

Understanding social enterprise: theory and practice. 2nd edition.

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Understanding
**SOCIAL
ENTERPRISE**
Theory and
Practice

Rory Ridley-Duff
and Mike Bull

Second
Edition

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The Politics of Social Enterprise

3

Learning objectives

In this chapter we critically evaluate the global political context in which social enterprise has developed, and give further consideration to the influence of new public *management* and new public *governance*. Key to this chapter is understanding and acting on the tension created by the ascendancy of private sector practices in public and third sector organisations, and the way actors in the social and solidarity economy have responded to those tensions in innovative ways. By the end of this chapter you will be able to:

- explain the concepts of globalisation and localisation
- explain the concepts of *new public management* and *new public governance*
- describe the impact of NPM on public–private–third sector relationships during and after the 1980s
- critically evaluate how local government and organisations in the social economy responded to NPM
- illustrate how social enterprise (internationally) is both an economic and *political* response.

The key arguments that will be developed in this chapter are:



- Attempts to create global markets in goods and services are a recurrent cycle in economic history.
- Globalisation enables new forms of socially responsible businesses (SRBs), but also triggers charitable trading activities (CTAs) and co-operative and mutual enterprises (CMEs) to limit/resist globalisation.
- The pursuit of NPM in the 1980s/1990s was a formative influence on the current practice of spinning out social enterprises from the public sector.
- The social economy response to NPM involved the advancement of employee ownership and support for the solidarity economy.

Introduction

In this chapter, we adopt a perspective that is relatively rare in the study of social enterprise. As we set out in Chapter 2, existing texts advance the idea that social enterprise can take the form of CTAs or CMEs within the third sector. Alternatively, they are framed as a product of interactions between the private, state and third sector actors to produce SRBs. In this chapter, we consider an alternative view that social enterprise is a product of the tensions between attempts to privatise the delivery of *public services* and the radical responses of local politicians and CMEs with socialist sympathies.

We live at a time when the private economy (notionally the *source* of wealth) is the most subsidised sector of the economy. During the 2007–8 economic crisis, the help given to private organisations in the UK and US dwarfed the help given to organisations in the social economy. The **New Economics Foundation (nef)** estimated that the UK's 'big four' banks received subsidies to the value of £35 billion in 2012 *in addition to* the 'bail out' investments made by the government (Prieg, 2012). This took the cumulative additional banking subsidy to £193 billion since 2007, six times greater than the value of all grants and donations to the charity sector, and nearly twice the turnover of the co-operative and mutual sector. When considered alongside arguments about the creation of money (Positive Money, 2012), political claims about the 'efficiency' of private markets look (at best) unsound and (at worst) compromised.

The link to contemporary social enterprise is not immediately obvious, so initially we review the way economics developed, then changed, before and after the 1970s.

In particular, we examine the roots, popularisation and impact of neo-liberalism, and the effect this had on 'left-of-centre' entrepreneurship. In outline, the argument runs as follows:

1. A breakdown in the post-war political consensus regarding macro-economic management and full employment coincided with the rise of the 'new right' in politics.
2. The 'new right' advanced a set of principles that led to *new public management* as a way of legitimising SRBs in public administration.
3. The 'new left' (a loose alliance of people holding anarchist, socialist and social democratic beliefs) responded through regeneration activities based on CMEs.
4. New Labour (in the UK) and social democratic parties across the EU adopted *supply-side* economics combined with commitments to social justice, equality and employment protection as a *third way*.
5. The three approaches to social enterprise emerged out of the tensions between *liberal capitalist* ideas embedded in NPM and the *market socialism* that responded to it.
6. By the 1990s, both SRBs and CMEs had prepared institutional challenges to 'old' public, private and third sector development, and this triggered further CTAs in the voluntary sector by the mid/late 2000s.

To appreciate this perspective, it is first necessary to consider the history of global economic systems that led up to the breakdown of the post-war consensus (before and after 1945, up to 1976). We then set out the central tenets of *new public management* (Hood, 1995) and the reactions of progressive liberal and socialist politicians (Chandler, 2008) who initially favoured SRBs and CMEs. Recent analysis links private sector development to growing income inequalities, rates of suicide, community breakdown and endemic health issues, and this has fuelled interest in new models of ownership (Gates, 1998; Wilkinson and Pickett, 2010). We highlight the intersection of SRBs and CMEs with public sector reform, while concurrently highlighting their growing popularity as a way to address inefficiencies in the private sector.

Class exercise: Do you believe in the efficiency of markets?



A significant proportion of adults (both young and old) distrust politics and politicians. The Political Compass is an interesting project that enables a person to find out what their political values are, and how these compare to past and present political parties as well as figures from history. It shows how political parties (including the UK's Labour, Liberal, Conservative and Green parties) have changed their

values over time. Most have moved from anti-authoritarian, left-leaning policies to **authoritarian** right-wing policies. According to the Political Compass, most Green parties today occupy the space that Labour parties occupied in the 1970s. Labour parties are now more right-wing and authoritarian than the Conservative/Tory parties were in the 1970s.

Activity: www.politicalcompass.org/

- 1 Ask your students to take the Political Compass test before the seminar (or bring a tablet, smartphone or laptop to do it in class).
- 2 Discuss the dimensions of the 'compass': the right-left dimension and the authoritarian-libertarian dimension.
- 3 Ask students to locate charitable trading activities, socially responsible businesses and co-operative and mutual enterprises on the political compass.

After establishing students' view of the political commitments of different types of social enterprise, play this video to generate further discussion and reflection:

Video: www.youtube.com/watch?v=tskByXRGHjY

The rise of global capital and international markets

Gray (1998) traces the concept of globalisation back to the rise of merchant capitalism, exemplified by the East India Company. In this venture, investors shared the risks of international trade by jointly funding the establishment of trading routes to all parts of the globe to insulate individual ships and crews from local disputes. Today, the concept of globalisation has taken on many shades of meaning, all linked to the technological, business and social institutions that make it possible to trade with people anywhere in the world. As Gray states:

Globalisation is shorthand for the cultural changes that follow when societies become linked with, and in varying measures dependent on, world markets ... Behind all these 'meanings' of globalization is a single underlying idea, which can be called de-localization: the uprooting of activities and relationships from local origins and cultures. It means the displacement of activities that until recently were local into networks of relationships whose reach is distant or worldwide. (2009: 57)

As the scale of ventures increased, so a banking system developed to support them. In the mid-nineteenth century, a group of nations adopted the 'gold standard' to facilitate international trade. The idea behind the gold standard was surprisingly simple.

National governments backed their currencies with reserves of gold and agreed an exchange rate between their own local currency and international gold reserves. This was expected to make it easier to trade internationally as national governments committed not only to using their gold reserves to settle international debts but also to securing the value of their local currencies with something of tangible value.

Gray (2009) regards this period (from 1871 to 1914) as the first of two in recent history when international trade was dominated by institutions that used the rhetoric of free markets to secure advantage for industrialised economies. The first period came to an abrupt end when World War I broke out. As Block writes:

The gold standard was intended to create an integrated global marketplace that reduced the role of national units and national governments, but its consequences were exactly the opposite. Polanyi shows that when it was widely adopted in the 1870s, it had the ironic effect of intensifying the importance of the nation as a unified entity. Although market liberals dreamed of a pacified world in which the only international struggles would be those of individuals and firms to outperform their competitors, their efforts to realize these dreams through the gold standard produced two horrific world wars. (2001: xxxi)

Important to an understanding of social enterprise movements now, however, is a second period during which international institutions again sought to create a global economy, this time based on fluctuating currencies. According to Gray (2009), the second period occurred from the late 1970s (coinciding with rise to power of Margaret Thatcher in the UK, Ronald Reagan in the US and Deng Xiaoping in China) until the collapse of confidence in global capitalism in 2007–8. In 2008, governments again had to provide financial and social security by taking over major parts of the banking system. Polanyi's words, first published in 1944, are extraordinarily prescient given the situation that developed in 2008:

The true nature of the international system under which we were living was not realized until it failed. Hardly anyone understood the political function of the international monetary system; the awful suddenness of the transformation took the world completely by surprise ... Not even when the cataclysm was already upon them did their leaders see that behind the collapse of the international system there stood a long development within the most advanced countries that made that system anachronistic; in other words, the failure of market economy itself still escaped them. (2001 [1944]: 21)

Importantly, for contemporary debates on social enterprise, Polanyi argued that liberal economic theory fails to distinguish between 'real' and 'fictitious' commodities. Three items are singled out for discussion: labour, money and land (either in the form of natural resources or the properties we need to live). The assumptions of globalisation extend beyond the trade of tangible goods and services to the commodification of money (through currency speculation), labour (by removing collective bargaining rights and minimum wage protection) and land (through attaching prices to the natural

resources required for living). Polanyi argues, in sharp contrast to Fukuyama's (1995) advocacy of high-trust **liberalism**, that during historical periods in which money, labour and land are treated as commodities, commerce destroys social capital and the natural environment. However, he stops short of condemning the market mechanism completely. So long as it trades in 'real' goods, it can be an important part of a mixed economy in which reciprocity and redistribution are also active principles (Hart, 2013).

This clear departure from the followers of Marx meant that Polanyi's work became less popular amongst left-leaning policy makers. But with the rise of social enterprise, his argument that markets can play a limited role (providing they trade in 'real' goods), and work with democratic institutions and member-owned enterprises to generate and distribute wealth, puts his contribution at the heart of social enterprise theory. (Nyssens, 2006)

Gray explains why the commodification of money leads to banking crises:

Transactions in foreign exchange markets have now reached the astonishing sum of ... over 50 times the level of world trade. Around 95 per cent of these transactions are speculative in nature, many using complex new derivative financial instruments based on futures and options. (2009: 57)

As Erdal (2011) would later argue, nearly all transactions in global financial markets produce *nothing of tangible value* (i.e. a product or a service that has direct utility value outside the financial sector). Vast quantities of labour (and money) are engaged in 'casino capitalism', producing 'fictitious' goods and services. If currency values bear little relation to the trading of 'real' goods, they will eventually destabilise markets and increase economic volatility.

However, the situation today is even more entrenched because of the way the commoditisation of money has been taken to extreme levels by fractional reserve banking. This allows the lending (again and again) of an amount of money before the principal has been repaid. The only deduction necessary is the 'fraction' that regulators require the bank to hold in reserve to service their cash flow needs (Positive Money, 2012). Since the switch to digital transactions through online bank accounts and credit/debit cards, banks have started to lend digital money (without anything to underpin its value). The Positive Money movement estimates that 97 per cent of the money now circulating is created 'out of thin air' by private banks (not governments), bears little relationship to the 'real' goods and services in the economy, and increases the volume of money traded as a commodity.

These critiques have a powerful salience today. They highlight how 'fictitious' markets in labour, money and land are implicated in the failure of market institutions and state bodies. In the next section, we examine in more detail the doctrines that led to this commodification and how this changed the balance of power between those with money (banks and corporations) and those with political power (governments and social movements).

The end of the post-war consensus

Polanyi's hopes for a more mixed economy (under state influence) were advanced initially through the application of Keynesian economics. This supported an expansionary policy with the state actively regulating aspects of the economy. The main critique of Keynes came from the **Chicago School** of economists who argued that government intervention is the *source* of the boom and bust cycle by contributing to inflationary policies that make recessions worse (Sloman and Sutcliffe, 2001: 598). They argued that government should limit itself to regulating the supply of money. These views, associated strongly with Milton Friedman (1968), came to be seen as *supply-side* economics. The goal was to regulate inflation and employment by matching the supply of money (monetarism) to the productive capacity of the economy.

Class exercise: Positive money



In the YouTube video at the link below, the Positive Money movement explains how money is created and who benefits from its creation. Watch (the first 10 minutes of) this video and consider the following questions:

- 1 In a modern economy, who controls the creation of money?
- 2 Who profits from the creation of money?
- 3 What issues arise in using this system to regulate the supply of money to the economy?
- 4 How could the right to create money be changed to finance the public (or community) sectors?

Video: www.youtube.com/watch?v=d3mfkD6Ky5o

Hood (1995) outlines a deep shift in both accounting and management practices that reflected the supply-side arguments of monetarism, leading to a diminishing role for the state as a manager of public enterprises, and ending the state's role as the employer of choice in public services and utilities. Gradually, politicians accepted arguments to withdraw from direct provision and either use taxes to commission services from third parties, or privatise service delivery. Hood argues that this spread gradually, but not completely, across OECD countries. It took root quickly in the UK, Canada, New Zealand, Australia and Sweden, partially in France, Austria, Norway, Ireland and Finland, but not at all in Japan, Greece, Spain and Turkey (until much later).

Klein (2007), however, argues that Friedman's advocacy of monetarism was advanced by capitalising on disasters – both accidental and manufactured – rather than its intrinsic merits. She argues that the private sector spread **New Right** thinking through media empires that were not controlled by the state (Chomsky and Herman, 1988). It was not until the internet age that counter-arguments could be spread rapidly through new democratised forms of communication and publishing.

A persuasive (and amusing) critique of the effects of new right thinking occurs in the work of Harvey (2010). He supports Klein's contention that crises are an important aspect of the capitalist system because holders of larger amounts of capital secure the *benefits* of a fall in market values (through their greater capacity to absorb losses and buy up assets from bankruptcies and insolvencies). Harvey questions whether those favouring a capitalist economy have any satisfactory solution to crises, and postulates that capitalists are shifting the crises around geographically rather than confronting or solving inherent weaknesses of the system. If we consider the Asian crisis in 1997, the South American crisis in 2001, the UK/US crisis in 2007–8, and then the EU sovereign debt crises in 2012, Harvey's argument looks credible.

Class exercise: David Harvey's 'The crises of capitalism'



In this RSA animation (link below), David Harvey examines how the 2007–8 crisis came about. Following Klein, he sees method in the madness of crises, and calls for an anti-capitalist response. Consider the geo-politics that Harvey describes and then consider the emergence of social enterprise. Do you think that social enterprises are emerging today as an anti-capitalist response? Or are social enterprises a new part of the existing capitalist system?

- 1 Which of the explanations of the 2007–8 crisis provided by David Harvey do you find most persuasive?
- 2 Will CTAs, SRBs and CMEs be able to form an 'anti-capitalist' movement?
- 3 If yes, what makes these organisations anti-capitalist?

Video: www.youtube.com/watch?v=qOP2V_np2c0

The effects of new public management

Chandler (2008) views NPM as an ideological shift towards new right thinking in the management of public services, leading to arguments for the creation of SRBs and

contracts for CTAs. In the short term, this is manifest in programmes to privatise utility companies (gas, telecoms, water and electricity). In the longer term, and perhaps more significantly, NPM manifests itself in ‘doctrines’ that replace collaborative approaches based on political and professional judgement with target-driven approaches based on managerial control. Hood (1995) set out a number of ideological shifts as well as their operational and accounting implications. In Table 3.1, we examine one of the doctrines to understand the nature of the shifts that took place.

Table 3.1 One of the seven doctrines of new public management

Doctrine	Justification	Replaces	Operational implications	Accounting implications
<i>Transformation of public sector bodies into corporatised units organised to deliver discrete products and services</i>	Makes units manageable; focuses blame for failure; splits commissioning and production to reduce waste	Belief in uniform, inclusive public sector; belief in collaborative approaches to public service provision	Erosion of single service employment; arm’s-length management to separate commissioning and provision of services; devolved budgeting	More cost centres; move to activity-based costing (ABC)

Source: Hood (1995), Table 1 © Elsevier

The other doctrines included: more contract-based, competitive tendering with internal markets and fixed-term contracts; a greater emphasis on private sector styles of management; more stress on discipline and frugality in use of resources; more emphasis on visible hands-on top management; formalised standards and measures of performance and success; and a greater emphasis on output controls. Of note here is the move away from long-term employment, collaborative (and uniform) service provision towards decentralised units that compete both with each other and new kinds of service provider (charities, voluntary organisations, employee mutuals, private corporations).

Case 3.1 illustrates how practices associated with NPM influenced public sector reform, and can be linked to the potential development of both CMEs and SRBs. The National Health Service in the UK has been divided into **commissioning** and provider bodies to create a quasi-market. This was encouraged through a ‘right to request’ policy that allows staff to externalise existing services into discrete social enterprises.

Case 3.1



The ‘right to request’ in the UK National Health Service

The contemporary expression of NPM in the form of social enterprise can be found in the National Health Service (NHS) of the UK. In November 2008, the

NHS published *Social Enterprise – Making a Difference: A Guide to the Right to Request*. The 'right to request' allows any health professional to put a 'business case' to its primary care trust board to set up a social enterprise. The presentation of social enterprise to health professionals states that it is 'fundamentally about business approaches to achieving public benefit' (NHS, 2008: 6). The focus on innovation, reorganisation into business units providing discrete services, and outcome-driven management is evident in the Chief Health Professions Officer's statement:

Social enterprise will not be the answer for everyone, but allied health professionals have a long history of providing innovative services in a variety of sectors, settings and throughout care pathways and patient journeys. Consequently, allied health professionals are in an excellent position to take advantage of the 'right to request'. This may be for a particular profession, such as podiatry or physiotherapy, a specialism such as musculoskeletal physiotherapy, a particular care group, or a combination of these. What is most important though is that this is about developing a service that will meet local need and maximise your potential to innovate and ultimately improve outcomes for patients, clients and families, whilst remaining part of the NHS family. (NHS, 2008: 3)

Interestingly, Hood finds it difficult to distinguish between a privatisation agenda and a social democratic reaction to NPM that uses social enterprise to *limit* the influence of the private sector:

It might be argued that NPM has been adopted in some contexts to ward off the New Right agenda for privatisation ... and in other countries as the first step towards realizing that agenda. Much of NPM is built on the idea (or ideology) of homeostatic control; that is, the clarification of goals and missions in advance, and then building the accountability systems in relation to those pre-set goals. (1995: 107)

Concern that 'non-profits' are being sucked into a 'contracting culture' (Dart, 2004) is based on this analysis of the deep shift in management thought and an acceptance of business norms based on commercial contracts. Certainly, there are new providers who adopt a variety of hybrid models, including SRBs that mix employee ownership and private investment (for an example, see www.circlepartnership.co.uk). This reflects a change in public policy to take away decision-making from large strategic health authorities and give it to smaller clinical commissioning groups.

However, contracts typically embed new forms of management control and governance that are considerably less ‘empowering’ than the rhetoric accompanying them (Pratchett and Wingfield, 1996; Curtis, 2008). The increased formalisation (visioning, mission statements, audit), and the outcome-driven character of measurement (targets, service-level agreements and competition), represent a cultural shift to a legal-rational society based on homeostatic controls, rooted in cause–effect assumptions derived from **positivist** research. There are good reasons to question the efficacy of this. Hebson et al. (2003) found that the replacement of bureaucracy with contracting ‘partners’ decreases opportunities for the collaborative decision-making that can deal with ‘complexity’ (Stacey, 2007). Transparency decreases and the use of legal remedies increases as service commissioners adapt to their monitoring function, and use their power to adjust rewards (i.e. pay) in line with service-level agreements. Where providers find they cannot meet these agreements (either through their own over-estimation of their capacity, or through unrealistic target setting based on false cause–effect assumptions by commissioners) they may ‘walk away’ and leave gaps in public service provision. Circle Partnership, two months after receiving a ‘business of the year’ award from the Employee Ownership Association, cancelled a contract with Lincolnshire NHS Trust to manage Hinchinbrook Hospital claiming that the terms of the agreement were unsustainable (BBC, 2015; Melton, 2015).

The current intention of many governments to allow a proliferation of ‘public service mutuals’ (CMEs), public–private partnerships (SRBs) and voluntary sector partnerships (CTAs) poses a challenging question. Is this the continuation of NPM (in a new guise) or a multi-stakeholder turn in which networking and co-production of services signifies a switch to NPG? Osborne (2006) argues that NPM is gradually giving way to NPG by rejecting knowledge rooted in rational-choice theory and management studies in favour of sociological and network theories that provide greater scope for innovation (Coule and Patmore, 2013). Instead of decentralised units that operate in a quasi-market, NPG favours co-design and co-delivery models that create clusters of well-networked providers who have closer relationships with staff and service users (Hazenburg, 2014). Osborne (2006) foresaw this trend as neo-corporatist stemming from growing concerns that *inter-organisational* governance and collaboration in service design was a key aspect of good quality public services.

An extensive example of this collaboration is occurring throughout the health sector in Italy (CECOP-CICOPA Europe, 2015). According to Restakis (2010), from 1979 onwards the city authorities started to agree contracts with newly formed *social co-operatives* to provide care for people with mental health conditions. Restakis reports that about 8,000 such enterprises now exist in the Bologna region of Italy, in a complex network of health organisations that co-design and co-deliver care. By law, beneficiaries must also be co-operative members. Borzaga and Depedri (2014) report on the staggering success of *work integration social enterprises* (helping people find productive work) that report a 65 per cent success rate over three years. This is two to three times higher than has been achieved by either private or trustee-led voluntary

sector organisations in the US or UK, and ten times higher than the UK government's work programme (Gilbert et al., 2013).

For Chandler (2008), these developments would be a case of '**local socialism**' that subverts the agenda of NPM to privatise the health care system and transforms it into a set of institutions that follow the norms of NPG. Through new CMEs, those receiving health care can own and control the service that serves them. As Restakis (2010) points out, this 'real' (rather than notional) ownership enables patients, carers and professionals to participate in governance and exercise their voice within the care system. They can also make (and fund, where practical) their own initiatives, increasing innovation and impact.

Advances in employee and community ownership

The rise of local socialism as a political response based on social enterprise development is now acknowledged in historical research into the sector (Sepulveda, 2014). While Friedman's (1962) advocacy of freedom and choice stimulated new attitudes to entrepreneurship throughout the western world, his views were oriented towards a consumer-led, not producer-led, economy. Despite making some persuasive arguments that a vibrant market economy punishes producers who adopt discriminatory practices, Friedman's (1962) rhetoric changes dramatically when talking of the relationship between the workforce, senior managers and shareholders. In this matter, he continued to advocate that the workforce (at all levels) should be subservient to the goal of maximising profit for (institutional) shareholders. While some concessions might be made to workers to align their sympathies with investors (through profit sharing), Friedman continued to argue *against* corporate social responsibility throughout his life (Achbar et al., 2004).

Among American and Australian thinkers, democratisation of the workplace to combine the strengths of SRBs and CMEs countered these attitudes. They advocated 'shared capitalism' (similar to 'social economy' within the EU) that limits the influence of stock market institutions and shares more wealth among producers and consumers (Ellerman, 1990; Turnbull, 1994; Cathcart, 2009; Jensen, 2011). By the late 1980s, employee share ownership plans (**ESOPs**) pioneered in the US were being introduced around the globe. About 35 million employees participate in the US and 2 million in the UK. They hold shares in the company that employs them either directly or indirectly through a trust (**ESOC**, 2014; NCEO, 2014). However, as Melman (2001) discusses, despite Thatcherite rhetoric that share ownership would increase individuals' control over their own destiny, these changes made little impact on the lives of workers or corporate practice in the majority of cases. Where shares do not confer control rights, they make little difference to the pattern of worker layoffs and management practices.

But, where control has passed to member-owners (instead of institutional investors), employee-owned businesses, co-operative companies and societies have started to

outperform their private sector counterparts both economically and socially (Perotin and Robinson, 2004; Birchall, 2009; Erdal, 2014). In parts of northern Spain and Italy, the local economies that became dominated by co-operative networks of industrial companies, retailers, schools and universities have become some of the wealthiest regions in Europe. These have been linked to positive health outcomes and increased life expectancy (Erdal, 2014). The MCC in Spain (see Introduction to Part 1 and Case 3.3) provides an example of sustained economic and social development through CMEs. Notable innovations are the rejection of the employer–employee relationship (Ellerman, 1990) and the distribution of power to separate governing bodies representing workforce, manager and owner interests (Whyte and Whyte, 1991; Turnbull, 2002).

The significance of these developments is that they establish pluralist models of ownership where the legitimacy of worker ownership (either individually, collectively or a mix) is accepted alongside arrangements for member and third-party investments. Secondly, the co-operative movement is gradually accepting the argument that practices in SRBs (through recognition of suppliers, consumers and workers as ‘strategic stakeholders’) should inform the design of multi-stakeholder ownership and governance systems (Lund, 2011; Birchall, 2012; Ridley-Duff and Bull, 2013). In both Italy and Canada, legal forms for ‘solidarity co-operatives’ are now well established (Lund, 2011), and a coherent articulation based on a FairShares Model of social enterprise is emerging in English speaking cultures (Ridley-Duff and Southcombe, 2014).

The shift towards multi-stakeholder enterprise design comes from the evolution of the social and solidarity economy identified in Chapters 1 and 2. It challenges many of the assumptions in organisational theory that there must be unitary control of operations and decision-making by an executive. In this respect, it furrows a different path from conversions *to* social enterprise where management structures remain in place and only the goals of the enterprise change. In discussions of multi-stakeholder governance, technological changes accelerate, deepen and reduce the cost of applying mutual principles and designing systems for participatory democracy in (networks of) organisations (Murray, 2010).¹

In this ‘sharing economy’ (Gold, 2004), the co-ordinating functions of managers can be coded into internet-based software to radically reduce the costs of both management and democracy (Murray, 2010). Wikipedia (which democratises the production and consumption of knowledge) and the mass-movement tool Loomio (which decentralises and democratises decision-making and governance) are current examples of systems that challenge the need for large executive/management teams. Through their adoption, members can re-acquire hegemonic control because the co-ordinating functions of managers and administrators are largely handled in software. It puts members firmly back in control.

Nevertheless, this still leaves open questions of ownership raised by Major (1996, 1998), particularly the issue of ‘equity degeneration’ – a situation where one or more stakeholders is unable to realise the full value of their past efforts, risk-taking, investments and decisions. In terms of finance, successful mutuals have had to sell equity

on the open market to obtain full value for employee or customer owners. For example, Eaga plc, a public sector spinout that sought to end fuel poverty (see Case 3.2), changed itself from a company wholly owned by an employee trust to a plc that permitted external investors. In this configuration, managers bought a minority stake that gave them the balance of power, enabling them to enrich themselves through a private sale to Carillion. The perceived danger – realised in this case – is that ‘social ownership’ is eroded and replaced by private ownership in the same way that UK building societies and transport companies were demutualised in the 1980s and 1990s (Spear, 1999; Cook et al., 2002).

Case 3.2



Eaga plc: a public service under private or social control?

Eaga plc was formed from a public sector spinoff involving five members of staff who wanted to create an information and advice service for fuel poverty. Initially the company was structured as a CLG, but in 2000 it decided to switch to the model of ownership and control used by the John Lewis Partnership (based on an employee benefit trust, **EBT**). During this period, the company secured public sector contracts and grew rapidly to 4,000 staff. In 2006 the organisation decided that it needed to diversify to reduce dependence on public sector contracts. By floating on the stock exchange, with 51 per cent of shares remaining in the hands of the employee trust and its managers, it secured the finance to establish new operations in India and Canada.

In addition to its original public service goal – to reduce environmental mismanagement and address issues of fuel poverty – the company uses a Partners’ Council to discuss personnel issues, company performance and communication with the executive board. In 1993 it also set up the Eaga Partnership Charitable Trust which draws income from the trading organisation and has invested £3 million in projects and research to develop knowledge about fuel poverty.

In 2011, Eaga plc was acquired by Carillion plc and became Carillion Energy Services. This was made possible by trustees who agreed to replace Eaga plc shares with Carillion plc shares. However, many of the decisions relating to the sale of the company were taken without the support or involvement of staff (Mason, 2011). After a petition and staff survey by the Partners’ Council revealed widespread discontent, Carillion agreed to share wealth with trust beneficiaries (Tighe, 2011).

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Carillion Energy Services continues under private ownership. The Eaga Trust, the EBT run for the benefit of former Eaga staff, still exists and continues to champion employee ownership by providing grants for skill development, and loan/equity finance up to £500,000 to former members of Eaga plc to start their own employee-owned business (Tighe, 2012). However, the case study about Eaga plc on the website of the Employee Ownership Association was removed following the takeover.

Original source: www.employeeownership.co.uk/case-studies.htm#EagaPartnership, updated using press reports by Mason (2011) and Tighe (2011, 2012).

For further international examples, see the companion website at: www.sagepub.co.uk/ridleyduff.

Solidarity enterprises (CMEs) are more dependent than other private sector organisations on a profitable track record or asset base to secure loans that can finance the development of a trust (EBT) (Spear, 1999). In such an arrangement, most (or all) of the shares are initially held in trust, then subsequent annual surpluses are used to buy shares and distribute them to individual share accounts, or permit individuals to buy shares using their own money. In some cases (e.g. Scott Bader, see Case 1.1), a charitable trust rather than EBT owns the company, and staff bonuses are matched by contributions to charitable projects (Paton, 2003). Providing 50 per cent (+1) of shares with control rights remain in trust, and there is an embedded mechanism issuing new shares to individual member accounts, a profitable company cannot be acquired by outside investors against the wishes of its members (SEC, n.d.).

Co-operative transformation of the private sector

The application of these techniques has resulted both in the growth and greater resilience of worker co-operatives and employee-owned businesses that exhibit the characteristics of SRBs and CMEs (Erdal, 2011; CECOP-CICOPA Europe, 2015). In the Basque region of Spain, there is a well-developed approach to acquiring private companies and transforming them into CMEs with SRB characteristics. The journal extract in Case 3.3 is based on findings from a study involving a field trip to Spain (Ridley-Duff, 2005). It describes a meeting with Mikel Lezamiz, the director of the Mondragon Management School, in which he talks about the process of acquiring private companies.

Case 3.3



The Mondragon Co-operative Corporation (MCC)

A longer teaching case and exercise can be found on the companion website at: www.sagepub.co.uk/ridleyduff.

The Mondragon Co-operative Corporation was established in the late 1950s by a priest and five engineers after they were denied the opportunity to invest in the company that employed them. In 2003 the United Nations celebrated the social and economic achievements of the corporation they created. By 2009 this had grown to over 100,000 staff, with over 80 per cent of ownership by staff on the basis of one person, one vote. During a field trip, Mikel Lezamiz – the director of the Management School in Mondragon – described how staff in the MCC work with staff in a newly acquired company to transform it into a co-operative. He discusses this as a gradual transition:

- a move from private to employee ownership
- a shift from employee ownership to participative management
- the introduction of co-operative management (elected councils)
- a vote to transfer the business into co-operative ownership.

Employee ownership is seen only as the start of a much longer process. The main goal is co-operative management and ownership (which can take many years to achieve). As an example, he talked about eDesa, a company the local council asked MCC to buy (to save 1,000 jobs). It took from 1989 to 1994 to educate and prepare the workforce to take a vote on their own future. In 1994, the workforce voted by 87 per cent to 13 per cent to convert to a co-op (via a vote in a General Assembly). At eDesa, the reaction of trade unions was interesting. Two were supportive; two were sceptical but eventually came around. With the backing of all four unions, the company eventually converted to a co-operative. Even now the unions still have an 'ambiguous' attitude to the MCC. Nevertheless, many union members (about 100 people) are active in disseminating information on the values and principles of the co-operative.

Source: Journal transcript, 6 March 2003, Mondragon Co-operative Corporation

Mikel Lezamiz contended that it can take between five and ten years before a workforce develops the readiness to completely take over both ownership and control of

their enterprise (i.e. embed co-operative management into an organisation, and then convert to a co-operative legal form). Interestingly, he distinguished the progression process as: *employee ownership* (financial participation); *participative management* (the introduction of **soft HRM** practices); *co-operative management* (putting in place elected governing and social councils to take decisions alongside an executive management group); and *co-operative ownership* (transferring assets and membership to a co-operative legal entity). At Mondragon, development involves a close relationship with the Caja Laboral Popular (Bank of the People's Labour). A *contract of association* setting out the governance arrangements for the co-operative is needed before the bank provides financial support and ongoing business advice (Turnbull, 2002).

These examples raise substantive issues in terms of the politics of social enterprise development. The linking of a charity to a company form does not necessarily involve a fundamental shift in authority relations; both rest on social norms and bodies of law that institute a **unitary** board, top-down authority and rhetorical injunctions to exclude or limit the involvement of employees in both ownership and governance. The transition to employee ownership and control is more radical as it has the potential to restructure authority relations at the level of *class* (Kalmi, 2007; Erdal, 2011). Traditional notions of investor ownership, management control and 'employment' are so deeply embedded in the consciousness of investors, managers and employees that it should not be a surprise that it takes *years* to relinquish and replace them with new ways of thinking. Often, new attitudes cannot be developed without the experience of active participation (or observation) of enterprises with embedded member ownership (Knell, 2008).²

But it is not only member-owners that may take years to prepare for such a change. The modes of thought associated with investor-led and hierarchically controlled enterprise are deeply ingrained in the training and professional development of business support staff, academics, accountants, trade unionists, bankers, funders and lawyers. Current course curricula and assessment strategies for professions reinforce dominant approaches to accounting, management, learning and dispute resolution (Johnson, 2003) and this leads to the kind of changes that have occurred at the Co-operative Group (*The Guardian*, 2014b). To support worker, consumer and community ownership, old ways of thinking may need to be relinquished completely, or substantially modified, to provide effective support (Restakis, 2010; Erdal, 2011; Birchall, 2012). If they are not (or cannot), SRBs retain private sector characteristics that limit their capacity to align fully with principles of sustainable development (Novkovic and Webb, 2014).

Moreover, the expectations that spring from worker ownership, as set out by Ellerman (1990), involve the political challenge of a workforce (as a whole) accepting responsibility for both the assets and the liabilities of their enterprises. While acquiring responsibility for assets (cash, investments, property, equipment, etc.) is a psychological barrier relatively easy to overcome, developing the confidence to accept responsibility for *liabilities* is harder (i.e. paying staff, suppliers and creditors, and assuming *legal* responsibility for fellow workers).

The key contribution of Ellerman (1982, 1984, 1990) to the question of whether worker ownership constitutes *social* enterprise comes from his argument that it is a socialised form of entrepreneurship fostered by personal non-transferable member ownership rights, rather than transferable **property rights**.

As Ellerman argues:

The old public/private distinction is supported by both capitalists and state-socialists. The former use it to argue that the idea of democracy is inapplicable to private industry, and the latter use it to argue that democracy can only come to industry by nationalizing it. But both arguments are incorrect, and the public/private distinction itself must be recast. The word 'private' is used in two senses: (1) 'private' in the sense of being non-governmental, and (2) 'private' in the sense of being based on private property. Let us drop the first meaning and retain the second. Similarly 'public' is used in two senses: (1) 'public' in the sense of being governmental, and (2) 'public' in the sense of being based on personal rights. Let us use the second meaning and take it as the definition of 'social' (instead of 'public'). Thus we have the suggested redefinitions:

Social institution = based on personal rights

Private organisation = based on property rights

By these redefinitions, a democratic firm is a social institution (while still being 'private' in the other sense of being not of the government), while a capitalist corporation is a private firm (not because it is also non-governmental but because it is based on property rights). (1997: 38)

For Ellerman, an enterprise becomes *social* when it rejects private property rights as the rationale for participation in management and governance.³ Whether an organisation is not-for-profit, non-profit, more-than-profit or for-profit is not the issue. What matters is the *basis on which participation rights are granted*: in a private (economy) enterprise, membership is granted when private property rights are purchased; in a social (economy) enterprise, membership is granted when people are recognised for their labour and trading contributions.

Class exercise: Political norms in private and social enterprise



Find a short video clip of *Dragons' Den* and/or *The Apprentice* that has been broadcast in your country (or use the examples below). These should enable students to consider the assumptions embedded in the neo-liberal formulation of the private sector and write out the 'rules of private enterprise' (e.g. individual

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entrepreneurship, equity investments, profit sharing, investor control, absolute owner authority, management hierarchy, business planning, target setting, etc.). If you wish, you can use one or both of the following YouTube clips:

Dragons' Den: www.youtube.com/watch?v=PiEOd7Ks8xk

The Apprentice: www.youtube.com/watch?v=sLVJ0mUa3xl

- 1 Based on these clips, set students the task of 'writing out the political norms of private enterprise' or 'writing out the norms of neo-liberalism' (depending on course context).

Distribute *The Dragons' Apprentice* to students (you can download it from: www.sagepub.co.uk/ridleyduff). Get students to read it (if doing the task in two consecutive classes), or get them to read Chapter 4 'Warren Enters the Dragons Cave', pp. 12–21) if doing the task in a single lecture/seminar.

- 2 Based on this reading, set the students the task of 'writing out the political norms of social enterprise' or 'writing out the norms of the social and solidarity economy' (depending on the course context).

Do a systematic comparison with the students to help them make connections between political thought and macro-economic systems to the inner workings of individual enterprises. With post-graduate students, you might attempt to write out the 'rules of CTAs, SRBs and CMEs' to gain a deeper insight into the extent that each retains or rejects the 'rules of private enterprise'.

Using producer, worker and community ownership to oppose globalisation

As noted in Chapter 1, the creation of a social and solidarity economy is a conscious political act (Sahakian and Dunand, 2014). In the remainder of this chapter, we consider international examples of social enterprise development that represent political acts using business techniques: the first is **fair trade** in Latin America, Africa and Asia; the second is **micro-finance** in Bangladesh; the third is the **recovered company movement** in Argentina.

Fair trade

Fair trade was pioneered in the 1960s and institutionalised in the 1980s through the creation of a Mexican-Dutch project that resulted in the incorporation of the Fairtrade Foundation. It defines an approach to trading that limits the impact of market prices to increase opportunities for co-operative and community development (Lacey, 2009). While fair trade depends on global supply chains (and operates globally), it modifies market operations and subordinates them to human needs by altering the norms embedded in trading relationships. It does this by advancing a number of fair trade 'principles' (Doherty et al., 2013).

As Jones's (2000) study of Traidcraft reveals, the motive to initiate fair trade enterprises is frequently grounded in political and religious ethics. These incline entrepreneurs to actively limit the influence of the market in the supply and distribution of goods, and also inspires commitments to transforming labour relations through co-operative ownership (Lacey, 2009). Distributors of fair trade products pay a minimum price to ensure they do not fall so low that producers cannot develop their communities (Nicholls and Opal, 2004). Unlike past colonial ventures based on the acquisition of land, and master-servant industrial relations (Melman, 2001), fair trade seeks the creation of local social and solidarity enterprises that produce goods co-operatively for advanced markets. It builds into prices a *social premium* that pays for infrastructure development in producer communities (such as water, health and education facilities).

Davies et al. (2010) discuss the advantages that this ethical form of business accorded Café Direct, and how the ownership of the supply chain came to be shared with producers (who are mostly based in Africa). Doing so not only redistributes financial capital but also creates social capital. Sustainability is achieved through the cultivation of social networks, particularly in public and third sector procurement and retailing activities. Through these approaches, Polanyi's (2001 [1944]) 'fictitious goods' of land, money and people acquire a changed status. Land is treated as a source of wealth, not a commodity: it remains a productive asset under the control of community institutions and producer co-operatives. Working relationships are oriented towards stakeholder engagement with ownership structured to provide both economic and social returns. In place of wage-labour within a private corporation, most income is derived from dividends paid to small (independent) producers based on the amount of produce sold through a co-operative.

Nevertheless, fair trade has encountered a number of problems. Firstly, the quality demands of western retailers can have the effect of imposing high entry costs that are prohibitive. This had led to a proliferation of alternative fair trade standards and limited the geographical reach of the Fairtrade mark (Lacey, 2009). Secondly, and perhaps more significantly, it has proved harder to put some 'principles' into practice than others, sometimes due to the overheads of implementing them (such as transparent sourcing), but also because the market success of fair trade has attracted multinational corporations into the field (Doherty et al., 2013).

Table 3.2 The change in fair trade principles over time

Principle	Change over time
1. Minimum prices	Minimum price higher than market price. Has not always kept pace with inflation
2. Social premium	10% of overall cost, paid over and above market price. Premiums hard to distribute fairly without adherence to principle 7 (democracy)
3. Long-term relationships and supply contracts	Build trust and mutual respect: completely ignored by major retailers who contract only for one season
4. Direct/transparent purchasing from producers	Show full and direct supply chain: never policed and abandoned in 2008 under pressure from multinationals
5. Pre-financial for producers	Advance payments at critical time: suspended in 2008 as a principle, but revived by some large retailers
6. Market information for producers	Improve trust and relationship quality with producers: adhered to in jointly owned ventures; elsewhere poor producer representation
7. Democratic structures	Co-operative production and/or ILO practices: more effective in co-ops; plantations just pay minimum wage – no local democracy
8. Consumer education	Not audited, but frequently practised: still active through Fairtrade mark
9. Sustainable production	Little information on prevalence and practice: not currently enforced

MNCs have successfully penetrated the fair trade movement and secured influence on the boards of accreditation organisations. This increases their lobbying power to dilute the ‘principles’ by reintroducing plantations that employ labourers (albeit with commitments to ILO labour standards). These changes compromise earlier commitments to co-operative production by limiting the expansion of member ownership and reintroducing the master–servant arrangements of colonial occupation. So the fair trade movement is now split between CMEs that socialise ownership of land and production and who involve local communities in development (as at Divine Chocolate), and MNCs (acting as SRBs) who buy up land and put it (back) under private ownership with wage-labourers running plantations.

Class exercise: Fair trade and endogenous development



Watch the following video clip about fair trade co-operatives in South America:
www.youtube.com/watch?v=yu5DhOHLJ-s

Based on this clip, consider the following issues:

- 1 What western business norms are modified by the social and solidarity economy?
- 2 What charitable norms are modified by the social and solidarity economy?
- 3 How would you explain ‘endogenous development’ to another person?

Despite challenges, the Fairtrade brand remains widely recognised and highly trusted. The Fairtrade Foundation claims that over 60 per cent of people trust Fairtrade (a level that is as high as charities, co-operatives and SMEs generally) and that nearly 60 per cent of consumers in 24 countries recognised the brand by 2011. Sales (in the UK alone) exceed £1 billion, securing its position as the world's leading ethical brand. (GlobalScan, 2011)

The Grameen Bank and recovered company movements

We now consider two further examples: the Grameen Bank in Bangladesh and the *empresas recuperadas* (recovered companies) in Argentina. These have been selected for different reasons. The Grameen Bank has been particularly effective in transforming the lives of the rural poor (Bornstein, 1996). Academic studies are helpful in problematising and assessing the socio-economic contribution of the Grameen Bank, not just within Bangladesh, but also to the micro-finance movement around the world (Jain, 1996; Dowla, 2006). The Grameen Bank's underlying model not only calls into question the political assumptions that underpin lending (based on property ownership), but also illustrates how a bank can build social capital by organising in a particular way.

The recovered company movement in Argentina has been selected for a different reason. It shows how the industrial working class can respond to globalisation in urban settings (*The Take*, 2004; Klein, 2007). In this case, the concept of *expropriation* underpins a new social arrangement that permits the occupation of an abandoned or idle factory in order to continue or restart production (Howarth, 2007). The political significance is that this challenges business norms regarding the primacy of property rights, and creates an embryonic legal system that permits the protection of jobs and communities against the effects of globalisation (Ranis, 2005). Let us start with the Grameen Bank.

The Grameen Bank was established by Muhammad Yunus as an action research project in 1976 (Yunus, 2007). It was constituted as a bank working exclusively with the 'rural poor' in 1983. There are two key aspects of the Grameen Bank's expansion that are highly significant. Firstly, after 20 years of operation, the bank claimed that it achieved a default rate on loans of only 2 per cent with the poorest sections of the community (Jain, 1996). Such a default rate for credit is extremely low, even in an 'advanced' economy, so this finding alone created interest in the Grameen Bank's approach. It also confounded assumptions that property is needed as collateral (assets that can be turned into cash) to mitigate risks when lending to 'high-risk' borrowers. Secondly, the Grameen Bank's approach to banking has contributed to the creation of social capital and a culture of community-based welfare. In doing so, there have been notable impacts on the social status of women, due to the level of successful lending to them (Dowla, 2006).

Class exercise: The Grameen Bank – a first look



Watch the following video clip about the Grameen Bank in Bangladesh:
www.youtube.com/watch?v=MrUQKuvsmvw&feature=fvw

Based on this clip, consider the following issues:

- 1 What are the key challenges faced by the Grameen Bank in Bangladesh?
- 2 Critically assess the way that 'social collateral' is used to guarantee loan repayments.
- 3 Critically assess Yunus's political goal of 'creating a world without poverty'.

Jain (1996) explores the institutional arrangements that produce low default rates among borrowers. The bank has been lauded for its use of 'social collateral' (the group guarantees to repay a loan if one group member misses a repayment). Jain argues, however, that the low default rate cannot be attributed to this policy alone. In practice, it was found that Grameen Bank workers and managers do not enforce the group guarantee scheme. The lending policies, he argues, are similar to co-operative banking institutions that have much higher default rates; an explanation has to be found in the internal working arrangements of the bank, rather than its lending policies.

Borrowers are organised into groups of five people. Each group elects a 'chief'. The members of each group cannot come from the same family. They undergo seven days of training on bank policy and the role played by members. Once a group forms – much like any other credit union – they have to establish a track record of saving before being granted any credit. In the first instance, two members of each group receive credit – the creditworthiness of the other group members depends on the first two borrowers' repayment record.

A bank centre comprises ten groups. Each week a bank worker visits the group to collect repayments and consider new applications for credit. Studies reveal that the weekly meeting is vitally important, as it establishes social norms and rituals to reinforce a culture of regular saving and prompt repayment (Dowla, 2006). New applications for credit and regular repayments take place with all members of the centre present (50 people): they are not conducted in private (as is the norm in westernised banking institutions). Jain (1996) reports that these arrangements influence both borrowers *and* bank workers. Financial and procedural discipline comes both from the bottom-up control of members (who will challenge deviations from bank policy) and top-down checks that are routinely carried out by branch and area managers.

Dowla (2006) considers key challenges that were overcome during the growth of the Grameen Bank. Muhammad Yunus, then an economist in Chittagong, encountered resistance from other bankers, as well as political interference from religious groups and politicians.

When a supportive finance minister proposed a separate bank to expand the Grameen experiment, the commercial bankers put up all possible hurdles [...] When the bank first attempted to introduce housing loans, the Central Bank resisted, arguing that the bank can provide credit only for productive purposes ... Grameen Bank countered by suggesting that a house is like a factory building where all household-based production occurs and as such owning a house is an important input of production in addition to being consumption. On one occasion the bank received a terse letter asking it to justify why the majority of the borrowers of the bank were women. Professor Yunus retorted that the central bank itself ought to justify why the majority of [its] borrowers ... were men. (Dowla, 2006: 105)

Culturally, the struggle was not only to convince political institutions and commercial bankers that the scheme was viable. It also involved convincing the poor:

The poor could not believe that a government sponsored bank could be seriously interested in their welfare ... [Yunus] had to struggle to convince the eligible women to accept credit ... they would not go in [front] of him because of the purdah norm, so he ended up talking with them with a screen ... Moreover, they were reluctant to accept credit because ... they had been taught that money is something that should be handled by men only. (Dowla, 2006: 106)

Further obstacles came from the spread of local rumours about Christian missionaries, socialist plots and jail sentences for defaulters. Mainstream institutions questioned the business model and accounting practices, claiming that they hid the true level of defaults (Pearl and Philips, 2001).

The progress of the Grameen Bank, however, has been transformative on a number of levels. Firstly, it used share ownership by members to build trust that the bank would not be taken over by governmental or private interests. From registration in 1983, over the course of 20 years, members' share of capital has increased from 40 per cent to over 90 per cent. Dowla (2006: 112) describes this as 'an absolutely new norm of corporate governance for Bangladesh'. Secondly, through successful lending, subsidiary companies (e.g. Grameen Telecom) have contributed to changes in the status and role of women in the community. Bangladesh and Islamic laws enabling women to own property had been limited by social custom (Subramanian, 1998). The Grameen Bank's lending activities have increased not only the property holdings of women, but also the educational opportunities for both their sons and their daughters. A practice of addressing members by name at meetings means that many women are now known by other members of their community as individuals, no longer merely as someone's sister, wife or daughter.

The Grameen Bank rewrites the textbook on risk management by demonstrating that lending against assets and property is a political and ideological choice (to privilege those who possess property), and not one based on intrinsic economic and social benefit or improved commercial performance (Ellerman, 2005). Banking practices using social collateral, backed by processes that deliberately build social capital through participatory economics (Albert, 2003), produce lower default rates on loan repayments than commercial banks' lending to wealthier clients.

The conclusions from the Grameen Bank on social collateral and alternative forms of organisation provide a useful starting point for our second discussion: the development of the social and solidarity economy in Argentina. Unlike Bangladesh, which is one of the poorest countries in the world, Argentina has twice been on the verge of joining the 'first' world. Firstly, in 1910, its GDP per capita was ahead of France and Germany, and second only to the industrial economies in the British Empire (Della Paolera and Taylor, 2004). By the 1970s, it was again the strongest economy in South America, this time interrupted by a military coup (Klein, 2007). Following the 1970s coup, economic advisers, schooled in neo-liberal economic theory, visited Argentina to help establish regimes committed to a policy of 'free' markets. As became the norm during this period, foreign investment (loans from the **IMF** or **World Bank**) was often conditional on making public assets available for private acquisition.

The effects of the 'liberalisation' programme in Argentina have been well documented (Klein, 2007; Howarth, 2007). By 2001, many millions of jobs had been lost and the number of jobless poor had risen from 18 per cent (in 1994) to over 50 per cent (in 2001). In response, both rural and industrialised regions of Argentina have started to establish initiatives that promote self-management.

Class exercise: Recovered companies in Argentina



Additional materials and exercises are available on the companion website at: www.sagepub.co.uk/ridleyduff.

Watch these video excerpts (*The Take*, 2004):

www.youtube.com/watch?v=dMnUkOB4fIE (Part 1)

www.youtube.com/watch?v=ypq1SAvot8 (Part 3)

Based on a comparison of these clips with earlier clips about Venezuela and Bangladesh, consider the following issues:

- 1 How do the political contexts of rural and urban social enterprises differ?
- 2 What is the political significance of the social capital that rural and urban social enterprises develop?
- 3 What is the political significance of the 'recovered company movement' in relation to the property rights of capital?

In cities, a radical approach based on 'recovered companies' was spreading outwards from Buenos Aires to other parts of South America (Trigona, 2006; Klein, 2007; Hirtz and Giacone, 2013). Hirtz and Giacone (2013) trace the origins of the movement to

rebellions against factory closures between 1993 and 2002. Lewis and Klein (*The Take*, 2004) documented how this accelerated after a financial crisis in 2001. Mervyn Wilson, in the introduction to Howarth's report comments that:

The workers' response was instinctive – to work together to safeguard jobs, and the skills and competencies on which their livelihoods and those of their communities depended. They did not know of, did not work with, and did not draw upon the vast collective memory and experience of the global co-operative movement. They simply organised collectively to take over and keep the businesses running ... As in the early nineteenth century, it is virtually impossible to distinguish between what we would consider today to be the realm of trade union activities and those of a co-operative. (Howarth, 2007: 5)

This study is useful for understanding how and why groups of industrialised workers reacted to the effects of globalisation. It supports Polanyi's (2001 [1944]) argument that whenever 'free' (i.e. international) markets start to dominate, the effect on local economies is highly variable. Industrialised economies (or regions) benefit from a transfer of wealth, while job losses and political repression occur in weaker economies (or regions). In Argentina, this took the form of political action to break up organised labour and protest movements during a second wave of 'liberalisation' in 1994. The effects, however, devastated employment among skilled and unskilled workers, leading to the formation of a 'new co-operative' movement.

Spontaneously, initially without government or international support, workforces started taking over abandoned factories to resume production. They were able to do this under laws that allow a co-operative to secure court permission to use idle equipment for a two-year period. Local courts upheld by-laws that require former owners to negotiate with co-operative members over the rental and purchase of abandoned equipment. In other cases, local government authorities bought the assets and leased them back to the co-operatives.

One high-profile case is Zanon, a ceramics factory that has grown to 300 staff and achieved international recognition. Due to high levels of community support, it has survived six attempts to restore ownership to its previous (private) owners (*The Take*, 2004), and in 2009 members were granted ownership by the provincial legislature (Trigona, 2009). As Ranis points out:

There are multiple examples of recuperated factories lending their facilities to the surrounding communities for health clinics, art exhibits, theatre evenings, and adult learning centres with university faculty providing courses for credit (the author visited several such factory culture programmes in the city of Buenos Aires). These neighbourhood and community contacts stood them in good stead when threatened with police interventions on behalf of the previous owners. (Ranis, 2005: 106)

Howarth (2007) explains the use of *expropriation*, the legal basis for occupying and claiming the assets of an abandoned factory. In liberal economies, the rights of property dominate: if there is a conflict between defending a person's right to dispose

of their property or defending the jobs of a workforce, the rights of the property owner are given priority. In Argentina, the law now recognises – in the case of recovered companies in Buenos Aires – that there are circumstances where the rights of a person to support their family and community can take precedence over the rights of property owners. As Ranis (2005) argues, Argentine and regional governments have constitutional provisions that allow co-operatives (and only co-operatives) to expropriate properties for reasons of ‘public utility’, or in defence of the ‘common good’. This is different both from liberal economies (such as the US and UK) and also from expropriation by the state to nationalise whole industries (as happened in countries dominated by **Marxian** economic thinking).

In summarising the cases of the Grameen Bank and Argentine co-operatives, it is easy to highlight their different development paths and contexts. However, it is the similarities to material in the previous chapters we wish to emphasise. Firstly, both approaches were dependent on the development of community-based social capital that emphasised solidarity. Furthermore, the strength of this social capital empowered the social enterprises to defend their institutional arrangements from interference by powerful commercial and state interests. Secondly, in both cases, the organisations changed the economic ‘rules’ that govern property and employment rights. At Grameen, consumer ownership of the bank (to invest in their own production activities) led to a different relationship between lenders and borrowers because members were making decisions on both lending and borrowing at the same time. In Argentina, employment rights were superseded by member ownership rights and responsibilities, transforming the relationship between workers and the machinery needed to sustain production. Property was *subordinated* to labour (and public) interest, rather than the reverse. Lastly, in both cases the ‘local struggles are a direct result of national and international policies and of the global context’ (Ranis, 2005: 115). Social enterprises acted to re-localise control and ownership, and reclaim the wealth generated locally. In Grameen, the struggle was against the poverty created by globalisation in rural communities. In Argentina, the struggle was against urban unemployment created by the ‘liberalisation’ policies that accompany globalisation. From this, we can draw some conclusions about social enterprise as innovatory work.

Conclusions

In this chapter, we have considered the roots of globalisation and various responses to it. In particular, we have examined social entrepreneurship through the agencies of the state (through enacting the doctrines of NPM) and through private sector reforms (through enacting the principles of fair trade). Both approaches create SRBs and CMEs, rather than CTAs, although there is evidence that CTAs are integral to the fair trade system through their role in allocating fair trade premiums for community development. We have also considered how NPM can trigger ‘local socialism’ through a

community-based business movement that advances both NPG in the state sector and employee-owned/community enterprises that extend participation rights to more citizens through the creation of a social economy.

While the literature on social enterprise from 2005 onwards is well populated with discussions about the impact of ‘business practices’ on the voluntary and charity sector (Goerke, 2003; Seanor et al., 2013), this chapter has focused on an argument established much earlier in practice that ‘social enterprise’ comprises commercial activity where ownership and control rights are allocated (primarily) to member-owners, and particularly to producer-owners. The danger, particularly in an Anglo-American context, is that this older CME tradition of social enterprise is weakened by the political power of governments who prefer to control public services through SRBs and CTAs (Peattie and Morley, 2008), and also by the private sector who see more profit potential in SRBs than either CTAs or CMEs. So, while ambiguity in approaches may broaden its appeal, it also reinforces structures that lead to competition over the underlying premises and assumptions that drive social enterprise development. This inherent *pluralism*, however, has been cast as a strength of the sector by a number of writers who – as Polanyi did – see some merit in building a market for ‘real’ goods, eliminating markets for ‘fictitious’ goods, and re-enfranchising member ownership as part of a mixed economy (Restakis, 2010; Smith and Teasdale, 2012; Ridley-Duff and Bull, 2013).

Taken together, Chapters 1 to 3 review the full range of social, political and economic changes that are contributing to the emergence of social enterprise as both a concept and process of organising. We see evidence that there is both convergence (on member ownership models) and divergences (in orientations towards profits and markets). However, we close the chapter with an activity based on the words of David Ellerman who believed that localisation through democratic firms could forge something positive irrespective of pre-existing political commitments.

Class exercise: The work and writings of David Ellerman



Materials to support this exercise can be found on the companion website at: www.sagepub.co.uk/ridleyduff.

Read the following statement from *The Democratic Worker-owned Firm* (Ellerman, 1990):

A capitalist economy within a political democracy can evolve to an economy of economic democracy by extending the principle of democratic self-determination

(Continued)

(Continued)

to the workplace. It would be viewed by many as the perfection of capitalism since it replaces the demeaning employer–employee relationship with ownership and co-entrepreneurship for all the workers. A state socialist economy can evolve into an economic democracy by restructuring itself along the lines of the self-management socialist tradition. It would be viewed by many as the perfection of socialism since the workers would finally become masters of their own destiny in firms organised as free associations of producers.

- 1 To what extent is the USA extending the principle of 'democratic self-determination to the workplace' through the widespread use of ESOPs?
- 2 To what extent can 'self-management in the socialist tradition' support new forms of CMEs and SRBs?
- 3 What factors in neo-liberal doctrine inhibit the development of 'firms organised as free associations of producers' as envisaged by Ellerman?

Summary of learning

In this chapter, we have argued that:

The rise of NPM as a supply-side economic policy replaced Keynesianism. This has accelerated the adoption of private sector accounting and management practices.

The application of NPM in public sector reform has resulted in arguments for social entrepreneurship and employee mutuals in the development of public services.

The concept of 'local socialism' arose to resist NPM by stimulating community economic development: local enterprise networks deploying fair trade, co-operatives and employee ownership are part of the switch to NPG.

Restructuring authority relations at the level of class can take five to ten years because it takes a long time to replace investor-led, hierarchically organised governance with worker-led and/or community-led democratic governance.

A movement for 'economic and social democracy' is being enacted through social enterprises that restructure authority relations in business activities supported by laws that permit the expropriation of private assets for public/community benefit.

Questions and possible essay assignments

1. Using examples to illustrate your argument, explain the basis of Ellerman's contention that all member-controlled businesses are social, rather than private, organisations.
2. 'The switch to new public management was the principal catalyst for social entrepreneurship in the public sector.' Using examples, evaluate the robustness of this claim.
3. 'Social enterprise is primarily about democratising public and private organisations, not transforming charities and voluntary groups into businesses with a social purpose.' Using examples, critically assess this statement.
4. What is the legacy of 'local socialism' to the social enterprise movement?

Further reading

A good place for undergraduates to start is 'Ten big questions about the Big Society' (Coote, 2010) available from the NEF website. Then students will be ready to progress to Hood's (1995) seminal paper on 'new public management', a well-argued distillation of the doctrines of NPM as well as its spread among OECD countries. More recent works by Osborne (2006) and Coule and Patmore (2013) show how NPM is now challenged by the assumptions of 'new public governance'.

Ellerman's (1990) book *The Democratic Worker-owned Firm* is now freely downloadable (as *The Democratic Corporation*) from Ellerman's own website. Parts of the text are challenging to non-economists, but it is notable how many influential people in the world of employee ownership look to Ellerman's initial analysis as a source of inspiration (so it is worth the struggle). Ellerman establishes a clear moral, economic and intellectual justification for worker ownership as the basis of social enterprise. For technical discussions (useful to accountants and solicitors) see Gordy et al.'s (2013) book *Leveraged ESOPs and Employee Buyouts*, available from the National Center for Employee Ownership (in the USA).

A key text to understand how 'economic democracy' is being exported from the US to other parts of the world is Gates's *The Ownership Solution* (1998). Both Gates's work on legal forms, and Shann Turnbull's work on governance practice, have been an influence on the members of the National Center for Employee Ownership (in the US) and the Employee Ownership Association (EOA) in the UK. The EOA's website contains a series of helpful publications, parliamentary reports and case studies on how to implement 'economic democracy' in the UK (see www.employeeownership.co.uk).

A compelling overview of the business trajectory implied by the themes in this chapter is found in the final chapter of Alec Nove's (1983) book *The Economics of*

Feasible Socialism. Despite its age, Nove's final chapter on the potentialities and limitations of a society in which private, social and state enterprise are combined in different proportions to increase human well-being stands the test of time. For a more recent critical debate about the intersection between for-profit and non-profit views on social enterprise, see Bull's editorial in the 2008 Special Issue of the *International Journal of Entrepreneurial Behaviour and Research* (IJEER).

On the companion website, we suggest four further articles and a novella to stimulate further debate about the politics of social enterprise. Firstly, we recommend Osborne's overview of the switch from public administration to NPM, then NPM to NPG. Secondly, we recommend Smith and Teasdale's arguments for *associative democracy* and its potential role in further reform of public services. Thirdly, we recommend Sepulveda's historical account of social enterprise development in the 1980s and 1990s to provide a political-historical link with NPM/NPG. Fourthly, we recommend Coule and Patmore's paper about the innovations of TSOs responding to the shifts towards NPM and NPG. Lastly, on a more light-hearted note, we provide a satirical critique of neo-liberalism in the form of novella by one of the authors – *The Dragons' Apprentice* by Ridley-Duff (2014).

Further reading material is available on the companion website at: www.sagepub.co.uk/ridleyduff.

Useful resources

The Corporation (documentary): www.thecorporation.com/

FairShares Association: www.fairshares.coop

Fairtrade Foundation: www.fairtrade.org.uk/

Fairtrade International: www.fairtrade.net/

International Labour Organisation: www.ilo.org/empent/units/cooperatives/

Mondragon (documentary): www.youtube.com/watch?v=2zMvktPKDmo

New Economics Foundation: www.neweconomics.org/

OneWorld: <http://us.oneworld.net/>

The Political Compass: www.politicalcompass.org/

Positive Money: www.positivemoney.org/

Shift Change (documentary): <http://shiftchange.org/>

Skoll World Forum: <http://skollworldforum.org/>

The Take (documentary): www.thetake.org/

Together (documentary): www.together-thedocumentary.coop/

Upside Down World (Latin America): <http://upside-down-world.org/>

World Fair Trade Organization: www.wfto.com/

Notes

- 1 See Loomio.org for an example of a widely used technology that has successfully reduced the need for executive management and which promotes participatory democracy. This video provides an introduction: www.youtube.com/watch?v=Ij0OsRtkl2A.
- 2 See Chapters 6–9 for teaching cases and discussion on the practical aspects of these debates.
- 3 In Chapter 11 we discuss in further detail the (legal) property rights defined in the Articles of Association of a company. They can be summarised as rights to: liquidate the company; acquire capital gains; transfer property; derive an income; vote on key decisions; access information; grant public access to information.