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## **Communitarian governance in social enterprises: case evidence from the Mondragon Cooperative Corporation and School Trends Ltd**

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# **Communitarian Governance in Social Enterprises: Case Evidence from the Mondragon Cooperative Corporation and School Trends Ltd**

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## **About the Author**

**Dr Rory Ridley-Duff** was a director of Computercraft Ltd between 1989 and 2001, and a founding subscriber of Social Enterprise London (on behalf of Computercraft Ltd). He is currently course leader for the *MSc Social Enterprise and Business Democracy* at Sheffield Business School and a member of the editorial board of the *Social Enterprise Journal*. Rory has published academic papers in international governance, entrepreneurship and social enterprise journals, and is currently co-authoring *Understanding Social Enterprise: Theory and Practice* with Mike Bull (Manchester Metropolitan) and Pam Seanor (Huddersfield University) for Sage Publications.

### Abstract

**Purpose:** Prevailing concepts of corporate governance that are based on external shareholder interests have been challenged by a number of authors over the last three decades. In this paper, the core assumptions of communitarian philosophy and values are outlined, together with the way writers imagine these might be enacted in a social enterprise context. These assumptions are then explored using two case studies.

**Design/Methodology:** The study was conducted using participatory action research which involves parties examining current actions together and seeking to improve on them. The value of this approach is based on the plausible, authentic and critical insights it generates into management practice.

**Findings:** Case evidence suggests that companies are able to adopt and operate effectively while deploying communitarian values, and that these values lead to alternative business objectives expressed through new forms of corporate governance. Nevertheless, the adopting of common language does not necessarily mean that social enterprises share a common philosophy.

**Originality/Value:** The key contribution of this paper is to evaluate the institutionalisation of governance and consider the relationship between the form and substance of practice. By considering the link between words and actions, the study concludes that the adoption of a governance framework, or particular language, matters less than the capacity of company members to participate in the development of governance norms that enable them to act congruently with their own beliefs and values.

**Keywords:** Cooperatives, Employee Ownership, Governance, Communitarianism, Liberalism, Social Enterprise, Business Democracy.

**Paper Type:** Action Research

## **Introduction**

Berry, Broadbent, and Otley (1995) summarise the conventional view of corporate governance as the control of organisations by *external* interests. This conception of governance has been challenged by a number of authors influencing the social enterprise sector who argue that control of the board by *internal* interests is necessary to advance social and economic democracy (Ellerman 1990; Cornforth, 1995; Turnbull, 2002; Ridley-Duff, 2008). New conceptions of democratic governance grounded in institutional and critical theory have received both theoretical attention (Tam, 1999, Johnson, 2006) and practical examination (Whyte and Whyte 1991; Coad and Cullen, 2001, 2006; Ridley-Duff, 2005).

Democratic governance in social enterprises, and possible limitations in practice, has been a topic of constant discussion in recent years (Borzaga and Defourny, 2001; DTI, 2003; Brown, 2006; Low, 2006; Spear, Cornforth and Aitken, 2007; Mason, 2009), and has specific relevance to theory and practice in cooperative social enterprises (Ridley-Duff, 2009). As Turnbull (1994:321) states:

*None of the existing theories of the firm were used to provide the criteria for designing the structure of the Mondragon cooperatives in the mid 1950s. These cooperatives introduced a number of "social inventions" (Ellerman, 1982) which have proved to be outstandingly successful (Bradley & Gelb, 1980; Thomas & Logan, 1982). One of the design criteria for developing the Mondragon inventions was based on Catholic social doctrine, which believed in the "priority of labor over capital" (Ellerman, 1982, p. 8). People, rather than money, became the fundamental unit of concern. This approach...is at variance with the Coasian/Williamson theory of the firm, which is based on transactions....*

This paper explores the influence of communitarian philosophy in the corporate governance of two employee-owned social enterprises. Case evidence is presented using data collected during a period of participant observation at School Trends Ltd, a UK firm based in Sheffield that provides goods and services to schools. An international dimension is introduced through a comparison with the Mondragon Cooperative Corporation (MCC) based on a field trip by the researcher and two School Trends' directors.

At the time of writing, both companies largely satisfied the definition of a social economy enterprise as outlined by Monzon and Claves (2008:557). Both were "private, formally organized enterprises, with autonomy of decision and freedom of membership, created to meet their members' needs through the market by producing goods and services...where decision-making [is] not directly linked to the capital or fees contributed by each member, each of whom has one vote". In both Mondragon and School Trends, some

surplus distribution is allocated to members on the basis of capital holdings (in form of interest or dividends), but some is distributed on an equal basis or *pro rata* according to salary. Workers in both organisations elect their 'governing council'<sup>1</sup> on a one person one vote basis (Lezamiz, 2003; Roan, 2009). The governing council in both organisations appoints the Chief Executive, and is responsible for taking decisions on strategic plans prepared by executive managers. At Mondragon, 'social councils' are also elected from the workforce to take decisions about working conditions.

In the first section, the “shared values” underpinning communitarian thought are set out. This prepares the ground for an evaluation of the two case study companies. Section two explains the participatory action research methodology deployed. Ethnographic methods, and a general inductive approach (Thomas, 2006) are used to develop an analytical narrative that demystifies the complexities of communitarian corporate governance. In section three, case evidence is presented and discussed, and in section four Cornforth’s (1959) philosophical concepts of *form* and *substance* are used to explore similarities and differences at the level of rhetoric, philosophy and practice. In the final section, the implications are drawn out and the study concludes that *forms* of governance can be superficially similar while *substance* can vary.

## **1. Communitarian Values**

Communitarian philosophers position themselves in opposition to the writings of Smith (1759), Friedman (1962) and Rawls (1999). Mulhall and Swift (1992) critique liberal philosophy on the basis that it misrepresents the individual in society. Individuals are not autonomous, they argue, and can only be understood through their relationships with other people. As Avineri and de-Shalit (1992:2) state:

*The individualist image of the self is ontologically false....the only way to understand human behaviour is to refer to individuals in their social, cultural, and historical contexts. That is to say, in order to discuss individuals one must look first at their communities and their communal relationships.*

Tam (1999:10) extends this to business practice by arguing that:

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

He argues that both social and business problems require resolution through people learning to deliberate together as equals. While he accepts that values can be context specific, he claims there are four *common values* that "can be traced back thousands of years and across different cultures": love, wisdom, justice and fulfilment (Tam 1999:16). While Tam defines these as social constructs – as shared values that are recreated through cultural processes by each successive generation – other writers adopt a Darwinian perspective and assume they are products of our genetic heritage (Dawkins, 1976). Of relevance to this study, is the appearance of similar values in the work of psychologist Glasser (see Table 1). Glasser (1998:26-33), following Dawkins, speculates that there is a genetic basis for the persistence of altruism that derives from innate human needs.

**Table 1 – Tam’s Shared Values v Glasser’s Genetic Needs**

<b>Tam’s Shared Values</b>	(Labelled as)	<b>Glasser’s Genetic Needs</b>	(Labelled as)
Loving and being loved, caring for others, passion, tenderness, friendship, sympathy, kindness, compassion, devotion.	Love	To care and be cared for, to appreciate and be appreciated, to understand and be understood, to protect and be protected, to value others and be valued	Love and Belonging
Understanding, clarity of thought, thinking for oneself, weighing evidence, ability to judge	Wisdom	To make decisions, to understand decisions, to be involved in decision-making, to feel that you are listened to, to be trusted to take decisions.	Control (Power)
Fair treatment by others, non-discrimination or subjugation, reciprocal relationships, respect	Justice	To consider others, to be respected by others, to be trusted, to respect yourself	Freedom
Developing and realising our potential, enjoyment, feeling satisfied, pride in one’s actions and achievements	Fulfilment	To laugh and play, to strive for excellence, to overcome difficulties, to create a feeling of success, to be proud of achievements	Fun and Excellence

For Tam, values are informed by a sociological outlook: they are products of cultural reproduction that occur through a continual process of debate (Giddens, 1984). This differs from the assumptions made by Glasser, whereby values are reproduced through our genetic inheritance and manifest as character traits. However they are produced, both are implicated in the governance systems of social enterprises. Tam’s shared values are consistent with the communitarian tone of Giddens (1998) ‘third way’, and Pearce’s (2003) vision of community-based enterprise. Glasser’s psychological pathways, on the other hand, appear in *The Community Company Model*, a set of ideas advanced by the directors of School Trends (Beeby and

Norris, 2000) in a submission to the UK Community Interest Company (CIC) consultation (Ridley-Duff et al., 2003).

Attitudes to communitarian philosophy remain divided, depending on the perceived benevolence of the cultures that develop when communitarian values are enacted in governance. There has been repeated debate on whether social engineering is benign (Mayo, 1933; Ouchi, 1980; Peters & Waterman, 1982) or a means of acquiring totalitarian control (Lukes, 1974; Thompson and Findlay, 1999). US communitarian writers frequently limit their advocacy to established principles of liberal democracy (Schumpeter, 1942; Collins, 1997), whilst those writing from a European perspective show enthusiasm for the participative democracy envisaged by Pateman (1970). This remains relatively rare, despite a well-developed discourse on business democracy (Johnson, 2006).

A feature of communitarian philosophy is a focus on responsibilities linked to the defence of civic rights. As Etzioni states (1995:ix)

*Communitarians call to restore civic virtues, for people to live up to their responsibilities and not merely focus on their entitlements, and to shore up the moral foundations of society.*

The rationale behind Etzioni's polemic is disarmingly simple. In considering the responses of young research participants to the question of whether they would prefer to be tried by a jury or a judge, he found that all would prefer to be tried by jury. At the same time, few members of the same group were willing to serve as jurors (Etzioni, 1998). It occurred to Etzioni that the acquisition of civic rights is contingent on people accepting civic responsibilities. Unless people are willing to serve as jurors, the right to trial by jury cannot be guaranteed. This translates equally to the workplace. Unless people are willing to accept the responsibilities of *employing* then *employment rights* cannot be guaranteed. If civic rights require citizens to accept civic responsibilities, it follows that employment rights require those at work to accept employment responsibilities. This issue is particularly salient in employee-owned organisations as employees are simultaneously their own employers (Ridley-Duff, 2005).

Tam (1999:22) is no less forthright in attacking the imbalance between rights and responsibilities when he writes that early communitarian philosophers:

*...wanted to stop liberal concerns for toleration from being used as a justification for moral neutrality and to prevent the powerful from exploiting the language of 'rights'.*

To explore these issues, the following research question was developed to provide the focus for an action research project. *To what extent do the case study companies represent examples of communitarian corporate governance?*

In the next section, the research strategy and methods of data collection and analysis are explained. This is followed by a presentation of the case evidence as a narrative that identifies common themes and differences between the cases.

## **2. Methodology**

Empirical data were collected during a period of participant observation (Hammersley and Atkinson, 1995) at School Trends Ltd between December 2002 and August 2003. The researcher was based in the HRM department for 20 hours a week. During this period a joint submission to the UK consultation on the Community Interest Company was prepared in which the philosophy of the company is made explicit (Ridley-Duff et al., 2003). This submission involved working closely with two of the company's directors and a colleague at the author's university. It included a field visit between 3<sup>rd</sup>-5<sup>th</sup> March 2003 to the Mondragon Cooperatives in Spain to learn more about their approach to corporate governance. This provided an opportunity to make written notes and audio recordings of meetings with the Director of the Mondragon Management School (Mike Lezamiz) and an academic seconded to Mondragon University (Fred Freundlich). This was valuable to (re)appraise articles and books written about Mondragon.

Field notes and recordings were transcribed, and a research journal was used to record events and reflections during the period of contact. The researcher attended School Trends' "culture classes" - seven 3-hour sessions that taught staff about its approach to management - and contributed discussion papers for board members to develop their plans to convert to an employee-owned company. After withdrawing from fieldwork, e-mail correspondence and occasional attendance at board meetings was maintained until proposals were agreed by the board and consultations with staff and shareholders began. The proposals for conversion were approved by a vote of existing shareholders and employees in late 2004. This was confirmed through a



practitioner case study (EOA, 2007) and Companies House records. Further information was obtained by attending presentations by School Trends staff at the *Employee Ownership Conference* in November 2009.

This paper is guided by the distinction made between form and substance in Cornforth's (1959) philosophical writings:

*Judging from appearances, the forms of things always become evident before their substance. It is easy to recognise that things of various different forms exist; but to find out just what is the character of the substance which assumes this or that form, how the form arises from the processes which take on that form, and how the form influences the development of those processes – this always requires further investigation. For obtaining a more adequate understanding of things, in their changes and in their interactions, it is...important to take into account the correlation of their form and substance. This is all the more important because the same substance can often take on different forms, and the same – or, at all events, similar – forms can often be taken on by different substances. Hence if, in these cases, we do not understand the correlations of form and substance, we are apt to be led to wrong conclusions in practice.*

Cornforth, 1959, pp. 25-26.

Applied to this paper, governance institutions (*forms*) are taken to be products of governance practices and social thinking (*substance*). A deeper level of inquiry is sought to avoid being led to the “wrong conclusions” regarding the relationship between form and substance in the two social enterprises studied.

This approach fits with the commitments of participatory action research (Gill and Johnson, 2002) as it “involves all relevant parties in actively examining together current action...in order to change and improve it” (Wadsworth, 1998: online). The evaluation of participatory action research is assessed with reference to the depth of insight gained through analysis of data collected during and after an organisational intervention, and the extent to which the intervention itself facilitates “transformational change and emancipation based on reflexive understanding” (Johnson et al, 2006:147). Criteria of validity, reliability and generalisability are replaced by an assessment of the plausibility, authenticity, and insightfulness of the inquiry into management practice (Guba and Lincoln, 1994).

### **3. Findings**

Father Jose Marie Arizmendiarietta helped to establish the Mondragon Cooperative Corporation in 1956. Kasmir (1996:71) quotes him as saying that “the emancipation of a class or of a people must begin with the training of those who make it up”. In presenting case evidence, attention has been given to the process of ‘training those who make [the organisation] up’. Two directors at School Trends, accompanied by the

researcher, visited Mondragon to help plan School Trends' conversion to a democratically owned and controlled company. The narrative starts with this visit.

As visitors, we were given handouts used in lectures at Otalora (the Mondragon Management Training School). In these handouts, satisfaction of people's needs is identified as the principal priority, with an emphasis on achieving this through the involvement of people in governance (MCC, 2003:1).

*The new management model is based on the **individual and their satisfaction**, with the aim of achieving total quality [emphasis in the original].*

This is the first sentence of the first handout provided to new management trainees. Evidence from the field trip confirmed previous claims (Whyte and Whyte, 1991; Forcadell, 2005) that democratic assemblies have considerable power to elect and remove the members of both a *governing council*, and one or more *social councils*. The Director of the Mondragon Management School provided insights into the composition of governing councils (the cooperative equivalent of a UK board of directors or trustees):

*In the 1980s – the late 80s – we put one internal rule inside Fagor...we put "less than one fourth, a quarter, less than one quarter should be [departmental] directors".<sup>2</sup> In the case of Fagor, 12 persons. So not more than 3 persons could be possible to be at the same time a [departmental] director and a member of the governing council. At the moment it is only one person... In the other cooperatives, the industrial – with, for example, 300 or 400 cooperative workers - in most of the cases, in the governing council...there are 9 persons; maybe 3, 4, 5 are blue collar workers, and the other 4, 5 or 6 are technicians, some may be [departmental] directors. This is our history.*

Ridley-Duff, 2003, p. 6.

He also responded to a question about the impact of electing governors from the workforce. Does it lead to social conflict amongst governing council members?

*I am helping them as a coach to the Governing Council...because...they have to develop their three skills; communication skills; how we can make decisions; and the third one is leadership. I am the coach of this Governing Council. We speak sometimes about...political problems and this confrontation between blue collar workers and.... I hope that in next two years, they are going to change, that this General Assembly will be a normal General Assembly, that they will choose the best, not my friend...not my ideological friend.*

*ibid.*, p. 6.

He was relaxed about social conflict, but also determined to mediate solutions (compare Cheney, 1999). His role included providing a 40-hour induction programme for newly elected governing council members, and ongoing coaching in communication, leadership and decision-making.

School Trends Ltd was established in 1990 by Richard Jones and Peter Beeby. In 1994, after Richard Jones died unexpectedly, Rick Norris assumed director-level responsibilities. Case evidence indicates that

they developed a similar focus on satisfying individuals. An internal document, called *The Community Company Model* outlines the company vision (Beeby and Norris, 2000:6):

*...to enhance the lives of all those employed within it [and] go beyond the notion of providing simply a means of sustenance and survival [that] endeavours to fulfil the needs of individuals to derive satisfaction and enjoyment from their careers.*

A vision statement is displayed in the company reception, and is given to all prospective employees.

It is also central to the company's 'community classes' where it is promoted as the company's *main* goal. The influence of Glasser is acknowledged directly (Beeby and Norris, 2000:11):

*By fulfilling the Psychological Need Pathways (Choice Theory. W. Glasser, Harper Perennial 1998) of each individual, a momentum is provided for continued organisation growth. The four pathways are:*

- *The need for Love and Belonging*
- *The need for Power*
- *The need for Freedom*
- *The need for Fun and Learning*

The researcher asked the authors of *The Community Company Model* to recommend a book that had strongly influenced their thinking. The first nominated Glasser's book (1998), while the second nominated *The Hungry Spirit* in which Charles Handy outlines a more meaningful individualism than one driven by profit maximisation (Handy, 2002). At this time - March 2003 - the second director characterised himself as "a disciple of Adam Smith"<sup>3</sup>, prompting the researcher to write:

*I think we are engaged in the pursuit of greater pluralism in governance and I don't think this is necessarily Adam Smith's position...I believe he supported the idea of the market as a controller of enterprise (if properly regulated). What I took from Mondragon, however, was that much more effective control can be achieved through the joint agencies of the market and workplace democracy. The market cannot control the excesses of executives, but workplace democracy can (as we learned). On the other side of the coin, the market can control the general level of wages and prices more effectively than workplace or political democracy. Workplace democracy, however, controls the internal wage market.*

E-mail to directors at School Trends, 10th March 2003.

Taken together, the two directors demonstrated a preference for individualist philosophy that satisfies a person's *innate* needs. Glasser's "psychological need pathways" are introduced into the first of School Trends "culture classes". Company managers argue that they can not motivate people directly, but can provide an environment in which aspirations are *activated*. Their task, strongly echoing the Human Relations school of Mayo (1933), was to meet psychological needs as a way of improving performance.

In the second culture class, the influence of Festinger's (1957) theory of cognitive dissonance was elaborated by one of School Trends' directors. Festinger theorised that people vary in their propensity and willingness to 'reduce dissonance' when they encounter evidence (or theoretical ideas) that are contradictory. He argued that people who experience high levels of stress readily accept untested theories that reduce emotional turmoil. Those able to process their emotions, or who are less stressed when faced with contradiction, delay reaching a conclusion until they have had a further chance to consider alternative explanations.

*[The School Trends director] talked about cognitive dissonance...translated as 'emotional haemorrhoids'...[and] used examples to illustrate the idea that people feel uncomfortable if they have to act in a way that is inconsistent with how they really feel, and that this occurs when they don't like having to keep to their responsibilities.*

Journal Reflections, Culture Class 2.

This understanding is made explicit in the speaker notes for the session:

*When thought/feelings are not consistent with actions/words i.e. when an individual feels he/she is having to act in a manner that is different to how they really feel, this is called **cognitive dissonance**. This is an uncomfortable condition for most people that afflicts (rather like emotional haemorrhoids) – eventually most people will revert to behaving in a manner consistent with their thoughts/feelings. Sometimes people come for interview and, because they really like a lot of what they see and hear in terms of the **rights** enjoyed by people... they withhold their real feelings about some of the **responsibilities**... For example, people may really like the idea of the right to a share of the community's profits, but not the responsibility of full contribution to the community effort which may involve working some weekend days through the summer months [Emphasis in the original].*

Culture Class 2, Speaker Notes, pp. 6-7.

The belief is expressed that when thought and action are in contradiction "most people will revert to behaving in a manner consistent with their thoughts" because of cognitive dissonance. Cognitive dissonance is constructed as a product of conflict between thought and action. Field notes, however, show that this characterisation did not accord with the researcher's own understanding:

*[The] words characterise those who resist flexible working as people with cognitive dissonance. Indeed...it seems that [they believe that] anyone experiencing cognitive dissonance is someone who does not share the values of the organisation. Weick (1995) points out that cognitive dissonance is central to social psychological explanations of "actions that did not follow from beliefs and self-concepts"... That is to say, a person who reduces dissonance is a person who allows their values to be overridden by social influence - a conformist rather than an independent thinker.*

Journal Reflections, Culture Class 2.

This being the case, the question arises whether the concept is being misrepresented to reduce the dissonance of directors when they encounter people who resist flexible working. Viewed cynically, this may

be a conscious act to justify the exclusion of those who resist socialisation (on the grounds that cognitive dissonance reveals a mismatch between a worker's values and those stated in company documents). However, case evidence also suggested that cognitive dissonance increased amongst staff when they felt senior managers' actions were inconsistent with the values they espoused.

Through recourse to philosophy, the author sought a deeper level of insight. The School Trends view expresses the classic Cartesian dualism (Hawthorne, 2007) in describing the relationship between the subjective mind and objective reality (the domain of thought/feeling compared to action/words). This indicates an internalised commitment to a correspondence theory of truth (Johnson and Duberley, 2000), where truth itself is framed as a product of correspondence between mind and reality ("right") and non-correspondence ("wrong"). If we add Glasser's *Psychological Need Pathways* into the mix, we have to consider how a belief that genetics shapes social values might affect the conclusions of a person who accepts a correspondence theory of truth. Signs of cognitive dissonance, and perceived incongruence between staff and company values, may be interpreted as *innate* value differences rather than a social conflict produced by varying social and economic interests. It is then a relatively straightforward step to conclude that a particular person's values must be "wrong" because they appear to be incongruent with a stated theoretical model or social norm. To explore this further, it is worth considering the records that School Trends collected on the reasons staff left their employment.

**Table 2 – Leavers Analysis (1999 – 2003)**

Reason for Leaving	<i>Culture Mismatch</i>	21	24%
	<i>Deselect</i>	6	7%
	<i>Disciplinary Procedure</i>	2	2%
	<i>Mutual Agreement</i>	6	7%
	<i>Following Maternity</i>	4	5%
	<i>New Job</i>	18	21%
	<i>Other</i>	8	9%
	<i>Study</i>	1	1%
	<i>Travel</i>	3	3%
	<i>(Not Available)</i>	17	20%
	<b>Total</b>	<b>86</b>	

Based on information produced by School Trends' HRM system, staff turnover was relatively high, averaging 20% in the period 1999 - 2003. This compared to an industry norm of around 13% (CIPD, 2004: 22, Table 15). Herman and Brignall (2005) consider the impact of CIPD qualified HR officers on staff turnover: they view staff turnover above 5% to be high in these circumstances. All HRM staff at School Trends were CIPD qualified, so a turnover of 20% is worthy of further exploration. The reasons people left are summarised in Table 2, based on data collected by HRM staff and checked against exit interviews and personnel files by the researcher. The classification of reasons for leaving were decided by HR staff, not the researcher, and later confirmed or amended by the HR director.

Of particular interest is the category "culture mismatch" - the most frequently cited reason for leaving School Trends. This was introduced by the HR director to indicate cases where they perceived the values of staff members to be incongruent with the values set out in the *Community Company Model*. In a 'culture mismatch' situation, managers were permitted to encourage a staff member to leave, sometimes with the added incentive of a severance package. Also of interest is the 'deselect' classification, introduced to indicate a person who decided (without management prompting) that their values were not aligned to the company's. These classifications are consistent with a philosophy that evaluates the suitability of people, and even School Trends itself, in terms of character traits.

While comparison data on staff turnover at the Mondragon Cooperatives is not available, sharp differences in *attitudes* to staff retention surfaced when members of both companies discussed a case of theft:

*[The Director of the Mondragon Management School] talked about job security - he could only recall 3 people being sacked for stealing (all in the banks so they took a dim view). From his own experience, he knows of someone who was caught stealing and they suspended him for 60 days - he was not sacked. [The School Trends directors] said that if anyone was caught stealing at School Trends they would probably be sacked.*

Journal Transcript, 5<sup>th</sup> March 2003.

The feelings aroused by instances of stealing left a vivid impression on all parties. At Mondragon it, was asserted - on the basis of 30 years experience visiting and coaching governing councils - that no member of any industrial cooperative had been sacked for theft. Only serious cases involving financial fraud at the banks had resulted in sackings.

Further evidence of different outlooks arose over eligibility criteria for election to the governing councils at both organisations. E-mail correspondence circa. 19<sup>th</sup> November 2003 shows that eligibility criteria were proposed for staff at School Trends, even when they had completed their probationary year and become full members. These criteria included: a minimum of 2 years service in the company; a clean disciplinary and grievance record for the previous 2 years; completion of the culture classes and assignments; and a minimum shareholding. A presentation by the company president in 2009 confirmed that these eligibility criteria still apply (Roan, 2009).

The eligibility criteria represent *pre-conditions* that influence the pool of staff eligible to stand for election to the governing council. The ability to participate in democratic institutions was conditional, therefore, on *managers'* assessment of their abilities and character, rather than *members'* assessment of their suitability. These types of controls were not found in articles, books or field notes on Mondragon.

Consequently, the author wrote the following after the eligibility criteria were proposed at a board meeting:

*I found in reviewing my notes from Mondragon, the training (cultural and management) takes place **after** a person has been elected (as something they need to fulfil their democratic duty) - it is not something they have to do to exercise their democratic rights. I think, therefore, that the arrangements proposed at [School Trends] are part of a re-discussion, re-negotiation of the mechanisms of management control - the culture still has key differences in this regard from those I've been part of before, or others we are studying.*

E-mail to School Trends Directors, 27<sup>th</sup> November 2003.

The process for electing staff to governing and social councils at Mondragon was discussed during the field visit (see Ridley-Duff, 2003). It involves a process of negotiation between elected governing council members and full members. It is clear that all full members are eligible to stand, and that it is regarded as a civic responsibility (even in cases where candidates wish to decline a governing role). Executives at School Trends, on the other hand, expressed concerns when the election process was discussed:

*...they started to discuss "appropriate" people while at the same time discussing how they did not want members to discuss this stuff in "work time". At this point, it was unclear to me exactly who they were talking about and [Executive A] intervened to enlighten me. [Executive A] pointed out that board members were concerned that [Staff Member A] should not be elected – and, because he usually got a lot of votes in the Jonesy Award, [Executive B] felt that he might be elected to the council. [Executive B] said that if unsuitable people could be elected (like [Staff Member A]) then it would be hard for her to support the structure...I wondered what [Staff Member A] had done to upset [Executive B]. When [Staff Member A] later talked to me about his concerns for the culture, I got the feeling that he was something of a figurehead for non-managerial staff...[Staff Member A] thought that the culture had changed for the worse.*

Reflections on Board Meeting, 27<sup>th</sup> November 2003.

The Jonesy Award is an annual prize given to the person who most embodies the values set out by the company. It is decided by a vote of all permanent staff with over 1 year's service and is considered the top prize at the company's annual awards ceremony. The above report, therefore, raises a critically important question. Why would members of the School Trends executive want to prevent a person from being elected to the governing council if they are widely believed by their peers to embody the values espoused by the organisation?

Evidence from Fagor at Mondragon (Whyte and Whyte, 1991) suggests that there was a period in which executives sought to marginalize democratic institutions in a similar way (leading to a strike in 1974). Later, they had to yield control after a study group at Mondragon University produced a report on staff participation. Extensive discussions followed in which governing council members eventually agreed to two requests: social councils would elect their own chair; HRM staff would be accountable to *elected* social councils, and not to *appointed* executive managers.<sup>4</sup>

The researcher, based on their own experience of cooperative working, regarded the proposition that executive managers could decide which company members are, or are not, eligible to stand for election as a subversion of democratic principles. Nevertheless, discussions at Mondragon show that it is by no means easy to persuade people to stand for election (Ridley-Duff, 2003). As a result, both negotiation and direct controls may be introduced to institutionalise the formation of democratic forums. The use of management controls, however, appears to be different in the two companies. At Mondragon, they are used to ensure the largest possible choice of candidates for election, and to support (and ensure) these candidates serve on the councils



to which they are elected. At School Trends, management controls are used to limit the choice of candidates to those that pass the pre-conditions set out by executive managers during company conversion.

#### **4. Impacts on Governance Structure and Thinking**

Organising business to meet the development needs of people has a profound effect on attitudes to governance at both Mondragon and School Trends. Of particular note is an expectation – demand even – that all company members accept responsibilities in exchange for their rights to governance and profits. In both organisations, democratic forums formulated principles that leaders are expected to uphold. At Mondragon, the principles were approved first at a biennial Congress (Morrison, 1991), then accepted or rejected by a vote in each member cooperative. Copies of the principles were provided during the field trip (see Appendix A). At School Trends, workshops involving all permanent staff agreed a series of community “pillars”, together with rights and responsibilities that support each pillar (see Appendix B).

In both cases, the responsibilities cover areas of management that are normally the concern only of business owners. In the early 1990s, this was conceptualised as “give and take” at School Trends, but later it was formalised as a set of rights and responsibilities written into employees’ contracts of employment (including executive directors). A similar concept (of rights and responsibilities) exists at Mondragon.

Whyte and Whyte (1991:28) discuss how these principles are applied at Mondragon using the concept of *equilibrio*:

*In discussions of important issues, the word equilibrio appears again and again as a justification for any action proposed. The basic idea is that life in a cooperative should not be carried on as if it were a zero-sum game in which some win and some lose.*

*Equilibrio* is characterised as a many-voiced, pluralist process in which the result is a balancing of interests through the adoption of a win-win mentality. During the field trip, when Mondragon staff heard us use the word, their eyes lit up and they became very animated. One grabbed a pen and balancing it on the tip of his finger he said “always the balance”. Later, while again balancing the pen on the tip of his finger, he used phrases such as “we do the business, we do the philosophy” or “we do the ‘social’, we do the ‘economic’” while tipping the pen from side to side to indicate a set of scales.

School Trends embed the notion of rights and responsibilities in their company literature. It is set out in a “We Believe” leaflet (sent to prospective staff), and included in employment contracts. The origins are a cross-fertilisation of Glasser’s cognitive psychological need for power and responsibility, and a contemporary expression of Adam Smith’s (1759) writings on liberty, duty and moral responsibility. Staff at Mondragon, upon seeing School Trends’ “We Believe” leaflet, immediately saw a similarity. They explained that their concept *equilibrio* (‘balance’) is also taught using concepts of rights and responsibilities. These terms, however, have a different intellectual heritage.

As Fox (1985) points out, UK law and culture is more liberal and individualistic than continental Europe, although it becomes more collectivist as you travel north. While School Trends’ founders grew up in Sheffield (only 30 miles from the heart of the UK cooperative movement in Manchester), the staff who shaped its initial HRM systems grew up in the south of England where the economic liberalism of Adam Smith is more influential. In this Anglo-American heritage, the democratic writings of Schumpeter (1942) provides guidance on the possible introduction and limitations of democratic institutions.

At Mondragon, on the other hand, Father Arizmendiarietta found himself in a situation where the principles of catholic social doctrine (set out in the *Rerum Novarum* of 1891) were hard to implement in practice (BBC, 1980). The catholic clergy were urged to protect the working class by supporting trade unions and collective bargaining, while rejecting communist calls to abolish private property. In Spain during the 1950s, trade unions were banned so Father Arizmendiarietta turned to the cooperative experiments and educational teachings of Robert Owen (1824). This provided an alternative (and legal) way for people in Mondragon to express solidarity with each other. According to Oakeshott (1990), Arizmendiarietta also drew on the sociological teachings of Marx and Mao. As one of his students commented, “[Arizmendiarietta] taught classes in religion and sociology – and really his religion classes were mainly sociology” (Whyte and Whyte, 1991:3). This questioned traditional catholic teachings on both the rights of the capital owning class, and the “god-given” nature of the human soul, and introduced constructivist views on learning, society and the nature of knowledge.

The result was the unique social invention noted by Turnbull (1994). Cooperative principles were accepted, but the common ownership of Owen (1824) was rejected in favour of a system in which cooperative members acquired individual capital stakes (Oakeshott, 1990). This emphasised working people's capacity to shape knowledge for themselves, and discover ways to replace Adam Smith's capitalism and Karl Marx's communism with a libertarian form of socialism (compare Pateman, 1970; Rothschild and Allen-Whitt, 1986; Chomsky, 2005).

Nevertheless, this may not be the only way to understand the different attitudes to risk and social organisation. The cooperatives at Mondragon have the backing of a dedicated community bank (the Caja Laboral), and have diversified risks through the creation of group structures. Their greater independence from private and state banks may increase their propensity to innovate and accept risk. Moreover, having got used to the concept of cooperative property (owned collectively through individual member investments), a cooperative member's relationship to 'property' is itself different. In contrast, employee-owners at School Trends many not yet have adjusted their mindset (i.e. to begin thinking of the facilities in their workplace as their own property). Such a shift in mindset is likely to change members attitude to the notion of theft as the previously clear boundary between the employer's and employees' property begins to dissolve.

In considering these differences, we can further clarify them using Cornforth's philosophical concepts of *form* and *substance*. The key tension is that the expression of communitarian values is not necessarily rooted in communitarian philosophy. Superficially similar organisational forms, upon examination, are supported by different traditions of social thought and practice. It is apparent that the *substance* of School Trends value commitments comes from Glasser's (1998) psychological need pathways, and the moral philosophy of Adam Smith. At Mondragon, it is a product of blending the educational writings of Robert Owen, Catholic Social Doctrine and Marxian thought. In the Mondragon case, there is a traceable link to a libertarian strand of communitarian thought (see Cladis, 1992; Tam, 1999). At School Trends, on the other hand, Anglo-American liberal democracy is being deployed to create new governing institutions.

While democratic institutions are now established at School Trends, they are in the early stages of development. They will face the challenge of countering a deeply held view that executives (or an HRM

department) should screen staff to ensure they are appropriately skilled for the task of governance. In a democratically constituted company, such decisions are not for managers to make, or even for governing council members: they are the prerogative of the wider membership in General Meeting. At Mondragon, a different understanding of human beings, learning and development, influenced by social constructionist thought, accounts not only for the different approach to instituting democracy, but also the body of democratic theory used to inform practice. This is further clarified in the conclusions.

## **5. Conclusions**

This paper started by setting out key themes in communitarian philosophy. These were compared to values included in *The Community Company Model* developed at School Trends Ltd. Using an analytical narrative, evidence has been presented to show that philosophies embracing similar values can be different in their substance, and subsequently lead to different governance practices. While School Trends and the Mondragon cooperatives appear similar in both organisational and rhetorical *forms* of expression (i.e. an elected governing council, commitment to employee-ownership, rights and responsibilities, values-based management, focus on individual development), the *substance* of their internal governance theory and practice is different.

Nevertheless, both companies are worthy of further study, not least because they have both combined forms of workplace democracy with market leadership, and enjoy high levels of commitment from those who work in them (Forcadell, 2005; EOA, 2007). This provides encouraging evidence that alternative forms of corporate governance do not hinder the “success” of social enterprises when measured against conventional norms of profitability and value. In the case of School Trends, the democratic heritage is based on the liberalism of Adam Smith, with the kind of elected leadership envisaged by Schumpeter (1942). It stops short, however, of the participative democratic model favoured by Pateman (1970). For this, we have to turn to the example at Mondragon, where a mix of governing and social councils encourages three to five times the level of participation in decision-making found in comparable private sector organisations (Bradley and Gelb, 1983; Turnbull, 2002; Forcadell, 2005).

The strengths and limitations of the study lie in its ethnographic approach, and participatory action research framework. While this affords good access to materials that remain inaccessible to other research

approaches, it always carries with it the risk that the author is actively constructing an account to conform to preconceived ideas. In this case, the agenda of both organisations – to create business forms and management practices that support individual development – were made explicit through presentation of data from research journals, e-mails, company documents, and management systems. The author used these sources to plan additional searches of the academic literature to locate relevant theory. In doing so, an understanding of the commonalities and differences in *form* and *substance* between the two cases emerged slowly and retrospectively.

The key contribution of this paper is to link philosophies of governance to practice at the level of substance rather than form (Cornforth, 1959). Owner-managers at School Trends perceive misalignments between individual and company values, and respond to this by screening out those they believe will disrupt their culture. Given the sources of their thinking, there is a tendency to judge people on the basis of perceived character traits, leading to relatively high staff turnover when individuals considered a ‘culture mismatch’ emerge within the company. The paradox, however, is that people perceived by their peers to uphold cultural values are not always held in high regard by executive managers. This is clearly an area for future inquiry.

At Mondragon, fundamentally different attitudes to misconduct and the operation of democratic institutions surfaced during and after the field visit. This difference is accounted for by the heritage of communitarian philosophy (Owen, 1824), Catholic social teaching and Marxian thought that produces a different attitude to social inclusion (Morrison, 1991). The influence of constructivist philosophy encourages a different understanding of human beings, with the result that organisation members defend job security and staff retention even for members who have “stolen” from their own enterprise. The paper speculated that cooperative property relations contribute to a change in members’ understanding and attitude to ‘theft’.

Given the volume of social entrepreneurial rhetoric expended on developing an inclusive business culture, the influence of constructivist philosophy at Mondragon appears well-gearred to producing the social outcomes desired. Democratic rights and institutions at Mondragon do not permit managers to dominate governing bodies, but do encourage active and engaged roles in governance. At School Trends, the findings

raise questions regarding the level of tolerance for workforce diversity, particularly a tendency to exclude staff whose values are constructed as a ‘culture mismatch’ with the *Community Company Model*.

The study concludes that both organisations adopt communitarian value commitments, but that only one is underpinned by communitarian philosophy. As a result, the adoption of a corporate governance framework, or particular language, appears to matter less than the way company members understand and agree their rights and responsibilities regarding participation. Based on this study, not all institutional arrangements in employee-owned companies are designed to accommodate diverse points of view, allow members to act congruently with their beliefs, and participate equally in the institutions of governance. Nevertheless, the templates that will enable this are maturing quickly. In these two cases, both social and economic outcomes are being achieved while concurrently developing dominant positions in trading markets. For this reason, their respective approaches will be of interest to practitioners and policy makers in the social enterprise movement.

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<sup>1</sup> The equivalent body in a UK company is a board of directors, and in a UK charity the board of trustees.

<sup>2</sup> The word “director” has a different meaning in cooperatives that is generally not linked to the concept of director in Anglo-American company law. It is used by Mikel Lezamiz to denote people with responsibility for directing operations in different departments, and not to indicate directors in a legal sense. Cooperatives, including the UK, construct the governing body in law as a management committee, not a board of directors.

<sup>3</sup> Research Journal, audio file 15943, 3<sup>rd</sup> March 2003. This conversation took place on the plane travelling to Mondragon.

<sup>4</sup> At first glance, the significance of this may not be apparent. It is roughly analogous to an HRM department becoming the executive arm of elected representatives in an enterprise-based trade union, reporting to them instead of an executive management group.

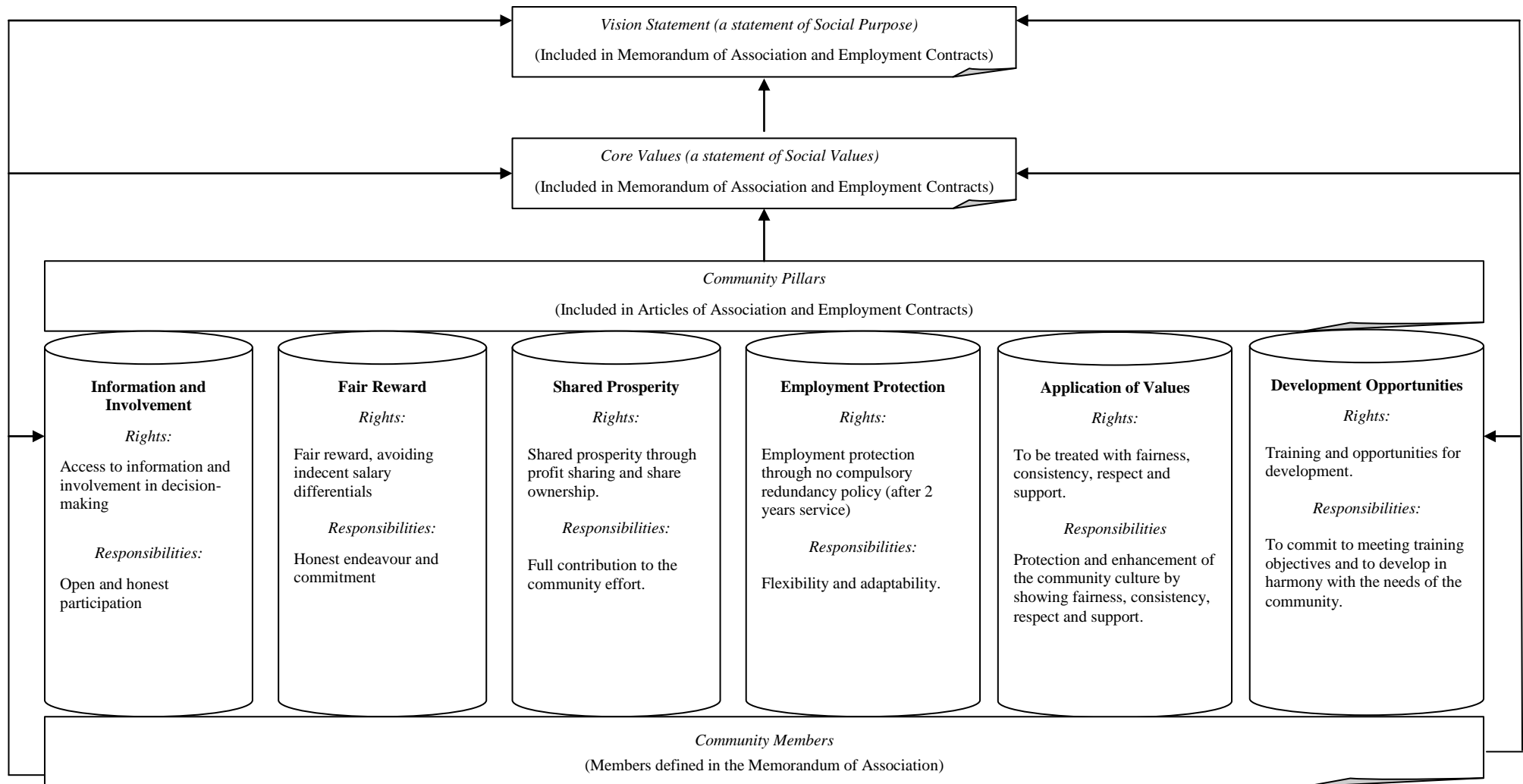
## Appendix A – Cooperative Principles at Mondragon



Source: [http://www.mondragon-corporation.com/mcc\\_dotnetnuke/Portals/0/documentos/eng/management-model/mgc.swf](http://www.mondragon-corporation.com/mcc_dotnetnuke/Portals/0/documentos/eng/management-model/mgc.swf)

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## Appendix B – The Community Company Management Model (School Trends).



Source: Ridley-Duff et al. (2003), downloaded from <http://www.scribd.com/doc/13647544/> on 21 November 2009.



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