



# 4

## Cooperative Governance in Context

Sonja Novković, Karen Miner, and Cian McMahon

The word governance has its root in the Latin verb ‘Gubernare’ which derives from the Greek ‘Kybernan’, meaning ‘to lead, to steer, to be the head of, to set rules, to be in charge of the power’. Governance is related to vision, decision-making processes, power dynamics and accountability practices. The ultimate goal of governance is to effectively fulfill an organization’s goals in a way consistent with the organization’s purpose. Cooperatives are member owned and democratically controlled organizations. Their governance has to meet cooperative’s objectives, protect

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S. Novković (✉) · K. Miner · C. McMahon  
International Centre for Co-operative Management, Saint Mary’s University,  
Halifax, NS, Canada  
e-mail: [snovkovic@smu.ca](mailto:snovkovic@smu.ca)

K. Miner  
e-mail: [karen.miner@smu.ca](mailto:karen.miner@smu.ca)

C. McMahon  
e-mail: [cian.mcmahon@smu.ca](mailto:cian.mcmahon@smu.ca)

member interests and maintain member control. Cooperatives are also values-based businesses whose governance and management principles and practices need to reflect and safeguard their values. (Novković & Miner, 2015, p. 10)

## 4.1 Contextual Cooperative Governance Framework

Cooperatives differ from other enterprises due to their specific purpose and the nature of member engagement with the enterprise through self-help. How democratic governance plays out will depend on multiple internal and external factors—that is, on specific organizational situations (Cornforth, 2004).

Governance systems include structures, processes, and their dynamic interplay in response to internal and external forces (Eckart, 2009, p. 56). The corporate (and, indeed, cooperative) governance literature typically refers to structures, and is primarily concerned with ownership and control of the enterprise, as well as the composition and the role for the board of directors. We, however, adopt Eckart's conjecture that processes matter, particularly in democratic organizations such as cooperatives. How decisions get made, and how members and stakeholders engage with the organization is an important characteristic of cooperative governance and decision-making more broadly.

Democratic governance is understood as a process of collective learning by cooperatively doing (Cooley, 2020). The complex social-communicative interactions of firm participants, necessitating humane characteristics such as empathy, understanding, respect, affection, reciprocity, solidarity, trust, cooperation, and compromise, lead to emergent ideas, innovations, (tacit) knowledge, organizational culture, and (co)production of collective/associative intelligence (Laloux, 2014; MacPherson, 2002; Stacey & Mowles, 2016).

Dynamic interaction between processes and structures, one influencing the other, is how change is implemented in organizations. In the case of cooperatives, democratic processes and enabling structures also generate the dynamics of change in the organization.

### 4.1.1 Cooperative Purpose and Situational Democratic Governance

Cooperative organizations are jointly owned and controlled by their members, who engage with the enterprise in a “user-relationship” as workers, consumers, or suppliers (Borgen, 2004). Decision-making practices in cooperatives depend on the purpose of the organization, and their wider context. The cooperative enterprise is people-centred, jointly owned and controlled, and democratic (Novkovic & Miner, 2015; Miner & Novkovic, 2020). Following those key features of the co-op enterprise model, all cooperatives subscribe to democratic governance, although practices and forms of democracy will be context-dependent, changing with size, maturity, and co-op type, among other factors.

As outlined by Novkovic and McMahon, Chapter 2 in this volume (and Novkovic & Miner, 2015; Pirson & Turnbull, 2011), the humanistic theory of the firm points to the promotion of wellbeing and protection of human dignity with a multistakeholder concern. Human dignity is more likely to be promoted when stakeholders have a voice, as is the case in democratic cooperative organizations. The distinct foundations of the cooperative business model and its governance lay in collective ownership and associative logic (Novkovic et al., 2022), giving rise to governance systems marked by different motivations and purposes of the enterprise (see Table 2.1. of Chapter 2 in this volume).

Governance structures in cooperatives will be impacted by the organization’s purpose and the nature of the members’ relationship with the cooperative; processes are democratic, but situation dependent and not uniform; and the dynamics of organizational change involve the co-op’s adaptation and evolution in response to external and internal forces influencing members’ evolving needs and goals (including impact on future generations).

## 4.2 The Building Blocks of Democratic Governance Systems in Cooperatives: Structures, Processes, and Dynamics

### 4.2.1 Governance Structures

Different factors will shape formal governance structures in a cooperative. They include the nature of ownership and control, the type of governance bodies, and formal rules and policies (see Fig. 4.1).

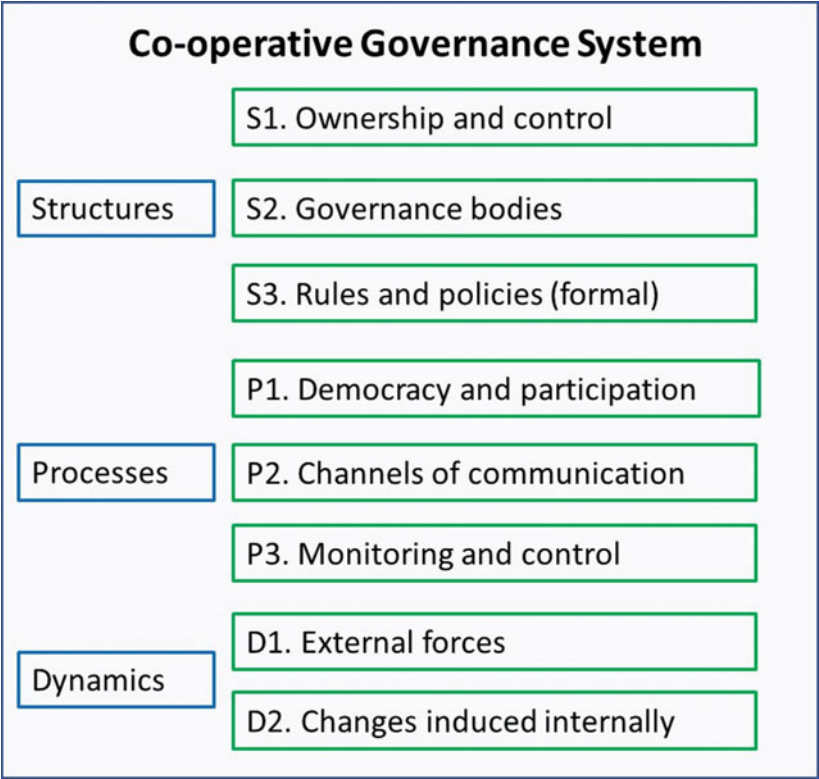


Fig. 4.1 Cooperative governance system

S1. Ownership and control. A cooperative is owned and controlled by its members. Ownership rights are collective, which is considered problematic in the economics literature, and often misinterpreted as “vaguely defined [individual] property rights” (Gray, 2004). The collective nature of ownership is thought to cause underinvestment and governance issues (Borgen, 2004; Dow, 2003; Sykuta & Cook, 2001) since the investment horizon is longer than membership tenure, and decisions are collectively made and not proportional to capital ownership. However, considering that cooperative ownership provides access to products and services and patronage-related benefits, rather than to a return on investment, members engage with the enterprise as “users” (who own, control and benefit from membership). Providing finance to the cooperative is a responsibility of membership, rather than an investment opportunity, although it can be both.

Depending on the nature of the member relationship with the organization—i.e. whether members are insiders (e.g. workers), or outsiders (e.g. consumers or producers)—separation of ownership and control either does not exist, as in the former case when managers are worker-members, or is diminished due to members’ direct access to management when compared with an investor-owned business (Eckart, 2009).

S2. Governance bodies (e.g. boards, general meetings, committees). Most governance literature focuses on the role, policies, and composition of the board of directors. Different theories accentuate different board roles, from monitoring and control (agency theory), to expert advice and collaboration (stewardship), or engagement of different stakeholders (stakeholder and resource dependency theories, for example). For the cooperative context we must calibrate the use of theories and models built on the assumptions fit for shareholder ownership to the member (“user”) ownership model.

In cooperatives, *boards of directors* are elected by the members, shifting the debate to a trade-off between member representation and voice on the one hand, and expertise on the other (Birchall, 2017). Eckart advocates for “cooperatively integrated boards” that include *both* member representation and cooperative professional knowledge (2009, p. 233).

We also subscribe to this view, and the emphasis on *cooperative* professional knowledge is essential among director (and management, see Davis, 2000) competencies.

Some cooperatives opt for a dual or *multiple board structure*, either due to regulatory requirements (Huhtala & Jussila, 2019), or in order to ensure accountability and better flow of information (see Suma case study, McMahon & Novkovic, 2021), or to enable deeper member engagement (i.e. more members actively engaged on an ongoing basis). In other cases, all members assume direct governance functions (i.e. all members are board directors), especially in small cooperatives.<sup>1</sup>

*General members' meetings* are the ultimate decision-making forums in every cooperative. These meetings are held annually as required by most legal frameworks, although in many cases membership meetings are held more often. Those self-imposed rules are conditioned by the size and type of membership, as well as the organizational culture.

*Committees, councils, or circles* are additional forums for members' participation in decision-making in cooperatives. In traditional structures, a set of committees of the board is common. Many small cooperatives manage and govern by committees, in particular when they include workers, or other insider-members. Though less prevalent in larger cooperatives, OASFCU in Washington DC is an example that utilizes both a board of directors and a committee structure that engages a large group of non-elected volunteer members (McMahon et al., 2020).

*Unions and panels* provide representative structures of engagement between member and internal/external stakeholder interests. Labour/trade unions represent member and non-member workers through independent local/regional/national structures. The cases of Suma (McMahon & Novkovic, 2021) and Comebo (Lund & Liret, 2022) worker co-ops, for example, display various forms of local/national union representation, including on works/member councils, and varying approaches to union recognition and collective bargaining, given generally non-antagonistic and collaborative union-co-op relations. Some co-ops also invite wider stakeholder dialogue through, for example, supplier/customer/community panels.

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<sup>1</sup> See the worker co-op case of Isthmus Engineering, as an example (Lund, 2021).

*The executive team.*<sup>2</sup> Although there is a consensus in the literature that governance tasks (vision, strategy, rules) are distinctly different from management tasks (implementation, operations), in practice, the roles may be blurred (Wilson, 2021). Further, the CEO has a distinct position in the organization, and plays an important part in its development. The relationship between the CEO and president (chair) of the board is important, where those roles exist and are separated (Cornforth, 2015)—although in some cooperatives the two roles may overlap. In those latter cases, concentration of power may become a concern, especially with a unitary board structure. Overall, and as stated above regarding governance bodies, those in management roles need similarly strong cooperative competency to support a cohesive “cooperatively integrated board”, or whatever relevant set of governance structures exist within a given cooperative.

Member participation in governance-related dialogue and debate may take place through various other forums. This can be particularly useful in cooperatives with a large membership where the member connections may be weaker. These mechanisms must extend beyond the use-relationship to involve members in ways that engage them in conversations that link to the ownership, control, and benefit dimensions of the cooperative. Example structures include member facilitation structures (Guillotte, 2022), member advisory panels, strategic planning consultations, or long-range scenario planning with member input. These efforts are not about day-to-day operations but instead create opportunities for members to voice on the future direction of the organization.

S3. Rules and policies. The choice of rules by cooperative members reflects cooperative values and the purpose of the enterprise. They result in concerns around the promotion of human dignity and social justice; fairness; preventing the concentration of power; and reducing personal risk to members, among others.

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<sup>2</sup> The management team may be led by the CEO, general manager, an executive group, or all members in small cooperatives.

The function of governance is to provide a constitution and policies, i.e. rules that frame the way a cooperative operates; rules about the processes of changing the rules; roles and responsibilities of governance bodies and management, including control mechanisms; compensation policies; and other.

Members in all types of cooperatives make decisions about rules they agree to abide by, within and beyond the legal requirements. The legal structure is quite context-specific, both from country to country and in terms of the level of specificity for different types of cooperatives. Furthermore, the quality of laws varies, and this can pose challenges when laws are not aligned with the cooperative model, or may work at cross-purposes (e.g. weak provisions for avoiding demutualization; requirements for expert directors).

As a cooperative grows and becomes established, the rules change under the influence of external and internal factors. Rules for the cycle of cooperative reproduction (Stryjan, 1994) are extremely important, including conditions of membership renewal, means to engage in decision-making (voice, involvement), and the member selection process (onboarding in worker cooperatives, for example).

#### 4.2.2 Governance Processes

Processes are defined as the way strategic direction-setting and control is carried out. These processes are democratic and participative in well-functioning cooperatives. However, what that means and how it may be executed is contingent on the type of members, and whether members are directly involved in the operations (insiders, such as workers or members in housing co-ops), or external to the organization (e.g. consumers or producers). Further, the size of the cooperative and its stage in its lifecycle will also influence the decision-making processes.

P1. Democracy and participation. As cooperative decision-making is collective, it is often described as slow and cumbersome. Ongoing negotiations and agreements are the hallmark of participatory governance mechanism (Schwarz 1979, as cited in Eckart, 2009, p. 75).

There are advantages to the democratic process, however, as buy-in from members is secured by the time of the decision, thereby reducing the implementation time (Eckart, 2009; Spear, 2004).

Cooperatives are looking for ways to reduce the decision-making costs (time, and conflict in particular). To do that, they use different forms of democratic processes—direct, deliberative, or representative democracy (delegate system, or trustee)—as well as decision-making rules (majority decision, decisions by consent, consensus, proxy voting, and so on). Schemes offered by sociocratic (dynamic governance) rules and processes of effective decision-making in flat, interconnected circles are on the rise in worker cooperatives and collectives (see the case of Unicorn Grocery, McMahon et al., 2021; also McNamara, Chapter 5 in this volume). The appeal is in the facilitated meetings, double-linking of circles to ensure information flows between different layers in the organization, and consent as a rule, speeding up the decision-making process (Buck & Villines, 2007; Rau & Koch-Gonzalez, 2018).

P2. Channels of communication: Members' voice may be exercised through formal or informal channels of dialogue and communication. Some communication means and tools may be formalized, and fall under the governance structures, but communication in cooperatives tends to be informal and ongoing particularly when members are insiders. Even within boards of directors, especially if they meet often, communication may be fluid and emergent, as evidenced by shifts in means of communication with changes in technology (e.g. cell phones and text messaging; social media, etc.). Communicating with members, or creating communication opportunities for outsider-members takes many forms, not least of which includes providing forums for social engagement which enables members and stakeholders to “be heard” and feel connected.

P3. Monitoring and control: Accountability through monitoring and control is discussed in the literature as a governance issue, both as part of the structures (see above), and as part of the processes. In cooperatives, these processes will be contingent on the co-op type and size; whether members are insiders or located outside of the organization; the degree and type of employee participation, and other factors. It is important to

be mindful of the interplay between control mechanisms and intrinsic motivations (Novkovic & Miner, 2019) to avoid counter-productive design impacting cooperative culture.

### 4.2.3 Governance Dynamics

Governance structures and processes change over time due to evolving internal and external forces.

D1. External forces: Eckart (2009) points to the changing external environment in which the original *raison d'être* of the cooperative may no longer be relevant, and advocates for a proactive approach to organizational change, rather than only responding to crises. Moreover, cooperatives are impacted by different competitive and institutional isomorphic pressures (DiMaggio & Powell, 1983) over their lifecycle, as well as processes of organizational reproduction (Stryjan, 1994).

Changing external environmental factors may include increasing market competition. This may induce innovative solutions if it accelerates cooperation among cooperatives and prompts the creation of consortia and cooperative groups. Group governance will naturally affect individual cooperative governance as independence is reduced, and heterogeneity increases (Eckart, 2009, p. 81; Sacchetti & Tortia, 2016).

Shocks and crises form another critical set of external forces, and the characteristics of these include their complex, uncertain, and unpredictable nature. The Covid-19 pandemic and climate change are two such examples, and the effect on organizational governance is quite clear. The health of the governance system is tested in the face of shocks and crises, presenting the necessity to be agile (not rigid), and hence able to evaluate and adapt to changes.

D2. Changes induced internally: As living organizations (Capra, 2002), cooperatives experience emergent dynamics through human interactions and communications. The interplay between processes and structures, one influencing the other, creates changes in an organization's governance system; for cooperatives one would conjecture that those shifts in structures occur as a result of participatory, democratic

processes. The potential danger for cooperatives with a more hierarchical decision-making structure<sup>3</sup> lies in attempts to impose change on members and employees in a top-down process, instead of engaging them in the processes of dialogue and emergent change.<sup>4</sup>

Cooperatives are organizations with collective decision-making in their design; therefore, ongoing interactions between people through democratic processes will affect organizational structure. The more participatory the processes, the more dynamic will be the governance systems. Holacracy (Robertson, 2015) and sociocracy (Rau & Koch-Gonzalez, 2018) both provide tools for operational changes through a democratic process that can result, fairly quickly, in rules changes instigated from bottom-up in the organization. These practices are a good fit for participatory cooperative enterprises, particularly those with insider-members—although governance circles (Rau & Koch-Gonzalez, 2018) may include diverse stakeholders, both internal and external to the organization.

Changes induced internally can also emerge through scheduled and more formal governance activities. A governance system review processes is one example of this. Such a review of structures, processes, and dynamics creates an intense period of reflection and member dialogue to determine changes or status quo to the overall governance system. The routine and systematic nature of such a review provides an outlet to legitimize member's voice.

As any living organizations, cooperatives need both the designed and the emergent structures for long-term survival and resilience. The former provides stability by setting rules and routines, while the latter provides novelty, creativity, and flexibility (Capra, 2002). In other words, the complexity of cooperative organizations and their environments demands room for experiments and informal communications in order to innovate and thrive.

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<sup>3</sup> Viggiani (1997) calls them democratic hierarchies, “because [cooperatives in the study] were democratic and also functioning—at least in part—hierarchically” (p. 232).

<sup>4</sup> This is a matter of values, but typically not perceived as a problem in cases of stewardship by leaders who impose changes that benefit employees and members.

Table 4.1 illustrates some aspects of democratic governance systems that emerge in cooperatives,<sup>5</sup> contingent on the purpose and nature of membership, as well as other factors.

### 4.3 Situational Variables Impacting Cooperative Governance

Cooperatives are democratically governed. However, rather than fitting under one umbrella, governance systems in cooperatives differ and depend on a number of variables, as pointed out earlier. Key among them is membership type, i.e. the nature of members' engagement with the cooperative, followed by the purpose of the enterprise. Other critical variables affecting governance systems include the size and stage in the lifecycle of a cooperative, and its stakeholders (see Fig. 4.2). Besides these core situational variables, governance of cooperatives will be impacted by various other internal and external forces including organizational culture, economic sector, regulatory and competitive pressures in particular industries, rating agencies, and major system shocks (pandemics, climate change, economic recessions). These factors are more variegated, however, and hence are not considered in detail.

#### 4.3.1 Co-op Type and Purpose of Membership

Cooperatives are formed by groups of members who meet their needs through a jointly owned and controlled enterprise. According to the role members have in a cooperative's operations, cooperatives are established by consumer, producer, or worker-members. Some cooperatives engage multiple types of members (multistakeholder, or solidarity, cooperatives). Cooperatives classified by members' interest, therefore, include worker, producer, consumer, and multistakeholder cooperative forms (Eum et al.,

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<sup>5</sup> The list is not exhaustive, as innovative practices emerge in complex, dynamic environments.

**Table 4.1** Elements of cooperative governance: structures, processes, and dynamics

| Democratic governance system                                     | Governance practices                                                                                                                                                            |                                                                                                                                                                                  |
|------------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Democratic structures                                            |                                                                                                                                                                                 |                                                                                                                                                                                  |
| S1. Ownership and control                                        | One member, one vote<br>Voice by patronage (not one member, one vote)                                                                                                           | Indivisible reserves/asset lock                                                                                                                                                  |
| S2. Governance bodies                                            | Assembly (general members' meeting)<br>Elected boards<br>Multiple boards<br>Member councils<br>Workers' councils<br>Regional councils<br>Functional member committees<br>Unions | Advisory committees and panels<br>Solidarity committee<br>Governance review committee<br>Nominations Committee<br>Circles (sociocracy)<br>Executive team<br>Coordinators' forums |
| S3. Rules and policies (formal) including monitoring and control | Legal structure<br>Policies—compensation, monitoring, and control, accountability, board composition, etc                                                                       | Bylaws<br>Reports (regulated or internally mandated)                                                                                                                             |
| Democratic processes                                             |                                                                                                                                                                                 |                                                                                                                                                                                  |
| P1. Democracy and participation                                  | Direct democracy<br>-Participatory<br>-Deliberative<br>Representative democracy<br>-Delegate system (directive)<br>-Trustee system (non-directive)                              | Electing directors to the governing body<br>Demarchy <sup>6</sup> (sortition)<br>Sociocracy—decisions by consent                                                                 |
| P2. Channels of communication                                    | Formal communication (e.g. eNews, website, etc.)<br>Informal communication (SMS; social media; "watercooler" conversations)                                                     | Member consultations (surveys, focus groups)                                                                                                                                     |

(continued)

<sup>6</sup> While not a democratic process per se, sortition may be used as a random sampling method of selection of representatives from a large member population into different bodies.

Table 4.1 (continued)

| Democratic governance system   | Governance practices                                                                                                                     |                                                 |
|--------------------------------|------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------------------|
| P3. Monitoring and control     | Processes for accountability<br>Governance system review process                                                                         | Peer monitoring (evaluations)                   |
| Dynamics/change                |                                                                                                                                          |                                                 |
| D1. External forces            | Response to crises (static vs. adaptation)<br>Isomorphic pressures—internal and external forces (competition, regulation, ratings, etc.) | Stakeholder influence (external, non-member)    |
| D2. Changes induced internally | Internal dialogue<br>Conflict resolution                                                                                                 | Emergent changes<br>Non-member worker influence |

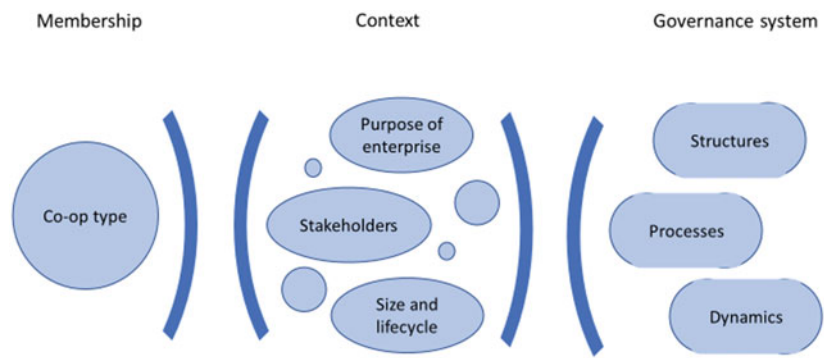


Fig. 4.2 Variables impacting governance systems in cooperatives

2020, p. 17). This typology is most relevant for its impact on governance, so this is what we continue to use below. However, we note that there are other common features by which to identify cooperatives, such as the economic sector in which they operate (e.g. financial, agricultural, or housing cooperatives); whether members are insiders or outsiders (worker or housing co-ops are examples of the former, while

credit unions or retail cooperatives signify the latter); socio-economic function (youth cooperatives; women's cooperatives; or work-inclusion cooperatives belong to this typology).

The purpose of membership in a worker cooperative is to secure decent work, enable control of one's working life (voice), and ensure job security, fair pay, and self-determination. Promotion of human dignity is evident in worker cooperatives; they are therefore the cornerstone of humanistic economic theory, and humanistic management practice. Worker cooperative start-ups often address social justice and labour rights issues, although they may be a result of business conversions (Vieta, 2019) or worker takeovers in some cases (see Vieta, 2020).

The purpose of membership in a consumer cooperative typically includes access to reasonably priced goods/services, but it may also be about product quality measured either in nutritional value, or ingredients (non-GMO, organic, for example), or ethical production and distribution such as fair trade certified products, locally sourced products, etc. In the case of housing cooperatives, members reduce risk by removing their assets from market fluctuations, gain access to affordable housing, and gain a sense of ownership and control over the place where they live. Financial cooperatives on the other hand often serve as vehicles for local community development, besides providing financial access to (often) underserved segments of the population.

Members join a producer cooperative to mitigate "market failures", such as monopsony markets, but also to secure access to input or output markets; to benefit from scale economies; to produce value added; or to pool risks.

Lastly, multistakeholder cooperatives attract diverse stakeholders with a shared complex purpose or mission. They often provide a common good of "general interest" to a community. These can be local community-owned cooperatives serving as vehicles for revitalization of an area, protection of the commons, or social cooperatives providing welfare services (see Borzaga & Defourny, 2001; Borzaga & Depedri, 2014; Lund, 2011; Vézina & Girard, 2014; Ostrom 1990).

The member logic and resultant rules differ depending on the nature of the relationship with the organization—as consumers, workers, producers, or supporters of the cooperative mission. This, arguably,

is the defining factor when considering diverse models of democratic cooperative governance. We therefore give it special consideration.

### 4.3.2 Context: Purpose of Enterprise

The purpose of an enterprise in the social economy is complex. Novkovic and McMahon, Chapter 2 in this volume, summarize purpose through a humanistic view as being about total value creation, and long-term use of the enterprise for shared purpose with use/work as the driving force (activity; not profitability). While investor-owned firms subscribe to a simple purpose to maximize return, or increase company value, cooperatives need to maintain the provision of use-value to their members which is based on specific foundations and the assumed nature of “Man”. While a broad set of characteristics unify the purpose of the cooperative enterprise, co-ops are also diverse—whether they are mission driven, or address market failures in the start-up phase, they all need to revisit their purpose as they mature.

Membership type and enterprise purpose are interconnected. In the case of worker cooperatives, social purpose dominates with the provision of jobs, solidarity, and control over working conditions being at the forefront. Consumer cooperatives have a financial purpose (fair pricing) and social purpose associated with accessing quality goods and services, or de-commodifying necessities such as housing. Producer cooperatives also have a financial purpose in securing scale and/or market access to members, but often producers also care about fairness and solidarity in the supply chain; or stewardship of land and other natural resources. Multistakeholder cooperatives (MSCs) naturally see a broader purpose for the enterprise, in addressing the needs and aspirations of diverse key stakeholders-members. The MSC purpose can be general or complex; it typically includes social and economic dimensions, and often contributes to protecting the commons.

Besides the nature of member engagement with the cooperative, the purpose of the enterprise will impact the democratic governance systems. These are the two deciding factors which differentiate one co-op from another.

When it comes to other factors, size and stage in the lifecycle will impact cooperatives in similar ways, regardless of their type. Engaging

stakeholders other than the members also has some shared features, although, as a rule, cooperatives with outsider-members (consumer and producer co-ops) often realize that they need the insiders (employees) to carry the message and operationalize the organizational values. Therefore, they often create governance structures such as employee forums, workers councils, committees with employee representation, etc., or the workers themselves (who are often service user-members in their own right) decide to unionize the organization as a counterweight to corporate professionalization.<sup>7</sup>

## 4.4 Governance Systems Across Cooperative Types

This section discusses governance systems in worker, consumer, producer, and multistakeholder cooperatives with each membership type resulting in noticeable differences in governance structures, processes, and dynamics.

### 4.4.1 Governance in Worker Cooperatives<sup>8</sup>

Worker-members are insiders in the organization, engaging in daily operations with other worker-members and, in some cases, non-member employees. The focus of governance is in establishing a system that maintains direct control and democracy in the hands of the workers, in ways that diffuse power and ensure equality among members.

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<sup>7</sup> See, for example, the decision and rationale of consumer co-op workers at REI (Recreational Equipment, Inc.) in New York to unionize their workplace (Scheiber, 2022).

<sup>8</sup> Members in a worker cooperative are in an employment relationship with the collectively-owned enterprise, and have a non-separable contribution to the organization. We are differentiating it from producer cooperatives of self-employed members and/or their enterprises. The latter are cooperatives of independent professionals, artists, service providers, or agricultural producers who either sell their product/service through the co-op, or engage in an employment contract providing them with income smoothing and social protection.

## Structures—Worker Co-ops

There is relatively little to no separation of ownership and control in worker cooperatives; governance structures premised on an agency relationship are therefore not the right fit, and, when implemented, may serve as a self-fulfilling prophecy, disempowering workers. Rather, organizational design supporting autonomous motivations (see Novkovic & Miner, 2019), stewardship, and reciprocity may be more conducive to an appropriate organizational culture in worker cooperatives. Worker cooperatives are often mindful of potential conflictual relationships given member proximity to the organization and to each other.

Worker cooperatives typically espouse a collective mindset. Joint ownership is well understood, often resulting in the creation of indivisible reserves as an asset lock, even when this is not legally mandated (Lund & Hancock, 2020; Pérotin, 2016). Worker-members can frame the management structure, select a management team, and contribute to peer monitoring practices thereby reducing governance-related monitoring costs (Putterman, 1984).

Flat structures with all members serving as directors are also not unusual in worker cooperatives (see, for example, Lund, 2021 and McMahon et al., 2021), particularly when the number of members is relatively small. Member meetings are more frequent, and they may deal with operations as well as governance issues. In larger organizations, a separation of functions starts to emerge through multiple control centres, which also provide for a system of checks and balances on authority (see, for example, McMahon & Novkovic, 2021). Some workers are elected to the governing board, or other structures, as well as management functions. Managers are most often insiders, selected among the members.

The main drivers of policies and governance structures in worker co-ops are the members' concern for equality and the diffusion of power (one member, one vote; transparency) and equity, i.e. fair income distribution based on work contribution. Often, operations are carried out in committees, or self-managed teams. Worker cooperatives use diverse structures to ensure worker control. These may include workers' councils,

social councils (e.g. Mondragon, see Freundlich, 2015), or sociocratic circles (see McMahon et al., 2021 on Unicorn cooperative), for example.

Policies in worker co-ops generally set out to protect workers/members; ensure equality (all voices are heard; worker-controlled flexibility; diffused power) and equity (income distributed according to work; fair division of labour); and facilitate conflict resolution. Worker co-ops are particularly vulnerable to conflict, as workplace issues become personal. Sociocracy offers tools that are particularly well suited for decision-making in worker co-ops, with facilitated meetings and decision-making by consent.

### **Processes—Worker Co-ops**

Participative democracy is more likely in small worker cooperatives, but as they grow, a representative structure may become necessary. Direct democracy in many large worker co-ops is increasingly confined to general meetings, while indirect forms of democracy come more and more to the fore. This does not necessarily imply a deficit in worker participation, and may even increase the effectiveness of participatory democracy overall (see McMahon & Novkovic, 2021; McMahon & Miner, 2021). However, representative workplace democracy also bears oligarchic tendencies, unless countered by healthy formal and informal democratic process (see Cornforth, 1995; Cannell, 2010, 2015). This requires maintaining high levels of member and stakeholder involvement in governance and management, and establishing an organizational culture of mutual respect and understanding in social relations of interpersonal communication (Cannell, 2010, 2015; Stacey & Mowles, 2016).

Over time, or indeed at the outset, it may be possible to create and maintain largely direct or collective forms of worker co-op democracy even at the medium scale. Democratic models of sociocracy (Rau & Koch-Gonzalez, 2018) and holacracy (Robertson, 2015), for example, are increasingly popular in worker cooperatives, allowing for specialization of tasks, functions, roles, and responsibilities (often with job rotation), without abandoning consensus-based decision-making (see, for example, McMahon et al., 2021).

It is imperative to underline in all of this the centrality of internal worker “reproduction” (Stryjan, 1994)—i.e. attracting, keeping, and eventually replacing the “right” kinds of workers/members, meaning those best suited to a thriving participatory organizational culture. This implicates recruitment, hiring, onboarding, education and development, and turnover and succession practices and processes (Cornforth, 1995). A firm basis in the cooperative identity is crucial, especially when considering co-op professionalization under the related pressures of competition and scale (Basterretxea et al., 2022).

Appropriate processes of monitoring and control take on an unusual guise in a participatory worker co-op setting. In place of the unaccountable hierarchy of standard corporate governance practice—all too often replicated in degenerative worker co-ops—there is instead the possibility of a “reverse dominance hierarchy” (ibid.) rooted in an engaged worker-membership. Taken to extremes, this presents its own dangers unless decisions can be effectively agreed and communicated across the various governance bodies. Yet the informal collective disruption of formal structures and processes can also offer a powerful means of instigating worker co-op regeneration in other circumstances.

A regular governance review mechanism, subject to membership consultation and approval, greatly assists in identifying governance issues and developing solutions (Cornforth, 1995).

## **Dynamics—Worker Co-ops**

Worker co-ops face intense competitive and institutional isomorphic pressures to conform to standard corporate governance practice. This is particularly so concerning regulation of the employment relation (see Cannell, 2010); but the wider political-economic regulatory regime is also generally hostile to this form of co-op (e.g., see Costa Vieira & Foster, 2021). The weakening of the global labour movement in recent decades has given a new lease of life to “boss culture” (Larrabure, 2013, p. 170) in the minds of many workers. This subordinate attitude, while not universal, immutable, or unchallenged, often infiltrates worker co-op settings to the detriment of vibrant participatory democracy.

It is vital as worker co-ops grow and mature that emergent ideas and innovations from workers/members inside the organization can adapt to changing conditions. Flat structures and consensus decision-making in earlier stages of development may eventually need to give way to multiple control centres with checks and balances on decision-making powers to ensure accountability and broad-based support or agreement (McMahon & Novkovic, 2021; Turnbull, 2002).

#### 4.4.2 Governance in Consumer Cooperatives

Consumer co-ops in the retail, food, and financial sectors tend to be owned by relatively large, mostly outsider, customer-memberships, who purchase the commodities and receive patronage dividends in proportion to their use of the business. Given their predominantly transactional interests in the co-op, broad member understanding of the meaning of membership is often lacking, and participation rates in governance (electing the board directors and attending general meetings, for example) and interest in the general affairs of the business are low (Spear, 2004).

##### Structures—Consumer Co-ops

The governance structure of consumer co-ops is often conventional, with an elected board of directors who hire a (generally external) CEO or general manager to run the day-to-day operations. Agency issues are more likely to arise, and standard corporate governance practices and consequent control mechanism are also common (see Eckart, 2009).

It is possible for consumer co-ops to establish greater participatory democracy in governance and management by evolving representative bodies to help ensure accountability to the wider membership and strategic stakeholders. In order to do so, consumer co-ops would expand opportunities for member participation in governance activities by moving beyond a simple governance structure: i.e. the unitary board of directors and typical hierarchy of committees (see Spear, Chapter 7 in this volume).

For example, to alleviate the low participation issue, consumer cooperative members may elect a membership council which becomes the members' representative oversight body monitoring the board, potentially also playing a vital two-way communication role between the board and the wider membership (see Puusa and Saastamoinen, Chapter 6 in this volume). While arguably less common, regional and delegate structures are another approach to increasing the number of engaged members. Supervisory boards also form a structure involving members, intended to act as a watchdog on the board of directors (Huhtala & Jussila, 2019). Various governance committees and stakeholder panels can play a similar role. For example, see McMahon et al. (2020) on the OAS Federal Credit Union case, which utilizes a vibrant non-elected committee system in support of the legally mandated elected board of directors. Similar decision-making mechanism can be established in housing co-ops, which, given their generally smaller memberships, also have the option of flatter structures with higher participation rates in co-op governance.

Mechanisms of worker participation (e.g. labour unions, collective bargaining, works councils, worker directors, etc.) also have a productive role to play in establishing a greater sense of stewardship between workers, management, and the board of many consumer co-ops. Careful onboarding of employees who are values-aligned with the cooperative mission (e.g. Vancity credit union, see Côté, 2019) secures preservation of the organizational purpose and culture. In combination with a more active membership, this may prove a more effective and democratic check on possible agency issues such as managerial or worker opportunism (Eckart, 2009). It again suggests a degree of manoeuvrability within seemingly rigid legal ownership structures, helping to establish greater stakeholder influence and control over the organization's destiny.

## **Processes—Consumer Co-ops**

In consumer co-ops, common features include the type of democracy employed and the relatively low level of engagement in governance processes. Most often, representative democracy is the standard practice,

with participation opportunities being that any member can choose to run for and elect the board of directors. What is witnessed often are low levels of awareness and engagement in both of these processes. In larger consumer co-ops, who runs for the board is often constrained and limited to those deemed to have the requisite skills and experience. This is sometimes viewed as an inappropriate constraint, especially if skills and experience are narrowly defined. However, this approach can work to safeguard cooperative expertise when it is given priority in the selection of candidates. Unfortunately, particularly in large and mature cooperatives, these processes often result in corporate professionalization of governance bodies without the requisite cooperative expertise, and director education is insufficient to address the knowledge gap. In smaller co-ops, democratic engagement may be higher, and co-ops can be challenged to find members willing and skilled at governance to fill board seats.

Channels of communication with consumer members tend to be similar to other types of enterprises and indistinguishable from marketing campaigns. Employees, who are often also consumer members, may carry the message of the cooperative model if they are trained to recognize the difference between a consumer-member, and a customer. Unless organizational culture nourishes cooperative values, an expectation of employees as cooperative knowledge keepers and messengers is not an easy task.

### **Dynamics—Consumer Co-ops**

External forces and internally induced changes are problematic for any co-op, but they seem to be the Achilles heel of consumer cooperatives. Particularly as consumer co-ops grow and mature over time, member engagement and involvement in governance tend to wane, along with knowledge and appreciation of the founding purpose of the co-op. This potentially creates degenerative tendencies through corporate (not cooperative) professionalization, and consumer cooperatives are therefore vulnerable to eventual demutualization, particularly as their asset base increases, often without the protection of indivisible reserves (see

Brazda & Blisse, 2018; Couchman & Fulton, 2015; Fulton & Girard, 2015). Furthermore, consumer co-ops in competitive industries are faced with intense pressure to mimic non-cooperative competitors. While this may warrant changes to the governance structures and processes, it is not necessary to reduce adherence to cooperative governance. Regulatory pressures do often result in cooperative mergers (as in the case of credit unions, for example), and thereby introduce more complexity, as well as innovations, to cooperative governance.

#### **4.4.3 Governance in Producer Cooperatives**

Producer cooperatives form through an alliance of independent producers, in some cases running a small business, in other cases self-employed. The challenge for producer cooperatives is to remain relevant to their members, who can decide at any time to break off from the cooperative and attempt to sell their products independently through other channels. The members typically scrutinize the competitive advantage of remaining in a cooperative.

#### **Structures—Producer Co-ops**

Since members in producer cooperatives are outsiders represented by a board of directors who hire professional management, principal-agent issues may arise. Governance structures are often traditional, with a general membership meeting as the decision-making body that elects the board of directors.

Cooperative rules define the usership relationship with the cooperative, such as the per member product flowing through the co-op and the resulting patronage dividends and supply management rules. They may therefore blur the lines between a member's interest in operations and governance, as supply management and new member onboarding (which can dilute benefit to the other members) are pressing issues impacting economic viability and benefit to individual members. Producers are also often asked to provide significant infrastructure investments to ensure competitiveness, diversification, and risk pooling; therefore, the financial

stake that members have in their co-op (through investments and ownership of capital) may play a more dominant role in the minds of members in this type of cooperative than in others.

Market concentration in the agricultural sector over recent decades has also forced many producer cooperatives in this sector to merge, and proximity to members may be jeopardized as cooperatives merge or otherwise grow (Bijman & Van Dijk, 2009, as cited in Cook, 2014). To bring members closer to the co-op, member councils or supervisory boards have often been established to mediate between the board of directors and a large, heterogeneous membership. Some agricultural cooperatives institutionalize mentorship/ambassador programs as another way to enhance member participation (see Guillotte, 2022). The inclusion of these types of structures (beyond a unitary board) encourages healthy member engagement and are correlated positively with co-op performance (Cook & Burrell, 2013).

Given that the increased complexity at scale forces many such organizations to seek and invite external expertise on to governance bodies, intermediary bodies can also function as a recruitment and training ground for (younger) lay members to acquire the knowledge and skills necessary to represent member interests on the board. Members that become skilled in governance and knowledgeable about the cooperative model itself (as they should be as members) play an essential role in safeguarding and stewarding the cooperative and forestalling degeneration. Adherence to cooperatives' dual economic and social purpose therefore requires that any moves towards corporate professionalization are adapted to fit the co-op identity and enterprise model.

### **Processes—Producer Co-ops**

The processual challenge for producer cooperatives—outsizing even structural concerns—is member engagement, feedback, transparency, and improving communication (Cook & Burrell, 2013). These concerns are amplified by the geographical remoteness of independent producers from one another. Formal and regular communication processes are important, plus greater opportunities for member engagement,

voice, and co-learning can be facilitated through regional forums bringing producer representatives together, and/or through floating organizers/advisors who transfer information and engage in dialogue horizontally between independent producers, and vertically between the central organization and its component producers—such practices can be coordinated both by primary and secondary co-op organizations (Birchall, 2017; Guillotte, 2022; McMahon, 2022).

Healthy co-op governance processes may also be impeded by management capture, where decision-making power is concentrated with the CEO as producer co-ops grow and increasingly face the complexity of international markets (Bijman & van Dijk, 2009; Cook, 2014). This underscores the importance of member engagement in governance processes, cooperative professional experience among engaged members, as well as ongoing co-op management/director education and training in producer co-ops (McMahon, 2022).

## **Dynamics—Producer Co-ops**

Agricultural cooperatives have been pressured by external developments over many decades of increasing globalization. The tendency has been aggressive growth, high capitalization, loss of member proximity, member heterogeneity (Cook, 2014), inclusion of external board members, and often a slow shift from democratic control into managerial capture, at times with a separation of the business from the cooperative (i.e. co-ops becoming holding companies—Bijman & van Dijk, 2009, as cited in Cook, 2014).

These factors create a dangerous combination of a lack of member oversight or the provision of meaningful input into strategic direction. In Canada and the US, the need for large investments in agriculture saw the creation of hybrid “new generation cooperatives” (NGC) which “facilitate a strong market orientation by defining membership and requiring high supply and equity capital commitments” (Grashuis & Cook, 2018, p. 623). In other words, NGCs violate some of the ICA principles, with closed membership and investment shares. The authors establish that the

survival rate of these cooperatives over the 20 years since their forming was dismal, and slightly lower than the competing companies in similar industries (p. 633).

Under pressures for sustainable food systems, small agricultural producer cooperatives also organize to engage in short supply chains (farm to table movement), or various community-supported agriculture and local food distribution schemes (see Friedel and Dufays, Chapter 9 in this volume).

#### 4.4.4 Governance in Multistakeholder Cooperatives

Multistakeholder cooperatives (MSCs or solidarity cooperatives) integrate multiple types of members into cooperative ownership and democratic governance. Varied member categories may include workers, consumers, producers, community supporting members, or cooperatives and other organizations. MSCs therefore internalize externalities by ensuring that both ownership and control are in the hands of the key constituents impacted by, and contributing to the operations of the organization. They develop in all types of industries, but are more prevalent in complex situations which require meaningful engagement from various stakeholder groups.

##### Structures—MSCs

The complex purpose of the enterprise is a key determining factor of membership and governance structures in MSCs. Diverse members do not necessarily represent a particular interest group, as predicted in economic theory based on the assumption of self-interest, but engage in solidarity with others for a common purpose (Borzaga & Depedri, 2014; Novkovic & Miner, 2015, 2019). Lund (2011) terms this feature “solidarity as a business model”, arguing that stakeholders in MSCs build long-term relationships to encourage transformation, rather than engage in purely transactional relations.

Multistakeholder cooperative governance is diverse. In some cases, the structure—particularly the breakdown of representative types on

the board of directors—is prescribed by law (see Lund, 2011; Lund & Novkovic, forthcoming; Vézina & Girard, 2014), while in others it is defined by the bylaws. The rules include the types of stakeholders included in the membership, eligibility, and the breakdown of voting power, roles, and responsibilities, by membership type.

Given the wide diversity of the application of MSCs, it is more difficult to generalize the types of governance structures employed. MSCs may engage their different constituents through diverse forums, such as workers councils, community councils, and committees, but they may also structure these bodies to ensure all constituents are represented in all decisions. Or, structures may be more traditional and limited (e.g. unitary board of directors). Regardless of the structures in place, having multiple member types at the table—in ownership, control, use, and benefit—is a critical distinction from single member type co-ops. This is also distinct from “multistakeholder governance” where stakeholders are invited to contribute their voice to the board of directors, without the other elements that form cooperative membership—ownership, control, and benefit.

This added heterogeneity in membership and governance is termed problematic in the transaction costs literature, built on the assumption of competing interests (Dow, 2003; Hansmann, 1996). In reality, cooperative members simultaneously engage with the cooperative in multiple roles, as workers, consumers, providers of finance, and community members (Mamouni Limnios et al., 2018). Further, Borzaga and Depedri (2014) point out that theoretical considerations of MSCs do not translate into practice. Members of multistakeholder social cooperatives in Italy share the organizational mission and purpose, translating into simplified and less costly decision-making processes (ibid., p. 153).

The inclusion of labour as a voting member category is of particular importance for best MSC governance, given the key position of insiders as shapers of organizational culture and values (Novkovic, 2020). It is perhaps for this reason that so many MSCs in regions where they proliferate, such as in Emilia Romagna or Quebec, do indeed provide separate membership status to workers (Lund & Novkovic, forthcoming). The Mondragon group also features a number of MSCs (some 25% of the group’s cooperatives; see Imaz et al., Chapter 10 in this volume)

which showcase workers as the mandatory member category. An added complexity in Mondragon's case is the role played by the existing cooperatives in the development of many MSCs where one member category is occupied by the cooperative enterprises as founding and supporting members. In all cases, a concern for worker control and voice dictates the makeup of governance structures.

### **Processes—MSCs**

Multistakeholder governance is more likely to fulfil stakeholder-specific and broader societal needs than single member co-ops. In particular, democratic deliberation by multiple constituents seems to provide a good solution to complex social issues (Girard, 2015) which takes on even greater significance today and into the future than it did in past decades.

Challenges of member reproduction (Stryjan, 1994) take on added significance, given that MSCs must recruit, retain, retrain, and replace not only suitable insider-members (in worker-inclusive MSCs), but also suitable outsider-members, who can likewise contribute to effective participatory governance in pursuit of the diverse co-op membership's common purpose.

Communication processes must appeal to and match the needs of all members. This requires effort and skill to ensure that communication is effective and encourages dialogue among members. To the degree that disagreements arise, formal and informal processes of democratic deliberation and conflict resolution are also paramount.

Information sharing in MSCs is critical, since members are engaged in different ways and through different channels. Members can also engage in operational matters, through which they can better understand the organizational culture and contextualize issues of strategic importance for the organization. Mixed membership forums and opportunities for exchange are often involved, at times in social settings which allow for more informal relations.

## Dynamics—MSCs

The organization typically includes both insider and outsider-members, a feature that can improve communication, but can also impede it and create cliques if adequate conflict resolution structures and processes are not in place. Conflict resolution may in fact be the driving force for change. Multistakeholder organizations search for ways to solicit member feedback (through surveys, for example), which serve as tools for dynamic and interactive organizational development. By its nature, influences can be both internal and external. Mutually beneficial institutional relationships with the wider cooperative and labour movements may provide resources to assist the smooth functioning of this dynamic (e.g. trade union collective agreements contain provisions for conflict resolution that MSC members can learn from).

More recent interest in the governance of the commons has also brought MSC ownership and control into focus. Multistakeholder governance in cooperatives offers a blueprint for democratic engagement of diverse stakeholders around a common purpose and the common good (Lund and Novkovic, forthcoming).

## 4.5 Concluding Remarks

This chapter set the stage for differentiation between governance systems in cooperatives, taking context into consideration through select key defining variables. This differentiation starts with the membership type, with focus placed on the member benefit from a usership role tied to being consumers, workers, producers, or a combination of various member types in a multistakeholder cooperative. The purpose of the enterprise also serves as the members' motivation to join forces in a cooperative enterprise; this may be narrowly or broadly defined to encompass the expectations inherent in the ICA Identity Statement. Stakeholders (beyond members), plus the organization's size and the stage in its lifecycle (new through mature) are the remaining critical variables highlighted in this chapter. These context-specific variables result in many forms of "best cooperative governance", all of which must

manage the dynamic interplay of member expectations of a democratic and participatory system that can balance internal forces on the one hand, and external pressures on the other: from competition-induced growth, to changing industries and regulations, to broader societal and environmental pressures.

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