

BUILDING ON OUR COOPERATIVE  
ADVANTAGE

AN AUDIT OF COOPERATIVE  
ACTIVITY IN WALES

WITH RECOMMENDATIONS FOR POLICIES  
TO SUPPORT THE SECTOR

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## Executive Summary

The cooperative sector in Wales is thriving, with worker-owned businesses demonstrating longevity and viability across a wide range of sectors. Wales's agricultural sector has a large and growing number of secondary cooperatives which co-ordinate production and distribution. There are also cooperative dairies and agricultural suppliers. Tower Colliery is Wales's best known and its largest primary cooperative, but there are several other examples in the areas of fisheries and forestry. There is evidence of a niche of environmental cooperatives, of which the Centre for Alternative Technology is the best known example. The cooperative retail sector is dominated by the Cooperative Group, which earns its place in this survey by virtue of its membership structure, as well as its commitment to ethical and environmental sensitive trading.

We are fairly confident in saying that there are around 120 trading cooperatives in Wales that fall within our definition. Of these we managed to make some sort of contact with 81, or 63.8 per cent, of whom 44 or 35 per cent of the whole population completed the questionnaire.

Around a third of the cooperatives included in the survey had been in existence for ten years or more, with approximately another third having existed for between five and ten years and the remaining third having been in business for less than five years.

Nearly 80 per cent of Welsh cooperatives have an annual turnover of more than £200,000. Around a third have a turnover between this value and £1 million, with the remaining sixteen mutual businesses having a turnover of more than a million. Of these 7 are the big businesses turning over more than £5m. per year including Tower Colliery, South Caernarfonshire Creameries, the financial services branches and the Cooperative Group.

If we exclude the Cooperative Group from our consideration we see that around 90 per cent of cooperative activity is dominated by the three large players—financial services, agriculture, and mining—which have around one-third, one-third, and one-quarter shares respectively, the remaining 8% being spread across the construction, services, manufacturing, and energy sectors.

The total number of jobs identified in the audit is 7213. Again the retail sector predominates with 5058 jobs, of which 3985 are with the Cooperative Group and another 800 with the Principality Building Society. However, the secondary cooperatives maintain another 1409 jobs, and 746 people work in primary cooperatives. This last group represents both jobs created by the creation of new worker cooperatives and those safeguarded by worker buyouts that have prevented the collapse of firms threatened by succession problems. Around two-thirds of the cooperatives were set up from scratch, nearly a third resulted from buyouts, with the few remaining arising as spin-offs from other cooperatives.

The overall pattern of cooperative activity in Wales displays four different and distinct groups: remainders of the nineteenth-century wave of cooperative activity; agricultural cooperatives built up to increase producer power in a pressurised market; businesses arising from market failure due to succession problems or globalisation inefficiencies; and new cooperatives founded for ideological reasons, especially in the environmental sector.

## Key Recommendations

- Recommendation 1: that the Welsh Assembly work through the Wales Cooperative Centre to develop inter-cooperative linkages across Wales.
- Recommendation 2: that the priority sectors for development should be: the food sector, the environmental energy sector, and the construction sector.
- Recommendation 3: the establishment of a social enterprise directory, and a website to support it.
- Recommendation 4: the funding and support of capacity-building workshops for key cooperative actors.
- Recommendation 5: the establishment of a Cooperative Development Bank for Wales, based on a voluntary levy of 1% of turnover from Wales's most well-established mutual businesses.
- Recommendation 6: the appointment a Social Economy Champion to raise the profile and credibility of the sector and that this person be a prominent member of a successful Welsh cooperative business.
- Recommendation 7: that the responsibility for social economy development be placed within the economic development brief rather than the regeneration brief.

## 1. Introduction

Cooperatives are the primary and dominant part of mutual activity. The market tends to view people's needs and problems as opportunities for sales; by contrast, mutualism is based on people working together to solve their problems. A definition from the heyday of cooperatives best sums this up:

*[Co-operatives] are associations of persons, small producers or consumers, who have come together voluntarily to achieve some common purpose by a reciprocal exchange of services through a collective economic enterprise working at their common risk and with resources to which all contribute (Mladenatz, 1933).*

There are several key points in this definition:

- The importance of the voluntary decision to engage in the activity;
- The common purpose;
- A collective economic enterprise;
- The sharing of risk and resources within a community.

These aspects are basic to any cooperative activity. The first section of this report discusses these definitional issues, in connection with other recent work undertaken towards scoping the social economy in the UK.

There are three types of cooperative that are commonly recognised and into which the cooperatives explored in this audit are divided. These are: worker cooperatives, where the employees of a business also own that business, sometimes also referred to as primary cooperatives because they produce and sell a primary good or service; producer cooperatives, which are groups of producers who join together to retail their product, which are also known as secondary cooperatives because the cooperative activity takes place at the stage of marketing rather than production; and consumer or retail cooperatives. Section 3 details what is meant by these three types of cooperative in connection with the Welsh economy.

The remainder of the report focusing on reporting and interpreting the results of an audit carried out over the past year under the auspices of the Wales Institute for Research into Cooperatives. Section 4 describes how the audit was conducted, while Section 5 presents the results. Section 6 offers an analysis of the pattern of cooperative activity in Wales revealed by the audit, and finally Section 7 presents recommendations to policy-makers seek to support this sector.

## 2. Defining the Sector of Interest

The definition of what constitutes a cooperative is maintained by the International Cooperative Alliance, which also gives a list of values that cooperatives should share. These include: self-help, self-responsibility, democracy, equality, equity, and solidarity. In addition 'in the tradition of their founders, cooperative members believe in the ethical values of honesty, openness, social responsibility and caring for others' (information from the Cooperative Union Ltd., Manchester). As we will see in the body of the report, the actors within the cooperative sector in Wales live up to these high

ideals to greater or less degrees; all, however, meet the four conditions identified in the first definition.

The authors of this report have published a paper dealing with the issue of an operational definition of the social economy which explores the dimensions that are important (Arthur, *et al.*, 2004). The two which are fundamental to this sector but which are often overlooked in discussions of mutual or social economy activity are those of ownership and control. We believe that it is important to keep sight of these issues, particularly as the broader social economy receives increasing political attention.

In 2003 the government commissioned *Guidance on Mapping Social Enterprise* from ECOTEC (2003). The report proposed the following definition of a social enterprise:

‘trading goods or services, as a not-for profit exercise to meet some social need or purpose’.

This definition seeks to distinguish benevolent activity that is part funded through market activity from that which relies entirely on charitable or state funding. It thus accepts the market as the fundamental defining characteristic of economic activity, which the cooperative movement has always challenged, and also perceives the social economy as a marginal rather than alternative form of economic activity (for more on the marginalisation of the sector see Cato *et al.*, 2004).

The definition also avoids any discussion of ownership and control which, from the perspective of the cooperative sector, is key to identifying a different way of providing goods and services. The notes state that ‘social ownership does not form part of the Government definition, although it can be seen as a way to achieve social objectives and to ensure surpluses are reinvested.’ Even the concept of ‘social ownership’ is rather vague, since it can mean something as limited as informal periodic consultation with ill-defined ‘stakeholders’. We would favour the rather more hard-edged concept of ‘legal ownership’, hence our focus on the cooperative sector.

A recent study of the social economy in Wales (Adamson and Byrne, 2003) followed the sort of definition recommended by ECOTEC. They made the decision to exclude cooperative retail organisations and the related mutual financial organisations from their definition of the social economy. This was largely based on the fact that they were not perceived by customers as being distinct from businesses in similar fields. In excluding the Cooperative Group the authors of the report comment that:

*Such organisations are traditionally included in definitions of the social economy by virtue of their ‘not-for-profit’ status. Their direct relationship with customers as members no longer exists and the payment of dividend has been lost. They are weak in terms of trading for social purposes and their inclusion in a more focused definition of the social economy which emphasises trading for social purpose is questionable. This study does not see them as belonging to the core social economy. (SEN, 2003: 23)*

While the authors consider that membership ‘no longer exists’ in fact all customers have a right to membership and, in the case of the Cooperative Group, then to both receive a dividend and attend meetings. There is also the opportunity to make more active suggestions for changing the nature of purchasing policy which is encouraged once one has joined the society. This, rather than the not-for-profit status, is what marks the Cooperative Group

as a different kind of retailing organisation.<sup>1</sup> Since our focus is cooperative activity, rather than the 'social economy' we decided that ownership status was the key boundary, and therefore included financial mutuals and the Cooperative Group.

For the purposes of this report a decision was taken to exclude what are usually referred to as 'community cooperatives'. Organisations in this category form an intermediate group in an economic consideration of the social economy. While they generate their own income from trading, they operate according to non-market values, and their primary purpose is to fulfil a social need. They are thus not directly relevant to the central concern of this study, which is cooperatives that operate as alternative economic organisations within a market economy.

The ECOTEC notes helpfully identify the objectives of mapping studies that are undertaken as: strategy development, programme delivery, assessing economic contribution and developing directories. While our study will achieve each of these to some extent it is primarily concerned with the latter two in an extended form: to assess the economic and social contribution of one part of the social economy, namely cooperatives; and to develop knowledge of this sector to enhance its profile through the spreading of information in electronic and paper form.

### **3. The Three Types of Cooperative**

#### **Primary or Worker Cooperatives**

Worker cooperatives grew up in response to a critique of the conventional economy which identified that some of the value of labour is transferred to those who have not worked to produce it but instead have invested capital. The idea of a worker cooperative was initially that those who laboured should see the full fruits of that labour. In the UK many worker cooperatives result from buyouts, either due to succession or because of a larger concern shedding smaller parts of its business. Two examples of such worker cooperatives found in this audit are Datrys Consulting, which was created as the result of a decision by the group it was part of to concentrate its activity elsewhere, which would have resulted in its closure, and EOM, an example of a succession buyout (see the case-study, below), which became necessary when the founder reached retirement age.

It is because the move towards being a worker cooperative is often defensive and a last option to avoid closure and the loss of jobs that Paton refers to members of such coops as 'reluctant entrepreneurs'. In the survey, however, we see that this is only one strand of worker cooperatives in Wales. There are others which are established because of an ideological commitment to empowerment and equality. An example is the Centre for Alternative Technology near Corris, which was set up as a worker cooperative with a totally flat pay structure. It has been highly successful and has also spun off a range of cooperatives in related fields including Dulas Engineering, the Quarry Shop, and the Dyfi Eco-Valley Project. For these worker cooperatives, which are often found in innovative fields such as

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<sup>1</sup> To demonstrate its commitment to encouraging membership activity the Cooperative Group made an extra £2.5m. available in 2003 for the benefit of individual members. In addition it has established Cooperative Action to fund the expansion and publicising of cooperative activity.

renewable technologies, the structure of the firm is an indication of the wider commitment to a different way of structuring society and the economy along more egalitarian lines.

### **Secondary or Producer Cooperatives**

Secondary cooperatives is the name given to groups of producers who operate like a marketing and distribution network. In Wales these predominate in two sectors: agricultural produce and crafts. We received responses from 12 arts-based or craft cooperatives and 25 agricultural cooperatives. There are another 9 secondary coops in the mining, forestry and fisheries sector. The focus in the secondary cooperative sector is very much on achieving a premium price and cutting out the share that may go to the middleman in a more conventional distribution system.

#### *Case-study: Craft in the Bay*

Craft in the Bay is a shared gallery in Cardiff bay which has been running as a cooperative since 1997. It was established by the Makers' Guild in Wales, a secondary cooperative set up to promote Welsh arts and crafts in 1984.



Craft in the Bay, the home of the Makers' Guild in Wales

The gallery is situated in a restored maritime warehouse in the thriving Bay regeneration centre and displays crafts made by Guild members including ceramics, textiles, wood, leatherwork, jewellery, glass, basketware, book-binding and ironwork. The cooperative has around 70 members and employs another three people in administrative roles. All members of Craft in the Bay are required to give an agreed number of hours per year to work in the gallery, helping to keep costs down. Entry is free, the costs being covered entirely by sales.

This is particularly apparent amongst the agricultural cooperatives, which have frequently been set up in response to the recognition of the producers' weak power in a food economy dominated by the purchasers, epitomised by

the large supermarkets. Falling stock prices have put extreme pressure on many farmers and the mutual response was to work together to increase their market power in marketing their produce through a secondary cooperatives.

Agricultural cooperatives may be considered to be less committed to the altruistic aims of this sector and more interested in the bottom-line than the primary and consumer cooperatives. However, the mutual ethic is very strong and the sector proves the value of working together to solve problems. Many of the agricultural cooperatives I spoke to mentioned what an important social support role was played by these member organisations during the foot and mouth crisis. One woman said that she had sought special counselling training for her staff because so many farmers were ringing up distraught or in tears, not even able to discuss with their own wives how serious the financial situation was. The high rate of farmer suicides and the general level of depression and isolation amongst the farming community, especially given the many recent crises, has been a spur to the growth of cooperative activity but has also proved the value of mutual support and problem-solving in critical times.

The other type of secondary cooperative that predominates in Wales is the craft cooperative, sometimes called a makers' cooperative. According to the Cooperative Group 'A makers' co-operative is a business which is set up by artists or craftspeople with the objective of helping its members to promote and develop their own individual businesses.' Craftspeople can benefit from sharing studio space, joining together to rent retail space, or reducing their costs by buying essential products or services in bulk. They can also share skills such as marketing, book-keeping or administration, as well as offering each other support in what can be an isolated occupation. The case-study of Crafts in the Bay indicates what can be achieved by a secondary craft cooperative.

## **Consumer or Retail Cooperatives**

The cooperative movement in its most successful form began in the retail sector, in response to the recognition that customers were being short-changed by both private retailers and company shops. In the UK the retail sector has traditionally been the strongest and most widespread in terms of cooperative activity.

The Cooperative Group demonstrates its individual attitude to economic activity in its purchasing decisions. It has been a major critic of genetically modified food, making a decision not to grow or sell such food itself,<sup>2</sup> and has indicated its own commitment to organic agriculture (see also Cooperative Group, 2001). The Cooperative Group is the largest organic farmer in Wales. The Group has also supported the fair trade movement by switching all its own-brand coffee and chocolate to fair-trade, usually cooperative, sources, and making this the predominant message of its advertising campaign for Christmas 2003.

A 2000 report from CWS called *Food Crimes* shows that the spirit of the Rochdale Pioneers is alive and well in the modern Cooperative Retail Society. The food crimes listed include deceptive marketing, contamination, and exploitation of animals, the land, and other cultures. Again in keeping with the mutual tradition, the report is based on consultation with Coop

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<sup>2</sup> See *Farmers Guardian*, 24 Oct. 2003: 'Co-op says "no" as members object'.

customers. The report's proposals to increase the power of the shopper are more meaningful than similar campaigns by profit-making, private-enterprise food retailers, since its own customers may also become members.

In addition to the Cooperative Group there are a large number of informal food coops organised by groups of friends. It was not possible to discover how many people in Wales buy their food in this way. Another part of the cooperative sector that was beyond the scope of this project was the local community shops and pubs that have been bought by villages to prevent their closure.

A second major sector of consumer mutual activity in Wales is in the financial sector, including the remaining Welsh-based mutual building societies (Principality, Monmouth and Swansea), as well as local branches of the Nationwide Building Society and the Cooperative Bank, including its online branch Smile. As well as these big financial players the smaller players in the financial sector are the credit unions, which are growing rapidly throughout Wales with the support of the National Assembly. They are the subject of a separate piece of research and so are not included in this audit.

## **4. Method of Data Collection and Analysis**

### **Identifying the Population and the Response Rate**

Our research aim was to make contact with all cooperatives currently in business in Wales, according to the definition outlined above. We began by contacting Wales Cooperative Centre, the country's cooperative development agency, since they are likely to have supported and had contact with most of the cooperatives in Wales. They kindly agreed to support our research and to make available a database of cooperatives they had worked with in the past which had contact details, although it had not been kept updated as much as they would have liked due to resource constraints. However, this was an excellent start, since it generated around 63 worker cooperatives and 76 secondary cooperatives, making 139 in total. We deleted from the full database the 220 community cooperatives, since these did not fit within our definition as explained earlier.

The next step was to clean the dataset, primarily by checking whether the cooperatives were still functional and by updating contact details. This was done using the internet and directory enquiries. It resulted in a database of 82 operational cooperatives. We then began a process of snowball sampling, asking each cooperative on the list that we made contact with to let us know about other cooperatives in their sector. This added another 35 cooperative businesses to the database. We also added another 10 which are branches of larger cooperative or mutual businesses, such as the Cooperative Group and the Nationwide Building Society, resulting in a final size of 127. Of these we managed to make some sort of contact with 81, or 63.8 per cent. Of these 44 or 35 per cent of the whole population completed the questionnaire. We are fairly sure that the other 36.2 per cent are still trading, but cannot be sure that they still have cooperative status. However, we are fairly confident in saying that there are around 120 operating cooperatives in Wales in 2004. This is probably an underestimate,

given the high rate of addition to the database using the snowballing procedure.

### Data-gathering

Primary data-gathering was based on a fixed series of closed and open-ended questions included in a questionnaire administered by telephone. In some cases this was supplemented with pre-existing knowledge (in the case of Tower and Promo, with whom we have already worked closely in carrying out research), and with secondary data drawn from the internet. The questionnaire is included as an Appendix to this report.

The questionnaire results were entered into SPSS 11.0, which was also used to produce the results presented below. Due to the limited scope of the research project and the large number of cooperatives contacted the questions were largely routine and the analysis has been mostly numerical. We see this as a first stage in the research and will continue to analyse a smaller number of cooperatives in more depth in the second stage. Some qualitative findings have been presented in this report by way of case-studies.

## 5. Results of the Audit

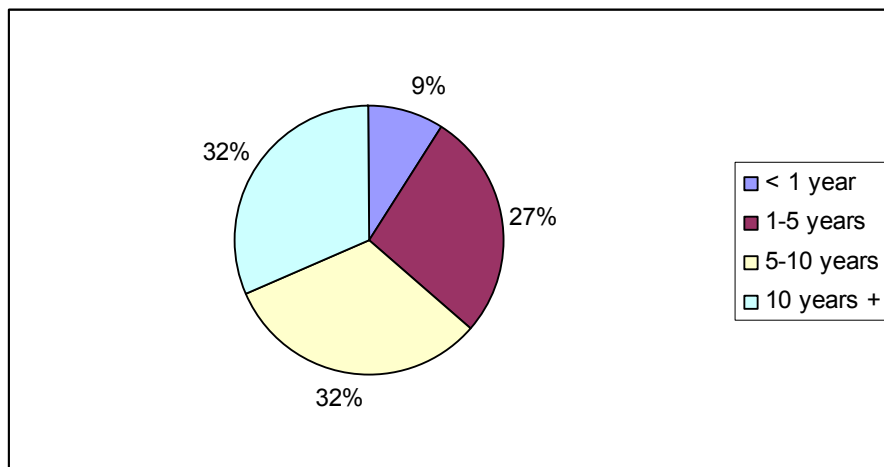


Figure 1. Longevity of Cooperatives in Wales

The first piece of encouraging news about cooperatives in Wales is that they tend to be long-lived. As Figure 1 shows, around a third of the cooperatives included in the survey had been in existence for ten years or more, with approximately another third having existed for between five and ten years and the remaining third having been in business for less than five years. Only 9 per cent of the cooperatives contacted had been set up in the past year.

The second piece of encouraging news is that the cooperatives cover a wide range of economic activities. Figure 2 shows the number of actual cooperative enterprises in a range of different sectors; while Table 1 gives information about the turnover of the cooperatives in different sectors.

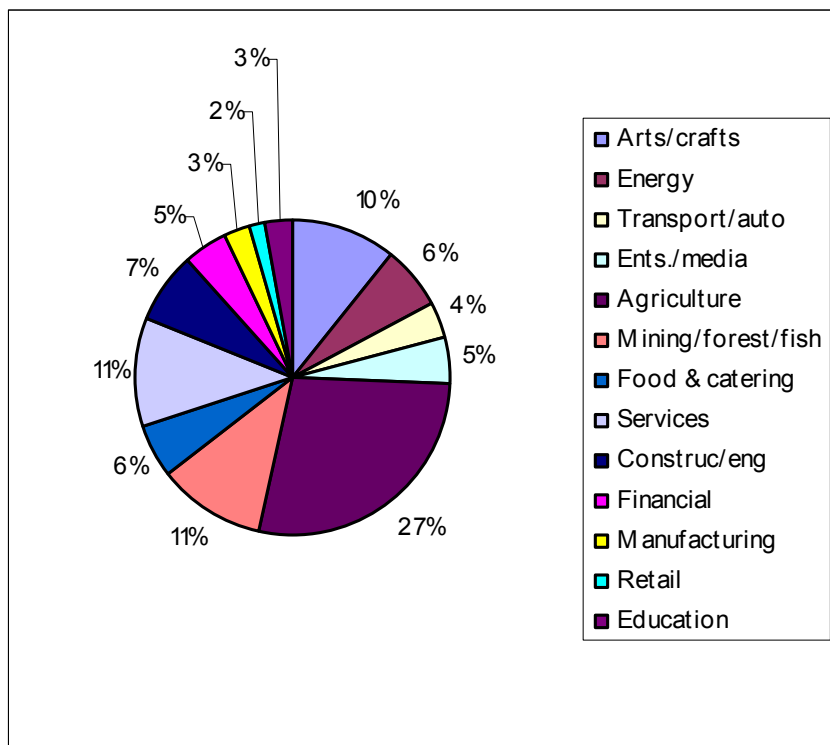


Figure 2. Spread of cooperative activity by sector, by number of cooperatives

Table 1 presents the first evidence of how the Cooperative Group dominates the turnover figures for cooperative activity in Wales, representing more than 60 per cent of all cooperative activity measured in financial terms. The financial sector (the mutual building societies and Cooperative Bank) makes up another 13 per cent with about the same amount of value being generated by the agricultural coops.

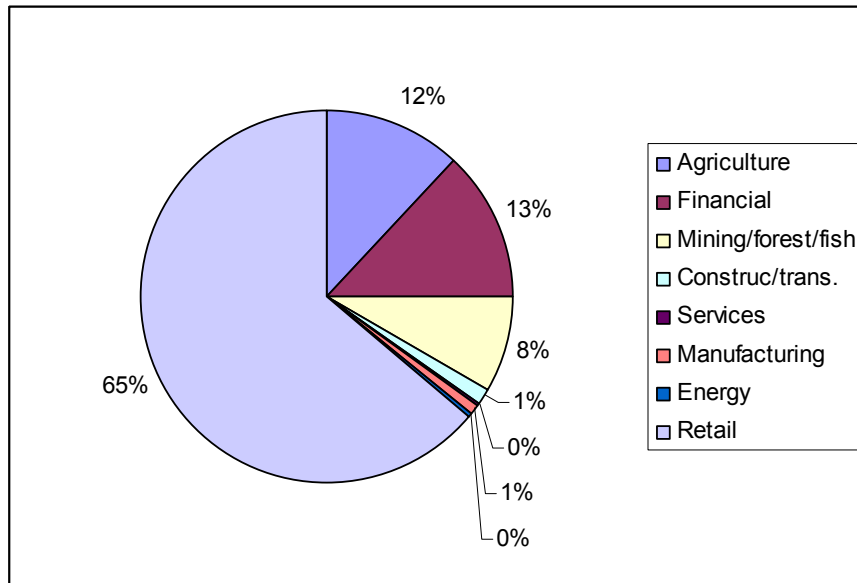
Figure 3 illustrates the turnover by sector, making graphically clear how dominant the Cooperative Group is (represented in lilac and representing 65 per cent of total turnover, around two-thirds). Figure 4 presents turnover figures excluding the dominant Cooperative Group. Now financial services (36 per cent), agriculture (33 per cent), and mining, forestry and fisheries (23 per cent) dominate, with around a third of total activity for the former two and around a quarter for the latter. The first of these represents the three mutual building societies for whom figures were available (the Swansea, Monmouth and Principality), plus the Cooperative Bank. Figures were not available for the Nationwide disaggregated to Wales level.

Table 1. Turnover by sector

Sector		Turnover (£000)	%age
1	Arts/crafts	2065	0.58
2	Energy	1376.5	0.39
3	Transport/auto	1050	0.30
4	Ents./media	525	0.15
5	Agriculture	40972	11.62
6	Mining/forest/fish	29000	8.22
7	Food & catering	250	0.07
8	Services	3550	1.01
9	Construc/eng	3830	1.09
10	Financial services	45130	12.80
11	Manufacturing	300	0.09
12	Retail	220,000	62.39
13	Education	50	0.01
	Total	348099	98.72

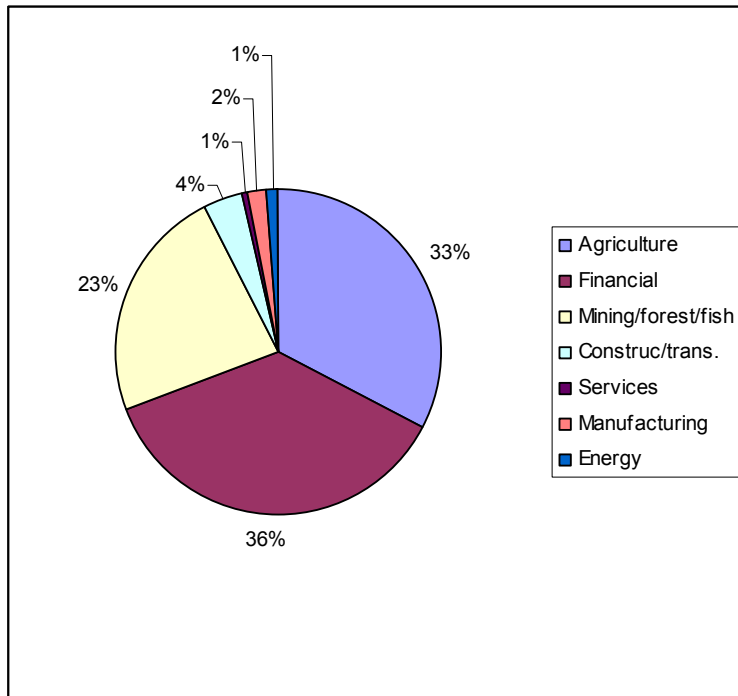
*Note:* The categories defined here related to the following SIC (2003) groups:  
 1: This category is not separated out in the SIC but is here because it is a significant area of secondary cooperative activity in Wales. SIC groups encompassed in this category include: 17, 18, 19, 20, 26, 36.  
 2: 40; 3: 35, 50, 61; 4: 72, 92; 5: 01, 51; 6: 02, 05, 10; 7: 15, 55, 71; 8: 22, 37, 45, 55, 63, 74; 9: 45; 10: 65, 66; 11: 17, 18; 12: 52.  
 13: 80.

Figure 3. Turnover by sector



*Note:* The categories are as for Table 1, except that categories 1 and 11 have been collapsed into a single 'manufacturing' category; categories 3 and 9 have been combined; and a combined 'services' category has been made by combining 7, 8 and 9.

Figure 4. Turnover by sector, excluding the Cooperative Group



Note: Category definitions as for Figure 3.

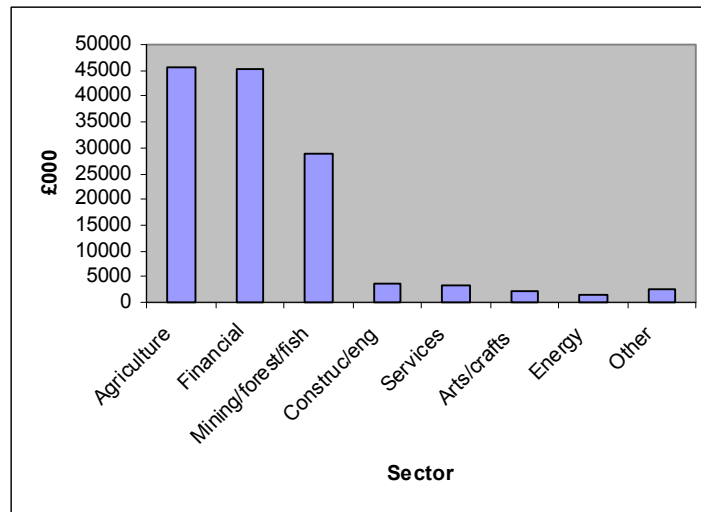


Figure 4 gives details of the actual turnover levels of the different sectors, again excluding the Cooperative Group. It indicates that agriculture and the financial sector have a turnover of around £45m. each, with around £30m. for the primary industries.

Given this wide disparity in turnover levels in the different sectors it is interesting to consider the frequency distribution of businesses by turnover level, as presented in Table 2. The table shows that nearly 80 per cent of

Welsh cooperatives have an annual turnover of more than £200,000. Around a third have a turnover between this value and £1 million, with the remaining sixteen mutual businesses having a turnover of more than a million. Of these seven are the big businesses turning over more than £5m. per year including Tower Colliery, South Caernarfonshire Creameries, the financial services branches and the Cooperative Group.

Table 2. Turnover of cooperatives in the sample

Turnover	Frequency	Percentage	Cum. %age
< 50,000	3	7.9	7.9
50,000<100,000	3	7.9	15.8
100,000< 200,000	2	5.3	21.1
200,000<500,000	8	21.1	42.1
500,000-1m.	6	15.8	57.9
1m-5m	9	23.7	81.6
5m+	7	18.4	100.0
Total	38	100.0	

Table 3. Turnover by type of cooperative

Turnover (£)	Primary	Secondary	Consumer
< 50,000	1	1	1
50,000<100,000	1	1	0
100,000< 200,000	2	0	0
200,000<500,000	7	1	0
500,000-1m.	3	2	1
1m-5m	4	3	2
5m+	1	2	4

Table 3 looks at the same data from a different angle, by showing the distribution of types of cooperative by turnover level. The data indicate that there is no particular type of cooperative that dominates in terms of a large level of turnover, and that the majority of worker-owned businesses fall into the average turnover range for a small business of between £200,000 and £500,000.

The social enterprise sector has become a key target in developing Wales's marginalised local economies. The data in the audit enables us to give some useful information about how effective this sector is at creating employment. The total number of jobs identified in the audit is 7213. Again the retail sector predominates with 5058 jobs, of which 3985 are with the Cooperative Group and another 800 with the Principality Building Society. However, the secondary cooperatives maintain another 1409 jobs, and 746 people work in primary cooperatives. This last group represents both jobs created by the creation of new worker cooperatives and those safeguarded by worker buyouts that have prevented the collapse of firms threatened by succession problems. (Table 6 below indicates how the various firms in this category came into being.)

Table 4. Number of businesses with various numbers of employees

No. employed	Type of cooperative						
	1-5	6-10	11-50	51-100	101-200	201-500	501+
Arts/crafts	0	0	0	3	0	0	0
Energy	1	1	0	2	0	0	0
Transport/auto	0	1	1	0	0	0	0
Ents./media	1	0	1	0	0	0	0
Agriculture	0	1	7	0	1	2	0
Mining/forest/fish	0	1	0	0	0	1	0
Food & catering	1	1	0	0	0	1	0
Services	1		3	0	0	0	0
Construc/eng	1	1	2	0	0	0	0
Financial	0	0	1	1	0	0	1
Manufacturing	0	0	1	0	0	0	0
Retail	0	0	0	0	0	0	1
Education	1	0	0	0	0	0	0
Total	6	6	16	6	1	4	2

*Note:* Definition of sectors as in Table 1.

Table 4 gives information about how these jobs are spread across the businesses studied, i.e. the workforce sizes for the various coops included in the study. The largest cooperatives (those with more than 200 employees) are in the retail, food, primary, financial and agricultural sectors. The greatest frequency for workforce size is found for those businesses employing between 50 and 100 people. Around 30 per cent of the cooperatives studied employed no more than ten people.

Table 5. Workforce size for the different types of cooperative

No. employed	Type of cooperative		
	Primary	Secondary	Consumer
1-5	6	0	0
6-10	3	2	1
11-50	8	6	1
51-100	1	3	2
101-200	0	0	1
201-500	1	3	0
500+	0	0	2
Total	19	14	7

Table 5 shows the employment by type of coop and indicates that the worker-owned businesses tend to be the smaller businesses in terms of number of employees: 17 of the 19 cooperatives in this category employ 50 people or fewer and 9 of these, almost half, employ fewer than 10 people. In fact, the only worker cooperative with more than 200 employees in Wales is Tower Colliery.

The current interest in the issue of the 'local multiplier' suggests that it is not only the number of jobs created that is significant, but also the rates of pay received. From this point of view it is encouraging that the cooperative sector is not a low-pay sector: 29.5 per cent of the cooperatives in the survey said that their members received higher pay than others in similar sectors, a quarter said that they received roughly similar pay levels, with 13.6 per cent saying that their members received lower pay than others in similar sectors.

Around a third of the sample failed to answer this question. This is a generally encouraging picture, suggesting that, contrary to popular myth, cooperatives do not survive by self-exploitation, but rather their members benefit financially from the real cooperative advantage of cutting out the middleman.

Table 6. Rate of pay by type of cooperative

Rate of pay	Type of cooperative			
	Primary	Secondary	Consumer	All
Higher	4	6	1	11
Comparable	7	2	2	11
Lower	4	2	0	6
	15	10	3	28

Table 6 explores whether the higher rates of return are found in one of the types of cooperative: primary, secondary or retail. It demonstrates that the higher rates of pay tend to predominate in the secondary coops which, after all, have made a positive decision to choose this work structure because of its financial advantages. However, in spite of the fact that a large number of the worker cooperatives may have been set up as defensive buyouts the majority receive pay at least as high as the normal rate in their sector.

One of the guiding principles of the cooperative movement is equality, so it was interesting to explore to what extent this high ideal was met by the cooperatives in our sample. We ascertained this by asking directly if all the members of the cooperative were paid the same. Fewer than half the companies answered this question, but of those that did 8 said pay was equal, and 12 said it was not.

Clearly the aim of a cooperative is different from that of a limited company, where shareholders tend to focus on the level of profit. But cooperatives can generate surpluses and 8 of those who responded to this question in our survey responded positively (38.1 per cent), with a further 4 (19 per cent) saying that surpluses were made but were reinvested in the business rather than being distributed. Nine of the cooperatives had not been in a position to return a surplus at the end of the previous trading year. Of those who gave valid responses, 9 said their members belonged to trade unions, whereas 16 said they did not.

Table 7 gives information about how the cooperatives were established. It shows that the majority (nearly two-thirds) were set up from scratch, with around a third arising as the result of buyouts. The spin-off category is very small: an example is Dulas Engineering which grew out of the Centre for Alternative Technology. Table 8 confirms the theory that worker cooperatives tend to be set up in response to problems of succession, either as a result of the founder of a business wishing to retire, or because a business has been taken over by a larger business group which sees no role for this particular subsidiary and so intends to close it down. In these situations employees can choose to protect their jobs by buying the business themselves, and Wales Cooperative Centre has been running a programme to enable them to do this for a number of years. The figures in Table 8 indicate that, while the majority of the worker cooperatives emerged as the result of employee buyouts, most of the secondary cooperatives were set up from scratch.

Table 7. How the businesses came into existence

Nature of founding	Frequency	Percent
From scratch	26	61.9
Buyout	13	31.0
Spin-off	3	7.1
Total	42	100.0

Table 8. Nature of founding according to the type of cooperative

Nature of founding	Primary	Secondary	Consumer
From scratch	4	13	7
Buyout	11	2	0
Spin-off	3	0	0
Total	18	15	7

As well as these straightforward quantitative results we included a couple of questions of a more qualitative nature. These concerned the nature of the business as a mutual organisation, including information about how members of the cooperative were involved in the decision-making, which non-pecuniary advantages they gained from being involved in work organised in this way, and to what extent the business displayed mutual values. The responses in this section were clearly less reliable and there were more missing values.

Table 9 reports the results of the discussion surrounding the benefits of cooperative working. This part of the interview was conducted in a semi-structured way, inviting the respondent to discuss this aspect of the business but with a number of issues in mind which were checked off as the conversation proceeded. In the case of the benefits of cooperative working the categories were:

- Greater role in decision-making
- Working together as a team
- Easier to find funding
- Feel more responsible for success of company
- Marketing is easier
- Opportunities for shared training

Since the results were derived from an open-ended discussion, if respondents did not mention the issue then this was considered a non-response, equivalent to a failure to acknowledge this advantage from cooperative working. This means that those who did mention the particular benefit felt strongly about it and either brought the issue up themselves or mentioned a related issue and agreed to the specific item when prompted.

On this basis there was quite a strong appreciation of the benefits of cooperative working amongst our respondents. In the case of the issue of decision-making, 24 of the coops, that is more than half, felt that their cooperative status gave their members advantages when it came to making decisions about the business. Another question ascertained the nature of this decision-making and found that around half of the cooperatives had direct decision-making, with members raising issues and meeting together to discuss these and make decisions. The other half had an indirect system of decision-making, electing representatives onto boards to make decisions on their behalf.

*Case-study: EOM*

EOM is an example of a successful cooperative operating in the construction services sector. It is an electrical contractor based in Newtown, Powys, employing 32 permanent and 10 sub-contracted staff. The cooperative was set up in 1995, when the company that most of the worker-owners were employed by went into voluntary liquidation. They were supported in the initial stages by advice from Wales Cooperative Centre, a bank loan from HSBC, and approval and hence contract work from the WDA and Powys County Council. In the first full year of trading EOM had a turnover of £450,000, which has since increased to around £1.5 million. Staff numbers have increased from 14 to 42 and vehicle numbers from 7 to 21. The business has now repaid its loans and moved into larger premises on an industrial estate on the outskirts of Newtown. Derek Morgan operates as managing director of the company, although it does belong to shareholders who are also employees.

The most significant advantage of operating as a cooperative is, unsurprisingly, the feeling of teamwork, which was mentioned by 57% of respondents. Slightly less than 40 per cent of respondents mentioned the next three issues we had identified as being possible advantages: ease of finding finance, a greater level of responsibility for the success of the business, and marketing advantages gained through working together rather than in isolation. A smaller number of the cooperatives (13, or 30 per cent) mentioned that getting together to organise shared training was an advantage of this form of organisation.

Table 9. Benefits of cooperative working

	Decision	Teamwork	Finance	Responsibility	Marketing	Training
Yes	24	25	17	17	17	13
N	44	44	44	44	44	44

Our other question designed to acquire a preliminary idea of the culture of this sector concerned the existence of mutual values within the business. In the case of mutual values the categories we were seeking to identify during the interview were:

- Creating jobs most important purpose of firm
- Earning a living rather than making a profit

- United we stand; divided we fall
- We care for producers, customers or suppliers
- We solve our problems together

Table 10 shows the number of cooperatives where the respondent mentioned any of these issues. By far the most popular mutual value is the importance of working together to solve problems, which is really the heart of the mutual approach to economic life. It is encouraging for supporters of the cooperative sector to see that this commitment to mutual aid is held so strongly in an era where individualism and competition appear to be more powerful values. In our sample 26 out of the 44 cooperatives studied mentioned it as being a part of their culture, which represents around 60 per cent of the respondents.

There has been contentious debate in the cooperative sector about whether coops can make profits, rather than generating surpluses. We wanted to find out how our respondents felt about this issue, which we summed up with the phrase ‘Making a living rather than making a profit’. Slightly less than a third of our respondents agreed that this was one of the guiding principles of their business. The other three mutual values—the prioritisation of job creation, the belief in unity as strength, and the importance of caring for those one encounters in economic activity—were each supported by around a quarter of our respondents.

Table 10. Evidence of mutual values

	Jobs	Living	Unity	Care	Together
Yes	10	13	10	11	26
N	44	44	44	44	44

While the positive responses on the mutual values indicators are not very high they are significant in a prevailing culture of market competition. It should also be borne in mind that this part of the research can only be considered preliminary, since the objective at this stage was merely to provide a map of the sector. The second stage of the audit will be able to delve in more detail into these more qualitative issues.

Our data show that linkages between cooperatives are rather weak, indicating the absence of an identity for the sector in Wales. Overall, 19 cooperatives said they did not make any particular effort to buy goods and services from other cooperatives, whereas 17 said that they did. This means that more than half of Wales’s cooperatives are failing to do what they can to support their own sector of the economy. On the other hand, the same number do not see their own cooperative status as a selling-point for customers. Again 19 of the 36 who gave valid responses to this question did not advertise their cooperative status, with a slightly lower number of 17 stating that this was a good selling point.

Table 11. Attitude towards cooperative linkages according to type of cooperative

Cooplink	Type of cooperative		
	Primary	Secondary	Consumer
No	10	8	1
Yes	8	4	3
N	18	12	4
Coopsell	1	2	3
No	12	6	0
Yes	6	7	3
N	18	13	3

There was a variable degree of knowledge of the support and funding bodies available to the cooperative sector amongst the cooperatives we spoke to, as shown in Table 12. Given that the original database was obtained from the Wales Cooperative Centre it is unsurprising that they were the body that most cooperatives had had contact with, in this case 25 of the 44 we spoke to (57 per cent) had had support from WCC, and in all cases they gave a favourable report of the nature of this support. A relatively small number of cooperatives had had contact with the other support bodies, ICOF or others such as Cooperatives UK and the bodies that have now come together under that umbrella.

Table 12. Use of cooperative support and financing bodies

	Support			Finance			
	WCC	ICOF	Other	ICOF	WDA/Finance Wales	Other grant	Bank
Yes	25	5	6	8	13	15	11
No	19	39	38	36	35	29	33

*Note:* The data relate to whether the cooperative has been in contact with or gained funding from the various bodies identified.

In terms of funding the most popular source was ‘other grants’, either from local authority development funds, Arts Council Wales, or social investment banks like Triodos. A quarter of the cooperatives had managed to obtain bank funding, usually because a personal or local tie was able to substitute for collateral for the loan. The WDA/Finance Wales had funded 13 of the cooperatives and ICOF had funded 8. Given the disparity in the amount of funds available to these two bodies, the fact that the disparity is not greater suggests that the WDA is not giving a high enough priority to the cooperative sector, which is continuing to rely on the goodwill of members and on its own support bodies. (ICOF for the whole of the UK has total funds of around £2m. (ICOF, 2003), whereas the WDA is aiming to invest £100m. in the Welsh economy alone by 2008 ([www.financewales.co.uk](http://www.financewales.co.uk).)

A full 14, or nearly a third, of the cooperatives who were included in the full survey had not received any form of funding to support their activities. This suggests the serious problems with finance facing this sector and the need to explore this issue as a priority given the important role it is

expected to play in regeneration, and its difficulties with accessing bank finance. Quite a few of the cooperatives complained that it was very difficult to obtain funding and that cooperative status was a significant disadvantage in this respect.

The survey itself played a useful role in making cooperatives aware of the particular sources of funding for their sector, particularly in the case of ICOF which did not seem to be well known and was made known during the survey to several cooperatives seeking finance who may well now make applications.

## **6. The Pattern of the Cooperative Sector in Wales**

The audit has given us a good general picture of the most important sectors of cooperative activity in Wales. We can see that it falls into several distinct groups with individual identities:

- Reminders of the first wave of cooperative activity in the nineteenth century, which are secure and well-established;
- A strong group of more recently established agricultural cooperatives which have grown up in response to the weakened market position of farmers in recent years;
- Worker-owned businesses that have come into existence due to another form of market failure, either the failure of succession planning or the inefficiencies of globalisation, meaning that smaller subsidiaries that are profitable are now longer of interest to larger industry groups;
- New cooperatives, largely in environmentally related areas, which have chosen the cooperative form as part of their commitment to a different, sustainable form of economic activity.

The research has also indicated a gap between the old, well-established cooperatives, such as the Cooperative Group (mainly supermarkets) and the farmers' supplies cooperatives and the newer cooperatives resulting from buyouts or in the organic or environmental sector. The Wales Cooperative Centre could play a useful role in reinforcing links between these two types of coop, in terms of advice, mutual selling and financial support. One respondent to the survey was disappointed that none of the new agricultural cooperatives had thought to ask their large, well-established organisation for financial help. It is also clear that the Cooperative Group is inclined to favour cooperative suppliers when sourcing its goods, so long as considerations of scale and reliability can be overcome. This is the challenge for the Assembly working through the Wales Cooperative Centre.

### **Finance and Funding**

Cooperative businesses face a specific set of circumstances when they need investment. These relate to the ethos of the business, its management structure and the collateral and returns it can offer to potential investors. There are two main problems facing social enterprises seeking debt finance:

- They do not have collateral in the traditional sense that banks are happy to accept and because ownership is not straightforward the guarantee is weaker;
- They do not have the usual attitude to risk and return that is typical of the business world, i.e. because they are not seeking to make a profit for themselves, they are less inclined to take on the risk of a loan.

A recent report from the Bank of England called *The Financing of Social Enterprises* (2003) acknowledges the first point as follows: 'a social enterprise's main objective is not to maximise profits. It may find, therefore, that its objectives are not aligned with those of other agents in the economy'. These two factors both suggest that interest-based loans from a conventional bank are not the most appropriate means of finance for social enterprise.

The government's Co-operative Commission agreed with the identification of these particular problems facing the cooperative sector in gaining access to finance. It proposed a conference:

*To address the funding difficulties encountered in the UK for social enterprises, the feasibility of creating a social economy venture capital fund and the current legal limits in the UK on the scale of Co-operative shareholdings* (p. 8).

This makes clear the conflict between the ethos of the sector and the approach of standard financial institutions. Many supporters of the cooperative movement might be inclined to suggest that the concepts of 'social economy' and 'venture capital' are mutually inconsistent. Again, the proposal to increase the legal limit on shareholding goes right to the heart of the nature of cooperative organisations.

Social enterprises can access grant funding, reducing their need for interest-bearing loans. But they have also developed creative ways around the conventional banking system. They can gain access to 'soft' loans, which have longer repayment periods and low interest rates; others issue bonds to supporters rather than borrowing money and incurring interest. Cooperatives also have their own development fund in ICOF. However, many of the respondents to our survey had experienced problems in borrowing money to expand, in spite of their being placed in promising and expanding markets.

## **Credibility**

Our study of cooperatives in Wales began by focusing on Tower Colliery and it was there that we first found a reluctance on the part of cooperative businesses to advertise their particular management status to customers. This was found more widely during the survey, with comments such as 'We are a cooperative but we are still a proper business . . . We deal with a lot of blue-chip companies who might be scared off it they knew we were a cooperative and would wonder who takes ultimate responsibility'.

This relates to a point we develop elsewhere (Arthur, Cato and Smith, 2004) about the marginalisation of the cooperative sector. Although there

### Case-study: Moelyci Environmental Centre, Bangor

The traditional North Wales hill farm of Moelyci, near Bangor, came up for sale in 2001 when the tenant farmer could no longer survive financially from traditional sheep farming in the face of the foot-and-mouth epidemic. The farm covers 90 acres of the lower slopes of the mountain (part of which is an SSSI), and there are 250 acres of adjoining mountain land and 180 acres of mature forest owned by the Forestry Commission. The mountain is on the edge of the Snowdonia National Park, with magnificent views across to the coast. The estate that owned Moelyci Farm had plans to sell off the land and convert the farm buildings into holiday cottages, but local people saw an opportunity to use the mountain for community benefit, and created an Industrial and Provident Society cooperative to buy the land. The cooperative has 280 members who have each bought 25 £1 shares.

One aim for the co-operative is to provide support for the development of sustainable local businesses. An organic vegetable farm is already running, together with a collaborative project with Friends of the Earth to supply vegetables to the Countryside Council for Wales. There is also a tree nursery, a timber products business, and coppicing and composting projects. Moelyci have collaborated with Menterra at Bangor University to test grow flax and will plant hemp on an experimental basis, and possibly biofuels. The idea is that each of these businesses will become a self-standing cooperative as it becomes viable. There are plans for business support such as information on tax and insurance, shared office space and secretarial help, a café and a crèche. An environment centre has been started, providing environmental education for children and adults, and training opportunities especially allied to the land-based activities the co-op wants to attract as businesses, for example traditional arts and crafts such as wood carving and sculpting, and drystone walling.

As with many cooperatives funding has not been easy, although Moelyci has been supported by loans from ICOF and Triodos Bank, which enabled a holding company to buy the land with the cooperative paying rent until it was in a position to buy the land itself. After various complications, purchase of the land finally went through in April 2003, and funding from Co-operative Action has allowed the project to employ a part-time manager whose job it is to keep supporting the local initiatives and businesses and to raise more money, including the further £500,000 needed to complete the renovation and development. The project would seem an ideal candidate for Objective 1 funding, although the processes of applying for this has been fraught with difficulty and no funds have been received from this source.

has been much emphasis placed on the social economy, its support is frequently placed within the regeneration brief, rather than at the heart of economic development. This leads to a perception that the social economy is a repository of losers, useful in building up people's confidence until they are functioning well enough to operate in the 'real' economy, where competition is fierce and big profits are returned. On this view, cooperatives are denigrated as a lesser form of economic life because they do not make profits, ignoring the fact that they may have made a specific ideological decision not to make profits.

This idealisation of the market economy at the expense of other forms of economic activity has been suggested as part of the explanation for the persistent failure of economic regeneration in parts of Wales by one of the authors of this audit (see Cato, 2004). She argues that the particular culture and history of the Valleys has created a lasting commitment to community and cooperative solutions rather than an individualist model of entrepreneurship. In such a context the heavy political emphasis on the competitive market model is in fact counter-productive and undermines the confidence and motivation of those whose energy needs to be harnessed to achieve lasting regeneration.

### **Capacity building**

The Glamorgan University scoping study makes a recommendation for a mentoring scheme for social enterprises. We would concur with this recommendation in the case of the cooperative sector. In the case of cooperatives it is particularly important that they develop a sense of their identity and the strong historical basis of the cooperative movement. This helps to guard against the phenomenon of cooperative deterioration which has been recognised in academic studies. There was indication in the survey that cooperatives had lost sight of the ideals which guided them, or in some cases others, to choose this business form.

### **Linkages and Mutual Support**

It is somewhat ironic in a study of a sector that grew up around the concept of mutuality to have to report that cooperatives in Wales tend to lack mutual support. Cooperation amongst cooperatives is one of the seven principles of the cooperative movement, and within the cooperatives there is a sense of working together to solve joint problems and a real atmosphere of community and support in spite of inevitable conflicts and differences. However, Wales's many separate cooperative businesses tend not to know of each other's existence and many have not thought of approaching other cooperatives when they themselves require goods and services.

There appears to be a problem with ignoring some of the better established players in the field, particularly the Cooperative Group and the farmers' cooperatives, which have been successful business for more than a hundred years and yet are often ignored by new initiatives in this field. They have much to offer fledgling cooperatives businesses in terms of training, guidance, profile and financial backing. The Cooperative Group has a policy of sourcing from other cooperatives when it can, but its own purchasing and distribution systems might facilitate this better. They are willing to give financial support to new businesses in the cooperative sector. Similarly, Clynderwen and Ceredigion Farmers' has helped in the establishment of the Welsh Meat Company and has also been involved in a failed project to establish a flax factory and an ongoing venture to establish a grain marketing cooperative, both in Pembrokeshire. They are willing to offer to cover administration on behalf of new cooperatives, where they can offer expertise as well as economies of scale.

The Centre for Alternative Technology near Machynlleth provides a model for how one cooperative can spin off and then support further cooperative businesses. It has a history of encouraging staff who achieve success in one area of its activities to spin off and create a new business,

### *Case-study: Cambrian Organics*

Cambrian Organics is a secondary cooperative of 18 farms in West Wales. As well as selling to the local market through local shops and farmers' markets the group also runs a mail-order business via a website. The farms in the group produce organic beef, lamb, pork and poultry. To increase added value Cambrian Organics is moving into the development of prepared meals, beginning with hamburgers. The group is well aware of the importance of provenance to modern consumers. Each pack of meat is marked with a farm code and the website gives details of the farms including pictures of the farming family and an invitation to visit. On the website one of the group's farmers, Simon Lloyd-Williams (Moelgolomen Farm) says 'We believe your food should be traceable all the way back to the farm, we are all dedicated to achieving the highest possible standards in food production, processing, and traceability'. Cambrian Organics has enjoyed critical as well as commercial success, with a Soil Association food award in 2002 and a silver award as a True Taste Retailer for its website in 2003/4.



Cambrian organics has two features that make it a model cooperative for development in Wales. First, it is in the agricultural sector, which has suffered in the present economic climate and has shown itself suitable for cooperative organisation. Secondly, it has a niche which ties in with its unique selling point: in other words, it is in a market which is growing rapidly, the organic sector, and whose customers are likely to be concerned for the nature of the production process in human terms as well as for the animals they will end up eating. There is a positive synergy here between the nature of work organisation, the niche and expanding market and the price premium.

often itself organised along cooperative lines. The most prominent example is Dulas, which, over the past 20 years has built up its reputation as a leading consultant in the field of renewable energy including research, design, training and the implementation of solar, wind, hydro and biomass projects; the company is organised as a cooperative. Dulas is now generating spin-offs in its own right, the first being Bro Dyfi Community Renewables. Dulas worked with the Dyfi Ecovalley Partnership, which 'focuses on small-scale community-based schemes so that local people can own and control energy production, and to follow the general principle of keeping money circulating within the local economy for as long as possible'. The project resulted in

Britain's first community-owned wind turbine set up by Bro Dyfi Community Renewables Group. Almost 50 local people are members of the energy cooperative, each investing £1000. CAT is providing ongoing support to this initiative by guaranteeing to buy all the power it generates (around 163 MWh each year) to supply its site with electricity and hot water, with the half or so that remains being exported to the grid.

Cooperatives in Wales could provide considerable support for each other by engaging in coop-to-coop linkages. As reported above our survey found that 23 per cent of our sample do this already, but their ability to support other mutual businesses is hampered by a lack of information. It is remarkable how many of the services small businesses need, from website design to printing and packaging, are available from cooperatives in Wales. Cleddau Press, which recently became a cooperative after an employee buyout, is an example of the sort of firm that could benefit from receiving priority treatment for tendering by other coops. The business has doubled its turnover since its change of status and is providing badly needed jobs in the rural area of Haverfordwest.

### **Priority Sectors for Development**

A sizeable proportion of Wales's production of meat and milk is organised cooperatively. There is expansion particularly in the organic cooperative sector, with businesses like Cambrian Organics developing value-added lines including mail-order, ready-made organic meals. According to John Vidal of the Guardian the organic sector in Europe is increasing by 50 to 85 per cent every year, and in the UK the market is worth almost £1bn. Because of its clean and green image Wales is ideally placed to play a major part in this market. Ensuring that Welsh organic producers were cooperatively organised would generate the additional benefits from capital anchoring. Thus the food sector should be a priority for development.

Another priority sector that is apparent is in the environmental niche. The Centre for Alternative Technology is one of Wales's oldest cooperatives and has spun off several others including Dulas Engineering. Moving away from educational and demonstration work it has now begun to develop small-scale, local renewable energy projects. Wind energy will be important to Wales's future; the main obstacle it faces is local opposition to the siting of the turbines. This can be overcome by positioning the energy generation facilities in the social economy, so that local people control them and gain the reward. An example of such a scheme is the Bro Dyfi Community Renewables project near Machynlleth. A related market is that for biodiesel, which can be made from recycling used cooking oil. Sundance Renewables, one of the cooperatives included in the audit based in Ammanford, is an example project which was recently granted a licence to sell biodiesel. These are new and growing markets. By ensuring that in Wales they are found in the cooperative sector could provide lasting benefit to some of Wales's poorest communities.

In February 2003 Edwina Hart launched the Community Benefits Pathfinder Project which tests the use of community benefits in awarding public sector contracts. The project focuses on construction and asks contractors to employ and train a percentage of their workforce from amongst local unemployed people. When launching the project Ms Hart said 'Recent guidance on procurement from the European Commission has gone some way towards clarifying the range of possibilities under existing

European law. This has indicated that there is scope for procurements to support government policies to provide some community benefits for example training of the unemployed.’ Pilots schemes to explore the outcomes from such innovative procurement are being run in Rhondda-Cynon-Taff on the Porth Road Bypass scheme, by Anglesey Council on the Holyhead harbour bridge scheme, and by the WDA on the Llandudno Hotpoint refurbishment scheme. We applaud the introduction of social benefits into public procurement contracts but would suggest the need for anchoring of both the skills and the capital this will generate by organising it through a system of construction-based cooperatives. The successful electrical contractor EOM (see the case-study, above) could be used as a model. This should be the third priority sector for development.

### **Cooperative Advantage?**

Much discussion in the cooperative movement today focuses around the concept of the ‘cooperative advantage’. This was the title of a report produced by the specially established Co-operative Commission into the cooperative movement as a whole, although focusing heavily on the retail and associated businesses forming part of the Cooperative Society, and neglecting or ignoring altogether the new upsurge of cooperative businesses in the environmental field. The report discusses the cooperative advantage in the following terms:

*In successful Co-operatives, the ethical values of honesty, openness, social responsibility and caring for others, can give an edge over businesses driven simply by the profit motive. That edge helps build commercial success and that, in turn, provides the resources to strengthen the ethical dimension. Where Co-operatives have failed to match their potential this virtuous circle has been broken; the way the business has been conducted has not always reflected the ethical values and the links between the members and their co-operatively owned business have not functioned effectively. Efficiency levels have not matched the best of public companies.*

We would diverge from these arguments in several respects. In a world where market leaders engage in frankly fraudulent accounting practices it seems rather naïve to suggest that upstanding and respectable values will give a company any competitive edge. The reason cooperatives were established in the first place was to substitute a mutually supportive culture where the concept of competitive edge would have little meaning. For many members of cooperatives today it is still this desire for a different ethic that persuades them to engage in this form of economic activity, not the quest for efficiency or commercial success, which are the objectives of the market-based economy that the cooperative movement has always stood in opposition too.

### The Cooperative Advantage: Case-Study of Llyn Beef Producers Co-operative

Like many of the secondary cooperatives in the agricultural sector included in this audit the Llyn Beef group was founded in response to the crisis in Welsh farming as a result of falling prices for the product, particularly in the wake of the BSE crisis. Forty lowland beef producers on the Llyn peninsula in north-west Wales got together to found the co-operative in May 1997. By January 2003 it had 320 members. According to an academic study of the cooperative:

*The Co-operative was established to try to improve the collective strength of farmers in the supply chain and thereby improve financial returns to beef farmers in the area. It was felt that a premium price could be secured by marketing the beef from the area on the basis of (1) the natural grass-based system of production, (2) the eating quality of the beef and (3) the quality and complete traceability, i.e. assurance of the origin of the product. Added value is generated by co-operation along the supply chain, supported by technical advice . . . and marketing and promotion. The co-operative was also established in the belief that a closer relationship with retailers, combined with group marketing, would improve the continuity of supply and reduce the risk of retailers making unrealistic demands.*

The cooperative is typical of many secondary cooperatives in the agricultural sector of Wales and shows the benefits to be gained when farmers work together to solve their shared problems. The farmers involved in the group have guaranteed a product with high quality and traceability, which is now important to consumers, and can thus command a premium price. Beef sold through the cooperative attracts a gross margin per head of £64 compared with £37 for traditional sales methods, a difference of £27 or 42 per cent. This translates into an extra income of £5670 per farm. In 2000, when the membership of the cooperative was 100, this represented an extra value added for farming in the region of £567,000. There is also a local multiplier effect with an increase of employment at the Cig Arfon abattoir, through which most of the meat is slaughtered, estimated at £2.22million.

*Sources: Beef Improvement Grouping Newsletter, January 2003; Marsden, Banks and Bristow, 2000.*

Most importantly of all, however, the quotation fails to identify the real cooperative advantage which has emerged clearly in our research conducted in Wales. Cooperatives have a huge advantage in the globalised marketplace because their members have both ownership and control of the business. This prevents the siphoning of value out of the local economy to shareholders elsewhere, and allows standards of employment and environmental protection to be maintained without fear of falls on the stock market. The capital anchoring provided by ownership also prevents the closure of businesses that are viable but fail to make excess profits and the buying out of businesses by global players with no commitment to the Welsh economy.

The additional advantage of the cooperative that the Commission's report fails to identify is the sharing of the value only between those who are responsible for its production, with no need to provide incomes to those who have not generated them, whether powerful market middlemen or shareholders. The classic example of this advantage is found in the many Welsh agricultural cooperatives, who gain premium prices for the produce by selling direct to the market, or who have improved their negotiating position vis-à-vis the supermarkets by cooperating together. Research has shown that this can mean a 42 per cent increase in the gross margin received by the farmer per head of cattle sold (for more details see the case-study in the box).<sup>3</sup> This is the real cooperative advantage that the report from the Cooperative Commission fails to mention.

## 7. Conclusions and Recommendations

The audit has demonstrated that there is a strong cooperative sector in Wales and that its main problems are a lack of identity and profile and a lack of linkages between cooperatives. The strength of the older cooperatives, especially the farmers' supplies and the Cooperative Group, could be harnessed to support the fledgling coops that are more vulnerable. Our primary recommendation is that **the Welsh Assembly work through the Wales Cooperative Centre to develop inter-cooperative linkages across Wales (R1)**.

For the reasons given in the previous section **the priority sectors for development should be: the food sector, the environmental energy sector, and the construction sector (R2)**

The information provided in this audit and in the Glamorgan University study can be used to enhance the profile of the sector and to build linkages between social enterprises, whether narrowly defined cooperatives or businesses defined more widely but with social objectives. This is now a significant part of the Welsh economy that could become self-reinforcing if better links were established. It is also a niche market that could attract ethical consumers. To enable this process **we recommend the establishment of a social enterprise directory, and a website to support it (R3)**, linking in to other forms of ethical shopping such as Fair Trade.

We would also endorse the University of Glamorgan study's call for a mentoring scheme for cooperatives in Wales and **would recommend that this take the form of capacity-building workshops for key cooperative actors (R4)**, organised jointly by the Wales Cooperative Centre and the Wales Institute for Research into Cooperatives.

If the cooperative sector in Wales is to thrive the issue of finance must be addressed. Although the conventional banking sector has shown increased interest in lending to the social economy since the expansion of that sector, this interest should be regarded cautiously. The profit-making motivation of banks may well be incompatible with the mutual ethos, and this may threaten the survival of this particular form of economic activity. It may be more appropriate for a sector which has always relied on its own resources to continue to do that but in a slightly more formalised way. To enhance finance for the cooperative sector, we are proposing **the**

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<sup>3</sup> Based on a study of the Llyn Beef Producers' Cooperative reported in Marsden, Banks and Bristow (2000).

**establishment of a Cooperative Development Bank for Wales, based on a voluntary levy of 1% of turnover from Wales's most well-established mutual businesses (R5).** Since the Cooperative Group and the mutual building societies are already committed to giving financial support to their communities, this should be built on to develop a national fund for the sector.

To address the significant problem of the marginalisation of the cooperative sector in Wales we make two recommendations: that the Welsh Assembly government **appoint a Social Economy Champion to raise the profile and credibility of the sector and that this person be a prominent member of a successful Welsh cooperative business (R6)** and that **the responsibility for social economy development be placed within the economic development brief rather than the regeneration brief (R7).**

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## Appendix: Copy of the Questionnaire

### Coop Audit questionnaire

#### *Background*

1. When was co-op established?
2. How?
3. What is your product or products?

#### *Employment*

4. How many people are employed? Break down by gender
5. What has the trend in employment been over the last five years?
6. How do rates of pay compare with other producers in the same market that are not cooperatives?
7. Do you distribute dividends to worker-owners? If so, how is this decided & what was the size of the dividend last year?
8. Are managers paid differently?

#### *Work Organisation*

9. How does co-operative form affect (i) work organisation and (ii) decision-making?
10. How are worker-owners involved in the decision-making of the firm?
11. What benefits/advantages do members enjoy which they would not get in conventional employment?

Prompts:     Greater role in decision-making  
                  Working together as a team  
                  Easier to find funding  
                  Feel more responsible for success of company  
                  Marketing is easier  
                  Opportunities for shared training

12. Are members also members of a trade union? If so, which one?

#### *External Relations*

13. Do you make an effort to network with other cooperative suppliers?
14. Do you advertise your cooperative status to customers or potential customers?

*Other*

15. Does your company reflect mutual values? Could you give examples?

Prompts      Creating jobs most important purpose of firm  
Earning a living rather than making a profit  
United we stand; divided we fall  
We care for producers, customers or suppliers  
We solve our problems together

16. Do you have contact with any cooperative support or information bodies?  
If so, which ones and how often?

Finance

17. How is your business funded? What sources of investment capital are available?

18. What is your annual turnover?

19. What has the trend been over the last five years?

20. Could you tell us about any other cooperatives in Wales you know about?