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## Multi-stakeholder co-operativism: the (hidden) origins of communitarian pluralism in the UK social enterprise movement

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## **Abstract**

In this paper, we explore a single case study of multi-stakeholder co-operativism to uncover the (hidden) origins of communitarian pluralism in the story of the social enterprise movement in the UK. Before interventions by the Webbs, members of the co-operative movement were open to multi-stakeholder co-operation. After their intervention, in the early 1900s, this tradition became dormant until the rise of social enterprise in the late 1970s. By studying the model rules of the *FairShares Association* we show how the emergence of social enterprise in the 1990s rekindled interest in multi-stakeholder co-operative ownership. This communitarian pluralist discourse reframed the co-operative 'common bond' in line with the spirit of 'new co-operativism' until it became marginalised again by the actions of New Labour in 2003 and the drive for a neo-liberalised social enterprise form.

**Keywords:** communitarian pluralism; social enterprise; new co-operativism; multi-stakeholder perspectives.

## Introduction

This paper examines the model rules of business incorporation of a single case study organisation – the *FairShares Association*, highlighting a multi-stakeholder co-operative approach that emphasises solidarity between *founders, producers, consumers* and *small investors*. In doing so, we will highlight how the emergence of social enterprise in the UK was aligned with the emergence of ‘new co-operativism’ - a form of multi-stakeholder co-operation that disrupts the ‘common bond’ as advocated by Sidney and Beatrice Webb. We theorise this as a pluralist turn in communitarian philosophy stimulated by early social enterprise development which became marginalised by New Labour in 2003 and the drive for a neo-liberalised social enterprise form. This paper is motivated by the following question:

**‘What is the connection between multi-stakeholder co-operation and social enterprise in the UK?’**

The paper therefore seeks to highlight an alternative social enterprise story to the one that has been told to date.

The paper is divided into three parts. In the **first** section, we examine unitary and pluralist orientations within communitarian philosophy and their application to business practices. In particular, we highlight the contested nature of communitarianism and the implications for the concept of the common bond in co-operatives. **Secondly**, we construct an account of divergences in the co-operative movement that the founders of the *FairShares Association* consciously sought to reintegrate. In this section, we argue that developments in Mondragon and Yugoslavia were pivotal in shaping their thinking because they established the credibility of ‘solidarity co-operatives’ in industry, banking, retailing, and education. **Thirdly**, we draw on empirical qualitative research from face-to-face interviews, telephone and email correspondence triangulated with documentary sources from Founder and Labour members of the *FairShares Association* to track how historical influences shaped their model rules.

In our discussion and conclusions, we show how the assumptions of ‘new co-operativism’ were developed by the founders, propagated through the publication of model rules. This requires a re-evaluation of social enterprise history because our investigation shows a historical link between social enterprise developments in the UK, Italy and Bangladesh. Secondly, it suggests that the social enterprise movement was successful in rekindling interest in multi-stakeholder associations and co-operatives that were marginalised by Sidney and Beatrice Webb’s framing of the Labour Movement in the UK and once again marginalised by New Labour.

## 1. The Pluralist Turn in Communitarian Philosophy

Co-operatives are characterised as commercial enterprises owned by members who have a common bond. They act collectively by intervening into the market to develop their economic, social and cultural interests (Birchall 2011). Bamfield (1998) represents them as a part of Thompson's 'moral economy' committed to local ownership, socially-oriented markets and local (community) needs rather than export markets. Whilst early records of co-operative action emphasised reciprocal inter-dependence within the community (Arthur, et al 2003), over time the concept of a common bond has become dominant. Parnell frames the common bond as a unitary concept by arguing that co-operative enterprises are established to serve the interest group that instigates it – for example, consumers in consumer co-ops, tenants in housing co-ops, savers and borrowers in building societies and credit unions. Yeo (2002) argues that this single-stakeholder conceptualisation of the common bond became dominant after studies by the Webbs, who influenced the labour movement. The Webbs thinking on having a common, geographical, creed or other, bond in one way develops the social capital *within* groups. Yet, Yeo strongly criticises the Webbs for dividing stakeholders into three 'wings' (civilian, producer, and consumer) and then reinforcing their separation, rather than championing their integration - to benefit from the bridging of social capital *across* groups (Granovetter 1983), amongst other advantages.

Outside the Anglo-American sphere, however – and particularly in Franco / Latin cultures – this communitarian pluralist impulse regained acceptance by the mid-1970s (Restakis 2010). Interestingly, Savio and Righetti (1993) describe this integrative approach as 'social enterprise', echoing the sentiments of the earliest writers on social enterprise in the UK (specifically Spreckley 1981). In Spain, the emphasis was on solidarity between the community (civilian) and the worker (producer). So the earliest use of the label 'social enterprise' was originally applied to multi-stakeholder co-operatives that emphasised solidarity in Italy during the 1970s and 80s (and which won special legal status in 1991), solidarity co-operatives in Spain, and UK worker co-operatives studying social auditing at Beechwood College in Leeds (Northern England). These activities aligned with developments elsewhere in Canada and the US. Quebec established a legal framework for solidarity co-operatives in 1995, then spread to US states. Lund (2011) articulates this solidarity between stakeholders as a new business model.

*“A multi-stakeholder co-operative is one where differences of perspective and experience are not only tolerated, but embraced...[they] draw membership from two or more classes...be they producers, consumers, workers, or simply community supporters. [They] represent a diversity of interests, but a commonality of need or aspiration....”*

Lund's statement accords with Tam's vision of communitarian enterprises that:

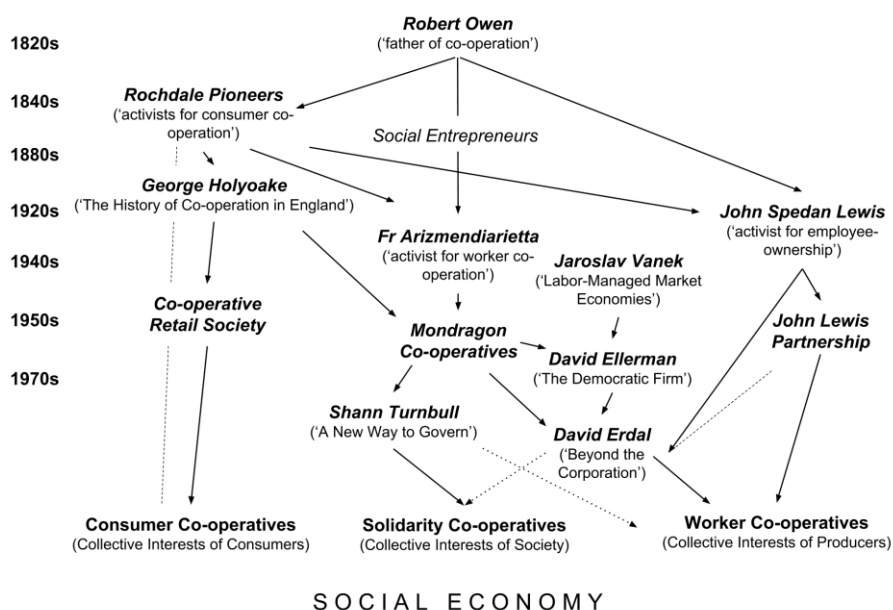
*“...treat workers, suppliers and customers, as well as their senior management and shareholders, as members of a shared community...developing shared values and long-term goals”. (1999:10)*

To summarise, communitarianism is a philosophy that regards individuality as a variable product of community relationships. Some advocates of communitarianism advance unitary ownership and governance based on a common bond between one group of members. However, a communitarian pluralist alternative advocates the integration of different labour identities (civilian, producer and consumer) through multi-stakeholder forms of co-operative ownership and representation. This form of communitarianism seeks to create a credible 'liberal communitarianism' that places more importance on voluntary association and discursive democracy to align the interests of multiple stakeholders (Driver & Martell 1997; Crowder 2006).

## 2. Divergences in the Co-operative Movement

Robert Owen is identified as the person who shaped early developments in co-operative principles (see Figure 1). He lived from 1771 - 1858 and rose to prominence through the creation of co-operative communities at New Lanark and New Harmony. Owen was regarded by Marx and Engels as ‘utopian’ for believing that poverty and inequality could be replaced by co-operative societies within a ‘prosperous and harmonious community’ (Marx & Engels 1888). After some limited successes in the UK and US, Owen’s writings on the formation of character through educational and working practices were overshadowed by the writings of Marx and Engels. However, Owen’s works formed an important strand of communitarian thought that resurfaced in projects to build co-operative communities (Harrison, 1969; Rothschild & Allen-Whitt, 1986; Whyte & Whyte 1991).

Figure 1 – Historical Influences on multi-stakeholder co-operativism



Owen inspired three strands of co-operative development. The first is the Rochdale Pioneers (to whom the Co-operative Group and the International Co-operative Alliance trace their history). Rochdale Principles, however, go beyond Owen’s vision of productive co-operation by an educated working class to more fundamental reforms based on participatory democracy using one-person, one vote principles. They also advanced a new arrangement for sharing surpluses based on individual payments that reflected production and consumption activity. The 1944 film about The Rochdale Pioneers, based on George Holyoake’s histories, portrays Charles Howarth discovering the socio-economic innovation of dividend payments in proportion to trading (Holyoake 1858).

Cathcart (2014) notes that Owen also triggered a second strand of development through his enduring influence on John Spedan Lewis’s (JSL) attempts to create a ‘co-operative society of producers’. In this endeavour, JSL made ‘partnership’ a more important principle than ‘employment’ to encourage a business culture oriented towards sharing gains, information and power. JSL spoke out vehemently against both nationalisation (which he regarded as a pathway to soviet-style communism) and a private economy of “absentee-capitalists who [get] excessive reward for their function of saving and lending” (2014:173).

Following bitter arguments with his father<sup>1</sup>, JSL argued that owners should not receive more compensation than the professionals they hire to run companies (Paranque & Wilmott 2014). The John Lewis Partnership (JLP) is now frequently cited as a model for both private and public sector reform, which includes being couched as a flagship social enterprise.<sup>2</sup> As a trust-owned enterprise, JLP technically became a commonly owned rather than jointly owned enterprise, but its governance and management systems were underpinned by communitarian pluralist assumptions. It was designed as an industrial democracy with an ‘executive-side’ and ‘critical-side’ at store, region and national levels. There were multiple accountability mechanisms through an internal free-press (The Gazette), a Registry (which partners could use to by-pass line management), and a written constitution collectively controlled by the Partnership Council (Erdal 2011; Ridley-Duff 2012).

The Co-operative Retail Society (now part of the Co-operative Group)<sup>3</sup>, in contrast, developed a system of individual membership based on Rochdale Principles (formalised in 1957). Unlike John Lewis, UK consumer co-operatives adhered to the tradition of members providing share capital. Initially, the £1 share contributions raised substantial amounts of capital, but today a £1 share is worth less than 1/500th of its 1844 value and is no longer a meaningful capital contribution.<sup>4</sup> As co-operative societies (both consumer and worker owned) were initiated by member contributions, they were jointly owned enterprises that created both individual and co-operative capital (Brown 2006). Surpluses were divided between individually owned member accounts and commonly owned capital reserves.

Rochdale Principles and Owen’s interest in producer co-operation were important to a third strand of development initiated by Fr. Arizmendi at Fagor (Molina 2013). Arizmendi is credited with co-creating the Mondragon co-operatives with his students in the Basque region of Spain<sup>5</sup>. He drew on Owen’s writings about education and the Rochdale Principles of one-person, one-vote and surplus sharing. In adapting them, Mondragon’s founders developed single-stakeholder industrial (worker) co-operatives and solidarity co-operatives in banking, retailing and education (Whyte & Whyte 1991; Ridley-Duff 2012). Fagor, as outlined by Molina (2013), was instigated by Arizmendi to reinforce work over capital, and solidarity between workers and the wider community. The amounts invested by - and distributed to - individual members were much higher than the Co-operative Group. Nevertheless, the system retained the co-operative principle of member contributions, interest on capital and an entitlement to a share of surpluses. This system of joint ownership (in personal accounts) and common ownership (in collective funds) resulted in a socially liberal form of communitarianism that advances pluralism. It reinforced individuals’ interest in exercising their ‘voice’ and created a tension that Oakeshott describes as ‘equilibrio’ – the deliberate design of a system based on discursive democracy to balance individual, collective and community interests (Oakeshott 1978; Ridley-Duff 2010).

Knowledge of Mondragon’s system of solidarity (particularly in industry, banking, retailing and education) spread to the UK in the 1970s. It alerted UK co-operators to the operations of a people’s bank (Caja Laborale) that provided capital for new co-operative enterprises by raising funds from the community. Moreover, while JLP and Mondragon’s industrial co-operatives were employee-owned, and the Co-operative Retail Societies were consumer-owned, the Caja had features of both. Bird reports that a system

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<sup>1</sup> Cathcart highlights an argument after JSL’s father drew dividends larger than the annual wage bill.

<sup>2</sup> A Google search for "John Lewis Economy" (exact match) yielded 66,600 hits, while the terms "John Lewis State" (exact match) yielded 730,000 hits on 1<sup>st</sup> July 2013. For evidence that John Lewis is regarded as a social enterprise, see ‘Streets Ahead’, *Independent*, 16<sup>th</sup> December 2009.

<sup>3</sup> Created out of the merger of the Co-operative Wholesale Society and Co-operative Retail Society in 2000.

<sup>4</sup> See Toms, ‘Producer co-operatives and economic efficiency’ for evidence of widespread working class ownership of producer co-ops in North West England. The Rochdale Pioneers Museum confirmed that weekly wages had dropped well below £1/week by 1844. In April 2013, the ONS estimated UK median weekly wages as £517. A £1 share in 1844 would be worth well over £500 today.

<sup>5</sup> BBC, ‘The Mondragon Experiment’. 17<sup>th</sup> November 1980, BBC Horizon Series.

for joint worker and consumer ownership and governance developed.<sup>6 7</sup> Governing councils elected both worker and consumer representatives. Within the bank, the distribution of surpluses to workers was designed to encourage solidarity in another way: it was based on the profitability of the bank's co-operative business customers, not on the profitability of the bank itself (Davidmann 2013).

The models of solidarity at Mondragon represented an early intersection between communitarian philosophy and a pluralising approach that spread ownership and governance rights much more widely than the Italian co-operative model (Oakeshott (1978)).<sup>8</sup> Even in Mondragon's single-stakeholder industrial co-operatives, the governance system pluralises control by having management, social and governing councils within each firm (Turnbull 2002). Firms are 'member-owned', not 'investor-owned', committed to socialisation rather than privatisation by ensuring that capital holdings and dividends are widely dispersed and based on a member's activities (Ridley-Duff 2008, 2012; Ridley-Duff & Bull 2011).

There is, however, another trajectory in this history that we need to consider to fully understand the third strand of co-operative development. This comes from the conscious effort of founders and worker-owners to have a positive impact on the well-being of members, the local community and wider environment. In the next section, we consider how parts of the co-operative movement revised their approach to community development in the late 1970s and triggered the rise of social enterprise in the UK, Europe and Asia.

## 2.1 Social Entrepreneurship

Since the early 1990s, entrepreneurial action in pursuit of social goals has been actively developed as an academic discipline.<sup>9</sup> Alvord et al (2004) argue that social entrepreneurship has been theorised in a multitude of ways: as business practices that make social organisations viable (also see Emerson and Twerksy (1996); as action that improves the well-being of marginalized communities (Dees 1998; Nicholls 2006), and as the reconfiguration of existing resources to improve welfare (Uphoff et al 1998). Recently, more focus has been placed on the value propositions of social entrepreneurs (Martin & Osberg 2007), the 'shared value' they create (Porter & Kramer 2011) and the social innovations that sustain them (Perrini & Vurro 2006; Nicholls & Murdock 2012).

This US discourse, however, ignores events occurring in the UK, Europe and Asia at the end of the 1970s that were framed explicitly as 'social enterprise' and 'social business'. Traced in the UK to Freer Spreckley at Beechwood College in Leeds (Yorkshire), in 1978, he sets out an unambiguous definition of 'social enterprise' as a triple-bottom line, worker/community owned, co-operatively managed enterprise (Spreckley 1981). The timing is significant as it coincides with the publication of Oakeshott's book about the Mondragon co-operatives as well as developments in Italy to create multi-stakeholder 'social co-operatives'. This was later recognised as the EMES school of social enterprise (Savio & Righetti 1993; Restakis 2010).

In 2007 Muhammad Yunus wrote about two types of social enterprise – type one outlines a entrepreneurially driven, '*done to*', social business – advocated by the US model of social entrepreneurship; type two outlines a co-operative '*done with*' community-owned model, ignored by the US discourse. Yunus'

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<sup>6</sup> Bird, 'Co-operation and business services'. Followed up by a personal communication (24<sup>th</sup> June 2013) after reading the Co-operative and Mutuals Wales publication. By 2013, 43% was worker-owned, and 57% consumer-owned.

<sup>7</sup> Based on field notes (5<sup>th</sup>/6<sup>th</sup> March 2003) collected by Actor E during a study. Mikel Lezamiz explained that workers were more interested in long term planning than consumers, justifying their *re*-introduction to the board.

<sup>8</sup> Restakis, 'Humanising the Economy' reports that Italian co-operatives limit worker ownership to hinder Mafia influence. At Mondragon, worker-ownership averages 80% compared to 20% in Italy.

<sup>9</sup> Harvard University, Social Enterprise Initiative, started in 1993.



own discussion of the Rochdale Pioneers as a ‘second type’ marries community action with a co-operative model of ownership and control. Thus, Yunus designed this solidarity model to ensure that:

“...social benefit is derived from the fact that dividends and equity growth...benefit the poor, thereby helping them to reduce their poverty or even escape it altogether”.  
(2007:670)

Significantly, it was the second model, and not the first, that underpinned the Grameen Bank in 1976 (Jain 1996) (a project that led to Yunus jointly winning a Nobel Prize with the Grameen Foundation in 2007). This consumer-owned bank invests in the production activities of its members.<sup>10</sup> It mirrors the logic of the Caja Laborale at Mondragon, but at a micro rather than a mezzo or macro level by lending money to members to fund their production (not their consumption) activities.<sup>11</sup>

The work of Jaroslav Vanek on self-managed economies (see Ridley-Duff, et al 2013) is also of interest here. Vanek argued that labour-managed firms bridge a social divide by removing the incentive for managers to distance themselves socially from production workers. The logic of Vanek’s argument is used to explain the achievements at Mondragon and JLP (see Ellerman (1984); Turnbull (1994) and Erdal (2000). They each argue that removing the employment relationship (within the firm) also removes the principal mechanism by which labour is impoverished. The idea of a market economy in which firms are organised as member-owned enterprises is a key departure from existing norms in the private, public and charity sectors (Birchall 2011). Moreover, Golja and Novkovic (2014) state that the arrangements in the former Yugoslavia oriented the social economy toward a multi-stakeholder model not the single-stakeholder model popularised in Anglo-American settings. This being that case, they claim it provided a “platform for multi-stakeholder participation (workers, producers, sellers and buyers)” (2014:21).

In summary, Robert Owen, the Rochdale Pioneers, John Spedan Lewis, Fr. Arizmendi, Jaroslav Vanek, Muhammed Yunus (and those that followed them) engaged in the creation of ‘second type’ social businesses by using knowledge of entrepreneurship and co-operative ownership instrumentally to ensure dividends and equity were spread widely to increase the wealth of individual members and their host community. Their social entrepreneurship was expressed through social innovations in the constitution of organisations to secure solidarity and well-being for founders, producers, consumers and local community investors.

### **3. Findings: The antecedents of the development of the *FairShares Association*.**

We now turn our attention to the findings of our research. Data was gathered from founders of the *FairShares Association* between 2010 and 2013. We conducted empirical qualitative research using face-to-face interviews, telephone and email correspondence triangulated with documentary sources from the Founder and Labour members of the *FairShares Association*. These track how historical influences shaped their model rules. Our goal is to create a credible, trustworthy, confirmable account of the way multi-stakeholder ownership principles were transferred into the *FairShares Model* (Lincoln & Guba 1985). We refer to parties influencing the FairShares Model as actors, giving them labels A, B, C, D, E and F.

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<sup>10</sup> There is ambiguity, whether members are ‘producers’ or ‘consumers’ given circular relationship between savings, investing in production and bank ownership.

<sup>11</sup> At Mondragon, loans funded production in industrial co-operatives. At Grameen loans funded individual / household production. The logic however is the same.

**Table 1 – Actors contributing to the FairShares Model**

Actor	Use of Antecedent Model	Influence on the FairShares Model
Actor A	Deployed the NewCo Model to advance social enterprise in Northern England.	Advocate of social auditing in FairShares and the creation of ‘social wealth’ rather than ‘private wealth’. Most active promoter of the FairShares Model.
Actor B	Author of Stakeholder Model that enabled charities to create multi-stakeholder social enterprises.	Influenced clauses on User Shares (to promote partnership with workers) and Founder Shares (to promote stewardship of values and principles). Contributed clauses to facilitate governance.
Actor C	Author of the NewCo Model that enfranchises social entrepreneurs, customers and workforce members.	Influenced the character of Investor Shares, the need for at least three shareholder classes with no dominant interest and exit routes for social entrepreneurs and investors.
Actor D	Co-author of a Co-operative CIC Model in response to lack of member-led democracy in CIC legislation.	Influenced character of dissolution clauses, passing on of assets, the concept of a community dividend, and par value shares with income / voice rights.
Actor E	Author of a Surplus Sharing Model that integrated elements of the NewCo and Stakeholder Model.	Influenced the voting rights of Founder, Labour and Investor Shares, value-added sharing mechanisms to distribute capital gains, and Creative Commons licencing to manage members IP.
Actor F	N/A	Influenced accounting clauses to ensure retention of reserves in line with EU recommendations for co-operative societies.

Actor A - one of six founders of the *FairShares Association* - describes social enterprise as a reaction to the collapse of industries in Northern England:

*“For me, social enterprise emerged from the community enterprise movement that had rejected capitalist, state and charitable solutions to problems caused by the collapse of traditional industries chiefly in the north of England and Scotland [in the early 1980s]. I probably include a rejection of traditional community development in this – seeing the community economy and the ownership of assets as key...It came too from a frustration with the co-operative movement not being able to give us the models or tools to work with – and so we had turned to creating Companies Ltd by Guarantee and holding companies to increase the democratic nature of our enterprises. This allowed communities to own the assets but workers and volunteers to own the enterprises. The community could use the power of landlord to impose social goals – hence the start of social auditing”.*<sup>12</sup>

The reference to ‘the start of social auditing’ enables us to date Actor A’s involvement from the early 1980s. This suggests the integration of worker, consumer and societal interests continued as a theme in the early development of UK social enterprise (see Arthur et al 2003). We found evidence that Actor A later worked with Spreckley at the Social Enterprise Partnership, then co-authored the second edition of the Social Audit Toolkit.<sup>13</sup> These findings corroborate that social enterprise activity in the UK was initially aligned conceptually with ‘new co-operativism’ in Spain (BBC 1980), Italy (Savio & Righetti 1993), Canada (Lund 2011) and Bangladesh (Jian 1996).

Actor B described how his thinking developed in the mid-1980s through experiences similar to Spreckley (in fair trade initiatives and food co-operatives). This multi-stakeholder orientation was not isolated: We found further evidence during interviews with actors C, D and E, who prior to their involvement with the

<sup>12</sup> Email from Actor A (MD of a Social Enterprise development agency) to John Parman (PhD candidate), 5<sup>th</sup> August 2014. Copied to Actor E as a non-executive board member of the same organisations - Permission to quote has been granted.

<sup>13</sup> See <http://www.caledonia.org.uk/social2.htm#Social%20Enterprise%20Partnership> for confirmation. Also confirmed by personal communications with Actor A and a student on his course..

*FairShares Association*, all wrote model Articles of Association for multi-stakeholder social enterprises during the 1990s / 2000s. In each set of model rules they restructured capital to represent different collective interests. As such, they represented early UK attempts to develop solidarity co-operatives. However, in three of the four antecedents, the interests of social entrepreneurs have also been protected and instruments for equity investments have been crafted. In line with ‘new co-operativism’ each model “did not necessarily have tight links to older co-operative movements [or spring from] pre-existing co-operativist sentiments” (Vieta 2010:2).

Actor B’s model is of particular interest because it shows the conscious shift to multi-stakeholder principles. Similarly, Actor D was involved in the Co-operative CIC (Community Interest Company<sup>14</sup>) model rules, which shows Co-operatives UK responding to debates initiated by New Labour’s strategy for social enterprise in 2002, actively resisting the drift away from co-operative models of social enterprise (see Teasdale 2012). In 2003, the New Labour government considered and rejected statutory rules for multi-stakeholder governance (unlike the governments of France, Italy and Quebec that embraced it). Co-operatives UK - which had admitted worker co-operatives into its governing bodies for the first time after the Co-operative Commission in 2001 – continued to show receptivity to the idea of multi-stakeholder governance, even as it resisted multi-stakeholder ownership.<sup>15</sup>

In 2007, after meeting at networking events and social enterprise conferences, these actors started to converge in their thinking. By 2010, many models had fully evolved multi-stakeholder systems of ownership and governance involving at least three stakeholders. These catered not only for producer and consumer ownership but also for social entrepreneurs and third-party investors. Social entrepreneurs secured their right to govern through ‘Stewardship Shares’ in Actor B’s ‘Stakeholder model’, ‘Class A Shares’ in Actor C’s NewCo model and ‘Founder Shares’ in Actor E’s ‘Surplus Sharing’ model. Similarly, the same three models (unlike the Co-operative CIC) included at least one share type based on a market value calculation to facilitate internal trading amongst members. Producers were granted governance rights through ‘Partnership Shares’ in Actor B’s Stakeholder model, ‘Class C’ Shares in Actor C’s NewCo model and ‘Labour Shares’ in Actor E’s Surplus Sharing model. Interestingly, members could hold more than one type of share to participate in (limited) asset / dividend rights normally reserved for ordinary shareholders in a private company.

In the FairShares Model (see Figure 2), these share types were simplified to Founder Shares (for social entrepreneurs), Labour Shares (for producers/employees), User Shares (for consumers/service users) and Investor Shares (for capturing market value). The first type (Founder) became a par value share with voice rights; the second and third (Labour and User) became par value shares with voice and dividend rights; the last type (Investor) became a variable yield share type with voice, dividend and asset rights.

Furthermore, the voting rights attached to all share types were reframed to match the 1862 Companies Act described by Toms (2012: 856-857). He pointed out that it was common for Companies to use a show of hands in decision making (one-member, one-vote) up to 1900. . After 1900, law handbooks started to recommend the abandonment of one-shareholder, one-vote to serve the interests of larger shareholders. The Co-operative CIC and Surplus Sharing models influence voting in the FairShares Model and return it to the pre-1900 norm to encourage widespread member-ownership and ‘one shareholder, one vote’ principles.

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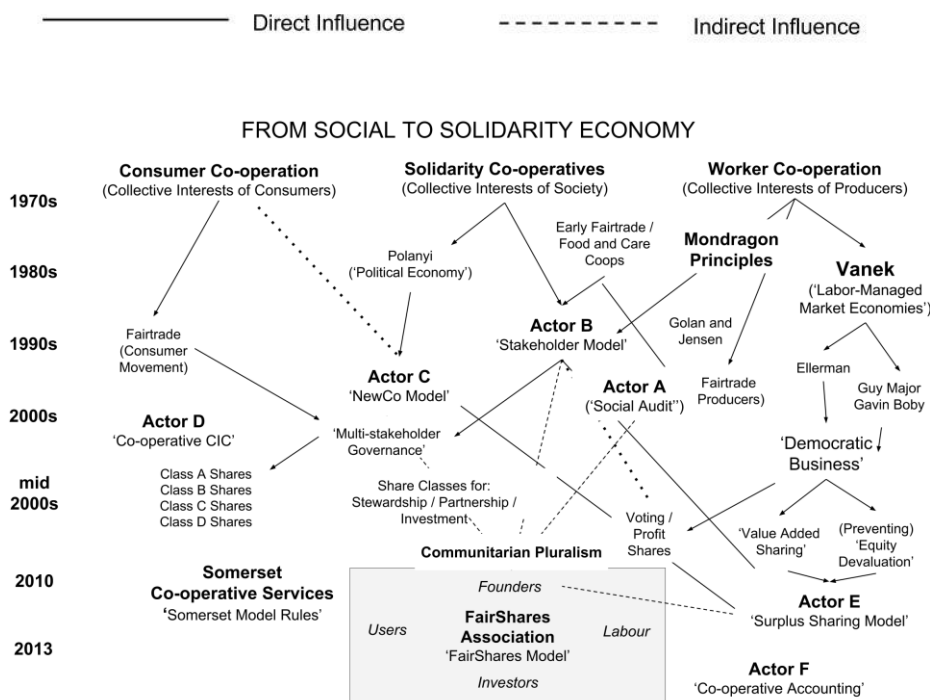
<sup>14</sup> See <http://www.cicregulator.gov.uk/cicregulator/about-us> for further information on CICs.

<sup>15</sup> Further evidence comes from Somerset Co-operative Services who sought approval of Somerset Rules on the basis that Co-operatives UK would not offer a multi-stakeholder model. See <http://www.somerset.coop/p/somerset-rules-registrations.html>.

The Surplus Sharing model was also influenced by Major’s (1998) work on ‘value-added’ sharing. This differs in an important way from profit-sharing because it shares out the increases in market value, not just trading (cash) surpluses<sup>16</sup>. Major suggested that non-voting value-added shares (NOVARS) could be distributed to avoid ‘equity devaluation’ (Major 1998) . This ensures that producers capture some of the capital gains their work creates. The Surplus Sharing model adopted this principle for Labour and in the FairShares Model it is extended to Users. Investor Shares are issued to Labour and Users in proportion to the capital gains achieved and each member’s ‘qualifying contribution’. However, co-operative principles are still retained because no additional votes are acquired by Investor Shareholders (one-shareholder, one-vote principles still apply). Members gain entitlements to capital gains and surpluses, but do not increase their voting power.<sup>17</sup>

In Figure 2, we summarise our interpretation of these primary sources by tracking the re-integration of collective interests through the share types adopted in each of the models described, and by showing their connection to share types in the FairShares Model.

Figure 2 – Historical Influences on the FairShares Model (Primary Sources)



This interpretation shows how unitary communitarianism based on single-stakeholder co-operative / mutual models was changed to a pluralising form of communitarianism that re-integrated multiple stakeholders through issuing new forms of capital. Interestingly, the publication of the *FairShares Model* is seen by Actor A as the furtherance of the original aims of the social enterprise movement.

<sup>16</sup> The difference can be large. At Gripple (an employee-owned firm in Sheffield), the value of the firm is calculated as 30x the previous year’s dividend to employee owners. Therefore, each £1 of ‘dividend’ represents £30 of ‘value-added’. Source: Hugh Facey, Chair of Gripple.

<sup>17</sup> “Member Shares” in the *FairShares Model* V2.0 are allocations of 50% of ‘capital gains’ as Investor Shares to Labour and User Shareholders.

*“For me, FairShares emerges as a direct continuation of our original movement – a bit like a ship out of the fog powered by the latest engineering – reminding us about the founding values of the movement...”<sup>18</sup>*

Secondly, FairShares Association Actor F captures the egalitarian orientation of the model through the issue of capital based on participation, rather than money:

*It looks initially like a method of financing but it is, through the mechanism of issuing shares to workers and users based on participation, a way of gradually transferring some of the control of the organisation (and of all its various capitals) to the providers of intellectual and social capital, treating them as equal to the providers of financial capital...<sup>19</sup>*

In our conclusions, we draw together our findings to make two key contributions to knowledge. Firstly, we have uncovered an important history that changes the way we understand the origins of the social enterprise movement outside the US. Secondly, we highlight how social enterprise revived a pluralising form of ownership and governance that disappeared from the UK’s co-operative movement after interventions by the Webbs.

## **Conclusions**

We now have an answer to our question ‘what is the connection between multi-stakeholder co-operation and social enterprise in the UK?’ By exploring how multi-stakeholder principles were reintroduced into the co-operative movement, we can state that it sprang from initiatives to advance social enterprises aligned with the spirit of ‘new co-operativism’ (Vieta 2010). We started by showing how the UK co-operative movement – after the intervention of the Webbs – shifted thinking from multi-stakeholder co-operation to single-stakeholder consumer co-operatives. However, in the 1960s/70s, worker-owned co-operatives in Spain started to re-integrate consumers into their ownership models on the grounds that it increased solidarity in the community. Our study finds that the social enterprise movement in the UK between 1978–2002 was aligned with the spirit of ‘new co-operativism’ in Spain, Italy, Canada and Asia before links to the charity sector and private sector were forged through interventions by the New Labour government (Teasdale 2012).

After the 1990s, multi-stakeholder models continued to thrive outside the UK, notably by acquiring political and legal support in Italy, France, Canada and parts of North America (Lund 2011). However, in the UK, the government consultation of 2002/03 signalled a shift to US models of social entrepreneurship to satisfy public sector reform plans and numerous funders of the voluntary and charity sector (Teasdale 2012; Ridley-Duff 2007). Nevertheless, this study shows that multi-stakeholder social enterprise models did not stop developing: they continued as a marginalised discourse. To finalise our paper, we make four points that open up new opportunities for theory development.

Firstly, as Actor A suggests, a communitarian pluralist approach to social enterprise represented a conscious break with voluntary sector philanthropy (by advocating joint ownership rather than trusteeship) as well as a break with public sector norms (by seeking co-ownership for multiple classes of member, rather than

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<sup>18</sup> Actor A, email as MD of his agency to John Parman (PhD candidate), 5th August 2014. Permission to quote granted.

<sup>19</sup> Submission by Actor F to ICAEW ‘Rethinking Capitals’ Conference, email dated 2<sup>nd</sup> June 2014. Permission to quote granted.

common ownership with one member class). In doing so, it revives an egalitarian tradition in company law of one-shareholder, one-vote principles that was popular when it was first established.

Secondly, further work to uncover and interpret social enterprise history will be beneficial. Our study suggests that theories of social enterprise rooted in a narrow set of social purposes, supported by asset locked enterprises to encourage philanthropic action are ahistorical. They develop theory based on institutional commitments that followed New Labour's consultation on social enterprise in 2002/03, and not changes occurring in the late 1970s. The conscious attempt to break with 'old co-operative' traditions in the period 1978 – 2003 set social enterprise on a pathway consistent with 'new co-operativism' in Italy, Spain and Bangladesh. We argue that this needs greater recognition in theory, because it breaks with the historical pursuit of single-stakeholder associations, co-operatives and mutuals that deploy unitary governance principles.

Thirdly, we believe social enterprise (and co-operative) theory needs to distinguish between communitarian discourses that are reactionary and progressive. The reactionary discourse acts to restore / retain norms from an earlier period of charity / co-operative history (that limits multi-stakeholder ownership and emphasises the needs of a single stakeholder). The progressive discourse, on the other hand, acts to enfranchise individuals as well as the collective interests of producers, consumers and wider community through enacting multi-stakeholder ownership and governance.

Lastly, by uncovering this hidden history in the development of social enterprise, we provide a new way for scholars and practitioners to distinguish 'old' and 'new' co-operativism through its effects on the common bond. The emergence of the *FairShares Model* re-conceptualises the common bond as something that emerges from acts of solidarity involving more than one stakeholder, and not something that arises from a pre-existing social characteristic or role. As such, this paper clarifies how 'new co-operativism' departs from 'old co-operativism' and is aligned with European and Asian developments in social enterprise.

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