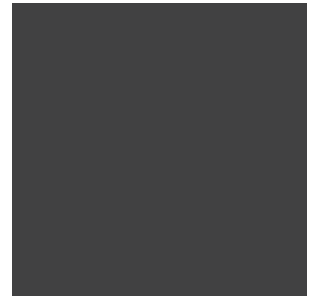




co operative development scotland



# A comparative analysis of co-operative sectors in Scotland, Finland, Sweden and Switzerland

## Summary and key findings

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Highlands and Islands Enterprise  
Iomairt na Gàidhealtachd 's nan Eilean



Scottish Enterprise

## WHO WE ARE...

Co-operative Development Scotland is a Scottish Enterprise subsidiary with the remit to promote and facilitate the development of co-operative enterprise across Scotland.

## WHAT WE OFFER...

CDS offer expert advice on the development of new co-operative and employee owned enterprise. In addition we support existing co-operatives who wish to grow and develop their business.

For further information visit our website [www.cdscotland.co.uk](http://www.cdscotland.co.uk)

**This research compares Scotland's co-operative sector with the co-operative sectors in three European countries (Sweden, Switzerland and Finland). The study looks at the lessons that can be learnt from the development of co-operatives in these countries. It also reviews prospects for further development of co-operatives in Scotland and assesses how Scotland's co-operative sector can be strengthened.**

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## KEY FINDINGS

- The economic contribution of co-operatives in Scotland has historically been below that of some comparable European countries. Sweden, Switzerland and Finland have stronger co-operative sectors. The reasons are historic and complex in nature. Strong social bonds (shared values, mutual interest and trust) are the foundations on which successful co-operatives are built within these countries. In many cases a supportive policy environment (legislation, funding, and advice) has also played a significant role in strengthening co-operative sectors.
- Co-operatives have the potential to make a much more significant contribution to Scotland's economy. At the same time, co-operatives can benefit producers, consumers, employees & communities.
- The research highlights a number of significant opportunities to build-on and strengthen the co-operative sector in Scotland. These opportunities include employee ownership, which is a viable business option across a wide range of sectors. In renewable energy there is scope to promote consumer co-operatives, particularly in wind farms and biomass, to secure local benefit from renewable energy developments. Consumer co-operatives also have the potential to establish in childcare, digital and media technologies, and a number of other sectors.
- In forestry there are opportunities for forest owners and timber harvesters to establish producer co-operatives to benefit from economies of scale. Opportunities also exist to promote producer co-operatives to small business across a range of sectors to enable those businesses to capture greater value from produce.
- Co-operatives are already well established in farming and financial services in Scotland, and strong support structures are in place to support these co-operatives. But there is the potential for further growth of co-operatives in these sectors.
- The key lesson learnt from this research is that few, if any, of these growth opportunities for Scotland will be realised without some form of policy intervention. To realise the potential benefits for Scotland, a range of interventions will be required, including changes to legislation in some cases to make the co-operative model more viable; provision of early-stage funding to overcome initial investment risks; and additional sources of advice and support to help potential co-operatives capitalise on the opportunities available.

## AIMS OF THE RESEARCH

The aims of the research were to understand the scale and size of Scotland's co-operative sector. The research compares Scotland's co-operative sector with the co-operative sectors in three comparator countries (Finland, Switzerland and Sweden). These comparator countries are similar to Scotland in population size, wealth, and topography. The key questions for the research were:

- What accounts for the differences in the size and nature of the sector in the four countries?
- What factors have determined the success of the co-operative sector in the comparator countries?
- What can the Scottish Government and other policy makers do to support the growth and development of the co-operative sector in Scotland?

## WHAT IS A CO-OPERATIVE?

A co-operative business is democratically owned and operated by a group of individuals or businesses for their mutual benefit. There are three types of co-operative:

- A consumer co-operative is a business which is owned by its customers. The Co-operative Group is a well known consumer co-operative.
- A producer co-operative is owned by member businesses. These businesses come together to achieve scale in purchasing, producing and marketing. First Milk is the largest dairy farmer in the UK and an example of a producer co-operative.
- An employee-owned co-operative is a business which is owned and operated by its employees. John Lewis is one of the largest in the UK, with a turnover of £600m.

## BENEFITS OF CO-OPERATIVE MODELS

Compared to other forms of business, co-operatives tend to spread wealth more equally among members.

Producer co-operatives help farmers capture greater value from their products – without which they must sell to retailers at the lowest point in the value chain.

Consumer co-operatives in utilities such as wind power can provide communities with energy, and the opportunity to reinvest revenues in other community facilities. Co-operatives can therefore make planning permission for renewables easier to secure, and overcome issues of monopoly that could arise with a private provider.

Employee owned co-operatives are often more productive, with lower rates of staff turnover and higher survival rates, than other businesses.

## THE SIZE OF THE CO-OPERATIVE SECTOR IN THE FOUR COUNTRIES

The size of the co-operative sector varies significantly across the four comparator countries. This research explains some of the reasons for these differences.

## CONSUMER CO-OPERATIVES

Consumer co-operatives take a wide variety of forms, including retail, financial services, housing, utilities, leisure and public services.

Scotland was at the forefront of retail consumer co-operation in the 1860s. However, faced with increasing competition from multiples, retail co-ops began to decline from the 1960s. Today there are just three societies left in Scotland, the UK-wide Co-operative Group (which has a market share of around 8%), and the smaller Scotmid and Clydebank co-operatives. Market share is around 9%, compared to between 21-50% for retail co-ops in the three comparator countries.

There are a wide variety of consumer co-operatives in financial services. In Switzerland and Finland, co-operative banks command significant elements of market share. Finland's largest financial services group is a co-operative, controlling over 30% of domestic loans and deposits. In Scotland (as in Sweden), commercial banks established more quickly, limiting opportunities for co-operative banking. However, there are now 115 credit unions in Scotland, with a combined membership of 250,000, £200m in savings and £150m in loans.

Consumer co-operatives in housing have flourished in the three comparator countries. For example, in Sweden co-operatives have been enshrined in law as the preferred form for apartment ownership – they account for 750,000 apartments and 18% of the stock. In Scotland, the space that could have been occupied by co-operatives has largely been filled by larger community housing associations & local authority housing.

Consumer co-operatives also exist in areas including renewable energy, where there are real opportunities for Scotland (see case-study below); in leisure services such as supporters trusts, where Scotland is already a European leader; in public service provision in areas such as childcare; and in digital and media technologies, where some co-operatives are already emerging in Scotland to supply phone and internet services to communities.

## CASE STUDY: WIND ENERGY CO-OPERATIVES IN DENMARK AND SCOTLAND

Utilities are typically provided by the public sector or by a regulated private sector market. However, the co-operative model is also used in other countries. In Denmark 150,000 families are members of wind energy co-operatives, owning over 3,000 turbines which provide 23% of Denmark's energy. Local communities became involved in wind turbine developments because they wanted to own their own power source; and as schemes became larger, ownership was opened to an increasingly broad population. There is a historical explanation for part of this trend which dates back to a tradition that communities owned a stake in their local windmill. But government intervention has played an even more significant role – including significant investment in energy technology, pioneering green taxation schemes and subsidisation of community wind farms.

In Scotland, Energy4All has established four co-operative wind farms. The company plans to create a national Scottish renewable energy co-operative; which will be known as the Caledonia Fund. This co-operative will invest in new renewable projects which are unable to raise sufficient funds themselves, allowing consumers from across Scotland to invest and share in the benefits of renewable development.

The main constraint to the development of the sector in Scotland is a lack of available risk capital. Government support is needed to overcome this. In England some Regional Development Agencies (RDA's) assist the co-operative model by funding the development stages. This has not yet happened in Scotland.

## PRODUCER CO-OPERATIVES

In each of the three comparator countries, the farming sectors have become dominated by very large producer co-operatives which successfully compete in the modern economy. In Finland, for example, co-operative Valio Group is the country's largest milk producer. In Sweden, co-operative Arla Foods (jointly owned by Swedish and Danish farmers) has become the largest milk and dairy company in Europe. Sweden and Finland also have strong producer co-ops in forestry, and Finnish Forestry co-operative Metsaliitto is Europe's largest wood producer.

In Scotland, co-operative marketing societies were established in the 1930s but then absorbed into state marketing boards – this effectively

made co-operation in marketing unnecessary. Supply societies still had an important role to play, but were not as prevalent in Scotland as in comparator countries. Following deregulation in the 1980s, Scotland's co-operative sector has been growing, and there are now around 75 member co-operatives of the Scottish Agricultural Organisation Society, accounting for a throughput of £1.4 billion. It is probably too late for Scottish farmers to capture whole industries as they have in the comparator countries. But there is scope for farmers to capture more value by forming joint marketing groups or working with agri-food businesses further up the supply chain to capture greater value from their products.

In fisheries, lessons from other EU countries – and Norway in particular – suggest that it should be possible for Scottish fishermen to capture more of the value chain through co-operation. However the ownership structure in the Scottish industry is extremely complex which will make this a difficult task.

## CASE STUDY: FORESTRY CO-OPERATIVES IN SWITZERLAND

Finnish producer co-operative Metsaliitto is owned by 130,000 Finnish forest owners. It is now Europe's largest wood producer, and it has diversified into a range of paper, packaging, wood processing and bio fuels markets. As a result, it now boasts turnover of 8.4 billion euro and employs 30,000 people.

Metsaliitto was established during the 1930s. It came about as a result of land reforms which resulted in 51% of the country's forest area coming under the ownership of individual land owners. More recently, many small forestry co-operatives have been formed to exploit the waste products of the industry, turning residues from sawmills into wood chips. These are sold by the co-operatives to local authorities for use in heating plants.

## EMPLOYEE-OWNED CO-OPERATIVES

It is difficult to compare the prevalence of employee ownership across countries given a lack of comparative data. However, Scotland performs relatively well compared to other European countries.

There are more than 50 wholly or largely employee-owned co-operatives in Scotland. The largest tend to be successful companies that were sold to their employees in a managed buy-out. For example, Scottish Woodlands is 90% owned by staff and directors and has a turnover of over £40m across its business of forest management, timber harvesting, utilities and renewable energy.

Some businesses start up as employee owned co-operatives (rather than being set up as conventional businesses and then sold to employees at a later date). The largest of these in Scotland is the Edinburgh Bicycle Co-operative, with a turnover of £9.7m. There are several others with turnover in excess of £1m.

There is evidence that employee ownership offers a range of advantages over conventionally owned firms, including higher organisational commitment from staff, increased productivity, greater employment stability and high rates of firm survival.

Expertise in creating share incentive plans & internal share markets is vital to the growth of the sector in Scotland.

### CASE STUDY: LABOUR CO-OPERATIVES IN FINLAND

Labour co-operatives are a combination of job seekers' clubs, employment agencies and training agencies, in which unemployed people become members. The co-operative finds its members temporary work, renting out their labour like a private employment agency. The numbers of labour co-operatives grew rapidly in Finland during the 1990s recession. They were initiated by local associations of unemployed people, supported by funding from central government (which provides 80% of set-up costs) and support from nine regional co-operative development agencies. With unemployment continuing to rise in Scotland following the onset of recession, and a series of tight public sector funding rounds expected in future years, there is scope to explore the merits of the labour co-operative as a unique approach to addressing Scotland's employability issue.

### EXPLAINING DIFFERENCES ACROSS THE COMPARATOR COUNTRIES

In each of the three comparator countries, high levels of social cohesion and trust have laid the foundations for the successful establishment of co-operatives. Decentralised government structures and informal institutions in rural areas have created strong social networks. Land reforms created a system of small farmers with shared values and needs. Urbanisation happened slowly, enabling small producers based in towns the opportunity to adapt to industrialisation by creating co-operatives.

But while history lays the social foundations for co-operative development, government intervention in favour of co-operatives has also played a big role in supporting co-operatives in the comparator countries.

During the 1920s, for example, Finnish laws restricted the amount of land that commercial forest owners could own. In Finland and Switzerland, government funding and legislation in favour of co-operatives helped co-operative banks to grow rapidly into national networks. In Sweden, government legislated co-operatives into a virtual monopoly position in apartment housing. In Finland, utilities co-operatives were seen as the natural choice for rural areas, and given special status in law. In all three countries, farming co-operatives were encouraged, while competition from private interests was limited.

Scotland has traditionally had a strong consumer owned retail co-operative sector. This sector grew from the rapidly urbanising central belt. However, many other forms of co-operative struggled to become established because the space the co-operatives would have filled was absorbed by other business types – savings banks instead of co-operative credit banks, local authority housing instead of housing co-operatives, statutory water and electricity boards instead of rural utility co-operatives.

Attempts to develop farmer co-operatives in Scotland were also less successful than in comparator countries. Initially, this was because the highland clearances resulted in an unequal class system, which resulted in farmers often not sharing common interests that could be achieved through co-operation. The decision to set-up statutory marketing boards in the 1930s ended any emerging co-operatives. Liberalisation in the 1980s brought them back on the agenda, but after two generations farmers no longer knew about the co-operative way of doing business.

### THE CHANGING FACE OF CO-OPERATIVES

Since the 1990s, market liberalisation has seen co-operatives in all countries facing increasing competition. In response, co-operatives are adopting complex company structures, and are sometimes floated on stock markets, which make them almost indistinguishable from investor-owned businesses.

At the same time, a new range of co-operatives is emerging in areas including food and drink, tourism, forestry, renewable energy, leisure services, digital inclusion and social care.

## OPPORTUNITIES FOR CO-OPERATIVE DEVELOPMENT IN SCOTLAND

The research has identified a number of real opportunities to grow and strengthen the co-operative sector in Scotland, for consumer, producer and employee-owned cooperatives.

### OPPORTUNITIES FOR CONSUMER CO-OPERATIVES

Consumer co-operatives in renewable energy provide communities with sources of green energy, and have developed rapidly in countries such as Denmark. Support during the development stages, particularly in the form of risk capital, is what is needed to take these opportunities forward..

There may also be opportunities to promote consumer co-operatives in public services, such as childcare. This model has been successful in Sweden, where parents have established co-operative nurseries (and schools) which enhance choice and quality in provision. There is a need for greater awareness in opportunities for public services delivery utilising co-operatives models.

There is scope to develop the role played by credit unions in Scotland, especially when we consider the scale of the sector in Switzerland – where co-operative bank Raiffaisan also acts as a credit union, with 3 million customers and a 19% share in savings. Scotland's credit unions have the potential to expand their services, but the lessons from other countries suggest that this will only happen as they begin to provide more mainstream banking and insurance services. To achieve this, Scotland's larger financial co-operatives have a role to play in supporting the development of the credit unions, enabling their services to become available to a wider market.

### OPPORTUNITIES FOR PRODUCER CO-OPERATIVES

Farmers and agri-food businesses can benefit significantly from establishing producer co-operatives to jointly market local produce. This co-operative model is already growing strongly in Scotland, and enables the agri-food sector to raise demand and to capture greater value from their produce. Support to promote this model can offer significant benefits to Scotland's rural economies.

Small businesses in other sectors can also benefit from establishing producer co-operatives.. The potential exists for producers to establish co-operatives to supply directly to retailers, and to explore other market opportunities. This is already happening in the Highlands and Islands. The benefits are that these producer co-operatives can provide economies of scale in production, purchasing & selling.

## OPPORTUNITIES FOR EMPLOYEE-OWNED CO-OPERATIVES

There is scope to promote employee-ownership as a business model in Scotland. In particular, establishing an employee-owned co-operative can be an alternative business option for ownership succession. There is a need to raise awareness of the scope of this option amongst Scottish businesses. Research has shown that employee owned businesses tend to have increased productivity, greater employment stability and high rates of firm survival.

## CONCLUSIONS

This research has compared the co-operative sector in Scotland with the co-operative sector in three European countries. The findings of the research help us understand the success factors for co-operative development, and to identify opportunities for the development of Scotland's co-operative sector in the future.

In Finland, Sweden and Switzerland, co-operative businesses play a significant role in all sectors of the economy. Each of these three countries has a long history of co-operative business development which has enabled the co-operative sector to develop a strong position and influence policy makers.

The strength of the co-operative sectors in Finland, Sweden and Switzerland is largely due to the ways in which markets have been shaped by government policy. In these comparator countries, co-operative models have been supported and promoted over many years through favourable legislation, designed to increase the viability of co-operative models over privately owned alternatives. All three countries have also invested significantly in co-operative business support and advice structures.

Co-operative businesses offer many advantages over conventional forms of business ownership because they spread ownership and wealth among their members. In Scotland, a number of well established co-operatives exist which provide benefits to producers, consumers and employees, and which are able to operate in the market economy without the need for support or subsidy.

In addition, this research highlights a number of significant opportunities to build-on and strengthen the co-operative sector in Scotland. Key opportunities exist in:

- Employee ownership as a viable business model across a wide range of business sectors.
- Renewable Energy, where there is scope to promote consumer co-operatives, particularly in wind farms and biomass, to secure local ownership and benefits.

- Forestry, where there are opportunities for forest owners and timber harvesters to establish producer co-operatives to benefit from economies of scale, and market their products.
- Sectors such as agriculture and financial services, which already have well developed co-operative sectors, have the potential for further co-operative growth.

There is also significant scope to promote wider models of producer co-operative for the benefit of small businesses. This can increase the viability of these businesses by helping them to secure economies of scale in purchasing, producing or selling. The benefits of co-operatives are potentially even greater where it enables producers to operate in other parts of the supply chain, capturing greater value from their products and developing a more unique selling proposition.

The success of Scotland's emerging co-operatives is dependant upon the right types of support structure being in place. In each of the comparator countries studied in this report, governments have facilitated the growth of co-operative businesses through a combination of strong & comprehensive support structures including:

- Specialist Co-operative support agencies to raise awareness of opportunities and provide advice to emerging co-operatives
- Public sector funding and financing opportunities to promote the early business stages of co-operative development; and
- Taxes and incentives to facilitate the growth of the co-operative sector where it can generate clear public benefit.

The specific type of intervention required to develop Scotland's emerging co-operatives will vary according to the sector and the potential for growth. In some cases, changes to legislation are required to make the co-operative model viable. In some cases, early-stage funding may be required to overcome initial investment risks. In other cases, the key requirement is additional sources of advice and support to make potential co-operative members aware of the full range of opportunities available to them.

The relationship between government and co-operatives can be challenging at times, and getting the right combination of support, regulation and letting go of control can be difficult to achieve. As this research has made clear, co-operative businesses have the potential to play a much bigger role in Scotland's economy, while generating significant benefits for the country's producers, consumers and employees. A stronger co-operative sector will make a stronger economy, and support Scotland ride out the recession.

### FURTHER INFORMATION

The full report A comparative analysis of co-operative sectors in Scotland, Finland, Sweden and Switzerland is available from [www.cdscotland.co.uk](http://www.cdscotland.co.uk)



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