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Editorial: Cooperative Firms, Participatory Culture, and Contemporary Challenges. Essays in Honour of Johnston Birchall

ABSTRACT

This is the editorial to the JEOD Special Issue *Cooperative firms, participatory culture, and contemporary challenges. Essays in honour of Johnston Birchall*. After outlining the main elements of his work, we discuss how this can help to interpret current economic challenges as they are presented by the authors of the articles published in this issue.

KEY-WORDS

JOHNSTON BIRCHALL, COOPERATIVE FIRMS, OWNERSHIP, DEMOCRACY, DIGITAL PLATFORMS, PANDEMIC CRISIS

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Professor Johnston Birchall started his working life as a community worker and later as a housing association manager for five years. He then completed a Master's degree in Sociology at the University of York followed by a PhD in 1985 on the topic of housing cooperatives at the same university. He spent all of his career exploring the universe of cooperatives and mutuals, becoming a point of reference for international studies on these organizations. His approach has been critical, addressing both the advantages and limitations of cooperation.

Unlike the majority of economists and social scientists, Johnston Birchall does not concentrate on one single model (the worker cooperative), thus avoiding the risks into which many have fallen—to consider these organizations as a general alternative to capitalist enterprises or as a marginal phenomenon. He assumes, instead, a broader definition based on ownership and governance. The main characteristic of cooperatives and mutuals is that they are *unions of persons*, people-centred organizations. Joint stock companies are instead *unions of monetary units* and are not the only or always the best performing enterprises as typically taught in Business Schools. This makes a great difference between the two models in terms of frequency, economic and employment creation relevance, aims, activity and beneficiaries.

In other words, there is a whole set of business organisations that are owned not by investors, or the public, or a single entrepreneur, but by those who *benefit directly* from its activities—users or customers, other companies who supply to or are supplied by the business, or its employees. This is, to put it simply, a *member-owned* business, and it is quite distinct from an *investor-owned* business. The crucial distinction is between a business that is people-centred, and one that is money-centred (Birchall, 2012).

Birchall identifies three main stakeholders in any businesses: its consumers, the producers who supply inputs to or take the outputs from the business, and its employees. This gives us three groups of businesses that can be owned by stakeholders other than investors: consumer-owned, producer-owned and employee-owned. The advantages to stakeholders of cooperating are obvious; together they can channel the value added from the business to themselves rather than to investor-owners.

This approach allows Johnston Birchall to explore different theories, to account for both the rise and decline of mutuals and cooperatives globally: from historical analyses to reconstruct the evolutionary processes, to transaction costs theory, to the role of motivations and social capital (Simmons and Birchall, 2008). He has analysed cooperatives using, at the same time, case studies, general data on the number of these businesses in several countries, and original research.

While recognising that cooperatives and mutuals can also be studied from different perspectives, such as the type of market sector, the intensity of competition, market imperfections, transaction costs, the quality of management, or the impact of new technology, Johnston Birchall privileged the importance of ownership and justified this focus with strong evidence (Birchall, 2017).

Ownership brings benefits to one stakeholder rather than another. If a firm is owned by investors, they can appropriate the profits and all other stakeholders are excluded. If, on the other hand, it is owned by the employees, or by customers, or by other firms that rely on it for their business, they

take the profits or can decide—as generally happens—to give priority to other aims. Consumers may value the price or the quality of the product, or both, employees decent working conditions, and producers the quality of inputs to their businesses or the efficient transformation and marketing of their products. In other words, giving ownership to stakeholders who rely on the business not just for the profit but for their livelihood, or to meet basic needs, or to pursue their own business aims, enables the business to be people-centred rather than money-centred.

Moreover, the existence of a member-owned sector has wider effects. It can be argued that markets that include a good number of people-centred enterprises provide more choice to consumers, help the market to be and remain more competitive, and provide room for innovation, as happened with the emergence and growth of social cooperatives in several countries.

Obviously, there are always costs incurred in bringing one set of stakeholders or another into ownership. Stakeholders who are left outside have to rely on contracts that carry transaction costs, while those on the inside have to bear the costs of governance. Compared with the money-centred organizations, member-ownership provides a different mix of costs that, in some circumstances, make the firm more competitive. This is the case of natural monopolies, such as utility industries, or sectors that rely on long term incomplete contracts such as life and health insurance. Water and electricity cooperatives on one hand, and mutuals on the other, align the interests of customers more closely with the aims of the business as opposed to investor-ownership.

Relying on this idea of the very nature and specificities of cooperative and mutual, Johnston Birchall analysed many aspects of the people-centred enterprises. He showed the strengths and limits of the various forms, he studied the conditions to enhance participation (Birchall and Simmons, 2004), their ability to alleviate poverty in less developed countries (Birchall, 2003), the issue of governance and many other aspects.

For all these reasons, Johnston Birchall's life work can be considered a milestone in the study of mutual and cooperatives.

Building on the attention that Johnston Birchall had devoted to real world cooperatives, their governance models and their effects on participants and on the development of regions and localities, the authors in this Special Issue present reflections on a range of institutional issues. These issues connect the organizational model of cooperatives with contemporary unresolved questions and challenges, from the role of federations and multiple membership structures, to the nature and effectiveness of cooperative platforms. Institutional models have been examined, again in the context of Johnston Birchall's legacy, with respect to their role in alleviating poverty or replying to health emergencies and social isolation.

In his article, Derek Jones addresses producer cooperatives (PC). His findings highlight that PC performance is associated with being part of a strong network and affiliated with a well-resourced second level cooperative, namely a federation, whose functions and roles vary according to the sector, country and capitalist structure. Complementary, his conclusions point at the role of including the participation of substantive worker-members in the cooperative control and in returns. The article highlights the scope for further research in this field and offers a number of interesting

stimuli for researchers. Jones' contribution speaks to the work by Sacchetti and Birchall (2018), earlier published in this Journal, where the authors discussed the viability of multi-stakeholder cooperatives and called for further research that could test the efficiency and effectiveness of heterogeneous group presence. Jones' article points at two aspects of multiple membership, one including internal stakeholders (in this case workers, besides producers) and the other involving external stakeholders (other cooperatives through the federation). It suggests that performance is the result of an institutional design that creates the conditions for connecting and including stakeholders across the firm's boundaries and within the organization. In so doing it points to the welfare generating effects of inclusive and cooperative governance architectures, as highlighted by Sacchetti (2015) and Sacchetti and Borzaga (2021).

Morshed Mannan, Simon Pek and Trebor Scholz investigate the effectiveness of digital platforms on poverty alleviation. First, from Johnston Birchall's work on the "cooperative advantage" (Birchall, 2003), the Millennium Development Goals (Birchall, 2004), and various collaborative pieces by Birchall and Simmons, they identify the main contribution of cooperatives to the poverty issue, namely: (a) an income and work quality raising function, (b) a capability function, (c) a comparative advantage function with respect to other business forms when it comes to surplus distribution, scaling and wealth creation, and finally (d) a mutually beneficial networking function with private and public organizations. They then build on their suggested corporate platform features (data capture, user ideological control, financialization) to highlight the issues that these platforms have raised regarding poverty. They argue that, however, when adopted by cooperatives, the platform organizations and their consortia mitigate the more predatory attitude of corporate platforms on data, ideological control and financialisation. The authors find positive applications that reflect some elements of Birchall's analysis, and in particular suggest (similarly to Jones' analysis) that cooperative platforms have a greater advantage over corporate platforms when they build on a strong network and are multi-stakeholder.

Anne-Marie Merrien and colleagues build on Johnston Birchall's analysis of cooperative resilience in times of crisis (Birchall and Hammond Ketilson, 2009; Birchall, 2013) and highlight—triangulating data from literature, media, interviews and a survey—the features that allowed Canadian cooperatives to persist in their roles and activities during the COVID-19 pandemic. They emphasize, along a transaction cost theory approach, the strategies adopted by cooperatives against risk and uncertainty, with the aim of reinforcing stability and protecting member interests. Their analysis evidenced social responsibility elements of cooperation towards internal stakeholders, and communities more broadly, which was sustained not only by governmental policy but by the specific governance elements of the cooperative form as well as by communities, networking and solidarity amongst cooperatives.

Juliette Summers and Boyka Bratanova, in the same vein, address the reply to the recent COVID-19 crisis of employee-owned businesses (EOBs) in Scotland (UK). They build on the three pillars of Johnston Birchall's analysis of cooperatives, namely ownership, control and member benefit (Birchall, 2013). The authors investigate, within this framework, the specific role of

gradual transitions of investor-owned firms to EOBs, hence addressing hybrid forms of employee ownership. They hence ask whether different degrees of employee ownership have implications for the economic, social and democratic performance of EOBs during the pandemic. Their results evidence the limitations of the potential trade-offs between member benefits (i.e., avoidance of layoffs) and financial sustainability, especially with regard to the risks associated with the erosion of financial reserves and debt burden, thus stressing the greater resilience of more mature EOBs. Consistently, they emphasize the positive relation of the length of employee ownership for non-economic outcomes and persistence of democratic goals.

Sumi Cho and Seungkwon Jang delve in the iCOOP experience to explore the motives and features of networking of this multi-stakeholder consumer Korean cooperative. Cooperatives with heterogeneous interests have been argued to bear higher ownership costs (Hansmann, 1996), and the authors explore how such costs are mitigated by the appropriate strategies and organizational processes. The authors build on the importance of having a strong membership and providing good reasons for members to engage with the cooperative (Birchall and Simmons, 2004). The authors present a narrative of the way the partnership with producers was integrated in the cooperative, which over time kept a strong focus on protecting the eco-friendly quality of products in the interest of consumers, as well as the tensions. They then highlight the soft elements on which the cooperative has built to keep objectives aligned among the different groups that emerged from the unfolding of consumer needs and activities. Beginning with consumers, the iCOOP network has evolved to include producers, processing companies, and other aligned social economy organizations. Examples of soft elements such as the use of “strategic discourse” by members, is aimed at defining a cooperative identity and promoting innovation.

Arguably, this article also takes the reader back to the points raised by Derek Jones in the first contribution of this special issue, about the importance for PC to be part of a broader support network. Still, iCOOP seems to lack a view on the role of workers, who can also be a source of experiential knowledge and innovation, while covering the role of consumers. While Johnston Birchall’s work had highlighted the potential issues emerging from non-homogeneous membership, he subsequently discussed the possibility of multi-stakeholdership (Sacchetti and Birchall, 2018) along the lines suggested by Sacchetti and Borzaga (2021) to produce not only internal efficiency but also efficiency at the systemic level (in terms of market failure reduction for example) for specific stakeholders and the community overall.

Grounded on solid roots, these contributions and the findings suggest that Johnston Birchall’s work is still able to provide a framework for research on current issues, and that the study of cooperation is still in progress and vital.

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