

## Democracy and Enterprise: A Philippine Cooperative Balances Social and Business Demands

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A central concern of the social enterprise literature is the tension between an organization's social and its business mission. This paper argues that cooperatives avoid this tension because organizational decisions are made by the social beneficiaries – the cooperative members. This is demonstrated with the experience of Sorosoro Ibaba Development Cooperative (SIDC) in the Philippines. SIDC started in 1969 with 59 small farmers each contributing US\$ 10. SIDC now offers a range of social and economic services to nearly 18,000 members with assets reaching US\$ 36 million in 2012. However SIDC currently faces very important challenges, the most formidable of which is the increasingly globalised production and consumption system. SIDC has adjusted to market pressures not by internationalising its markets, investment, management and resources but through vertical integration of its domestic supply chain, adoption of technological innovations and by tapping migrant workers' savings. However, globalisation also means that SIDC products and services compete with those produced without concern for workers' safety, local employment or environmental health. The threat is exacerbated by trade agreements that erode state capacity to temper the corporate drive for profit maximisation with peoples' right to employment, living wage, and a healthy environment

*Key Words:* democracy and enterprise, Philippine cooperative, impacts of globalisation, social enterprise, cooperative success, social and business mission

### Introduction

In the last two decades social enterprises (SE) have become an active area of inquiry among policy analysts, academics and development researchers. Organisations that self-define or are defined by others as social enterprises provide a broad range of goods and services in various contexts of disadvantage. They represent diverse organisational forms, activities, scales of operation, management structures and ownership. Some are easily recognized as businesses, others not (Smallbone *et. al.*, 2001). This complex diversity led Bull (2008) to conclude that “what constitutes social enterprise is hard to capture, as no single legal structure or business format encapsulates the term” (p .270).

For the purposes of this paper we take the position articulated by Peattie and Morley (2008) that there are only two clearly defining characteristics of a social enterprise, namely, the primacy of social aims and the trading of goods and services as the primary activity (p.95). This simplified definition has the benefit of focusing attention on the tension that may arise between the two defining characteristics and invites analysis about how a balance can be achieved.

This paper is based on a study of a Philippine cooperative. Cooperatives are ‘autonomous association[s] of persons united voluntarily to meet their common economic, social, and cultural needs and aspirations through a jointly-owned and democratically-controlled enterprise’ (ICA 1995). They are viewed by some as the oldest form of social enterprise (Defourny, 2001; Seanor *et al.*, 2013) and by others as distinct from social enterprises (e.g., Birch & Whittam, 2006). Cooperatives went through an impressive expansion worldwide in the 1960s, then a period of decline starting in the early eighties (Lele, 1981). They are now enjoying a resurgence of interest among scholars (e.g., Johnson & Shaw, 2014; Vicari, 2014) and development organisations (e.g., DFID, 2010).

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We argue that cooperatives are particularly well suited to manage the tension between their social and business missions because cooperatives have democratic ownership and decision-making structures. Cooperatives allow the primary social beneficiaries, the cooperative members, to influence organizational decisions through the general assembly. This is an important difference from the majority of social enterprises which serve socially disadvantaged clients but whose clients have no structural mechanism through which they can influence the management of the enterprise. The Board of Directors of a social enterprise might include clients, thus clients may have a voice but management decisions are not controlled by clients. Cooperatives are different. The paper examines the experience of Sorosoro Ibaba Development Cooperative (SIDC) to exemplify the posited relationships. Launched in 1969 by 59 small farmers each contributing US\$10, SIDC now offers a range of social and economic services to nearly 18,000 members in 13 provinces. Its assets reached US\$36M in 2012.

The paper presents evidence on three questions of interest in the SE and cooperative literature:

- a) Is tension inevitable between the social and business missions?
- b) Is a trade-off unavoidable between democratic governance and economic efficiency?
- c) Is globalisation a threat or an opportunity for cooperatives?

The paper starts with a very brief review of the social enterprise literature directly relevant to cooperatives followed by a review of the cooperative literature on the three questions listed above. The context, methodology and limitations of the study are outlined. It is followed by a description of the social and economic context that shaped the formation of SIDC and the outcomes it has achieved in the last 44 years. We present evidence that SIDC has successfully balanced its business and social missions as it expanded into new revenue streams while maintaining the level of member participation in cooperative governance. SIDC also contributed to the development of the wider community within which it emerged and developed. In the penultimate section we examine some developmental challenges currently facing SIDC that may present it with difficult strategic decisions in maintaining its success as a social enterprise in the years to come. We close with comments on what SIDC's performance to date says to the questions of social and business mission, democratic governance and the impacts of globalisation.

### **Cooperatives as Social Enterprises: Opportunities and Constraints for Development**

Social enterprises have been heralded as “a force for change that will contribute to society through tackling social and environmental challenges, improving public services, increasing levels of enterprise and setting new standards for ethical markets” (Office of the Third Sector, 2006: 3). While many see social enterprises as engaged in the delivery of social services for disadvantaged groups and communities (Wronka, 2013; Seelos & Mair, 2004); others assert it is “also about political and social co-ordination” (Westall & Chalkley, 2007, p. 27). The creation of social value, they argue, is the primary objective while economic value creation is a necessary but not sufficient condition. Concerns have been expressed of inevitable tension between the social mission and the business mission of social enterprises.

Seanor and Meaton (2008) see two diametrically opposed views on the social versus business mission of social enterprises. One view suggests there is no tension in balancing social and economic goals (Evers, 2001; Alter, 2007). The alternative argues that ignoring these inherent conflicts is ‘self-delusory and unhelpful’ (Russell & Scott, 2007). Seanor et al. see social enterprises moving in a ‘McDonaldization’ production-like process toward the commercial end of the spectrum (2007, p.7). Dees (1998) cautioned that if organisational strategies are not crafted carefully “commercial operations can undercut an organization's social mission” (p.56). Business success will not assure that social aims take care of themselves.

In the cooperative literature the debate is not whether there is tension between the social and the business mission but whether a balance can be achieved and how (See Levi & Davis, 2008). “The collective's survival, it appears, is endangered when it is threatened by insolvency – *ipso facto* – and when it is successful – as it risks then to be torn apart by divergent interests which impend on its moral purposes” (Levi, 2005, p. 134). A related issue with a much longer history in the cooperative literature is the proposition that democratic governance necessarily clashes with efficiency demands. A Statement on the Cooperative Identity adopted at the 1995 International Cooperative Alliance (ICA) Conference characterised cooperatives as member owned, democratically run and autonomous enterprises (Johnson & Shaw, 2012), their operations governed by the principles of open admission, democratic organization, the instrumental and subordinate nature of capital, participatory management, inter-cooperation, social transformation, universality, and education (Cheney et al, 2014). However, Jones & Kalmi (2012) point out that there are different types of cooperatives, different meanings of democratic governance and different forms of economies of scale. They posit that this tension would vary by co-operative type (primary or

secondary, consumer or worker or producer, open or closed), size, that different cooperatives face different types of democratic challenges, and may respond to varying degrees to the challenge. Hannan (2014) studied farmers' cooperatives in Kenya and concludes that good cooperative corporate governance is indispensable for reducing rural poverty and argues that to deliver real advantages to members a cooperative needs to balance three areas of tension:

- control/partnership between members, the board and staff;

- between a representative and an expert governing body; and
- demands of internal and external stakeholders

Cooperatives were a subject of active social research for several decades (e.g., Cole, 1944; Ford, 1992), but by the early eighties, they were written off by many as failed organisations for change (e.g., Lele, 1981). Various driving forces have been identified (See Table 1).

Table 1 Driving forces behind decline of cooperatives

Driving force	Direct Impact	Outcome
○ Increased size and complexity	Loss of interest and free-riding among members	Degeneration, i.e., conversion to investor-owned firms (IOF)
○ Technological advances	Shift in locus of power in the value chain	Cooperative loses power
○ Markets becoming more open and larger	Cooperatives become more business-like	Conversion into IOFs or hybrid forms
○ Better functioning of capital markets	Cooperatives investment portfolios become suboptimal	Increasing cooperative inefficiency
○ Agriculture becoming industrialised, capital intensive	Cooperative members lack capacity/capabilities to adjust	Loss of members, bankruptcy
○ Corruption, mismanagement	Members lose trust in coop leadership	Loss of members, bankruptcy
○ Capture by local elite	Members lose trust	Loss of members, bankruptcy
○ Excessive state interference	State dependency	Inefficiency and lack of initiative
○ Misunderstanding of cooperative primary mission and overestimate of coop members' capacity	Inflated expectations of cooperative impacts on development	Donor disenchantment, skepticism and withdrawal of funding

Sources: Lele, (1981); Mustafa and Gill, (1998); Nilsson et al., (2009); Münkner, (2012)

The end of the nineties saw a more optimistic strand of analysis among cooperative researchers. A search for a different form of social and economic organisation emerged from evidence of the impacts of the capitalist growth model on the poor and the environment. The call was for locally rooted, democratic community organizations that integrate the social and economic dimensions of development, are capable of utilising new communication technologies and decentralising power to local levels, structurally flexible to manage rapid change, and able to function at different levels from the local to the international (Brown 1997, p.70). Brown advanced the thesis that cooperatives possessed the organizational characteristics needed for sustainable community development and globalised economy. There was optimism about globalization among some.

"... far from being a fundamental threat to cooperatives, globalization is the original reason for their existence. It is globalization that creates the need, which in turn creates and sustains co-operatives – the need to combine the capital and spending powers of many in order to survive or shape social-economic change" (Fairbairn et al., 1991, p.1, in Brown, 1997, p. 87).

Others saw globalisation as an 'unfriendly environment' for cooperatives not only because it tends to "harmonise social realities and structures" but also because it encourages cooperatives to pursue maximum economic gain at the expense of non-economic considerations, thus eroding the 'cooperative difference' (Levi, 2001; 2005).

The resilience of financial and consumer cooperatives in the wake of the 2008 global economic crisis reinforced the confidence that cooperatives could play an important role in reconfiguring the world economy, bringing to the fore an enterprise governance model that is based on a broader vision of productivity, re-embeds economic growth within community and thus manages risk differently (Birchall & Ketilson, 2009). Many cooperatives in the EU successfully globalised through mergers, acquisitions and foreign direct investment (Hansen, 2009; Jones & Kalmi, 2012); some agricultural cooperatives in developing countries expanded their markets by forming partnerships with multinational corporations or accessed niche markets through Fair Trade NGO networks. The outcomes are mixed, the lessons ambiguous. Burke (2010) studied Amazon-Coop—a cooperative linking indigenous Brazilian

nut harvesters and The Body Shop through trade and development projects. He concluded that the arrangements made indigenous people more vulnerable and dependent, failed to promote participatory development and effectively institutionalised existing patterns of exploitation. On the other hand, Vicari (2014) documented the benefits resulting from membership in COPPALJ (Cooperativa de Pequenos Produtores Agroextrativistas de Lago do Junco) a farmer co-operative operating in the Lago do Junco Municipality in Maranhão, one of the poorest Brazilian States. The members, majority of whom are women, obtained better product prices and greater access to education and health facilities.

The contribution of cooperatives to food security, inclusive finance and poverty reduction received international recognition with the celebration by the UN of the International Year of Cooperatives in 2012. According to the International Cooperative Alliance (ICA), as of September 2013 there were 269 umbrella organisations and one billion individual cooperative members in 94 countries (ICA, 2013). Cooperatives employ 100 million people globally (ILO, 2010). They remain one of the most common village institutions in many African countries. Uganda has witnessed a 20-fold increase in the number of cooperatives during the past decade, largely independent of government support. In some BRIC countries (Brazil, India and China), cooperatives play an important role in agriculture. Cooperatives reportedly contribute almost 40% of the Brazilian agricultural GDP (Johnson & Shaw, 2014).

Mendoza and Castillo (2006) identified membership support as the single most important factor contributing to the success of cooperatives. They define four imperatives for an effective member relations program: (a) members have a commitment to cooperative principles; (b) members know their rights and accept the responsibilities of cooperative membership; (c) management provides opportunities for members to voice their opinions and to listen to their complaints; and (d) directors of the board act as a bridge between the members and the association (pp. 43).

### Study Context, Methodology and Limitations

Cooperatives have played an important role in the economic and social development of the Philippines. In 1952, the government passed the Agricultural Credit and Cooperative Financing Administration Law, committing the government to help “small farmers in securing liberal credit ... promote the effective groupings of farmers ... enable them to market efficiently their agricultural commodities... to improve the standard of living of people engaged in

agriculture” (Castillo, 2003, p.28). Under the law, cooperatives are business organizations and therefore are allowed to set targets and generate surplus. In 1987, other laws were enacted that would use cooperatives as “an instrument of social justice and economic development” (Castillo, 2003, p.12). In 1990 the Philippine Cooperative Development Authority was established.<sup>1</sup>

The information on the Sorosoro Ibaba Development Cooperative (SIDC) was drawn from two months of field research, reviewing SIDC documentation including annual reports and regular publications, interviewing SIDC staff, board members and cooperative members as well as participant observation of the routines of SIDC operations. A total of 28 key informants were interviewed, each interview lasting between one and one and one half hours. Internet sources were also used to gather additional information on specific and more recent initiatives of the Cooperative. The questions reflected the SEED Framework<sup>2</sup> and covered:

- A. Business performance: Is a business plan in place, reviewed and updated regularly?  
Are marketing networks established and new opportunities investigated?
- B. Social performance: How do members benefit from economic activities? What social development benefits are offered? Is there training on livelihood education and skills? Are income generating opportunities provided to the community? Are stronger community organizations, in particular of women and youth, fostered?
- C. Environmental performance: Are environmental impacts evaluated? Is environmental awareness, training and education provided to members? Are environmentally friendlier technological innovation undertaken? Have there been changes in community choices and actions?
- D. Partnerships: What type of institutional partnerships exist, and for what purpose? Are regular communications maintained? Is there monitoring and management of change in partnership composition?

Additionally we queried the governance structure and member communication mechanisms. How are decisions made? Who make what decisions? How are members involved? What is the level of participation? How is information made available and accessible to members? The main limitation of the study lies in the low number of SIDC members interviewed.

### The Sorosoro Ibaba Development Cooperative: 1969-2013

Unlike the great majority of cooperatives in developing countries which are initiated and sustained under

programs of national governments or international development agencies (Mustafa & Gill, 1998; Pathak & Kumar, 2005; Johnston & Shaw, 2014), the Sorosoro Ibaba Development Cooperative (SIDC) was started by farmers in the province of Batangas, in southwestern Luzon in 1969. They came from three *barangays*<sup>3</sup> - Tingga Itaas, Sorosoro Ibaba and Sorosoro Ilaya - just outside the capital city, Batangas. These three are known as the TISISI barangays.

Farming and livestock were the main sources of livelihood but in the 60s the TISISI barangays were inaccessible because of poor transportation infrastructure. Farmers had difficulties transporting their products to the city as well as procuring animal feed (Castillo, 2003). Mr. Victoriano Barte, who eventually became the first President and General Manager of the group, put forward the idea of organising to the community. After several meetings and consultations, the Sorosoro Ibaba Farmers' Association was formed in March 19, 1969, with capital coming from 59 farmers who each contributed about \$10 US (200 Philippine pesos, PhP) (Dimayuga, 2010). This initial start-up money of \$590 US was used to build a small *sari sari* (variety) store offering basic commodities to residents as well as farming implements, fertilisers, animal feed and veterinary products. The store bought items in bulk and thus was able to extend savings to its customers. These savings were the first benefit of association. The increase in purchasing power of the association members attracted new members. Three years later, the Sorosoro Ibaba Farmers' Association was renamed the *Samahang Nayon ng Sorosoro Ibaba* (Village Organisation of Sorosoro Ibaba) and a program of contract growing was adopted.

Contract growing or the *paiwi system* as it is known in *Pilipino*, provides members with everything they need to raise chickens or hogs except for the labour and cages. It started with the provision of 100 to 300 broilers and 5 to 10 pigs per member (Dimayuga, 2010). The support provided by the Organisation included some but not all veterinary costs. The *paiwi* growers and the cooperative split the reve-

nue 50/50. This was an income generating activity that also had poverty reducing benefits. The success of the operation attracted others from surrounding *barangays*. Membership increased to 500, large enough for the organisation to qualify as a full-fledged cooperative. *Samahang Nayon ng Sorosoro Ibaba, Inc.* became Sorosoro Ibaba Consumers' Cooperative in November 1978 and registered with the Ministry of Agriculture. It continued expanding and in 1997, was renamed Sorosoro Ibaba Development Cooperative, Inc. (SIDC) with 1,515 registered members. Its membership has since increased five-fold. As of May 31, 2013 SIDC had 7,917 Regular Members from 13 provinces and 9,817 Associate Members including 369 overseas Filipino workers (OFWs) (details to be discussed in Sec 5.2). SIDC now has 575 regular employees, most with university or college degrees. It has one volunteer consultant and several volunteer staff. SIDC does not receive any donations from government or donors. It generates its income from services it provides, product sales and membership fees.

SIDC's success has been recognized. It has received several awards including the "most outstanding small farmers organization of the Philippines" in 1989 from the Department of Agriculture, "outstanding Filipino enterprise" in 1998 from the Department of Labour and Employment and "most outstanding agricultural multi-purpose cooperative" from the Cooperative Development Authority in 1999 (Castillo, 2003). In 2013 SIDC received the Platinum Award as "an engine of growth" from the Land Bank of the Philippines, and in 2014 a cash award by the Villar Institute of Poverty Alleviation and Governance as one of ten leading community enterprises in the country.

### SIDC Performance

Table 2 shows the remarkable recent growth of SIDC in membership, assets and average share capital.

Table 2 Membership and Financial Position of SIDC 2012

Year	Membership	Assets US\$ (PhP)	Share Capital US\$ (PhP)	Net income US\$ (PhP)	Average Share Capital / member US\$ (PhP)
2012	17,481	35,988,363 (1,528,817,468)	7,769,262 (330,045,094)	799,035 (33,943,709)	444 (18,880)

Source: Lim, 2013; US\$ 1 = 42.2390 PhP (30 June 2012)

### SIDC's business performance

SIDC's facilities and services now span twenty business lines. Many generate direct income opportuni-

ties for members in livestock production or marketing of products, others enhance their productivity. These revenue streams are listed in Table 3.

Table 3 SIDC Revenue Streams

1.	CONTRACT-GROWING ( <i>PAIWI SYSTEM</i> ) (established 1972) SIDC covers expenses related to growing and marketing of the products. The cooperative and the member-raiser share in the revenue equally.
2.	FEEDMILLS. (constructed 1987) The feed mill produces an average of 6000, 50-kg bags daily. SIDC feeds are sold in 6 provinces.
3.	HOG SELLING PENS. Established to speed up the sale of hogs and also to prevent spread of diseases, these pens allow members to hold hogs ready for sale. Pen fees are charged per kilo of hog weighed.
4.	ARTIFICIAL INSEMINATION CENTRE (Inaugurated in 1998) Provides members with high quality piglets through affordable artificial insemination from high-grade boars.
5.	PIG FARM (Constructed in 1999) A multi-million peso piglet multiplier farm to accommodate 1,500 sows capable of producing 50,000 high quality piglets for sale to members.
6.	RICEMILL (Opened in 2002) Mills up to 100 sacks of rice daily.
7.	SLAUGHTERHOUSE SIDC manages the operation of Batangas City Slaughterhouse on contract from the Batangas City government. About 150 hogs are slaughtered daily.
8.	FARMER VIC PROCESSED MEAT (Started in 2003) SIDC produces meat products from members' hogs.
9.	BIO-N MIXING PLANT (Started in 2004) In partnership with Dept. of Agriculture and UPLB-Biotech Nueva Ecija Branch, SIDC produces an inoculant used to treat seeds
10.	<i>KOOP LIKAS</i> (Coop Strength) This is an organic fertilizer based on chicken and pig manure.
11.	GASOLINE STATION (First one opened in 2004) Provide gasoline services, coop meat products, auto supply and other services to members with all purchases subject to patronage refund.
12.	LAYER FARM Started in 2008) Provides regular supply of eggs to the members and the public. It has 75,000 layers producing an average 63,000 eggs daily.
13.	SIDC AQUA CARE (Opened in 2005) Provides members and their families with clean potable water using an 18-stage purification process.
14.	COOPMART Five coop stores offer a wide variety of commodities: groceries, fresh meat, fish and vegetables, electrical supplies, animal feeds, veterinary products, automotive supplies, construction materials and agricultural inputs. Two are in underserved rural areas thus allowing members access to basic household produce, products and farm items without going into the city. A 30-day credit is available to members.
15.	SAVINGS & LOANS The cooperative accepts deposits from the members at a very high interest rate. Competitive borrowing rates make it easier for members to get loans for emergencies or to expand farming operations. Housing loan and Car loan are also offered at a minimum interest rate. All require collateral.
16.	RENTALS SIDC rents out dismountable frames or scaffoldings, monobloc chairs, food warmers, tables and water faucets for various occasions. Non-members pay 50% more than members.
17.	CABLE TELEVISION SERVICE SIDC provides local members a 21-channel cable television services at affordable cost.
18.	OVERSEAS FILIPINO WORKERS (OFW) INVESTMENT PROGRAMS This requires associate membership but not based on patronage. Members' investments have a guaranteed return of 6% per annum and additional dividend earnings depending on the performance of the business line. OFW funds are invested in projects like the Layer Farm, Aquaculture Project and Agro eco-tourism project. The investment is locked for 5 years.
19.	CORN PROGRAM This new program brings Bicol corn growers into the SIDC loop and also serves members in Mindoro and Nueva Ecija. It links several SIDC's business lines. The fertilizer used would be the bioorganic fertiliser ( <i>Koop Likas</i> ), in the process benefiting SIDC broiler producers and the organic fertilizer business.
20.	AGRO-ECOTOURISM CENTRE – one of the latest business ventures

In 2011 SIDC achieved a return on equity of 13.78% with 16,298 members (Reyes and Pabuayon 2011). In 2012 its assets stood at US\$36M (1.528B PhP) and its membership at 17,481.

In 2003 SIDC's 10 year development plan included "expanding waste/water treatment plant, gasoline station with auto shop, continuous development of meat processing, feed nutrition and testing centre,

diagnostic laboratory for animals, supermarket, training center and resort and SIDC rural bank” (Castillo, 2003: 148). By 2013 SIDC had implemented several elements in that 2003 10-year plan. Annual reports show most of SIDC’s business lines generate surplus. Those that do not are examined and dealt with carefully. This was the case of the FARMER VIC MEATSHOP. Started in June 2001 to assist members in selling their products, it proved unprofitable. SIDC closed the shops on a staggered basis over a span of 5 years to see if they could make some work; the last shop was closed in 2006.

Alternative sources of income for the cooperative and its members and new opportunities for products and services are examined by the New Business Development (NBD) department regularly. NBD undertakes feasibility studies of proposed undertakings and advises the Board accordingly. It is also tasked with ensuring that new businesses complement existing ones. An example is the new corn production program launched in the Bicol region. This business plan is for Bicol corn producers to use SIDC’s organic fertilizer thus benefiting broiler producers who in turn use Coop feed mill products.

Another SIDC innovation is its *diaspora* investment program. There are over 10 million Filipinos working overseas. Their remittances contribute 12% of the Philippines GDP (Caponos, 2013). The need to sup-

port farmer families of migrants through cooperatives had been identified. SIDC’s *diaspora* investment program taps the savings of overseas Filipino workers (OFW) in Italy who are mostly women, from the provinces of Batangas, Laguna, Tarlac, Pampanga and Ilocos. This program is in partnership with ATIKHA, an NGO and the International Fund for Agricultural Development (IFAD). Being the largest agri-based cooperative in the Philippines and having operations in the provinces where the OFWs in Italy originated, SIDC was identified as the best partner to encourage OFW savings and investment. Membership in SIDC allows OFWs cheap remittance charges, reducing dependence on middle men and loan sharks and providing their families access to credit and other SIDC resources. Each shareholder invests US\$1937 a year in SIDC egg layer business for a guaranteed return of 6%, plus additional dividends depending on farm performance. The program gives OFWs and their families opportunities to support agriculture and rural development in the country (ATIKHA, 2013), and gives SIDC a source of finance capital.

### Social Mission

These business activities have supported an expanding range of members’ services shown in Table 4.

Table 4. SIDC Services for members

1.FREE MEDICAL CHECK-UP There is a full time nurse at the SIDC headquarters. Free medical checkups are given once a month by a physician who sees an average 15 members a month.
2.SIDC-CARE (HOSPITALIZATION) Provides medical benefits to members in good standing up to half the total hospital bill but cannot exceed 25,000 PhP.
3.SCHOLARSHIP GRANTS Given for college and university under <i>Sagip Kasip</i> Foundation ( <i>vide infra</i> ) to cover tuition and miscellaneous fees along with a monthly allowance during the period of study up to 4 years as long as the scholar maintains academic requirements.
4.STUDY NOW, PAY LATER Payment starts one year after graduation, monthly for 5 years at 15% interest per year. It requires collateral.
5.BARANGAY DEVELOPMENT FUNDS (BDF) 3% of the net savings of SIDC is given to the BDF annually to support community development. Projects supported include roads, vehicles for the <i>barangay</i> and the Clean And Green project.
6.MORTUARY AID Grants are given up to 18,000 PhP for the bereaved family of SIDC members.
7. TECHNICAL AND MARKETING ASSISTANCE Provided exclusively in hog raising and marketing.
8. SEMINARS AND TRAINING Two seminar/training sessions are offered every quarter, e.g., on swine management, membership services, financial literacy, biogas digesters, livelihood, environment.
9. JOB OPPORTUNITIES SIDC gives priority to qualified members or relatives when hiring
10. PATRONAGE REFUND Paid at the end of each year based on the net surplus generated by each business line. A percentage of whatever members spend in the coop mart, gas station, feed mill, etc. goes back to them – 50% in cash, 50% to the member’s share capital and reinvested.

The *Barangay* Development Fund finances community development. One visible benefit is the well-paved roads. The roads leading to the barangay from Batangas City are thin and narrow but smooth and pot hole free. In 2007 SIDC established the *Sagip Kasapi* (“rescue member”) Foundation, a non-stock, non-profit organization for fostering strong community ties. Part of the *Sagip Kasapi* budget is from SIDC and the rest from fundraising, donations and income from the SIDC boutique that sells over-the-counter medicine at a low price. The Foundation was granted a license to operate as a social work agency. It runs five main programs open to both members and non-members: immediate aid to individuals and families in crisis; education; a youth skills building program; a community development program; and a community outreach program. A major project recently undertaken was the purchase and donation of land for a high school in the Sorosoro Area. The new school allows students to attend high school without having to commute to Batangas City. Key informants stressed that SIDC provides a healthy environment and that it positively contributes to the community and surrounding areas. “SIDC provides leadership for the community as well as employment” (KII 1).

Both regular and associate members receive a patronage refund each year based on the net revenues generated by each business line that they patronise. The refund received is in proportion to a member’s patronage, not on the nature and amount of share capital. The patronage refund system offers members strong incentive to be loyal to SIDC in their purchases. SIDC also responds to unmet needs of its members. For instance the SIDC Aqua Care (No. 13 in Table 3), water refilling station was in response to an expressed need by members for safe drinking water. SIDC hires locally, reinvests in the community, and offers support for community projects. This has ensured community support for SIDC.

SIDC offers training seminars to broaden members’ skills so they understand better their rights as members (e.g., financial literacy) and to develop business skills (e.g., hog raising). SIDC has partnered with the International Agricultural Exchange Association (IAEA). IAEA facilitates youth exchanges to raise the level of education and training in agriculture, horticulture and forestry. SIDC participates in the “Lak Bayaran” program. Under Lak Bayaran staff or members of cooperatives visit other cooperatives to learn each other’s best practices and disseminate the information back to their organization. Approximately 30 SIDC staff and members have taken part in the program (KII# 7, 10). SIDC also shows solidarity to members of other cooperatives. The rice mill in Mindoro (No. 6 in Table 3) was opened to help members of a cooperative that had

been shut down due to mismanagement. SIDC purchased its properties and offered membership to its former members and relatives. Similarly the BIO-N Mixing Plant in Jaen, Nueva Ecija (No. 9 in Table 3) was established to help an insolvent cooperative in the area.

### **Democracy: The Critical Success Factor**

The birth of SIDC is remarkable in particular because it was a truly indigenous initiative of the poorest of the poor in a region faced with political instability. It was started by farmers who refused to be constrained by resource limitations imposed by social conditions and political history. The Cooperative’s self-sustained expansion of business lines and social services in the last 44 years demonstrates business acuity and clear social vision of the leadership. But equally important, it reveals high level of trust in the SIDC leadership on the part of the community. For people who have so little, to entrust their scarce resources in those occupying positions of authority is highly unusual in a context where abuse of power is pervasive and all too frequently practiced with impunity. Clearly there was trust among the 59 original founders, but how was this trust nurtured over the last four decades? We see several interrelated mechanisms: democratic governance structure and informed participatory decision-making enabled through the provision of accessible information and continuing capacity enhancement of its members.

SIDC is a three-tier organization: General Assembly, the Board of Directors and the employees. The General Assembly is the ultimate decision making unit. Made up of all regular members, it elects or appoints officials, approves or amends by laws and future plans for the cooperative (Castillo, 2003). The Board exercises overall supervision and control of the cooperative, creating committees for specific purposes. The Board of Directors, the members of the Audit and Inventory Committee and the Election Committee are elected by regular members in good standing. The Board sets the direction of SIDC for 5 to 10 years, with monthly meetings to ensure that business plans are reviewed and updated regularly. The minutes of board meetings are open to members. Board decisions can be challenged and overturned by the General Assembly with a 2/3 majority vote, under a one member, one-vote rule. The Philippine Cooperative Code (Republic Act 9520) requires a quorum of 25% of regular members for certain decisions (average attendance in the last three years has been 33.3%). According to key informants, Board Directors discuss decisions with all levels of management before decisions are implemented. Members can

raise issues outside the Annual General Meeting (AGM) by talking directly with the directors or through a Suggestion Box. There are also cluster representatives designated to consult members within their cluster and report directly to the Board (KII 1& 8). There is one cluster representative elected for every 300 members in a geographic area. The cluster representatives meet once a month and are paid PhP1500 per meeting.

SIDC reports and publications are in *Pilipino*, making them accessible to the general members. The annual report distributed at the AGM gives members a clear picture of SIDC's financial health. Pre-membership training in financial literacy enables members to understand these reports.

An important aspect of the governance structure has been the creation of two different categories of membership, both open to anyone between the ages of 18 and 50. Regular members are directly engaged in production activities. Associate members are not part of the production chain but consume products of the Cooperative (See Table 2). Regular members need a minimum of US\$66 (3000 PhP) worth of shares plus a US\$2.2 (100 PhP) membership fee. To be a regular member, one needs to have patronised at least three of SIDC's major businesses for at least two years. Associate members need to buy a minimum of US\$22 (1000 PhP) worth of shares plus a US\$2.2 (100 PhP) membership fee. Associate members do not have the right to vote nor run for an elected position in the Cooperative and therefore do not have direct control of the organization even though they benefit from the cooperative's business success and share the same benefits as regular voting members. Their interests are effectively protected by the voting members who share the same social and economic conditions.

Asked what might explain SIDC's success, many key informants cited staff commitment and the spirit of "*bayanihan*" (KII# 9, 15, 23).<sup>4</sup> Others mentioned the strength of the Research and Development Committee as well as the New Business Development (NBD) department (KII# 6, 13, 17). SIDC's willingness to face the risks of opening new businesses is balanced by the studies and projections undertaken beforehand to inform its decisions. The Board is able to strategically manage the interest of stakeholders, general members and employees to effectively balance their social and commercial objectives (KII# 3, 6, 13, 17).

The SIDC General Manager identified three critical success factors for SIDC, namely (1) the members themselves; (2) financial stability through self-reliance; and (3) continuous strengthening of entrepreneurial capability. Other important factors he cited were transparency and communication, SIDC

credibility and recognition, entrepreneurship diversification and the manner in which SIDC responds to members' demands (Reyes and Pabuayon, 2011).

### Challenges Facing SIDC

While SIDC has been successful in generating economic and social benefits for its members and their communities it does face a number of important challenges.

### Environmental problems

SIDC has faced some difficult environmental challenges in relation to the emissions of its feed mill facility and wastes from livestock operations. SIDC adopted measures to address some of these environmental impacts. Its feed mill facility undertakes 6-Sigma measures and is now ISO 14001 certified, and its product, ISO 9001:2008 certified. To minimise the impacts of the piglet multiplier farm and the egg layer farm, SIDC embarked on bio-gas production using a covered in-ground anaerobic biogas digester. As of 2011 this digester supplied part of the power requirements of the SIDC main building. SIDC is communicating the message that "environmental solutions can be ... potential businesses" (del Castillo and King, 2005: 14). It is creating new businesses and integrating business lines to reduce some of its environmental impacts. The feed mill, corn production, and organic fertilizer production are all in a loop with the broiler production in the recently launched corn program. But major environmental problems remain from the livestock production of its members.

An environmental impact assessment commissioned by SIDC reported that 63,500 pigs in the three TISISI barangays produced more than 50 tons of pig manure daily (del Castillo and King, 2005). The manure is disposed of through a system of open gutter canals flowing into creeks and into a local river. Others use back yard holding tanks that drain waste directly into the soil and potentially into groundwater sources. SIDC tried a communal manure composting plant but abandoned it because of technical and logistical problems. The pervasive odour and contamination of soil and surface water have been linked to local health problems including asthma, typhoid, diarrhea, and dengue outbreaks. SIDC introduced a new policy requiring SIDC *paiwi* farmers to have either a septic tank or biogas digester, providing environmental loans for the purpose. But according to key informants enforcement of the policy is lax and the farmers' inaction on the problem is encouraged by Philippine environmental policy. In the late 80s the Philippine government exempted farmers with thirty

pigs or less from manure management regulation because “the livelihood benefits to the rural poor were seen as outweighing the environmental costs” (del Castillo and King, 2005:3). Thirty years later with 97 percent of people in the Sorosoro area raising pigs, this has become a huge concern for which SIDC is only partially responsible.

### **Generational divide**

A challenge that is unique to SIDC as a social enterprise is the generational divide which is likely to intensify in the future. The average age of regular members has increased and while there are new regular members, they may not see the same opportunities in agriculture as their elders did. Young adults who are highly educated may have aspirations to work in urban areas. The challenge is to interest the third generation of SIDC members in the main businesses of SIDC. SIDC has shown its capacity to innovate on membership categories but whether it can attract membership among youth who migrate to urban centres is uncertain. Expanding non-voting associate membership will slowly erode the closed loop linking management control to beneficiaries.

### **The *paiwi* system**

Today, hog farmers account for 90 percent of the contract growers in SIDC as the cost of raising chickens has become volatile. SIDC has policies in place to help keep hog farming efficient and sustainable. Preference is given to those living within the TISISI area to allow for frequent communication between the farmer and technical support staff. Members can only become a *paiwi* raiser if they have been hog raising for one year as a SIDC member and if they can show a Feed Conversion Ratio (FCR) of 3:1 or less (KII# 12), meaning no more than 3 kilograms of feed are used to produce one kilogram of hog. There is however lack of monitoring and enforcement of this policy (KII# 1 and 12). The 50/50 revenue sharing basis is the same for all *paiwi* raisers, even if their FCR is higher.

### **Local and international competition**

SIDC has so far resisted importation of raw materials or expansion its markets beyond the national borders. It is extremely dependent on the livestock industry and therefore the feed mill (KII#13). There are many new feed milling businesses in the province and some are offering feeds at a lower price. Hog prices have also become extremely volatile (KII#17). Another threat identified by SIDC members and staff is free trade. The ASEAN Free Trade Agreement (AFTA)

is limiting intra-regional tariffs between signatory countries to no more than 5%. If other countries can produce livestock more cheaply than SIDC farmers, SIDC may lose its market. An even bigger threat is the Trans Pacific Partnership that is currently under negotiation. It will bring in 12 new members including Australia, Canada and the U.S., all three with highly mechanised and very efficient livestock industries.

### **Expansion outside the original TISISI barangays**

SIDC is expanding its membership to other areas of and even outside the Philippines but the management is all based in the Sorosoro area. How will SIDC management monitor the activities of these members? (KII# 9). How will SIDC build and maintain strong relationships with these members? (KII# 16). Part of the business plan is to be fully computerized in 2-3 years and fully paperless in 3-5 years. Updating the IT system would ensure that members who are not within the Sorosoro area would be getting the same information as members who do live in the area. Some respondents cautioned that the changes towards a more IT based organization may be hard for some members and employees to accept, worried of losing their jobs or seeing their departments downsized. SIDC will need to find a way to balance the concerns of their employees and members and the need to grow its membership and to communicate efficiently.

The combination of a production cooperative and a consumption cooperative within the same organization (regular versus associate membership) also opens up the potential for conflict. The danger will arise if proposals are made to differentiate benefits so that non-voting members begin to be offered lower benefits than voting members. Under these circumstances the social mission of the cooperative may begin to unravel for non-voting members.

### **Conclusion**

This paper has showcased the Sorosoro Ibaba Development Cooperative, the role it has played in reducing poverty among its members and improving the quality of life in the communities in which it operates. SIDC started out as an initiative of the poorest of the poor in the Philippines over 40 years ago and has clearly enhanced the incomes and livelihoods of its members. It seems unrealistic to expect a single organization to generate large-scale socio-economic transformation but SIDC has made a contribution to the wealth of its members. The revenue streams shown in Table 4 suggests that the socio-economic background of SIDC members has changed – they are no longer among the marginalized although most are

arguably still socially disadvantaged given that this is a country where the upper 20% of the population have 49.69% of the income and the lowest 20%, a mere 5.98% (World Bank, n.d.).

We conclude that democratic governance can help address areas of potential conflict in cooperatives. It can be argued that SIDC members are no longer among the poorest and marginalised because SIDC has not lost sight of either its social or its business mission. It has indeed successfully managed to balance its social and economic development objectives through the practice of *organizational democracy*. Mission control resides with the members who are both the ultimate managers and social beneficiaries of the organization. Business success and social benefits accrue to the same people. The members must regularly decide how to balance business and social outcomes for the organization. If the cooperative business declines then some financial benefits for members will decline. If social benefits are to be reduced members have to agree to these reductions. In its program with overseas workers SIDC brought in new investors without turning over the control of Cooperative policy and decision making to these investors. Equally significant from a development perspective, SIDC is a model of democratic governance in a social context characterised by high levels of income and social inequality, where power is abused rather widely and with impunity.

A second lesson is that economic globalisation poses a serious real threat to cooperatives like SIDC that use local raw materials, produce for local markets, and invest in local development. The professional competence of management and staff has allowed SIDC to identify new business opportunities, new markets, new sources of investment capital, new partners, and to undertake the innovations needed to deal with market pressures while preserving if not enhancing the social and economic benefits to coop members and the community. SIDC has adjusted to market pressures not by internationalising its markets, investment, management and resources (raw materials, labour etc.) but through vertical integration of its domestic supply chain, adoption of technological innovations and by tapping migrant workers' savings. SIDC has avoided the financial, legal, cultural, structural challenges of 'globalising cooperatives' cited by Hansen (2009) and the unanticipated undesirable outcomes described by Burke (2010) with regards to cooperatives that partner with socially responsible corporations to reach international markets. However globalisation also means that SIDC products and services will compete with those produced without concern for workers' safety, community interest (e.g., local employment) or environmental health. Additionally the entry of an economy and

culture that put a premium on profits above any non-economic considerations is expedited by trade agreements that also erode state capacity to temper the corporate drive for profit maximisation with peoples' right to employment, living wage, and a healthy environment.

The most important conclusion we draw from this study is that the Sorosoro Ibaba Development Cooperative has been a democratic, socially minded economic institution that has been a very effective development vehicle in a poor region of the Philippines. For this reason it must be viewed as a remarkably successful model and an example of the specific potential of the organizational democracy of cooperatives to balance their business and social missions in service to their members.

## Notes

1. There are also currently over 30,000 organizations identified as social enterprises in the Philippines (Dacanay, 2012). No systematic effort to integrate the cooperative and the social enterprise sector has yet emerged in the Philippines.
2. SEED stands for Supporting Entrepreneurs for Sustainable Development, an initiative of the UK government.
3. Barangay is the smallest administrative division in the Philippines
4. Bayanihan is Pilipino term for the spirit of cooperation among a group of people who are working towards a common goal.

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