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THE CO-OPERATIVE ADVANTAGE

by

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1 Introduction

The international trend to demutualise financial services (mutuals and co-operatives), the conversions of farmer co-operatives in many countries, and the well published bid by Lanica to takeover the UK's largest consumer co-operative, have contributed to a public perception that the co-operative idea is one that belongs to a past generation.

Published research and general statistics in annual reports in various sectors of the co-operative movement indicate that although there are signs of growth and development, much of the movement's recent history has been one of loss of market share and retrenchment. In addition there appear to be widespread popular doubts about the continued relevance of co-operation in the modern world together with demoralisation and a sense of isolation even at the highest levels of co-operative management.

The international context of transition economies in eastern Europe, deregulation in much of the rest of the world and globalisation has only increased the competitive pressures on co-operatives in the UK and abroad.

However, at the same time, these problems represent an enormous opportunity to respond positively and vigorously. There are numerous examples of co-operative innovation and good practice, and there is a mood of reassessing features of co-operation that 'make the difference' – in business terms and ethically. Indeed there is a strong sense that good business and high standards can be a winning combination. But the theoretical basis for co-operative advantage is unclear and so cannot inform such activities. It is essential that this is addressed to help tackle the problem and capture the spirit of reasserting co-operative advantage. This paper attempts to strengthen our theoretical understanding of the nature of co-operative advantage and the characteristics of co-operatives that give them an economic and social advantage. It is important that co-operatives and mutuals fulfil their promise, not just because of the important values they embody, but also to give customer choice, and preserve 'a rich ecology of organisational forms' that can inform responses to diverse needs (Hargreaves 1999).

Although co-operatives are similar to each other in many respects, their key difference is in their types of members (who have ownership rights); thus there will be different advantages associated with the two main types of co-operative, and this paper will be primarily concerned with consumer/user co-operatives which are owned and controlled by their customers (these include housing co-ops, credit unions, agricultural supply co-ops, and most mutuals); however many of the advantages will also apply to the other main type of co-operative – producer which are owned and controlled by supplier/producers (these include agricultural marketing, fishing, and worker co-ops which may be seen as a special case where producers collectively organise their productive activity); multi-stakeholder co-ops combine different types of members (producers and consumers, and possibly others) as owners of the enterprise, and they will have some advantages from both types.

One way of exploring relevant factors for co-operative advantage is to examine why co-operatives, as one form of social enterprise,[1] have emerged (and this can by examined from both the supply and demand sides). This paper develops an understanding of co-operative advantage, firstly by drawing on economic theories of the enterprise (transaction cost and agency theory) and in particular the Not-for-Profit (NfP) literature on emergence and performance, secondly by extending this analysis to focus on the importance of trust and social capital, and thirdly by considering the other structural features and values of co-operatives that might contribute to co-operative advantage.

2 Economic theories of emergence and performance

There is a considerable amount of literature and evidence to say that organisations in the social economy (co-operatives, mutuals, and voluntary organisations) make a response to market failures and state crises. If one looks back to the times of the Rochdale pioneers and

1 The term social enterprise refers to trading co-operatives, mutuals and voluntary organisations.

origins of mutual financial services, these origins lie in excessive market power by private operators and the social enterprises developed in response to this.

Studies of the emergence of social enterprises have been dominated by economistic theories of the non-profit sector:

Demand side theories (as state/market failures)

Supply side theories (social entrepreneurs)

Dynamics of institutional choice (historical and contextual factors)

This seems to overemphasise an economic view of social enterprises, and underplays associative factors and social movement forces in their emergence. It also fails to take into account the great diversity of social enterprises (even within the non-profit sector), and the fact that these enterprises often change over a period of time due to bureaucratisation, professionalisation of management and experts and institutional isomorphism pressures (Scott and Meyer 1994).

Nonetheless such an approach provides a convenient framework for examining the emergence of co-operatives as one form of social enterprise and NfP theories are relevant since co-operatives and NfP organisations have many similarities. Although in most cases co-operatives may be profit distributing, they are constrained in a number of ways (see esp. Levi, 1998) and it is a co-operative principle that there should be limitations on the distribution of profits/surplus. In addition any distribution of surplus is to the co-operative's members. Thus there are parallels with theories of non-profit organisations, and the economic theory of non-profit organisation (e.g. Hansmann, 1987) provides a rich source of theoretical ideas for the development of a theory of co-operative emergence and hence co-operative advantage. However while in principle the emergence theories below all apply to co-operatives, not everyone accords them the same weight, for example Hansmann (1987) regards the consumer co-operative as having generally arisen from monopoly situations (although he argues that mutual life assurance companies – structured like consumer co-ops – arose primarily from contract failures).

The theory of non-profits may be conveniently divided into that on the *role* of non-profits and theories of their *behaviour* (or performance). And non-profits may be differentiated (Hansmann) according to source of income (the patrons may be donors or customers), and the way in which they are controlled (mutual – controlled by patrons, or entrepreneurial – controlled by self-perpetuating boards). This gives a four way classification donative/commercial vs. mutual/

	Mutual	Entrepreneurial
Donative		
Commercial	(like co-operatives)	

entrepreneurial; clearly co-operatives are closest to the mutual/commercial part of this typology.

A number of economic theories relevant to emergence and performance are considered below, including both supply and demand factors, in particular contract failure theory, and excessive market power, both of which provide a rich source of theoretical ideas.

2.1 Emergence and contract failure theory

Most economic transactions between an enterprise and its patrons (customers, suppliers, workers, financiers) are covered by the contract failure theory (Arrow 1963, Hansmann 1987, 1996). Thus it applies to exchanges of goods and services. And failures in such contractual exchanges arise where the quality of goods/services is difficult to judge (e.g. day care for children); in the case of washing machines you can see the kind of product you buy, but in the case of a service like residential care for the elderly a lot of the quality of the service is taken on trust. And thus there are concerns that a for-Profit organisation might engage in 'opportunistic behaviour' to exploit this situation by making excess profits and providing inferior quality goods or services. In such situations people are more likely to trust NfPs, since managers of such organisations have less incentive to take advantage of their customers due to the profit distribution constraint, which prevents those who control the organisation benefiting personally. (NB Hansmann also argues that this advantage has to be set against relative inefficiencies of the NfP form (access to capital and poor incentives to minimise costs).)

The general principles underlying this explanation are that there are certain situations where an asymmetric distribution of information (lack of information available to the consumer/user) and a lack of opportunity to monitor the quality and quantity of service provided means that there is a failure of ordinary contractual processes, giving rise to exploitation by for-Profit firms, and perceived advantages in transacting with NfPs and consumer/user co-operatives in such situations.

In such cases the NfP form and the co-operative (for similar reasons) will have a competitive advantage because their profit distribution constraints (non-distributive or user member dividends) engender trust because there is less incentive for managers to engage in 'opportunistic behaviour' and extract excess profit; and in the case of co-operatives there is more likelihood that managers will perform in line with users' preferences (since returns to members is a key measure of performance). In many situations the state plays a complementary monitoring role (through its tax and regulatory bodies) to help ensure NfP and co-operative compliance with their respective profit distribution rules. (Such regulatory bodies may have disadvantages in markets that are becoming deregulated, either for consumer/members if there is a loss of monitoring, or there will be disadvantages for the social enterprises if the regulatory powers remain while private competitors are relatively unregulated.)

There are a number of additional factors that can exacerbate the problems underlying this kind of contract failure. Firstly very often the purchaser of a service may not be the direct user e.g. a parent buying childcare; secondly where the service is usually a long term one, users may be 'locked in' in the sense that the costs of exiting are high e.g. an elderly person in a residential care home; similarly for long-term contracts such as for life insurance; and in many cases there may be 'consumer inertia' largely due to a desire to avoid the transaction costs of engaging in continual monitoring of service quality (and a search for better alternatives) – thus the consumer will tend to 'exit' only after substantial service decline has been brought to their attention.

It is important to note that contract failures vary in importance depending on the product or service being traded, for example some goods are easy to inspect while others are standardised and well-known. But in most goods and services there is a situation of asymmetric information, where the consumer does not have enough information to be fully confident in their purchase. Foodstuff is one of the most prominent current examples where one risk after another has been shown to be present e.g. BSE in beef, salmonella in chicken, genetically modified organisms in vegetables (and in much processed food through genetically modified soybeans); in addition consumers are showing an increasing concern about environmental and ethical issues which are difficult to monitor e.g. sustainability of raw material sourcing or where savings will be invested; similarly the potential for 'opportunistic behaviour' is ever-present in longer term contracting even where a consumer has been vigilant in their initial purchase; so financial services enterprises may take advantage of 'consumer inertia' to change savings or loan terms once the consumer has made their commitment.

Such concerns are more likely to be allayed where there are grounds for trusting an enterprise, for example where its form (e.g. co-operative/mutual) is less likely to be exploitative of its user/consumers. Thus there is a trust dimension in almost all goods and services which can give co-operatives a competitive advantage.

[NB This however does not resolve agency problems between user members and a manager i.e. the extent to which member owners can monitor and control their managers (or agents) (see Spear 1996 for a more detailed discussion of governance issues in member based organisations). Workers becoming members of consumer co-ops may resolve some agency problems, but such multi-stakeholder co-operatives may give rise to conflicts of interest amongst members. However while such problems may hamper the process of maximising returns to members, at least the use of the NfP or co-operative form mean it is less likely (than investor-owned firms) for managers to engage in opportunistic behaviour to exploit customer members.]

There are other factors that moderate the potential effect of the trust advantage, most notably reputation of an enterprise (good and bad), and the extent of regulatory framework to protect the consumer i.e. the more developed the regulatory framework, the more protected the consumer, and the less trust becomes an important advantage. It seems paradoxical that due to their values, co-operatives have often been at the forefront of campaigns to improve standards of consumer protection, thereby undermining their own trust advantage!

2.2 Co-operative emergence and excessive market power

One does not need to look very far into the history of co-operatives and mutuals to note that they are frequently formed where such contractual problems are relatively minor, but where excessive exploitation is taking place usually through monopolistic or oligopolistic market power. In response to such situations groups of consumers or producers find the co-operative form more trustworthy structurally and less exploitative (since any surplus returns to members via dividends), and easier to self-finance and gain market entry (particularly if its founder members are relatively disadvantaged). For example in the UK, the Rochdale Co-operatives were formed to combat poor quality food and high prices; building societies (mutuals for savings and home loans) were formed to combat excessive profits of banks, and more recently small/medium farmers are forming farmers markets (some of which are producer co-operatives) to combat excessive market power of the big 4/5 supermarket chains. Thus co-operatives are formed (in this theory) to combat excessive market power, through a spirit of self-help by weak actors in the market; in addition such co-operatives frequently help stabilise the market for such actors (e.g. by helping to manage the risks of variation in commodity prices for farmers).

This argument is strengthened in contexts where social capital is accessible to weaker groups to help them overcome market entry problems and barriers (social capital=trust and norms of reciprocity in networks – see below). Such groups may be able to use their social networks to raise finance, help establish a new business and its local market, and access relevant expertise; in other words social capital may reduce the economic cost of establishing a new enterprise.

2.3 Co-operative emergence and quasi-public goods

In situations where the state is an important provider of goods and services, co-operatives and NfPs may be formed for 2 types of reasons (James 1987, Weisbrod 1977): because the state does not provide sufficient quantity or quality (i.e. it does not differentiate the product or service sufficiently for the demands of its varied users); in other words the state tends to fulfil minimum requirements for the amount of services, and due to its bureaucratic nature provides uniform standardised services. Opportunities for co-ops and NfPs arise particularly in health, care, and education, where their smaller size and more entrepreneurial orientation allows them to fulfil the needs of a range of users. Many western countries have experienced crises in their welfare systems, and liberalisations leading to the growth of NfP and co-operative initiatives. On a smaller scale crises in state responses to inner city problems have often led to self-help tenants groups and community projects.

Ideological organisations (especially religious ones, but including political, trade union and ethnic ones) are the commonest form of such social enterprise providers. Since the entrepreneurial motivation is ideological (plus the desire to provide distinctive services for their members) rather than personal gain, co-operative and NfP forms are the most relevant.

In addition NfPs have a competitive advantage in their use of volunteer labour, and access to donations. Thus a lower cost base and their ideological/religious entrepreneurship offers an alternative explanation for emergence compared to contract failure, in the sector of quasi-public goods. The competitive advantage relative to the public sector is a lower cost base, an ability to differentiate products/services (especially along religious, ethnic and linguistic lines), and greater flexibility in operation.

Relative to NfPs, co-operatives do not have the low cost advantage (except in countries like Italy where volunteers are common in social co-ops), but they often offer a greater emphasis on membership which guarantees access to services and 'voice' or influence in the nature of service provided (Hirschmann 1970). The considerable presence of co-operatives in such sectors all over the world indicates that this offers some compensation but one must look to historical and contextual factors influencing institutional choice between co-ops and NfPs for a fuller explanation.

Similar arguments may apply to performing arts activities (e.g. orchestras) since they often have a 'product' which bears some similarity to a public good; the state often provides a subsidy; and the performers often want 'voice'. Differing emphasis on these factors would lead to a club-type organisation like a consumer co-op (or NfP) but more likely a producer co-op (or NfP mutual).

2.4 Supply factors – entrepreneurship

Co-operatives are said to have an entrepreneurship problem; this is partly due to the influence of neo-classical economic theories which assumptions do not fit closely the motivations of co-operative entrepreneurs. This represents an important area for further study (cf. studies of entrepreneurship in NfPs which have shown the importance of religious organisation and religious motivation of entrepreneurs in the formation of new NfPs – as noted above, see also James 1987). Similarly it appears that networks and organisational/institutional factors are important in the creation of new co-operatives (e.g. the Co-operative Development Agencies in the UK worker co-op sector, and Mondragon's Bank's entrepreneurial role). Preliminary evidence from a study of social entrepreneurship (Spear 2000) indicates that the popular model of business entrepreneurship, that of the 'heroic individual' may not be so relevant to social enterprises where entrepreneurship may be more joint or team based, with a wider group of external stakeholders sometimes quite closely and essentially involved. And the rationale for institutional choice (co-operative vs conventional business) was not always so clearly rational, but more obviously *mediated* through professionals, advisers, support organisations.

Thus the fact that there appear to be many contexts favourable for social enterprise, but they are not formed, indicates that entrepreneurship is a major factor in explaining their relative lack of emergence. In addition factors influencing institutional choice (below) are clearly central to a fuller understanding of this area.

2.5 Institutional choice: contextual/historical factors in co-op markets

The third set of factors in explaining the emergence (and continued existence) of social enterprises are contextual and historical factors influencing institutional choice i.e. the choice of organisational form. This perspective has arisen more from sociology, though path dependency approaches in economics are relevant. In general terms the contexts in which co-operatives operate are markets with differing degrees of state purchase, state regulation, and private sector market power. There are numerous examples of unfair competition by private firms against co-operatives; and there have been many cases of protected markets for co-operatives, though less and less so these days; but market protection has often been linked to the requirement to fulfil state development objectives. These contextual factors (historically determined) influence the strategic possibilities for co-operatives (both in terms of their formation and growth). Clearly in the space available it is only possible to hint at the range of factors involved, and leave the examination of these factors in specific contexts to others:

Legislation and tax regimes – while these can be important to give protection to a type of organisation, it is important that they are kept current otherwise they can be constraining, or disadvantageous compared to conventional business regimes; this is particularly so for regulatory frameworks (see below).

Regulatory frameworks – e.g. legislation for UK mutuals was very constraining on their operations in a context of deregulation, and was a factor in demutualisation. Similarly regulation of the informal economy e.g. in homecare, influences the extent to which formal independent enterprises may be formed.

State developmental frameworks – where co-operatives are supported by the state for their social benefits, disadvantages can result unless there is full compensation for the cost of delivering such benefits cf.

Italian social co-ops providing work integration for disadvantaged groups through state contracts for the goods or services they produce.

Quasi-markets – these relatively new markets arising from state contracting policies seem appropriate for social enterprises; they are influenced by the extent of state contracting, market entry barriers and any state bias in purchasing policy (for example in welfare markets); similarly the nature of such markets is closely related to the extent of the state benefits systems.

Informal co-operation – while the development of Linux software systems may be the most recent success story, the extent of informal co-operation between individuals and co-operatives can greatly strengthen a co-operative sector (see social capital below).

Existing sector: size, image and political influence – the larger and more influential a co-operative sector the more likely it will be able to resolve some of the above factors in its favour, and establish appropriate *institutional support*.

Cultural factors in choice – for example in many countries NfP organisations are more accepted in welfare services than co-operatives, but the reverse is the case in other countries.

The particular configuration of these factors will also influence the extent of co-operative advantage arising from other considerations (e.g. contract failure or market power); they will also be crucial in influencing the choice of type of organisation made by entrepreneurs.

2.6 Performance

There is a large amount of neo-classical economic literature on the performance of NfPs and on worker co-operatives, and an increasing literature on agency problems in co-operatives (Nilsson 1998, Spear 1996; see Defourny and Spear (1995) for discussion of worker co-ops advantages). The models developed vary in their assumptions, and hence their findings; nonetheless a review of some of the key issues is informative since it highlights risks and potential; it is also important for understanding the nature of the co-operative advantage.

Undercapitalisation and underinvestment – it is argued that the cost of capital for co-ops will be higher than for-Profits, hence there will be a tendency to underinvest; though this would appear to depend on the extent to which organic growth based on retained earnings or member contributions are viable strategies.

Growth – due to undercapitalisation and entrepreneurial factors growth may be less than for-Profits; and patterns of growth may be different – with federal structures playing more important roles.

Productive efficiency – it is argued that relative to NfPs, co-operatives will have incentives to minimise costs, but for large numbers of members, agency problems may reduce these incentives relative to for-Profits. (NB In multi-stakeholder or worker co-operatives an empowered more self organising workforce is likely to lead to efficiency gains).

Social efficiency – while co-operatives clearly exist primarily to serve their members, this goal is complemented by the co-operative values and principles, many of which will serve to reduce inequalities and disadvantage amongst members, staff and the wider community. Similarly consumers may get additional social benefits just from trading with an organisation they own. The extent to which such ethical values will have an economic cost will vary; since in some cases ethical values can have economic value (cf. UK Co-op Bank's ethical stance which has greatly enhanced its economic performance). In either case the social benefits of co-operatives are likely to be greater than for-Profits, but possibly less than NfPs.

To summarise this section: performance considerations and the three sets of factors: supply side, demand side, and institutional/ contextual help explain whether co-operatives and mutuals and NfPs actually emerge. Some theorists such as Hansmann (1996) lay great emphasis on the cost of ownership as a determining factor in emergence. The cost of ownership arises essentially from agency problems of owners monitoring and controlling managers (the agents), managing the costs of their collective decision making particularly where their interests are not homogeneous (inefficient decisions, resolving conflicts, participating, etc), and bearing the risks associated with the enterprise (capital). However it is not clear that cost of ownership is such an important factor at the emergence phase (when enterprises are small), nor even in influencing their continued existence when they become large, when as Hansmann notes (drawing on Hirschmann) that it can be efficient for a particular type of stakeholder (such as customer) to be the owner of an enterprise, even if voice adds little to exit in controlling the enterprise (i.e. even if they have little influence over management) since their ownership excludes the likelihood that management is responsive to other types of stakeholder (such as financiers). This exclusivity benefit may be sufficient to replace the main benefits of ownership since in large co-ops and mutuals agency problems means that these may be minimal.

The approach adopted here places much greater emphasis for explaining the emergence or non-emergence of co-operatives and mutuals on market failures, entrepreneurship and institutional factors. It is also important to differentiate factors relevant at the emergence phase to factors influencing the continuation or demutualisation of social enterprises. The continuing existence of social enterprises is similarly complex, depending on: the regulatory framework (and the extent to which it eliminates the possibilities of contract failures), changing markets (structure and level of concentration), isomorphic tendencies (tendencies to become similar to the dominant form of enterprise – Scott and Meyer 1994) due to the influence of training, managerial professionalisation, and managerial knowledge, the changing benefits of ownership, and the incentive structures for managers (recently the attractions of large payoffs to managers from share options has played a key role in demutualisation); however as Hansmann notes there is a certain degree of inertia in the conversion process (for mutualisation and demutualisation).

The above (predominantly economic) approach, reveals a number of features of co-operative advantage: co-operatives are effective responses to state and market failures; trust is a major co-operative advantage for user/consumers in contract failures, and there is a trust dimension in almost all goods and services; co-operatives are also an effective self-help response for weaker actors in monopolistic/oligopolistic markets. New state quasi-markets in health, education and welfare sectors, appear to offer opportunities for co-operatives and other social enterprises, taking advantage of their social efficiency. But entrepreneurship is a particularly important area for explaining the emergence of co-operatives (and helping them fulfil the potential in addressing market/state failures), within the framework of a particular set of institutional factors.

3 Trust and social capital

There is an increasing realisation (Putnam 1993; Fukuyama 1995) that for enterprises, regions and even nations economic performance can be strongly influenced by the quality of the relationship between people; typical examples are industrial districts of Northern Italy (Sabel and Piore 1984); public/private partnerships such as MITI in Japan, and in various cities in Northern Italy. The term social capital has been used to characterise the quality of such relationships, and the key features of social capital are that the community or social organisation has *trust, norms and networks*; this can be used to improve the effectiveness of economic, political and organised social activities with which it is linked.

Trust is central to establishing social capital through norms of reciprocity within social/economic networks. Repeated transactions help create a reputation for trustworthiness and reliability. The benefits reinforce the norms, the level of trust and the strength of relationships in the network. It can be argued (e.g. Putnam 1993) that the associative nature of co-operatives and NfPs and their strong links to the community provide a uniquely favourable basis for the utilisation of social capital, its reproduction and accumulation. This also helps to strengthen the fabric of civil society.

A central idea is that networks of reciprocal and high trust relations allow more efficient economic exchanges and activities to take place. They also allow resources outside an organisation to be pulled into economic activities via such networks. The potential effect can be so great that Putnam argues it is the major difference between the very strong economic and civil society performance of Northern Italy compared to Southern Italy this century. The key features of (some) co-operatives which favour the creation and utilisation of social capital are:

- social/community benefits giving strong territorial linkages;
- good networks of users;
- worker involvement;
- democratic process;
- trust in the co-operative form.

Apart from the economic and civil society effects identified by Putnam, social capital also helps co-operatives in overcoming contract failures and costs of ownership (governance problems). Where users within the trading territory of a co-operative are linked by a network of trust relations, this provides communication channels for overcoming asymmetric information and opportunistic behaviour. Similarly such networks will help improve the capability of member users to monitor the enterprise, communicate amongst themselves, make collective decisions, and align the interests of enterprise staff with those of users – thereby helping to overcome agency problems. These social capital effects will be greater where social capital networks overlap strongly with trading territories and thus member communities. Social capital may also be used to help establish new social enterprises.

This leads to several important conclusions which give the social capital advantage: firstly that co-operatives strengthen civil society and this has considerable economic impact (as well as social impact) within a community; and secondly co-operatives facilitate high-trust relations which improve economic efficiency within the organisation; thirdly social capital networks linking consumer/members and enterprise staff help overcome contract and governance failures. In addition (as noted above) the existence of social capital eases the formation of co-operatives (entrepreneurial process) combating excessive market power by weak actors.

4 Values and other co-operative features

Co-operatives espouse ethical values: self-help, democracy, equality, equity, and solidarity, etc; together with principles which espouse openness, autonomy and independence, education, co-operation among co-operatives, and concern for community. Its emphasis on 'voice' gives its members much greater potential influence than other stakeholders which along with a sense of ownership may increase satisfaction (and identification with the enterprise) even if there are governance problems.

In the increasingly ethical and environmental market, such values (other things being equal) give a number of advantages to co-operatives: an attractiveness for consumers concerned about ethical/ environmental issues; an attractiveness for staff in an epoch where knowledge counts for more and more, that their enterprise values education; a concern for community which frequently reveals itself through measures delivering community and social benefits; and an orientation towards interorganisational co-operation which, given the current interest of strategists in clusters of co-operating enterprises, should bear fruit in improved economic performance. Many of these values and principles also enhance the social capital (and inherent trust) of the co-operative enterprise, its ability to reproduce it, and develop it within its community. All this implies an advantage associated with territorial relations and community relations.

5 Summarising the Co-operative Advantage

This approach developed here is based on a perspective about potential and theoretical advantages; the real condition of co-operatives may differ for a variety of reasons and their potential may not be fulfilled, but it is important to debate and clarify the basis of their advantages, not least because the strategies of co-operatives are more likely to be successful if informed by a clearer understanding of the key features of the co-operative advantage.

First co-operatives are effective in responding to market failures and state crises; in the provision of quasi-public goods in the new welfare markets, and in responding to social/community problems.

Second the trust advantage: in theoretical terms there is often asymmetric information – in other words the consumer possesses far less information than the producer and opportunistic behaviour on the part of the producer can exploit this information advantage. Co-ops have an important role to play in overcoming such problems because in general they are regarded as more trustworthy, less likely to engage in opportunistic behaviour and exploit the consumer. This means that there are lower costs of monitoring to check that there is no exploitation and that there is good quality.

In practice there is a trust dimension in many goods and services. So, for example, in foodstuffs there is considerable current concern about what exactly we are eating and one would expect that co-ops would have a unique advantage in informing the public, and being more trustworthy from the point of view of the consumer (e.g. the UK's largest consumer co-operative (CWS) promoting its food standards, the Co-operative Bank being ethical about where their users' money is invested, and Nationwide Building Society not taking advantage of consumer inertia and constantly changing terms for its savers). Thus they are more likely to have an ethical operation and a positive image. Co-operative values also enhance trust which additionally helps overcome lock-in, long-term contracting and customer inertia problems.

Co-operatives have advantages in health, education, and welfare markets. They also have a market orientation but with the added benefits of social benefits.

Third the self-help advantage: co-ops are uniquely suited to build on the spirit of self-help of individuals. They are an effective instrument for assisting weaker actors combat excessive market power.

Fourth is the relational or social capital advantage: co-operatives build on solidarity within the community, they extend stronger relations within a community or territory and build social capital to develop a better civil society and improve economic performance. In addition social capital provides a complementary capability for co-operatives to improve their capability to manage contract and governance failures.

Fifth participation and co-op values: co-operatives are participative by definition and they empower people and thereby make a more effective use of the resources that those people bring to an organisation; empowerment of users and the ethical values of co-operatives can bring intrinsic rewards for members of owning and trading with their enterprise. Co-operatives usually possess qualities of flexibility and resilience so for example the level of wages and working conditions in worker co-operatives are more flexible, and thereby have a positive macroeconomic effect (i.e. workers co-ops have less inflation, and less unemployment in downturns).

Sixth, co-operatives have a greater social efficiency by generating positive externalities, and through their social benefits of empowerment, community links, etc. Social efficiency will be more visible if there is a parallel development of instruments for assessing not just economic efficiency but social efficiency too; for example in the form of social audit and new social accounting methods.

This theoretical approach leads on to practical and research agendas. These advantages represent the potential for co-operatives and mutuals, the reality may be somewhat different, leading to interesting research questions. Problems of entrepreneurship and institutional factors may limit the extent to which co-operatives emerge to combat market failures and market power; the continued existence of co-operatives also depends on a range of complex factors, including the current perverse short term incentives for managers to benefit from demutualisation via share options. However in practical terms, the economic and social landscape is enriched by social enterprises which are distinctive and value based. By recognising their distinctive potential, and strengthening their entrepreneurial and growth strategies they can more fully reassert the co-operative advantage.

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