

A PLACE BASED COMMUNITY BUSINESS MODEL
Localisation or Delocalisation

ABSTRACT July 20- 2015 11:30

Especially after 1400, with the Spanish seeking gold in South America and the English and French seeking furs and fish in North America, most commerce has been “doing business at a distance”. As resources were exhausted, owners would move the resulting wealth to another place. In this paper we propose the model of community business as place-based development and a way of restoring local control of economies. We try to establish basic criteria for what makes a community business successful. We will base our criteria on cases of obvious success such as Mondragon, Trentino, Hansalim and local experience. We try to develop a scorecard parallel to the Kaplan scorecard used in business schools. We invite you to help us develop the criteria such as: job-creation, worker participation etc.

-----DRAFT JULY 20-2015-----

It seems obvious that in early history, economic development was based on natural resources such as animals and plants. People developed the resources in the places where they lived. Economic development was local. Later on, however, especially in the 16th century, there began a new kind of development which I call business at a distance. In the northern parts of the American continent the French and English led in reaping fish and furs for Europe. In the southern parts of America, the Spanish and Portuguese led in reaping gold and silver for their kingdoms. Thus began the process of delocalization of economic development.

Many of the problems we face today are rooted in that strategy of seeking resources at a distance. Today, the United States, Canada, Russia and China are in Africa not out of love for Africans but they hope to make money through the development of African natural resources. In this process of delocalization, wealth is created in one location but this same wealth is transferred to another location. Locally the benefits are minimized and, at a distant control centre, the benefits are maximized. In those regions which have thus become branch plants or branch regions, the consequences are often negative from the economic and from the environmental point of view. However, the owners in distant places usually do not accept responsibility for the consequences.

The story of Cape Breton Island is typical of the reality today. In Cape Breton we have poverty and unemployment levels over 15%. Yet we have been sitting upon billions of tons of coal that stretch from here to Newfoundland. The aboriginal Mi'kmaw people who lived here had been exploiting animals and plants in this place where they lived. However, big changes came with colonization by the English which increased in 1800.

It all started with an English Prince, the Duke of York. The prince liked to party and he had a lot of lady friends whom he showered with gifts of jewelry. Eventually he could not pay his bills and he was sued by an English jeweller. It so happened that his father, King George 3rd, had given him a 60 year lease to the mineral resources in Nova Scotia and Cape Breton in 1788. To pay his debts, the prince sublet his mineral lease to the jewellers in London. The jewellers formed a company called the "General Mining Association". They then hired an engineer name Richard Brown to develop the coal mines in Cape Breton. (Morgan, 2008) Thus began the industrialization of coal and steel in Cape Breton.

The resulting coal mines and steel plants hired thousands of miners and steelworkers from Europe and the Caribbean. Boys at the age of ten became boy-miners. The mining company established grocery stores and company houses. The costs were deducted from the miners' pay. From the early days to 1945, it was a tale of death through mine accidents, suffering and general exploitation. Several times the Canadian army was brought in to suppress striking coal miners and steel workers. (McEwan 1976)

Today, we have no working coal mines and no steel plants with resulting high unemployment, poverty and out-migration. The foreign companies took the coal and left us with holes in the ground. Wealth was created but where did the wealth go? That is the question that many of us have been asking. What happened to all the wealth that was created in Cape Breton by the owners in London England and Boston. It was not re-invested in Cape Breton.

For any thinking person with a sense of social justice, this model is wrong. It involves wealthy people in distant places owning, controlling and profiting from wealth producing entities in other places. Whether they are Kings, Queens, Emperors or stock investors, it comes down to the same thing. Money and power is the means to exploit people in other places. It is true that, through government controls and labour unions, the benefits of work have been spread more evenly through the trickle down effect. But the dynamic is the same.

In the 19th century, Karl Marx led in proposing the radical alternative of revolution. Other moderate social reformers saw the need for new less radical models. Examples are Robert Owen in England who organized consumer cooperatives in Rochdale in 1844 and Raiffeisen in Germany who set up cooperative banks in 1864 as well as food cooperative and a publishing house. A boost for the cooperative movement came from Pope Leo 13 who issued a document called "Rerum Novarum" in 1890. (New Things or New Approaches). Especially in Quebec and Italy, clergy led in promoting cooperative organizations.

For over 150 years, the cooperative movement has made an important contribution to counteract the growing power of the large corporate business system but it is not enough. The intentions were correct but the cooperative sector in business is relatively small across the world. It is still true that approximately 250 large business corporations with headquarters in Japan, United States and Germany control most of the wealth in the world. These large global corporations have extreme political influence and promote unfettered free market systems. In the United States it costs several hundred million dollars to run a presidential campaign. Billionaires and large business corporations supply a good percentage of this money. A recent book by a highly regarded French economist pointed out with statistics that the rich are really getting richer and the poor are not moving up. (Piketty, 2014) The gap between the rich and the poor is growing.

During the 20th century, the big debate had been whether state socialism inspired by Marx or capitalism inspired by Adam Smith could solve the problems. With the fall of the Berlin wall in 1988, many thought that capitalism had won and that corporate capital would solve the problems of poverty and unemployment in the world. However, the recession of 2008 showed that corporate capital was not working for the common good.

Henry Mintzberg suggests that we forget about the opposition between private enterprise and government enterprise and that we focus on balance between individual needs versus community needs. (Mintzberg 2015) He calls for new models based on balance and harmony among conflicting needs and desires.

Governments have become extremely bureaucratic. They are capable of making regulations to control the market system, but it is not likely that they will come up with significant change in the free market system. Technology has made bureaucratic systems all the more resistant to change from outside. (Habermas. 1990) Because of all this, I would like to suggest that we must put a great deal of effort in finding new forms and new structures so that community groups will be able to exert greater influence in our economic system.

Basing ourselves on the history of the cooperative movement, I suggest that we must experiment a great deal more. I use the word "experiment" because we are never certain what will work best in solving the deep problems of poverty and unemployment. When we transform a solution into an "ism" such as capitalism, communism or even cooperativism we make our systems sacred and resistant to change. We must try new forms of organization and if they don't work, we must modify them and try new experiments in social economic re-construction. These should be place-based local structures and community controlled.

For the present, I wish to focus on non-metropolitan areas because the highest unemployment is usually found in non-metropolitan areas. Marx spoke of the "idiocy of

the countryside” and a number of years ago, a Ford Foundation study called for the merciful death of small town America. Especially from a cultural point of view I think that non-metropolitan areas are extremely important for world civilization. Such areas are more difficult to absorb into technocratic systems. I believe that smaller decentralized societies are more resistant to conformity and uniformity. Large global corporations depend upon uniformity. Whether a Ford or Honda automobile is made in any part of the world, they are all the same.

I have been fascinated by several examples of successful social economic development which do not fit the global pattern of delocalisation. These are Mondragon in the Pyrenees Mountains of Spain, Trentino in the Alpine border areas of Northern Italy and Hansalim in rural South Korea. In Cape Breton we have New Dawn Enterprises along with the BCA Group and there are significant cooperative innovations in Quebec which have their roots back in the 1880's and mainly in the dairy industry. (*Aidons-nous les uns les autres, la coopération est la cle du succès*) (Riopelle, 2014). P.363) These local cases are much smaller, but they have interesting structures which are worth analysis. I am sure there are many more, but we can start with these.

The traditional cooperative movement is understood as either consumer or producer controlled. Throughout the world, the vast majority of cooperative business organizations are grocery stores and are consumer owned and controlled. Farmers often form marketing cooperatives controlled by farmers. However, this traditional cooperative model has a built in contradiction. The producer wants higher prices and the consumer wants lower prices. In the exceptional cases I mentioned, the differences are somewhat blurred in different ways and compromises have been developed.

Mondragon is mainly industrial. It is largely controlled by worker-shareholders but in the retail part which is the largest retail system in Spain, both workers and customers are shareholders. Trentino is mainly agricultural being one of the largest wine producers in Northern Italy but includes construction cooperatives owned by worker shareholders and a system of retail stores owned by consumers. In both of these examples, all the parts are interlocked in a complex system of control including both producers and consumers. They are organized as second and third level cooperatives. They are highly successful with sales in the billions.

Hansalim is also rural based and is clearly designed to solve the conflict between producers and consumers and to build positive bridges between rural and urban centres. It is a unique structure in that 75% of the revenue goes to the producers (farmers and processors) and the other 25% goes to operational costs such as trading costs; promotional costs; education costs; consumer activism and etc.

The organizers of Hansalim seem to have had the idea that most of the problems in the world are connected with economic conflict. Their hope is that the solution to basic economic conflict may help us solve many of the great armed conflicts in the world. Hansalim stresses harmony and balance in all our social economic structures. The farm producer and the retail store are joined together in one harmonious system. Consumers are invited to visit the farms. Today, Hansalim is the biggest community-supported agriculture organization in the world. On 2,000 farms the association produces health food products for 1.6 million people. The product distribution is organized by 195 retail stores with eco friendly approved products. Their mission is to protect the earth as well as human health.

New Dawn is a not-for-profit with a multi functional structure. The concept is that it has no shareholders and is owned by the community at large. They organize businesses that respond to community needs such as affordable housing, home care and skill training. The BCA not-for-profit group simply raises money to invest in and advise small businesses in a job creation strategy. BCA has specialized in purchasing bankrupt companies and restarting them, usually as family businesses.

These cases are at different stages of development and have differing structures. Trentino is 120 years old. Mondragon is 60 years old. New Dawn is 41 years old and Hansalim is approximately 30 years old. It is impossible to give a fair description of these cases but I would like to begin devising a set of criteria upon which we can use in developing a place-based, community controlled kind of business structure. In business schools they often use templates or score cards to ascertain levels of excellence in various categories such as marketing, innovation, leadership etc. Examples are the Malcolm Balridge National Quality Award and the Kaplan Balanced Scorecard.

I suggest that it would be useful to develop a scorecard to evaluate various kinds of community based businesses. I use the term "community business" in a rather loose manner to include cooperatives, not-for-profits and forms of worker owned businesses. I am thinking mainly of non-metropolitan areas but many of these criteria apply to large cities as well.

I am assuming that the purpose is not simply that of making profit but of developing the local community. I am using a system which I call reverse engineering. Normally we social activists begin with theories and principles and try to find real cases that are consistent with our theories. In reverse engineering, we do the opposite. We start with real world cases that we consider to be worthy of imitation and which seem to match our value system. Then we analyse them to discover the principles and theories upon which they are based. In other words, we begin with the empirical.

I am picking some real-world cases which I admire and I am trying to analyse and unpack the principles upon which they are based. These will be the principles which help us determine the criteria for judging best practice.

1. Job Creation - All over the world unemployment is a problem. Having a job is fundamental for personal development and should be considered a human right. Mondragon explicitly proposes job creation as a fundamental purpose in its planning and business strategies.
2. Sustainability – There are different kinds of sustainability. Key ones are financial and environmental. Community based businesses that are not financially sound simply disappear. Of course, profit must be generated but as a means to achieve more social goals and not as an end in itself. Trentino has stood the test of time so we can assume it is financially sustainable. Hansalim has been outstanding in preserving traditional values and in protecting the earth upon which agriculture depends. They were successful in maintaining a traditional strain of Korean rice against the power of international companies such as Monsanto. Hansalim has three main goals; 1) to save life through a healthy diet 2) to save agriculture 3) to save Life and Earth. They are very strong in public advocacy of rules for healthy living.
3. PERSONAL DEVELOPMENT- Participation in any organization establishes relationships which can be positive or negative. In the 19th century industrial revolution the worker was a disposable tool. I consider two key tests of the relationship of the individual to the organization:
 1. participation in capital and
 2. participation in management.This requires transparency through an open-book policy. Worker shareholder cooperatives are the best structures to implement these principles.
4. COMMUNITY DEVELOPMENT- Members of a business organization often consider the purpose to be the benefit of the individuals in the structure, whether workers through unions or profit for shareholders. Some cooperatives also view their purpose solely in terms of benefit to members. I consider that benefit to the community at large must be a priority in a community based business. In that sense, New Dawn gets high marks. New Dawn analyses the general community and responds to needs as they see them such as affordable housing, dental care and home care.

5. MULTI FUNCTIONAL INTEGRATION- The majority of businesses in the cooperative tradition organized around one function. Sometimes that was to supply affordable groceries in a retail system, or housing cooperatives to supply housing, or credit unions for finance, or marketing cooperatives etc. In general, they were uni-functional, focusing on one specific need. The needs of society are complex and they change over time. I think that a multi-functional type of business is much more capable of responding to the needs of society.
6. LOCALIZATION- To what degree is the business tied to the local community. Can it be purchased by outside businesses? It is a fact in Canada and in Britain that traditional cooperatives have been purchased by outside companies and they have lost their ties to the local community. It is called demutualization. This is usually contrary to the intention of the founders, but the legal structure was porous and allowed "take-overs". New Dawn and BCA have legal structures that make outside take-over impossible. They are tied to the local community.

The preceding are samples of criteria that can be used to devise a "score card". I invite people who are involved in the practice of community business to propose criteria and to offer criticism of the samples I have provided. Hopefully, it will be a work in progress. In general each experiment will have good aspects and weak aspects. No one has designed a perfect structure yet.

In conclusion, we must discuss in general terms the notions of ownership and control. In most Western countries, legal ownership of business corporations is through the purchase of shares. For the large global corporations these shares are usually sold on the stock market. But is this real ownership in the traditional sense? L.G.B. Gower is one of the great English specialists in the history of law. He puts it very well. : "A holder of 100 shares in, say, Imperial Chemical Industries is a member of that company, but it is a fantasy to describe him as associating with the other members in running it. The running of the business is left to the directors, or probably to the managing directors, and the shareholders, although members, are in economic reality, but not in the eyes of the law, a mere lender of capital, on which he hopes for a return but without any effective control over the borrower."³³ Gower calls this kind of ownership and control a "legal fiction". So millions of people buy shares in General Motors or Honda Corporation but they have very little control over the operations of these giant corporations. They are really lenders of money rather than real owners. In our democratic society we say that the shareholders control and decide how these corporations are managed but we know that millions of shareholders have little say over their operations. And today a lot of these shares are held by pension funds, Insurance companies and mutual funds who worry only about receiving higher dividends.

In 1935, Berle and Means in California published a fascinating study. They argued that the success of large business corporations was not due simply to the work of these corporations. They claimed that the general society provided much of the input that made these corporations wealthy. They argued that schools and universities supplied engineers and technicians which made their business possible. Also, public security through police forces provided security that made their factories secure. The basic infrastructure for any kind of business is provided by tax payer funded governments. Large business corporations resist paying taxes and claim that their wealth is due to their own industry and ingenuity. Berle and Means claim otherwise and they provided many examples. They challenged the notion of corporate ownership of a huge percentage of American business assets by a few individuals. They claimed that corporate business success is due to a complex system of social support.

The mantra in conventional business corporations is that all decisions must be made in the manner that most benefits the shareholder...but if the business is in Italy and the shareholders are in Japan or the United States, what does this mean? It is especially dangerous if the mother factory is in the United States with a branch plant in Canada or Mexico. When the market share shrinks, it will usually be the branch plant that will be closed. It could be the opposite but the point is that, in these scenarios, there are always winners and losers especially in terms of jobs.

I have been criticizing the global corporate system but I am not claiming that it can be replaced by community business structures. If we did not have such large corporations, we would not have such low cost automobiles, airplanes and computers which we all use. I believe that such large corporations are necessary, but they need more government regulation. Also, I claim that it is extremely important to develop alternative forms of business which I have been place-based community business. If 25% of the world economy were controlled by such community businesses, then this would be an enormous corrective to our present system.

To make this happen, I think that we need to develop more comprehensive criteria which can be a sort of building plan for community activists.

End

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