CAN A COOPERATIVE BE BOTH A WORKER COOPERATIVE AND A CONSUMER COOPERATIVE

The Ohio Employee Ownership Center ("OEOC") has commissioned us to consider and describe a cooperative that is both a worker cooperative and a consumer/producer cooperative.

Essential Features of a Cooperative

In order to appreciate the challenge of this project, you should first consider the essential features that distinguish a cooperative from other business enterprises. Much has been said and written about cooperative principles. People have compiled many lists of these principles - some of them long, some of them short - to explain the goals and aspirations of "doing business on a cooperative basis." Some people incorporate social and economic theory into their list of cooperative principles so that cooperatives become as much an expression of social and political beliefs (often in opposition to the predominant order) as a business organizational model. For purposes of our discussion, we will describe a cooperative only as a business organizational model. Since the OEOC has asked us to consider how a cooperative could be both a worker cooperative and a consumer/producer cooperative, we will first focus on two of the essential features of a cooperative: the definition of the cooperative's patrons; and how the cooperative will operate at cost.

> "Patron" – is a person with whom the cooperative makes a contract to provide products or services or to market the person's output on a cooperative basis. Part of this contract is that the cooperative will return to the patron any profits ("net margins") attributable to these transactions.
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> "Operation at cost" – is the central theme of the patron contract and operating on a cooperative basis. A cooperative transacts business with or for its patrons "at cost." This means that, to the extent a cooperative realizes a profit in its business transactions with or for a patron, that profit belongs and will be allocated to the patron so that the net result of such "patronage transactions" is that they are conducted at cost. A natural corollary of this cooperative principle is that capital and ownership interests in the cooperative are subordinated (but not ignored or dismissed) to the interests of the patron. The cooperative is a theoretical agent or alter ego of the patron in the context of these patronage transactions.

There are other essential features of a cooperative such as democratic control, member/

patron ownership, and limited return on capital investment, but these are secondary for purposes of this analysis.

The Combination Cooperative

The OEOC has asked us to consider whether there could be a cooperative whose patrons include both the employees of the cooperative (a worker cooperative) and the cooperative's customers (a consumer/producer cooperative); and, also, is there a commercial context in which such a cooperative could serve a useful purpose for both groups of patrons.

Cooperatives either provide products, services, or other inputs to their patrons on a collective basis (called a "supply" function), or they market the products, produce, or other outputs of patrons on a collective basis (called a "marketing" function). Some cooperatives have both a marketing and supply function. For example, there are many farmer cooperatives in the Midwest that furnish crop production inputs to their farmer patrons and market the crops of those patrons.

Cooperatives perform these functions at prevailing market rates and, to the extent that a profit is made (the "net margin" or "savings"), it is allocated and distributed to the patrons from whose business the net margin was made in proportion to the volume or value of their respective patronage transactions. Thus, a cooperative performs its marketing or supply function with or for those patrons at cost.

A worker cooperative is a marketing cooperative that uses (markets) the labor, skills, productivity, expertise, know how and other work inputs of its employees in the course of the cooperative's enterprise. A worker cooperative's profit (net margin) is, by the nature of its cooperative organization, the collective net value of the employees' work inputs. The employees are the patrons of the cooperative. Therefore, the cooperative would allocate its net margin to the employee-patrons in proportion to the relative value or volume of their work inputs in order to operate at cost (that is, on a cooperative basis) with respect to these patrons.

If the same cooperative was not a worker cooperative, but, instead, provided services and supplies to a particular group of customers who are designated patrons of the cooperative (for example, a cooperative that is a hardware supplier to locally-owned hardware stores), then the cooperative's net margin would belong to its customer patrons and would be allocated to them in proportion to the value or volume of hardware sales to each patron.

Of course, there is only one net margin made from a cooperative's operations. If both the employees and the customers are considered "patrons" of the cooperative, who is entitled to this net margin? It is difficult for a cooperative to operate "at cost" with respect to both groups of patrons. Any part of the cooperative's net margin allocated to one group of patrons cannot also be allocated to the other patrons. This conflict would carry over into other applications of cooperative principles. For example: how do the disparate groups of patrons divide up their responsibility to furnish capital for the cooperative's operations? Would the two groups of patrons have different ideas about the governance and management of the cooperative?

Practical Application of a Combination Cooperative

Given the inherent (and potentially dysfunctional) conflict in a combination worker and consumer/producer cooperative, are there circumstances in which such a combination could work with economic and operational efficiency?

A cooperative may be an appropriate organizational tool in those limited circumstances where the prospective patrons:

- recognize their common interest;
- believe that they will gain greater value (however they define "value") through a collective and collaborative enterprise;
- wish to acquire this value at its true cost and not with the expectation of appreciation or other monetary return on invested capital; and
- are willing to subject their individual decision-making to collective decision-making on a democratic basis.

A cooperative whose member-patrons consist of both the employees and the customers of the cooperative may overcome the potential conflicts of interests within the cooperative if one or more of the following circumstances are also present:

q a strong unifying social, political, religions, ethnic, or community bond that overrides the inherent conflict of economic interest. In this case, the employees and customers might simply agree to an arbitrary proportional split of each year's net margins. The cooperative venture is less satisfying to the patrons as a commercial venture over the long term, but the external unifying interest might fill the gap.

- the disparate groups of patrons can form a durable long lasting consensus on a fair division of the cooperative's net margin between employees and customers based on the perceived relative values of the employees' inputs and the customers' purchases. This fortunate, but unlikely, occurrence would be more likely if the employees' contribution to the cooperative could be clearly distinguished and valued as a separate component of the cooperative's output. For example, a cooperative may distribute an otherwise common item to its customer patrons, but the value of the common item is enhanced (in the eyes of the customer patrons) by the addition of expertise, service, quality assurance, or other unique contribution by the cooperative's employees. Or the cooperative's business could consist of separate enterprises, at least one of which is an employee-generated product or service. In either case, it might be possible to agree that there is a net margin from the sale of the common item and another net margin attributable to the added value provided by the employees, or that the net margin of each enterprise has its own patrons to whom the respective net margin will be allocated.

- overlap of the employee group and the customers so that employees are also significant consumers of the cooperative's output. Such cooperative enterprise might be possible in day-care services, colleges or universities, amateur athletic leagues, food service and housing enterprises, and specialized agricultural services and production (e.g., nursery, breeding, harvesting, milking, etc.).

It is conceivable that a cooperative with both employee and customer patrons could successfully organize and operate, but it will have to overcome the inherent economic conflict within the organization as two separate patron groups compete for the same net margin.

Even if the profit conflict can be resolved, other potential conflicts of interest between employee patrons and customer patrons would remain. The members of a cooperative control the governance, management and operating policies of the cooperative. The membership of a cooperative include the principal portion, if not all, of a cooperative's patrons. Thus, a cooperative will be operated in accordance with the will of its patrons rather than its shareholders. Members who are customers will favor the highest quality cooperative output at the lowest cost. The employee members, as patrons, have an incentive to maximize the relative cost and value of the labor and management component of the cooperative's output. This may not be the most cost-effective way to produce the desired output, even though it is likely to be a more satisfying result of cooperative operation for the employee patrons.

Another source of potential conflict between employees and customers who are member-patrons of a cooperative is that the two patron groups will have to agree on their respective fair share of capital contribution, and on management of the cooperative. There is a certain adversarial tension between labor and management in most American workplaces. Any worker cooperative must overcome a natural reluctance of employees to assume responsibility for investment in, and management of, their employer. The addition of a customer patron group means that these roles will be at least partially filled by non-employees who have their own notions about how the cooperative's business should be conducted. There may be a natural tendency for the labor-management tension to be reincarnated in the relationship between employee members and customer members. The result might be interesting, but not necessarily helpful in terms of financial success, or even survival.

Our conclusion is that a combination worker and consumer/producer cooperative is possible and may be satisfying to both patron groups in a very limited number of circumstances. However, the inherent conflicts and complexity of such an organization suggest that it should not be recommended or encouraged unless the organizers and prospective patrons express a strong demand for it and are willing to make the effort to resolve the inherent conflicts.

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