



The new wave of mutuality

Social innovation and public service reform

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About the author

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Moving forward with mutuals

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The re-emergence of co-operation

Co-operatives were one of the major social innovations in the second half of the 19th century. They took root in the age of railways. They expanded into a significant economic force in the age of steel. In Britain by the time of first world war 1385 co-operative societies accounted for 40% of food retailing. In Germany, there were 28,000 rural co-operatives, two thirds of them credit co-operatives that were the primary financial institutions in rural areas. In this period credit unions and similar co-operatives of artisans, peasant farmers and in some places workers, spread to many parts of Europe.

The co-operative principles of self help and self governance, of equity and social purpose were sidelined in the twentieth century by mass production and the drive for scale. But in the past thirty years co-operative principles are assuming a new relevance. In the age of the internet, the principles of co-operation and mutuality are once more becoming a major source of social innovation.

They are a response to a growing range of intractable problems –environmental issues from waste to pollution, and from energy to climate change; the pressure on social life and public budgets of ill health and chronic disease, of social care and the ageing population, and of ever increasing inequality with the manifold consequences it brings with it. In all of these neither the private market nor the state as they are currently constituted have been able to find adequate answers. The recent financial crisis has highlighted the limitations of both.

In the face of this there has been an upsurge of a civil economy. We can see this partly in informal initiatives among citizens, from guerrilla gardeners to couch surfers and transition towns. But there has also been a remarkable growth of social enterprises and voluntary and donor funded organisations. These have taken varied organisational forms. Some are formal co-operatives. Many share similar features even if they are not formally co-operatives. They are socially oriented and mission driven. They have not waited for the state to take action, but started up themselves. They have sought many different ways of involving users, communities and workers. They are part of a new wave of mutuality.

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As in the nineteenth century this wave has been in part rooted among the marginalised - the unemployed, those red lined by the banks, children and adults with disabilities, forgotten regions or urban ghettos. What is new is the growth of co-operation within the heart of the mainstream economy - in the provision of everyday commodities, in public services, and at the core of the information revolution itself.

Mutuals and innovation

There are four currents that help explain the renewed interest in co-operation. First, there has been a reaction to a corporate economy driven by a short term profit imperative. This is at its starkest in finance, but it goes wider in the growing critique of corporations for their environmental impact and their intensification of social and geographical inequality. Social movements have sprung up that sought forms of enterprise that internalise these issues rather than treating them as externalities. They have sparked a civil economy – exemplified in green energy, food and fair trade - in which mission driven co-operatives have played a central role.

Second, there has been a growing recognition of the economies of co-operation in the corporate sector. The shift in the axis of competition from price to quality and difference has put a premium on innovation. Taylorism has been turned on its head, and firms are now searching for ways to engage their workforces, consumers, and suppliers in the process of production and the development of new ideas. Firms like South-West Airlines, Toyota and Airbus that have treated their stakeholders as if they were internal to the firm have been outcompeting those firms that treat them as if they were part of the opposition.¹ But their private form is still in tension with this kind of corporate co-operation. Co-operatives remove the tension, by giving formal recognition to this mutuality of interest.

Third, the web has enabled the growth of informal co-operation on a scarcely imaginable scale. Anyone who doubts the relevance of contemporary co-operation, should consider the extraordinary reach of the open source movement, of the creative commons (now over 450,000 licensed works), of mutual services and 'produsage' as well as the sharing of ideas.

Fourth, the twentieth century public economy has itself been thrown into question by its capacity to innovate in response to changing needs and technology, which have left it weakened in the face of pressures to privatise. But the process of privatisation – most advanced in the basic utilities – has itself exposed the limitations of profit driven services and their regulation.

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Co-operatives in different forms have shown an alternative that is both socially oriented and innovative in the way in which services are provided and controlled. Co-operatives have been a means of engaging citizens in the distributed forms of utility that have been enabled by the ICT revolution (distributed systems of energy production, community broadband, and waste are examples). They have also given a new voice to users in services that depend on the quality of the user-provider relationship. Many of these relational services are the growing areas in post industrial GDP such as health and the reduction and care of chronic disease, social care more generally, and education.

In all these areas co-ops have been a source of social innovation. There are other sources – notably in the generation and prototyping of new ideas – but when it comes to establishing ventures on a sustainable basis then a multi-stakeholder co-op is commonly the adequate form. The question is how far this form of social mutualism, which gives providers and users of public services greater control over the running of those services, can be part of the answer in relation to public service reform.

Size and governance

Co-operatives work best when: the primary units are small; those involved have strong ties to the venture and to other participants; they have a common interest and ethic; there is limited scope for the common assets and control of the co-op to be appropriated by a small number of its members; and there are few comparable alternatives, so that voice remains a better option for members than exit.

Interestingly, the relationship of size and strength of the ties is also true of the corporate world. The stakeholder collaboration in South-West Airlines, Toyota and Airbus is marked by there being a low number of participants with a high quality of relationships, while their less collaborative competitors have a large number of participants (shareholders and stakeholders) with low quality relationships.

1. See the research by Theodore F. Piepenbrock Toward a Theory of the Evolution of Business Ecosystems: Inter-Organizational Architectures, Competitive Dynamics, Firm Performance and Industrial Co-Evolution, MIT Sloan Management Working Papers, July 2010.

It also reflects the work of evolutionary psychologists and anthropologists. They posit that it is difficult to sustain strong ties beyond 150 (the so-called Dunbar number) because of limits of the human neo-cortex. Within that number they observe that there are increasingly strong cores of 50, 15, and 5 within which relationships are closest. It is notable that the largest worker co-op in the UK is Suma Whole Foods with 150 members.

This explains why co-ops have been successful in fields involving smaller groups. Childcare and primary schooling are examples. Co-operative housing projects usually work within the Dunbar range (the widespread housing co-ops in Canada tend to involve 40-80 households). In micro finance, the average membership of the Raiffeisen co-operative banks in late 19th century Germany was 168. In terms of public service reform, initiatives and services such as these are clearly a way of giving a greater measure of control to users and workers directly engaged in them. They can be seen as self governing cells within a wider system of provision.

Specialisation and scale

The challenge for public service reform is what happens in those services which in part require specialisation and scale. Are co-ops and other mutuals suitable in these cases? From their 19th century beginnings, co-ops in many in many different industries have wrestled with this central question of how scale and specialism can remain subject to democratic control. There have been two broad types of response:

- amalgamation and centralisation of operations, with varying degrees of direct and indirect member governance.
- collaborative specialisation, with consortia for specialised operations where scale is significant, while retaining distributed production with the self governing cells.

Amalgamation

The path of amalgamation and centralisation has improved productivity but weakened the ties of membership. In formal terms it has realised economies of scale but weakened economies of participation and the practice of co-operative governance. A large membership with diluted commitment tends to lessen the accountability of managers. It also makes a venture more open to external attack, particularly when members have a ready choice of alternatives (this accounts for the wave of demutualisation of UK building societies in the 1980s and 1990s).

If the constituency of the service is well defined and has a strong interest, an increase in scale is less of a problem, as for example with a co-operative wind farm owned by its surrounding community. But if it is a more complex service, dependent on specialists, and with a heterogeneous membership, then member involvement is more difficult (this has been the challenge for Hospital Trusts in the UK).

This is problem for all large scale organisations, public and private, not just for co-ops. Where large scale co-operative experience is valuable for public service reform is in the measures adopted to try and reduce the resulting democratic deficit.

Commonly a pyramid of member representation has developed alongside operational centralisation. Many of the large retail co-ops have given prominence to their ethics and principles as a means of binding the organisation together and providing the guidelines for all their operations. They have invested in membership teams to act as two way sounding boards between an executive and its membership, and to encourage participation. There have been multiple feed-back channels developed

– originally newspapers and open meetings, more recently radio and even co-operative TV stations, and now the web.

Yet the challenge remains one of member engagement. The general rule is the more extended the chain of representation the weaker is attendance in primary level meetings, the lower the voter turn out in co-operative elections, and the more vulnerable is the co-op to internal or external capture.²

Collaborative specialisation

The second route unbundles scale. It promotes specialisation on the one hand, and establishes specific consortia for functions with clear economies of scale, such as purchasing and selling, and other support services common to some or all of the self-governing units. This is the model that characterises the industrial districts of the Third Italy and parts of Spain. In these areas co-ops and family firms have established jointly owned specialist intermediaries, particularly in fields requiring information or know how, such as market intelligence, technology scanning and development, education and training, and finance. Spain's Mondragon co-operatives have established joint R&D laboratories. In some industries such as food, producer co-ops have developed joint brands.

The advantage of these arrangements is that they combine the economies of distributed systems (diversity, innovation, commitment, flexibility) with economies of scale. The post industrial versions of this model are similar to those developed in 19th century retail co-operation (with federated wholesale societies like the CWS undertaking joint purchasing for the independent retail societies) and co-operative banking. The Desjardins Bank in Quebec, and the Rabobank in Holland, which still dominate their respective markets, remain federations of local credit unions, as do the regional and national bodies of the BVR in Germany. Similar models have emerged in the UK in co-operative energy, housing, football supporters trusts, self governing village shops and most recently the 200 co-operative schools that have formed their own second level co-op to provide specialist support services to its members.³

Such polycentric systems themselves face many challenges: what happens to under performing units; how to develop common standards, and free flows of information; how to maintain common principles and develop collective strategies and action. They reflect the tension of all complex systems between growth and entropy, between order and chaos.

At times in co-operative history order has taken over from chaos. Collaborative version of co-operation have morphed into centralised ones. Federal units formed to support the cells of the system have become their saviour but also their master. This was notably the case in the era of mass production. The ICT revolution and the intensified pressure for innovation has refocussed interest in the creativity of complex networks and the kind of distributed systems found in collaborative co-operation. The industrial districts of Italy and elsewhere in Europe which were initially seen as pre-modern, have been re-interpreted as post modern, and their lessons taken on board within large firms as well as between them.

The experience of collaborative co-operation is also relevant to the issue not just of scale but scaling. Growth in these networks comes about through diffusion rather than expansion within the organisational boundaries of a single enterprise. A successful model inspires others. Existing co-operatives often act as launchpads, or providers of secure markets for start ups. They may provide training and other support services for new ventures. Secondary co-ops provide model rules and other support for start ups. There has recently been a growth of more formalised 'generative' franchising in Europe. This is not a McDonalds model of standardised replication. Rather an anchor firm provides a package of support for a start up which can then adapt the model to its own circumstances, and become partners in the project with a stake in the holding company providing the franchise.⁴

2. Some large mutuals have followed a different route – geared to minimising this vulnerability. They have abandoned the co-operative principle of one member one vote, and instead created a narrower representative body that elects the Board and acts as a guardian of the goals of the venture. Welsh Water, originally privatised, was re-mutualised using this quasi Trust model rather than, for example, giving shares to all the Welsh households that they serve.

3. See www.co-operativeschools.coop.

4. CASA the social care co-op in the North of England has expanded like this, and there are other striking examples in bicycle repair and recycling shops in Belgium, and in co-operative hotels staffed by those with learning difficulties in Italy and Sweden. In all there are 50+ members of the newly established European social franchising network, that collectively employ 13,000 people. The majority (60%) involve people with disabilities, but the model is much more widely applicable.

Public service reform

Co-operatives not only provide an inclusive form of enterprise at a micro level. They have also developed a range of alternative working models at the level of systems. These issues – of inclusive governance and scale, of diversity and coherence - are at the very centre of concerns in public service reform.

The wave of privatisation and sub-contracting over the past thirty years has outsourced the issues of the production of public services to the private sector. The trouble is that in many areas – not least in relational services – the public and private sectors are in the end subject to different imperatives, some of which overlap, but too often pull against each other. There are also considerable barriers to their collaboration, particularly in the spheres of shared knowledge and information.

This is not the case of co-operatives, mutuals and other mission driven parts of the civil economy. Here the overlap with the goals of the public sector are much closer. Together they form part of a wider social economy. Yet the collaboration between them and the extent of their mutual learning has been weak.

In spite of the congruence of interest, there remains a deep moat between the public sector and co-ops. Partly this is because the co-operative movement has traditionally emphasised its autonomy from the state – seeing the state as too often representing interests opposed to co-ops, or as diluting the co-operative principles of self-reliance. Partly the state has seen co-ops as riskier to deal with than large private sector providers, and in the case of small co-ops involving greater transaction costs. There has also been a fear – among co-operators as well as those in the public service – that contracting out services to co-ops would provide no long term guarantee of public support and become merely a staging post to privatisation (as happened with bus services in the UK in the late 1980s).

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These are real fears, but both assume that co-operatives and the state are separate and even antagonistic spheres. This should not be the case. In the early 20th century co-operatives and municipal government were seen as twin pillars of an emerging democracy. Co-operators became councillors, and municipalities supported co-operatives. In the co-operative districts this is still the case. The primary schools of Reggio Emilia, originally autonomous co-ops, developed through a close partnership with Reggio's municipality and have become international beacons of early learning practice. Many of the 7,000 social co-ops that have been formed over the past twenty years in Italy have had a similarly close relationship, as indeed have the Italian co-operative industries with their regional and municipal governments.

But these are still exceptions. Too often the moat remains, bridged only by the patron-client relationships of a fragile grant economy, or by the commodity style contracts of arms length contracting out – a process of complex specifications that tends to freeze service innovation, and which has tended to marginalise co-operatives. These bridges can be improved, but the deeper problem is the interface between these two spheres of the social economy. Making it more permeable involves issues of culture, attitudes towards risk and the directions of accountability. It requires new ways of sharing information and know how, as well as forms of agreement that meets the needs of each. These are all items for the agenda for social innovation.

Extending co-operation

There are at least three ways of taking this agenda forward. First, there could be collaboration on furthering services changes within the public sector. Co-ops are a part of the civil economy which can act as a laboratory for public service innovation. This would involve the kind of collaborative agreements that advanced technology companies make to develop new products and services, where the focus is on the commitment to joint working and the two way sharing of information. There are also many lessons of successful co-operation that could be adopted within the public sphere – the involvement of users and front line workers in the design and operation of services for example, or some of the models of federated organisation, consortia and scaling. These would all be ways of ‘co-operatising the state’, examples of which have already proved fruitful.⁵

Secondly, local and regional governments can act as incubators and supporters of co-ops that further public sector goals. Lambeth Council in London is supporting the development of tenant controlled social innovation on housing estates, by training local residents in how to set up their own ventures and providing them with back office services. The provision of a core market for new co-ops through public procurement is another means of incubation, and has been crucial to the success of the Evergreen service co-ops in Cleveland, Ohio, and of the 200 Argentinian worker owned factories.

Thirdly, collaboration can be taken further by public-social partnerships for service delivery. These take the form of autonomous co-ops that operate not at arms length but as collaborative contractors. They would be multi-stakeholder co-ops, like the UK’s co-operative schools, whose members include pupils, parents, teachers, and further education institutions. In Quebec’s social care co-ops (many of them linked to residential housing co-ops) not only those receiving and providing care are members of the co-op, but also volunteers, the municipality and in some cases other funders participate in the co-op. A similar model has recently been launched for medical primary care in the UK.

The value of these kinds of partnership are four fold:

- they are a way of involving those who receive a service and those who supply it in the design and operation of the service;
- they provide freedom for the co-op in their daily transactions, in how they provide their services and in their sources of finance beyond the regulatory framework that binds public services;
- they give a financial autonomy to the co-op which allows it to insulate its work from the impact of centrally organised cut backs of public services and to accumulate funds to finance its own growth and innovation
- they are able to draw on the ideas and experience of the public sphere on the one hand and of the civil sphere on the other

These advantages stem from the degree of autonomy that such a co-operative enjoys although wholly or largely dependent on public funds. The differences in the working cultures of co-ops and public authorities can be reduced through job rotation across the divide, and the creation of in-out teams within the public departments. Participation in common programmes of training and reflective practice provides another bridge.

Accountability

How can such autonomous partnership be subject to scrutiny and redress if public funds are centrally involved? Conventionally this is done through ‘commodity contracting’. It has two stages of accountability. First the terms of the contract and the process of its letting follow the established procedures of public service. Second, the contractor is held to account in the terms of the contract.

5. See for example Hilary Wainwright and Mathew Little, *Public Service Reform But Not as Know It*, Picnic Publishing 2009, which describes an exemplary process of IT innovation in Newcastle City Council

This follows the long established tradition of rule based public service administration. As applied in contracting it suffers from asymmetric information, rigidity, and gaming.

A partnership that focuses on service innovation breaks with this tradition. Instead of a single line of accountability that travels up through layers of public administration and down through layers of democratic representation, it adds multiple lines of direct accountability to those directly involved in the use and production of the service.⁶

The public partner as a primary source of funds is part of this granular system, in part through engagement in the governance of the co-op (and where appropriate in its operational support), in part through the principles of regular information flow and independent assessment. It is a primary feature of co-operative partnerships that they operate on the principle of open books and mutual learning, both of them central not just to accountability but to social innovation in such collaborative services.

What is important to all parties is the co-ops financial sustainability. One model for an expanded public-social sector is that of the Caja Laboral, the bank that was one of the core institutions of the Mondragon Group. As a condition for its start up loans it required each co-op to submit monthly accounts, which it monitored and commented upon. If the co-op continued in difficulties the Bank could temporarily take over its management to revive it before handing it back to its members. A development bank run jointly by the co-operative movement and relevant section of the public sector could play a similar role for co-operatised services.⁷

Conclusion

In the period of mass production the private market and the state were the two commanding spheres of the economy, and much of politics centred round the role and relationships of each. Much of the Third Way discussion was still framed in terms of these two poles, even as it sought to go beyond them. Post industrial society and the ICT revolution has introduced much greater complexity.

One aspect of this complexity has been the growing significance of the civil economy – itself a mix of different sub-economies, the household, social enterprises, and grant based institutions. Together they are less of a sector (let alone a third sector) than a number of different force fields in the wider economy, closely related to each other as well as to the private economy and the state. In other words we are talking not about separate economies and the battle of the boundaries between them, but rather of a system of ‘force fields’ and the interrelationships between them. Our attention needs to shift from territories to interfaces, and what are the conditions, institutions and tools that would allow them to become more open and permeable.

The role that co-operatives can play in public service reform should be seen in this light. The co-operative movement is a rich source of experience of what works and doesn't work in a social economy not governed by a profit imperative. This experience is particularly relevant today in relation to the major emerging issues of our age. It opens up new spaces for co-operative enterprises, but its relevance goes much wider than this, to how services are organised and governed within the public sphere, indeed how the principles and practices of co-operation bear on all parts of today's multi faceted economy.

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6. One of the features of early retail co-ops was that members commented on details of quality, service, and price of the goods at the same time as discussing the strategic issues of the co-op. The system of member committees and quarterly meetings provided a more granulated and continuous form of accountability and interaction than the more restricted practice of monitoring against targets.

7. The Co-operative Wholesale Society in England had a similar support team to help retail co-ops in financial difficulty.