An embedded historical communitarian pluralist approach to social enterprise development

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We explore the intellectual antecedents and philosophical history of a communitarian pluralist approach to social enterprise development. In doing so, we contribute to knowledge of the history of the social enterprise movement and its link to contemporary developments in co-operative and mutual enterprises. By highlighting the integration of entrepreneurs, producers, service users and investors through multi-stakeholder approaches to ownership, governance and management, the intellectual antecedents of the FairShares Model are presented as a new configuration in communitarian pluralist thought. The result is a model of 'socialised enterprise' designed to resist both the nationalisation and privatisation of its ownership, governance and management.

Keywords: communitarian philosophy; share capital; social enterprise; mutuality; multi-stakeholder; governance; ownership; model rules

Introduction

This paper examines the intellectual antecedents of the FairShares Model – a set of principles for integrating the interests of founders, producers, consumers and investors in the development of social enterprises. In doing so, we highlight a distinct historical tradition in the design of multi-stakeholder social enterprises based on the diversification of ownership, governance and management. The paper adds to an understanding of social enterprise by reflecting on the historical processes that led to the formation of the FairShares Model and the role that communitarian pluralist thought had in shaping its development.

The FairShares Model, as presented by the FairShares Association, comprises a set of brand principles, social auditing questions, management diagnostic tools, and choice of model rules for ‘self-governing co-operatives, mutuals and social enterprises’ that follow an international definition advanced by Social Enterprise Europe¹. This definition embraces a process-based approach through which stakeholders: (i) specify the social purposes and impacts of their trading activities; (ii) consider the ethics and sustainability of their product/service choices and production/consumption practices; (iii) promote ‘socialised’ and democratic approaches to
ownership, governance and management. In short, these core principles encourage changes in ownership, governance and management to advance communitarian goals.

The paper is divided into four parts. We begin by setting out the assumptions of communitarian philosophy and distinguish unitary and pluralist applications of these assumptions. Secondly, we reflect on the historical foundations of the different interests that inform communitarian social enterprise. In the third section, we trace the influence of communitarian pluralism in the antecedent model rules that influenced the FairShares Model. We conclude by considering how ‘socialised enterprises’ informed by communitarian pluralist design principles offer a new configuration capable of resisting demutualisation, and protecting social enterprises against the nationalisation and privatisation of their assets.

Communitarian Pluralism
Communitarian pluralism is a distinct strand of thought within communitarian philosophy. In the context of business, communitarianism has been linked to collectivist forms of ownership and stakeholder governance. Influenced by theorists such as Avineri and de-Shalit, communitarianism positions itself in opposition to individualism by offering a different perspective on individual development. People are profoundly influenced by social, cultural and historical processes that shape their thoughts, desires, narratives of action and personal agency. In the field of business, Barnfield positions early flour and bread societies as a communitarian alternative to the individualism implicit in global trade networks and free-market economics. He saw them as part of Thompson’s ‘moral economy’ with local ownership, socially-oriented markets that focussed on meeting local (community) needs before considering export markets.

Driver and Martell identify three rationales for communitarian philosophy: i) a sociological argument that people are primarily social beings rather than isolated individuals; ii) an ethical argument that ‘community’ is ‘good’ because systems for collective provision secure individual well-being, and iii) a meta-ethical argument that goodness and virtue cannot be standardised because they are products of discourse in the community. However, they also problematize the policies and
practices through which communitarian cultures are created by identifying the dimensions along which it varies. Table 1 shows their meta-theoretical framework for comparing ‘unitarist’ (conformist) and ‘pluralist’ (liberal) variants of communitarianism.

Table 1. Dimensions of Communitarian Philosophy Identified by Driver and Martell

<table>
<thead>
<tr>
<th>Conformist (Unitarist)</th>
<th>Pluralist</th>
</tr>
</thead>
<tbody>
<tr>
<td>More Conditional</td>
<td>Less Conditional</td>
</tr>
<tr>
<td>(rights conditional on responsibilities)</td>
<td>(rights not conditional on responsibilities)</td>
</tr>
<tr>
<td>Conservative</td>
<td>Progressive</td>
</tr>
<tr>
<td>(socially conservative)</td>
<td>(socially liberal)</td>
</tr>
<tr>
<td>Prescriptive</td>
<td>Voluntary</td>
</tr>
<tr>
<td>(enforcement of social norms)</td>
<td>(loose networks with varying social norms)</td>
</tr>
<tr>
<td>Moral</td>
<td>Socio-Economic</td>
</tr>
<tr>
<td>(driven by religion / ideology)</td>
<td>(driven by ‘relations of production’)</td>
</tr>
<tr>
<td>Corporatist</td>
<td>Individualist</td>
</tr>
<tr>
<td>(rights / responsibilities apply to organisations)</td>
<td>(rights / responsibilities apply to individuals)</td>
</tr>
</tbody>
</table>

A unitary form of communitarianism is socially conservative, and carries with it an expectation of self-discipline from community members in accordance with moral or religious norms. Moreover, normative values apply to ‘legal persons’ as well as ‘natural persons’ resulting in corporations accepting legal and social responsibility for community well-being. A pluralist form of communitarianism avoids making community membership conditional on obedience to fixed norms by favouring voluntary association, a diversity of social and political norms, and more emphasis on individual contribution and responsibility.

Whereas Coase assumed that private enterprise cultures are unitary because decisions are under the control of an entrepreneur, Tam argued that communitarian enterprises:

…treat workers, suppliers and customers, as well as their senior management and shareholders, as members of a shared community…Cooperation in this context does not mean bargaining to secure the best advantage for one's own group with minimal concession to others, but to developing shared values and long-term goals.

It is worth noting Tam’s key argument: communitarianism seeks alternatives in which multi-stakeholder principles are the norm, and “workers, suppliers and customers …senior managers and shareholders” are included in decision-making. He argues that tensions can be moderated by
co-operative inquiry - exemplified by John Lewis – in democratic institutions that focus on promoting the well-being of stakeholders.

Previous works by [Author 1] (between 2003 – 2012)\textsuperscript{12} and Coule (from 2007 – 2013)\textsuperscript{13} have pursued this line of inquiry to clarify the underpinning ideologies and social practices that (re)produce unitary and pluralist cultures in charities, social enterprises and co-operatives.\textsuperscript{14}

Drawing on these works, Table 2 establishes proxy indicators to assess unitary and pluralist practices in their ownership, governance and management:

Table 2. Dimensions of Communitarian Philosophy in Social Enterprise Design

<table>
<thead>
<tr>
<th>Proxies for a Unitary Culture</th>
<th>Proxies for a Pluralist Culture</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Ownership</strong></td>
<td></td>
</tr>
<tr>
<td>Single class of shareholders / members</td>
<td>Multiple classes of shareholders / members\textsuperscript{15}</td>
</tr>
<tr>
<td>Common ownership</td>
<td>Joint ownership / co-ownership\textsuperscript{16}</td>
</tr>
<tr>
<td>Owners / trustees from one stakeholder</td>
<td>Owners / trustees from multiple stakeholders\textsuperscript{17}</td>
</tr>
<tr>
<td><strong>Governance</strong></td>
<td></td>
</tr>
<tr>
<td>Centrally controlled governing bodies</td>
<td>Loose network of governing bodies\textsuperscript{18}</td>
</tr>
<tr>
<td>Representative democracy</td>
<td>Direct democracy / sociocracy\textsuperscript{19}</td>
</tr>
<tr>
<td>Single beneficiary group</td>
<td>Multiple beneficiary groups\textsuperscript{20}</td>
</tr>
<tr>
<td><strong>Management</strong></td>
<td></td>
</tr>
<tr>
<td>Dominant stakeholder prioritised</td>
<td>Reconciliation / negotiation of political interests\textsuperscript{21}</td>
</tr>
<tr>
<td>Line management / reporting</td>
<td>Matrix management / dual reporting\textsuperscript{22}</td>
</tr>
<tr>
<td>Employment / Individual entrepreneurship</td>
<td>Member relations / culture of cooperateurs\textsuperscript{23}</td>
</tr>
</tbody>
</table>

Recognising that there are different social systems for ownership, governance and management helps with interpreting paradoxes in ‘alternative’ organisations. For example Melman highlights how employee-ownership may not be accompanied by employee-participation in governance or management\textsuperscript{24}. Similarly, employee engagement in management may not be complemented by employee-ownership and participation in governance.\textsuperscript{25}

In the next section we turn our attention to the collective interests that are represented in the communitarian tradition. By looking at the history of co-operation that has influenced the development of a multi-stakeholder approach, we pinpoint the collective interests it seeks to reconcile.


Collective Interests Represented in Multi-stakeholder Social Enterprises

The FairShares Association provides 'background' to the influences on its social enterprise development model. In this section, we explore this background to identify historical threads that link to interests in a multi-stakeholder social enterprise. We focus our arguments on the development of consumer co-operation, worker co-operation and social entrepreneurship, and the authors' whose ideas are frequently cited in the antecedents to the FairShares Model.

There is disagreement regarding the origins of profit-sharing. While Rothschild and Allen-Whitt claim it started in England around 1760, and spread to the US by 1790, Perks suggests that it began in France in 1848 through the introduction of workers’ share capital. Robert Owen is the person most associated with the origins of co-operative ideals and producer co-operation. He lived from 1771 - 1858 and rose to prominence through the creation of co-operative communities at New Lanark and New Harmony. Owen was regarded by Marx and Engels as a ‘utopian’ for believing that poverty and inequality could be replaced by co-operative societies within a ‘prosperous and harmonious community’. After some limited successes in the UK and US, Owen's writings on the formation of character through educational and working practices were overshadowed by the writings of Marx and Engels. However, Owen’s works formed an important strand of communitarian thought that resurfaced in successive projects to build co-operative communities.

Owen inspired the Rochdale Pioneers (to whom the Co-operative Group and the International Co-operative Alliance trace their history). Charles Howarth, the author the first Laws and Objects of the Rochdale Society of Equitable Pioneers, and James Daly - the society's first secretary - were leaders of the ‘Owenites’ in Rochdale. Rochdale Principles, however, go beyond Owen’s vision of an educated working class in co-operative communities through the introduction of one-person, one vote principles, and principles for sharing surpluses that involved individualised payments to reflect labour and consumer interests. Whilst Owenites debated community property, the 1944 film about The Rochdale Pioneers, based on George Holyoake’s histories, portrays Charles Howarth discovering the innovation of dividend payments in proportion to trading activity.
Secondly, as Cathcart notes, Owen's work influenced John Spedan Lewis (JSL) who regarded the John Lewis Partnership (JLP) as a 'co-operative society of producers' in which a partnership was considered superior to employment. He spoke out vehemently against both nationalisation (which he regarded as a pathway to soviet-style communism) and a private economy of "absentee-capitalists who [get] excessive reward for their function of saving and lending". Following bitter arguments with his father, JSL argued that owners should not receive more compensation than the professionals they hire to run companies.

Owen became an important influence on Fr. Arizmendi, a pioneer at Fagor and co-creator of the Mondragon co-operatives in the Basque region of Spain. Arizmendi drew both on Owen's writings about education and the Rochdale Pioneers’ commitment to one-person, one-vote and surplus sharing principles. In adapting them, Mondragon’s founders developed single-stakeholder industrial (worker) co-operatives and multi-stakeholder secondary co-operatives in banking, education and retailing. Fagor, as outlined by Molina, was instigated by Arizmendi to reinforce Christian ideals for a new entrepreneurial order that valued work over capital. In this endeavour, three pillars were advanced (social justice, employee participation and profit sharing) to create a human work community in which working, saving and democracy were core principles. As early as 1956, Fagor accepted into their systems for ownership and governance direct worker-owners (from the shopfloor), indirect worker-owners (from its offices) and financial partners.

**Developments in the Practices of Worker and Consumer Co-operatives**

The John Lewis Partnership (JLP) is now frequently cited as a model for both private and public sector reform. Following the transfer of ownership to the workforce, staff joined and became ‘partners’ and beneficiaries of an Employee Benefit Trust (EBT). It was the Chair of the EBT, rather than individual workers, who owned the shares in John Lewis Department Stores and Waitrose. Partners did not buy shares. In law, they received profit-shares rather than dividends on capital. The constitution permitted the workforce to elect 80% of the Partnership Council responsible for social development, and 40% of the board responsible for commercial decisions.
Additional systems influenced the power exercised by workers, managers and board members. The partnership council could remove the Chair of JLP if they acted unconstitutionally. Store councils exercised powers to reject management proposals. A company-wide magazine (called *The Gazette*) and a local magazine (called *The Chronicle*) supported ongoing dialogue between workers and managers, whilst a ‘Registry’ gave workforce members direct access to governing bodies without going through line managers. As a Trust owned enterprise, JLP became an example of common rather than joint ownership, but its governance and management systems display many of the proxies of communitarian pluralism (loose network of governing bodies; negotiation of political interests; sociocratic (circular) self-organising; matrix management / dual reporting; member-relations / co-operative culture).

The Co-operative Retail Society (now part of the Co-operative Group), in contrast, developed a system of individual membership based on Rochdale Principles (formalised in 1937, 1966 and 1995 by the International Co-operative Alliance). Customers, upon becoming members, opened an account that held their capital contributions and dividends. Each member’s share of profits was dependent on their level of trading (in food retail outlets, pharmacies, a travel company, banking and financial service institutions, funeral directors, legal services and a motoring company) and the size of surpluses generated by the business. Area committees eventually replaced store-level governing bodies, and regional officers upheld co-operative values and principles. Unlike John Lewis, UK consumer co-operative societies adhered to a tradition of members' providing share capital. However, many societies did not update the value of early shareholdings. The £1 share deducted from each member’s dividend today is worth less than 1/500th the value contributed by each shareholder in 1844. As co-operative societies (both consumer and worker owned) were initiated through individual member contributions, they were more readily understood as a jointly owned enterprises structured to create ‘co-operative capital’ that got divided between individually owned member accounts and commonly owned working capital and reserves.
A variation on this model was practised in the Mondragon Cooperative Corporation. Industrial co-operatives required worker members to contribute about two months pay at local rates as a capital contribution. About 20% was immediately converted to co-operative capital while the balance became each member’s personal stake. This attracted interest and a share of surpluses. While the amounts invested by - and distributed to - individual members were much higher than the Co-operative Group, the system retained the co-operative principle of member contributions, interest on capital and an entitlement to a share of surpluses. However, by immediately converting some capital into an indivisible reserve, it concurrently developed joint ownership (in personal accounts) and common ownership (in collective assets and reserve funds).

An interesting evolution of this, and an example of co-ownership, is the Caja Laboral. This banking institution supported the network of Mondragon co-operatives as well as individual member-owners. While John Lewis and Mondragon’s industrial co-operatives were employee-owned, and the Cooperative Group was consumer-owned, the Caja had features of both. Bird reports that the bank is now 43% owned by worker-members and 57% owned by consumer members. The governing council is formed by electing four worker representatives and eight consumer representatives. The distribution of surpluses to workers is based not on the profitability of the bank, but on the profitability of its customers.

From this discussion, we can pinpoint the intersection between communitarianism and pluralism: the integration of a social constructionist outlook on individual development with a commitment to managing diversity in a social liberal manner (see Figure 1). On top of this foundation is a system for managing indivisible collective capital and divisible individual capital.
In this section, we have explored practices that underpinned ownership, governance and management in consumer and worker co-operatives. These ‘member-owned’ enterprises socialised rather than privatised power, wealth and property\(^{57}\). They differed from private enterprises by recognising a person’s right to share power and wealth on the basis of labour contributions and usage of an enterprise’s goods and services.\(^{58}\) There is, however, another trajectory in history that we need to consider if we are to understand the intellectual antecedents of the *FairShares Model*. This comes from a growing interest in entrepreneurship that has positive impacts on the well-being of people and the environment. In the next section, we consider how the discipline of entrepreneurship has been changed by the global interest in social enterprise.

**Social Entrepreneurship**

Since the 1990s, entrepreneurial action in pursuit of social goals has been actively developed as a new discipline. Alvord *et al*, argue that social entrepreneurship has been theorised in a multitude of ways: as the use of business practices to make social organisations viable\(^{59}\); as action to make improvements in the well-being of marginalized communities\(^{60}\); and as the reconfiguration of
existing resources to improve welfare.\textsuperscript{61} Recently, more focus has been placed on the value propositions of social entrepreneurs\textsuperscript{62}, the ‘shared value’ they create\textsuperscript{63} and the social innovations that sustain them.\textsuperscript{64}

Robert Owen, the Rochdale Pioneers, John Spedan Lewis, Fr. Arizmendi (and those that followed them) used business practices instrumentally to improve the welfare of their communities. Their social entrepreneurship is expressed through social innovations in the constitution of organisations that trade to secure long-term improvements in the well-being of stakeholders (founders, producers, consumers and investors) and the environments that sustain them. Indeed, their work reframes who a ‘primary stakeholder’ is by redefining the role and rights of capital, criteria for enterprise membership, reporting systems and institutions for ‘voice’ in decision-making. Figure 2 shows their influence in developing the argument for a social (market) economy that focusses on improving people’s lives and the environment that sustains them.

The overall picture is not complete, however, without adding work of Jaroslav Vanek\textsuperscript{65}. He argued that Yugoslav labour-managed firms bridged a social divide by removing ownership structures that create the incentive for managers to distance themselves socially from production workers. The logic of Vanek’s argument is repeated alongside the achievements at Mondragon and John Lewis in the works of Ellerman\textsuperscript{67}, Turnbull\textsuperscript{68} and Erdal\textsuperscript{69}. They each argue that removing the employment relationship (within the firm) removes the primary mechanism by which labour is exploited and impoverished. If correct, restructuring relationships to introduce member-ownership principles inside firms becomes a more urgent priority that reforms to market institutions.
The FairShares Association identifies these sources as influential and maintains a perspective that consumer and entrepreneurial interests need to balance worker interests to develop a robust social economy\textsuperscript{70}. In the next section, therefore, we focus on how these historical influences find expression in the immediate antecedents to the \textit{FairShares Model}.

\textit{Integrating the Collective Interests of Consumers, Producers and Wider Society}

In 2011, [Author 1 and 2] published four teaching cases on multi-stakeholder social enterprise\textsuperscript{71}:

1) \textit{Stakeholder Model Ltd} devised by Geof Cox Associates;

2) \textit{Co-operative CIC Model} devised by Co-operatives UK;

3) \textit{NewCo Model} devised by Morgan Killick and Bill Barker;

4) \textit{Surplus Sharing Social Enterprise Model} devised by [Author 1].

Each set of model rules restructures capital to represent a variety of collective interests. As such, they represent early examples of multi-stakeholder social enterprise that drew on practices
developed in the social economy. However, in the above rules, it was not only collective consumer and producer interests that were accommodated. In three, the interests of social entrepreneurs were protected, and mechanisms for equity investments were maintained. We argue that this approach to stakeholder interests represented a new configuration of communitarian pluralist thought.

Table 3 shows the capital structures in the antecedent model rules and their authors’ comments on academic and practitioner influences on their thinking.

Table 3 – Direct Influences on the Antecedents of the FairShares Model.\textsuperscript{72}

<table>
<thead>
<tr>
<th>Model</th>
<th>Practitioner influences cited</th>
<th>Theoretical influences cited</th>
</tr>
</thead>
<tbody>
<tr>
<td>Stakeholder Model Ltd devised by Geof Cox</td>
<td>- Kermase Food Co-operative</td>
<td>- Co-operative journals / readings.</td>
</tr>
<tr>
<td>Associates to offer:</td>
<td>- Fair Trade Movement</td>
<td>- Paul Golan and Anthony Jensen’s writings on industrial relations.\textsuperscript{73}</td>
</tr>
<tr>
<td>- Stewardship Shares (trusteeship)</td>
<td>- Renewable Energy Corporation Ltd</td>
<td>(opposition to) Charlie Cattell’s single stakeholder / common ownership.</td>
</tr>
<tr>
<td>- Partnership Shares (workers/users)</td>
<td>- Lippy People (David Tomalin)</td>
<td></td>
</tr>
<tr>
<td>- Investor Shares (supporters)</td>
<td>- North East Music Co-operative Ltd</td>
<td></td>
</tr>
<tr>
<td></td>
<td>- New Labour debates about the retention of ‘Clause 4’ and common ownership.</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Co-operative CIC devised by Co-operatives UK</td>
<td>- Co-operative Legal Services</td>
<td>Rochdale Principles.\textsuperscript{74}</td>
</tr>
<tr>
<td>to ‘consult’:</td>
<td>- Co-operative movement members</td>
<td>ICA Co-operative Values and Principles</td>
</tr>
<tr>
<td></td>
<td>- Society Law (IPS)</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>NewCo Model devised by Bill Barker and Morgan</td>
<td>- Sheffield Community Economic Development Unit (Bill Barker / Dave Thornett)</td>
<td>Readings on ‘political economy’, particularly work by Karl Polanyi.\textsuperscript{75}</td>
</tr>
<tr>
<td>Killick:</td>
<td>- ESP Projects Ltd</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Surplus Sharing Model devised by [Author 1]</td>
<td>- Democratic Business Ltd (Gavin Boby)</td>
<td>Co-operative and Social Enterprise Journals</td>
</tr>
<tr>
<td>to offer:</td>
<td>- Sheffield Co-operative Development Group (Alan Dootson)</td>
<td>Major and Boby’s writings on ‘equity devaluation’ and ‘value added sharing’.\textsuperscript{76}</td>
</tr>
<tr>
<td></td>
<td>- School Trends Ltd (Peter Beeby and Rick Norris)</td>
<td>The Community Company Model.\textsuperscript{77}</td>
</tr>
<tr>
<td>- Founder Shares (entrepreneurs)</td>
<td>- Employee Ownership Association (under David Erdal)</td>
<td></td>
</tr>
<tr>
<td>- Labour Shares (workers)</td>
<td>- Mondragon Corporation (field visit hosted by Mikel Lezamiz)</td>
<td></td>
</tr>
<tr>
<td>- Investor Shares (workers / others)</td>
<td>- Dr Poonam Thapa</td>
<td></td>
</tr>
</tbody>
</table>
The antecedent models evolved through the working practices of their authors between the mid-1980s and 2007. Up to this time, they evolved independently. After the authors met at networking events in 2007 / 08, conscious convergence began. [Author 1] evidences the influence of the NewCo model and Stakeholder model on the Surplus Sharing model after 200778. By 2010, each had fully evolved multi-stakeholder systems of ownership that enfranchised consumers and workforce members without marginalising social entrepreneurs.

The Stakeholder model used ‘Stewardship Shares’; the NewCo model had ‘Class A Shares’; the Surplus Sharing model had ‘Founder Shares’. Each gives recognition and protection to social entrepreneurs not provided by the Co-operative CIC (Community Interest Company79) model. Similarly, the same three models (unlike the Co-operatives CIC) includes at least one share type that captures growth in market value. Some share types confer voting rights, while others confer dividend and capital growth rights.

In 2012, the Class C Shares in the NewCo model and Labour Shares in the Surplus Sharing model converged by adopting co-operative share characteristics (par value with dividend rights, but not capital growth rights)80. However, both retained capital growth rights in other share types (Class A/B in the NewCo model, Investor Shares in the Surplus Sharing model). The Stakeholder model adopted a different but similar approach. Stewardship Shares acquired voting rights while Partnership and Investment Shares acquired dividend and capital growth rights.

These antecedent models, therefore, embedded in their design a range of rights and rewards for entrepreneurs, workforce members, customers and service users, and outside investors. Two notably revived the voting approach of the original 1862 Companies Act. Toms highlighted that it was common for Companies to use a show of hands in decision making (one-member, one-vote) up to 1900, and that Table C provided model articles for one-shareholder, one-vote in all decisions81. After 1900, law handbooks started to recommend the abandonment of one-shareholder, one-vote to serve the interests of larger shareholders. The Co-operative CIC and Surplus Sharing models eschewed this recommendation, and showed the same preference as producer co-operatives in
Lancashire in the late C19: use of company law (for flexibility); low denomination shares (to encourage widespread member-ownership); adherence to ‘one shareholder, one vote’ principles. These preferences have been carried forward into the *FairShares Model*.

Major\textsuperscript{82} saw merit in extending co-operative principles to ‘value-added’ amongst members. Value-added sharing differs in an important way from profit-sharing because it shares out the increases in market value, not just trading surpluses\textsuperscript{83}. The Surplus Sharing model drew on Major’s ideas by providing for the sharing of ‘Capital Gains’ where half the gain was issued as Investor Shares to people working in (or using the services of) the enterprise. This updated the approach advocated by Major based on non-voting value-added shares (NOVARS)\textsuperscript{84}. Whilst producers and consumers got no additional vote from acquiring Investor Shares (because of one-shareholder, one-vote principles), they were able to share in both capital gains and trading surpluses.\textsuperscript{85}

Figure 3 – Recent Historical Influences Cited in *FairShares Model* Documentation
Communitarian pluralism was deeply embedded: one share type protected the collective interests of entrepreneurs; another protected the collective interests of labour (producers, workers and employees) with provisions to extend to suppliers; a third protected the collective interests of consumers with provisions to extend to corporate customers. A fourth type (Investor Shares in the Stakeholder and Surplus Sharing models) captured the market value that normally remains under-represented in a mutual society. In the FairShares Model, a ‘share premium account’ captures the difference between the original face value of a share and its projected market value to make visible to members to full value of their equity.

Figure 3 (above) and Table 4 (below) summarise the historical developments and key influences of the antecedents on the FairShares Model: Vanek’s work is cited in Major and Body’s development of a Democratic Business model, which – in turn - influenced the Surplus Sharing model. The work of Golan and Jensen informed Geof Cox’s development of the Stakeholder model. Polanyi’s writing on three economic systems prompted Morgan Killick to ensure that all three were represented in the NewCo model. These antecedent models show the influence of communitarian pluralist design principles that were carried forward into the FairShares Model.

In this section we have traced how the historical context of the social economy influenced the antecedents to the FairShares Model. New systems for capital allocation and value-added sharing have converged in the FairShares Model to create a new trajectory that breaks with the tradition of single-stakeholder co-operatives and mutuals. Multi-stakeholder principles are no longer a reaction, generated by a need to accommodate ‘others’ - they are now part of a proactive design philosophy based on communitarian pluralist principles.
Table 4 – Communitarian Pluralism in Antecedent Model Rules and the FairShares Model

<table>
<thead>
<tr>
<th>Proxy Indicator</th>
<th>Stakeholder / NewCo / Surplus Sharing -&gt; FairShares Model</th>
</tr>
</thead>
<tbody>
<tr>
<td>Multiple share classes</td>
<td>• Stewardship / Class A / Founder</td>
</tr>
<tr>
<td></td>
<td>• Partnership / Class B Shares</td>
</tr>
<tr>
<td></td>
<td>• Partnership / Class C Shares / Labour</td>
</tr>
<tr>
<td></td>
<td>• Investor / Class A Shares</td>
</tr>
<tr>
<td>Joint / co-ownership</td>
<td>• Founder Shares</td>
</tr>
<tr>
<td>Owners from two or more stakeholders</td>
<td>• User Shares</td>
</tr>
<tr>
<td></td>
<td>• Labour Shares</td>
</tr>
<tr>
<td></td>
<td>• Founder Shares</td>
</tr>
<tr>
<td>Joint / co-ownership</td>
<td>• Investor Shares</td>
</tr>
<tr>
<td>Owners from two or more stakeholders</td>
<td>• Joint / co-ownership (individual / organisational members)</td>
</tr>
<tr>
<td>Owners from two or more stakeholders</td>
<td>• At least three classes of shareholder (stakeholder) at incorporation.</td>
</tr>
<tr>
<td>Owners from two or more stakeholders</td>
<td>• 1 class at incorporation (founders), with other classes established in first 3 – 5 years.</td>
</tr>
</tbody>
</table>

Governance

| Network of governing bodies          | Preference for unitary boards elected from each class of shareholder |
| Direct democracy / Sociocracy        | All stakeholders have a route to membership                   |
| Multiple beneficiary groups          | Limited protection of minorities                              |
|                                     | Founder, User, Labour and Investor Shareholders; “community dividend” as an ‘asset lock’ for public/charitable grants. |

Management

| Reconciliation / negotiation of political interests | One member, one vote for ordinary and special resolutions; electoral college when a poll is called; one class, one-vote for special resolutions. |
| Matrix management / dual reporting systems        | Accountability to executives, shareholder classes, and IP creators. |
| Member relations / culture of associative entrepreneurship/democracy | Member-ownership culture, with private and/or social investors approved by member resolution; delegated executive powers defined by constitution; IP sharing through Creative Common. |

Conclusions

In this paper, we started by showing how the co-operative movement developed single-stakeholder enterprises for workers and consumers, and also how – over time – members evolved multi-stakeholder models that combined common, joint and co-ownership principles. We have traced the historical antecedents of the FairShares Model, back to Owen, Lewis and Arizmendi, highlighting the significance of consumer co-operation (collective interests of consumers), social
entrepreneurship (collective interests of society) and worker co-operation (collective interests of producers) in a critical understanding of multi-stakeholder social enterprise.

In 2012, Co-operatives UK (and the ICA) formally recognised multi-stakeholder co-operatives in their classification system. These ‘socialised enterprises’ acknowledge and protect a wider range of stakeholder interests in the ownership, governance and management of member-owned businesses. As such they represent a new social entrepreneurial configuration within the communitarian tradition.

Communitarian pluralism — as envisaged in the FairShares Model — goes beyond the voluntary sector norm of multi-stakeholder governance by making commitments to multi-stakeholder ownership and participatory management. It goes beyond the norms of the public sector by adding joint and co-ownership to multi-stakeholder governance principles implicit in liberal democracies. Lastly, it revives the egalitarian tradition of one-shareholder, one-vote in the private sector, and adds a powerful argument that value-added sharing — and not just profit-sharing — is needed to reverse the process by which wealth has become ever more concentrated in the hands of rich individuals and corporations.

The FairShares Model is a model for ‘socialised enterprises’ that regulate the allocation of wealth, power and knowledge amongst entrepreneurs, producers, consumers and investors with the goal of preventing a single stakeholder from acquiring the control rights needed to exploit other stakeholders. This limits both the state’s and private sector’s ability to appropriate power without all stakeholders giving their consent. As a result, these institutional arrangements are designed to be more capable of resisting demutualisation, and to offer a new buttress against the privatisation or nationalisation of member-owned assets. Even where the state or private interests are granted a stake, the voting system makes it harder for them to out-vote (and damage the collective interests of) producers and consumers, and thereby avoid the historical problems associated with demutualisation.
For this reason, we see value in developing a research programme that explores the use and spread of multi-stakeholder ownership, governance and management. The *FairShares Model* provides a lens through which to investigate and critically assess power sharing processes in business settings. Furthermore, as highlighted in this paper, we give credence to the historical foundations and antecedents model that has cumulated into an embedded communitarian pluralist model of social enterprise development.

Notes

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1. [Author 1 et al.], 2013, p. 4. See also, [http://www.socialenterpris.eu/what-is-social-enterprise/](http://www.socialenterpris.eu/what-is-social-enterprise/)
2. See [Author 1] and [Co-Author], 2012 for a discussion of the differences between a ‘socialised enterprise’ and a ‘social purpose enterprise’.
5. Avineri and Avner de-Shalit, ‘Communitarianism and Individualism’.
7. Bamfield, ‘Consumer Owned Flour and Bread Societies’.
9. ibid, pp. 29-33.
23. [Author 2] and [Co-Author], 2006; [Author 2], 2007; Cathcart, ‘Directing Democracy’, ‘Paradoxes of Participation’.
25. Melman, ‘After Capitalism’
27. [Wiki ‘Background’]
Owen, ‘A New Vision of Society’. For reflections on Robert Owen, see Robertson, ‘Robert Owen and the

in Australia’, p. 986.

Harrison, ‘Robert Owen and the Owenites in Britain and America’; Rothschild and Allen-Whitt, ‘The Co-
operative Workplace’; Whyte and Whyte, ‘Making Mondragon’.

Wilson, Shaw and Lonergan, ‘Our Story: Rochdale Pioneers Museum’

Harrison, ‘Robert Owen and the Owenites in Britain and America’

Holyoake, ‘Self-Help by the People’ and ‘The History of Co-operation’

Lewis, ‘Partnership for All’ and ‘Fairer Shares’ cited in Cathcart, ‘Directing Democracy’


Cathcart, ‘Directing Democracy’. She highlights an argument after JSL’s father drew a dividend larger
than the annual wage bill for his 300 staff.

Paranque and Willmott, ‘Co-operatives: Saviours or Grave-Diggers of Capitalism?’; Lewis, ‘Fairer
Shares’.

Molina, ‘Fagor Eletricodomésticos’


[Author 1], 2010.

Molina, ‘Fagor Domésticos’.

A Google search for the term "John Lewis Economy" (exact match) yielded 66,600 hits, while the terms
"John Lewis State" (exact match) yielded 730,000 hits on 1st July 2013.

Erdal, ‘Beyond the Corporation’.

Cathcart, ‘Paradoxes of Participation’.

Created out of the merger of the Co-operative Wholesale Society and Co-operative Retail Society in 2000.

Peter Couchman of the Plunkett Foundation claimed in a speech to the Co-op Bank Crisis conference on
17th January 2014 that ‘store level democracy’ existed in the Co-operative Group but was abandoned when
governance was restructured following mergers between societies in the post WW2 period.

At the time of writing, the arrangements at the Co-operative Group were under review by Lord Myner.

This description is based on information retrieved from www.co-operative.coop (Home - Sustainability -
Delivering Value - Modern Co-operation - Democratic Structure) in September 2013.

See Toms, ‘Producer co-operatives and economic efficiency’ for evidence of widespread working class
ownership of producer co-ops in North West England. The Rochdale Pioneers Museum contain evidence
that weekly wages dropped below £1 prior to 1844. A £1 share cost more than most members’ weekly
wage. In April 2013, the ONS estimated the median weekly salary in the UK was £517.

Brown, ‘Equity Finance for Social Enterprises’.

Whyte and Whyte, ‘Making Mondragon’.

Oakeshott, ‘The Case for Worker Co-operatives’; Democracy at Work, ‘Mondragon’,
http://www.democracyatwork.info/studies/mondragon/.

Bird, ‘Co-operation and business services’. This personal communication on 24th June 2013 after reading
Alex’s book chapter on Mondragon in a Co-operative and Mutuals Wales publication.

Based on field notes collected by [Author 1] during a field visit on 5th/6th March 2003. During the trip, it
was explained by Mikel Lezamiz that workers were more interested in long term planning, justifying their
reintroduction to the board.

Whyte and Whyte, ‘Making Mondragon’; Davidmann, ‘Co-op Study 7’,

Adapted from [Author 1], 2012, Figure 4.

[Author 1] and [Co-Author], 2012; [Author 1], 2012.


Alvord et al., ‘Social entrepreneurship and societal transformation’; Emerson and Twerksy, ‘New Social
Entrepreneurs’.

Dees, ‘Enterprising Non-Profits’; Nicholls, ‘Social Entrepreneurship’.

Uphoff, ‘Reasons for Success’.

Martin and Osberg, ‘Social Entrepreneurship: The Case for Definition’; Chell, ‘Social Enterprise and
Entrepreneurship’.
Porter and Kramer, ‘Creating Shared Value’.


After the Yugoslav wars, Yugoslavia divided into: Croatia, Slovenia, Macedonia, Bosnia and Herzegovina and the Federal Republic of Yugoslavia (Serbia). In 2006, Montenegro separated from Serbia.

Ellerman, ‘Entrepreneurship in the Mondragon Co-operatives’ and ‘The Democratic Worker-Owned Firm’

Turnbull, ‘Stakeholder Democracy’, ‘Innovations in Corporate Governance’ and ‘A New Way to Govern’


See Arthur et al., ‘Developing an Operational Definition of the Social Economy’.

[Author 1 and Author 2], Chapter 7; [Author 1], 2012. Geof Cox and Morgan Killick are two of the six people who went on to found the FairShares Association in February 2013.

See Cases 7.1 - 7.4 in [Author 1 and Author 2], 2011. Chapter 7 includes a comparison of the cases. In [Author 1, 2012], an updated comparison of three of the antecedent models is provided. In the 2012 paper, mention is also made of Somerset Rules that evidence multi-stakeholder designs under IPS law.

Gollan and Jensen, ‘What’s Next for IR in Australia?’.

Holyoake, ‘The History of Co-operation’.

Polanyi, ‘The Great Transformation’.


Major and Boby presented their findings in a conference on Vanek’s work, and also make specific mention of The Democratic Firm by David Ellerman as a key source.

Coad and Cullen, ‘The Community Company Model’.

The publication and revision history of the Surplus Sharing Model provides brief details of changes made between November 2007 and June 2010. It also evidences the sharing of materials with the Common Cause Foundation established by Geof Cox.

See [Author 1, 2012].


Major, ‘Solving the under investment problems of worker co-operatives’.

The difference can be large. At Gripple (an employee-owned firm based in Sheffield with over 300 employee-owners), the value of the firm is calculated as 30x the previous year’s dividend to employee owners. Therefore, each £1 of ‘dividend’ represents £30 of ‘value-added’.

Major, ‘The Need for NOVARS (Non-Voting Value Added Sharing Renewable Shares)’.

“Member Shares” in the FairShares Model V2.0 are allocations of Investor Shares to Labour and User Shareholders that represent 50% of the capital gain after a 30% deduction for reserves. The other 50% updates the ‘Fair Price’ of Investor Shares.

Specifically, it matches the following proxy indicators: multiple classes of shareholder, owners from different stakeholder groups using joint and co-ownership principles, and multi-stakeholder governance.

In EU laws there is some ambiguity regarding the legal status of co-operative members. Producer members may run their own businesses and be neither workers, nor employees, under employment law. In other cases, a person may be a worker, but not an employee, or an employee but not a worker depending on whether they work under a contract of service or a contract for services.

See Cook et al., ‘Mutuality and Corporate Governance’.

[Author 1] and [Co-Author], 2012; Birchall, ‘A Member-Owned Business Approach’.


[Author 1] and [Co-Author], 2012; [Author 2], 2012.

Cook et al., ‘Mutuality and Corporate Governance’.
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Bird, A. Co-operation and business services – finance as a tool for development, Co-operatives and Mutuals Wales, 2011


Chadwick-Coule, T. M. ‘Social dynamics and the strategy process: Bridging or creating a divide between trustees and staff’, Non-Profit and Voluntary Sector Quarterly, 40 (2011): 33-56.


Paranque, B. and Willmott, H. *Cooperatives - saviours or gravediggers of capitalism? The case of the John Lewis Partnership*, Paper to Interdisciplinary Centre of Social Sciences, University of Sheffield, 8th May, 2013.


