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## **The Potential of Social and Solidarity Economy (SSE) Organizations to Complement or Replace Publicly Traded Companies in the Provision of Goods and Services**

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***The potential of Social and Solidarity Economy (SSE) Organizations to Complement or Replace Publicly Traded Companies in the Provision of Goods and Services***

A paper written by Carina Millstone for the United Nations Research Institute for Social Development (UNRISD) conference, Potential and Limits of the Social and Solidarity Economy, Geneva, 6<sup>th</sup>-8<sup>th</sup> May 2013

**ABSTRACT**

This paper examines the potential of for-profit SSE organizations, such as mutual organizations, cooperatives and employee-owned firms to complement or displace publicly traded companies in the provision of goods and services, with a focus on the United States and United Kingdom. The paper starts with a review of the traditions and current landscape of SSE organizations. It then assesses inherent characteristics of these organizations that may act as drivers or barriers to their growth, before examining external opportunities presented by our current economic and environmental crises. The paper argues that growth for SSE organizations is not risk-free, and tensions exist between their purpose and growth through the market. The paper concludes that SSE organizations could become more important actors in the provision of goods and services, but particular attention will need to be paid to issues of scale, structure and process to preserve their integrity.

## ***Introduction***

One type of organization produces the bulk of the world's industrial output: the public limited liability or publicly traded company. In the United States and the United Kingdom, we encounter the publicly traded company in most of our everyday activity. The products and services they offer structure our consumption patterns and lifestyles, and have enabled us to lead lives with high levels of material prosperity.

The model of provision of goods and services through the publicly traded company (and indeed through the limited liability company in general) has not been cost free. The negative environmental and social impacts of these types of companies have been well documented. A new product may provide some utility to the consumer, but the story behind the product is typically one of detrimental effects to communities and workers, and their economic self-determination and environmental sovereignty.

This paper is concerned with whether we could envisage an alternative arrangement for the provision of goods and services, while simultaneously benefiting communities and the environment. Social and Solidarity Economy (SSE) organizations, if they were able to scale up and compete effectively in the market, could be key actors in such a system.

SSE organizations are diverse and range from community groups to cooperatives and employee-owned businesses. These organizations all share a common identity based on their values of justice and sustainability; their processes based on cooperation and democracy; and their goals, which are primarily social or environmental. Some organizations are run on a non-profit basis, others are profitmaking, although the latter only accrue profit for the benefit of workers, members, beneficiaries or communities. As such, an economy in which goods and services were primarily provided through SSE organizations would look very

different to our current system, and would likely be more socially equitable and ecologically sustainable.

This paper explores the potential of for-profit (i.e. not run on a charitable basis) SSE organizations to complement or replace publicly traded companies in the provision of goods and services. Despite the fact the term “Social and Solidarity Economy” is rarely used in English - terms such as “new economy” can be seen as largely synonymous, albeit with a stronger focus on environmental sustainability - it will be used throughout this paper.

Section 1 provides an overview of the tradition and current landscape of SSE organizations in the US and the UK, the geographic focus of this paper. Section 2 assesses the inherent characteristics of SSE organizations that may act as drivers or barriers to their growth. Section 3 examines how the external economic and environmental climate may present opportunities for SSE organizations. Finally, Section 4 argues that growth is not risk-free for SSE organizations, as tensions exist between their purpose and growth through the market.

### ***Section 1: Scan of the SSE landscape***

This section presents the tradition and current landscape of SSE organizations in the US and the UK.

SSE organizations have a long tradition on both sides of the Atlantic. They stem from a collective attempt to respond to a market failure- namely the difficulty of individuals to access goods and services through purchase from traditional private businesses, due to high cost or lack of offer. In the UK, SSE organizations have their roots in mutual aid groups such as the friendly societies, which provided social and financial services to their members, typically affiliated by trade or religion. In the Victorian period, cooperatives were established to help members access basic foodstuffs. One of the first consumer cooperatives, the Rochdale Society of Equitable Pioneers, was established in Lancashire in the 1840s and provided a

blueprint for future cooperative organizations.<sup>1</sup> By the 1900s, mutual organizations dominated the food, retail, mortgage lending and personal insurance sectors.<sup>2</sup>

In the US, SSE organizations were also created to respond to the need of communities or members, pooling their purchasing power. For example, some 400 rural electric consumer cooperatives were developed in rural areas in the 1930s with the support of the Rural Electrification Administration, as a response to the fact the expense of infrastructure did not make for a viable investment for private utilities companies.<sup>3</sup>

In the late 19<sup>th</sup> century, at the same time as SSE organizations were taking shape, the public company, a limited liability company whose shares are publicly traded on a stock market, was also growing rapidly. This type of company is a vehicle for a large number of investors to pool their capital in a single business, and receive dividends as a reward for their risk<sup>4</sup>. Based on a legal structure designed to ease access to capital and share risk on a scale never seen before<sup>5</sup>, the publicly traded company was able to grow rapidly. Moreover, it also had an in-built *need* to grow to reward its investors, thus forcing it to develop new markets. In practice, this often meant converting poorer people into customers, people who had been SSE organizations' most obvious membership base. Quite simply, the publicly traded company proved an extremely successful way of providing goods and services in the British and American markets (thanks to low costs, typically achieved through externalization of environmental and social costs, as discussed in a later section). The possibility of widespread individual consumption, brought about by businesses producing large volumes of goods at low cost, made organizational structures designed for individuals to access goods collectively less relevant. SSE organizations began to decline and eventually became marginal. In time, global consumerism also contributed to a loss of local identity, which compounded the erosion of these SSE structures.<sup>6</sup>

The publicly traded company now dominates global industrial output and commerce. Publicly traded companies' reach is global and their revenue is often larger than the GDP of states<sup>7</sup>. The revenues of the largest 1000 companies (the

overwhelming majority of them publicly traded) represent 80% of global industrial output.<sup>8</sup> Cooperatives on the other hand represent 3 to 5% of world GDP.<sup>9</sup>

The publicly traded company is so dominant that other organizational forms are typically overlooked and poorly understood. Regulatory, financial, policy-maker and media focus on the performance of publicly traded companies reflects, and results, in a lack of support for organizations with alternative structures.<sup>10</sup> For example, in the UK, there is no specific legal act to register a cooperative.<sup>11</sup> In the US, cooperatives contend with a complex regulatory framework, with cooperative incorporation statutes varying from state to state and often only applying to specific sectors. (For example, in many states, cooperative statutes only apply to agricultural producer cooperatives.)<sup>12</sup> Moreover, alternative organizational models are not taught in business schools, and cooperatives struggle to attract young talent.<sup>13</sup>

The dominance of the publicly traded company in terms of share of economic output, and the concomitant societal bias in its favor, has also impoverished the diversity of organizational structures in the UK. Its European peers tend to have a more plural economy, with more small and medium sized businesses, family firms, employee-owned firms and cooperatives.<sup>14</sup>

Despite this, the tradition of cooperatives and mutual organizations has not been lost in the Anglo-American world. We are seeing a renewed interest in these alternatives, especially in light of the financial and ecological crises.

SSE organizations take a number of different forms and are present, albeit unevenly, in most sectors and regions of the UK and the US.

In the US, SSE organizations include 4,600 community development corporations (which seek local financing to develop residential and commercial property); 1,295 community development financial institutions (which offer financial services to low-income individuals or community organizations); 242 community land trusts (which buy land, in order to secure affordable housing in perpetuity).<sup>15</sup> In addition, there are nearly 30,000 cooperatives (primarily consumer cooperatives), which together have 350 million members (340 million of

which are in consumer cooperatives, with many Americans being members in more than one cooperative), and generate approximately \$654 billion in revenue.<sup>16</sup>

Cooperatives tend to be more common in rural areas and over 85% of cooperative revenue is generated in agriculture, the farm credit system, home loan banks, rural electric services, mutual insurance and credit unions.<sup>17</sup> Consumer cooperative models are also becoming popular in education and training, healthcare, energy and transportation. Worker owned cooperatives, on the other hand, are rare, with only 3,500 people employed in 300 worker cooperatives, clustered in the Northeast and in the San Francisco Bay Area.<sup>18</sup> Employee Stock Ownership Plans (ESOPs) are a more common way to enable employees to own part or all of the company they work for. Unlike worker-owned cooperatives, ownership does not convey membership, and company governance is not necessarily democratic or run on a 'one member, one vote' principle<sup>19</sup>. There are currently close to 11,000 ESOPs across the US, especially in rural areas, and ESOPs employ close to 14 million workers.<sup>20</sup> 720 for profit businesses have also adopted the new B-Corp status in recent years to become "B-Corporations", which are purpose driven businesses to create public benefit.<sup>21</sup>

In the UK, SSE organizations are commonly referred to as mutual organizations- organizations established for shared member purpose, owned by their members. In total, there are 18, 000 mutual organizations in the UK,<sup>22</sup> the overwhelming majority of which are not-for profit clubs and societies. Organizations run on a for-profit basis include 3,430 cooperatives, 250 employee-owned

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