Case 7.1 – Stakeholder Model Ltd

Available at Common Cause Foundation: http://www.commoncausefoundation.org/?q=node/4

Background

Stakeholder Model Ltd is a set of model rules published by Geof Cox[1]. The story of the rules starts in the mid 1980s when Geof started working for the Kermase Whole Food Collective and participated in discussions about the way the wholefood business should develop its relationship with its workers and consumers. Kermase – which derives from a Dutch word for 'festival' - was established by a group of students from Keele University.

Historical Development

As an 'alternative' business pioneering green economics and fair trade principles, Kermase depended on a loyal and committed customer base. Initially, the enterprise was based on a group of ex-students buying organic food together as a way of applying their social and environmental values. As time passed, and people moved away from the area, it fell on a core group to organise trading activities and expand the customer base. It slowly dawned on them that they were – in effect – 'running a shop' so the remaining founders formalised their practice as an Industrial and Provident Society (IPS) following a worker cooperative model.

The process of trading whole foods depended on a committed group of people who wanted to continue purchasing from sustainable 'fair trade' sources (see Chapter 5). As a result, the enterprise was constantly debating how to manage the relationship between those directly employed (organising the trading), those supplying produce, and customers (who sustained trading activity). A group colloquially called the 'friends of Kermase' was established. This group was eventually offered loan stock with limited rights: a specialised form of equity investment for supporters of cooperative enterprise.

The institutionalisation of worker and investor members in a single business coincided with ongoing debates in academic journals. Also, there were a series of online discussions in which Geof Cox and Charlie Cattell (at the Industrial Common Ownership Movement) corresponded about the merits of single and multi-stakeholder enterprise models. Charlie Cattell argued for the maintenance of a single stakeholder model (i.e. with only one class of shares that have common ownership characteristics). Geof Cox, however, started developing multi-stakeholder models to explore how classes of share might be adapted to reflect different relationships.

Further influences on Geof's thinking included the Clause 4 debates within the Labour Party, and the work of Paul Gollan and Anthony Jensen (2005). In the mid 1990s, Anthony Giddens (1998) influenced Labour thinking through arguments for a 'third way' that made social justice more important than common ownership. Gollan and Jensen, meanwhile, argued for a "corporate partnership model" in which a conventional share company could contract a worker cooperative to advance representation and involvement at all levels of enterprise activity.

Geof evolved his model while working with *The Renewable Energy Corporation Ltd* and Dave Tomalin at *Lippy People* (http://www.lippy.tv/associates.html). Together they produced a version adapted to the requirements of CIC legislation. The social entrepreneurs Geof worked with regularly wrestled with ways of enfranchising themselves, the workforce, customers, suppliers and

[1] Geof Cox is an independent freelance consultant. For more information see http://www.geofcox.info/.

investors. They sought to share control of (and rewards from) the enterprise, but also wished to retain a strong voice in governance. In late 2006, Geof launched the *Open Social Enterprise Organisational Structures Bank* and published his model under a Creative Commons Licence.

Key Features

In Geof's consultancy work, he detected a pattern to the development of enterprises. Firstly, there were a core group of social entrepreneurs with specific social commitments. Secondly, there were groups of people who more frequently joined and left an enterprise (staff and customers). Lastly there is a third group who invest financial capital in the business. *Stakeholder Model Ltd* seeks to provide governance rights to all groups, and financial returns for "partners" and "investors". On this basis, the model sets out a capital structure that includes:

- Stewardship shares (to facilitate the 'trustee' role and protect social mission)
- Partnership shares (to attract and reward loyal staff and customers)
- Investment shares (to attract and reward member-owners and social investors)

Each stakeholder group has 1/3 of voting rights (see Figure 1) to institutionalise support for the development of social capital. In practice, Geof has found that *Stakeholder Model* provides a 'good starting point' for conversations about stakeholder involvement, but is seldom the end point. Tax and legal considerations weigh heavily in decisions about incorporation. For example, the *North East Music Co-operative Ltd (NEMCO)* eventually opted for a marketing cooperative model because under this arrangement members could be self-employed and obtain significant tax benefits. It also enabled members to exercise a collective voice to secure contracts with the local authority to provide music services. Similarly, worker-ownership choices were influenced by the Inland Revenue's decision not to give full tax concessions for Share Incentive Plans (SIPs) unless the workforce holds over 50% of shares. Legislative and tax regimes, therefore, act to reinforce existing *hegemonic* models (see Chapter 7) rendering stakeholder models less attractive.

Potentially, *Stakeholder Model Ltd* provides a template for accommodating the altruistic motives of founders and supporters (using *stewardship shares*), transaction-oriented motives of staff and customers (through *partnership shares*) and the profit/philanthropic motives of social entrepreneurs and investors (using *investment shares*).

Limitations

Unless adopting a version adapted to meet CIC legislation, these model rules are unlikely to be attractive to providers of public or philanthropic capital (in the UK). They should be more attractive to social investment funds emphasising ethical employment practices, or those seeking to support employee ownership. Incorporation under CIC legislation, however, will make the model *less* attractive to some stakeholders (particularly the workforce and investors) who may be happy to forgo dividends in the short-term, but want long-term capital growth on their shares for retirement planning and future social investment. As with other stakeholder models (see cases 7.2, 7.3 and 7.4), tensions can arise between different groups. A working knowledge of mediation is necessary to manage conflicts of interests that may affect decision-making. Voting procedures are relatively complicated for small organisations, but should not pose major difficulties in larger organisations with experienced company secretaries. The model is likely to appeal mainly to larger (or evolving) social enterprises, and charities who want a *developmental model* for their trading arms that provides greater scope to develop staff and social capital in the community.

Sources: Interview with Geof Cox, 14th February 2010

Gollan, Paul J. and Jensen, Anthony (2005) What's next for IR in Australia: Reforming the corporation. In: Reworking work, 9-11 February 2005, Sydney

Figure 1 – Shares in Stakeholder Model Ltd

Stewardship Shares	*Partnership Shares*	*Investor Shares*
• Only one per member • Are non-profit (do not receive dividends) • Held by the founders, not-for-profit organisations and other trust people/bodies • Exercise up to 1/3 of the votes at general meetings • Up to 1/3 of the board of directors come from this group.	• One or more per stakeholder calculated on size of contract, length of service etc. • Participate in dividends (and capital growth if not a CIC) • Exercise up to 1/3 of the votes at general meetings • Up to 1/3 of the board of directors come from this group. • Must be sold when contract (stakeholding) ends	• One or more per investor, dept indefinitely • Participate in dividends (and capital growth if not a CIC) • Exercise up to 1/3 of the votes at general meetings • Up to 1/3 of the board of directors come from this group • Can be used to realise sweat equity if not a CIC (issued part-paid) • Can be used to support sponsoring bodies • Can be used to raise new equity investment.

Worked Example of Voting in a General Meeting

Unadjusted voting (before application of stakeholder proportional adjustments)

Share class	Total votes	For	Against
Stewardship	12	2	10
Partnership	30	10	20
Investment	90	60	30
Totals	**132**	**72**	**60**

Adjusted voting (applying the proportions in the constitutional documents)

Share class	Adjustment	For	Adjustment	Against	Totals
Stewardship	For 44/12 x 2 =	7	Against 44/12 x 10 =	37	44
Partnership	For 44/30 x 10 =	15	Against 44/30 x 20 =	29	44
Investment	For 44/90 x 60 =	29	Against 44/90 x 30 =	15	44
Totals		**51**		**81**	**132**

The example shows how stewardship shares can 'punch above their weight' should partners and/or investors seek to push through a resolution that would compromise the organisation's social mission.