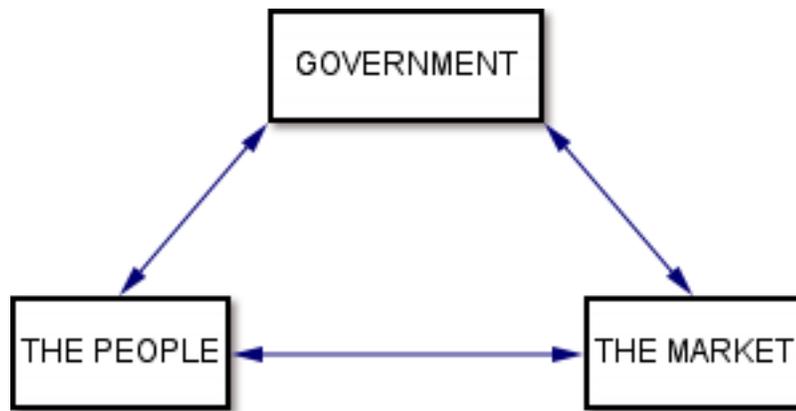


Conceptual Framework, by John R. Whitman

Learning objectives

1. To learn how to situate cooperatives in society: A conceptual framework for understanding why society has multiple models of organizations to serve its needs rather than a single one; a rationale for understanding organizations that create both economic and social value.
2. To learn what a cooperative is and the commonalities and differences between the ICA and USDA definitions of a cooperative.
3. To learn how cooperatives are different from Sole Proprietorships, Partnerships, LLCs, C corporations, and nonprofit organizations.

The conceptual framework for the course is North's Institution Theory (addressed above), and students should have read the introductory chapter to *Institutions, Institutional Change and Economic Performance* (North, 2005/1990). This conceptual framework can be discussed with the students by asking them what they think are the most important institutions in society. These are written on the board in a column at the left. When Government, the Market, the Military, the Law, and Religion (in whatever forms), and several other institutions are mentioned, then move to the center of the board and draw the following illustration, including The People as an element (other institutions may or may not be included, but keep it simple):



Here we have situated The People in relation to two key institutions, the Government and the Market. Now ask students, what should be the mutual obligations between these institutions and The People in our society? For example, the Government protects the People and the People, in turn, pay taxes to the Government. The Market provides the People with goods and services, and the People, in turn, pay for these items. The Government allows businesses to operate in the Market and these businesses, in turn, pay taxes to the Government.

Now ask for a list of specific services that the Government actually provides to The People. Military protection is likely to be one such service; Law enforcement another. List them in a column on the right side of the board. Eventually ask if the Government provides Health care, Education, Universal day care for mothers who want to work, Employment training for those out of work. Ask whether any of these services are provided by Governments in other countries. Hopefully some students from other countries will respond. Note, for example, that the Nordic countries (Sweden, Finland, Denmark, Norway in particular) tend to provide health care, day care for mothers who want to work, and paternity leave for fathers who want to be with their children on a *universal* basis, meaning that such benefits are provided as a *right of citizenship* and not

based on a test of individual economic need, called a *means-test*, as it is applied to some welfare services in the United States (e.g., food stamps and Medicaid). The point of this discussion is to help students be aware that the relationships of mutual obligations between The People and their institutions is a matter of social choice, and that people in different countries appear to make different choices when it comes to these relationships.

Now you can ask students if they are familiar with the term, Political Economy. If so, ask someone to explain it. Clarify by noting that Political Economy refers to the relations between Power and Money in a society, and ask what is the Political Economy of the United States. The answer is Democratic Capitalism, where we have a democracy (in representative form) as the political institution and capitalism as the economic institution.

Now ask students what one, key social value conveyed by Democracy is, and someone should suggest “Equality.” Then ask what one, key social value conveyed by pure, unregulated Capitalism is, and while many may suggest “Money” or “Wealth,” you are looking for “Inequality.” Now you can point out that there is a tension in our political economy between these two polar social values of Equality and Inequality and you can ask students for examples of how this plays out.

Now you can summarize the portion of Institution Theory that deals with *institutions* as the unit of analysis, and turn next to the role of *organizations* as a unit of analysis. You may ask students for the definition of an organization from the reading, and what you are looking for is that while **institutions** are the *rules of the game* in society (p. 3), an **organization** is *a group of people united to achieve a common purpose* (p. 5). Now you can ask for examples of organizations within the various types of institutions: for

example, schools are organizations in the institution of education. As a side note, you could also ask students who decides the purpose of the organization, for this will be one of the differences between a cooperative and other types of organizations.

If you have read Hansmann's book on the ownership of enterprise (Hansmann, 1996), you may also wish to delve deeper into why specific organizational models, whether investor-owned, cooperatives, or nonprofit organizations, are preferred in different situations.

And turning to the third and final unit of analysis in Institution Theory, you can introduce the role of the **entrepreneur** as the *agent who creates institutional change in and through their organizations* (p. 8). In this context, entrepreneurs can work in both political and economic contexts, not only in the market.

At this point you may ask for different types of organizational models that exist in our political economy of democratic capitalism. Examples could be the corporation, a governmental body, a nonprofit organization, a partnership, an army regiment, a commune, a family unit. Then ask for some differences between these organizational models and why such differences are important. Of course different organizational forms are necessary to serve different social needs, and this leads us to introduce cooperatives as a form of organization that serves needs that are not adequately met by other forms of organization.

What are these specific needs? Here are some examples: That the founding workers have an equal say in the purpose of the cooperative; That workers have an equal say in the work policies that affect them; that workers have an equal say in determining their own pay; that workers have an equal say in deciding how net income earned by their

efforts should be distributed; that in times of economic hardship workers can decide to reduce their own pay in order to avoid any of them losing a job; that workers can decide for themselves what are their common economic, social, and cultural interests worth pursuing together. Ask students, if taken together, how well are these needs met, or met at all, through other forms of organization?

In other types of corporations, the business owners or financial investors are the ones who determine how to use workers to advance their own interests. In nonprofit organizations, all assets are owned by the public and cannot inure to any private entity. Through this analysis, students may learn that Institution Theory provides a conceptual framework in which to understand how different organizations emerge to meet different social needs and that cooperatives have evolved to meet social needs not well met by other forms of organization.

Now you can introduce the various definitions of a cooperative, drawing from the ICA definition, values, and 7 principles¹ and the more limited USDA definition and principles (user-ownership, user-control, and proportional distribution of benefits),² noting their similarities and differences. In addition, you can introduce the ten Mondragón principles³ and the Madison principles⁴.

Following a discussion of these differences in definition, values, and principles, you can finally differentiate between cooperatives and sole proprietorships, partnerships, LLCs, C corporations, and nonprofit organizations, and clarify what Employ Stock

¹ <http://www.ica.coop/coop/principles.html>, cited 7 March 2011.

² The USDA definition of a cooperative: an organization that is owned and controlled by patron members and operates for their benefit, distributing earnings proportional to use. <http://www.rurdev.usda.gov/rbs/pub/may09/economic.htm>, cited 7 March 2011.

³ <http://www.cooperativeconsult.com/blog/?p=199>, cited 7 March 2011.

⁴ <http://www.cooperationworks.coop/about/madison-principles>, cited 7 March 2011.

Prepared for the Babson-Equal Exchange Cooperative Curriculum
John R. Whitman, Ph.D., jwhitman@babson.edu
Posted 7 March 2011

Ownership Plans (ESOPs) are and how they work. After questions and further discussion, remind students of what is expected in the next class.

Background reading

North, *Institutions, Institutional Change and Economic Performance*.

Hansmann, *The Ownership of Enterprise*.

Required reading

The web site of the International Cooperative Alliance,
<http://www.ica.coop/al-ica/>, particularly the section, “What is a co-op?”

Adams and Hansen, Introduction, Chapters 1 and 2.

Zeuli and Cropp, Chapters 5 and 9.

Worker Cooperative Toolbox, pp. 1-19.

Optional reading

None.

Exercises

Ask students to indicate which type of organizational model best fits their personal preferences, and then share results.