New frontiers in democratic self-management

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Democratic Self-Management

by Rory Ridley-Duff

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Introduction

In this chapter, the focus is on considering the way legal forms for co-operative enterprise are designed to meet the needs of members. In developing a critique of the investor-owned firm, I will critically evaluate the role of legal membership in establishing a co-operative enterprise and how this supports the development of a co-operative identity (Atherton et al. 2011). The purpose is to distinguish conceptually between common ownership, joint ownership and co-ownership, and their potential influence on future co-operative development.

I will argue that the mediation of business purpose and social identity through the choice of legal form influences the power and wealth sharing arrangements of a co-operative enterprise. Furthermore, the emergence of social enterprise has challenged co-operative models based on common ownership by a single stakeholder to produce hybrid models that express co-operative values and principles in new ways (Ridley-Duff and Bull, 2011).

The chapter is divided into four sections. In the first, the impact of co-operative values and principles in framing a co-operative identity is elaborated. The concept of 'socialisation' is contrasted with 'privatisation' and 'nationalisation' to develop the argument that co-operatives socialise power, wealth and property. In the second section, I characterize approaches based on the extent to which they socialise and democratise capital. In this section, I distinguish common ownership from joint ownership and co-ownership models (Reeves, 2007). In the third section, these ideas and concepts are linked to model rules. In two cases, the model rules represent an evolution of co-operative models to make them more open to the participation of primary stakeholders. In a third case, I examine how a co-ownership model has developed over time.

Lastly, I draw together the arguments and consider whether emergent 'hybrid' co-operatives represent examples of progress or naïve forms of liberalism that inhibit a co-operative economy.

Values, Identities and Social Practices

The interaction between social and legal identity is at the heart of ongoing debates about the contribution of mutuality and co-operative enterprise to the social economy (Amin, 2009). Deciding upon, and evolving, a particular legal form is an important formative process for the founders of any enterprise. As Davies (2002:7) points out:

> *It is the initial shareholders of a company who bring it into existence…and who become the first members of the organization thus created. Subsequent shareholders also become members of the company. The point is of theoretical, even ideological, significance, because the train of thought which makes the shareholders the members of the company leads naturally to making the shareholders' interests predominant within company law.*

Table 1 shows the significance of the legal arrangements for membership, and the different long-term outcomes that can occur when a co-operative model is chosen over one designed to privatise ownership and control. In an article about football supporter trusts, a comparison is made between Barcelona and Arsenal football clubs:

Table 1 – The Camp Nou Way

	Barcelona	**Arsenal**
Shareholders	In 2006, there were 142,000 members ("socios") voting on a one-person, one-vote basis. By 2010, this was reported to have grown to 170,000.	In 2006, there were 4 major shareholders[1] who owned 87% of voting shares. By 2012, two shareholders controlled 96% of shares.
Leadership	The president is elected by members for a four-year term (maximum two terms).	No meaningful elections. The chair of the Board is decided by major shareholders.
Cheapest adult season ticket	£69	£885
Most expensive adult season ticket	£579	£1,825

(based on Conn, 2006)

[1] Wikipedia, on 8th December 2009, stated that 86.9% of shares were held by four shareholders: Stan Kroenke (29.9%), Danny Fiszman (16.1%), Nina Bracewell-Smith (15.9%) and Red & White Securities (25%). By 2012, 66.82% were controlled by Kroenke, and 29.35% by Red & White Securities. Under Company Law, Kroenke is obliged to make an offer to the shares held by Red & White Securities.

The body of law under which Barcelona is constituted is similar to the Mondragon co-operatives. The key difference, however, is that the members are football fans (consumers) rather than a workforce. When compared to an investor-owned firm, this arrangement leads to different *long-term* outcomes (both internally and externally). In the case of Arsenal (a privately-owned football club), the pricing strategy is set to maximise profit for financial investors (who dominate the group of shareholders). Shares are not publicly available and are traded in secret amongst a select group of people. Season ticket prices for fans are high. In the case of Barcelona (a football club owned by its fans), membership is offered to football fans rather than financial investors. This extends ownership throughout the community, and dramatically reduces the cost of season tickets because supporters' rather than financial investors' interests are dominant.

Birchall (2009) distinguishes between three broad types of co-operative enterprise:

- *Consumer co-operatives* (owned by the users/buyers of a particular product or service)
- *Producer co-operatives* (owned by independent producers to market their produce)
- *Employee co-operatives* (owned and controlled directly by a workforce)

All of these forms represent an alternative to the investor-owned firm because stakeholders are admitted to membership for a reason other than the supply of financial capital. It is this that differentiates a co-operative economy from one dominated by capital ownership. In the case of consumer co-operatives, it is the act of purchasing goods from the co-operative that provides the rationale for membership. In producer co-operatives it is the act of contributing produce, while in an employee co-operative, it is the act of contributing labour.

The co-operative model, therefore, gives rise to the concept of a 'socialised' enterprise (Ellerman, 1984, 1997; Ridley-Duff and Southcombe, 2011). A working definition of what 'social' means in this context is elaborated by Ellerman (1997). He sought to clarify the ambiguous use of the terms 'public' and 'private'. He argued that 'public rights' accorded to people as citizens are different to the notion of 'public ownership' by the state. The former disperses power and influence to individual citizens while the latter concentrates power into the hands of politicians. He uses the

term ‘social’ to describe the granting of personal rights, and distinguishes them from property rights because the latter can be inherited, bequeathed and sold to others while the former cannot. Personal rights are acquired when someone joins a co-operative enterprise and they cease when they die or leave. Socialised enterprises, therefore, are characterised by the efforts of managers and members to grant personal rights to primary stakeholders (producers, customers, employees) so that they acquire control over the financial, social and human capital of their enterprise.

While ‘socialisation’ is linked to democratisation, it goes beyond voting rights to elect leaders. It extends to participation in the creation and maintenance of socially inclusive working practices that transform the nature and purpose of work. The concept is useful for problematising the characteristics of private, social and nationalised enterprises (see Table 2), highlighting their differences, and advancing the argument for ‘associative democracy’ made by Hirst (1994).

A co-operative company or society is organised on a different basis to a private company or state institution (Tawney, 1921, 1931; Cornforth et al., 1988; Cornforth, 1995). As a consequence, it forges different behaviours amongst its stakeholders and members (Hill, 2000; Parnell, 2011).

Davies (2002), not unreasonably, questions why the norms of private investor-led companies dominate business education. In private companies, the norm is to recognise founding and institutional investors as members, and to be more cautious about admitting directors, employees and customers into membership. But why are primary stakeholders who produce and consume goods and services denied membership? The question is an important one because co-operative enterprises are typically designed to reverse or adapt this arrangement, and provide an anti-thesis to the privatisation of knowledge, property and capital.

Table 2 – Privatisation, Socialisation and Nationalisation

*Primary stakeholders = workforce members, producers, customers and/or service users

**Capital = Human, Social and Financial Capital

	Privatisation	Socialisation	Nationalisation
Key Characteristic	**The acquisition of public/social rights by private individuals/corporations to bring capital** under private (management) control.**	**The sharing of public/social rights amongst primary stakeholders* so they can jointly control an enterprise's capital, and participate in enterprise management.**	**The acquisition of public/social rights by a government body so the state can exercise management control over an enterprise's capital.**
Human Capital Examples	*Copyright Law, Encyclopaedia Britannica, Patents.*	*Creative Commons, Wikipedia, Open Source movement*	*Legislation to limit duration or scope of copyrights/patents.*
Working Practices	Decided by managers / governors who act for the private interests they represent, sometimes after consultation with primary stakeholders.	Decided by participatory (democratic) management practices, or by elected managers / governors accountable to primary stakeholders.	Decided by appointed officials / elected politicians to fulfil a political programme, sometimes after consultation with an electorate or constituency.
Intellectual Property	Acquisition of rights to use and commercialise fully formed ideas and designs created by producers/employees.	Distribution and/or sharing of fully formed ideas so producers can use, share and exchange them in new creative works.	Acquisition of fully formed ideas by a government body so it can be exploited for public or state benefit.
Social Capital Examples	*Marks & Spencer, IBM, Hewlett Packard*	*Mondragon, John Lewis, Co-operative Group*	*Direct government control of employee / consumer relations*
Management Control	Avoidance / rejection of collective bargaining on working conditions; rejection of primary stakeholder participation in strategic decision-making.	Acceptance of collective bargaining arrangements on working conditions; workforce and/or consumer participation in strategic decision-making.	State control of working conditions. State control of participation rights and interpretations of 'national interest'.
Governance	Exclusion of primary stakeholders from participation in governance and audit (except as providers of information).	Equal participation of primary stakeholders in governance and audit, and/or accountability to primary stakeholders.	Participation of government appointees / politicians in governance and audit, and/or accountability to politicians.
Financial Capital Examples	*Arsenal FC, Sainsbury's, Holland & Barrett*	*Barcelona FC, Sunderland Care Home Associates, Suma Wholefoods*	*Armed Forces, Central Banks, Local Governments*
Ownership	Individual or corporate control over membership; shares issued in exchange for financial capital.	Open membership / capital rights for primary stakeholders; shares issued in exchange for labour/consumer participation.	State control of membership and share capital, and/or statutory controls over their issue.
Investment	Capital provided by (private) members and/or banks (loans) and/or capital markets (equity shares).	Capital provided primarily by primary stakeholders, supplemented by private/public funds (if this does not compromise member-control).	Capital provided from tax revenues; private / social enterprise involvement under commercial contracts.

All forms are retained to the extent that they produce the outcomes that are sought, and can develop and protect the educational, political and economic environments needed to sustain them (Alvesson and Deetz, 2000). Co-operative legal forms have evolved to suit the needs of primary stakeholders rather than financial investors. In the context of a discussion about co-operatives, the question is whether a given co-operative form effectively 'socialises' human, social and financial capital, prevents control by private interests and/or state bodies, and leads to desired changes in enterprise performance.

The Role of Ideology

Many writers on the left of the political spectrum have tracked the tendency of people in a society to become imbued with particular ways of thinking, and for the ideas of a dominant class to become pervasive (Lukes, 1974). Marx's work remains helpful for appreciating how the ideas of a dominant class spread, as well as how people develop the consciousness needed to challenge the social and economic institutions they create (Cornforth, 1959; Marx, 1984). Revolutions, whether fought violently in the public sphere or silently in the privacy of one's own mind (Friere, 1970), occur when a class of people previously subordinated by a socio-economic system start to circumvent systems of control and create new political and economic institutions. At any particular point in time there are likely to be forms of organisation that do not conform to the dominant ideology, and which potentially offer embryonic models for economic transformation (Cornforth, 1959; Alvesson and Deetz, 2000). As Hill (2000) points out, the existence of organisations that do not conform to existing norms should trigger debates in educational settings as they call into question taken-for-granted assumptions.

Marx, for example, tracked how privately financed merchants increased their control over economic and political thought until their way of thinking dominated the institutions of industry and government (Marx, 1984; Gray, 1998; Polanyi, 2001). We can observe that dominance today in the

popularity of TV programmes like ***The Apprentice*** (in which Alan Sugar famously tells participants 'you're fired'), and ***The Dragon's Den***, in which celebrity entrepreneurs select enterprises in which to make investments. We can also observe the challenges to that dominance by a growing number of ***Occupy protests***, the growth of the fair trade movement (Lacey, 2009), and internet-based organisations in civil society that promote collective action to bring about social change (see **www.avaaz.org** and **www.change.org**).

Kalmi (2007) tracks how the dominant approach embodied in *The Apprentice* and *Dragon's Den* - based on the primacy of investor interests and management control - has 'colonised' economic and business textbooks to the exclusion of co-operative economics and democratic management. This ideological dominance, however, does not correlate to what is actually occurring at a grassroots level. He found that changes in textbooks and university curricula across Europe were not correlated with changes in the economy. Even as discussion in academic texts fell, the scope and number of co-operative enterprises was steadily growing (see also Birchall, 2009; Co-operatives UK, 2011a; United Nations, 2011).

Hill (2000) finds much the same in an American-Canadian context. Despite widespread membership of co-operatives and credit unions amongst US and Canadian citizens, most university textbooks on economic development fail to mention, define or discuss either co-operatives or credit unions. Hill helpfully suggests how economics (and by implication all disciplines concerned with enterprise creation and development) can benefit from discussing co-operative models. Their presence in some markets and absence from others raises questions about the reasons for the existence of different types of enterprise. Their *continued* existence problematizes any discussion based on the assumption that the only choice is between investor-owned and state-owned enterprises. Lastly, co-operative approaches to managing, owning and allocating resources can be discussed as a support strategy for the advancement of democratic values advocated by politicians.

Reshaping Perceptions of the Co-operative Economy

Perceptions of the scale of the co-operative economy are being reshaped by the publicity surrounding the 2012 United Nations International Year of Cooperatives. Publicity materials (Cooperatives UK, 2011b) make three substantial claims: that membership of co-operatives worldwide has grown to 1 billion (200 million more than in 1994); that job creation is now 20% higher than multi-national corporations; and that co-operatives secure the livelihoods of 3 billion people (half the world's population). These claims can be traced to reports for the United Nations in 1994, and the ILO in 2001, as they each framed a response to the co-operative movement's continued growth. Some claims are grounded in the ICA's own membership and employment data (ILO, 2001), updated for the launch of the UN International Year of Cooperatives (Cooperatives UK, 2011). However, the claim that co-operatives secure 3 billion livelihoods appears more tenuous, derived from a creative interpretation of a report that 2.3 billion people (59% of the working age population) have a 'close relationship' to a co-operative (United Nations, 1994, p. 4). Even if a rhetorical strategy, the question "why are co-operative businesses – given that they generate employment commensurate or greater than multinational corporations – not studied widely in business schools?" remains a legitimate and unanswered question.

In addition to single stakeholder co-operatives (producer, consumer and worker), Atherton et al. (2011) delineate different types of *multi-stakeholder* co-operative that promote solidarity between primary stakeholders. The argument here is that a greater 'co-operative advantage' can be achieved if the inter-dependence of producers, workers and consumers is acknowledged and equitably managed (Retaskis, 2010). So, a contemporary understanding of co-operative models requires sensitivity to the diverse range of co-operative forms and the range of ways in which co-operative values and principles can be expressed. Ownership mechanisms vary from non-equity schemes in which assets are placed under common ownership, to equity schemes in which each member is allocated a share of the property created by the co-operative.

To explore this diversity, I review each end of the historical spectrum and consider the works of Owen (1816) and Parnell (2011). Parnell takes the view that humans are not 'naturally' altruistic or selfish, and that co-operation occurs whenever people establish that co-operating will advance their individual, family or group interests more effectively than acting alone. Their propensity to be altruistic and selfish will depend on the situation, the knowledge they possess regarding the costs and benefits of co-operation, and their capacity to interpret the level of threat in a given social situation. As he points out:

> *Dishonest, sharp practice and unwarranted selfishness are infectious forms of behaviour and are fostered when people feel powerless and that they are being treated unfairly. Conversely, if as members of a CME [co-operative and mutual enterprise] they are treated fairly, learn to co-operate and begin to recognise the value of interdependence, then these kinds of behaviour will also be contagious.*
>
> Parnell (2011: 9)

This view accords with the conclusions of Putnam, Leonardi and Nanetti (1993) after a longitudinal study of civic traditions in Italy. They found that high-trust and low-trust cultures tend to reinforce themselves, and that high-trust cultures lower transaction costs, leading to higher levels of citizen satisfaction, as well as improvements in economic and social well-being. Their conclusion, that democratic cultures create and disperse wealth more quickly and equitably than authoritarian cultures, adds substantially to the case for close study of co-operative models.

Parnell (2011), like Robert Owen, views the human character as malleable, as something that is affected by the education that is provided to organisation members. Unlike Owen, however, Parnell saw cooperativism as a development of individualism, in which people voluntarily band together on account of a *common bond*. The bond can vary from a shared desire to buy healthy food at reasonable prices (loose), or shared interest in a particular industry (moderate), to passionate support for a particular sports team (tight). For Parnell, the common bond is paramount, and becomes the rationale for the offer of membership. It follows that there will be a wide array of

enterprises, each based on their own common bond, but which will be equipped to band together into a *co-operative commonwealth* and contribute to the evolution of a new society.

Owen (1816) on the other hand, argued that co-operation needed to be carefully planned from the outset and supported by an education system that teaches co-operative principles from an early age. He attempted to create co-operative communities (like mini city states) "to induce each man to have charity for all men". He believed firmly that this goal was achievable because the human mind had a 'plastic quality' that could be 'moulded' by an educator. Owen's communitarian sentiments, while progressive in terms of educational pedagogy, still represents a top-down model of social activism reminiscent of Fabianism, in which wealthy people gift their knowledge and assets to develop the working class while retaining control of the value systems that guide their social development. Parnell's arguments draw more on arguments put forward by Friere (1970) on the effects of grassroots organising:

> *Some may think it inadvisable to include the people as investigators in the search for their own meaningful thematics: that their intrusive influence (n.b., the "intrusion" of those who are most interested – or ought to be – in their own education) will "adulterate" the findings and thereby sacrifice the objectivity of the investigation. This view mistakenly presupposes that themes exist, in their original objective purity, outside people – as if themes were* ***things.*** *Actually, themes exist in people in their relations with the world…"*
>
> Friere, 1970, p. 106.

Different assumptions about 'best practice' produce different organisational solutions and systems for membership, each believed by their advocates to increase social inclusion and workplace democracy. Owen's (1816) perspective is not simply communitarian (based on a model of human character that is formed through the act of receiving an education), but is *unitary* in that he expected elites to shape co-operative institutions for the common good (Harrison, 1969). Parnell's view is not just more individualistic in its philosophical grounding, but also more *pluralistic* in the expectation that a growing number of semi-autonomous co-operators and co-operatives will create collaborative social networks (compare Putnam et al., 1993; Retaskis, 2010). Figure 1 connects these assumptions with conceptualisations of ownership and control.

Figure 1 - A Meta-Theoretical Model of Co-operative Ownership

	Unitarism Society is best served by creating consensus	**Pluralism** Society is best served by encouraging diversity
Individualism Identity is a product of free will	Private Ownership Enterprises owned and controlled by founder(s) and investors to the exclusion of primary stakeholders (Not a co-operative)	Joint Ownership Enterprises owned by a primary stakeholder group through individual member accounts. (Mutuals/cooperatives jointly owned by individual members)
Communitarianism Identity is socially constructed	Common Ownership Enterprises owned and controlled by a legal entity for a primary stakeholder with no share capital issued (e.g. mutuals/cooperatives owned by trusts, mutuals and cooperatives)	Co-ownership Combining common and joint ownership systems to promote social solidarity between stakeholders. (Mixed ownership systems that recognise individual and organisational members)

Adapted from Ridley-Duff, 2007, p. 384.

A much discussed example of *common ownership* is the John Lewis Partnership. As people join, they become 'partners' and beneficiaries of an Employee Trust that owns John Lewis Department Stores and Waitrose. Employees do not buy shares in their employer, nor do they receive dividends on shares. Instead, they become beneficiaries of a trust that exists to own their employer for their benefit, and which receives its trading surpluses. Over the last decade bonuses ranging from 9 – 20% of annual earnings have been paid out in addition to wages (Wikipedia, 2011). Partners elect 80% of 82 members of a partnership council that handles non-commercial aspects, and 5 of the 12 commercial directors. In addition, there are store councils and management committees, a company-wide magazine called *The Gazette* and local magazines called *The Chronicle* in which any matter raised by a partner must be responded to by the relevant manager. Finally, the company operates a system called 'The Registry' (Erdal, 2011) in which staff

are employed to liaise directly with members about the performance of their managers, enabling partners to by-pass line management if they need to express their views.

*In a **common ownership co-operative**, all property rights are indivisible, and surpluses are allocated by democratically controlled bodies for member and co-operative development.*

The Co-operative Group, on the other hand, operates a system of individual membership. Consumers, upon joining, have an account opened for them, into which their share of profits are paid every 6 months. Each member's share of profits depends on their level of trading across the group of companies (including food retailers, pharmacies, travel companies, banking and financial service institutions, funeral directors, legal services and a motoring company). Rather than store councils (as happens at John Lewis), the Co-operative Group operate area committees to which co-operative members are elected. There are also regional committees to uphold co-operative values and principles.[2] Unlike John Lewis, Cooperative Group members have individual accounts and hold share capital in the organisation they own (albeit only a £1 share per member). Payments are – legally speaking – dividends, not a bonus that is paid in addition to wages (Beaubein, 2011). In a review of operational practices (Cooperative Commission, 2001), it was recommended that 70% of distributable profits should be paid as dividends to members, while 30% should be retained for community projects that express co-operative values and principles. This being the case, the Co-operative Group is more readily understood as a *jointly owned* enterprise which retains financial reserves under common (indivisible) ownership.

*In a **jointly owned co-operative**, members of a primary stakeholder group contribute capital and receive a share of surpluses, with the remainder allocated to indivisible reserves that are democratically controlled by members.*

A variation on this model is practiced in the Mondragon Cooperative Corporation (Whyte and Whyte, 1991). In the industrial cooperatives, member accounts are created at the local credit union (Caja Laboral – see below). Members contribute capital (typically equivalent to about two

[2] The arrangements of the Co-operative Group are summarised at www.co-operative.coop. To find the information, navigate to Home -> Sustainability -> Delivering Value -> Modern Co-operation -> Democratic Structure.

months pay) of which 20% is immediately allocated to collective reserves. Each year, interest is paid on members' capital, and between 30 – 70% of surpluses are allocated to their accounts. The balance is allocated to reserves and joint enterprises that fund the future development of the co-operative economy. While the amounts of capital invested and distributed to individual members are higher than the Co-operative Group, the system still observes the principle that members contribute share capital and receive dividends for their capital contribution. It is a system of *joint ownership* in which a substantial proportion of wealth is allocated to reserves and secondary co-operatives that are *commonly owned*.

An interesting evolution of this, and an example of co-ownership, is the Caja Laboral. This is the credit union created to support the Mondragon Cooperative Corporation and its individual members. While John Lewis is wholly employee-owned, and the Cooperative Group wholly consumer-owned (Cooperatives UK, 2011a), the Caja has features of both. Both employees and customers are members, and the governing council comprises four elected employee representatives and eight elected consumer representatives[3]. The distribution of profits (surpluses) to members of the workforce is based not on the profitability of the credit union, but on the profitability of its customers (BBC, 1980). This provides a powerful incentive for staff to work in the interests of their customers in a way that promotes sustainable long term wealth creation. This hybrid arrangement results in an unusually close relationships between co-operative members and credit union staff, illustrating how *co-ownership* models can promote solidarity between primary stakeholders (see Oakeshott, 1990; Whyte and Whyte, 1991). This multi-stakeholder approach that involves both producers and consumers offers an example of the associative democracy envisaged by Hirst (1994).

*In a **co-owned co-operative**, members of more than one primary stakeholder group contribute capital and receive a proportion of trading surpluses, with the remainder allocated to democratically controlled reserves.*

[3] Based on field notes collected by the author during a field visit on 5th/6th March 2003.

Case Studies in Democratic Management

The act of including or excluding particular groups from membership (and thereby limiting their influence) is one of the processes that affects the distribution of power and wealth. In different bodies of academic theory, the behaviour of "other" stakeholders is framed as problematic. For example, in private companies, the behaviour of directors and managers is framed as the 'problem' of corporate governance by shareholders (Joerg et al., 2004; Slapnicar et al., 2004). In both management and economic theory, the 'problem' of workforce motivation receives attention (Watson, 1996; Sloman and Sutcliffe, 2001). In cooperative theory, the behaviour of a non-working investor class is framed as the 'problem', so much so that they are frequently excluded from membership (Oakeshott, 1990).

As Vanek (1970) points out, traditional management theory regards labour as a cost to be minimised by paying a fixed wage in line with labour market 'prices'. This may apply equally in private companies (to maximise investor returns) and charities (to maximise the funds available for charitable projects). Kalmi (2007) argues that this applies also to consumer co-operatives, resulting in HRM practices characteristic of investor-owned companies (Davis, 2004). The reverse of this mindset can exist in charities and co-operatives with regard to outside investors. As Ridley-Duff and Bull state:

> *In this case, external investors are not permitted to buy equity in the charity or co-operative (although such rights are preserved when the charity or cooperative wishes to buy equity in other enterprises). If external investment is permitted, the rights of investors are reduced either by barring them from membership, or adjusting their membership rights so that they do not acquire decision-making rights accorded to full members.*
>
> Ridley-Duff and Bull, 2011, p. 142

As I will argue below, however, model rules that have evolved out of co-operative members' experience of challenging single stakeholder models reformulate their constitutions and democratic fora to manage the competition and conflict that arises when primary stakeholders

compete for power with external funders and investors. In examining these developments, it is worth recalling the comment of Michels' (1961: 36) that:

> *Democracy in large measure rests on the fact that no one group is able to secure a basis of power and command over the majority so that it can effectively suppress or deny the claims of the groups it opposes.*

These sentiments reflect Pateman (1970), Ellerman (1984, 1997) and Turnbull (1994, 2002) who argue for participative democracy in enterprise development. Each emphasises how democratic rights attached to corporate citizenship rather than private property have a transformative effect on participation, innovation and enterprise performance (Forcadell, 2005). Attempts to institutionalise arrangements in business so that "no one group is able to secure a basis of power and control over the majority so that it can effectively suppress or deny the claims of the groups it opposes" represents a radical evolution in enterprise governance (Hirst, 1994). Calls for new forms of co-operative started to develop in the mid-1990s based on an argument that co-operative businesses would thrive more effectively as multi-stakeholder enterprises (Major, 1998). They not only offer an alternative strategy for poverty alleviation, but also an alternative to private sector HRM practices (Willmott, 1993). The approach involves rewriting business rules to remove barriers to solidarity between primary stakeholders (Ridley-Duff and Bull, 2011).

New Frontiers in Self-Management

In this section, I examine three sets of model rules (Table 3) that evolved from practice to legitimise the interests of primary stakeholders. I will firstly explore key characteristics of each set of rules by discussing how they attempt to change distributions of power and wealth. Subsequently, I will explore the extent to which different rules *still* privilege one group over others and shape levels of participation in decision-making.

Table 3 – Multi-stakeholder Model Rules for Co-operatives

Model Rules	Brief Description
Case 1 - Cooperative CIC Model	Designed and published by Cooperatives UK in response to the introduction of Community Interest Company legislation in 2005. Underpinned by a Company Limited by Guarantee, the model rules are framed to encourage active service-user and workforce membership on the basis of one-person, one-vote, with a commitment to consult: • Employees • Funders • Suppliers • Customers • Community representatives
Case 2 - NewCo Model	Designed by Morgan Killick and Bill Barker in 2002, with support from the Sheffield Community Economic Development Unit. Underpinned by a Company Limited by Shares, a 2004 version gave control and decision-making power to three classes of shareholder, and investment rights to a fourth: • Class A Shares (for social entrepreneurs) • Class B Shares (for charities and social enterprises) • Class C Shares (for employees) • Social Equity Shares (for supporting organisations)
Case 3 - Surplus Sharing Model	With a heritage stretching back to the work of Guy Major and Gavin Body in the mid-1990s, the surplus sharing rules developed by Rory Ridley-Duff at Sheffield Business School embrace co-operative principles across the labour/capital divide. The rules provide for active membership control on the basis of one-person, one vote, with special provisions for issuing: • Founder Shares • Labour Shares • Investor Shares

Based on cases 7.2, 7.3 and 7.4, cited in Ridley-Duff and Bull, 2011, **www.sagepub.co.uk/ridleyduff**

At first glance, each set of model rules appears to enfranchise both internal and external stakeholders. The *Cooperative CIC Model* (Case 1) provides membership options for both service users (consumers) and workers (employees), but has no specific provision for financial investors. The Company Limited by Guarantee structure provides for membership that confers voting rights, but no automatic rights to profits and assets. As a CIC, the rules include an *asset lock:* a clause naming a registered charity or other asset-locked social enterprise to which residual assets will be transferred upon dissolution. In an unadapted form, Case 1 combines a multi-stakeholder approach with a common ownership model.

The *NewCo Model* (Case 2) provides for three groups to receive ordinary shares: founding social entrepreneur(s) and investors (Class A); social enterprises and charities (Class B); and employees (Class C). Originally the balance of shareholdings was unequal. Later, 'social equity' preference shares were created to enable support organisations to invest in the enterprise and received a fixed dividend. An interesting recent development in one company using the NewCo model (ESP Projects Ltd) is a decision to increase the issue of Class A and C shares by a factor of 10. This had the effect of increasing the shareholding of the workforce from about 8% to 46%. At the same time, the characteristics of Class C shares were rewritten to conform to Industrial Common Ownership standards, granting one vote per worker irrespective of the size of their holding, removing appreciation rights but maintaining income rights (see Table 4). This has transformed the organisation from a hybrid social enterprise to a hybrid co-operative that mixes mutual and capitalist principles in enterprise design.

The final *Surplus Sharing Model* (Case 3) permits *founder shares, labour shares* and *investor shares*. Labour shares entitle the workforce to a proportion of surpluses (typically split 50/50 with investor shareholders). Founder shares recognise the interest of founding members in protecting the democratic ethos and social objectives of a co-operative. Within each group, one-person, one-vote principles apply once membership grows beyond a fixed number of members. While this would not achieve recognition as a *bona fide* co-operative, over time (as founder members leave or die and their shares are cancelled) the enterprise transforms into a solidarity co-operative with both labour shareholders and investor shareholders sharing control and wealth distribution. On the assumption that members of the workforce also hold investor shares, producers will always have a controlling interest. However, a simple adaptation of the rules at incorporation can provide for a 50/50 split between consumer members who 'invest' through their trading activities, and worker members who 'invest' through their labour contribution.

What is striking about all these models is that they not only change the nature of company membership to include primary stakeholders, but also change wealth acquisition and distribution rights. This accords with Ellerman's (1997) advocacy that property rights found in an investor-owned firm should be unbundled and separated into personal rights and property rights. Rights to vote and receive a share of surpluses become the personal rights of primary stakeholders (i.e. rights allocated to those who work in and/or trade with the enterprise). Rights to accumulated assets can still be governed by property rights (so that both past and present members benefit from their appreciation in value).

Of the three, only the *Cooperative CIC Model* (Case 1) can be described as common ownership (i.e. that monies invested are locked into the development of a commonly owned enterprise with assets held in trust for community benefit). Case 2 represents a form of co-ownership, with blocks of shares held by different interest groups (founders, social economy shareholders and workers). The precedent of reconstituting Class C shares to conform to social economy norms provides an innovate way to handle succession issues. Case 3, on the other hand, recognises that the *same* people might have different relationships to the enterprise (as founders, providers of labour, and financial supporters) and seeks to reconcile this through representing these as share classes. Following Ellerman (1997), labour shareholders give up income and voting rights (labour shares) when they leave the co-operative, but retain property rights distributed to them during their tenure (through investor shares). Unlike co-operative models in which workers buy ordinary shares (or an EBT holds them on their behalf), the departure of worker-owners does not dilute or reduce the voting power of labour shareholders as a class (it just redistributes voting power amongst the workers that remain). Similarly, increases in investor shareholdings do not change the power balance between investors and labour, only the distribution of property rights amongst investors.

The development of each set of model rules shows growing support for solidarity co-operatives that embrace co-ownership principles. The *Cooperative CIC Model* (Case 1) has historical connections to the cooperative and industrial common ownership movement (ICOM) so it is unsurprising that there is no provision for equity investment. It was developed in response to enquiries requesting a cooperative model for registration as a Community Interest Company (CIC). The other models have a more mixed heritage. The *Surplus Sharing Model* (Case 3) was initially a product of a worker cooperative encountering problems raising finance from *both* members and external parties. The first iteration of the rules were developed when it was found that government funding for cooperatives could not be accessed without the ability to convert loan finance into equity (Ridley-Duff, 2002). The rules were further developed after collaborations with employers seeking to extend employee-ownership, with the goal of facilitating trust and community ownership alongside cooperative management (Ridley-Duff, 2010). Of interest here is a mechanism to facilitate a gradual 'succession' in ownership (to the workforce) that does not involve a trade or private sale. The *NewCo Model* (Case 2) on the other hand, was conceived during an attempt to establish an ICT organisation servicing third sector clients. This allowed customers to share the costs of establishing the enterprise, shape the way that services are provided to meet their needs, and receive dividends. Help was provided by a community enterprise development unit which accepted the need to reward founders and investors as well as employees and customers. Whilst not a co-operative during its early years, the co-ownership form has developed over time to embrace co-operative values and principles in the issue of Class C shares.

Table 4 shows how the rights identified by Gates (1998: Appendix B) are allocated to different classes of shareholder in each of the case studies.

Table 4 – An Analysis of Member Rights in the Case Studies

Rights	Description
Liquidation Rights	Liquidation rights enable shareholders or creditors to force a company into liquidation if it becomes apparent that it is insolvent, or likely to go insolvent. As Jensen (2006) argues, liquidation rights also give investors the ability to force a profitable company into liquidation (either to remove competition or cash in the value of its assets). In all sets of model rules, multiple shareholder classes make it harder to liquidate a profitable company.
Appreciation Rights	Appreciation rights define how the value of an organisation is reflected in its share price. A CLG (or CIC constituted as a CLG) has no shares, and therefore does not grant appreciation rights. Case 1, therefore, has no shares that appreciate in value, but Cases 2 and 3 permit variations in share price to reflect the value of the enterprise. Case 2 denies appreciation rights to social equity shareholders. In one case, they have also been denied to Class C shareholders. Case 3, on the other hand, denies appreciation rights to founders (although they can acquire these rights if they contribute labour and financial capital). The granting of appreciation rights (through share issues or payments into a capital account) can help substantially with the recruitment and retention of members.
Transfer Rights	Transfer rights permit the sale of assets and shares to other legal and natural persons. Shares may not be transferable to prevent their acquisition by interests unsympathetic to the social aims of the co-operative, or to ensure that voting and incomes rights are retained by active members. Case 1 issues no share capital, but permits the transfer of other assets at market value. Case 2 issues share capital, but does not permit the sales of shares by one shareholder class to another. Case 3 does not permit the transfer of labour shares, but does allow investor shares to the traded.
Income Rights	Income rights define how income can be derived from co-operative membership (via loan interest and/or dividend payments). In co-operatives, there may be a cap on loan interest and/or dividend payments. Case 1 has no share capital and - as a CIC – is subject to statutory caps on payments to members. Case 2 allows shareholders in Classes A, B and C to receive dividends on shareholdings. Case 3 includes rules that ensure surpluses are distributed 50 / 50 between labour and investor shareholders, and that 25% of surpluses are issued as investor shares to labour shareholders.
Voting Rights	Voting rights influence who can participate in decisions on mergers, acquisitions, dissolution, rule changes, and the election of a governing body and/or company officers. Cases 1 and 3 establish 1 person, 1 vote principles. Case 2 allows voting based on shareholdings, but is structured so that two stakeholder groups must be in agreement before a resolution can be passed. The creation of a larger block of class C shares with different characteristics means that one person, one vote principles apply when workers' cast their votes. Case 3 requires 1 person, 1 vote majorities in **each** class, plus 75% in favour overall, to pass a special resolution (required for mergers, dissolutions and rule changes).
Information Rights	Information rights define who can access information held by company officers and staff, and what information is covered. Rights may be extended only to the governing body, or to all members. In all Cases (1, 2 and 3), information rights are granted to all members during working hours.
Public Rights	Public rights can include a 'golden share' to protect the public interest, or social objects that are approved by the Charity Commission or Community Interest Company Regulator. Case 1 is subject to public rights and regulation by the Community Interest Company regulator, but Cases 2 and 3 do not grant specific public rights.

Of the three examples, only the *Cooperative CIC Model* – constituted as a Company Limited by Guarantee – is likely to be a good vehicle for fundraising from grant giving bodies and charitable trusts. While this is not usually the priority of co-operatives trading in commercial

markets, it can be a concern in enterprises created for community benefit that contract with public authorities, local government bodies and charitable trusts. These co-operatives can benefit from the inclusion of a dissolution clause that secures access to public/community funds.

A CLG (or 'asset-locked' enterprise) is not as attractive, however, for raising finance from primary stakeholders or external investors because the arrangements rarely permit a return commensurate with the risks associated with an unsecured investment. Faced with a choice between investing in one's own co-operative or some other saving/investing scheme, a co-operative still has to make an offer that is sufficiently attractive to compete with other investment schemes. In the cases reviewed, only Cases 2 and 3 two explicitly build members' financial capital.

The enactment of associative democracy (Hirst, 1994) through solidarity co-operative models is not confined to these examples. Somerset Rules – available since 2009 from Somerset Co-operative Services – entrench multi-stakeholder principles at the point of formation. As their website (**http://www.somerset.coop/somersetrules**) stated in December 2011:

> *…we applied to the Financial Services Authority to become a 'sponsoring body' able to register new IPS co-operatives. That was so we could create a new standard format for co-operative rules – multi-stakeholder co-operatives, also known as 'Somerset Rules'. These rules have certain advantages over existing model rules provided by Co-ops UK and others. They enable a co-operative enterprise to be 'shared' by more than one group of stakeholders. For example, a community supported agriculture scheme could be 50% controlled by producers, and 50% by consumers. Or a business could be 60% controlled by its workers, and 40% by the local community.*

This development brings the multi-stakeholder principle into the traditional heartland of co-operatives (Industrial and Provident Society Law). Industrial and Provident Societies (IPS) were popular throughout the UK and former colonies of the British Empire in the nineteenth century, particularly in organisations that protected the health and well-being of the community. As both the state and private sectors retreat from welfare and community enterprise, the IPS form is making a comeback as groups of citizens take ownership of local sports clubs, community shops, care organisations, housing and health services (Brown, 2004; Simmonds, 2008). Like Case 3, Somerset Rules enable individual members to share in both dividends and the distribution of collective assets

(although this is limited to 30% of the total). IPSs incur higher registration fees, but lower legal fees for community share issues. They currently provide a cost effective approach for co-operatives to raise capital from their communities (Brown, 2004).

Critique and Conclusions

Close examination of each multi-stakeholder model reveals that they are not free of potential conflicts between primary stakeholders, and that the relative power of one primary stakeholder over another is likely to remain an issue. As such, they are vulnerable to the criticism that they constitute a naïve form of liberalism that ignores or glosses over disparities in power, and which might even entrench and reproduce existing asymmetries of power. The recognition of 'other' stakeholders does not necessarily mean that they will participate equally or achieve the collaborative culture that their advocates expect them to create. Indeed, without member education and support services, they may not even become aware of the rights they gain through membership, or how to exercise them.

Nevertheless, each set of model rules reopens the question raised by Davies (2002) regarding who can be a company member, and the rights and obligations that members acquire. Each acts as a template for reframing business norms so that *corporate citizenship* limits or replaces *property rights* as the basis of membership. Philosophically this represents a shift away from financial capital as primary, to reframe it as a secondary form of investment. The recognition of customers, producers and employees as investors (through their trading, producing and labour contributions) is a paradigm shift in business thinking (Kuhn, 1970) that advances the possibility of the kind of economy envisaged by Hirst (1994). While devising a set of rules does not guarantee that the rules are followed, each emergent model challenges private sector norms in a number of ways, and shifts business thinking towards a new combinations of representative and direct democracy (Schumpeter, 1942; Pateman, 1970).

The model rules provide templates for practitioners to express their co-operative identity and acquire control over human, social and financial capital in enterprise development. In doing so, they provide concrete expressions of common ownership, joint ownership and co-ownership that contribute to the development of a co-operative economy. Importantly, this goal is not achieved by superimposing employee and stakeholder consultation on top of charity or company templates. Instead, there is an attempt to rewrite legal principles and social norms in order to reframe what a co-operative model can achieve. New multi-stakeholder models embrace pragmatic concerns that 'labour' needs customers and capital to thrive, and that 'capital' needs engaged customers and workers to increase in value. The emergence of co-owned solidarity co-operatives suggests that the 'common bond' suggested by Parnell (2011) can go beyond the immediate and narrow economic interests of members to a broader political interest in the creation of a co-operative economy.

Using case studies, I have explored the distinctive characteristics of commonly owned, jointly owned and co-owned co-operative models, and clarified how they differ from privatised and nationalised enterprises. To take this forward, more research is needed to clarify the contexts in which each thrive, and to compare the relative performance of single-stakeholder and multi-stakeholder co-operatives in different industry settings. Lastly, further debate on legal barriers to co-owned co-operatives would be helpful. Why, for example, can single-stakeholder co-operatives obtain tax breaks for employee shareholdings while the same tax breaks are not available to employees in multi-stakeholder co-owned co-operatives? If research can clarify the benefits each type of co-operative creates, more appropriate regulatory and tax regimes can be created.

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