

New co-operativism and the FairShares model

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New Co-operativism and the FairShares Model

By Rory Ridley-Duff



*FairShares
Model*



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In this article, we reproduce co-founder Rory Ridley-Duff's article published in Issue 7 of STIR Magazine in 2014. It discusses the differences between 'old co-operativism' and 'new co-operativism' and the position of the FairShares Model as part of the latter. The provisions for solidarity between multiple stakeholders make the FairShares Model one of very few Anglo-American approaches to the development of solidarity co-operatives.

New Co-operativism and the FairShares Model

In July 2014 I met Margaret Meredith and Catalina Quiroz, organisers of a three-year project to develop education resources for the social economy at York St John University. Both of them had been travelling in South America for three months to learn about the solidarity economy. We first met at the FairShares Association Conference, then again at the Co-operative and Social Enterprise Summer School hosted by Sheffield Hallam University. After four days of discussion, they told me they wanted to include the FairShares Model in a handbook on new co-operativism. This got me thinking about what's new and its relationship to old co-operativism.

The FairShares Model is a project of Social Enterprise Europe. In this agency, the board recognised that the earliest developments in social enterprise between 1976 to 1982 were rooted in commitments to co-operative values and principles: social finance at the Grameen Bank, Bangladesh (1976); social auditing at Beechwood College, Leeds, UK (1978); social co-operatives in Bologna, Italy (1978), and —the exception— social entrepreneurship at ASHOKA, USA (1982). Each initiative developed contributions to practice that we take for granted today. Importantly, they supported projects that combined member ownership with sustainable development goals and social impact measurement. Even the Chief Operating Officer of Unilever, Harish Manwani, argues there is an inexorable move towards a 'responsible business' model in which a licence to operate is only granted when an enterprise creates both economic and social value.

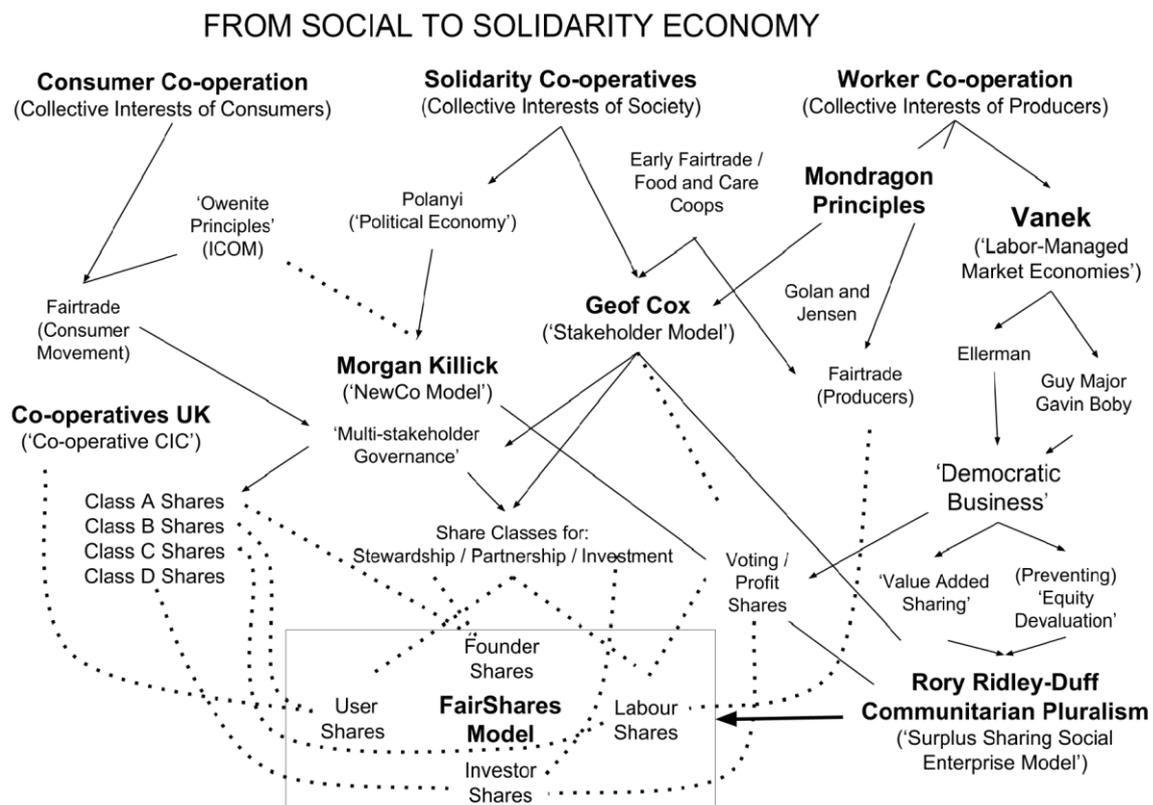
My first encounter with social enterprise was through incubating Social Enterprise London in 1997, when a group of worker co-operatives (one of which employed me between 1989 and 2001) forged an alliance with co-operative development agencies. It was the UK's first regional agency and went on to create the first social enterprise degree at the University of East London, and also established the Social Enterprise Journal. There was considerable experimentation going on at that time: Poptel created a corporate structure to attract venture capital, but later had to transfer part of itself to the Phone Co-op after losing control to Sun International; Computercraft (my employer) held extensive discussions with Gavin Boby of Democratic Business Ltd on how to combine co-operative shares (for voting) with ordinary shares (to represent the wealth invested and created by members); and David Erdal was also based in London back then, turning Robert Oakeshott's Job Ownership Ltd into today's Employee Ownership Association.

With hindsight, it's possible to see these examples as some of the social incubation hotspots of new co-operativism. Before the late 1990s, worker ownership in the UK was dominated by an interpretation of Rochdale Principles at the *Industrial Common Ownership Movement*, based on a £1 membership fee (conveniently ignoring the fact that £1 in 1844 would now be equivalent to about £500). Unlike early co-operatives that paid as much as 10p in the £1 as a dividend, reward systems were largely based on wages. David Erdal, like myself, had visited the Mondragon Co-operatives where workers invest up to 15% of their first year salary on membership and receive up to 70% of surpluses as credits to a co-operative bank account. Democratic Business Ltd —created by Guy Major and Gavin Boby— also expected investments by the workforce. They designed a system for issuing voting shares for labour contributions and profit shares for financial contributions with an ingenious mechanism for 'value added sharing' amongst stakeholders based on share issues rather than bonus payments. As at Mondragon, this was designed to increase working capital

and reduce the cost of making new investments. From 1999 to 2012 these ideas were mixed with ideas in model rules created by Geof Cox (Stakeholder Model, Common Cause Foundation), Morgan Killick (NewCo Model, ESP Projects Ltd) and myself (Surplus Sharing Model, for Social Enterprise Europe). In 2012, these results were branded as the FairShares Model and the FairShares Association was created to support professional development and make intellectual property available to educators, consultants and entrepreneurs.

Founder shares are issued for the entrepreneurial effort needed to bring an organisation into existence, and Labour Shares are issued to people engaged in the production side of the business. This might be producers (in an agricultural/artisan co-operative) or employees (in a co-owned business). User Shares are issued to consumers who trade regularly with the enterprise or who are regular beneficiaries / users of its services. Lastly, Investor Shares are issued to any person (natural or legal) contributing or creating patient capital. Many are destined to end up in the hands of producers and consumers because a FairShares constitution guarantees that half the capital gain is distributed as Investor Shares to recognise that capital is created by their interactions with each other.

Figure 1 – The FairShares Approach



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In the previous epoch of co-operativism (from 1844 to 1978), the notion of a common bond was framed through the needs of a single stakeholder. As Edgar Parnell explains:

“Members of the common bond group are those the enterprise was established to serve...for example: in a consumer co-operative, the common bond will be that they are all consumers; in an agricultural co-operative, all are farmers; in a credit union or building society, all savers and borrowers; and in a tenants’ housing co-operative, all are tenants.”

Parnell, E. (2011) *Co-operation: The Beautiful Idea*, p. 13

The problem with this arrangement is that ‘other’ groups are then treated as subservient to the needs of those with a pre-defined common bond, producing destructive side-effects. For example, recognising that consumer co-operatives could treat labour in much the same way as other private sector employers, Peter Davies wrote a book on human resource management to help improve their labour relations. Similarly, before crowd-funding and community share issues, co-operatives were frequently hostile to ‘outside’ investors. Co-operation might —as Parnell claims— be a beautiful idea but it becomes ugly when it institutionalises a system of mutual distrust and ignores the common bond that is forged through joint action and shared experiences.

The limitations of old co-operativism, therefore, stem from an ongoing insistence that non-members must behave as philanthropists. The logic goes something like this, “Yes, you can work here so long as you accept that consumers come first” (i.e. that workers must be tacit philanthropists). Alternatively, “Yes, you buy from us so long as you accept that profits go to producers” (i.e. consumers must be tacit philanthropists). More recently, I’ve encountered the following attitude, “Yes, you can invest in us so long as you do not expect a return any time soon, if ever” (i.e. that community capital is seen as a quasi-donation rather than an investment choice).

New co-operativism (1978 – now) places more emphasis on a shared return and solidarity between stakeholders, and places less emphasis on meeting the needs of a single stakeholder. Marcelo Vieta highlights five characteristics:

- Responses by working people and grassroots groups to the crisis of neo-liberalism;
- Innovations in meeting needs, uninhibited by pre-existing co-operative sentiments;
- New approaches to wealth distribution that observe sustainable development constraints;
- More horizontal labour relations, and more egalitarian schemes for allocating surpluses;
- A stronger community orientation, with social objects and community development goals.

While guided by ICA Principles, Vieta looks to Kropotkin’s works to define new co-operativism as the:

“...innumerable forms of collective economic practices and social values that are rooted in mutual aid amongst ourselves...”

The acceptance of multi-stakeholder co-operativism marks a substantial change: Josef Davies-Coates called this an open co-operative movement, and notes that Ed Mayo regards this as “an idea whose time has come.” This model not only forges a common bond through the passive accident of a shared demographic or social characteristic, but also through acts of political activism. Italian social co-operatives actively integrated state, beneficiaries, workers and carers in pursuit of a more socially just care system. Mondragon’s Co-operative Bank (Caja Laboural) and retail chain (Eroski) integrated both worker and consumer membership into their ownership and governance processes in pursuit of socio-economic transformation.

The FairShares Model suggests integrating (social) entrepreneurs, producers, consumers and (social and community) investors. With these changes, the common bond is understood and experienced differently. Whilst it may pre-exist in a situation or shared characteristic, it also exists in the shared experience of creating alternatives to neo-liberalism. It is based on common bonds that emerge from the application of a multi-stakeholder ownership, governance and management system to social enterprise development. The benefits sought and interests protected are different rather than the same, but the spirit of co-operation remains the same — to create an economy based on mutual aid rather than market competition.

Dr Rory Ridley-Duff is Reader in Co-operative and Social Enterprise at Sheffield Business School and an Associate of the Centre for Mutual and Employee-Owned Business, Oxford University. He is currently a director of Social Enterprise Europe Ltd where he co-founded the FairShares Association with 5 social economy consultants. He has authored numerous books and papers on co-operative social enterprises and received two awards for outstanding research.
