



Beyond Accounting for Capitals: FairShares – a model for recompensing capital contributions

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In an introductory article for this series, Coulson¹ argues that we must rethink:

‘the potential relationships and (inter)dependencies within and between capitals [...] the basis for symbolic representation of value/s, (in)equalities and potential (in)commensurability; priorities and possibilities of inter/intra capital trade-offs.’

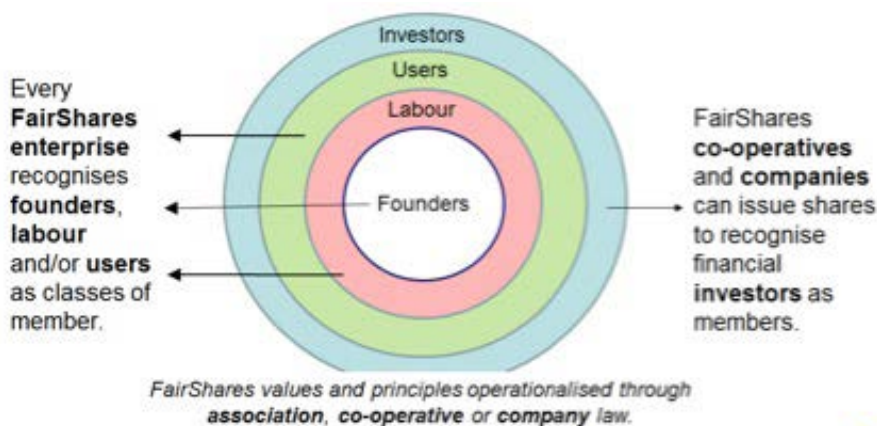
We concur with Coulson that there is a need to strategically review capital and the concept of value, and that such a review should be concerned with ‘identification and use of multiple capitals to promote self-awareness and critical thinking that leads to positive change’.² However, whilst much of the drive for multiple capital accounting comes from an environmental perspective,³ this article - and the model it describes - comes from a more social perspective.

Our current organisational structures have been criticised for exacerbating inequalities by failing to balance the interests of providers of financial capital with those of employees, customers and wider society (e.g. Handy, 2002).⁴ The providers of financial capital are repaid through the profit made by the combined use of multiple capitals. Some of them (shareholders) exercise ultimate control over the direction of the enterprise.

In this article we briefly outline the **FairShares Model**, a governance model for multi-stakeholder enterprises which seeks to address these inequalities. FairShares is a practical set of tools and concepts to manage democratic organisations.⁵ It includes a system for compensating providers of non-financial capital that is currently being tested by several organisations around the world.⁶ By doing so, it rethinks the role of capital in shaping the allocation of power, control and wealth amongst an enterprise’s stakeholders (founders, labour, users and investors).

The issue of shares (see Figure 1) is used to recognise contributions of intellectual, human and social capital as equivalent to contributions of financial capital. The key commitment is to building a social enterprise by enfranchising stakeholders as they become important to sustainability. It does not - in its current form - represent natural capital in its structure but could be developed to do so. Currently returns are expressed in two ways: a share in profits and value-added are the economic returns; a share in control of the enterprise is the social return.

In a private enterprise, when entrepreneurs set up a new business they register as directors and recruit employees to operationalize their ideas. New shares are issued when more financial capital is needed, and this is used to acquire more intellectual, human, social or natural capital. In a traditional Company Limited by Shares (CLS), employees and customers are subordinated to the interests of shareholders. They are not invited to be full members or to contribute towards decisions outside their specialist area of expertise. If employees are offered share capital, voting rights are often limited or controlled by trustees who – in many cases – are under no legal obligation to vote in accordance with the wishes of their beneficiaries.



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Figure 1: Member classes entitled to hold shares in a FairShares Enterprise

1 Coulson, Andrea, An Introduction to Framing Multiple Capitals, 2016, ICAEW p.4.

2 *ibid.*, p3.

3 icaew.com/en/technical/sustainability

4 Handy, Charles, What’s a Business For? Harvard Business Review, December 2002

5 Ridley-Duff, Rory, The Case for FairShares: a new model for social enterprise development and the strengthening of the social solidarity economy, Charleston: CreateSpace, 2015.

6 See interview with Mass Mosaic for an example: connection.ebscohost.com/c/interviews/109975584/mass-mosaic-opts-fairshares-alternative

The intellectual property created by the workforce is acquired by the Company and controlled by executive managers and directors. In effect, majority shareholders acquire rights to all the property created by the interactions between employees, customers and the natural environment. This system of enterprise widens the wealth gap between those who own and govern the enterprise, and those who sell their labour to it or buy goods from it. Even in the richest countries, wealth inequalities grow wider (unless the state intervenes) and the natural environment is degraded.⁷

A typical response to widening inequality is to suggest the creation of (private) charities and 'non-profit' companies. These specify charitable or social objects to define the purpose(s) of the enterprise and meet the needs of a beneficiary group. Founders reframe themselves as trustee-directors responsible for allocating resources in pursuit of the enterprise's social goals. Charitable companies do not distribute surpluses so trustee-directors give up personal rights to the wealth created by the enterprise. Their role is one of stewardship, ensuring that funds raised are used to further charitable (or social) objectives. As in a CLS, they employ staff to pursue social goals. Employees are still not (usually) legal members. They continue to be subordinate to the trustee-directors and give up the (intellectual) property they create.

Creating non-shareholding mission driven organisations enables private citizens to address some symptoms of poverty and exclusion but it does not address the root causes because it changes neither the ownership structure nor governance processes that creates and sustains them. Both traditional private and non-profit models continue to institutionalise a division between producers and consumers on the one hand, and entrepreneurs and investors (including investors for social returns) on the other. And yet, Thomas Piketty – like Keynes before him – argues that returns to financial capital should be limited to prevent the worsening of economic and social inequalities.⁸

In the FairShares Model, a similar but slightly different perspective is taken. Inequality will be mitigated only when returns for contributions of non-financial capital (by founders, labour and users) start to exceed the returns paid for contributions of finance capital. In short, shares are allocated to founders, labour and users for their entrepreneurial efforts, labour contributions and trading activities so that there is recognition of and compensation for non-financial capital contributions.

ICAEW members are already in the process of developing methods to calculate the value contributed by different forms of capital through Social Return on Investment (SRoI) mechanisms and new methods to calculate natural capital. Members could also be investigating and developing mechanisms to pay a return to the providers of each type of capital so that returns are payable for a wider range of stakeholder contributions. If this occurs, financial capital will no longer have a privileged status.

Furthermore, just as the providers of financial capital retain ownership of their contribution, so the FairShares Model includes constitutional commitments that allow the contributors of intellectual capital to retain ownership and control of their contribution. This is achieved through a constitutional commitment to Creative Commons for Intellectual Property (IP) management under which members' IP is licensed, not transferred, to their company.

FairShares goes beyond theoretically rethinking capitals. It is a practical approach to restructuring organisations so they recognise contributions made to value creation by different sorts of capital providers. It is more radical than simply valuing/accounting for multiple capitals. Returns are paid for every sort of capital contribution – intellectual, human, social and financial. It could be further expanded to include returns for stewarding natural capital.

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7 Stiglitz, Joseph E. The great divide: unequal societies and what we can do about them. WW Norton & Company, 2015.

8 Piketty, Thomas. Capital in the twenty-first century. Harvard University Press, 2014.