

## The three pillars of the co-operative

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### ABSTRACT

This paper proposes an analytical model for co-operatives that takes their unique position between the public, private and civic sphere into account. We suggest that the economic capacity, the organizing capacity and aiming for change are the foundational pillars of co-operative organizations. Co-operatives come in many different forms and functions – it is difficult to give a clear demarcation of this field – but these three pillars can offer a common foundation for all the different types of co-operatives. The ideas set forth in this paper may advance the long-neglected academic discussion towards a better understanding of the common characteristics of the co-operative.

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### 1. Introduction: the re-discovery of the co-operative

Sterksel forms part of the municipality Heeze–Leende in the province of North-Brabant and has a population of 1320; a run-of-the-mill Dutch village. In 2002 the only supermarket in the village closed down. Earlier, the village had already lost the post office and the bank. The inhabitants of Sterksel organized themselves; the supermarket in Sterksel is now run by its customers, the inhabitants. The co-operative supermarket opened in 2004 and continues to operate today. There is one employed manager who runs the store together with fifty volunteers from the village. The co-operative has 250 members, which amounts to around 60% of the entire population of Sterksel (Unknown, 2010). The store also has a social function, with a coffee corner and a grocery service where people are picked up from their homes so they can do their groceries and are dropped off at home again afterwards. The store has become a node in the local community network with a function that surpasses the original goal: keeping the local store open. The municipality has now set up another co-operative in order to bring fibreglass to the homes of the villages.

Sterksel forms part of a wider trend: the re-discovery of the co-operative. The co-operative never disappeared in practice, but there is a recent renewed interest in the co-operative. People are starting new co-operatives in a wide range of fields, the United Nations declared 2012 the International Year of the Co-operatives

(United Nations, 2009) and after years of neglect in academic literature, there is even some renewed interest in the co-operative in the academic field (Jussila, 2013). Co-operatives are a worldwide phenomenon with many variations: farmers co-operating to sell their produce, mutual warrants, forms of financing, generating energy and running a store (ICA, 2012). Academic literature has chosen an equally wide range of lenses for discussing the co-operative. Some focus on the democratic foundations (Spear, 2004), some emphasize the role that could be fulfilled in market economies (Bateman, 2013; Normark, 1996), some emphasize its economic shortcomings (Abramitzky, 2011), while others see the advantages of its social and innovative character (Mills, 2001; Novkovic, 2008).

This wide range of lenses may be partly due to the fact that the co-operative comes in many different forms and functions, but might also have to do with the fact that the co-operative falls in between the often-used categories of market, state and civil society. In this paper we will argue that that it is difficult to comprehensively understand co-operatives from only one of those lenses. Co-operatives can be better understood if one looks at the three pillars of the co-operative: its organizing capacity, its economic capacity, and its capacity for change. These three pillars take into account the unique position the co-operative has, sharing characteristics with 'normal' companies, civil organizations and public organizations.

We will start by further exploring the idea of three pillars, and then we will take this lens to look at nine different co-operatives. In the final paragraph we will discuss our findings.

### 2. The analytical model

As shortly mentioned above, the co-operative is judged and valued through many different lenses. Anheier (2005) sees

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the co-operative through the lens of the civil society. He states that the non-profit sector, and with it the co-operative, fulfils the role of third party alongside the “other two major institutional complexes of modern society: the public sector and the market” (Anheier, 2005, p. 95). The co-operative consequently is the counterbalance of the market and the public sector. Chevallier (2011) sees the co-operative through the market economy lens and sees co-operatives as actors that distort the market. Van der Sangen (2001) emphasizes the economic advantages of the co-operative: it can self-finance and is thus less dependent on other capital. Somerville (2007) emphasizes the institutional form and values of the co-operative, while Gijssels, Coates, and Deneffe (2011) refer to the co-operative as an actor with the potential to deal with societal challenges. van Ham (2009) refers to the co-operative as an alternative organizational form for the enterprise and Vermeulen (2012) emphasizes the democratic governance model of the co-operative.

It is clear that the co-operative does not directly fit into any of the better-known organizational forms (company, civil organization, public organization) completely (Anheier, 2005, p. 52), but it does share characteristics with them all. Because of this, the co-operative cannot only be judged on its economic capacity, its organizing capacity or its capacity for change. What is unique about the co-operative is that it combines – and needs to combine – all of these capacities. A co-operative is founded through the desire for change, the members need a way to organize themselves and they need a viable economic business model. Without these pillars, the co-operative will often cease to exist.

### 2.1. Aiming for change

Co-operative organizations are inspired by a drive for change; they want to change something in the existing marketplace, want to add something to their community (ICA, 2010; van Opstal, 2010), improve a certain condition or serve an interest that other parties do not value (e.g., social housing). These can be society-wide ambitions, like the many energy co-operatives that have shown up recently with the aim of making the transition to sustainable energy. The first energy co-operative in United Kingdom was founded in 2007 in Cumbria and, since then, thirty new energy co-operatives have been registered in the United Kingdom alone (Willis & Willis, 2012, p. 5). The driving force behind these co-operatives is a societal transition to sustainable energy and self-sustainable communities. The ambitions can also be slightly more modest, like keeping the supermarket open in Sterksel. Even though more modest in its goals, this co-operative supermarket is more than a place to buy groceries; it also strengthens the social fabric of the village through its grocery service and coffee corner. Co-operatives can be pragmatic solutions to pressing problems, as the first modern co-operative Rochdale Society that ensured lower price of food (van Opstal et al., 2008). Co-operatives can aim for a good or service that is currently not provided by market or state or only at a high cost. An example of such a high cost is the disability income insurance for freelancers or loans for farmers at the end of the nineteenth century. They do not simply offer an alternative for an existing service; many of them are motivated by a drive for change. Co-operatives are operating in a system, but often strive to change that system as well.

### 2.2. Economic capacity

The co-operative performs a certain task and acts as a platform for change – possibly in very distinct domains (Schulz, van der Steen, LeCointre, & van Twist, 2012; van der Steen et al., 2011). In order to do so, it needs a viable business model. A co-operative can

pool the investments of the members, can create a better market position than individual members have, and can decide to spend the profit on the things members find important. These qualities enlarge the economic capacity of the co-operative. When we look at the society as a whole, we see that the co-operative fills a gap in the market economy (The Henry Jackson Society, 2012). Co-operatives are not on the stock market and their members are usually benefited more by long-term ‘profits’ than short-term ‘profits’, and since the pressure from being listed is not present the organization can possibly focus more on the long term (Mintzberg, 1996, p. 76). This might explain the popularity of the co-operative in these times of economic crises (Hertz, 2009; de Moor, 2012). This does not mean, however, that the tension between short-term interests and long-term interests ceases to exist in co-operatives. The decision economically best for the members in the short-term might actually threaten the existence of the co-operative in the long term (Tuominen, Tuominen, & Jussila, 2013).

### 2.3. Organizing capacity

Co-operatives are suggested as possible alternative modes of organizing – with less of the perverse effects of ‘share-holder value’ but nonetheless with a profitable business models (ICA, 2012; van Opstal, 2010; Tuominen et al., 2013). The co-operative can mobilize its members, organize involvement, and sometimes count on voluntary capacity of its members. This way the co-operative supermarket in Sterksel can exist, while a purely commercial supermarket would not survive. This organizing capacity can have a snowball effect. After the co-operative supermarket, Sterksel also organized fibreglass co-operatively. Once a community is organized, future undertakings seem like a smaller step. Because of this, some claim that co-operatives are the way to organize disadvantaged neighbourhoods (Mayee & Hoyt, 2011). The co-operative benefits from its democratic foundation: it results in participation and inclusion of its members. Although inclusion of members means exclusion of other people at the same times. Because of this organizing capacity of co-operatives, the link between scale and the co-operative is complicated. The economic capacity might require scaling up (as has happened with the Rabobank and Friesland Campina); while at the same time the organizing capacity might require a smaller organization. A large scale makes meaningful interaction with the members more difficult, at least is there are no adequate subsystems in place.

### 2.4. The pillars of co-operative

We consider (1) the aiming for change, (2) the economic capacity and (3) the organizing capacity as the three foundational pillars of the co-operative. A co-operative will run into trouble if any of these pillars is weak. If there is no viable business model, a co-operative will not survive. If the economic capacity of the co-operative is pressured (too much) by fierce competition, the co-operative will struggle as well. If there is no organizing potential, it is difficult to distinguish the co-operative organization from a run-of-the-mill company. If the organizing potential is insufficient, and the decision-making process ostracized, the co-operative will not survive either. In the long term the necessity for change may dry up. If its reason of existence ceases to exist, the co-operative will run into trouble as well (Fig. 1).

If we look at the first co-operative grocery stores for example, we can see how that happened. There was less need for a co-operative to change the market since other stores also started offering better prices. The economic capacity also diminished: from the moment supermarkets arose, the advantage they booked due to scale was so big that the small co-operatives could not compete. But the disappearance of a co-operative was not

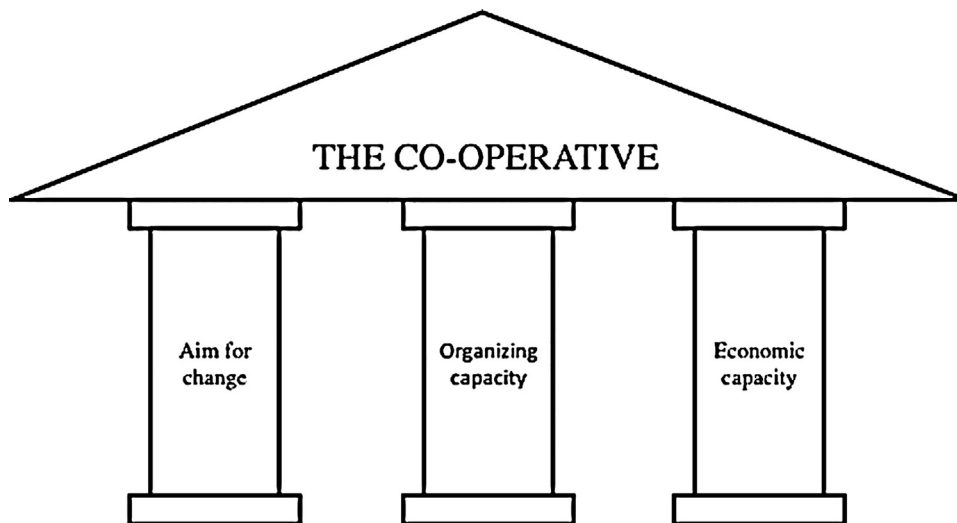


Fig. 1.

necessarily an entirely bad thing, especially not if the original goal had been achieved, in this case lower prices. The same can be said of the sustainable energy co-operatives that seem so popular today, what happens when the big energy companies switch over to windmills on an even bigger scale? This could be good news for the aim the members of energy co-operatives are trying to achieve, but may be bad news for the energy co-operatives themselves. Obviously there could be continued need for co-operatives also if others do invade the market. However, co-operatives can also be susceptible to the irony of success.

### 3. The cases

In this paper we will use our proposed three foundational pillars to analyse nine Dutch co-operatives. We will look at their aim for change, organizing capacity and economic capacity. We have selected Dutch cases, because of access and the long history of co-operatives in the Netherlands.

In 1837 the first Dutch co-operative organization, a farmers' association, was founded (Parker & Cowan, 1944, p. 88). Since then Dutch co-operatives have always continued to steadily grow (Birchall, 1997). The Netherlands has one of the largest non-profit sectors in the world, which plays an important role in the maintenance of the Dutch welfare: self-government and autonomy are crucial for this non-profit sector, which traditionally was largely organized in a co-operative manner (Burger & Veldheer, 2001). Similarly, pillarization<sup>3</sup> has influenced the Dutch co-operative landscape as well. It refers to the organization of citizens according to religious and/or political preference, and is a demarcating characteristic of Dutch society, even though de-pillarization has taken place since the Second World War. The culture of pillarization (i.e., self-help, civil association, collective and individual input and gain) has proven to be a strong basis for co-operatives (Burger & Dekker, 2001, p. 13; Parker & Cowan, 1944, p. 88). Today, The Netherlands is the second most co-operative country in Europe (Bijman & Poppe, 2012). In the Netherlands co-operatives are not all experimental new ways of organizing – although some are – but form an established element of the economy and of society. That provides us with an interesting base

for research, with a wide variety of co-operatives to study and learn from.

In order to select the cases, we have created three provisional categories. Provisional because the division hardly does justice to the variety of co-operatives, but it provides a good and pragmatic analytical starting point that will allow us to learn more of the other sources and patterns of variety. We have approached the co-operative from the point of view of its members, are members individuals (civic point of view), parties in the public sector, or private businesses? After the case selection, we have studied each case through the three pillars we have proposed.

#### 3.1. Community inspired co-operatives

The first category is co-operatives whose members are individuals, whose roots lie in civil society. We have chosen the Broodfonds, Amsterdam Energy and day-care De Oase in Utrecht.

The Broodfonds (literally: *bread-fund*) is a disability income insurance for the self-employed (Unknown, 2011). The number of Dutch self-employed has increased enormously in the last few the years, partially due to their own wish to be independent, but also because many enterprises no longer offer their employees contracts but prefer to hire them on a project-base. This creates a more flexible labour market. An important practical problem for project-based self-employed workers is that it is too expensive for them to sign up for disability insurance with regular insurance companies. The Broodfonds provides a practical answer to that problem: its 20–40 members are all self-employed. Their organizational structure is one-dimensional: members know each other, they select and therefore they also exclude. They practice solidarity: this is a small-scale, personal collective. Each member sets aside a monthly fee and, if one of the members falls ill, he or she will be given a certain amount each month by the rest. This is in essence a system that seems to fill up a gap in the market. De Swaan (2004) demonstrates that in the past such systems have been unsatisfactory, because most of those interested in organizing such mutual insurances collectively instead of through the market were those who would be most likely to need the support. Adverse selection is not uncommon.

Amsterdam Energie is an energy co-operative founded by another co-operative, the Open Coöp in Amsterdam, and is partner of the Noordhollandse Energie Coöperatie that produces sustainable energy (Unknown, 2012). The energy co-operative is a quickly growing sector that is connected to the growing awareness of

<sup>3</sup> Pillarization is the political and religious segregation of society. Instead of horizontal divisions of for example upper, middle, and lower class, there are vertical divisions: Roman Catholic, Protestant, Liberalist, et cetera.

climate change. Amsterdam Energie invests only in other local and sustainable co-operatives. Since its foundation in November 2012, Amsterdam Energie has grown to be a co-operative with 300 members. At the moment it buys 'green power' for its members but it is also working on developing its own renewable energy sources. All the members are co-owners and have an input on in what local co-operatives profits are invested. This type of 'reciprocity' (i.e., investing in other co-operatives) is seen as common for co-operatives.

Day-care De Oase in Utrecht is one of seven day-care co-operatives in the Netherlands and De Oase was the most recent to open (Unknown, 2012-2). Parents are members and co-owners and run the day-care together, which is organized according to the principle of parental participation day-care. Their economic investment is expressed in a fee and time: members are expected to volunteer as carers a certain amount each week, depending on how much time their children spend there. A large advantage is that the costs are lower, no profit has to be made and the members do not receive a salary. Because parents grow to know each other and each other's children these types of day cares fulfil a social function as well. To become members, parents run a trial-period at De Oase of a month. After this period the 'new parent' and the members of the co-operative decide whether or not there is a match. This also implies that if a parent does not fit into the group as desired, he or she is excluded.

As was mentioned before, the co-operative supermarket in Sterksel has inspired the community of Heeze-Leende – the municipality of which Sterksel forms a part – to organize a co-operative for the installation of fibreglass in the villages. The commercial cable company operating in the region was not willing to extend the Internet fibreglass cables to the villages because of expected low profits. Inhabitants of the municipality came up with the idea to start a cooperative that would provide fibreglass cables and thus provide Internet to the entire municipality: the HSLnet was founded. Members invest in HSLnet by purchasing bonds, and today over 50% of the population of the municipality is member. Before January 1st 2014 the fibreglass cables will have been installed in the cores of the municipality, the outlying areas will follow shortly (Compter, 2012). Possible profits will be returned to members and risks are shared (e.g., shortages of exportation or damage). Active participation has enabled owners to create a viable business case in an area where the local cable company could not.

### 3.2. Co-operative production in public organizations

Public parties also create co-operatives in order to produce value. The starting point in these co-operatives is often driven by the need to share knowledge, to cooperate in the most basic sense of the word. We have selected KIEN, Wigo4it and ParkeerService as examples.

Kien is an example of an ICT co-operative with public organizations as its members (Unknown, 2012-3). Four different high schools are members: the Da Vinci College (Dordrecht), Stedelijk Dalton Lyceum (Dordrecht); the LOC (Zwijndrecht); and the Griendencollege (Sliedrecht). These schools have decided to combine their ICT knowledge: developing ICT costs the same amount of time, money and effort when it is done for 100 teachers as when it is done for 1000 teachers. By combining knowledge and effort, costs can be saved and plans can be developed. KIEN offers an alternative for two situations: schools provide their own ICT services or these services are outsourced. The schools that became member 'pooled' their ICT staff in the organization, creating a source of expertise much larger than before. KIEN attempts to improve the cost, quality and flexibility of ICT services. Besides accommodating when questions occur, the co-operative also

provides a digital portal, enabling teachers to share their knowledge easily as well.

Wigo4it is an ICT co-operative and its members are the municipalities of Amsterdam, Rotterdam, The Hague and Utrecht (the so-called 'G4'). The goal is to act as one party in order to enable the development, re-use and shared administration of ICT-systems for the municipal social services. The co-operative provides economies of scale and extended professionalization, without joining forces in a formal merger of the municipalities involved. Wigo4it stands for a pragmatic co-operative in the field of ICT. Initially, Wigo4it led to lawsuits by private ICT companies, who claimed that according to procurement legislation, the co-operative should be seen as a false competitor. But they lost their battle in court: the municipalities can organize their ICT in this way, without procurement. Wigo4it continues to be in charge of the ICT facilities of the G4. All the profits of the co-operative are returned to the municipalities.

Just like Wigo4it, the members of the parking co-operative ParkeerService are all municipalities: Alphen aan de Rijn, Amersfoort, Barneveld, Hilversum, Nieuwegein and Woerden (Unknown, 2013). This public co-operative also offers an alternative to outsourcing (too expensive) and to completely arrange facilities internally (too little experience). By sharing knowledge, responsibilities and costs the shared expertise can be maximized. Municipalities are offered support in the development, implementation and execution of parking policy. The profits remain within the public domain as it is returned to the municipalities. In this way, economies of scale and shared knowledge lead to direct benefits from joined forces.

These co-operatives emphasize the blurred line between collective and individual interests, as we see in the Wigo4it-case private parties might feel these co-operatives put them in a disadvantage. All co-operatives were founded while aimed towards a change: sharing knowledge and thus saving public funding.

### 3.3. Co-operating corporations

Numerous corporations have also formed co-operatives. Their main goal seems to be financial survival or strengthening their financial situation, yet an ideology is clearly present during their foundation as well. We have selected Primera and Friesland Campina as our cases.

Primera is a Dutch chain of tobacco stores. It was founded in 1991, when small tobacco stores made most of their money through the sales of tobacco (Unknown, 2004). When government discouraged smoking and advertisement for tobacco became restricted, many tobacco stores were threatened by bankruptcy. The tobacco-industry suggested a co-operative organization. Primera became the new brand and the co-operative organization that enabled small stores to survive. The tobacco-industry is important for Primera: from their perspective it was especially important to protect the small tobacco stores. Today Primera has about 400 members (storeowners and tobacco companies) and continues to grow. The brand has brought new life to their corner shops, by extending their merchandise to: gift cards, books, magazines, greeting cards, lottery tickets, and lastly tobacco.

Friesland Campina is the result of many mergers of smaller dairy co-operatives. With a turnover of 7 billion euros, it is one of the largest companies in the Netherlands today. Farmers form the members of the co-operative that owns Friesland Campina. Friesland Campina is not co-operative on all levels. It owns the Filipino dairy company Alaska, which is not a co-operative. It is a company in the hands of a co-operative organization, not directly in hands of the members. The company started out with small co-operatives of farmers that decided to produce milk together in

**Table 1**  
Findings.

	Aiming for change	Organizing capacity	Economic capacity
Broodfonds	Current situation of insurance policy is insufficient for freelancers. Broodfonds offers an alternative option	Members decide upon new members democratically. Involvement and a form of solidarity are organized	Capital is collected, which is given to individual members in times of need. This capital fills a gap in the commercial market
Amsterdam Energie	A growing awareness of climate change motivates investments in sustainable energy for a sustainable future	All members are co-owners and have an input in where profits are invested	The co-op has created collective buying power for green energy
Day care <i>De Oase</i>	Offers an alternative for the existing expensive and possibly not satisfactory day-care options	Members decide together whether 'new parents' are allowed to enter the day care. Members take turns in taking care of the children	Members invest time and the co-op is run on a non-profit base, thus the prices are competitive
HSLnet	Large corporations will not install fibreglass in small villages, the co-operative brings fibreglass to these villages	The co-operative has enough members to install the fibreglass	Members invest themselves, because of the investment of many of the inhabitants, it becomes economically viable to extend fibreglass to villages
KIEN	Sharing ICT knowledge between schools and a more efficient ICT infrastructure	Staff is 'pooled' by members of co-operative. The members – schools – all use the services of KIEN	By sharing knowledge and employees costs can be minimized and the ICT infrastructure can become more efficient
Wigo4it	Sharing ICT-knowledge among municipalities and becoming less dependent on external ICT organizations	4 municipalities have equal shares and co-operate without a merger	Insourcing instead of outsourcing results in cost savings for municipalities
ParkeerService	Sharing knowledge and expertise in order to improve parking services in municipalities	6 municipalities have equal shares and co-operate without a merger	Insourcing instead of outsourcing results into a positive competitive position
Primera	Counter the governmental 'anti-smoke' developments and evade the bankruptcy of small business owners	Offers a brand name to members and giving them a say in the future direction of the co-op	A strong brand and sharing costs allows for the survival of small business owners
Friesland Campina	Viable access to market for dairy farmers	Members are put at a distance to allow faster decision making	Because of mergers, co-operative has achieved a dominant position on dairy market

order to bring it to the market. Currently, it is a multi-billion multinational company. Friesland Campina faces a new challenge: the European Union's upcoming abolition of the milk quotas (Unknown, 2012–4). The abolition means farmers are allowed to produce more milk. At the time though, Friesland Campina already has to be quite creative in finding new markets for the already abundant supply of milk from the farmers. While for individual farmers it will be beneficial to produce more milk, for the co-operative it might be beneficial to keep the production of milk to a limit.

#### 4. Analysis

We have used our proposed three pillars to study nine cases of Dutch co-operatives. Table 1 summarizes our findings.

These pillars have allowed us to see the different sides of co-operatives. We have not just looked at their economic performance, their organizing capacity or their aim for change. It is the combination of these characteristics that is unique for co-operatives and co-operatives can only be properly seen through the lens of these three pillars combined.

The position of co-operatives between the public, private and civic sphere gives it a unique position, but also brings its own dilemma's. Because of the emphasis on inclusiveness and equality for the members, some refer to the co-operative as a democratic business structure. But at the same time that democracy is limited to the sphere within the co-operative. In that sense it is different from democracy in the public sphere. Its organizing capacity and its economic viable often require the exclusion of non-members. The co-operative organization form does not necessarily eliminate the tension that can exist between the long-term focus and the short-term focus. While the change it aims for might require a long-term focus, the members or the economic viability might require a more short-term focus. To deal with these dilemmas, one must balance out the scale of two extremes; there are no simple solutions. The most important thing to remember when dealing with dilemmas is that balance is key. Balance can only be reached

with careful deliberation and more importantly, continued deliberation.

#### 5. Discussion and conclusion

We have recently seen a re-discovery of the co-operative organization, both in practice and in public and academic debate. In these times of crisis and austerity in Europe, where both government and businesses are rescaling their roles, both have looked hopefully to the co-operative organization as an attractive alternative; think of David Cameron's *Big Society* or Noreena Hertz' cooperative capitalism (Cameron, 2011; Kisby, 2010; Hertz, 2009). But the co-operative cannot be a full alternative for either; it has a unique position between government, companies and the civic sphere. In this paper we have proposed an alternative model for studying the co-operative, by looking at its three foundational pillars: (1) aiming for change, (2) its organizing capacity, and (3) its economic capacity.

These three pillars are the common ground that all co-operatives share. Despite the wide variety of co-operatives, it is possible to approach all sorts of co-operatives through these three pillars. Even though the driving force behind the co-operative may differ, the members may be different and the business model may vary, one can ask the same questions. At the base of its foundation lies an aim to change the current situation for the better. This aim can be big or small, but it is always present. Public co-operatives may want to decrease their dependency on private ICT-companies, while civic co-operatives may try to keep their community alive. When we look at the organizing capacity, all co-operatives need to find a productive way to organize the interaction between members, organizing their commitment, while also allowing for swift decision-making. The amount of commitment co-operatives require, differs vastly, some co-operatives require a weekly time investment, while other co-operatives may allow for a more loose membership. All co-operatives need a viable business model, but the way in which this is achieved varies enormously. Sometimes the pooling of investments is already enough to give it a

competitive advantage, sometimes the time investments of members makes the difference between a viable and a non-viable business model. These different pillars also bring along tensions within the co-operative. What is required for change might not be a good idea in terms of its economic capacity. The business model might not always coincide with active membership. The three pillars can be used to study a wide variety of co-operatives, without falling into one of the common lenses (e.g., economic capacity), while also highlighting the tensions that exist between these pillars.

### 5.1. Limitations and further research

The ideas set forth in this paper may offer the opportunity to research a wide variety of co-operatives on common grounds. While we believe the pillars to be general, we would like to see similar analyses from different countries. One of the limitations of this research has been our restriction to The Netherlands. While the Netherlands is representative for the co-operative discussion, due to its long history and co-operative culture, further research and a focus on other countries could add more to the academic debate on co-operatives. Furthermore, there have been no extensive interviews whereas those may add nuance to the dilemmas and the pillars those dilemmas belong to. Finally, any academic research is part of a larger whole, a whole to which we have hopefully contributed with this paper, but a whole that will also further develop extensively over the following years and decades.

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