CO-OPERATIVES UK

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Global Business Ownership 2012

Members and shareholders across the world

Ed Mayo

“There are two tribes of business ownership. Despite the focus on stock markets, it is co-operative enterprise that touches the lives of more people.”

Executive Summary

This is the first statistical analysis to compare co-operative and conventional business ownership worldwide.

The report analyses the number of people who have an ownership stake of co-operative enterprise together with those who have an ownership stake through company shares.

The findings are that:

- There are three times as many member owners of co-operatives as individual shareholders worldwide. There are 328 million people who own shares, compared to 1 billion who are member owners of co-operative enterprises.
- There are three countries with over half the population in co-operative membership and are all in Europe. These are Ireland (70%), Finland (60%) and Austria (59%).
- The countries with the most significant numbers of people in co-operative membership, however, are predominantly in Asia and the Americas. These are India (242 million), China (160 million) and the USA (120 million).
- One in five people across the Americas, North and South, are a member of a co-operative.
- Only 7% of the world population lives in countries that do not have stock markets.
- In Africa, one in thirteen people is a member of a co-operative and there are six times as many co-operative owners as there are shareholders.
- The country with the widest shareholder ownership across its population is Japan (31%). In Japan, this has doubled over the past two decades, whereas in the UK, individual share ownership, compared to other institutional investors, has halved.

- In the fast-growing BRIC countries (Brazil, Russia, India and China), there are four times as many co-operative members as direct shareholders. 15% of their population are co-operative members, compared to only 3.8% who are shareholders.

Member ownership

This report brings together for the first time national and international estimates of business ownership, in order to compare the number of people that have an ownership stake of co-operative enterprise with the number of people that have an ownership stake, directly or indirectly, through shares.

Co-operative enterprises are businesses that are owned by their members. The members are one or more of the stakeholders involved in any business: its consumers, the producers (who supply inputs to or take the outputs from the business) or its workers. Because co-operatives are member-owned, they are generally not subject to stock market listing.

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Unlike shareholder companies, teams of analysts are not employed to study their performance and the financial press often omits to report their results. As a consequence, there has been a tendency to marginalise the role of co-operative enterprise. The note sets out to redress this in relation to one key element, which is the distribution of ownership across individuals worldwide – comparing this to individual share ownership.

Why ownership matters

Any enterprise is a nexus of different stakeholders brought into productive relationships. Each stakeholder has an influence on and is influenced by the enterprise but ultimate control and benefit is vested in the stakeholders holding ownership.

In conventional analysis, ownership implies two rights – 'the right to control the organisation and the right to appropriate the firm's profits, or residual earnings (that is, the net earnings that remain with the firm after it has made all payments to which it is contractually committed, such as wages, interest payments, and prices for supplies).'[1] Alongside this, and key to the culture of many organisations, is a 'sense of ownership', reflected in key aspects of co-operative working across all enterprise forms such as staff engagement and customer loyalty.

Why ownership matters

1. Ownership brings benefits to one stakeholder rather than another. If investors own a firm, they can appropriate the profits and benefit from increases in share values. Nobody else can do so. If, on the other hand, it is owned by the employees, or by customers, or by other firms that rely on it for their business, they take the profits.
2. Ownership gives control over the business to one stakeholder rather than another. There are always conflicts of interest between different stakeholders. They cannot all maximise their return from the business. If some interests were not excluded from ownership the business would lack direction and the costs of governance would be too high. More positively, ownership by stakeholders who rely on the business not just for profit but to meet their wider needs enables the business to be 'people-centred' rather than money-centred.

3. There are always costs incurred in bringing one set of stakeholders or another into ownership. Stakeholders who are left outside have to rely on contracts that carry transaction costs, while those on the inside have to bear the costs of governance. Member-ownership provides a different mix of costs that, under the right circumstances, makes a firm more competitive.
4. Different patterns of ownership can create different business incentives and outcomes. There are strong incentives for businesses owned by investors to maximise financial returns to shareholders through dividends and increases in share price. In enterprises owned by other stakeholders, there can be a decision not to pursue profit but to give priority to other aims; consumers may value the quality of the product, staff decent working conditions and producers the quality of inputs to their businesses or effective marketing of their products.
5. A model of ownership can be used as a commercial or marketing strategy and therefore be a potential source of competitive advantage. An ownership stake, for example, can help to create incentives for stakeholders to trade with and through the business, acting as a means to promote and reward loyalty.
6. The existence of diverse ownership structures has wider systemic effects. It can be argued that markets that include owners other than just investors provide more choice to consumers, help prevent monopoly, provide room for innovation and generally keep investor-owned businesses on their toes and competitive.

Data, methodology and qualifications

The data for co-operative members is taken, with some adjustments where more up to date information is available, from the International Co-operative Alliance (ICA).

This in turn draws on data fed through from national associations. The methods for this will vary from country to country. In the UK, for example, that national association, Co-operatives UK, operates a database that draws from the annual published accounts of all recognized co-operatives. In other countries, this is more of an estimate. The numbers of members of co-operative enterprises for many countries might better be described as 'memberships'. There has to be a significant caveat offered therefore over the consistency of the data that is provided. The ICA is now working with the research centre, EURICSE, to improve further the quality of data on co-operatives worldwide.

The data for shareholding worldwide represents an even more challenging task, in terms of research methodology. However, in the last two years academics from the US and UK have completed estimates for direct and indirect worldwide shareholding, compiling data from the seventy leading countries where stock markets operate.[2] All data on shares in this note is therefore taken from this landmark research, while all co-operative membership and its related population data is taken from contact with the ICA and member associations.

There are some qualifications that are important to note.

Direct shareholding is shares that are held in the name of the individual. Indirect shareholding is where individuals are beneficiaries of pension and institutional funds that invest in equities, including ones operating on a co-operative and mutual basis.[3] There has for some time been a recognition of the disconnect between ownership and business accountability that comes with indirect ownership through institutions, so, for the purposes of this paper, we focus on direct shareholding rather than shareholding through intermediaries – while, for transparency, reporting figures for both.

This note does not extend out to other business forms, where data on individual ownership is even harder to obtain. Clearly, though, as evidenced in global entrepreneurship surveys, there is also a very significant dispersed ownership worldwide across a variety of non-listed enterprises, family firms and micro-enterprises.

How ownership compares across different settings and what impact this has is a research challenge of some considerable complexity and this note does not aim in any way to do justice to the issues that are inherent to this. There are, clearly, differences in models of ownership between shareholder companies and co-operative enterprises. In co-operative models of ownership, for example, membership entails ownership and, unlike shareholder models, economic participation with the business, but returns on the investment for that ownership are tempered by the democratic way in which ownership rights, and often financial returns, are assigned.

There is, furthermore, a considerable diversity in models of member ownership in co-operative and, more widely, mutual enterprises. As Jacquelyn S. Yates, who has reviewed national frameworks for social ownership comments “there appears to be no limit to the inventiveness of humans in constructing formal institutional arrangements for collective ownership. Nor do they hesitate to adopt confusing terminology, calling the same idea by different names, or different structures by the same name.”[4]

One characteristic of co-operative ownership is democratic control rights through the principle of 'one member, one vote' rather than, in shares, 'one dollar, one vote' – suggesting that the dispersal of ownership across co-operative enterprises may be wider in practice in terms of giving people a voice in an enterprise than the straightforward numbers alone may suggest.

Conversely, some elements of share ownership, such as more straightforward exit and trade with a market valuation, may be harder to achieve in models with less straightforward transferability of ownership at the individual level. Different accounts of ownership – long-term responsibility to buy-in or short-term ability to cash out – will lead to a different emphasis on the different models of business ownership. In terms of shareholding, for example, there is now a long-established movement working to re-entrench the rules and practices of longer-term responsible ownership, across both institutional and individual investors.[5] There are more diverse models of ownership, in effect, than traditional analysis, which focuses on visibility in the market, tends to allow. To unpick ownership is to open up a deeper conversation around individual rights and responsibilities around property resources.[6]

Findings

There are three times as many member owners of co-operatives as individual shareholders worldwide.

The countries with over half the population in co-operative membership are all in Europe. These are: Ireland (70%, with widespread credit unions and agricultural co-operatives); Finland (60%, with very successful retail co-operatives and a widespread presence of co-operatives from rural to high-tech settings); and Austria (59% with leading banks and farming enterprises operating as co-operatives). Switzerland (46%), Sweden (45%) and Norway (44%) follow close behind.

The countries with the most significant numbers of people in co-operative membership, however, are predominantly in Asia. These are: India (242 million, including the world's largest farmer-owned fertiliser business, the Indian Farmers Fertiliser Cooperative, IFFCO); China (160 million, including a wide range of rural and farming co-operatives); and the United States of America (120 million, including an extensive range of credit unions, telecoms and energy utility co-operatives).

“There are three times as many member owners of co-operatives as individual shareholders worldwide.”

One in five people across the Americas, North and South, are a member of a co-operative. In Africa, one in thirteen people is a member of a co-operative and there are six times as many co-operative owners as there are shareholders.

The country with the widest shareholder ownership across its population is Japan (31%). Despite its economic challenges, Japan has a strong record in terms of economic equality. The proportion of the population owning shares has doubled since 1980. This is over twice as high as in the USA and is in contrast to trends on share ownership in countries such as the UK, where individual direct share ownership, compared to other institutional investors, has halved over the last two decades.[7] Japan also has some of the most energetic and innovative co-operative enterprises, such as the Seikatsu Club Consumer Co-operative, winner of the international Right Livelihood Award.

In general, stock markets are growing. Grout, Megginson and Zalewska estimate that close to 173 million of direct shareholders live in countries with developed stock markets, with the remaining 155 million reside in countries with emerging stock markets. Only 7% of the world population lives in countries that do not have stock markets.[8] Between 1983 and the end of 2007, the capitalisation of the world stock markets grew by 1,800% and the volume of share trading has increased almost 100-fold.9 The value of shares worldwide is estimated at around $36.6 trillion.[10] There is no direct comparison for co-operative enterprises, but their annual turnover worldwide is estimated by the ICA to be $1.1 trillion.

The future for co-operative models of ownership looks set fair. Although the economic conditions look challenging for markets in Europe, where co-operative enterprises have a traditional strength, and Africa, where farmer co-operatives and credit unions play a key role in terms of economic development, co-operatives do have a track record of resilience in tough times. Meanwhile, in the fast-growing BRIC countries (Brazil, Russia, India and China), there are four times as many co-operative members as shareholders. 15% of their population are co-operative members, compared to 3.8% who are direct shareholders (and 8.7% indirect shareholders).

Table 1

Business ownership worldwide – share companies and co-operative enterprise

Form of ownership	Numbers of people
Share owners – direct ownership	328m
Share owners – indirect ownership	565m
Member owners – direct ownership	1,000m

Table 2

Co-operative member ownership and share ownership as a percentage of population – by region

Region	Co-operative members	Indirect shareholders	Direct shareholders
Africa	7.4%	4.1%	1.3%
Americas	19.4%	16.7%	9.2%
Asia Pacific	13.8%	6.9%	4.4%
Europe	16%	12.9%	7.5%
Worldwide	13.8%	8.7%	5%

Table 3

Share ownership and co-operative member ownership for a selection of countries

Country	Direct share ownership	Percentage of the population	Co-operative member ownership	Percentage of the population
Brazil	3,123,425	1.7%	8,252,410	4.4%
Canada	12,396,020	38%	11,000,000	33.7%
China	78,318,000	6%	160,000,000	12.2%
Finland	761,674	14.5%	3,164,226	60.1%
Germany	10,317,000	12.5%	20,509,973	24.9%
Ghana	345,000	1.5%	2,400,000	10.7%

Country	Direct share ownership	Percentage of the population	Co-operative member ownership	Percentage of the population
India	21,794,832	2%	242,000,000	21.8%
Japan	39,284,500	30.7%	17,000,000	13.3%
Kenya	110,000	0.3%	8,507,000	23.1%
South Korea	4,441,000	9.2%	7,600,000	15.7%
Portugal	323,237	3.1%	2,000,000	18.9%
Spain	2,152,969	4.9%	6,960,870	15.8%
United Kingdom	9,060,260	14.9%	12,800,00	21.1%
United States of America	62,880,000	21.1%	120,000,000	40.2%

Conclusion

The two tribes of business ownership

There are two tribes of business ownership. Indeed, there are perhaps many more if you also consider informal ownership, family firms and enterprise at the micro-scale. Despite the focus of attention being on stock markets, however, it is co-operative enterprise that touches the lives of more people as owners worldwide.

ABOUT THE AUTHOR

Ed Mayo is Secretary General of Co-operatives UK, the national trade body that campaigns for co-operation and works to promote, develop and unite co-operative enterprises. He is a long-term co-operator and has a track record of innovation and impact in his work to bring together economic life and social justice. He has co-written a book, "Consumer Kids" with Agnes Nairn on marketing to children, published by Constable in 2009.

Endnotes

1. Hansmann H. (1996) The Ownership of Enterprise, Belknap Press, Harvard University Press.

2. Grout, Paul A., Megginson, William L. and Zalewska, A. (2009) One Half-Billion Shareholders and Counting - Determinants of Individual Share Ownership Around the World, 22nd Australasian Finance and Banking Conference, August 18, 2009.

3. Members of the International Co-operative and Mutual Insurance Federation, affiliated to the ICA, hold assets of $1.5 trillion. However, beyond this, the term 'mutual' is used in a variety and confusing set of ways at an international level. In France the term 'mutuality' carries a stronger meaning than elsewhere and implies co-operative models of ownership. Elsewhere, savings banks often see their customers as 'members' but do not allow them a share in governance; they are more like charities, with ownership held in a closed form in trust. In the USA these are called mutual savings banks, but they are only mutual in one sense, that there is no separate set of investors to take the profits. Further, some demutualised businesses still carry the word 'mutual' in their name even though they are investor-owned.

4. COG (2001) Ownership For All, Working Group Reports, Capital Ownership Group http://cog.kent.edu/2001Conf.htm

5. See, for example, the work of Robert Monks - http://www.ragm.com/ - or, bringing together organisations in the field in the UK, the sustainable investment and finance association - http://www.uksif.org/

6. This is at least a theme that has emerged in a helpful way in recent academic research on markets and commons and over a longer period in the field of institutional economics. See, for example Ostrom E. (2005) Understanding Institutional Diversity, Princeton, Princeton University Press.

7. ONS (2010) Share Ownership Survey 2008, Statistical Bulletin.

8. Grout, Paul A., Megginson, William L. and Zalewska, A. (2009) One Half-Billion Shareholders and Counting - Determinants of Individual Share Ownership Around the World, 22nd Australasian Finance and Banking Conference, August 18, 2009.

9. ibid

10. Figures for 2008. See http://seekingalpha.com/article/99256-world-equity-market-declines-25-9-trillion

Co-operatives UK

Co-operatives UK works to promote, develop and unite co-operative enterprises. It has a unique role as a trade association for co-operatives and its campaigns for co-operation, such as Co-operatives Fortnight, bring together all those with a passion and interest in co-operative action.

Any organisation supportive of co-operation and mutuality can join and there are many opportunities online for individuals to connect to the latest co-operative news, innovations and campaigns. All members benefit from specialist services and the chance to network with other co-operatives.

www.uk.coop

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