

# Towards a Stakeholder Economy

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Recent issues of the Journal of Co-operative Studies have contained a number of articles on the subject of stakeholding within the context of the co-operative movement, and regular readers may notice resonances between this article and some of those. The aim of this piece is to summarise the views of ICOM and ICOF,<sup>1</sup> who jointly launched a campaign entitled Towards A Stakeholder Economy in 1996. The objective of this campaign is to achieve changes in public policy which will support and encourage the growth of co-operative enterprises, especially those owned and controlled democratically by their employees.

We may start by considering what is meant by a "stakeholder economy". The economy with which we are concerned in this instance is the trading economy of the competitive market, ie industry and commerce. By a stakeholder we simply mean one who stands to gain or lose as a result of an organisation's actions or its inaction.

The simplest way to illustrate this is with an example. Terry Thomas, Managing Director of The Co-operative Bank, has identified seven groups of stakeholders so far as the Bank is concerned:

- shareholders;
- employees;
- customers;
- suppliers;
- the local community;
- society at large;
- past and future generations.

There are other models for defining and identifying stakeholders,<sup>2</sup> but the above approach will serve us well enough for the time being. Those who share a concern for social justice and democracy will be drawn towards forms of business which recognise and take account of the interests of all stakeholder groups. This is especially the case as we emerge from a period when industry

and commerce have been dominated by the pursuit of short-term gain for the few at the expense of the many. However, one thing which all stakeholders require in order to benefit from a business is that it is commercially successful. We may look appreciatively at such partnership models as the Japanese keiretsu,<sup>3</sup> but the experience in the UK - particularly in the case of smaller businesses - is that a key factor in success is a commonality of purpose: in other words, all those involved in managing a business should share the same set of aims and priorities and a common relationship with the business in question. While recognising that an inclusive economic system will have regard for the rightful interests of all stakeholder groups, this is not to suggest that all stakeholders will share the same aims for a particular business nor that they all have an equal right to a say in how the business is managed.

This leads us to the concept of the cardinal stakeholder group, ie those for whose benefit a business primarily exists. The natural synthesis of (a) stakeholder recognition and (b) achieving a commonality of purpose is to grant ultimate authority and control to the cardinal stakeholder group.<sup>4</sup>

A fundamental problem with the UK economy is that it is run almost entirely by and on behalf of the same stakeholder group - the investors. Consequently most strategies and policies are aimed at maximising benefits to shareholders, while other stakeholders - such as employees and customers - must rely on statutory protection of their interests through employment legislation, regulatory agencies such as Ofwat and Ofgas, the Monopolies and Mergers Commission, and so on, where these are available. This situation is reflected in company law, where those who risk their capital assume control. Votes in a conventional limited company follow shares.

Investors aside, other stakeholders face very real risks in the event of non-performance by a business. Employees stand to lose their livelihoods, suppliers can face insolvency if bills are not paid on time, customers' lives may be seriously disrupted if goods or services provided are sub-standard, and whole communities can be impoverished when a major employer moves away in search of cheaper operating costs. Yet company law does not recognise the validity of any form of stakeholding other than a financial one. Conventional business accounting practices,

for example, treat employees as just another cost of production along with overheads, raw materials, waste disposal and so on.

In order to achieve a more balanced economy, more businesses need to be established for the benefit of stakeholder groups other than investors. We have a perfectly good model for such enterprises in the co-operative. Co-operatives are inherently geared towards the interests of their cardinal stakeholder group: tenants in a housing co-operative, customers in a consumer co-operative, employees in a worker co-operative, savers and borrowers in a credit union, etc.

Despite the Thatcher years and the rather grey years which followed them, in the UK the past two decades have seen a spectacular growth in innovative applications of basic co-operative principles. Many thousands of people have discovered co-operation during this period, most of these via routes which may be described as non-traditional. These developments include:

- Worker co-operatives. There are now somewhere between 1,200 and 1,500 employee-owned co-operative enterprises, up from half-a-dozen in 1973. They include some very successful ventures which serve as models for others. Greenwich Leisure, a non-profit-distributing co-operative, took over the management of the London Borough of Greenwich's seven leisure centres, simultaneously reducing costs while increasing facilities, throughput, and numbers employed. Several other local authorities have since followed the Greenwich model. Tower Colliery in South Wales, a pit judged to be "uneconomic", was re-opened by local miners as a co-operative, and is now making a profit. There are numerous other successful examples all over the country, of varying sizes, including both new-start enterprises and employee buy-outs of existing businesses.
- Care co-operatives. With the introduction of changes in community care legislation, groups of carers have created co-operatives to provide a high standard of service while maximising terms and conditions in what is generally a low-paid area.
- Co-operative consortiums. Here a group of self-employed

people or small businesses form a co-operative to provide themselves with mutually useful services. A number of actors' agencies and professional consultancies have adopted this structure, as did Heathrow Airport Licensed Taxis, the largest taxi-drivers' organisation in the UK with around 3,000 members.

- Local food distribution co-operatives. Looking much like the original consumer co-operatives of the Rochdale Pioneers era, these are being actively promoted in a number of areas as part of anti-poverty strategies. They aim to bring fresh, nutritious foods to their members at reasonable prices, often accompanied by educational activities around the subjects of health and nutrition.
- Childcare co-operatives. Hundreds of these have been registered over the past ten years or so, some owned and controlled by their employees, others by the parents and guardians of children being cared for.
- Community co-operatives. There is a wide and growing range of community-owned co-operative initiatives seeking to meet local needs, provide employment and training, and encourage economic regeneration.
- Credit unions. A fast-growing section of the wider co-operative family, credit unions offer saving and borrowing facilities to their members who are united by a "common bond", which may mean residents of a defined geographical area, or employees of a particular institution, or otherwise.
- Mutual guarantee societies. These are co-operatives made up of many businesses, large and small, designed to meet the investment needs of their members by pooling the resources available in order to borrow capital cheaply on the big markets. They also provide a business support service to minimise losses amongst the membership.

Thus it can be seen that there are many excellent ideas emerging

for the new use of co-operative principles and practice, and a growing number of flagship projects to demonstrate their practicability. However it cannot be denied that, outside retailing and agriculture, co-operatives remain marginal and economically insignificant. If co-operatives are such a good idea, why are there not more of them?

A number of reasons might be identified for the continuing low profile of the co-operative option, some of which include:

- A lack of public awareness. Co-operation hardly features, if at all, within the educational system. Professionals (such as accountants and solicitors) and conventional business advisers remain woefully ignorant of co-operatives and frequently express negative prejudices when the subject is raised. Trades unions in the UK do not for the most part actively support the notion of co-operatives, whereas elsewhere in the world unions have played a key role in promoting the sector.
- A lack of resources. Such growth as there has been can very largely be attributed to active support for co-operative development, much of this funded by local authorities, but the resources available for this work - already inadequate - have been reduced in recent years.
- An inhospitable legislative and fiscal environment. It is sadly often the case that choosing a co-operative structure for a new small business involves financial and tax disincentives, making it a hard option to promote to anyone who is not ideologically committed to the principle in the first place.

A major change in the political environment in the UK has of course been the election of the first Labour government for nearly 20 years. Given the historic links between the Labour and Co-operative Parties, and the election of a record number of Co-operative Party-sponsored MPs, we may anticipate a more constructive attitude from central government towards the co-operative sector, and further we may note:

- in amending Clause 4 of the Labour Party's constitution, a

- new reference to co-operatives was introduced;
- according to the Labour Manifesto: "We are keen to encourage a variety of forms of partnership and enterprise, including co-operatives";
- there are a number of positive references to co-operatives and to co-operative development in *Renewing the Regions* - Report of the Regional Policy Commission which is likely to inform the government's policies on economic development.

As noted earlier in this article, the Companies Act only recognises the validity of shareholders as cardinal stakeholders. One thing we need is a statutory basis, of equal status to the Companies Act, for championing the primacy of other stakeholder groups where appropriate. It looks like we may achieve this with a new Co-operatives Act, the draft Bill for which has been presented to the Treasury and which is now under discussion.

A new Act on its own, however, will not result in the creation of a new generation of co-operatives. Also required will be a change in public policy to facilitate and encourage the growth of the sector. ICOM and ICOF have produced an 8-point plan for such policy measures,<sup>5</sup> which includes a call for a national co-operative development strategy (but not, it should be noted, for another national co-operative development agency). Other issues covered in this plan include the availability of investment capital, taxation, and the treatment of investment incentives.

The successful promotion of this plan in the coming years will, it is hoped, bring about significant expansion of the co-operative sector and take us some way further down the road to a true stakeholder economy.

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## Notes

- 1 Industrial Common Ownership Movement and Industrial Common Ownership Finance. These two organisations, which share a common origin but are now autonomous, grew out of the Society for Democratic Integration in Industry (DEMINTRY) in the early 1970s. They are now recognised as the lead bodies for employee-owned co-operative enterprises - or worker co-operatives as they are commonly known - and were both founding members of the UK Co-operative Council.
- 2 See for example Shann Turnbull's article Stakeholder Co-operation in issue number 88 of the Journal.
- 3 For a description of the keiretsu model, see Turnbull, *op. cit.*
- 4 For further discussion of the cardinal stakeholder principle, see Edgar Parnell's *Reinventing the Co-operative*, Plunkett Foundation, 1995.
- 5 Entitled *Towards A Stakeholder Economy*, copies of this document are available on request from ICOM, Vassalli House, 20 Central Road, Leeds LS1 6DE.