

An Introduction to Legal structures for Social Enterprises

A range of 'model' legal structures have been developed for social enterprises, and the most common ones are listed below. Although these cover the majority of social enterprises this is not an exhaustive list.

Worker Co-operative

Defined as 'A business owned by the entire workforce on an equal and equitable basis', the purpose of a worker co-operative is to provide benefits to its members, primarily through good quality employment.

Generally all employees may be members, although the completion of a probationary period may be required before qualifying, and there may also be a stipulation that employees must work a minimum number of hours per week.

In small worker co-operatives (sometimes called 'collectives') all employees are on the management committee. In larger co-operatives this would be too cumbersome, so the management committee is elected on an annual basis from amongst the membership.

After putting money into the reserves of the business any extra can be distributed to the workers as a bonus or dividend, or it can be donated to social and charitable causes.

Control of the business is totally in the hands of the workers, but depending on the legal structure chosen the assets of the business can either be jointly or commonly owned.

Worker co-operatives can be established as companies limited by guarantee, companies limited by shares, or Industrial and Provident Societies.

Co-operative Consortium

A co-operative consortium is a co-operative whose membership is comprised of businesses and/or organisations, and whose income is derived from its members.

A co-operative consortium exists to add extra value to its member businesses. This could be in the form of joint marketing, purchasing or working. By working together the member businesses reduce overheads/costs.

Membership is generally made up of businesses and/or organisations that use the services of the co-operative. These can include sole-traders, partnerships, companies, Industrial and Provident Societies, charities and other types of organisation. Membership is also sometimes available to people employed directly

by the co-operative. Whatever the size of member businesses, they each have only one vote in the decision making process.

The full membership elects a management committee annually at or before the annual general meeting. The members of the management committee are the directors of the business.

After retaining some surplus as reserves the rest can be distributed amongst the membership. If the co-operative does not hold mutual trading status (MTS) with the Inland Revenue a surplus can also be donated to social and charitable causes.

There are models existing for both joint and common ownership co-operative consortia. A co-operative consortium model exists for a company limited by guarantee and an Industrial and Provident Society.

What are Community Businesses, Community Co-operatives and Societies for the Benefit of the Community?

This definition is true for all three structures:

‘A not for profit community based enterprise seeking to provide goods and services to an identified community; to which it is ultimately accountable.’

Community Business

A Community Business seeks to benefit the community in which it is located (or the community of interest to which it is addressed). To achieve this it will identify specific objectives which are economic, social and environmental.

The Community Business is owned by its members who come from the community in which it is located. Members will also be, typically, users or customers of the business. The members (or stakeholders) equate to the shareholders in a conventional business.

Management is through a Management Committee which is elected or nominated by the membership, annually, at the AGM. The members of the Management Committee are drawn from three sectors:

- community members
- employees
- supporter members - who may be co-opted, because of special skills that they can offer, or who may be nominated by funding bodies

The Management Committee is accountable to the members of the business.

Community Businesses seek to be self-sustaining. Any surplus that is generated is used to improve services and/or create more employment opportunities. Profits are not distributed to the membership.

The constitution contains a common ownership clause. The business will be registered as a Company Limited by Guarantee. This confers upon the Management Committee the legal responsibilities of Company Directors and the protection of limited liability.

Community Co-operative

These are similar to community businesses, but are registered as an IPS rather than a limited company. The most significant difference is the ability to issue shares to members. Unlike a community business, in a community co-operative some of the surplus of the business can be distributed to members in the form of a dividend on their shares. To qualify for membership a person or organisation must fall into one or more of these categories; living, working or being active within the community served by the co-operative. A community co-operative must be common ownership.

Society for the Benefit of the Community

This structure is also similar to a community business, but is registered as an IPS. Unlike the community co-operative model, members usually only hold a nominal single share. Shares cannot attract a dividend and cannot be redeemed. Surpluses cannot be distributed amongst the membership. Membership is open to people or organisations that support the objects of the society. A society for the benefit of the community must be common ownership.