

## Should Cooperatives Aim for Growth?

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February 29, 2024

Cooperatives and social enterprises represent an alternative to capitalist profit-seeking in times of ecosocial crisis. But how can the social and solidarity economy scale up and go mainstream without reproducing unsustainable models of infinite growth?

Despite the social and solidarity economy (SSE)'s emphasis on social and environmental objectives, those of us who identify with it still form part of a capitalist, growth-obsessed society.<sup>1</sup> There seems to be no limit to how much bigger things can get, and the word "enough" has apparently all but disappeared from our vocabulary. Capitalism and growth, after all, are inseparable – the accumulation of capital is a process of infinite growth.

This normalisation of growth frequently tricks us into thinking that entities in the SSE – cooperatives, social enterprises, mutual societies and the like – should also pursue it. Growth is perceived as an inherent good, if not an inevitable consequence of doing business. The International Cooperative Alliance, for example, publishes a ranking of its top 300 cooperatives in the world. But those are the 300 largest, implying that the bigger the cooperative, the greater its importance. The most widely respected are meanwhile absent. Therein lies a shortcoming in this system of evaluation.

There is no doubt that the SSE must grow if it is to become both a benchmark model and part of a nascent post-capitalist economy that meaningfully contributes to the urgently needed ecosocial transition. For this to happen, we need many more entities that follow a cooperative model, especially in life-sustaining sectors such as agriculture or pharmaceuticals. We also need many more cooperativist workers, meaning more people who demonstrate cooperative values in their economic practices, be they migrant workers or employees in the industrial and technological sectors. Without these, we may well end up with plenty of cooperatives but few cooperativists.<sup>2</sup>

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One strategy to promote the SSE could indeed be to foster internal growth within each organisation. Yet there are other alternatives that are just as promising, if not more so. We could instead increase the number of entities, focus them on certain essential activities in all grassroots sectors and territories, grant them greater autonomy from the state and the capitalist market (by structuring them in a kind of socially oriented proto-market and establishing communal resources), convert SSE entities into transitional communities, and so on. Thus, it is one thing to say that the SSE must grow, and another to say that its individual entities must themselves grow. The former assertion is certainly true, while the latter leaves much room for doubt.

In reality, entities of the SSE – cooperatives in particular – rarely tend to exhibit indefinite growth, at least on a structural level. When they do, it is either an attempt to compete with large capitalist companies through reactive or defensive measures, or to acritically imitate those entities.

There are at least two factors that explain cooperatives' tendency towards moderate or stationary growth. The first is that, as democratic organisations, their members can decide to allocate all or a portion of their profits to things other than reinvestment in the cooperative itself. Members might, for example, dedicate any surplus towards offsetting the drop in sales resulting from a decision to reduce working hours. The second is that, once the cooperative reaches a point where increasing the scale of production neither yields additional benefits nor reduces costs, members are not likely to earn much more.

Obviously a cooperative can draw in a lot of profit, but it might choose to set itself up as a non-profit organisation and reinvest this profit, meaning it will then not be able to redistribute it among members. On the other hand, if it chooses a conventional model and allocates returns back to its members – assuming that increased profits were earned by onboarding more workers – these will be distributed among more members, yielding a largely unchanged profit share for each member. That is, of course, unless the cooperative had few members and many employees, in which case the cooperative could indeed squeeze a surplus profit out of its employees and share it among members. However, such a business could not really be considered a cooperative.

## **An appropriate scale**

Each entity has its own optimal size. As Aristotle stated, “There is a due measure of magnitude for a city-state as there also is for all other things – animals, plants, tools; each of these if too small or excessively large will not possess its own proper efficiency.”<sup>3</sup> The same can apply to organisations. According to their activities and the ecosystem they operate in, there will be certain dimensions that are more appropriate than others. “For every activity there is an appropriate scale,” statistician and economist Ernst Friedrich Schumacher said, “and the more active and intimate the activity, the smaller the number of people that can take part in it, and the greater the number of relationships that will need to be established.”<sup>4</sup>

Turning now to entities in the SSE, it is obvious that an industrial cooperative does not need to be the same size as a services-focused cooperative, or one dedicated to more basic activities. For example, the scale needed to compete in the IT services market of one city, where an organisation of 10 people might suffice, is far removed from the scale needed to survive in the global household appliance market. There, a business would require several thousand workers.<sup>5</sup>

Therefore, before deciding to expand their business, each specific entity should analyse external conditions (average scale of companies in the sector, expertise level, strategic options, and so on), as well as their own internal situation and willingness to grow. They can then weigh up the pros and cons of internal growth against other options, such as inter-cooperation or shifting to a less competitive market niche. After all, taking advantage of a new market opportunity is often just an option, not an obligation. Even if a company opts for internal growth, it will mean “growing along with the project, not the demand,” as Spanish green consumer association BioAlai put it.<sup>6</sup>

## **Necessary growth**

Sometimes there is a definite need for internal growth. Many cooperatives and organisations created in

recent years have no more than five workers; some are made up of only two or three. It is clear that most of these entities need to grow two, three, or even four times larger in order to increase their capacity, diversity, resilience, and economy of scale. Doing so would enable them to escape precarity and generate a surplus to then allocate to reproductive, sociopolitical and solidarity-based tasks, to inter-cooperative endeavours, and to exploring new projects.

On the other hand, every organisation in the SSE needs to have a business and management model that suits its size, the product or service that it offers, and the market in which it is active. This structure should not feel like a burden; well-oiled business operations and management will, in fact, result in more productivity and increased margins for the organisation. Maintaining staff that are dedicated to these tasks requires a greater number of workers that focus on explicitly productive work, often bringing the total number of cooperative members to around ten.

Likewise, there are markets in which SSE entities need to be bigger in order to compete with large capitalist businesses, such as in the industrial, technological and distribution sectors. However, these are precisely the sectors that are controlled by a handful of corporations, often as an oligopoly, that engage in many unsustainable practices that will have to be cut back or simply done away with during the ecosocial transition process.<sup>7</sup> In a state of emergency, such as the one we are currently experiencing, it makes no sense to form SSE entities around sectors or businesses that are unsustainable. Moreover, in certain essential life-sustaining industries that are controlled by corporations but which will need to become sustainable (processed foods, furniture, textiles, pharmaceuticals, certain free digital hardware and software technologies), we could take advantage of this pivotal moment to promote an alternative: SSE initiatives created on a human scale (workers, small factories, workshops) that would use limited (renewable) energy, readily available local materials, and appropriate technologies.

## **A problem of scale**

Large companies (250 people or greater) tend to have advantages over smaller or medium-sized enterprises (SMEs): higher productivity, greater capacity for investment and research, more market power, political influence, and so on. SMEs may try to compensate with greater flexibility, closer contact with their clientele, and more specialised services. Furthermore, when these SMEs are part of the SSE, they offer a fundamental intangible asset: participation. The participation of members is not only a defining feature of SSE entities, but also a comparative advantage that enables them to counterbalance other shortcomings, such as a lack of capital. However, the bigger an entity, the more it costs to make it truly democratic and to have its members participate and make it their own.

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As the number of members grows, it becomes more difficult to have face-to-face interactions. There are also more decisions to be made, and these decisions become more complex. This type of situation often results in focusing on the division of labour as well as increased bureaucracy and hierarchies, in turn leading to an ever increasing wage gap. The frustration that this creates for many cooperative members takes its toll on the work environment, as commitment and productivity begin to wane. The result is a

process of institutional isomorphism, whereby the SSE entity looks more and more like a capitalist enterprise.

In order to avoid this and preserve unity and participation, large scale growth necessitates a complete transformation of the organisational model. Broadly speaking, this change should focus on turning the SSE entity into a confederation of small semi-autonomous groups and creating a governance model that combines direct democracy with representative democracy, and member participation with operative (related to daily work decisions), strategic, and community participation.

For this to happen, power must be distributed among individuals, teams, departments, coordination and management, the governing board and the assembly, and so on. Periodic processes to redefine the entity's collective purpose and strategy must be held. Information and communication systems must be improved, and the establishment of local groups must be encouraged in larger consumer cooperatives. Furthermore, processes must be followed to onboard new members gradually and with care, and wage gaps must be kept to a minimum. As a final cooperative principle, a strong feminist approach must be adopted.<sup>8</sup>

However, largeness of scale presents another problem: the difficulty of downsizing in times of internal crisis, or during a more general economic crisis. Making the decision to let go of members is always traumatic. While this is part for the course in commercial enterprises, given that they externalise the dramatic effects felt by such downsizing, in the case of a cooperative or SSE entity the trauma of "amputating" a part of the collective, as well as the loss of capital involved in the departure of any number of members, may very well lead to the closure of the business. The bigger the entity, the greater the risk of needing to carry out such traumatic changes.

## **Alternative forms of growth**

Every entity in the SSE, no matter its size, should engage in economic, political or solidarity-based inter-cooperation. In the case of economic inter-cooperation, it must be based on shared needs and objectives, as well as a common culture. It should take shape by creating products, services, initiatives or campaigns together, by sharing some kind of productive element (supplies, technology, training, commercial initiatives), and/or by jointly distributing any profits. Depending on the complexity and duration of said inter-cooperation, a private verbal or written agreement may suffice, or it may be necessary to make the collaboration official by establishing a UTE (Spanish: *Unión Temporal de Empresas*, Temporary Union of Enterprises), a secondary cooperative or association, a service cooperative, or similar.

Economic inter-cooperation can happen on many different levels. Operating as a simple provider is not the same thing as coordinating production among several entities to offer a joint final product – or in other words, setting up an SSE production chain. Likewise, sporadic collaboration with another entity to offer a joint service is entirely different from offering this same joint service on a permanent basis, or even offering several joint services. Moreover, cooperating exclusively with another organisation is not the same as doing so with various organisations, each in different ways and with different needs and objectives. When used to its fullest, inter-cooperation can serve as an alternative strategy to internal growth.

Obviously, inter-cooperation is not without risks either. These include the risk of imbalances in terms of who contributes the most to the joint project and who reaps the most benefit, or the risk that members of each entity who are not directly involved in the inter-cooperative project will see the alliance as

something external that takes away their decision-making power. Measures must therefore be put in place to avoid such situations.

Finally, there are other forms of growth such as replication and division. Replication means using mentorship or resources to help collectives who want to carry out a similar project in other areas. This is a form of political or solidarity-based inter-cooperation. We help others create a similar entity to ours, whether out of solidarity with the other project's leaders, to increase the social impact of our initiative, or a mix of the two. A good example of replication is illustrated by Agintzari, a socio-educational cooperative in Biscay (in the Spanish Basque Country), which helped to create two other cooperatives (Zabalduz and Hirube). Agintzari is now engaged in a process of inter-cooperation with these two cooperatives via Bogan, a secondary cooperative made up of these three entities.

Division works similarly to the growth of an amoeba. Once the SSE entity has reached a certain scale, a part of the cooperative that has specialised in a certain product or service in a specific region will separate from the larger structure and, with the support of the latter, form a new entity. Both in replication and division, the usual strategy is that both the *parent* and *child* entities end up creating a kind of new, shared instrument of cooperation, as we have just seen.

## **An SSE for ecosocial good**

Internal growth is not an absolute and universal imperative for entities in the SSE. There is an appropriate size for every market and every business model. Internal upsizing may sometimes be needed, as is the case with many small worker cooperatives or large supply cooperatives (energy, telecommunications, credit, etc.), while in other instances it is merely an option, and an often dangerous one at that.

However, SSE entities can also grow through inter-cooperation, which may even include replicating or dividing the project. These strategies are not mutually exclusive over the course of an entity's lifespan, and may even complement each other well.

In a state of ecosocial emergency like the one we are currently experiencing, and with the need to transition towards economic systems that are simpler, self-sufficient and local, it makes particular sense to promote SSE entities of only a few dozen members (though not micro-enterprises) that practise extensive inter-cooperation.

Conversely, it makes no sense to build large organisations, except in the case of very specific initiatives and sectors that are essential for sustaining life and that would not be viable on a smaller scale. Implementing the kind of organisation needed to ensure that large cooperatives can also be participative, feminist, sustainable, and socially committed could serve as an example of how large capitalist enterprises could be managed cooperatively in the future. Many of these enterprises will need to move towards a social model if we want to embark on an ecosocial transition that keeps the planet inhabitable.

*This article was originally published in Spanish by [Alternativas Económicas](#). It is republished here with their permission. Translated by Guerrilla Media Collective.*

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Published February 29, 2024

Article in English

Published in the *Green European Journal*

Downloaded from <https://www.greeneuropeanjournal.eu/should-cooperatives-aim-for-growth/>

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