

# Community Enterprise Companies

Graham Boyd <sup>1</sup>

*February 2003*

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## **What is a Community Enterprise?**

A community enterprise<sup>2</sup> is a specialised form of community-based organisation that has both commercial and social aims and objectives. The commercial objectives of a community enterprise mean that business methods and practices drive its organisational functions and determine its operating style. This sharply distinguishes a community enterprise from the predominantly representative and often informal operating pattern of most other forms of *popular* community-based organisation. However there are some features which it shares in common with *popular* community-based organisations. In particular, it is owned and controlled by the people who live in a defined locality or who share other forms of common interest.

There are a range of particular functions<sup>3</sup> for which community enterprises are established some of which exist in combination while others are pursued on a single purpose basis:

- To own and administer community assets and resources such as land, buildings, equipment and machinery;
- To undertake business and trading activities in a commercially sustainable and socially responsible way on behalf of the community;
- To act as a comprehensive focus for local economic development by providing ideas, information, training and consultancy services; and
- To provide financial services such as managing revolving loans within a community and attracting outside capital.

Community enterprise companies embrace two equally important aims:

- *To create sustainable wealth for the community; and*
- *To create social benefit for the community*

### **Some Examples**

Community enterprise companies are a recent phenomena. Though the legal structure enabling the establishment of such entities under Company law has existed in many countries<sup>4</sup> since the 1920s significant growth in its application by social groups and development agencies has mainly occurred since the early 1980s.

Examples of organisations using the community enterprise company model include:

- crèches and day-care centres,
- leisure and recreational facilities,
- community and village halls,
- food outlets and supply services,
- telecentres (information technology centres),
- waste recycling centres
- local museums and heritage centres
- local radio stations,
- local regeneration and economic development agencies,
- community land trusts,
- community construction enterprises,
- local utility providers – in particular water and renewable energy.

This model of legal incorporation has obtained favoured status over others such as trusts and co-operatives. In part this is due to it being both comprehensive and accommodating thus:

- enabling it to be easily adapted to meet a wide variety of commercial and social objects; and thereby
- ensuring that its regulatory and other reporting requirements are more robust and thus less subject to external interference.

Finally, because the company model is widely used the legislation is subject to more frequent revision and updating.

### **Matching the Vision to the Legal Structure**

Once a group has developed a common identity through agreeing on the core business activities or local services it wishes to deliver then it is necessary to examine and decide on a number of other issues.

In particular the legal options available to a group. It is advisable first to be as clear as possible about how the members want the enterprise to operate both immediately and in the longer term. There will usually be a range of legal structures available – *trust*, *co-operative*, *co-partnership*, *share-company* and *non-profit company*. None will be ideal and informed choices will need to be made.

The group guiding the setting up of the venture should be clear about its major aims and objectives, as this will form the basis around which other secondary issues can be addressed. Although model constitutions can be used, there are still a number of specific details that will require particular attention and these will need to be revised to suit each particular case. This is best done with the help of a para-legal assistant or a legal expert who is familiar with corporate law.

In considering the issues which require to be embedded into the organisation's *Memorandum and Articles of Association* – constitution and set of rules - there are 6 major areas of concern<sup>5</sup>:

- The Form of Ownership
- The Concept of Membership
- Control of the Community Enterprise
- The Size of the Organisation
- External Relations
- The Social Criteria

The remainder of the paper briefly addresses these concerns.

### **The Form of Ownership**

This is the first principle that must be decided upon as it has a bearing on a number of other issues. Ownership in most organisations, is vested in the provider of finance, a system of *capital hiring labour*, but in a community enterprise it is reversed so that ownership is vested in the members, a system of *labour hiring capital*. This results in a system of community ownership in which the main criteria is how best to determine the most appropriate means of holding and managing community assets.

There are two further issues that need to be considered. Firstly, how will the organisation be funded, given that in non-profit distributing company, such as a community enterprise, equity shareholding is not an option. This means in practice that finance can only be raised by way of grants or loans at a fixed rate of interest. Secondly, if a key principle of the community enterprise model is to retain the wealth and control in the locality then there is a need to identify *the community* in order to restrict the membership and area of benefit.

There are two types of community:

- a community of interest
- a geographical community

### **The Concept of Membership**

Who are the members? Experience drawn from long standing community enterprises suggests that to sustain active levels of member participation and to ensure that the organisation meets its primary objectives – undertaking profitable commercial operations - a limited rather than an open membership tends to work best.

However, a limited membership restricted to the employees, owner-members or consumers is not ideal and is an approach more suited to the co-operative business model. On the other hand a large membership open to all residents in a community, may also be unacceptable because of the unwieldy form mass membership seems to impose.

Studies indicate that organisational networks need to be limited to a human scale of around 500 people. And to enable a trusting and efficient working relationship to be established, the number of people in their component parts should very broadly not exceed 150.<sup>6</sup>

Some mix seems to be appropriate whereby a range of stakeholders may become the founding subscriber members – community based organisations, external support agencies, consumers and employees. How this multi-stakeholder mix is constituted will depend on the actual situation in the locality and what commercial activities are being undertaken.

Once the principles of membership have been determined these can be written into the organisations *Articles of Association*.

### **Control of the Community Enterprise**

It is important to have the involvement of a wide range of local stakeholders in the organisation's decision-making organs. A key means of doing this is through the establishment of a system of *network governance*<sup>7</sup> in which:

- Power is distributed between a number of different company organs; and
- Natural checks and balances are placed on private interests.

It is therefore important to have a robust constitution and set of rules, which states clearly the various powers and duties that different decision-making organs have within the organisation. In addition management and administrative systems require to be established and regularly reported upon – *annual budget, annual financial audit, quarterly progress reports, etc.* A primary reason for having sound management and financial control systems is that these assist the organisation:

- to properly plan and adjust to changing circumstances;
- to function efficiently and effectively;
- to re-invest and expand its operations; and
- over the longer term by contributing to its financial sustainability.

To ensure that both the community and wider public interest in the enterprise is safeguarded it may be worth considering the development of a two-tiered board structure. In this arrangement the overall management and financial responsibility for

the enterprise is the responsibility of an appointed Board of Directors while the other organ perhaps in the form of a secondary board or council acts as the forum for holding the service and assets accountable to residents, consumers and other interested parties. This second organ would in effect play a consumer watchdog, public interest and trustee role.

### **The Size of the Organisation**

In considering the size and shape of the organisation it is important to take account of a number of factors. What is the organisation's core business? What human, financial and other resources are required to run the organisation? And what annual targets have been set for it in the organisation's business plan? Thus it is important when setting up the organisation not to overburden the voluntary directors, other appointees and employees by having them diverted onto delivering too many diverse activities and non-essential products and services.

Therefore the organisation's *Memorandum and Articles of Association* should contain sufficient detail to be able to guide the voluntary directors and appointees on the organisation's primary objectives and their powers and statutory duties in running the company in a responsible manner. Similarly for employees job descriptions, work plans and day-to-day management direction should guide their work and ensure products and services are delivered cost effectively and to a high standard.

Organisational growth and new products or services should not be created as a result of the personal whims of directors, ad hoc sub-committees or opportunistic requests from external parties. A combination of ill-thought out expansion and poorly researched and priced products and services can very quickly overtake and divert fragile operations such as community enterprises by making too many demands on limited staff resources, crippling their limited cash flow and sending them into insolvency.

The organisation should grow organically based on the delivery of fairly priced quality products and services. Its primary purpose being to serve the residents and consumers of the locality in which it has been established by meeting an economic and social demand for goods and services that neither the state nor the private sector is capable of fulfilling.

At a future date should the enterprise wish to expand into other related products and services or diversify into entirely new activities then there are a number of options available. It can undertake the new activities by either expanding the existing set up or, if the activities have a significant degree of risks attached to them and this requires the enterprise to safeguard its core assets and business, then it can establish a wholly owned trading subsidiary company to undertake any new activities.

### **External Relations**

Under the membership section a form of community ownership based upon a diversity of different local interest groups or stakeholders was suggested. This arrangement allows for a broad base of community and other external interests to be formally represented in the structure's governance organs. Specific organisations can

be identified as being members and thus listed in the relevant parts of the organisation's *Articles of Association*.

### **The Social Criteria**

Organisations, particularly those that use co-operative and company legislation, are obliged to present annual audited accounts and narrative reports on their financial situation. These provide the information with which to measure success or failure. However, community enterprises have social aims and objectives, and financial measurement alone cannot provide sufficient information to assist in achieving their desired goals.

A formal procedure for conducting a social audit<sup>8</sup> should be introduced. If the organisation decides to take up social accounting, it must first tackle the problem of social criteria. If the social objectives are clear, it should not be difficult to develop a social baseline from which to determine progress. It is important that these social criteria be determined and included in the organisation's constitution and business plan.

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### **References and Further Information**

<sup>1</sup> An earlier version of this paper was prepared in 1994 by Alana Albee and Graham Boyd for an ACE-HI training course for Community Enterprise Agents in the Highlands of Scotland. This paper considerably expands and updates that version.

<sup>2</sup> Community enterprise is a generic term. There are a number of other similar terms used to describe this type of undertaking – community business, community co-operative, community interest company, community benefit corporation, social enterprise, local development trust.

<sup>3</sup> Department of the Environment, Transport and the Regions, (May 1999) *Community Enterprise – Good Practice Guide*, London, pp 6-8.

<sup>4</sup> United Kingdom, India, Sri Lanka, Kenya, Tanzania, Uganda, South Africa, Zambia, Nigeria, Canada, Australia, New Zealand, etc.

<sup>5</sup> Spreckley, Freer. (1989) *Developing Community Enterprise*, Community Economy Ltd, London, pp 4-6.

<sup>6</sup> Turnbull, Shann (2002) *A New Way to Govern – Organisations and Society after Enron*, NEF Pocketbook, London, pp 30-31.

<sup>7</sup> Turnbull, Shann (2002) *A New Way to Govern – Organisations and Society after Enron*, NEF Pocketbook, London, Chapter 6.

<sup>8</sup> Pearce, John. (2001) *Social Accounting and Audit for Community Organisations*, (Manual & CD ROM), CBS Network and Social Enterprise Network, West Calder, Scotland.

### **Other useful publications are:**

Pearce, John. (1993) *At the Heart of the Community Economy – Community Enterprise in a Changing World*, Gulbenkian Foundation, London.

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Henderson, Paul. Editor, (1991) *Signposts to Community Economic Development*, Community Development Foundation, London.

**Further Information:**

Visit: [www.caledonia.org.uk](http://www.caledonia.org.uk) where there are number of short articles and papers on different aspects of community enterprises.

Visit: [www.cbs-network.org.uk](http://www.cbs-network.org.uk) This web site contains a range of technical material on community enterprises and links to a variety of intermediary support organisations that provide technical assistance.

This paper is available online at [www.caledonia.org.uk](http://www.caledonia.org.uk)