

TAKING THE FLOOR



COOPERATIVE CAPITAL COMPANY: A MODEL FOR THE “WORLD AFTER”

By Éric Campos and Bagoré Bathily¹

"The cooperative capital company would make it possible to reintegrate capitalism in a resilient entrepreneurial approach by promoting the alignment of employee and shareholder interests"

The year 2020 and the shock of the global lockdown shed harsh light on new kinds of systemic risks that threaten our economies. The globalization that has governed growth in recent decades is being exposed to new forms of risk that it has probably created. In a context that is socially affected by rising inequalities, it seems urgent to question our models of value creation and distribution in order to make them more open and more humane with more promising prospects, so that the civic society can envisage a future where we can withstand such threats that are longer avoidable.

Green growth and the social contract must be combined more closely. We will not go over these observations again, as they are commented on every day and as current events reveal an oppressive reality: social and political tensions, blows against our democracies, the precariousness of populations, environmental risks and climate challenges, inertia in the transition towards carbon-free economies. We

share this observation, but rather than joining in the mantras, which are scandalous for some and virtuous for others, **we are tabling a proposal for a business model and new perspectives based on collective reflection and discussion.**

We are convinced that the great challenge of our generation is to build a true people's "capitalism" that will promote entrepreneurship, an inclusive economy and access to the resources of knowledge, creation and innovation. Even though some are predicting the end, we do not believe in the disappearance of capitalism, nor in a sort of providential evolution left in the care of the invisible hand: its mechanics are not bothered by the moral question or that of the common good. Conversely, we do believe in the will to work towards rebalancing the value generated by companies among the stakeholders. To do so, we must put into perspective the question of the return on capital, labour and the externalities

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produced by the company against the background of the climate emergency.

The legislation entitled “Plan d’Action pour la Croissance et la Transformation des Entreprises” [action plan for growth and the transformation of companies] (known as the PACTE law) was enacted a little over a year ago. The result of extensive consultation with the civil society, it proposes positive developments to share the value created better with employees. It enables companies to take better account of social and environmental issues in their strategy. The spirit of this law invites us to continue and bolster the process by opening up new perspectives. This is the purpose of this article.

Our thinking is rooted in the rich history of cooperatives, in particular mutual cooperative banks. In France, these banks came into being at the end of the 19th century with a common goal: to facilitate access to credit for people from occupational categories that had difficulties in borrowing. Unlike other companies, the capital of these institutions is made up of shares held by their customers and their remuneration, which is not speculative, is regulated. These institutions now account for more than 60% of the retail banking market in France. Their managers have always demonstrated a remarkable ability to create entrepreneurial value without making the effectiveness of their actions contingent upon capital ownership. The history of these banks proves unequivocally that entrepreneurial value and utility have developed harmoniously in the service of the common good.

Over the last twelve years, we have through successes and failures **accumulated experience in managing what are known as social businesses** around the world, particularly in sub-Saharan Africa. **This is a second source of lessons drawn to guide our thinking.** These companies are very conventional in their search for profitability but also very unique because their primary goal is social impact. Their way of creating sustainable value lies not so much in their capacity to respond to a market need (which they achieve with a competitive advantage where possible), as in the collective utility that determines their creation and then their activity. Their raison d’être is social or environmental impact to such a degree that this mission is part of the cornerstone of their articles of incorporation. This primary intent defines them as social businesses. They must also undertake to measure or estimate their externalities. The intent and measurement of effects are therefore their

fundamental criteria.

In practice, **we see that the search for a positive impact is far more than a goal.** It is an agent of change. It penetrates and permeates the company at the deepest level of its operations to the point of transforming its genetic heritage. Like an additional gene, this research augments the company's capacity to act not only in its own interest but in the interest of society as a whole. This translates into a kind of cooperation contract that it enters into with its



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ecosystem -- a starting point for the construction of a common future. The search for a more equitable redistribution of value among stakeholders becomes a rule of operation. The company sets up a governance and performance model that includes other temporalities than its own and modifies the evaluation of its results, where quantifiable social performance is added to financial performance. At the same time, the ecosystem will through reciprocal porosity, also influence the company which, as it monitors and measures the externalities it generates, it will in turn transform the way it operates.

This understanding of social business has led us **to question the nature of the link that might exist between the employees, stakeholders in the company's value creation, on the one hand, and the percentage of ownership of the capital thereof, on the other.** In reality, this link is very rarely if ever there: for one, the shareholders own the capital, while the employees provide the operating return on that capital. Our first conviction is that, on the contrary, **we believe that a direct relationship should be cultivated between employees and capital**, not only through profit-sharing and investment mechanisms, which are indirect links, **but through direct links for employees at the same level as shareholders.** The idea is there. It may seem

iconoclastic but it is, in fact, realistic, i.e. that of a company whose dividends would henceforth be shared between shareholders and employees according to different rules. The former provide the funds, the latter deliver the added value, everyone deserves their share in the end.

Without pretending to try to solve all the problems, here is a solution that we have devised to reconcile capital and citizens in a collective approach to progress through a structural dynamic that could actually be

organized in companies themselves. We call this solution "cooperative capitalism." It seeks to rethink our social models by defining **a fairer, more complementary and balanced relationship between the two fundamental economic agents of the stakeholders, i.e. the shareholder and the employee, who today are brought together by far too few things.** And to show that there is nothing irrational about this solution, we will try to describe here its key operating principles that we have considered. They beckon discussion, of course.

WHAT IS THE COOPERATIVE CAPITAL COMPANY AND HOW DOES IT WORK?

The concept of the cooperative capital company consists of allocating a share of the capital for use by employees. The company concerned is a capitalized company, which may but need not be incorporated under private law, such as a Société Anonyme (SA) [public limited company], a Société à responsabilité limitée (Sarl) [private limited liability company], a Société par actions simplifiée (SAS) [simplified joint stock company] or any other form. In order to become a "cooperative capital" company, it includes a special provision in the articles of association for employees to receive a share of the value distributed, in the event of profit, when dividends are paid out. **The employee becomes a usufructuary shareholder.**

To that end, when it exists, the company decides to increase its capital by issuing securities and granting usufruct rather than ownership to employees. The latter then become the recipients, not of a share of the capital as such, but of a right to the return it generates thanks to their productive labour force. As such, they are eligible for a direct redistribution of wealth induced by these new rules of capital value sharing, when the company so decides because its results allow it.

It should be easy to include such a provision by amending articles of association that exist or from the outset when they are drawn for companies under formation. For it to be effective, however, we think that it must be truly significant. It must also come about with no counterpart, so as not to confuse work and investment, and must be established on an equal basis between employees. As for the shareholders, they remain the holders of capital and owners of the securities, with the difference that they have decided to become bare owners for the increased part of the capital, so that the employees can receive their share of the company's profits. Idealist? Surprising? Bizarre? No, far from it.

Of course, in the short term, this means that the investing shareholder has to accept a considerable cost. Assuming a 10% increase in capital, the nominal value of his €100 share would be only €91, the €9 difference being - not confiscated! - but invested in another form of value: human value, in this case the employees, in the form of a distribution of the right of use, without loss of ownership.

As this kind of operation may not be familiar to everyone, let us take a look at the example above. This company has a capital of 100,000 euros divided into 1000 shares of €100. Its shareholders decide to increase the capital to 1,100 shares, an increase of 10%: the capital is still worth €100,000, but each of the shares will now be worth €91 (100,000/1100, rounded off). In this company with cooperative capital, the 100 newly created shares, representing 9% of the capital, are allocated to the employees by way of usufruct. If the company pays out dividends, they will therefore receive the proportion due to them.

For his part, the shareholder-owner accepts a reduction in the nominal value of his share (of €9 in our example), or in the yield value of his share to be more precise, since part of the dividends will now be distributed to the employees. He thus pays a sort of "admission ticket" to the productive capital by granting a partial usufruct to the employee group. He is betting that the company, buoyed by a reinforced collective mobilization, will thus be able to develop better and grow, and that in a few years he will increase the value of his share to the point that its original value will be restored and then exceeded.

We believe that this proposal is nothing other than the fruit of an entrepreneurial reasoning for reconciliation, in phase with the "world after " that we need to build. Let us take a closer look at the benefits that each of the

parties involved could derive from it.

For employees, there is clearly direct access to a new channel for redistributed value. In fact, the wealth trickle theory that traditionally presided over financial capitalism has proven to be inaccurate: the gap between the richest and the poorest has only widened in recent decades, with the working classes paying a high price for unbridled global growth that has held little if any benefit in store for them, especially in developed countries where the middle classes are

experiencing a worrying stagnation -- not to say decline -- in purchasing power. Opening up access to the fruits of capital to employees can only contribute to rebalancing economies by restoring the company's legitimacy as a corporate citizen, giving greater consideration to each and every one, a renewed sense of commitment to work and improving the economic capacities of populations -- all as part of a dynamic of social justice.

For shareholders, this is a new role: that of making it possible to include employees in the creation of capital value. There is responsibility to be assumed here, namely that of considering that capital investment makes sense only when seen from a truly entrepreneurial and not speculative perspective, as financial value is created in the medium or long term by the positive effect of a newfound cohesion in the company, taking into account the collective of employees as well as the societal impacts and contributions generated by the activity. Investments that are better oriented in environmental, societal and governance terms (ESG criteria) have in recent years been shown to have the potential for performance and, above all, a future.

Finally, for companies, there is the matter of restoring a form of harmony that will benefit the

resilience and sustainability of their business model -- perhaps not for all of them, but at least for those whose project is strongly rooted in a mission of social responsibility. Like biodiversity, these companies actually develop all the better as they are integrated into an ecosystem, an environment rich in interaction and cooperation by and between stakeholders. They thrive by contributing to as much as they benefit from it, and they feed shared biomimetic dynamics. For them, the classic divergence between capital and labour, the supposedly insurmountable divide between



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shareholders and employees, will prove unfounded. In this entrepreneurial rationale, value can only be a reward for risk, not only the risk weighing on the investment, but for all risks, especially internally the risk that could potentially affect employment, and therefore employees, in the event of adverse economic conditions. By recreating links between employees and capital, we assume that the company will be more resilient in the face of risks and that its links with its stakeholders will moreover be closer and more balanced. Better "reconciled" in its structuring, the company will improve its integration into a global system which will be more resilient itself.

ENSURING THAT THE COOPERATIVE CAPITAL COMPANY BENEFITS EVERYONE

Shareholder and salary reconciliation model we describe is not intended to reform the company universally. It is one means among others, a key component, which we hope will be as structuring as possible. For it to be an attractive and efficient solution in a resilient economy, however, we need to clarify some of the rules and conditions underlying its model:

- **Governance and representations**

The cooperative-capital company we are outlining makes the division of roles between shareholders and employees less divisive, as the boundaries become

porous in order to foster interactions and dynamics. However, if the former become partly bare owners of the capital and the latter become usufructuaries, who will govern the company? The convergence of their interests should be able to remedy this thorny question. Indeed, shareholders do not cede ownership of their shares but a right of use. They will therefore sit in meetings, be represented by a board of directors or its equivalent depending on the legal form of the company, and will contribute to the company's orientations. However, they will have to include seats for enhanced employee representation on the board of directors as well as in the executive governance bodies.

• Status and taxation

By making his capital available to the cooperative capital company, the shareholder takes a higher risk. Indeed, in order to hope for a capital gain, he must first reach the equilibrium threshold of the nominal value of his share. If he pays 100 euros for a share that is now worth only 91 (according to our example) because 9 euros are allocated by dilution to the salary collective, then the path to a valuation at 100 euros the share will necessarily tend to lengthen and become more uncertain. An incentive through an appropriate tax on the company's result is a measure that the State should be able to consider, for example through a reduced taxation of the profits received, which is all the more justified since by sharing the operating value of its capital, the investor is part of a corporate citizenship approach. In this respect, the latter could also benefit from an adapted regulatory base without modifying its statutes, similar to what mission-oriented companies obtain with the "Entreprise solidaire d'utilité sociale" (ESUS) approval.

• Transparency and environmental and social contribution

In addition to defining the internal modalities and functioning, it is essential to question the cooperative capital company conditions of existence and the impact of its activity in our society. Transparency in this area cannot be an option but must be a broader imperative: the measurement and monitoring of so-called extra-financial performance (environmental, societal and governance impacts - ESG) as well as their publication will be the instrument for this. At a time when nations such as France are embarking on economic, energy, environmental and social transition policies, there is fertile ground for an entrepreneurial approach of this type, aligned with long-term paths, particularly those of the Paris Agreement.

Facing particularly acute contemporary challenges, the capital-intensive company could find a path of renewal through the solution we propose in many situations. History teaches us that the cooperative economy has long been able to respond to the excesses and imbalances of the times it has lived through. It owes its longevity to its constantly renewed capacity for hybridization and adaptation. The cooperative capital enterprise model we are presenting is a current translation of this. It is in itself nothing complex, nothing less than a common sense approach, a "step aside" sketched out through observations and reflections that have constantly placed the human being at the core of

the entrepreneurial project.

Both social enterprise practitioners, we see every day the positive effects and impact that our organizations have, their accomplishments of course, but also the tremendous synergies they manage to generate internally and externally, intelligently connected to the world around them, convergent, mobilized in their action to solve problems. In many parts of the world, particularly in sub-Saharan Africa, especially in Senegal, where we are involved in direct contact with the



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populations of livestock farmers and agri-food chains, experience shows us that economic inclusion is a key factor of resilience, a path to be pursued with enthusiasm to give human societies the enlightened paths, the hope, that they need. This is probably a source to draw on without further delay because, having been running at full speed for decades, the economic machine has certainly managed to create growth, but at the cost of a future with little respect for the environment and a society that is fracturing.

The unprecedented and probably historic aspect that the year 2020 represents in the world confronts us with this decisive turning point: will we succeed in modifying the cogs and mechanics that structure our societies to collectively shape a better-shared future? Will it finally be within our reach to work towards more harmonious systems of societies? We cannot individually change everything, yet we can act. Because it is our most accessible framework for action, the company remains the ideal tool for our societal progress. Thanks to capital-intensive rules rethought with a view to a better redistribution of the value created, economic reconciliation and socially just cooperation, it will be able to contribute its share of the solution. There is no extremism, madness or utopia in conceiving this; but the liberal, civic and reasoned conviction that the world cannot be built other than with and for each other.