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# **Solidarity cooperatives: the (hidden) origins of communitarian pluralism in the UK social enterprise movement**

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## **Abstract**

**Purpose:** This paper re-evaluates social enterprise (SE) history to pinpoint a pluralist turn in communitarian philosophy during the 1970s that has the potential to transform labour and consumer rights in enterprise development.

**Design/Methodology:** Through a close examination of model rules created by founders of the FairShares Association (FSA), we find that the communitarian origins of SE are disturbingly obscured and hidden.

**Findings:** In studying FSA documents and building a timeline of the development of the FairShares Model (FSM) we found links between SE developments in the UK, continental Europe, Asia, North/South America and the development of solidarity cooperatives.

**Research Implications:** We argue that the discovery of a communitarian pluralist turn advances 'new cooperativism' by enfranchising both labour and users in industrial relations (IR). Using this insight, we challenge accounts of SE history and argue for more research on SE's potential contribution to radical IR.

**Originality/Value:** The paper highlights the potential of the FSM as a vehicle for catalysing new SE and IR practices that share wealth and power more equitably between social entrepreneurs, workforce members, service/product users and community/social investors.

**Keywords:** common bond; communitarian pluralism; new cooperativism; multi-stakeholding; social enterprise; solidarity cooperatives.

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**Conflict of Interest Statement:** Both authors are members of FairShares Association Ltd but receive no compensation and hold no stock options. The association is a non-profit company with minimal income. It manages access to a suite of IP called the *FairShares Model*. The company's IP is made available to its members and the public using Creative Commons licences for education, research and social enterprise development purposes. The first named author is a named researcher for Social Enterprise International Ltd in an Erasmus+ Project 'European FairShares Labs for Social and Blue Innovation' (fees are paid to the author's university, not to the individual). Whilst this presents some methodological challenges regarding reflexivity, the advantages of membership and project involvement offers significant advantages, particularly in relation to research access.

## Introduction

In this paper, we seek to highlight the *hidden* origins of communitarian pluralism in the UK social enterprise (SE) movement to frame a discussion about radical industrial relations (IR) (Fox, 1966).

The UK SE movement came to the fore in 1997 when Blair's Third Way political ideology informed New Labour's social policy (Sepulveda, 2014). Although SE is commonly presented as a pro-American rhetoric of a hybrid organisational form with a non-profit ethic combined with entrepreneurial pursuit of '*blended value*' (Emerson, 2003), there are alternatives and counter narratives (Dey and Steyaert, 2010; Seanor et al, 2013) that are suppressed or denied a voice. We focus this paper by asking two questions: "How and why were the communitarian origins of SE obscured and hidden? What are the implications for IR theory?"

Based on materials obtained from the FairShares Association (FSA), this paper re-evaluates SE history to pinpoint a pluralist turn in communitarian philosophy during the 1970s. We argue that communitarian pluralism was marginalised by New Labour from 2003 onwards, but has resurfaced through efforts to develop a FairShares Model (FSM) of SE that (re)enfranchises both producers and consumers in IR (Ridley-Duff, 2015, 2018; McCulloch and Ridley-Duff, 2016; Boeger, 2018; Levillain et al. 2018; Morgan, 2018). The paper makes its argument by examining the antecedents of the FSM – a form of business incorporation for solidarity cooperatives that emphasises cooperative action by multiple stakeholders in enterprise development (see [www.fsi.coop](http://www.fsi.coop) and <http://www.fairshareslab.org/>).

As members of the FSA, we have been able to access a digital archive as our main source. Furthermore, as one of this paper's authors was amongst six co-founders of the FSA, we were able to access documents about the other co-founders and their motivations for founding the association. In these documents, we found evidence that the thinking of Robert Owen, John Spedan Lewis, Jose Maria Arizmendi, Jaroslav Vanek and Muhammad Yunus had a profound influence on attempts to restructure labour-capital-customer relationships when SE first developed in the 1970s. In the UK,

continental Europe, Asia, North and South America, a communitarian pluralist turn triggered the creation of ‘solidarity cooperative’ models.

The restructuring of labour-capital-customer relationships is relevant in the context of IR because SEs’ potential to act as an effective vehicle for enfranchising labour and user members has been obscured (Vieta, 2010; Lund, 2011). We explore how the early interest in multi-stakeholder associations was marginalised by Sidney and Beatrice Webb (Webb and Webb, 1914, 1921; Yeo, 2002) but was rekindled by interest in solidarity cooperatives in early SE development work. The history we draw out informs our conclusions to this paper by supporting a series of challenges to the dominant discourses in SE based on charity trading and social business (Dees, 1998; Yunus, 2007).

The FSM – according to the websites of the Erasmus+ project “FairShares Labs” ([www.fairshareslab.org](http://www.fairshareslab.org)) and Higher Education Innovation Fund (HEIF) project at Sheffield Hallam University ([www.fsi.coop](http://www.fsi.coop)) - is comprised of a set of values and principles, supported by learning materials and model rules for mutual SEs structured as self-governing companies, cooperatives, partnerships and associations (see Ridley-Duff et al., 2018). We retrieved an electronic archive from the FSA to examine how founder members’ commitment to multi-stakeholder design principles developed in their business modelling. We triangulated this with interview data and electronic communications between six FSA actors (labelled A-F) prior to the FSA’s incorporation in 2015. By drawing on the FSA archive, we challenge the Webbs’ perspective and identify a significant contribution to SE theory.

Our interest in the evolution of co-operative business forms is justified by the growth of the cooperative economy. Firstly, the 2014 CICOPA Global Employment Report raised a 2001 UN estimate of the number of jobs ‘within the scope of co-operatives’ from 100 million to 250 million, then raised it again to 279 million in 2017 (Roleants et al., 2014; Eum, 2017). Secondly, South American states have supported the growth of a social solidarity economy (SSE) in which co-operation is supported by ‘social technologies’ devised by hundreds of SSE incubation projects in universities (Cruz, 2005). The UK co-operative sector contributes £37 billion a year to its national

economy, engages one in four of its population (15 million people) through its member-owner, rather than shareholder, approach to business (Birchall, 2011). Co-operatives UK (2015) claim that turnover, membership and start-ups have each grown at over 5% per annum since the financial crash of 2008.

Interest in the application of the FSM to both co-operative and mainstream business development is growing. A number of authors have followed up the publication of ‘The Case for FairShares’ (Ridley-Duff, 2015) with theoretical and empirical analyses that indicate inter-disciplinary and international interest in solidarity cooperatives. Inter-disciplinary interest is shown through publications on ‘Rethinking Capital’ organised by the Institute of Chartered Accountants of England and Wales. McCulloch and Ridley-Duff (2016) articulate how the FSM changes which ‘capitals’ and ‘contributors’ will be recognised and compensated in the accounting practices of social enterprises. Beyond accounting, Boeger (2018) highlights the example of the FSM in the context of corporate law reform whilst Levillain et al. (2018) use the FSM to argue for changes in corporate governance that prioritise long-term interests. International interest is shown by Morgan (2018) who presents the FSM as a form of legal innovation applied to practice by Australian and US social entrepreneurs at AnyShare Society. Ridley-Duff (2018) also offers a case study of AnyShare Society and compares it to UK-EU based Dojo4Life Ltd to theorise the impact of internationalisation on the FSM. This work also informs international development underway in Croatia, Hungary, Netherlands, Germany, Ireland and Canada (Ridley-Duff et al., 2018).

In short, there is not only a need for a better understanding of where and why the communitarian pluralist turn occurred, but also a gap regarding the potential of solidarity cooperatives to give a strong voice to the labour movement within a growing social solidarity economy (Utting, 2015). It is these two gaps that our research questions address. To achieve this, we have divided this paper into four parts. In the first section, we examine unitary and pluralist orientations within communitarian philosophy and their implications for IR practices. We highlight the contested nature of communitarianism and the implications for the concept of the *common bond*

in cooperatives (Collins, 1999; Lutz, 2002). Secondly, we review secondary sources referenced in FSA materials to describe the period 1820 – 1984.<sup>1</sup> Supplemented by our own additional literature searches, we construct an account of divergences in the cooperative movement that the founders of the FSA consciously sought to reintegrate. Thirdly, we use primary sources from the FSA to track how these historical influences shaped the work of founder members prior to the publication of the FSM. We connect this to interview records with FSA members that examine their contributions to practice between 1984 and 2014 prior to incorporation of the FSA in 2015. This uncovers a (hidden) history of communitarian pluralism in the UK SE movement which we theorise as a form of new cooperativism (Vieta, 2010; Davies-Coates, 2014). This departs from ‘old cooperativism’ emergent in the 1970s by reframing the common bond as something forged through acts of solidarity between stakeholder groups.

Finally, in our discussion and conclusions we answer our research questions. We show how new cooperativism (Cruz, 2005; Vieta, 2010) was developed by FSA founders *before* they formed their association through a series of attempts to devise multi-stakeholder norms for SE using new model rules. We argue that this communitarian pluralist turn in ‘old cooperativism’ is linked to today’s SE movement through the FSM published by the FSA, and that this provides a pathway for developing radical IR practices in SEs that give legal protection to producers’ and consumers’ voice rights by writing them into Articles of Association (Fox, 1966).

### **1. The Pluralist Turn in Communitarian Philosophy**

Kant was amongst the first philosophers to lay foundations for communitarian philosophy by arguing that our capacity for reason is profoundly influenced by social, cultural and historical contexts (Kant, 1781; Habermas, 1987; Lutz, 2000). The notion that rationality is culture bound - and that a person’s experiences are vital to their educational development – became central to both Owen’s and Marx’s vision for a fairer society (Owen, 1817; Marx, 1888). In 1817, Owen made clear his view that the human mind “can be trained to acquire any language, sentiments, belief, or any bodily habits and manners, not contrary to human nature.” (loc. 259).

Consequently, personality ‘traits’ cannot be divorced from language constructs or the way social norms and group status shape each individual’s capacity to exercise agency (Owen, 1817; Giddens, 1991). Avineri and Avner de-Shalit (1992) contend that individuality is a product of the social relationships within which it is expressed, and that liberalism’s conception of individuality is ontologically false. Nevertheless, this realisation has not led to agreement regarding the benevolence of communitarian cultures. While some writers see social engineering as a legitimate way to increase human happiness (Mayo, 1933; Ouchi, 1981; Peters and Waterman, 1982), many others highlight the risk of creeping totalitarianism (Whyte, 1956; Lukes, 1974; Kunda, 1992; Willmott, 1993; Thompson and Finlay, 1999).

To resolve this tension there have been attempts - not all of which are convincing - to define a ‘liberal’ communitarianism (Cladis, 1992; Collins, 1997). Following these scholars, Lutz (2000) – in seeking to align socio-economics with the ‘non-relativistic communitarianism’ of Etzioni and Tam – jettisons its philosophical core by asserting that ‘objective knowledge about an independent reality’ should inform the ‘non-culture specific and measurable’ common values by which we judge social progress (p. 345). This casts Lutz back into a unitarist frame of reference, aligning with rationalists who seek scientifically validated ways to organise social life. Similarly, Collins (1997) holds out the carrot of ‘participatory management’ but on close examination offers representative democracy and legal reform to prod recalcitrant business leaders into practising it.

The struggle of communitarians to accommodate pluralist forms of organising and discursive democracy is also seen in cooperative development. Cooperatives 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 cooperative action emphasised reciprocal inter-dependence within the community (Arthur et al.



2003),<sup>2</sup> over time the concept of a common bond has become dominant. Parnell (2011) frames the common bond as a unitary concept when he argues:

Members of the common bond group are those the enterprise was established to serve...for example: in a consumer co-operative, the common bond will be that they are all consumers; in an agricultural co-operative, all are farmers; in a credit union or building society, all savers and borrowers; and in a tenants' housing co-operative, all are tenants. (p. 13)

Yeo (2002) argues that this single-stakeholder conceptualisation of the common bond became dominant after studies by the Webbs influenced the Labour Movement (Webb and Webb, 1897, 1914, 1921). He strongly criticises the Webbs for dividing the labour movement into three 'wings' (civilian, producer, and consumer), and for reinforcing their separation rather than championing their integration.<sup>3</sup> As Yeo (2002) states:

Before [the Webbs' 'division of labour'] the impulse...had been to bring such work together in whole people, by means of co-operative mutual associational forms, working [against] capitalist divisions by which they were surrounded. This impulse challenged – and fully realised would have transformed – capitalist divisions of labour, transforming the meaning of, and sites for, government, production and consumption. (p. 14).

Outside the Anglo-American sphere however – and particularly in Franco/Latin American cultures – this communitarian pluralist impulse started to gain acceptance by the mid-1970s (Savio and Righetti, 1993; Whyte and Whyte, 1991; Lund, 2011). Interestingly, Savio and Righetti describe this integrative approach as 'social enterprise', echoing the sentiments of the earliest writings on SE in the UK (Spreckley, 1981). In Spain, the emphasis was on 'solidarity' between the community (civilian) and the worker (producer). The earliest uses of the label 'social enterprise' were applied to multi-stakeholder cooperatives that emphasised solidarity in Italy during the 1970s and 80s (and which won special legal status in 1991), systems of solidarity in Basque cooperatives, and worker cooperatives enfranchising their wider communities by studying social auditing at Beechwood College in Leeds, UK.

These solidarity economy roots to SE development have their counterparts in Canada and the US. Quebec established a legal framework for solidarity cooperatives in 1995, and the model spread

to several US states. Lund (2011) articulates the 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.... (p. 3).

Lund’s statement accords with Tam’s (1999) 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. (p. 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, backed by rational science about an ‘independent reality’ that informs social progress. However, there is a communitarian pluralist alternative that advocates the integration of different labour identities (civilian, producer and consumer) through multi-stakeholder forms of cooperative ownership and representation (Yeo, 2002; Johnson, 2006). This form of communitarianism seeks to create a credible ‘liberal communitarianism’ that places more emphasis on solidarity action involving several stakeholder groups (Driver and Martell, 1997; Crowder, 2006).

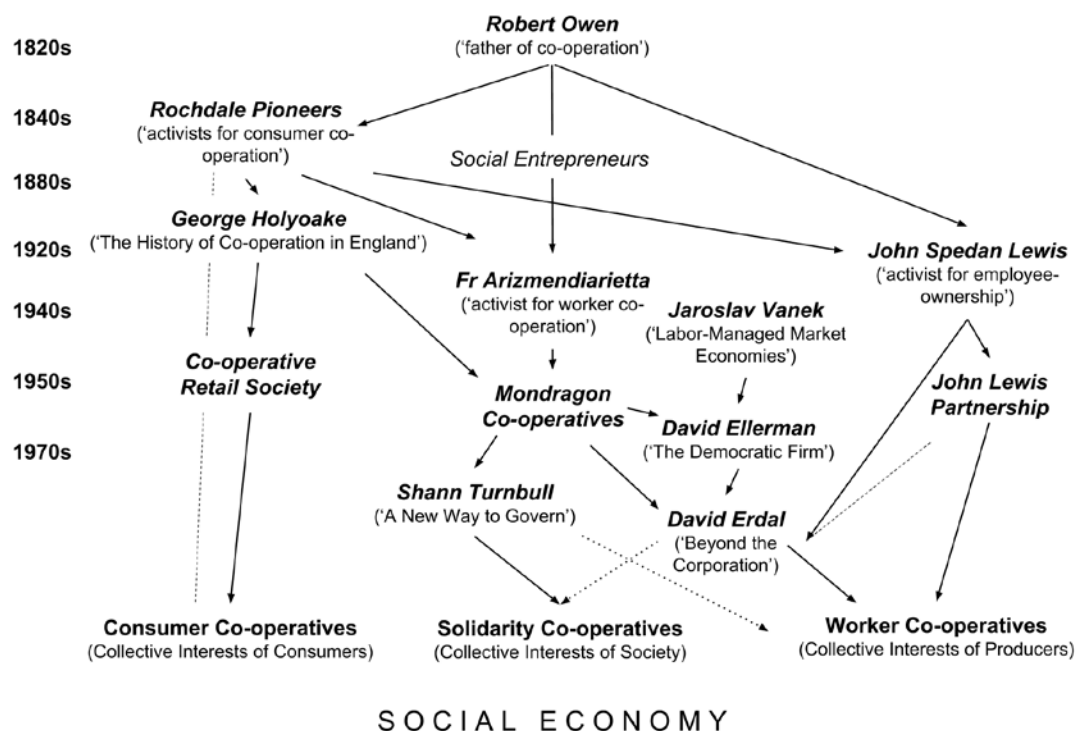
Theory development in social science can benefit from analytic induction applied to case study data (Gill and Johnson, 2002). Analytic induction proceeds from an assumption that deriving knowledge by testing assumptions against a series of cases yields theory that is ‘grounded’ in reality. Furthermore, Johnson (2004) argues that this approach can be used effectively to study IR because theory must start from the observation of practices, not abstracted hypotheses or political ideologies. In the next section, we begin this process using an archive retrieved from the FSA from which we develop an account of the way FSA founders were influenced by the cooperative movement. Whilst this is not *the* history of the cooperative movement, it is the history that the founders of the FSA communicated through materials they cited. This offers an alternative and hidden narrative of the

development of SE in the UK. In doing so, we triangulate the FSA’s claims using other literature to test its credibility and trustworthiness as an interpretation of early cooperative history (Lincoln and Guba, 1985).

## 2. Collective Interests in the Cooperative Movement

Robert Owen is identified as the person who shaped early developments in cooperative principles (see Figure 1). He lived from 1771 to 1858 and rose to prominence through the creation of cooperative communities at New Lanark and New Harmony (Owen, 1817; Robertson, 1969; Cooke, 1979). Owen was regarded by Marx and Engels as ‘utopian’ for believing that poverty and inequality could be replaced by cooperative societies within a more harmonious and affluent community (Marx and Engels, 1888; Balnave and Patmore, 2013). 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 cooperative communities (Harrison, 1969; Rothschild and Allen-Whitt, 1986; Whyte and Whyte, 1991).

Figure 1 – Historical Influences on the FairShares Model (from Secondary Sources)



Owen inspired three strands of cooperative development. The first is the Rochdale Pioneers (to whom the Co-operative Group and the International Cooperative Alliance trace their history). Charles Howarth, the author of the first Laws and Objects of the Rochdale Society of Equitable Pioneers, and James Daly - the society's first secretary - were leaders of the 'Owenites' in Rochdale (Wilson, Shaw and Lonergan, 2012). Rochdale principles, however, go *beyond* Owen's vision of productive cooperation by an educated working class to more fundamental Chartist 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, 1922, 2013).

Cathcart (2009, 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 'cooperative society of producers'. 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" (Lewis, 1948, p. 173). Consequently, JSL made 'partnership' a more important principle than 'employment' to encourage a business culture oriented towards sharing gains, information and power (Lewis, 1954). Following bitter arguments with his father, JSL argued that owners should not receive more compensation than the professionals they hire to run companies (Paranque and Willmott, 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 SE.<sup>4</sup> Following a transfer of ownership in John Lewis, staff became 'partners' and beneficiaries of a trust. Initially some partners held shares, but over time the Trust acquired them and partners received profit-shares rather than individual dividend payments based on capital holdings (Lewis, 1954). Initially, the Chair of the trust owned the shares in John Lewis Department Stores and Waitrose, but later a trust company was

formed (which survives to this day). The constitution permitted the workforce to elect 80% of the Partnership Council responsible for social development, and 40% of the board responsible for commercial decisions. As a trust-owned enterprise, JLP technically became a commonly owned enterprise with governance and management systems that were underpinned by communitarian pluralist assumptions. It was designed as an industrial democracy with an ‘executive-side’ and ‘critical-side’ at store, regional and national levels (Lewis, 1954, see p. ix for a clear diagram). There were – and still are - 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, 2012; Wren, 2017).

The Co-operative Retail Society (now part of the Co-operative Group), in contrast, developed a system of individual membership based on Rochdale Principles (eventually formalised in 1957). Unlike JLP, UK consumer cooperatives 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 1/500<sup>th</sup> of its 1844 value and is no longer a *meaningful* capital contribution.<sup>5</sup> As cooperative societies (both consumer and worker owned) were initiated by member contributions, they were *jointly owned* enterprises that created both individual and cooperative capital (Toms, 2012). Surpluses were divided between individually owned member accounts and commonly owned capital reserves.

Rochdale Principles and Owen’s interest in producer cooperation were important to a third strand of development initiated by Fr. Arizmendi at Fagor (Molina, 2013). Arizmendi is credited with co-creating the Mondragon cooperatives with his students in the Basque region of Spain (BBC, 1980). He drew on Owen’s writings about education and the Rochdale Principles of one-person, one-vote and surplus sharing. In adapting these principles, Mondragon’s founders developed single-stakeholder industrial (worker) cooperatives and multi-stakeholder solidarity cooperatives in banking, retailing and education (Whyte and Whyte, 1991; Ridley-Duff, 2010). Fagor, as outlined by Molina, was instigated by Arizmendi to reinforce Christian ideals for a new entrepreneurial order

that valued work over capital, and solidarity between workers and the wider community. The amounts invested by - and distributed to - individual members are much higher than the Co-operative Group. Nevertheless, the system retains the cooperative principle of member contributions, interest on capital and an entitlement to a share of surpluses.

Each member's initial capital contributions were divided as follows: 20% to an indivisible reserve, 80% to personal accounts. This system of joint ownership (in personal accounts) and common ownership (in collective funds) resulted in a socially liberal form of communitarianism that advanced 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, 1990; 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 cooperative enterprises by raising funds from the community. Moreover, while JLP and Mondragon's industrial cooperatives were employee-owned, and the Cooperative Retail Societies were consumer-owned, the Caja had features of both. Bird reports that a system for joint worker and consumer ownership and governance developed over time (Bird, 2013, verified by personal communication). Governing councils in the Caja 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 cooperative business customers, not on the profitability of the bank itself (Davidmann, 1996, verified by personal communication).

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 cooperative model (Oakeshott, 1990; Restakis, 2010). Even in Mondragon's single-stakeholder industrial cooperatives, the governance system pluralises control by

having management, social and governing councils within *each* firm (Turnbull, 2001). Firms are ‘member-owned’, not ‘investor-owned’, and show their commitment to socialisation rather than privatisation by ensuring that capital holdings and dividends are widely dispersed and based on a member’s activities.

There is one other source cited in the FSA archive considered important – the work of Jaroslav Vanek (1970) on the Yugoslav self-managed economy. 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, 1982; Turnbull, 1994, 1995, 2001; and Erdal, 2000, 2011). 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 set-up in former Yugoslavia prioritised *multi*-stakeholder arrangements, not the single-stakeholder characteristics of cooperatives in Anglo-American settings. This being the case, they claim it provided a “platform for multi-stakeholder participation (workers, producers, sellers and buyers)” (p. 21).

There is, however, another trajectory in this history that we need to consider to fully understand the third strand of cooperative development - social entrepreneurship. 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 cooperative movement revised their approach to community development in the late 1970s and triggered the rise of SE in the UK, Europe and Asia.

### ***Social Entrepreneurship***

Since the early 1990s, entrepreneurial action in pursuit of social goals has been actively developed as an academic discipline. Alvord *et al* (2004) argue that social entrepreneurship has been theorised in a

multitude of ways: as business practices that make social organisations viable (Emerson and Twersky, 1998); as action that improves the well-being of marginalised 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 and Osberg, 2007; Chell, 2007), the ‘shared value’ they create (Porter and Kramer, 2011) and the social innovations that sustain them (Perrini and Vurco, 2006; Nicholls and Murdoch, 2012).

The discourse of creative social entrepreneurs designing social innovations to realise social goals is popular in the US (and increasingly in the UK), but largely 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’. The FSA archive refers to Freer Spreckley’s work at Beechwood College in Leeds (Yorkshire) which outlined an unambiguous definition of SE as a triple-bottom line, worker/community owned, cooperatively managed enterprise (Spreckley, 1981, p. 3). The timing is significant as it coincides with the publication of Oakeshott’s book about the Mondragon cooperatives as well as developments in Italy to create multi-stakeholder ‘social cooperatives’ (Restakis, 2010). The changes in Italy are not only recognised as central to the EMES International Research Network approach to framing SE (Savio and Righetti, 1993; Defourny and Borzaga, 2001), but have been embedded in European Union SE mapping projects from 2012 onwards (Defourny and Nyssens, 2017, verified by personal communication).

The US discourse embraces ‘first type’ social business theory advanced by Yunus (2007) (which is premised on entrepreneurial action and ownership) but largely ignores his ‘second type’ (premiered on collective community action and ownership). As a result, there is a marginalisation of Yunus’s own discussion of the Rochdale Pioneers as a ‘second type’ social business that marries community action with cooperative models of ownership and control. Yunus designed his ‘second type’ 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. (loc. 670)



Significantly, it was the *second* type, and not the first, that underpinned the Grameen Bank project from 1976 onwards (Jain, 1996) – a project that led to Yunus jointly winning a Nobel Prize with the Grameen Foundation in 2007. Whilst Grameen is a consumer-owned bank, it invests in the *production* activities of its members and thereby mirrors the logic of the Caja Laborale at Mondragon at a micro level.

In summary, Owen, the Rochdale Pioneers, Spedan-Lewis, Arizmendi, Vanek, Yunus and those that followed them engaged in the creation of ‘second type’ social businesses by using knowledge of entrepreneurship and cooperative ownership instrumentally to ensure dividends and equity increased the wealth of members across their host communities. Their social entrepreneurship was expressed through innovations in the constitution of organisations to secure solidarity and well-being for founders, producers, consumers and local community investors.

We now turn our attention to primary sources (i.e. documentation *created* by six founders and members of the FSA). This helps with understanding the period 1984 – 2014 - when and where these actors worked to integrate worker, consumer and societal interests in UK SE development. By treating each description of social enterprise model rules created by FSA founders as a ‘variation’ of the solidarity cooperative concept, we engage in analytic induction (Johnson, 2004) that reveals shared and variable characteristics of solidarity cooperative models. The result is a credible, trustworthy, confirmable account (Lincoln and Guba, 1985) of the way social solidarity principles were *transferred* firstly into antecedent SE model rules, and then later into the FSM itself from which we can articulate how variations were reconciled in the FSM. This supports our concluding comments on the role that solidarity cooperatives can play in advancing IR (Fox, 1966).

### **3. Multi-stakeholder Cooperative Ownership in the UK’s SE Movement**

Actor A - one of the founders of the FairShares Association - describes SE 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 cooperative 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. (Actor A email to a PhD student on 5<sup>th</sup> August 2014)

The reference to ‘social auditing’ enables us to date Actor A’s involvement from the early 1980s. We found evidence that he later worked with Spreckley at the Social Enterprise Partnership and co-authored the second edition of the *Social Audit Toolkit* (Clark, undated, verified by personal communication). These findings corroborate that SE activity in the UK was initially aligned conceptually with ‘new cooperativism’ in Spain (BBC, 1980), Italy (Savio and Righett, 1993), Canada (Lund, 2011) and Bangladesh (Jain, 1996).

The archive also contains one interview with Actor B that describes how his thinking developed in the mid-1980s through experiences similar to Spreckley’s (in fair trade initiatives and food cooperatives). A multi-stakeholder orientation, therefore, was not an isolated occurrence. We found further evidence in materials based on interviews with Actor C (about Co-operatives UK), Actor D (about ESP Projects Ltd) and Actor E (about Surplus Sharing). All these actors wrote model Articles of Association for multi-stakeholder SEs between the mid-1990s and late-2000s.

Four interview records collate the historical influences that produced the antecedent model rules to the FSM:

- 1) *Stakeholder Model Ltd* devised by Actor B (1984 – 2010);
- 2) *NewCo Model* devised by Actor C (mid 1990s – 2013);
- 3) *Co-operative CIC Model* described by Actor D (2002 – 2007);
- 4) *Surplus Sharing Social Enterprise Model* devised by Actor E (1996 – 2010).

Each set of model rules restructured capital to represent different collective interests and were represented by their authors as contributions to SE development that enfranchise labour. In three of

the four antecedents, the interests of *social entrepreneurs* were also protected and instruments for equity investments were built into the rules. In line with ‘new cooperativism’ each model “did not necessarily have tight links to older cooperative movements [or spring from] pre-existing cooperativist sentiments” (Vieta, 2010, p. 2). Table 1 shows the capital structures devised and the academic and practitioner influences that shaped their thinking.

**Table 1 – Direct Influences on the Antecedents of the FairShares Model.**

<b>Model</b>	<b>Practitioner influences cited</b>	<b>Theoretical influences cited</b>
Stakeholder Model Ltd offers: - Stewardship Shares (trusteeship) - Partnership Shares (workers/users) - Investor Shares (supporters)  (Actor B)	<ul style="list-style-type: none"> <li>• Kermase Food Cooperative / Fair Trade Movement (1980s)</li> <li>• New Labour debates about the retention of ‘Clause 4’ and common ownership. (mid 1990s)</li> <li>• Renewable Energy Corporation Ltd (2000 onwards)</li> <li>• Lippy People (David Tomalin)</li> <li>• North East Music Co-operative Ltd</li> </ul>	<ul style="list-style-type: none"> <li>• Co-operative journals / readings. (1980s/90s)</li> <li>• Golan and Jensen’ work / writings on IR. (1990s, early 2000s)</li> <li>• (opposition to) Charlie Cattell’s single stakeholder / common ownership model. (1990s)</li> </ul>
NewCo Model devised to offer: - A Shares (entrepreneurs) - B Shares (clients / customers) - C Shares (employees) - Social Equity (supporters)  (Actor C)	<ul style="list-style-type: none"> <li>• Sheffield Community Economic Development Unit (Bill Barker / Dave Thornett) – (2002 / 3)</li> <li>• ESP Projects Ltd – (2004- )</li> </ul>	<ul style="list-style-type: none"> <li>• Readings on ‘political economy’, particularly work by Karl Polanyi. (1990s)</li> </ul>
Co-operative CIC devised to ‘consult’: - Employees, Funders - Suppliers, Customers - Community Representatives  (Actor D)	<ul style="list-style-type: none"> <li>• Co-operative Legal Services</li> <li>• Cooperative movement members</li> <li>• Labour Government (1997 – 2003)</li> <li>• Society Law (IPS)</li> <li>• Member consultations (2003 – 2007)</li> </ul>	<ul style="list-style-type: none"> <li>• Rochdale Cooperative Principles.</li> <li>• ICA Co-operative Values and Principles (1995 – 2005)</li> </ul>
Surplus Sharing Model devised to offer: - Founder Shares (entrepreneurs) - Labour Shares (workers) - Investor Shares (workers / others)  (Actor E)	<ul style="list-style-type: none"> <li>• Democratic Business Ltd (Gavin Boby) – 1999 - 2001</li> <li>• Sheffield Co-operative Development Group (Alan Dootson) - 2001</li> <li>• Employee Ownership Association (under David Erdal) – 1999</li> <li>• School Trends Ltd (Peter Beeby and Rick Norris) – 2002 - 2005</li> <li>• Mondragon Corporation (Mikel Lezamiz) - 2003</li> <li>• Dr Poonam Thapa – 2005/6</li> </ul>	<ul style="list-style-type: none"> <li>• Cooperative and SE Journals (1990s / 2000s)</li> <li>• Major and Boby’s writings on ‘equity devaluation’ and ‘value added sharing’. (1996 – 1999)</li> <li>• The Community Company Model, including Coad and Cullen (2001). (2001 – 2005)</li> </ul>

Actor B's model is of interest because it shows the conscious shift to multi-stakeholder principles in *opposition* to the advocacy of Charlie Cattell for retention of single-stakeholder common ownership models. Similarly, the Cooperative CIC (Actor D's) is of interest because it shows how the co-operative movement responded to debates initiated by New Labour's strategy for SE in 2002, actively resisting the disappearance and desertion of cooperative models (Teasdale, 2011). In 2003, the New Labour government considered and rejected statutory rules for multi-stakeholder SE governance (unlike the governments of France, Italy and Quebec that embraced it). Co-operatives UK - which had admitted worker cooperatives 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*.

#### **4. The Consolidation of Antecedents in a FairShares Model**

In 2007, after meeting at networking events and SE conferences, the authors of different sets of model rules started to converge in their thinking. Actor E's rules evidence the interactions between the authors of different models by citing the influence of the Stakeholder model (B) and NewCo model (C) on the Surplus Sharing model (E). By 2010, the Stakeholder model (B), NewCo model (C) and Surplus Sharing model (E) all 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. This was retained in the FSM (see Table 2).

Social entrepreneurs secured their right to govern through 'Stewardship Shares' in the Stakeholder model (B), 'Class A Shares' in the NewCo model (C) and 'Founder Shares' in the Surplus Sharing model (E). Similarly, the same three models - unlike the Cooperative CIC (D) - 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 the Stakeholder model (B), Class C Shares in the NewCo model (C) and Labour Shares in the Surplus Sharing model (E). Interestingly, members could hold more than one type of share in E's model to

participate in both governance and (limited) asset / dividend rights normally reserved for ordinary shareholders in a private company. In the FSM (Table 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 par value shares 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.

**Table 2 – Impact of Antecedent Models on IR in the FairShares Model**

<b>Approach in Antecedent Models</b>	<b>➔ Approach in the FairShares Model (FSM)</b>
• Stewardship / Class A / Founder	➔ Founder Shares
• Partnership / Class B Shares	➔ User Shares
• Partnership / Class C Shares / Labour	➔ Labour Shares
• Investor / Class A Shares	➔ Investor Shares
• Co-ownership (individual / organisational members)	➔ Founder, user and labour shareholders acquire investor shares based on active participation.
• At least three classes of shareholder (stakeholder) at incorporation	➔ One class at incorporation (founders), with constitutional provisions to create the other classes when production, trading and surplus generation occurs.
• Preference for unitary boards elected from each class of shareholder	➔ Main/sub boards elected by shareholder classes (elections triggered by a member threshold fixed at incorporation).
• All stakeholders have a route to membership, with limited protection of minorities	➔ All stakeholders have a route to membership, plus explicit protection of minority interests (special resolutions) and mediation to resolve member conflicts.
• Electoral college in general meetings (Stakeholder Model)	➔ One-member, one-vote for ordinary and special resolutions; electoral college when a poll is called; one class, one-vote for special resolutions.
• Employees hold the balance of power (NewCo Model)	➔ For a special resolution to pass, there must be majority support in every class of shareholder.
• Shareholder classes with the same rights in general meetings (Surplus Sharing Model)	

Furthermore, the voting rights attached to all share types were reframed to match the 1862 Companies Act described by Toms (2012). 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, and that Table C provided model articles for one-*shareholder*, one-vote in all decisions. After 1900, law handbooks started to recommend the abandonment of one-*shareholder*, one-vote to serve the interests of wealthier shareholders. The Co-operative CIC (D) and Surplus Sharing models (E) influence the provisions in

the FSM to return to the pre-1900 norm in company law (Toms, 2012) for low denomination shares (to encourage widespread member-ownership) and ‘one-shareholder, one-vote’ principles.

Actor E’s Surplus Sharing model was also influenced by Major’s (1996, 1998) work on ‘value-added’ sharing. This differs in an important way from profit-sharing because it shares out increases in market value, not just trading (cash) surpluses.<sup>6</sup> Major (1998) suggested that non-voting value-added shares (NOVARS) could be distributed to avoid ‘equity devaluation’ by ensuring that producers could receive shares in proportion to the capital gains their work creates. In the FSM, this system is extended to Users: both Labour and User members are allocated Investor Shares in proportion to any capital gains achieved. However, cooperative principles are still retained because one-shareholder, one-vote principles still apply. Members gain entitlements to capital gains and surpluses, but do not increase their voting power, preserving the norms of cooperative IR.

Interestingly, the publication of the FSM was seen by Actor A as furtherance of the original aims of SE in the 1980s.

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...

(Actor A email to a PhD candidate, 5th August 2014).

Actor F (a member of the FairShares Association who advised on accounting clauses in model rules published during 2014) captures the egalitarian orientation of the FSM through the issue of capital based on *participation*, rather than money:

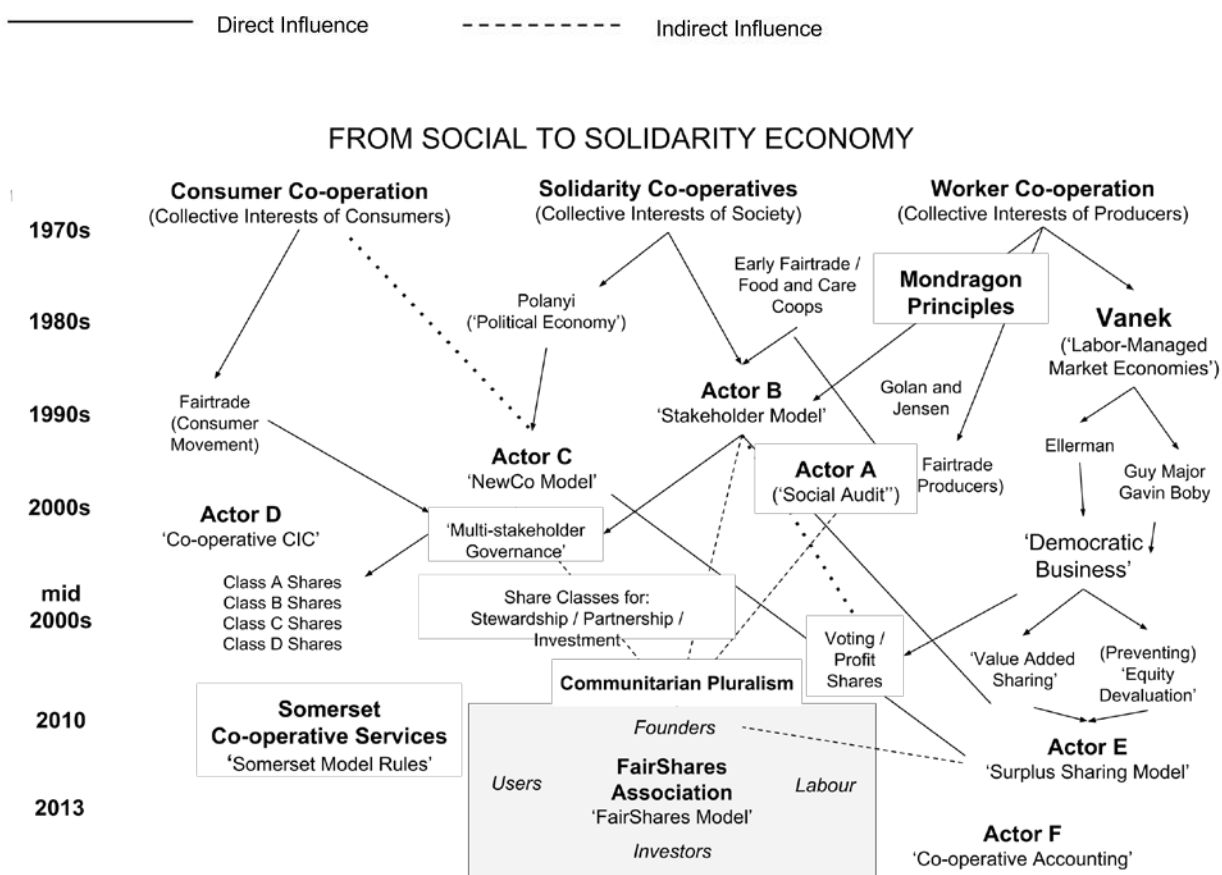
It looks initially like a method of financing but it is, through the mechanism of issuing shares to workers and users based on participation, a way of gradually transferring some of the control of the organisation (and of all its various capitals) to the providers of intellectual and social capital,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

(Actor F, submission to ICAEW ‘Rethinking Capitals’ conference, June 2014)

The following year, Somerset Co-operative Services - a UK support agency which published multi-stakeholder cooperative rules in 2009 - recognised the FSM and issued guidance on how to configure its own Somerset Rules to create a FairShares enterprise (SCS, 2015).

In Figure 2, we summarise our interpretation of 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 FSM. This interpretation shows how unitary communitarianism based on single-stakeholder cooperative/mutual models is integrated through a pluralising approach to communitarianism in which stakeholders are issued new forms of capital that grant voting rights, dividends and capital gains.

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



In our conclusions, we draw together our findings to highlight four contributions to knowledge. When taken together, they offer new opportunities for IR that re-enfranchise labour as a partner in industrial endeavours based on 'new cooperativism'.

## 5. Conclusions

We set out to answer two questions: “How and why were the communitarian origins of SE obscured and hidden?” and “What are the implications for IR theory?” On the issue of communitarian origins, we established a connection between multi-stakeholder cooperation and early SE development in the UK. This sprang from initiatives to advance forms of SE aligned with the spirit of ‘new cooperativism’ (Vieta, 2010). We showed that the UK cooperative movement shifted thinking from multi-stakeholder cooperation to single-stakeholder consumer cooperatives after an intervention by the Webbs. However, in the 1960s/70s cooperatives in Spain started to re-integrate both workers and consumers into their ownership models to build greater solidarity across the community (Whyte and Whyte, 1991). Our study finds that the early trajectory of the SE movement in the UK was to align with ‘new cooperativism’ in Spain, Italy, Asia and South America prior to the New Labour government’s invitation to the charity and private sectors to comment on its proposed SE strategy in 2002 (Teasdale, 2012).

From the late 1990s, multi-stakeholder models continued to develop outside the UK, notably by acquiring political and legal support in Italy, France, Canada and parts of North and South America (Cruz, 2005; Lund, 2010). However, in the UK, the government consultation of 2002/03 signalled a shift to US models of social entrepreneurship by giving precedence to them in public sector reform plans and numerous funders of the voluntary and charity sector (Teasdale, 2012; Sepulveda, 2014). Nevertheless, this study shows that multi-stakeholder SE models did not stop developing. They continued as a marginalised discourse that has re-emerged as a FairShares Model (FSM) of SE designed to (re)enfranchise both producers and consumers in IR through founder, labour, user and investor shares.

On the question of implications for IR, we found that a communitarian pluralist approach to IR was seen as 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 across multiple classes of member, rather than common ownership through the state). In doing so, it revives



a more radical industrial relations tradition that was popular when companies were first established. (Fox, 1966; Toms, 2012). This is more egalitarian, rooted in company rather than society law, and enfranchises both labour and user members through one-shareholder, one-vote principles. We believe this adds to the case for further research on SE history to reassess its significance to IR. Our study suggests that SE theory that prioritises social purposes delivered by asset-locked enterprises characterised by a philanthropic impulse is not only ahistorical but also ignores the potential of SE for advancing radical IR (Fox, 1966).

Theories of SE over-influenced by New Labour's consultation in 2002/03 ignore changes that occurred in the late 1970s (which are still evolving today). Conscious attempts to break with 'old cooperative' traditions in the period 1978–2003 set SE on a pathway consistent with the radical IR of 'new cooperativism' in Europe, Asia, the Canadian province of Quebec, and numerous South American states. We argue that this needs greater recognition in SE theory, because it breaks with the historical pursuit of single-stakeholder associations, cooperatives and mutuals deploying unitary governance principles, in favour of communitarian pluralist design principles. The emergence of the FSM re-conceptualises the common bond as something that emerges from acts of solidarity involving more than one stakeholder, and not something that arises out of pre-existing social characteristics or economic roles. As such, this paper clarifies how 'new cooperativism' departs from 'old cooperativism', and opens a pathway for radical IR in SEs. We believe it is this radical vision of IR that appeals to scholars who argue for use of the FSM to reform accounting (McCulloch and Ridley-Duff, 2016), corporate law (Boeger, 2018; Morgan, 2018) and corporate governance (Levellian et al., 2018). More progressive forms of IR will benefit from corresponding changes in the knowledge base of inter-related professional standards that influence IR systems. This supports our last point.

Both SE and cooperative theory need to distinguish between communitarian discourses that are reactionary and progressive. The reactionary discourse acts to restore/retain norms from an earlier period of charity/cooperative 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 multi-stakeholder models of ownership and governance in solidarity cooperatives.

In summary, we have uncovered an important history that changes the way we understand the origins of the SE movement outside the US and its contribution to IR based on the recognition and enfranchisement of founder, labour, user and investor members in solidarity cooperatives. We highlight how this approach to SE revived a pluralising form of ownership and governance that had disappeared from the UK's cooperative movement after interventions by the Webbs, and which remains obscured in accounts of the early origins of SE. This communitarian pluralist turn has the potential to enfranchise both labour and user communities as full partners in entrepreneurial endeavours, and provides a basis for radical IR by shifting power and wealth from absentee investors of financial capital to active investors of entrepreneurial effort, productive labour and consumer patronage.

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## Notes

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- <sup>1</sup> Accessed at: <http://www.fairshares.coop/wikispotarchive/fairshares.v1-2archive.xml>. The archive was readable during the early drafts of this paper when the Wikispot site was still active. When Wikispot was discontinued, the archive was only available as an XML file.
- <sup>2</sup> Mervyn Wilson, CEO of the Co-operative College stated at the 'Learning Together' conference (9<sup>th</sup> December 2014) that the college's archive show multi-stakeholder models were more common in C19.
- <sup>3</sup> Yeo – Chair of the Co-operative Heritage Trust – reiterated these criticisms at 'Learning Together' hosted by the Co-operative College (9<sup>th</sup> November 2014).
- <sup>4</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>5</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 can confirm that weekly wages dropped well below £1/week by 1844. In April 2013, the Office of National Statistics estimated UK median weekly wages as £517. A £1 share in 1844 would be worth well over £500 today.
- <sup>6</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 the Gripple Group.

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