fund-raising activities, such as sales of work, dances, and local lotteries. Typically, local communities are too small to generate sufficient funds of this kind to finance significant development.

viii) Share drives

The selling of shares is often seen as closely linked to *fund-raising*. The strategy was an important component in the establishment of many of the co-ops, but is used reluctantly today. The reason often given for this reluctance is the embarrassment involved in asking the same small number of people to invest more of their scarce resources into the co-op.

If shares were seen as investments, there would be little reason for embarrassment; but it is almost unknown for shares to be looked at in this way. To compound the problem of selling shares, almost all of the co-ops have resolved not to pay any kind of return to shareholders; indeed they see the payment of dividends to shareholders as making them less eligible for financial assistance from Údarás na Gaeltachta.

ix) User Fees

The users of a co-op's services are sometimes charged a small fee or modest mark-up to defray some of the co-operative's expenses. To cover its operating costs, a co-op in County Mayo charges fishermen a fee of 10 per cent of the cost of the fish they sell through the co-operative. Typically, such fees are set too low to provide adequate contributions to the co-op's overheads and profits.

PROBLEMS OF CAPITAL STRUCTURE

All of the co-operatives visited have difficulty generating sufficient capital to operate financially sound businesses. Even the most successful and profitable of them have unstable capital structures. Two of the biggest and most profitable co-operatives that we visited have current ratios which indicate considerable liquidity problems, and debt/equity ratios which would not inspire any banker with confidence as to their financial stability. They are relying on current liabilities to finance fixed assets and, because of inadequate share capital accumulation, their equity stake is inadequate to raise long-term capital from conventional financial sources.

It should be recognised that the causes of such financial problems seem to stem primarily from factors such as:

- the difficulties of doing business in remote, sparsely populated areas;
- the highly diversified nature of the activities of most of the co-ops and the lack of synergy between them;
- the excessive amounts of time spent by managers on non-managerial duties;
- misconceptions about the concept of the co-operative; and
- failure to apply co-operative principles relating member development and financial incentives.

In the remaining sections, we examine some of these problems and suggest possible solutions.

5.3 The role of the manager

MANAGING A CO-OPERATIVE

A well-known commentator on co-operative management, Edgar Parnell of the Plunkett Institute, has written eloquently on the special problems of managing a co-operative.

> *(Co-operative management) requires people who are absolutely clear on which direction the organisation is to travel and who have a determination which can drive it forward in the face of many potential distractions. ... Exceptional leadership and communication skills are essential ... Managers are needed with both these personal qualities and skills, combined with a thorough understanding of the nature of the organisation and training in appropriate management systems*[39].

And Parnell hasn't told us the whole story. The co-operative manager also has to find ways of mobilising the social capital of the community, the people and their skills, energy and know-how.

[39] Edgar Parnell,1990. *People-Centred Business: PCBs - what they are, how they become successful and why they are important.* Oxford: Plunkett Foundation for Co-operative Studies, p.11.

The viability of the whole co-operative venture depends on being able to motivate joint action to address common problems. Without the willing involvement and mutual aid of the shareholders, the co-operative loses its most significant competitive edge over conventional firms.

A MULTIPLICITY OF ACTIVITIES

In the Gaeltacht co-operatives, managers have even more to cope with. Many (particularly those in island co-ops) have to struggle with a bewildering range of activities from the maintenance and operation of airstrips to road repair, provision of utilities, managing tourist accommodations, running bus services, administering employment schemes, bulk-buying and shipping of coal and building supplies, provision of long-term credit to impecunious customers, operating social centres and sports facilities, providing free advice and help with form-filling, organising classes in Irish, applying for grants, lobbying on behalf of the community for improvements to infrastructure and improved access as well as better education and health services, etc., etc.

Most have little in the way of paid management assistance, so have to get involved in the minutest details of supervising this multiplicity of activities. Indeed many have little paid assistance of any kind, which means rolling up their sleeves and getting stuck into the work themselves. They keep the books up to date in the office, operate the fork-lift truck in the warehouse, mediate between rival factions in the boardroom, serve in the shop, drive the refrigerated truck to pick up points to collect members' fish, ship the produce to market, manage exports, assess creditworthiness, climb on to the roof of the air terminal to assess needed repairs, and on and on!

CONDITIONS OF EMPLOYMENT

Most managers report working very long hours, and taking little time off for holidays. Their rates of pay are low, given their qualifications, the hours worked, the skills required, and the responsibilities they accept. To add to their frustration, they are not accumulating pension benefits, and have no security of tenure. They are also required to work in an environment that is largely inhospitable to conventional business activities.

It could be argued that the co-operatives are being subsidised by their managers. It is little wonder that more and more of the Gaeltacht co-ops are finding it hard to recruit new managers, and a problem which is causing increasing anxiety is that a number of the present managers are well past the normal age of retirement.

SUCCESSION PROBLEMS

Not surprisingly succession problems are severe even in co-operatives which are operating profitably and have not qualified for the Scéim na gComharchumann. The job requirements are demanding and require the following kinds of skills.

- Fluent Irish.
- A wide range of managerial and technical skills.
- A sympathy with and grasp of co-operative ways of working.
- Considerable leadership and entrepreneurial skills.
- Considerable communications, and negotiating skills.
- A flair for marketing and public relations.
- An ability to take criticism from all sides and survive on a minimum of appreciation and praise.

Add to this challenging profile the willingness to live in a remote, isolated community and to accept the conditions of employment outlined above, and it will be no surprise that co-operatives are experiencing difficulty hiring managers. Given the tight financial situation of most of the co-operatives, it is also difficult to *plan* for succession. A manager of one of the largest community co-operatives explained with some pride that, he had the leanest management structure imaginable - himself alone - and he attributed the success of the business in large measure to being able to economise on management salaries. Remarkable as this achievement is, it does pose significant succession problems for this co-operative on the retirement of the incumbent.

Some co-ops have been extremely lucky in being able to find highly talented people living locally, who are eager to stay and to assume the rigorous duties of managing a community co-operative; but such people are not exactly two a penny!

GOVERNANCE ISSUES

In theory, the governance structure of a co-operative is supposed to be something like this. The shareholders elect the Management Committee (MC), to which they delegate the responsibility for management of the co-op until the next AGM. This is done on the understanding that major policy and strategic issues will be brought to them for their consideration at special meetings. Shareholders are also entitled to regular reports, which they may accept or reject. The Committee makes major appointments and oversees the manager. The broad policy thrust should come from the shareholders, and be translated into strategies and plans by the

Committee (usually in consultation with the Manager). The implementation of plans is then delegated to the Manager, staff and Committee Members, as appropriate.

In practice, the shareholders do not seem to perform the key roles outlined above (apart from the role of electing the MC and receiving reports). There are, however, two related matters of concern which affect *many* of the co-operatives and have to do with the electoral process.

One of these issues is the *tendency for low turnouts* at annual general meetings (AGMs) unless a crisis is looming; the other is the fact that a high proportion of *elections go uncontested.* On the question of low turnouts, it should be remembered that meetings, like other services, need to be marketed. Experienced co-op managers recognise the need to ensure that a significant event will take place at every meeting. On the question of uncontested elections, many interviewees argued that it was almost impossible to find people willing to give their time for co-op committee work. Increased communication to members about the achievements and activities of the co-operative is essential to combat such participation problems. People will be more willing to give of their time, if the co-operative is seen as engaging in important, challenging and worthwhile tasks.

5.5 Common Misconceptions about Co-operatives

The concept of a co-operative is complex and not well understood in many of the co-ops. One despairing manager, put it this way.

> *What exactly is a co-operative? Is it some kind of company? Can co-ops ever succeed as businesses?*

Quick definitions of a co-operative do not help much. Neverthless, here is one working definition.

> *A Co-operative is a self-help business owned and democratically controlled by the people who use its services. It is a business organisation designed by its users to serve the needs of its users. As such it pursues social as well as economic goals. To survive it must be viable as an enterprise, but it is also expected to address a wider set of concerns and goals than does the typical small business. Typically, it motivates the involvement of its members by providing them with specific tangible benefits over and above those offered to non-members.*

This definition raises more questions than it answers. For a start it does not seem to offer a very precise picture of most of the Gaeltacht co-operatives.

- Many of them are clearly **not** *viable as an enterprise*. In many of the community co-operatives, the services offered are by their very nature not-for-profit.
- Typically, there is little in the way of distinctive, tangible benefits to motivate a community member to become a co-op shareholder. Non-members receive the same benefits as shareholders, with the exception of the chance to attend meetings and elect and serve on the management committee.
- There is often little opportunity for shareholders to become involved in the design of a co-operative's services. The possibilities for involvement are often limited to attendance at an AGM and the right to stand for election to the committee.
- A number of community co-ops have virtually given up all attempts to encourage new shareholders to join the co-op. One manager maintained, mistakenly, that the ICOS[40] rules prohibited the admission of new shareholders.

None of these points necessarily detract from the overall value and usefulness of the services of community co-operatives as they exist at present. They do however present problems in terms of their ability to mobilise the financial and human resources necessary for successful co-operative business management. There was also some evidence from our interviews of commonly-held attitudes and beliefs about co-operatives which, in our opinion, might seriously hamper the effective functioning of co-operative businesses. This is not to imply, of course, that these attitudes were expressed in all co-operatives. As we have seen in the last section, many of the co-operatives studied have had considerable success at providing invaluable services to their communities. Nevertheless, the following are a sample of common dilemmas and assumptions which were expressed during the interviews and which need careful attention.

i) Uneconomic services

a) Co-operatives are not supposed to make a profit.

This is a dangerous notion because it suggests that co-operatives do not have to worry about being viable. Like any other business, co-ops cannot afford to lose money. If they are to be sustainable they must find a way of making a profit. Profit may come from a variety of sources, which may include the following:

[40] The Irish Co-operative Organisation Society.

- selling products or services for which users are prepared to pay an economic price;
- providing community services under contract to a local authority, utility company, etc. which will pay the co-op to provide the service to the community;
- performing socially-worthwhile services which are uneconomic in and of themselves but which can attract subsidies from an outside funder or from local people.

b) *We cannot charge much for our services because people here are very poor. We're here to help people even if we lose money in the process.*

As in point (a) above, a co-op cannot afford indefinitely to lose money on a service, unless that service is being subsidised in some way. Where possible, the principle of *user pays* is sound. Services should be priced not only to cover current direct operating expenses but also depreciation/replacement costs and a contribution to overheads and profits. Where possible, pricing should provide for a reasonable return on capital employed to ensure the organisation's capability to raise additional funds as needed, and to avoid wasting the co-op's capital resources.

c) It costs us a fortune to provide free delivery of three rolls of fencing wire to a remote farm, but that's the service people need and we're proud to provide it.

As in the above examples, a co-op cannot provide uneconomic services indefinitely. The provision of excessively expensive delivery services *may* be a valuable, worthwhile service, which helps Irish speakers maintain a viable lifestyle in a remote region; but the opportunity costs of such services should always be borne in mind. Consideration should be given to reasonable ways of making such services more economic. This might be done a number of ways. Here are just a couple of examples.

- ***Set minimum order sizes for free delivery***. Such a policy will enable a vital service to be continued in remote, sparsely populated areas, without endangering the very sustainability of the whole co-operative.
- ***Encourage mutual aid between neighbours***. Neighbours could then pool orders. If this was done in the context of a regular schedule for delivery to particular areas, members could plan their bulk purchases with the schedule in mind.

d) We must always be there to help people with things like form-filling however much time it takes.

This is another example of an uneconomic service. Issues under c) above also apply here. There are, however, other ways of *profiting* from uneconomic services which are socially worthwhile. When offering services, records should be kept of the cases where services are provided, the cost of such services and their value to the community (in attracting capital, increasing the number of Irish speakers, improving the standard of housing, stimulating economic activity, creating work, maintaining the current levels of employment, etc.). If all of this is documented, it could be used to *market* the co-operative to the community as a whole and to possible funding agencies.

ii) Questions of marketing

e) *We don't have time to keep a record of all the things we do for people in the community.*
f) *We haven't the time to keep members informed of what we do.*
g) *Newsletters are a waste of time. I've more important things to do.*

All of these quotes relate to the same issue, briefly referred to in d) above. Small businesses in general and co-ops in particular are notorious for their neglect of marketing. It should be remembered, however, that the business that does not have time for marketing is unlikely to prosper.

Marketing is often avoided by small businesses because of the exorbitant cost of conventional approaches to marketing. *Co-operatives, however, have a unique advantage. Unlike other businesses, they have a membership, which can be involved in the process of marketing.*

A classic example of the success of this approach was the rapid growth of *Credit Unions* in Ireland, marketed primarily by word of mouth. *Consumer co-ops* have successfully involved members in the development of market research instruments. Member volunteers have been actively involved in conducting market surveys, and promoting the co-op in their place of work and in the other organisations to which they belong. Involving members in this way has also proved to be satisfying for the members themselves, providing them with a meaningful way of getting involved, and at the same time reinforcing, the value of the co-operative to the community and to the members themselves.

A good place to start, is to enlist the participation of the committee members in marketing the co-op. Committee members are often opinion leaders in the community and can be very effective at promoting the services of the organisation. *These co-operative ways of working, provide the business with a vital competitive edge that other firms don't have.*

iii) The question of competition

h) One of the reasons we can't operate at a profit is that the co-op is not allowed to start a business, which might compete with one already running in the community.

There is a sound point here. It would be foolish, in a small market, for a development co-op to go into direct competition with a local business person who is offering a good service at reasonable prices. *But there are many exceptions to this.* There are situations where a business could be replicated without undermining the viability of a neighbouring business. There are also plenty of examples of local business persons who do **not** offer a good service at reasonable prices. A number of the co-ops visited had deliberately and quite rightly entered into direct competition with exploitative local entrepreneurs. We should even expect some hostility when a co-operative is doing well. It is a *"sure sign that a co-operative is going downhill when lying dogs remain asleep."*[41]

i) *At times we wonder if running a store has anything to do with community development.*

While there is little point in a co-operative running a business which provides the same services at the same prices as another neighbouring firm, there is every point in offering services which no on else will offer, or providing better services at more reasonable prices. Providing such services can play an invaluable role in sustaining the community, increasing the viability of shareholders' lifestyles, and providing the opportunity to transact their business in Irish.

iv) Involving the members

j) Things run more smoothly if the shareholders don't get too involved in the co-op. Let sleeping dogs lie!

This attitude is incompatible with the concept of a co-operative, which by definition is an organisational tool for mobilising a community to develop solutions for its own problems. It is an attitude that discards the special competitive advantages of the co-operative way of working described above.

In spite of such attitudes, we detected on our visits that there is a general sense in the community that the co-op is different from conventional businesses. It is a friendly, special organisation that can be relied on to treat people fairly and is always ready to help people with their problems. There is a sense of identification with

[41] Quoted by Paddy Bolger in his book *The Irish Co-operative Movement: its History and Development* (Institute of Public Administration, 1977)

the co-op and a belief that it is doing good things and should be doing more good things. This is a strong foundation for building effective member involvement.

k) We get a big turnout at meetings when there is a problem, but barely get the quorum at other times.

This point was made at most of the co-ops. This problem must be tackled or the game is up! Successful co-ops create events to attract involvement at meetings. In one Canadian co-op, an invitation for members to come to a meeting to help with market research attracted the biggest attendance in living memory. The organisers wished they had booked a bigger hall!

But in most of the co-ops visited, we don't have to invent a crisis to attract members to meetings. The crisis is already there, and the little crises which get shareholders agitated from time to time are but symptoms of the larger crisis. In many cases, the real crisis is that the shareholders aren't in control and haven't been for some time. Co-ops are about *activating* users of services and if that is not happening there is a crisis.

So important is the question of involvement that the issue should be addressed in a Social Report to the members, which should be presented together with the financial reports. One section of the Social Report would detail issues like attendance at AGMs, Management Committee meetings, gender/age balance, length of service, etc. It would also distinguish between mere attendance and participation, thereby encouraging the design of meetings and special events to stimulate active involvement.

v) Roles of committee and management

l) *You can't expect the committee to do much work when there is a paid manager.*

This ignores the experience of credit unions across Ireland, which would never have got off the ground if the above assumption had been true. Most credit unions are highly dependent on the work of volunteers who put in long hours on tasks that are often routine and involve responsibility for the safeguarding of members' funds.

m) *As a manager I am expected to make all the major decisions.*

Both of the above statements suggest misunderstanding of the roles of committee and management. There also seems to a general lack of awareness by committee members of the serious legal responsibilities they have as directors of a registered co-operative.

vi) Shareholding

n) I'd be embarrassed to go to the shareholders and ask them to invest more in shares. They don't have much money themselves.

Shareholding has never been taken very seriously. It has tended to be largely static, with little effort spent in keeping an up-dated register of shareholders, or recruiting new shareholders. It has involved raising money on a charity basis, non-refundable donations to a good cause, rather than shares in an enterprise. This donation attitude is reinforced by the fact that internal markets for shares do not exist in these co-ops, and patronage refunds are not credited to share accounts. Shareholding is an important component in a co-operative's ability to meet the needs of the people who use its services.

vii) Training needs

o) The job of a co-op manager is so diverse and unpredictable that it's impossible to train someone to do it. You can only learn by doing.

p) Our committee members would be insulted if we gave them training on things like the "role of the board". It would be like saying they've made a mess of things to date.

Managing any kind of co-op is a demanding job, requiring a wide range of skills and abilities. Though training isn't a panacea, the fact that the manager's job is so diverse and unpredictable suggests a greater rather than a lesser need for training. Managers need help in coping with diversity and unpredictability and with the special challenges of managing a co-op and working effectively with volunteer committees.

5.6 How *Co-operative* are the Community Co-ops?

We have analysed the activities of the community co-ops and the perceptions of their leaders. We have also examined the concept of the co-operative and the basis of its success. We are now in a position to discuss the fundamental question of how *co-operative* are the community co-ops. To help us answer this question let us return to a number of more specific issues that were raised above.

It will be remembered that the following points were raised about the basis of success in co-operatives

a) The less tangible objectives of **meeting the needs of users** are the key purposes of a co-op, but **economic success** is also an essential supporting goal, without which the co-op could not exist as an independent, sustainable entity.

b) Co-ops are unlikely to succeed unless they offer distinctive, tangible advantages that are important to members.

c) The methodology used by successful co-operatives is to develop special, tangible advantages, highly valued by members. These special advantages are developed through a process of **empowering and activating the people experiencing the problems**. Users of the co-op are directly involved in the design of organisational strategies to address their own problems and needs. It is this methodology which identifies members' key needs, builds member commitment, ensures the design of distinctive and cost-effective services and motivates their continued participation in their co-op.

Given the above comments on co-operative practice, a number of questions might be asked about the operational effectiveness of community co-operatives and about the nature of their relationship with their shareholders.

- *To what extent do the* community co-ops *offer tangible benefits which are important to the members?*

The community co-ops do indeed offer a range of tangible services to their members but these are typically available to both members and non-members alike. In contrast, most successful co-operatives usually attempt to offer something special to members which is not available to non-members. Clearly this is sometimes difficult to do in a community co-op, where benefits are often to do the provision of basic infrastructure which is, by its nature, equally available to all inhabitants. Nevertheless, there will be situations where it is possible to offer some special incentive to shareholders.

When a community co-op is offering a profitable service (such as marketing produce, operating a retail store, bulk buying on behalf of residents, etc.) it should be possible to offer a benefit to members through some kind of bonus or refund. This is a typical practice in successful consumer and producer co-ops, where members receive a refund in proportion to their use of the business.

- *To what extent do the community co-ops activate and involve their membership in significant decision-making about the design of their communities and the services available to them?*

- *To what extent do the community co-ops equip members with the information and skills they will need to engage in significant decision-making?*

These questions relate to the importance of mobilising and empowering the shareholders of a co-operative. As we have argued above, *member activation* and *mutual aid* are critical contributors to successful business performance in co-operatives. We have already seen, however, that most of the community co-ops do *not* do an impressive job of activating their membership, nor do they encourage the use of mutual aid as a means of providing cost-effective services.

5.7 Measuring Success

One of the issues raised again and again in interviews was the problem of recognising the importance of many of the non-profit-making activities, which were considered to be a major part of the co-operatives' work. It was admitted that it was relatively easy to assess the success of a conventional business, but most of the co-operatives were doing a lot more than simply running a business. Many of their key responsibilities, (particularly those associated with assisting the process of development, fostering the Irish language and culture, and developing and managing infrastructure) could never, in their opinion, be run profitably. Such activities, they argued, would have to be subsidised if they were to be performed at all.

In this section, we look at the complicated question of how to assess the success of community co-operatives, as a prelude to finding ways for assessing the extent to which subsidies are necessary in a community co-operative.

CLARIFYING GOALS

If we are to assess the success of a community co-op we must first have a clear idea of what success is for this type of organisation. We must therefore start by identifying the goals and objectives which community co-ops are attempting to achieve. Our discussion so far would suggest that the ultimate development objectives of a community co-op would be something like the following:[42]

> *to develop a viable and stimulating Irish-speaking community, where local inhabitants take a proactive role in jointly designing strategies to address their own problems and meet their own needs.*

[42] It should be stressed that these are only suggestions of possible objectives. The members of individual co-operatives must decide their own objectives.

Let us look at some of the elements in this broad objective.

a) Viability and stimulation

These elements involve providing the jobs/sources of income, services and facilities necessary to enable the community to sustain and increase its population levels. Particularly important would be ensuring the availability of opportunities for young people, adequate, affordable housing stock for local young families, and stimulating social and cultural activities.

b) Irish-speaking

The co-operatives aim to promote the Irish language and culture, in all its richness, as a positive, dynamic force for growth and development, rather than a backward-looking protectionist approach, which confuses development with the preservation of a holy grail.

c) Proactive orientation

The aim here will be to ensure that the community will be characterised by high levels of public involvement. Its inhabitants will be empowered to take responsibility for designing and implementing a programme of appropriate local development.

Having agreed their broad development objectives, it will then be necessary for co-operatives to identify specific activities, which will contribute toward the achievement of the development objectives.

PROFITABILITY OR SUSTAINABILITY?

Once we are clear about the goals of our co-operatives, it soon becomes evident that our objectives embrace a wide range of factors, social and cultural, as well as economic. Clearly, we will not be able to rely solely on conventional business criteria as indicators of our success. Some of the tasks required to maintain the viability of the community will never be capable of generating profit, but without them the community might become unsustainable. We need to be able to assess our progress toward less tangible goals, such as strengthening the Irish language and culture and enhancing the quality of participation in the economic and social life of the community.

But the fact that an activity does *not* generate profits is not an excuse for performing it inefficiently. The concept of *cost-effectiveness* is likely to be more relevant than *profitability* to many of the activities of community co-operatives. We need to look at how efficiently resources are used in terms of the outputs they achieve; and we also need to look at ways of measuring the value of the non-tangible outputs of a co-op.

COMMUNITY SERVICE: BY-PRODUCT OF SUCCESSFUL BUSINESS?

Another issue we must look at is the possibility of co-operatives running successful businesses, which can then subsidise unprofitable community services. To what extent can we expect Irish community co-ops to finance social and cultural objectives from the proceeds of their business activities?

This is an important issue to address, because in some parts of the world co-operatives *have* been able to finance a wide range of social and cultural goals from profits generated by business activities. The **Mondragon Co-operative Corporation (MCC)**, in the Basque region of Spain, is probably the best known and most successful group of co-ops to promote far-reaching community development (including the promotion of the indigenous language and culture) from the proceeds of successful business activities. The MCC is a network of industrial co-operatives, the first of which was launched in 1956. The story of Mondragon has been told many times in other sources (see Briscoe and Ward 2000 for a recent summary).

The achievements of the Mondragon group are considerable indeed and there are many lessons that co-operatives everywhere might learn from the Basque successes. The question arises whether or not it would have been possible for the community co-operatives in Ireland to develop along similar lines. Both Mondragon and the Gaeltacht co-operatives are deeply concerned about preserving and strengthening their own unique language and culture. Both have been concerned primarily with community development, and with preserving and enhancing the viability of local communities. But whereas Mondragon approached the problem of building community by focusing on the development of technical skills and strong businesses, most of the Gaeltacht co-operatives focused on addressing the most immediate, urgent needs of the local community, whether or not those needs would lead to the formation of successful businesses.

The Mondragon strategy of *business first* was more viable from the very beginning. However, it should be remembered that while there are many parallels between the Basque and Gaeltacht situations, there are also many differences. For a number of reasons, it is probably a much harder task to develop businesses in the Gaeltacht than in and around Mondragon, and the strategy used by Mondragon has resulted in the use of Spanish rather than Basque as the commercial language of the region. Let's look at each of these points in turn.

a) In comparison with the MCC group, most of the Gaeltacht co-operatives have a much smaller population base, are more remote from suppliers, markets and services, and are more distant from one another. Mondragon, though far from Spain's major markets, has a substantial population, by Irish standards, and is within easy reach of major cities such as Vitoria, Bilbao, and San Sebastian. Its constituent co-operatives are also much closer to one another geographically, facilitating the networking which has been such an important element in its success. Undoubtedly, the development task has been much tougher in the West of Ireland.

b) Another factor to remember, when comparing the output of the two groups, is that Mondragon's economic strategy might inadvertently have undermined its cultural objectives. Being export-orientated, the Mondragon co-operatives conduct their business primarily in Spanish rather than Basque, whereas the Gaeltacht co-ops have remained predominantly Irish-speaking.

5.8 Conclusion: The concept of social profit

In this chapter we have reviewed the considerable accomplishments of Irish community co-ops, which have managed to provide a gamut of services in situations where neither private business nor government could operate cost-effectively. We have explored the business strategies they have been using to meet local needs and have outlined some of the significant problems they still encounter. We have also attempted to suggest ways in which they could strengthen the co-operative nature of their businesses and make greater use of the competitive advantages of the co-operative idea.

But if community co-operatives are to achieve their full potential, it is also essential to recognise that they generate two kinds of profit – economic and social. John Pearce, an eloquent advocate of community co-ops in Britain, has argued convincingly that conventional commercial sustainability can only be achieved under very special circumstances. He maintains that we must find ways to take into account and recognise the real value of the *social profit* co-operatives generate in addition to flows of cash.

> *Finding ways of counting community profit is ... problematic. This is not a question of adding social or environmental costs back into company accounts in order to get a true picture of the value of a company (or its* "disbenefit") *to society. Counting community profit requires finding ways of measuring the nonmonetary worth or value of social and community benefits which are produced by enterprises. These outcomes are the real purpose of the enterprise: economic activity which improves the quality of life for people and the planet - not people and planet serving the demands of the economy.*[43]

Pearce makes a powerful argument for the use of a *social audit* approach to measuring success. Using a social audit as a supplement to financial statements will ensure a more realistic measurement of the value of the *social wealth* created by a co-operative.

> *For community enterprises, the need to develop a practical system for measuring social wealth is of urgent concern. Without a social-audit methodology it is too easy for the* "realists" *to dismiss social objectives as a lame excuse for commercial inefficiency, and it is impossible for the* "idealists" *to demonstrate with confidence the achievements and values of the sector. A harmonious balance between social and commercial performance will permit wise investment decisions to obtain maximum benefit to humanity and to the planet. The social profit of one enterprise might, in certain circumstances, outweigh a commercial loss, while social disruption, environmental degradation or damage to health will outweigh the apparent profit of another.*[44]

It is only when we recognise the significance of the social profit generated by community co-operatives that we will be able to invest wisely in our communities and obtain the maximum benefit to humanity and the planet.

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[43] John Pearce in "Community Co-operatives - An Alternative Approach." *Yearbook of Co-operative Enterprise: 1994*. Oxford: Plunkett Foundation, p. 172.

[44] Ibid. pp, 172 - 173.

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Chapter 6

Ireland's Social Enterprises[1]

by Mary O'Shaughnessy

Social enterprises form part of the social economy or third system, a concept which is attracting attention in European and national political and academic circles. Cambell (2000) uses the term *Third System* to refer to a diverse array of organisations, outside the public and traditional private spheres, encompassing co-operatives, mutuals, associations, foundations, charities, voluntary and not for profit community based organisations.

In recent times the role of the Irish voluntary and community sector in tackling local social exclusion has been reinforced at both national and European levels through various policy and support measures. An interesting feature of this current thrust of local development is its 'partnership' nature involving the collaboration of private, public and community representatives at the local level. Another interesting aspect of this process is the perceived role of socio-economic initiatives in addressing social exclusion.

This chapter concentrates on one particular type of social enterprise; work integration social enterprises that provide community based services to the socially excluded and are also based on the partnership approach. This type of social enterprise has many objectives. It seeks to create training and employment opportunities for those excluded from the labour market, while meeting other key needs within the local community.

[1] An earlier version of sections of this chapter were presented in a paper entitled "Social Economy: an Irish Perspective," presented at a conference of the *International Co-operative Alliance Research Committee*, Weimar, Germany, October 1999.

6.1 What are Social Enterprises?

Social enterprises can be defined as value based organisations that operate for social as well as financial profit[2] They differ from both traditional private enterprises and public authorities in being able to develop market activities while also availing of public subsidies. They pursue collective benefits by mobilising *social capital*, such as volunteers and donations.

Participatory in nature, social enterprises seek to address a wide range of social and economic needs and are often multi-stakeholder in nature, involving both service providers and users in the decision making process.[3]

A new type of social enterprise is emerging, creating jobs for the unemployed from the service needs of local communities. Work integration social enterprises are characteristic of this trend. Let's consider some examples from Europe as a context to the Irish experience.

6.2 Social Enterprises across Europe

In early 1996, researchers from 15 member States of the European Union formed a network[4] to undertake analysis of social enterprises across each member state. Of particular interest are the network's findings on the work integration initiatives that have emerged in countries such as France, Spain and Italy.

In **France** two main types of social enterprises are said to have developed over the past two decades. These include:

- work-integration initiatives whose purpose is to create jobs for unemployed people excluded from the labour market because of inadequate qualifications; and

[2] Laville (1998) suggests that social enterprises not only include organisations which do not distribute profits but also organisations like co-operatives which may distribute profits but to a limited extent only, thus avoiding profit maximising behaviour.
[3] Stakeholder is defined as "*any individual or group who has a direct interest in ensuring that the enterprise conducts profitable and sustainable activities*" (Milgrom & Roberts, 1992)
[4] The EMES network (1996-1999). This network, including researchers from 15 Member States of the European Union, undertook an in-depth analysis of the specific characteristics and potentialities of new social enterprises. The above examples are drawn form this research. A more in depth presentation of the findings will appear in a forthcoming publication: Defourney, J., & Borzago, C., (eds) *Social Enterprises in Europe*, Routledge forthcoming.
Social capital is described as "*a form of capital often existing in local networks and groups; a feature of social organisations which can facilitate co-ordination and co-operation for mutual benefit*" (Putnam (1993) & Evers (2000)).

- social enterprises which aim to meet unsatisfied local social needs.

Work-integration enterprises are a common form of social enterprise in **Spain**. The objective of these types of social enterprise is to provide employment to those excluded from the labour market as a result of physical, mental and social disabilities. A foundation or an association generally owns work-integration enterprises for people with disabilities. Such enterprises are often described as transition organisations, aiming to help re-integrate the individual into the 'ordinary' labour market.

New legislation, for the purpose of promoting social co-operatives, was introduced in **Italy** during the 1990's. These social enterprises are predominantly involved in the integration of disadvantaged groups and the provision of health care and social services. There are approximately 4,500 social co-operatives in Italy. At least 70% of these provide social services to the elderly, disabled, drug addicts and young persons with family difficulties. Nearly 80,000 workers are employed in these initiatives.

So how do we explain the increasing European interest in work-integration social enterprises?

6.3 The Emergence of Work-Integration Social Enterprises

A number of factors have contributed to the emergence of these types of social enterprises. Since 1960 employment growth in the European Union has been significantly slower than in other parts of the OECD (Cambell, 1999). It is estimated that there are approximately 18 million people unemployed in the EU, 49% of these classified as long-term (more than one year) with a 21% youth unemployment rate. In response to this problem, the European Union developed a European Employment Strategy[5], culminating in the production of a series of National Action Plans across member states. The 1998 and 1999 National Plans across the EU provided for a range of actions to stimulate the Third System,[6] in particular to

[5] In 1993 the EU produced a White Paper on *Growth, Competitiveness and Employment*. This suggested that the social economy had the potential to create 3 million jobs over a five year period and identified 17 possible job areas.

[6] The **TESP** and **Art6** programmes are in the process of defining and estimating empirically the scale of the European Third System. Provisional data have allowed for the development of a set of criteria for identifying Third System Organisations. These include: responsive to unmet needs not provided by the public or private sectors, self organisation and management, community oriented and community

> "*target the emergence of services aimed at satisfying evolving needs, to foster local development, focus on employability and social integration". The promotion of the Third System could contribute to an increased demand for and supply of communal services and help close the employment gap*". (Cambell, 1999).

Kendall (2000) also identifies a number of factors that help us understand the emergence of this type of social enterprise across Europe. These include:

- the risk of poverty and its links to unemployment;
- rising demand for social and personal services;
- a need to meet these demands while constraining levels of direct state expenditure and rates of taxation and
- the persistence of spatially localised pockets of deprivation where service gaps are extreme.

Work integration social enterprises have also emerged in Ireland and form part of the wider Irish social enterprise sector.

6.4 Social Enterprises in Ireland

Ireland has a long history of collective action originating in the meitheal system of informal co-operation between farmers during the harvesting period. Hayes (1990) notes that after independence in 1922 Ireland inherited a version of the British Welfare System based mainly on the Poor Law. The minimal nature of such statutory provision encouraged religious groups to set up their own institutions. Religious bodies have made a notable contribution to the delivery of health and educational services. Employment in non-profit schools accounts for approximately 45% of total jobs in the Irish non-profit sector.[7]

The Irish voluntary and community sector has historically played a key role in tackling social exclusion and providing key social services to the poor and marginalized of Irish society. The state has financially supported the voluntary and community sector to the amount of £1billion (EURO 1.267 billion) in 1999. Many voluntary and community development organisations have come to rely on labour market measures to resource their work. Approximately 1.75% of the Irish GDP is spent on active labour market interventions. This rate of expenditure is one of the highest in the OECD countries.

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based, not for profit in the sense of no re-distribution of profit, draw on the gift economy including volunteer work.

[7] Salamon & Anheier (1998)

Work-integration social enterprises are supported in Ireland through various measures. One measure is the recently launched Social Economy programme, which was established as a result of recommendations made by the national Social Economy Working Group.[8]

As previously stated, Ireland has a long history of mutual and self help. However O' Hara (2000) has highlighted the difficulty in constructing a general typology of Irish social enterprises attributable, in part, to the fragmented and unreliable nature of existing data. The typology of social enterprises that has been developed includes the following.

- Work integration – social enterprises associated with insertion of members of excluded groups into the labour force.[9]
- Social Enterprises concerned with housing provision[10]
- Credit Unions
- Social Enterprises providing personal and proximity services
- Local development organisations[11] [12]

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[8] Prompted by the 1993 EU endorsement of the concept of the social economy, the Irish government established this working group. In July of 1998 the group presented a typology of social economy enterprises:

- Community Business, ultimately financed by trading income alone
- Deficient demand social enterprises, where the demand for particular goods and services within a community is not matched by resources to pay for these, due to disadvantage or low density of population
- Enterprises based on public sector contracts, which deals with the potential for subcontracting from public sector.

[9] O' Hara (2000) uses this term to describe the various initiatives which have played a role in providing sheltered employment to the physically disabled and other excluded groups. The term work – integration social enterprises is used in this essay to describe social enterprises that use active labour market measure to recruit employees. These measures generally have pre-defined criteria of eligibility including the status of long-term unemployed.

[10] The National Association of Building Co-operatives is the representative, promotion, advice, information, training and development organisation for the Co-operative Housing Movement in Ireland. The association was formed by representatives of co-operative housing societies in 1973 and is a federated co-operative society or association of affiliated local housing co-operatives and registered co-operative housing societies. NABCo is a registered non-profit Industrial & Provident Society. Non-Profit/Voluntary and Co-operative Housing Associations provided 25% of the new build social rented dwellings during the years 1993-1999.

[11] O' Hara, P., (2001) Ireland: Social Enterprises and Local Development in Defourney, J., & Borzago, C., (eds) *Social Enterprises in Europe*, Routledge.

[12] The past decade has been characterised by a local development approach based on the partnership principle and local community representation. This has resulted in the establishment of 38 partnership companies and 33 community groups under the administration of the Operational Programme for Local Urban and Rural Development. The EU LEADER programme for Rural Development encompasses 34 Leader groups. Common to each is their organisational structure which incorporates public, private and local community sector representatives.

An example of Ireland's experimentation in the field of work-integration social enterprises can be viewed in the **Rural Community Care Network** initiative that commenced in January 1997. The aims of the network were to promote the development of regional and local strategies, and to provide support for local employment initiatives in priority areas to improve standards of living. These actions have been implemented by forming a partnership between non-profit making organisations, private sector and local statutory representatives. The Rural Community Care Network provides us with an interesting and illustrative case study of this new wave of Irish social enterprises. The Network is located in southern Ireland, covering a large geographical area with an estimated population of 200,000 people.

6.5 Rural Community Care Network

Established in 1997 the RCCN is a network of fourteen organisations including representatives of the statutory, voluntary and community sectors. The initiative has received funding under Articles 10 and 6 of the European Economic Regional Development Fund. Its objectives are to create jobs and enhance social service delivery particularly in the field of elder and childcare. Four work-integration social enterprises exist within the network. These social enterprises are non-profit, each combining the objectives of job creation and the provision of care service to the elderly and persons with physical and mental disabilities.

WEST LIMERICK LTD.

This company has charitable status and provides a house repair/maintenance service for the elderly within the area. The central objective of the company is to improve housing conditions and, in turn, offset the demand for residential care amongst this group. A working partnership with the regional statutory agencies and a local church based charity has been formed. The work of the company involves provision of training and identifying housing stock in need of repair. A state sponsored active labour market programme supports the employment of seventeen local people (previously long-term unemployed). Local voluntary community activists are responsible for assessing the housing repair needs within their community and liaising with the manager of the social enterprise. The end user pays a nominal monetary contribution for the service.

DUHALLOW RURAL COMMUNITY CARE NETWORK

This social enterprise deals with an ageing and dependent rural population. It has focused on providing a "meals on wheels" service to the elderly single male (an estimated 65% of the clientele) and other aged and geographically isolated residents. Prior to the establishment of this particular social enterprise the region had been the site of the location of one of the 34 LEADER rural based companies, previously discussed in this essay. This local development company had established a local food centre which has served as an important incubation facility for some local private food companies. The kitchen facilities developed by this company are now also used by the Duhallow Rural Community Care social enterprise.

The enterprise relies on voluntary efforts to deliver these meals to a dispersed rural population. A state sponsored active labour market programme supports the paid employment of four people. Four other employees are paid from the trading income generated through the project. At time of writing, the group were delivering over three hundred hot plates to the elderly. They have also started to diversify their activities and are involved in preparing food for other social events such as weddings. External statutory funding has also been used to provide education and training to the workers and volunteers.

BALLYHOURA LTD.

Depopulation, isolation of the elderly and a lack of accessible public transport provide us with a background to the area in which this social enterprise operates.

A primary objective of this project is to deliver a range of caring services within the community. This is targeted at the local elderly (estimated at 20% of the population) with a view to extending their ability to remain in their own homes outside of institutional care. An active labour market programme supports the employment of twenty people (previously classed as long-term unemployed). Two carers groups and a visiting service have been established through this social enterprise. The carers groups provide a support network for home-carers often working in lonely and isolated conditions. This social enterprise is also exploring the possibility of developing a laundry service; rural transport and respite care facilities.

BLACKWATER RURAL COMMUNITY CARE NETWORK

A central feature of this social enterprise is its emphasis on maximising community participation in the design and implementation of a community care service. In late October 1997, a public meeting provided the forum for highlighting a number of priority needs. Members of the public were invited to join a community advisory team. [13] Based on this exchange of ideas and information it was decided to focus on three specific areas:

a) Locally based respite care for people with special needs
b) Day care for the elderly in isolated rural areas
c) A home care service for the elderly is isolated rural locations

A Saturday Club for children with special needs was formed. This service has the capacity to deal with approximately 14 children on a Saturday afternoon and thus offers relief to full time carers in the home. Trained staff and volunteers deliver this service. A total of 19 people have been trained in basic nursing skills through the social enterprise.

Not unlike the previous example, this social enterprise was able to successfully avail of the services of the local development partnership company. These services came in the form of free office space and advice from both the staff and voluntary board of the company. This social enterprise charges a fee for its services, the operation costs are met through a combination of trading income on the market and public subvention via the public health authorities.

6.6 Discussion

The previous essays in this book have described some of the more significant types of co-operatives in Ireland. Work-integration social enterprises, providing community based services, have developed within this context. In the past co-operatives emerged to respond to social and economic exclusion. Their competitive advantage has essentially been built upon their principles of democracy and social solidarity. The growth and development of the wider Irish co-operative movement has relied on the strength of the Irish mutual and self-help tradition. Although many of the work integration social enterprises currently emerging are not legally incorporated as co-operatives their governing objectives reflect a degree of co-operativism. Their competitive advantages, as illustrated in the RCCN case study, stem from the following.

Each of the social enterprises within the RCCN Network have successfully mobilised a diversity of resources and are exchanging goods and service on the market and generating a

[13] A diverse range of interests is represented on this advisory committee. These include the voluntary sector, public health nurses, community police, carers, a special needs charitable group member and representative from the LEADER partnership development company.

traded income. They rely on public subvention in the form of state sponsored active labour market programmes and direct funding from public authorities. They also rely on the social capital generated through voluntary commitment at both management and service delivery level. This reliance on different sets of resources allows these enterprises to pursue their social objectives and provide a service to the community which could not be provided effectively by either conventional business or the state.

The network of social enterprises in the RCCN case study is managed by representative committees, reflecting a diversity of statutory, voluntary and community interests. Interestingly enough there is no private sector representation. Each of the social enterprises emphasises provision of training and education for the service providers. One of the social enterprises has been particularly instrumental in activating end users in the decision making process. This has been achieved by establishing an advisory committee that incorporates members of local community-based organisations which are representative of children with disabilities.

The network of social enterprises has been successful in using existing social capital and in building new forms of social capital. Each social enterprise has availed of the resources of local development companies (previously established under national development programmes). Two volunteer-based carers groups, representing the needs of neglected groups of people, have evolved as a result of one of these social enterprises.

These social enterprises work closely with representatives of the statutory public health services and are attempting to offer an alternative to residential care, which has often been the only available option for care of the elderly. It could be argued, therefore, that social enterprises engage in ***design for use***, offering a more innovative and tailored response to the needs of the individual.

The not for profit nature of these social enterprises could also be viewed, however, as a double-edged sword. On the one hand, the explicit social goals of such an enterprise can build greater trust between the provider and the consumer, i.e. the consumer is less likely to fear exploitation when dealing with a social enterprise.[14] However the non-profit and voluntary dimension of the social enterprise could also affect public

[14] Theorists suggest that social enterprises can build trust between the producer and consumer because of their adherence to basic co-operative principles of restricted profit distribution and social purpose. Such a discussion can be located within the context of information asymmetries between provider and consumer.

perceptions about the quality of the services on offer. The manager of one of the social enterprises has cited the difficulty in procuring a wider market share for the services on offer (i.e. other than their targeted consumers). This was attributed to an undeserved image of a poor quality service among potential paying consumers.

This dimension of quality is important. In its efforts to serve the community, especially the most socially and economically disadvantaged, the social enterprise must provide a quality service at a nominal charge to its clients. This nominal charge can only go so far in meeting the operational costs of the social enterprise. Additional income could be generated through the provision of good/services to those members of the community who are in a position to pay the going rate. This would allow the social enterprise to reduce the cost of its services to those groups most in need. It would also enhance the redistributive role of a social enterprise.[15]

The new wave of Irish work-integration social enterprises have a common feature. They rely on active labour market programmes to support their work. These active measures provide training and temporary employment programmes designed to improve skills and support the employment search process.

As we have seen, approximately 1.75% of national GDP is spent on active labour market interventions. The Irish government has recently committed a total of £41 million (52 million Euro) in another active labour market measure; a national Social Economy programme. However, we need to put this in the context of the Irish economy's performance over the past decade.[16] Significant economic growth has generated a major increase in employment since 1993. The labour-force participation rates of women has risen dramatically since the mid-1980's and unemployment has been reduced from 7% in 1987 to about 4% in 2000, pushing the Irish labour market from a position of labour surplus to labour shortage. These trends have at least two significant implications. Work integration social enterprises are likely to experience difficulties in recruiting staff (i.e. those who will be eligible for employment under the programme's criteria). In addition to this, a

[15] For a fuller discussion on this and similar related issues see Laville, J., L., & Nyssens, M., The Social Enterprise: Towards A Theoretical Approach in Defourney, J., & Borzago, C., (eds) (2001) *Social Enterprises in Europe*, Routledge.
[16] Nolan, B., et al. (2000) Bust to Boom? The Irish Experience of Growth and Inequality, IPA.

traditional resource, namely the voluntary services of women in the community are less likely to be available.[17]

6.7 Conclusion

Work-integration social enterprises are evolving as a popular response to two common problems across European member states; unemployment and the need to regenerate local communities of disadvantage. Ireland has responded to this trend by building on its strong tradition of mutual self-help. However, not unlike any other type of enterprise, the work integration social enterprise is and will be vulnerable to a range of internal and external factors. These types of social enterprises will have to be able to mobilise a variety of resources, derived from the state, the market and the voluntary sector. They are also likely to have difficulties recruiting workers in the face of labour shortages and they will have to develop new and innovative ways for including end users in the decision making process. Only by successfully managing these issues will they achieve the potential competitive advantages that are specific to non-profit, community-based organisations.

[17] In 1996 the Social Policy Research Unit at University College Cork carried out a national opinion survey of attitudes towards the voluntary sector and civic responsibility and attitudes of respondents in voluntary organisations. 39% of respondents found it increasingly difficult to recruit volunteers.

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Notes on Contributors

Robert Briscoe
is Programme Director in the Centre for Co-operative Studies at the National University of Ireland, University College Cork. He lectures in Co-operative Business in the faculties of Commerce and Food Science & Technology, including teaching on a variety of distance education programmes in Mutual and Credit Union Business and Rural Development. His particular research interests are in the management of co-operatives and small business development.

Colm Hughes
is Manager of the Co-operative Development Unit of FÁS. Over the past few years, he has pioneered a number of innovative strategies for developing worker co-operatives in Ireland and has written of this in a recently completed MSc thesis at the National University of Ireland, University College Cork

Olive McCarthy
is a lecturer in the Department of Food Business & Development and the Centre for Co-operative Studies at University College Cork. She teaches in the areas of Mutual and Credit Union Business. Her particular research interests are in Credit Unions and Community Co-operatives and she is currently reading for a PhD on the topic of member participation in Credit Unions.

Mary O'Shaughnessy
is a lecturer in the Department of Food Business & Development & the Centre for Co-operative Studies at University College Cork. She teaches in the areas of rural development, the social economy, social enterprise and integration. She is currently reading for a PhD on the topic of social enterprises and will shortly be participating in a European-wide survey of the socio-economic performance of work integration social enterprises.

Michael Ward
is Deputy Director in the Centre for Co-operative Studies at the National University of Ireland, University College Cork. He lectures in Co-operative Business in the faculties of Commerce and Food Science & Technology, including teaching on a variety of distance education programmes in Mutual and Credit Union Business and Rural Development. His particular research interests are in Credit Unions and Agricultural Co-operatives.