Silent Revolution

The Socialisation of Enterprise

Extract from the Second Edition

Chapter 1 - An Entrepreneurial Polemic

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The First Rule

Three months after joining Computercraft Ltd, it struck me that there is only one underlying rule to running a business. You must not take more than you can give back. We obscure this simple idea with many words – jargon like insolvency, bankruptcy, receivership, liquidation is useful to experienced practitioners - but to most people they obscure the simplicity of the *first rule*. When you strip away the jargon, you are left with a fundamental truth that so long as you do not take more than you can give back, then you can carry on trading as long as you like.

In fact, the *first rule* is true of all organisations and people, and is not exclusive to business. No organisation is allowed to take from its suppliers more than it can get back from its customers or members. No person is allowed to buy more than s/he can afford to pay back.

Bankrupt (or insolvent) is another way to say you have broken the first rule.

You may think this is the wrong way around? Businesses initially buy (give money) before they sell (take money). This is true if you view business through the eyes of the customer. However, viewing the world through the eyes of the business, an entrepreneur, social or conventional, takes the products of others, add something to them, and then supplies them to someone else. The products offered must be more valuable (to the customer) than the ones they bought (from the supplier) otherwise the business will never be able to keep to the *first rule*.

One of my former employers attempted to run itself as a non-profit making business – its goal was to provide a range of computer services to the emerging Third Sector in London. It aimed to pay a living wage and balance the books at the end of each year. Its founding members soon learned that it is not easy to run a business on a non-profit basis because fluctuations in income leave you continually at risk of breaking the *first rule*. The *first rule* requires that you must always be able to pay your debts. Operating on a non-profit basis increases the risk of not being able to pay your debts.

It can be argued that all organisations that wish to develop themselves must run on a profit-making basis. Businesses trade. Charities fundraise. Trade unions and societies seek members. Governments tax. Over the lifetime of the organisation, all must obtain an income that exceeds expenditure if they want to be viable (or convince others that they can be so). If any organisation spends more than it receives (over its entire life) then it breaks the *first rule* and will – with the exception of government - be forced to close unless it quickly reverses the trend.

***Solvent* is a term that describes an organisation that – at any point in time – is able to pay off its debts.**

So the dynamic in <u>all</u> types of organisation that intend to develop and grow is to create a buffer that shields the organisation from income fluctuations so that they can observe the *first rule.* Many people believe that what separates business from other organisations is that they make profits. This is not the case. All organisations *have* to make a profit in order to keep developing themselves. What makes them different – perhaps - is the way they *distribute* profits.

Creditors

You might think that it should be straightforward to run a business on this basis. Surely it is easy to ensure that you do not take more than you give. The difficulty arises from the fact that businesses have to take <u>before</u> they can give. They incur debts before they are in a position to pay them.

All businesses trade. All businesses buy materials and services and use labour in order to create something of value and then sell it. Some businesses borrow in order to buy. Some businesses ask people to invest in order to buy. Some businesses demand money in advance of supplying products and services, in order to buy them.

Anyone who gives anything to an organisation in the expectation that one day they will receive something back becomes a *creditor* of the organisation.

Debtors

Sometimes an organisation will supply something to someone in advance of receiving payment. Sometimes an organisation will invest substantial amounts of money in another in the expectation that they will get back more than they have invested. Both businesses and charitable trusts do this.

Anyone that asks an organisation to supply something on the understanding that they will pay something for it becomes a *debtor* of the organisation.

Trading, Surpluses and Profits

Trading is not unique to business. I have provided services for nearly a quarter of a century to a wide variety of organisations – including those that call themselves 'non-profit' – so that they can trade more effectively. I originally did this by developing software systems that assists with marketing, enquiry management, sales and after-sales service[1]. Now I provide more general advice and produce books. In terms of the processes involved – delivering quality services and products in a cost-effective way – all organisations have an interest in using their resources as effectively and efficiently as possible.

Charities may not think of themselves – or be regarded - as profit making, but often their aim is to create a surplus that will fund an increasing number of activities that raise their profile. A higher profile enables them to increase their income from donations. It makes it easier to access public and private sources of funding[2] more easily. This results in growth – both in size and influence – that satisfies the egos and social aspirations of their founders and senior managers.

Also, whenever people give money to buy charity merchandise they typically expect the charity to make a profit; they expect the charity to send them something that costs less to produce than the price demanded. The same is true when people give money to a business. They expect the business to send goods that were produced at a lower cost than the price demanded. They expect the business to make a profit.

What is different, perhaps, is the attitude of the purchaser. When we buy something from a charity, we *want* the organisation to make a profit (in order to channel more money into charitable projects). When we give the money to a business, we are less happy that it takes a profit – in fact a sizable minority resent businesses making profits, even though they also need to fund new projects.

As we stated earlier, all organisations need to create a surplus to fund their development. A business that does not create a surplus cannot employ more people. Under existing trading rules, if a business does not make a profit it does not pay tax. It is, therefore, in the public interest that businesses make profits so that they can grow and pay tax, returning part of their surplus to community funds. The question, however, is which "community" these taxes should fund and which "community" should decide how these funds are reinvested.

Is there a difference between surplus and profit? Yes – surpluses can be spent before they appear as 'profit' in the end of year accounts. If the income of an organisation is ahead of expectations, then additional spending may be authorised *in order to keep profits down* or as a genuine additional investment in the future of the organisation or its staff. Profits are the declared part of the surplus – the part that has not been spent before the end of the trading year.

So, trading with suppliers and customers is not a defining characteristic of business. In fact, the only difference we can generally observe is that consumers often change their attitude to 'profit' depending on who they are buying from. We will return to this question later.

What is a Share?

Every organisation has to answer the question "how will we distribute our income?" Some income may go to employ staff (wages); some income may go to save for the future (reserves); some income may be used to compensate the people who took an entrepreneurial or financial risk to create or develop the organisation (dividends).

If an organisation is wound up, it must also decide how to distribute its assets. Typically, the assets are distributed among the legal owners. However, the 'owners' in a legal sense may be private individuals, the community (or a selected part of the community) or the state depending on the legal structure of the organisation.

Shares are a popular mechanism used by companies to decide how to represent ownership of assets and share out surpluses.

State, Common and Individual Ownership

Typically politicians and the media describe the world in terms of public and private ownership. This is an over-simplified view. Companies can be owned by the state, the community or by individuals. The true test of ownership can be determined by answering the question "*who benefits* if the company is dissolved?" In some cases, the state receives any proceeds from the sale of assets. In other cases, the proceeds must be distributed to other similar organisations. In many cases, the proceeds are distributed to the individuals and organisations who took various risks to support the venture (shareholders).

Many organisations that are classed private are more readily understood as “community” owned. For example, the Barnsley Business Innovation Centre – one of the largest and most successful business incubators in the country - is run by a company (BBIC Ltd) that was established by Barnsley Metropolitan Council and the Coal Board Trust. Its legal form (a Company Limited by Guarantee) is used by both commercial and non-commercial enterprises. In all cases, when we ask, "who benefits" we find that the assets typically have to be distributed to the community. In this regard, they are more *public* than private. They are (erroneously) classed as private simply because they are not owned by the state.

Are state-owned enterprises 'public'? Frequently, in the running of state institutions, the relationship between the state and its citizens is *not* one that allows citizens access to the institution or any real influence over its running. Many 'public' bodies are far more secretive that 'private' organisations are allowed to be.

Are privately owned organisations 'private'? Most organisations that are classed as private must publish their rules, financial statements and annual reports. They are frequently open to scrutiny (by the state and their shareholders) in ways that 'public' organisations are not. A 'public' organisation can cite 'national security' to protect sensitive information. A 'private' organisation cannot.

An organisation that is commonly owned cannot be sold by its members for personal gain. Common ownership has been used for public sector projects that involve the creation of a company to run a public facility. The theoretical advantage of a commonly owned company is that the assets it creates are owned by the community and cannot be taken over by other corporations or wealthy individuals. Because of this, it is believed they will spread wealth more widely and equitably. We will examine whether this theoretical advantage works in practice in Chapter 6.

Most businesses are established by individuals who invest their own money (or borrowed money) in a company. Many businesses are small, perhaps owned by only one person or a family. In these cases, questions of ownership are simple and relatively uncontentious. However, when several people from different families come together to form a business, it is necessary to have a mechanism to determine what share of the company each person owns. For this purpose, the company issues shares.

The concept of buying and selling shares – i.e. the stock market – is widely known and understood. What is far less well understood is the role that shares can play *when a company is created*. On the stock market, shares are simply bought and sold. In contrast, when establishing or expanding a company, shares may be issued for a variety of benefits that help develop the venture. The division of shares is a matter of choice amongst the members of the business.

In creating First Contact Software Ltd shares were issued for a variety of reasons to both individuals and organisations:

- in exchange for money invested;
- in exchange for equipment and books;
- in exchange for access to intellectual property;
- in exchange for professional services;
- in exchange for unpaid labour.

In Chapter 6 we will examine the variety of ways shares are used. One company, for example, required each new member to purchase their shares by working for two months without pay. Companies may also swap shares to cement their commitment to each other. In effect, each takes a stake in the future of the other, and can only realise the benefits by helping the other business to succeed.

Shares are a mechanism by which a company exchanges a share of its future wealth for an immediate benefit.

Equity

Shares are sometimes referred to as *equity*. A quick browse through a thesaurus gives us a surprising insight into the various meanings of equity:

- Even-handedness
- Fairness
- Justice
- Fair play
- Impartiality
- Justness

While it is tempting to bring forth many instances of people becoming wealthy from a timely investment in a small company, we should never lose sight of equity's essential purpose. It is a tool that allows a company to distribute its wealth fairly in proportion to the contributions made by its stakeholders. Inequality, where it exists, comes about not because there is equity, but because equity is denied to some enterprise stakeholders. Unlike those who believe inequality would disappear if equity (and money) was abolished, I take the opposite view. Equity gives its holder democratic rights (and responsibilities). By extending its use, and using it to redress inequality, it can play a valuable role in bringing about democracy.

Like all tools, it can be misused and abused. Human beings sometimes misjudge situations and when benefits appear to be disproportionate to contributions, this may simply be a reflection of misjudgements made during the set up of a company. Sometimes shareholdings may be a result of the bargaining power of each founding member. When founder members give away significant amounts of equity to a particular stakeholder when a company is created, this may look disproportionate in future years (particularly if the company is successful). However, the benefit may simply reflect the value founding members put on a stakeholders' initial contribution[3].

In recent years, many leading companies have created all-employee share ownership plans (ESOPs). While there are several reasons for the popularity of these plans, not all of them rooted in a desire for democracy, there is a growing consensus that extending the franchise for shares to all employees can bring about social and economic outcomes that most people consider positive.

Employee Ownership

Allowing employees to hold shares in their own company is a relatively recent development (historically speaking). Although some forms were observed as far back as the 18th Century, it is only since World War II that it has gained widespread popularity. The idea has gained widespread acceptance in the US where a successful track record (commercially speaking) has been established. In the UK, most top companies have All Employee Share Ownership Plans (AESOPs) although the holdings are relatively small.

Employee ownership should not be confused with common ownership. Outwardly they may appear to be similar. In both types of company, employees hold shares and may have to give them up if they leave. However, when we ask the test question, "who benefits if the company is dissolved?", in an employee-owned firm the employees benefit. In the commonly owned firm they generally do not. In practice, shares in a commonly owned company confer temporary decision-making rights (which is why directors are often regarded as trustees rather than owners).

What is a Market?

Most people in the western world take markets for granted. Describing a market is not easy. In fact, to get a sense of what markets are, and what they contribute to society, it is helpful to imagine what life would be like without them.

Imagine if:

- you could not freely choose what goods to buy in shops;
- you had to join a waiting list whenever you wanted a good in great demand (such as an expensive household appliance, a house or a car);
- you had no choice whether to seek employment, be self-employed or employ others in your business;
- civil servants determined what job you could do and whether you could change jobs[4].

We take for granted the freedom to choose how we spend our income and choose our careers. The former Eastern Bloc gave us an insight into what happens when you try to eliminate the market. People lose the freedom to make choices that affect many aspects of their daily lives.

Markets exist wherever people come together to exchange their products, time, skills and money for mutual benefit.

In a market, a seller offers their skills, time or products in exchange for an income (or someone else’s income). A buyer offers their income in exchange for the products, skills or opportunities they want to acquire. While we talk about living in a market economy, most of us do not think about the true character of shopping. In every shop there are goods from different suppliers that compete for our attention. The shopkeeper decides for themselves which products to stock based on their assessment of what they think we will buy. We make our buying decisions based on the information we can obtain about their products. What would life be like if the shopkeeper and the shopper could not do this?

Lessons from the Eastern Bloc

One of the enduring memories of the collapse of the Eastern Bloc was the way people in East Germany abandoned the queues and poor quality goods made in their own country for better quality goods that were available in West Germany. For many years, people with left-of-centre political ideals held up the Eastern Bloc as an example of alternative economics. However, even in the most advanced Eastern Bloc economies, consumer goods were of such poor quality that almost any western consumer goods compared well in terms of value and quality.

While public records suggested that the Eastern Bloc had education, health care and public welfare systems as good (or better) than their western counterparts, the same could not be said of the quality of goods that were manufactured in their factories, or the produce harvested in their fields.

Many commentators blame the devastation of the Eastern European economies on the market. In fact, it would be more accurate to blame it on *the effects of having to adjust to a system that allows citizens to choose for themselves what goods they want to buy and consume.* Indeed, it is because the market made suppliers accountable for the quality of their goods that the economic shocks were so great.

Case Study

Markets are often perceived as unfair. I recall that once I had a conversation with a friend about two schools - one that provides its pupils with a good education and excellent social skills, another that provides a poor education and ignores social skill development.

Without a market, the only way to improve quality is to introduce a system of monitoring which will reveal a poor education service. The monitoring authority will typically report problems to the school so that they can be addressed. Unless the problems are extreme, it is unlikely that the monitoring authority will have any powers to make changes in the way the school is run. There is no market dynamic forcing the school to improve so advances depended on the professional integrity of staff. In recent years, there has been a move to distributing information to parents. This creates a democratic dynamic, rather than a market pressure, to make improvements.

If the schools operated in a market, parents and pupils would take their custom elsewhere and (over time) there will be a transfer of pupils from the poor school to the good school. The good school will expand to meet demand, and if the poor school does not redress its faults - and *communicate* that it has improved - then it will become less and less viable.

If we are interested in providing the best education for as many people as possible, which model should we follow? Undoubtedly, both approaches have merits and problems. If you ignore the market, you have to set up an expensive mechanism that identifies and addresses faults as they become apparent. If you rely on the market, the faults will manifest themselves mainly in falling numbers, by which time problems may be so deep-rooted that they are very difficult to address.

Were it not for the fact that closing *any* school causes a raft of additional difficulties (e.g. unemployment, longer school journeys, the loss of valuable local facilities, the erosion of community life) decisions about school closures would be quite straightforward. Herein lie some crucial discussion points regarding the impact of markets on community life.

Over the long term, markets force corrections because when a supplier fails to provide what is wanted, individuals are free to go to another supplier. When a correction takes place, however, the market is not required to make provision for the social upheavals that result. We can see both from the macro economic example (the collapse of the former communist states) and the micro economic example (the closure of a school), that there is a need for a third party to intervene when market dynamics create short-term problems.

Conventional wisdom is that the state should step in when these situations occur. In the private sector, insolvency practitioners intervene. More recently, an argument has been developing worldwide that locally based, democratically managed and owned 'social enterprises' do a better job at filling this void.

Problems with Markets

Markets are far from perfect. A primary problem (illustrated amply by the examples above) is that they are geared towards consumption rather than human need. They react to events so fast that it can be difficult for communities to cope with the changes that result. When the Berlin Wall collapsed, the market for East German goods collapsed also, causing massive unemployment and poverty. When a large factory closes, the knock on effects can take years for a community to recover from. And yet – as we see from the former Eastern Bloc - if inefficient and uncompetitive enterprises are supported for a long time, the economic shocks that eventually result cause far greater hardship.

Let us briefly consider the bombing of the World Trade Centre in September 2001. This event caused millions of people to change their behaviour overnight. Many companies and tens of thousands of jobs were lost within weeks because the markets surrounding the air industry changed dramatically. In real terms, many people's everyday lives were devastated by an event over which they had no control.

Therein lies another problem with markets. They focus on the here and now at the expense of the future. In satisfying immediate needs, it can be difficult to plan for contingencies, focus on innovation, undertake long term projects, or commit to projects with high risks.

> **Companies will be extremely cautious about supporting projects that require long term finance or high risks because to do so may result in breaking the *first rule*.**

The contrast between France and the UK over funding for the Channel Tunnel is worth mentioning here. In France, where public sector support was much higher, the rail links were completed by the time the tunnel was opened. In the UK, where far greater attempts were made to involve the private sector, the rail links are still not complete even now (nearly 15 years after the tunnel was opened).

In the longer term we may find that the market driven, locally planned, approach in the UK ensures a much closer match between actual needs and the provision of rail links and terminals. Nevertheless, potential benefits may not be realised because too many people 'play it safe': benefits are too distant or the risks too high. Many genuinely worthwhile projects may be abandoned as a result while 'get rich quick' ideas that have no lasting community benefits get funded.

The last major problem with markets also stems from their responsiveness. Suppliers are accountable. The market forces them to supply goods that people want at prices they can afford. Herein lies a problem for suppliers – they can only afford to produce what people can afford to buy. What happens if a section of the population needs something they cannot afford to buy? Too bad – the market cannot satisfy their need because to do so would involve breaking the *first rule* (they would have to take more value out of the market than they can put back in).

As a consequence, for markets to work well, wealth needs to be distributed equitably amongst the population so that the choices made by individual buyers actually incline suppliers to produce goods that can be purchased by everyone. Some variation is fine. Goods can vary in quality (and price) substantially and still perform their basic function satisfactorily.

However, if income differentials between individuals or geographical regions grow too large, suppliers will begin to supply those individuals and areas where there is most money. As a result, despite a large amount of money getting spent on particular types of goods and services, the needs of substantial numbers of people will be ignored because it is not possible for suppliers to make goods at prices that can be afforded (or they simply wish to reduce their risks by supplying only wealthier customers).

A common (and far from satisfactory) response is for public authorities to purchase on behalf of sections of society who cannot afford goods at market prices. For example, health care is bought by the government on behalf of its population, or public housing is funded for people who would otherwise not be able to afford a home.

An uncomfortable truth can be observed. Those who are unable to purchase goods from the market are either unwilling or unable to sell their skills to it. Unpalatable as it may be, the price for not taking an interest in your own (or your child's) education may be isolation in a market economy in later life. This applies at any stage in our working lives to any person in any profession. A person who is highly skilled at 30 and who then ignores their continuing education may find they do not have valuable skills when they are 45.

While there is an accountability of sorts here, and a dynamic that causes many people to continue their education (and many parents to support and encourage their children), people who cannot take advantage of education opportunities will not be able to participate effectively in a society that relies entirely on market economics.

People who suffer illness, or learning difficulties, or are too distracted by issues of survival in homes that are violent, or short of food – all these may result in a failure to learn sufficient skills needed later in life. Once again, there is a need for a third party to pro-actively help develop the skills of citizens, or provide for them, where the market cannot provide solutions.

Conclusions

Do these problems mean that we should not support market economies? Before I comment on this, let me summarise the discussion so far:

- Markets promote individual choice;
- Markets promote accountability (particularly of suppliers);
- Markets benefit people who learn skills that producers want;
- Markets benefit suppliers who create products or services that people want or need;
- Markets react quickly and cannot make provision for the social consequences of their reactions;
- Markets may not encourage production that meets long term needs or provides long term benefits;
- Markets are incapable of meeting the needs of people who cannot or will not learn skills that the market requires.

Markets are honest – that is both their greatest asset and their worst problem. Markets are honest in the sense that they are a simple reflection of millions of buying decisions made by ordinary people every day of their lives.

Over the short term, markets can be manipulated. For example, when Toy Story was released, the impression was given that there would be a shortage of available merchandise for the Christmas market. The black market that developed had a knock on effect on retail prices. Later, when goods became available, many people paid a higher price as a result.

Over the long term, however, markets force businesses to make goods that people value and want – if they do not do this, they will break the *first rule* and have to cease trading. Because of the above, a secondary effect is that markets force people to invest in skills that are wanted by producers and customers.

Markets therefore have a positive role in promoting accountability – people who do not learn how to produce what (other) people want cannot thrive in a market economy because their skills will not be in demand. The same is true for businesses: unless they produce what people want, they too will not thrive. In a sense, markets hold up a mirror that shows us what we are really like. We may not like a substantial part of the reflection but it is a brutally honest reflection.

What we can take with us into our later discussions is an understanding that markets have a generally positive role to play in keeping people and organisations producing what is wanted. History has taught us that markets create a dynamic that improves the quality and value of consumer products much more rapidly than economies where the state controls the production process.

Balanced against this, we can see there is an ongoing need for organisations that take political action to address short-term problems created by market failures. They are needed to act on behalf of people who are excluded when goods cannot be supplied to people who cannot or will not participate in the market.

What is Value?

Value and cost are not the same thing. Most producers, most of the time, try to persuade you that their goods are worth more than they cost to produce. Producers are trying to maximise the value to themselves of making the sale. Most buyers, most of the time, try to obtain the most valuable goods at the lowest possible price. Buyers are trying to maximise the value to themselves of making the purchase.

The world is full of people who do not appreciate (or deliberately understate) the value of products or services they buy in order to maximise the value they get from them. The world is also full of suppliers who go to great lengths to persuade their customers to pay more that the cost price of production.

Cost is determined by the supplier (and for practical purposes can be treated as *objective*). Product and service costs will vary in accordance with the skills of suppliers and staff. *Value* is subjective and determined by the buyer. Value will vary depending on the buyer's ability to realise a benefit from its purchase.

Let us look at an example. You are considering the purchase of a computer for the home. If you have no experience or do not believe a computer will bring you benefits, it will always appear expensive to you and you will place a low *value* on its purchase. If you can understand or have concrete experience of the benefits a computer can bring, you will consider it inexpensive and place a much higher value on its purchase.

Each time you exercise choice in making a purchase, you deem that product to be more valuable to you than the price you pay for it (otherwise you would not make the purchase). Suppliers – as we mentioned above – spend a lot of time persuading you that their goods are more valuable than the cost of producing them. It is the *buyer* who validates this by agreeing to make the purchase.

Even when you accept that a purchase of a particular type of product will be valuable to you, it is likely that you will still want to maximise the value it brings. In the case of a computer, you will assess the purchase price, system specification, service agreements etc. in order to work out which purchase will enable you to derive the maximum amount of value.

In economics, many theories assume that producers will always try to maximise profit (i.e. price – cost). On the other side, there is a consumer, who wants to maximise value (i.e. perceived value – price). This is the theory. It is only partly true in practice because there are many others reasons (social status, kudos, bragging rights, generosity, lack of time) that influence what, how and why we buy.

Why is Value Important?

A good buyer will take an interest in the products and services they wish to purchase in order to maximise the value that can be derived from them. A good supplier will take a keen interest in what buyers find valuable so they can offer what wanted or needed. A business that does not attempt to understand what buyers find valuable *or* that does not effectively communicate the value of what it supplies, will perform less well in a market than its competitors.

We should note that both *establishing* and *communicating* value are equally important. If you have a (potentially) valuable product but do not bother to communicate its value, buyers will choose products - maybe poorer quality products - from suppliers that are able to communicate the value of theirs. If you communicate that your product is valuable when in fact it is not, the buyer will return the product and ask for a refund or go elsewhere when purchasing the same product in the future.

The extent to which we understand value will influence the priority we give to marketing. The more we understand value, the more we appreciate that marketing must be a primary activity within a business.

Value and Price

Price matters. When a supplier drops the price of a product they increase its value to a buyer. When a supplier raises prices, they decrease its value to a buyer. Of course, the reverse is also true; when the supplier drops the price of a product they are decreasing the value to themselves (as a seller) and vice versa.

Some years ago, a major bank produced advice documents about starting and expanding businesses. It cautioned against dropping prices to make up a shortfall of income. A supplier needs to assess if the increased value to the buyer is greater than their potential increased loss. This is rarely the case and frequently suppliers make the situation worse by dropping their prices.

If, however, there is a nett gain from each unit sale, it is quite possible that increases in demand due to lowering the price may more than offset the drop in value to the supplier. More than one entrepreneur has created a new market and earned their fortune by introducing an established product at a significantly lower unit price.[5]

Summary

Let us briefly return to the question we asked at the outset of the chapter – "What is a business?"

We have already discussed the fact that any growing organisation will produce a surplus. Are businesses different because of the way they distribute surpluses? Perhaps. Businesses can distribute their surpluses in a wider variety of ways than charities and governments. Charities must put their surpluses back into developing the organisation and account to donors how their contributions have been spent. Local government is subject to a claw back system if it does not spend monies allocated to it, as are many agencies funded by public bodies.

There is still more scope within private business for surpluses to be taken out of the organisation for personal benefit. This, at least in part, is deliberate in order to encourage people to create new businesses (still a highly risky undertaking). Companies are given considerable freedom in determining how to distribute their surpluses. If decisions are perceived as unfair or self-serving, then they will be justly criticised.

In considering how to socialise business practice, a social enterprise needs to consider accountability in the distribution of its surpluses and benefits. Is it right to deny investors (whether internal or external) a fair share of the surplus given their role in financing new projects? Is it right that we should deny directors, managers or staff a share of surpluses when their efforts create value in excess of expectations (and it is their work that created those surpluses)?

What is needed is a system whereby rewards are seen to be equitable and in proportion to each stakeholders' contribution. Mechanisms to achieve this will be considered in the later chapters of the book. We can, however, set out some values that will guide the socialisation of enterprise. We will need to focus our attention on finding ways:

- to develop and protect relationships with people whose support is required to sustain an enterprise;

- to ensure that any social and economic benefits created by the enterprise are distributed equitably to the stakeholders who sustain it;
- to integrate into membership (and offer shares to) groups of people that the enterprise is intended to benefit;
- to create and offer products and services that people want and/or need;
- to ask a price that exceeds the cost of production;
- to ask a price that people can pay;
- to understand what buyers find valuable;
- to communicate what is valuable in the products and services that are offered;
- to maximise the value of products to buyers (in order to maximise the value of selling them to the enterprise).

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1 'Non-profit' organisations frequently provide a range of information services, and sell publications, training courses and subscriptions.

2 Councils and government departments frequently fund charities to provide services. There are also about 2000 charitable trusts in the UK and many corporate businesses that actively support the sector. Established charities employ full-time fundraisers and sophisticated computerised fundraising systems.

3 It may be – for example – that without that stakeholders' contribution the company may not have been formed at all.

4 At conferences, I sometimes meet people who lived in the former 'Eastern Block'. Arrangements varied, but typically a person might be given a choice of three jobs by the state. People could not freely follow a particular career if it was not offered to them.

5 In my own field, Amstrad and Clive Sinclair come to mind.