Collective Capabilities for Organizational Democracy: The Case of Mutual Social Enterprises

Ian Vickers 🆔, Fergus Lyon and Leandro Sepulveda

Centre for Enterprise, Environment and Development Research, Middlesex University, The Burroughs, London, NW4 4BT, UK

Corresponding author email: i.vickers@mdx.ac.uk

Democratic forms of enterprise and economic governance are needed to help address urgent societal challenges where hierarchical decision-making and governance approaches are clearly failing. There is insufficient understanding, however, of the capabilities needed by enterprises to implement and sustain organizational democracy in pressurized operational contexts. We focus on the role of collective capabilities, which arise from interactions between individuals to create collaboration and collective benefits. Interview evidence from 12 mutual social enterprises – organizations that trade with a social purpose – is used to explore the learning processes that underpin the generation of collective capabilities for organizational democracy. The analysis leads us to a theoretical model of collective capabilities development that responds to three fundamental areas of challenge: (i) *Adaptive design of governance structures and processes*, to balance 'bottom-up' democracy with 'top-down' stewardship control; (ii) *Embedding, extending and revitalizing democracy*, by supporting the voice, capabilities and confidence of workers and users to participate in collaborative governance; and (iii) *Fostering deliberative learning*, to navigate tensions and conflict between plural perspectives and achieve collective aims. In concluding, we reflect on some institutional and cultural barriers to organizational democracy and the case for more concerted policy action to realize its potential as a crucial component of economic democracy.

Introduction

The potential of alternative spaces for organizational democracy that respond to the failures of hierarchical forms of governance and decision-making has been a topic of recurring interest for critical scholars of management, organization and economy (Battilana *et al.*, 2022; Cumbers *et al.*, 2020). Such interest has been spurred by recent evidence of the concentration and capture of the benefits of economic growth by private forms of asset ownership and control, or 'rentier capitalism', which is also seen as stifling entrepreneurialism and innovation (Birch and Ward, 2023; Christophers, 2022); widening inequalities in income and wealth distribution (Picketty, 2020); and citizens' loss of faith in democracy as practiced by many national governments (Foa *et al.*, 2020). Moreover, multiple complex challenges around societal and planetary welfare highlight the need for more responsible and inclusive forms of innovation and governance for social value creation

(Bacq and Aguilera, 2021; George *et al.*, 2016; Scherer and Voegtlin, 2020).

We contribute to the theory of organizational democracy by applying a capabilities lens to explore how inclusive decision-making and governance is implemented and sustained (or not). Specifically, we focus on the role of *collective capabilities*, which, put simply, arise from interactions between individuals that lead to the creation of a collective actor and ensuing collective benefits (Pelenc, Bazile and Ceruti, 2015). We build upon several strands of literature that focus on or have relevance to the development of the capabilities, skills and resources needed by individuals, groups and organizations to achieve valued outcomes. Scholars concerned with human development (Nussbaum, 2011; Sen, 2009) and economic democracy (Cumbers *et al.*, 2020; Pelenc, Bazile and Ceruti, 2015) see the enablement of individual and collective capabilities as fundamental to realizing sustainable and equitable human flourishing. Of particular relevance at the organizational

level are the experiences of mixed-purpose 'hybrid' and cooperative enterprises that trade with a social purpose and seek to give a democratic voice to their staff and other stakeholders (Battilana, Fuerstein and Lee, 2018; Doherty, Haugh and Lyon, 2014; Summers and Chillas, 2021). We also draw upon the strategic management literature on *dynamic capabilities* to help understand how democracy is combined with the agile behaviours needed by enterprises to exploit opportunities, cope with resource constraints and innovate (Ince and Hahn, 2020; Pitelis and Wang, 2019; Teece, Pisano and Shuen, 1997). In doing so, we contribute an empirically grounded theoretical framework to help explain how democratic-deliberative and dynamic capabilities are developed and combined in practice.

Qualitative interview evidence from 12 mutual social enterprises (MSEs) in England is utilized to address our main research question: How do MSE leaders, staff and other stakeholders implement organizational democracy and keep it vital through collective learning and capabilities development? Our paper is structured as follows. The next section develops the theoretical approach and the research context, and the methods are then explained. The findings are followed by a discussion of the theoretical contribution and model of collective capabilities development. In concluding, we reflect on some implications for policy and suggest some avenues for future research.

Conceptualizing capabilities for organizational democracy

Given our focus on the realization of democratic agency and empowerment, two normative claims advanced by scholars of human development provide a useful starting point: first, that the freedom of individuals to achieve wellbeing is of crucial moral importance and, second, that wellbeing needs to be understood in terms of people's capabilities alongside rights of participation and access to the resources they need to achieve desired outcomes (Nussbaum, 2011; Sen, 2009). The concept of *collective capabilities* has been further applied in relation to sustainable human development and is understood as arising from interactions between individuals within a group that lead to learning and actions that help group members to flourish in ways that would not have occurred without the interaction (Pelenc, Bazile and Ceruti, 2015; Rauschmayer, Bauler and Schäpke, 2015). Cumbers *et al.* (2020) apply a similar conception in support of an expanded notion of economic democracy linked to institutional changes to enable inclusive and democratic decision-making at multiple levels.

At the level of business and enterprise, a considerable body of literature supports that employee participation and interactions with stakeholders are often accompa-

nied by positive business performance and innovation outcomes (e.g. Della Torre, Gritti and Salimi, 2021; Harrison and Wicks, 2013; Parmar *et al.*, 2010). Studies centred on cooperatives have examined democratic ownership and control in relation to productivity gains (Doucouliagos, 1995; Hubbick, 2001; Robinson and Zhang, 2005), although the evidence on business performance in relation to equity and democracy is mixed, and the relationship with entrepreneurial behaviours is a particular knowledge gap (Franken, Cook and Cook, 2017; Guzmán and Santos, 2019; Takács, 2023). Nevertheless, the collective practice of inclusive and democratic decision-making has been linked to the wider advancement of 'good work' and of organizational stakeholders as reflective and empowered citizens (Felicetti, 2018; Frega, 2020; King and Griffin, 2019).

There is little research, however, that explicitly applies a capabilities lens to explore and understand experiences of organizational democracy within enterprises facing varied and often challenging operational contexts. Summers and Chillas (2021) focus on the *economic democracy skills* needed by employee-owned companies and highlight the need to explore further how formal business-owner skills are combined with 'softer' socioemotional skills. Although it is not directly concerned with democratic empowerment, we contend that the strategic management literature on dynamic capabilities (Pitelis and Wang, 2019; Teece, Pisano and Shuen, 1997) can usefully enrich understanding of the learning processes and capabilities needed to implement and sustain organizational democracy. As well as needing operational or 'ordinary' capabilities to deliver products and services efficiently, dynamic capability (DC) theory seeks to holistically explain a company's ability to respond and adapt in a changing business environment. Teece (2007) specified three capabilities needed for enterprises to succeed: to sense and shape opportunities, to seize opportunities, and to maintain competitiveness by enhancing, combining and re-configuring resources. Although the role of managers in harnessing DCs is emphasized in the literature, DCs are particularly apparent in proactive and agile companies that exhibit collective efforts and decentralized decision-making (Abdelgawad *et al.*, 2013; Elf, Werner and Black, 2022), and Wohlgemuth *et al.* (2019) reveal how small-firm managers are able to facilitate DCs through trust-building and informal control of employees.

Turning to the case of social enterprise (SE), a growing number of studies have found the DC framework useful in exploring how SEs secure their survivability while also protecting their ethical stance (Bhardwaj and Srivastava, 2021; Ince and Hahn, 2020; Moss *et al.*, 2011). Key here are SE capabilities of leveraging credibility among supportive resource communities (Jayawarna, Jones and Macpherson, 2020), facilitating creative collaborations between multiple stakeholders,

and empowering user communities to play a greater role in the co-creation of services for socially productive outcomes (Bunduchi *et al.*, 2023; João-Roland and Granados, 2023; Vickers *et al.*, 2017). There is insufficient understanding, however, of the relevance and role of DCs in implementing and sustaining structures and processes for democratic governance and, relatedly, Battilana *et al.* (2022) emphasize the need to disentangle how democracy is combined with hierarchy in varied settings as a fundamental task of future research.

Designing democratic governance structures

The choice of governance structure is crucial to how democratic principles are formally enacted and realized within the organization's policy and practice. Governance is defined here as 'the structures, systems and processes concerned with ensuring the overall direction, control and accountability of an organization' (Cornforth, 2020, p. 223). The governance systems of mutuals and SEs are often complex, reflecting their mixed purpose and hybrid character. The multiple elements and choices surrounding their design include the legal form and related regulatory requirements; the internal governance structure, including a written constitution specifying who are the owners or members and the mechanisms of accountability; the board or governing body and its composition; and the organization's performance management systems (Cornforth, 2020). Responsibility for ensuring that both social missions and business/commercial aims are realized ultimately resides with the board or governing body.

The initial choice of governance structure can be represented in terms of two basic models (Sepulveda, Lyon and Vickers, 2020). First, the *democratic multistakeholder* model prioritizes the direct involvement of a range of stakeholders in collaborative governance. For instance, public service mutuals often include staff, community members and local authority-nominated members on their boards to ensure the continued protection of their interests (Young, 2011). Second, in the *stewardship* model, a board of governors or trustees is selected to support the appointed CEO and senior leadership team in managing the organization's assets for greater return on behalf of stakeholders. The choice of governance model can, therefore, be initially considered in terms of how the strategic priorities of founder–leaders and principal (i.e. the most powerful/influential) stakeholders determine how the organization is positioned on a continuum between the 'bottom-up' democratic multi-stakeholder and 'top-down' stewardship models. There is a lack of understanding, however, of how leaders and influential stakeholders may variously seek to develop and protect 'top-down' DCs for strategic agility (i.e. to sense, shape and seize exogenous opportunities and to re-configure resource mixes)

while combining them with inclusive democracy and 'bottom-up' DCs for innovation and co-production. This brings us to the first research sub-question guiding our investigation of collective capabilities development in MSEs: (i) How are structures and processes for democratic governance and inclusive decision-making selected, implemented and realized in practice?

Challenges to sustaining organizational democracy

Despite legal forms and regulations designed to protect core social missions and democratic structures, these can still be threatened by oligarchic and elite interests (Spear, Cornforth and Aiken, 2009), and particularly so in Anglo-American policy-institutional contexts often characterized as 'neoliberal' and unsympathetic to the wider realization of alternative forms of inclusive and democratic enterprise (Nicholls and Teasdale, 2017; Rantisi and Leslie, 2021; Zafirovski, 2022). Relevant insight is offered by the literature on cooperatives and the influential degeneration thesis, which contends that in capitalist market economies, egalitarian and democratic principles are eroded by isomorphic pressures which, over time, compel cooperative enterprises to succumb to the forms, priorities and practices of their capitalist competitors (Mandel, 1975). Three main dynamics were identified by Cornforth, Thomas and Lewis (1988): *constitutional degeneration* – the whittling away of employees' membership rights and benefits and the adoption of capitalist forms and practices; *organizational degeneration* – the reduction of employee involvement in decision-making and the rise of control by a managerial-technocratic elite; and *goal or cultural degeneration* – the ascendency of conventional business goals and profit-seeking at the expense of socially oriented targets. The inevitability of degeneration has been challenged, however, by the regeneration thesis, which posits that cooperative leaders and managers are able, with the support of their members, to resist degeneration by developing strategies to re-imbue their foundational egalitarian forms and practices with new life (Bretos, Errasti and Marcuello, 2020; Cornforth, 1995; Ng and Ng, 2009; Storey, Basterretxea and Salaman, 2014).

There is limited understanding, however, of the capability of shared motivation and commitment towards a collective organizational identity in defending democracy and keeping it vital. In addition to the formal-legal dimension of democratic ownership, MSEs need to consider the cultural–psychological aspects of growing and engaging a supportive membership base and stakeholder constituency (Sepulveda, Lyon and Vickers, 2020). Salient here is the need to forge, legitimate and embed the new identity and culture with its emphasis on collective purpose and values (Cornelissen *et al.*, 2021). At the same time, individual stakeholders need the skills and capacity to participate (Summers and

Chillas, 2021); some may remain detached, lacking in confidence and reluctant compared with those in management and leadership positions (Mumbi and Obembe, 2021); the formal requirements of democracy may be experienced as a burdensome imposition (Frega, 2020); and negative emotions and stress can arise from the complexity and extra emotional labour demanded by novel inclusive decision-making approaches (Hoffman, 2016). This leads to our second research sub-question: (ii) How is democratic involvement and commitment to the shared organizational identity and culture embedded and extended?

The challenge of realizing both social and business aims within the difficult operational contexts faced by many MSEs suggests a need for members and stakeholders to be able to engage in deliberative discussion in order to debate, understand and reconcile different and potentially conflicting perspectives. The concept of deliberative democracy builds upon the insight that for political decisions to be legitimate, they need to be supported by a communicative exchange of reasons and collective learning between the affected parties (Curato *et al.*, 2017; Felicetti, 2018). Mutuals committed to a communitarian ethos would appear to offer, in principle, ideal deliberative forums for bridging and reconciling tensions, as also suggested by political theory related to pluralism and the possibilities for achieving consensus within democracies (Dryzek and Niemayer, 2006). The need to understand how MSEs can develop such a democratic-deliberative capacity motivates our final research sub-question: (iii) How are tensions and conflicts arising from plural perspectives navigated to steer towards collectively agreed outcomes?

Research context and methods

MSEs have been promoted in the UK over several decades as part of an agenda to increase the diversity of public service providers by involving more private and civil society organizations (Le Grand, 2007; Walsh, 1995). Since 2011, services have been enabled to leave, or 'spin-out' from, the public sector to become MSEs with a guaranteed but fixed term contract, usually of 3 years, along with support and funding to help them become established by building their capacity. As a condition of government support, mutual spin-outs have been required to incorporate a significant degree of employee ownership, control and influence in how they are governed (Mutuals Taskforce, 2012). With the offer of democratic ownership and control being a core feature, MSEs' success would appear to hinge on their ability to implement the inclusive structures and processes needed to fulfil these requirements while also ensuring their survival as viable enterprises 'outside' of the public sector. Questions have been raised, however, as to how effec-

tively spin-out MSEs have been able to implement their new ownership structures (Davies and Yeoman, 2013; Sepulveda, Lyon and Vickers, 2020), particularly during a turbulent era of public sector financial austerity with its spatially varied but often negative impacts on the delivery of community health and other essential services (Gray and Barford, 2018; Marmot *et al.*, 2020). This makes MSEs an interesting laboratory for the practical realization of organizational democracy in challenging circumstances.

We draw on evidence from a larger study that examined the effectiveness of the MSE model when applied to the delivery of public services in England (Vickers *et al.*, 2021). This study addressed MSEs' experiences of working with the public sector, of growth and innovation and of implementing democratic structures – as examined in greater depth in this paper. First, to select our case study organizations, an analysis was conducted of data held by the responsible government department on 129 active public service mutuals created since 2011. From this analysis, 12 MSEs were purposively selected to represent the diversity of this cohort in terms of their legal forms, service area, employment size band (to represent small, medium and large enterprises), stage of development (how long since established) and geography (different regions and types of locality) (Table 1). These 12 cases provided the minimum number needed to represent the variety of MSE characteristics and community/service contexts in order to allow sufficient depth of qualitative insight and to maximize the validity and generalizability of the findings.

The legal forms adopted broadly reflect the pattern found across the MSE sector (SEUK, 2019), with all 12 MSEs having legal restrictions on the distribution of profits and assets in order to 'lock' them for the benefit of employees and user communities (Lyon, Stumbitz and Vickers, 2019). Seven took the Community Interest Company (CIC) form, which was established by the British Labour government in 2004 with a view to enabling the trend for charities to engage in commercial activities to support their social missions and to overcome some regulatory limitations on hybrid activity in both the private business and civil society sectors. The Community Benefit Society (CBS) form, taken by four cases, replaces the Industrial and Provident Society (IPS) form under the Co-operative and Community Benefit Societies Act 2014. The Company Limited by Guarantee (CLG) combined with registered charity status is a form commonly taken by UK SEs and by one of our MSE cases.

We draw on data provided by semi-structured interviews with 92 individual MSE members: staff and leaders with varied roles and levels of responsibility, board members and service-user representatives from the small number of cases that had active members on their board or representative body (Table 2). A longitudinal

Table 1. Profile of the 12 case-study organizations

Case	Service area	Date incorporated/ commenced trading	Employment size band[*]	Legal form
1	Children's health services	2016	Small	CIC
2	Health	2011	Large	CIC
3	Children's health and social care	2011	Medium/small	CIC
4	Health	2011	Very large	CIC
5	Community health	2011	Small	CBS
6	Children's services	2014	Large	CIC
7	Youth services	2017	Medium	Charity company limited by guarantee
8	Cultural services	2015	Small	CIC
9	Libraries	2016	Medium	CBS
10	Employment and skills	2015	Small	CIC
11	Housing	2012	Large	CBS
12	Leisure and fitness	2018	Small	CBS

[*]Standard employment size bands: small, 0–49 employees; medium, 50–249 employees; large, 250+ employees (BEIS, 2020). CBS, community benefit society; CIC, community interest company.

Table 2. Details of interviews and data collected from 12 case-study mutual social enterprises

Case no.	1	2	3	4	5	6	7	8	9	10	11	12	Total
Total	6	7	6	6	6	8	10	9	12	5	9	7	92
Chief exec.	2	2	2	2	2	2	2	2	2	2	2	2	24
Senior leadership team and board members	4	3	4	3	1	6	3	4	4	2	3	4	41
Staff		4		1	3		3	5	6	1	3		26
User representatives							2				2	1	5

Note: Some interviews were conducted with more than one person. The sum of the categories of interviewee is greater than the total (92) owing to some individuals having overlapping roles.

element was afforded by follow-up interviews with CEOs approximately 18 months after the first interviews.

Interviews were conducted face-to-face or by telephone between May 2018 and February 2020, and were audio-recorded and transcribed verbatim (64 h in total), with the exception of one meeting with two user representatives where notes were taken. Primarily, we draw on responses to three areas of questioning: interviewees' experiences and perceptions of (i) the choice of organizational/legal form and underlying rationale; (ii) the governance arrangements and mechanisms for democratic inclusion and (iii) the functioning of democratic structures and processes and any changes subsequent to the organization's inception.

The interpretative analysis aimed to maximize the conditions for validity and reliability in multi-case-study research (Yin, 2003, pp. 34–39). The abductive coding structure was informed by our understanding derived from the literature (deductive analysis) while also being attuned to emerging themes (inductive analysis) (Bryman and Bell, 2015, p. 27). At least two researchers coded each interview transcript to ensure consistency and reliability in the identification of themes (parent nodes) and sub-themes (child nodes) (Boyatzis, 1998). With the help of the NVivo software package, both within-case and cross-case methods with matrices and tables were used to support the analysis (Miles and Huberman, 1994).

Table 3 shows the three main analytic stages. The first captured the constituent elements (child codes) selected to steer the investigation under three main dimensions (parent codes): (i) governance structures and mechanisms for inclusive decision-making; (ii) experiences of democratization – challenges and barriers; and (iii) evidence of collective-organizational learning and capabilities development. To deepen the analysis, we then conducted a more fine-grained reading of the data in relation to the literature (Gioia, Corley and Hamilton, 2012). The second stage elaborated the rationales around the choice of governance structure and mechanisms for inclusion, the nature of the barriers, tensions and conflicts experienced, and evidence of collective learning and capabilities development. Finally, the third stage of synthesis resulted in three aggregate dimensions capturing the crucial areas of challenge and how these were addressed (or not) through collective learning and capabilities development. Reflection on these results, along with a further close reading of key contributions from the recent research literature, led us to our final conceptual model and contribution to theory.

Table 3. *Analytic structure for coding, thematic analysis and theory development*

First-order categories	Second-order themes	Aggregate dimensions
(i) Description of governance structures, mechanisms: • Legal form and ownership structure • Board representation – staff and user members • Other mechanisms for consultation and involvement • Co-design/production of services with users	Rationales for choice of form, structure and mechanisms Tensions between democracy, stewardship control and enterprise agility	*Designing and adapting structures and processes* – to balance bottom-up democracy with top-down stewardship and strategic agility
(ii) Experiences of democratization process: • Understanding and support for new mutual model/identity versus lack of understanding or resistance • Tensions and conflict around resource allocation, strategy and policy decisions • Staff motivations and capacities • User involvement versus 'passive' membership • External regulatory/institutional hurdles and barriers	Challenges and 'degenerative' pressures: ○ External institutional barriers ○ Public sector austerity ○ Individual and cultural barriers ○ 'Passive' worker and user community members Reinvigorating structures and processes Strengthening the mutual democratic organizational identity	*Embedding, extending and revitalizing democracy* – supporting the capabilities and confidence of workers and users to participate
(iii) Learning and collective capabilities development: • Reduced hierarchy and shift towards inclusive decision-making • Learning by interacting: ○ Internal discussions ○ External sources of advice and support • Improvements to governance and representative structures: ○ Introduction of new mechanisms ○ Re-design of existing mechanisms	Democratization as a journey or learning experience – testing, exploring and learning about its potential and limits Building trust and understanding between conflicting standpoints	*Fostering deliberative learning* – to navigate tensions between plural perspectives and achieve collective outcomes

Findings

(I) Designing and implementing democratic structures and processes

In all 12 MSEs, the choice of legal form was based on an appraisal of the available governance models and options by public service leaders assisted by their allocated provider under the government support programme. Also influential were contacts and advice from established MSEs and sector bodies, which were particularly valued in some cases (notably 8, 9, 11, 12) as experientially grounded sources of knowledge and learning.

Eight had provision to be directly owned by employees as shareholders or members (Cases 1, 3, 4, 5, 9, 10, 11, 12) of which half – all taking the CBS form – also included service users (5, 9, 11, 12). Two were owned by their boards of trustees on behalf of employees and other stakeholders (7 and 8). In the four CBS cases, interviewees emphasized the strong framework for empowering the membership offered by this form:

'We're a proper mutual, a real mutual, not a CIC, we're a proper Industrial and Provident Society, so everyone gets one vote, one share [...] everybody, all staff and anyone from the community.' CEO, Case 5

'We wanted to move away from the bureaucratic sort of top-down command and control environment to one that

is much more mutual [...] meaning an exchange of power as much as we mean the sort of [legal] structure of the organization.' CEO, Case 12

In the seven CIC cases, although leaders emphasized the importance of the legal asset lock in protecting the interests of members and stakeholders, a decisive factor was that the CIC form was seen to be relatively 'light touch' with respect to regulatory requirements as well as offering flexibility in terms of access to funding opportunities: '[I]t wasn't too convoluted [...] and there were still ways to have a proper staff voice'.

Two of the CICs were unusual in ways that reflect the greater flexibility of this form while also illustrating how MSEs have variously sought to balance and combine democratic multi-stakeholder and stewardship governance models. Case 2 had initially implemented an employee-shareholding model that was subsequently abandoned owing to a conflict with the pension regulations of the public sector parent body. Rather than losing their pension rights, staff voted to relinquish their (non-dividend paying) shares and to make the CEO the sole legal owner and shareholder while retaining the crucial protective asset lock of the CIC form. Interviewees described the loss of employee shareholding as a frustrating experience and reported that efforts to engage in discussion with managers of the pension

Table 4. Adoption of mechanisms for democratic ownership and governance

Case	1	2	3	4	5	6	7	8	9	10	11	12
Legal form: Mechanisms	CIC	CIC	CIC	CIC	CBS	CIC	Charity CLG	CIC	CBS	CIC	CBS	CBS
Mechanisms												
Shareholding/membership:												
Employees	●	○	○	●	●			●	●		●	●
Users					●			●	●		●	●
Board representation:												
Employees	●		○	●	●		●	●	●	●	●	☼
Users			○		●			☼	●			☼
Representative body:												
Employees		●		●	●	●			●		●☼	●
Users				●	●	●			●		●☼	
Sub-committees/forums/working groups:												
Employees		●		●		●		●	●	●		
Users		●					●			☼	●	
Other mechanisms – participation in governance:												
Employees	●	●	●	●	●	●	●	●	●	●	●	●
Users	☼	●	●	●	●	●	●	●	●	●	●	●
Other mechanisms – participation in service design:												
Employees	●	●	●	●	●	●	●	●	●	●	●	●
Users	●	●	●	●	●	●	●	●	●	●	●	●

Source: Interview evidence on knowledge and perceptions of governance structures and mechanisms.
Key: ● Consolidated with moderate or good take-up.
○ Implemented but with limited take-up or no longer functional.
☼ New initiative or significant revitalization of existing mechanism underway or planned.
CBS, community benefit society; CIC, community interest company; CLG, company limited by guarantee.

scheme with a view to adjusting the regulations to allow for non-dividend paying shareholding had been to no avail. Case 6 was wholly owned by three local authorities, in line with the preference of these parent bodies to maintain strategic control of a statutory, big-budget and high-risk service area for a vulnerable client group. This retention of public ownership was reported as having the advantage of avoiding the significant costs of the public procurement competitive tendering process while enabling economies of scale by combining and integrating services across three local authority areas.

The specific mechanisms for democratic ownership and governance found across the 12 cases are summarized in Table 4 in relation to three broad categories identified from our interpretive analysis: Consolidation, with good or moderate take-up; Implemented, but with limited take-up or no longer functional; New initiative or a significant effort underway to revitalize an existing mechanism. Nine cases had been established with provision for employee representation on their boards and/or board sub-committees (Cases 1, 4, 5, 7, 8, 9, 10, 11, 12). Half of the total cases had separate representative bodies (or staff/community councils), the key roles of which included approving policy and strategy and appointing the board (2, 4, 5, 6, 9, 11). Members of these bodies were often selected and appointed by governors/trustees and directors or elected by the membership. Only three had formal mechanisms for service-user representation (5, 7, 11), although another five stated their intention to include users in future and described actions towards this (3, 8, 9, 10, 12). Over half had created other forums, sub-committees or groups to address specific issues and report back to the board, representative body or sub-committee. Other mechanisms designed to engage and gain feedback included surveys, organizational intranets, social media, and 'open door' leadership practices. It is notable that all organizations, including those *without* direct user representation in governance, exhibited strong engagement with their user communities at the local delivery level. This included delivery boards/forums, a separate charity arm that worked with vulnerable adults and promoted user voice (Case 2), an award-winning user participation group influencing service design and delivery (3), and bespoke community consultation and co-production of services within specific projects (8).

Designing democracy to balance inclusivity with stewardship control

As expected, and given the somewhat experimental context of MSE spinouts, all 12 had adopted governance

structures that retained a strong element of stewardship control, particularly those delivering highly regulated statutory public services, and where the 'ordinary' capability of reliable, high-quality service provision is of the essence. Cases positioned at the stewardship end of the continuum, with less elaborated formal structures for bottom-up consultation and participation, were more evident in health and social care services for vulnerable clients, where public service commissioners required a high degree of oversight and control. One example is Case 6, where local authority parent bodies had prioritized their retention of stewardship control as the principal stakeholders and service commissioners. Of particular interest from a capabilities standpoint is how public sector leaders in this case exhibited 'top-down' strategic DCs for organizational re-configuration to help address public sector resource constraints while simultaneously encouraging 'bottom-up' DCs to unlearn and re-think traditional public sector practices and thus enable inclusive decision-making, service innovation and co-design within the MSE spinout.

A stewardship approach combined with an entrepreneurial dimension was found in cases delivering non-statutory services (e.g. cultural, youth and employment services) and therefore also facing more uncertain and volatile institutional-market conditions, where speed and agility are needed to respond to exogenous opportunities, and detailed formal consultative procedures may be too slow and restrictive. The stewardship approach, with selective or more limited democratic consultation, was particularly apparent in Cases 7 and 8, where rapid decision-making was imperative for entrepreneurial leaders and managers to respond to opportunities:

> 'And the way [the CEO] applies for funding is very random, like, […] he'll apply for [a funding bid], none of us will know about it […] we don't always know what's happening up there.' Staff, Case 7
>
> 'Because we have to move quick too, or we'll go bust.' Board Chair, Case 8

The following quotation from a staff board member further illustrates the capability of experimental and adaptive learning to balance democratic deliberation and stakeholder voice with dynamic agility: 'There's been a real element of a period of testing how much you need to constantly communicate every decision, from the most minor to the most major […] of working out certain sort of structures to deal with that […] we're increasingly learning to be leaner, more efficient at making decisions, in order to be a competitive business' (Case 8)

In contrast, the four CBS cases were positioned towards the democratic multi-stakeholder end of the continuum. Case 11 had designed an ambitious multi-stakeholder approach involving direct ownership by staff and service users (housing tenants) and detailed procedures for democratic accountability. Interviewees acknowledged that processes could be slow, but also felt that the deliberative approach nevertheless resulted in decisions that were more robust and had greater shared ownership of the outcomes compared with traditional modes of top-down decision-making: '[W]e're perhaps not as nimble as other organizations… [But] I think that the decisions that we ultimately take are quality decisions that have significant levels of ownership right across the society' (Staff Vice Chair of representative body). Interviewees in Case 9 (another large MSE) similarly reported that decision-making was faster than previously experienced in the public sector. Other MSEs were found to occupy the middle ground between stewardship-agility and the multi-stakeholder model, one of which (Case 5) had sought to combine stewardship with democratic accountability by re-configuring the standard CBS form to include elements of the more flexible CIC form.

To summarize, the evidence shows how the adaptive design of structures and mechanisms and their fine-tuning through processes of experimental learning, negotiation and adjustment is crucial to understanding how bottom-up and top-down models are combined in practice in order to balance deliberative-democratic capabilities with DCs for enterprise agility.

(II) Embedding, extending and revitalizing democracy

Various institutional and cultural barriers to deepening and growing democratic engagement were reported across the cases. As shown in Table 4, two had experienced particular failures of implementation or 'degeneration' of some of their mechanisms for inclusion. Case 2 had abandoned its popular employee-shareholding model owing to a clash with the public service pension regulations. Case 3 reported poor take-up of its membership scheme (<5% of employees) and had lost staff and user positions from its board, with its CEO relating how differences of opinion had arisen from the perception of some board members that the contributions of staff and user representatives had been minimal, and there was therefore little value in retaining these positions.

Even high levels of membership or shareholding had not translated into expected levels of participation (notably 4, 9 and 11), and some MSEs reported difficulties in filling posts on their boards and representative bodies (1, 7, 9, 11, 12) and a need to improve the representation of minority ethnic groups (7). Although staff support for the mutual model was generally reported as strong, attitudes and expectations could still vary considerably, particularly among staff in the larger MSEs with their more hierarchical structures and differentiated staff groups: 'It goes up and down […] Some are not interested in being part of running an organization or even

having a voice, they just want to get paid on Friday [...] and then we've had other staff who are very vocal and want to get involved and want that experience and we've done a lot of development with them to get them into those roles' (CEO, Case 5). The apparent reluctance of some employees to become involved beyond their specific job roles was particularly attributed to day-to-day work pressures and the strain this placed on people's 'ordinary' service delivery capability: '[S]o the staff progress group, it's quite difficult to get staff to want to be on it [...] 'Cause people are busy [...] we're so busy trying to do everything on quite limited staffing' (Staff, Case 7). Relatedly, a crucial theme was the wider context of public sector austerity and the associated financial constraints and institutional turbulence affecting public services, which was felt to have limited the scope for desirable actions and investments, including some early innovative initiatives that had slowed or experienced set-backs: '[T]here were quite a few good projects that came out of that, it's sort of lost a little bit of momentum now, but I think that's because everyone's snowed under with work' (Manager, Case 6). Some also felt that employees remained disengaged owing to a lack of understanding of the new mutual-democratic model:

> 'The part-time people don't necessarily really understand the whole structure of it and what ideas are feasible and what aren't, so it's a kind of learning curve'. Staff member, Case 7
> 'It hasn't really worked as well as it should because I think there has been a lack of understanding [...] about what employee ownership is and what people's roles can be as shareholders'. MD, Case 10

Engaging user communities was found to pose an even greater challenge, given users' more distanced relationship and more limited understanding of the MSE model. Even in cases where user member numbers far exceeded those of employees (notably 9 and 11), a recurrent theme was the much greater difficulty of engaging users. In Case 9, where members ran to the tens of thousands, the CEO described this huge membership as largely 'passive': 'One of our challenges has been how do you engage with your membership beyond people ticking a box that says, "I want to be a member".' Low levels of interest in the mutual 'offer', as well as a lack of confidence and skills mitigating the take-up of formal representative roles in governance, were commonly reported. A reliance on voluntary inputs and budgetary limitations to compensating or rewarding such inputs were also constraints, particularly for smaller MSEs (e.g. Case 6). Some public services are also less amenable to user participation in governance owing to the characteristics of their client groups, such as specialist health and social care services for vulnerable clients (Cases 1 and 2) and youth services (Case 7).

Capability development for embedding, extending and revitalizing democracy

In response to the challenges, most cases (10 out of 12) had taken significant actions to improve the functioning of their mechanisms and processes for democratic inclusion since their establishment. Table 4 shows that five had introduced a new initiative or significantly revitalized an existing mechanism, and interviewee accounts reveal how arrangements in many cases had been subject to debate, periodic review and adjustment since the organization's inception. Although Case 2 had had to abandon its employee-shareholding model owing to a conflict with the pension regulations of the public sector parent body, it had retained its mutual ethos, as supported by its staff council, which was also reported to have continued to grow and flourish. This would appear to reflect a strong collective capability and regenerative response to a potentially serious undermining of Case 2's mutual identity and ethos. The governance structure of Case 6 was reported to have improved considerably, with several reviews of its functioning undertaken since its establishment in 2014. Regarding Case 4, one of the longest established (since 2011) MSEs, their approach had evolved over nearly a decade, with the most recent chair of its board being particularly proactive in driving a new strategy to revitalize employee ownership and empowerment.

Efforts to strengthen and reinvigorate mutual structures and cultures involved collective capability development in the form of promoting understanding and commitment to the mutual-democratic model alongside incentives to further motivate and support participation. Building the capabilities of motivated individuals to take up representative roles was seen to be particularly necessary for those with limited experience of formal procedures or lacking confidence in their ability to contribute. Strategies to support worker and user participation involved measures to talent spot, train, and build the individual capabilities of candidates for roles on boards or representative bodies, as in Case 11: 'We're calling it a Pipeline of Engagement that helps to grow our representatives of the future' (Membership manager). Case 11 had also sought to further enable the contribution of staff and service-user representatives by bringing in a facilitator to help develop the collective capability to engage in strategic thinking about potential future scenarios: 'Sometimes we [...] really have to encourage people to see the bigger picture in terms of getting beyond the immediate [...] to get people thinking about [...] what we do as a business to deal with this or that scenario?' (CEO, Case 11).

The challenges encountered have therefore prompted re-thinking strategies to motivate and build democratic capacities and experiment with new ways to engage members, including by articulating more clearly the

various opportunities and levels of involvement beyond 'passive' membership. These ranged from occasional inputs requiring little time and effort, to more regular volunteering involvement in the co-production of services, up to higher-level formal representative roles within the organization's governance structure.

(III) Fostering deliberative learning to navigate tensions

The findings of the two previous sections are consistent with the proposition that engaging in deliberative learning to develop shared perspectives on challenging and potentially divisive issues is a fundamental collective capability that MSEs need to cultivate. Here we delve further into instances of conflict and their resolution.

An early area of dissensus at pre-start-up in some cases was between user representatives and service leaders championing the advantages of the radical decision to leave the public sector. In Case 9, public library users were concerned that this amounted to the privatization of a much-valued and loved service. Addressing this source of dissensus required the capability to build shared understanding and buy-in to the new model and identity.

Regarding funding and resource allocation decisions, interviewees referred to 'challenging conversations' around how to re-invest any surplus generated, namely whether it should be on development within the organization, improving the pay and conditions of employees, or investing in community projects (Cases 2, 4, 8). Diversification into new service areas was a particular source of dissensus between leaders and staff of an entrepreneurial disposition and others who were more cautious and risk-averse. In Case 4, a large health provider, some governors, directors and staff had initially been resistant to a proposal to diversify into new areas of private provision. Following discussion and deliberation on the potential risks and benefits, the proposal was eventually accepted and approved.

In some cases, tensions had emerged between executive and external non-executive board members around how to integrate mutual-democratic principles within strategy and policy. The CEO of Case 11 related how external board members, although initially attracted to the mutual model and its ideals, had subsequently struggled to understand and were resistant towards aspects of it in practice: 'They like the idea of mutuality but sometimes can see it as a kind of "value added," rather than core to the way we work. So that's a bit of a challenge'. Tensions had also arisen from a proposal to remunerate non-executive directors for their services. This was initially rejected by the staff–user representative body but approved after several rounds of negotiation in which the business rationale for such payments was deliberated, namely the increasing expectations placed on non-executive directors and the likely benefits in terms of securing their commitment and expertise.

The starkest example of 'agonistic' dissensus (Dryzek and Niemeyer, 2006) also arose in Case 11. This housing mutual had experienced a difficult period of conflict between employees, who were seeking to improve their salaries and conditions, and its tenants – the main source of the organization's income – who were concerned about the implications in terms of increases to their rent payments and service charges:

> 'So you've got a big mix of people, and we went through a period where it was quite acrimonious […] the minute you talk about finance, tenants are saying, 'Well why should we pay more when you're having to cut services?', and on the other side the employees are saying, "We want more".' Tenant [User] representative, Case 11
> 'For some employees mutuality is a stick to beat us with, particularly around uncomfortable decisions and working in a very pressured environment in terms of financial constraints […]. The ownership model has generated an expectation that there won't be difficult decisions to make.' Staff representative, Case 11

Capabilities for deliberative learning

An important aspect of MSEs' capabilities relates to how sources of dissonance and divergent perspectives are addressed. Interviewee accounts show how newly enfranchised employees and user representatives were drawn into a process of collective learning and exploration of the meaning and potential of the MSE model and its limitations, which also required them to reflect upon and unlearn some of the practices and habits inherited from the public sector. Interviewees spoke of 'learning to listen' in order to foster understanding and compromise between divergent standpoints:

> '[S]o because we're sort of in different spaces and that can be tricky […] and there's lots of stuff around listening skills, patience, kindness, I mean, these are our things we aspire to and they're hard work, so sometimes we do it okay and other times we don't and I'm including myself in that.' Staff member, Case 8

This illustrates the 'soft' democracy skills (Summers and Chillas, 2021) of individual stakeholders to be empathic, patient and self-reflexive. The issue of balance was also evident in relation to appreciating and understanding different standpoints and negotiating the parameters for appropriate discussion while also respecting fundamental differences:

> 'So sometimes you just have to accept you are both justified in how you feel so you are never going to be completely parallel.' Tenant/user representative, Case 11
> 'I thought, "Our Staff Council needs to be better; this isn't how it was supposed to be." […] I don't think they'd got

it: the Chair and the Vice Chair […] they used it as more a militant type, "We want this and we want that, and we can't have this" […] when it's supposed to be quite democratic and you see both sides, you see why the Board are doing, you see why the staff are upset and you act as the scales to keep that equilibrium going and it works better like this, because they listen to us and now we've got where the Board are listening to us as well, so it's working in both ways.' Staff council chair, Case 2

The cross-case evidence demonstrates the crucial importance of transparency and trust-building between standpoints, and of leaders, employees and user representatives learning to compromise, develop shared understanding, adapt expectations, and achieve consensus about what is realistic and feasible.

Finally, a strong underlying theme emerging from interviewees' reflective accounts was of organizational democracy as a *journey* or *learning experience*, of exploring and understanding different viewpoints, debating the potential and limits of democracy, adjusting expectations, and experimenting with new ways of working to overcome setbacks:

> 'We're still learning about what things we can change and what things we can't and how we can influence the direction and how we can't.' Staff member, Case 7
>
> 'Decision-making is a mix of the promise of participation and the reality […] we are learning about which decisions to consult on and which not to consult on […] every decision [can't] be a collective one, 'cause it's not efficient and it doesn't really work like that.' Co-CEO, Case 1
>
> 'You head for a utopia and every step you take towards utopia it recedes another step, but actually you'll never get there, but it's the journey that's important.' Manager, Case 8

For many MSEs, this experiential learning process began prior to start-up, when service leaders and staff had engaged in extensive discussion and debate about the advantages and potential disadvantages of departing the public sector to become an independent MSE. This early consensus-building phase appears to have been crucial in laying the basis for the new organizational identities and democratic cultures and their practical realization, as shown by our exploration of subsequent experiences.

Discussion

In exploring the processes by which collective capabilities are generated and developed, our analysis shows how implementing and sustaining meaningful democracy can entail a difficult and sometimes conflictual journey of learning and of unlearning old habits and practices, and of set-backs and failures followed by phases of reinvigoration. The experiences of spinout MSEs as laboratories for democracy in pressurized community service settings demonstrate the difficult choices involved and the need to combine idealism with realism through iterative experimentation, collective learning and innovation. We specifically add to management knowledge by contributing a theoretical framework to help explain how deliberative-democratic and DCs are developed and combined in response to three fundamental areas of challenge (Figure 1). This model of collective capabilities development builds upon and adds to previous scholarship that seeks to understand how organizational democracy is realized in practice (e.g. Battilana *et al.*, 2022; Felicetti, 2018; Sepulveda, Lyon and Vickers, 2020; Summers and Chillas, 2021).

The first area of challenge relates to *how forms and structures for democracy are designed and implemented*. Building on studies on DCs in SEs (Bhardwaj and Srivastava, 2021; Ince and Hahn, 2020) and small businesses that exhibit participatory decision-making (Wohlgemuth *et al.*, 2019), we found the case study MSEs to be developing capabilities to sense and seize business opportunities and enhance their resource bases while also furthering their social missions. Our findings add to previous understanding (Sepulveda, Lyon and Vickers, 2020) by showing how the *adaptive design* of governance structures and processes and their experimental adjustment over time is needed to pragmatically combine bottom-up accountability and democracy with top-down stewardship control. This challenges the assumption that designs for democracy are necessarily set in stone at the foundation stage with the adoption of an 'ideal' governance model. Experimentation and learning are often needed to balance and combine multi-stakeholder democracy with stewardship and strategic DCs for enterprise agility and enhancing resources.

The second area of capabilities development relates to the challenge of *embedding, extending and (re)vitalizing democracy*. Barriers to democratic engagement were widely reported across the cases. Employees may be reluctant to participate owing to day-to-day work demands compounded by constraints and pressures attributed to public sector austerity measures (Gray and Barford, 2018; Marmot *et al.*, 2020). Disappointing levels of 'buy-in' are not untypical among workers and users who remain unaware of or unenthused by new organizational models, or who simply lack the capacity or confidence to participate. Moreover, although our evidence aligns with previous findings on SEs' ability to effectively engage user communities in the co-production of services (Bunduchi *et al.*, 2023; João-Roland and Granados, 2023; Vickers *et al.*, 2017), it also reveals why such engagement may not readily translate into active membership and participation in higher-level governance processes.
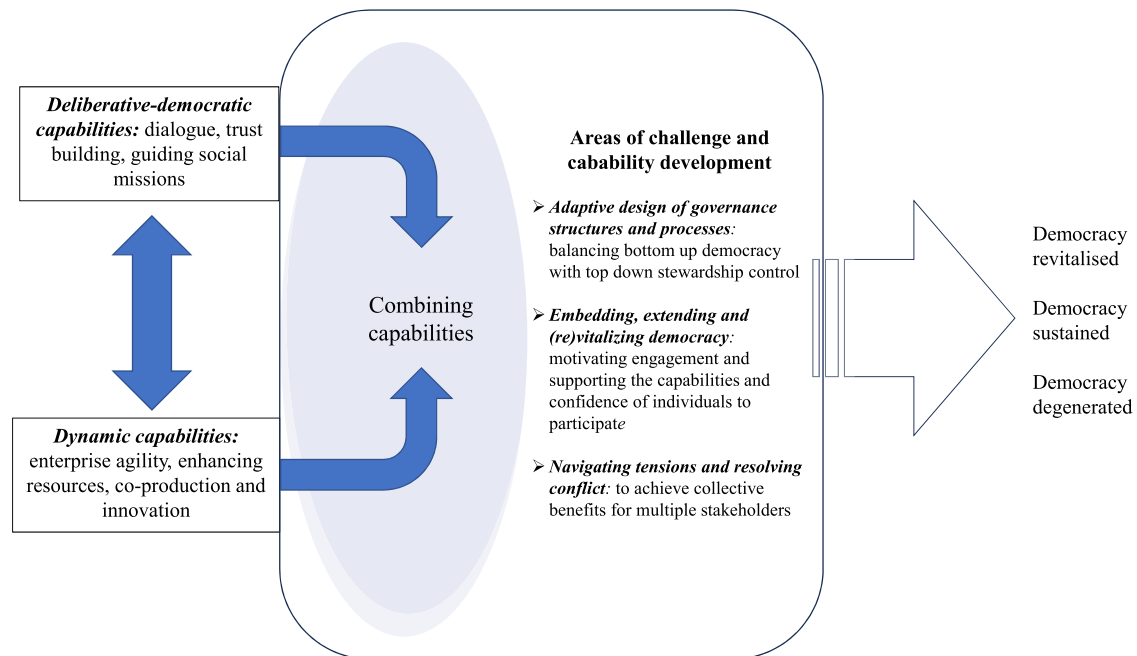
Figure 1. Model of combined deliberative-democratic and dynamic capabilities development for organizational democracy

Supportive measures and leadership coaching are therefore needed to motivate and build understanding and buy-in to the new organizational model and identity (Cornelissen *et al.*, 2021), as is articulating the various levels and options for participation. Support may also be needed to encourage employee and user representatives to think beyond immediate sources of concern and grievance to engage with strategic issues related to evolving market and institutional contexts, thus fostering democratic and DCs by enhancing the capacity of staff and user representatives to participate in strategic governance. Despite such proactive measures, however, deeper and wider institutional and organizational measures may still be needed to shift established mindsets, habits and practices of engagement, even within MSEs with high levels of commitment to democracy and inclusive governance. This applies particularly in the UK and other nations with 'neoliberal' policy-institutional contexts that lack a wider culture of economic democracy (Zafirovski, 2022).

Third, and finally, tensions between plural perspectives require the capability of *democratic deliberation* to navigate conflict and steer towards collectively agreed outcomes. This capability, although also important in addressing the two previous areas of challenge, is particularly needed to address areas of overt conflict around resource allocation issues, funding opportunities and the challenge of how to practically implement democratic principles within strategy and policy. This entails enacting the 'soft skills' of democratic participation (Summers and Chillas, 2021) within a dialogical learning process of understanding, trust-building and reconciling plural perspectives to achieve robust and collectively agreed decisions (Curato *et al.*, 2017; Dryzek and Niemeyer, 2006; Felicetti, 2018). Although our study provides strong evidence of this within MSEs, it also reveals how some fundamental areas of difference and conflict may remain unamenable to resolution through deliberation and idealistic appeals to a mutual 'all in this together' ethos. Given the enduring and structurally embedded nature of resource issues, tensions between different standpoints may, therefore, continue to co-exist in an uneasy balance and with the likelihood of agonistic conflict re-emerging in the future.

Conclusion

Our study contributes to a substantial existing body of research that questions the prevailing libertarian-plutocratic orthodoxy that democracy and inclusive decision-making are impossible or inefficient. Despite the challenges faced, we show how democratic ownership models can be adapted and applied in varied organizational and service settings, thus responding to calls for a more diversified ecosystem of ownership forms beyond the binary choice of purely private or nationalized state provision (Christophers, 2022). The findings also have relevance to the wider debate on how to advance a more just, inclusive and sustainable form of economic prosperity (Cairns, Southern and Whittam,

2024; Cumbers *et al.*, 2020; Hodgson, 2019; Shaw *et al.*, 2018).

A limitation of the findings is their specificity to the UK, where the wider realization of economic democracy may be more difficult compared to within nations adopting the continental Western 'European social model' of regulated welfare capitalism (Zafirofski, 2022). Moreover, SEs, including MSE spinouts, can be seen to occupy a somewhat precarious and paradoxical position of challenging neoliberalism while also being part of 'neoliberalism by stealth' (Nicholls and Teasdale, 2017; Purna and De Paoli, 2023; Rantisi and Leslie, 2021). Although it is currently an inactive area of UK government policy, we nevertheless contend that spinout mutuals and the cross-party political support for SEs over several decades represent an important legacy of experimentation and learning about hybrid organizational models. In our view, this legacy is overdue for reconsideration and for more concerted policy action, alongside other measures needed to advance organizational and economic democracy.

In terms of future research, further investigation is needed on how collective democratic enterprise capabilities are generated and developed in a wider range of organizational-economic spaces. A particular area of challenge is that of engaging user communities in democratic governance, which requires further comparative study in varied organizational and socio-cultural contexts and with particular attention to societal power hierarchies and exclusionary dynamics such as those based on class, gender and race (Amis, Mair and Munir, 2020; Battilana *et al.*, 2022). Finally, we suggest that greater theoretical cross-fertilization between management research on DCs (Pitelis and Wang, 2019) and research on deliberative-democratic capabilities could also usefully inform the future investigation of enterprise for social value creation and responsible innovation (Bacq and Aguilera, 2021; Elf, Werner and Black, 2022; Scherer and Voegtlin, 2020).

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Ian Vickers is a Senior Research Fellow at the Centre for Enterprise, Environment and Development Research (CEEDR), Middlesex University and the ESRC Centre for the Understanding of Sustainable Prosperity (CUSP). He has nearly 30 years' experience in researching small business, innovation and regulatory policy and social enterprise and inclusive innovation.

Fergus Lyon is a Professor of Enterprise and Organizations, Director of CEEDR at Middlesex University and Deputy Director of CUSP. He is a widely cited author in research areas that include social and sustainable enterprise, impact investment, natural capital markets and enterprise support policy.

Leandro Sepulveda is an Associate Professor in Socioeconomic Development at CEEDR, Middlesex University. He has nearly 20 years' experience inresearch and publications, with a focus on entrepreneurship among migrants and ethnic minorities, social enterprise support, population diversity and economic development, and small business development and policy.