


CATEGORISING MODELS OF ENTERPRISE

Model of Enterprise¹ 	Sole trader/ partnerships	Shareholder company	Not-for- profit Company²	Member – controlled Enterprises³
<u>Basis of categorisation:</u>				
1. Motivation	Personal wealth generation	Personal wealth generation	Altruism, or a belief system ⁴	Self-help and mutual action
2. Overall purpose - the achievement of:	Personal ambitions	Increasing shareholder value ⁵	Specific outcomes	Specific outcomes
3. Function	Profit generation	Profit generation	Furthering the cause ⁶	Market intervention in best interest of members ⁷
4. Basis of association	Individual ownership	Shareholding (an association of capital)	Trusteeship or an association of persons	An association of persons
5. Form of control	Individual or partners	Dominant shareholders	Trustees or appointees that may be democratically elected	Democratic control by members ⁸
6. Economic driver	Profit maximization	Profit maximization	Resource optimization	Resource optimization
7. Ownership basis	Individuals	Shareholding	Stewardship/trusteeship	Beneficial mutual ownership ⁹

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Explanatory Notes:

1. **'Model of enterprise'** – meaning a simplified design or structure used to define the essential features and characteristics of a specific model of enterprise. One specific model of enterprise may be used as the basis for several different forms and types of enterprise. It may be helpful to think of the different models of enterprise as being akin to different forms of engine (for example: petrol engines, diesel engines, jet engines) that may be used to drive different types of vehicles (for example: cars, buses, vans, trains, planes). Continuing this analogy, different engines are powered by different fuels; likewise, different models of enterprises are driven by different motives (for example: the profit motive, charitable motives, environmental concerns, and in the case of co-operatives self-help and mutual action). An enterprise model should provide a complete and integrated system that is well understood by all those involved, and which guides decision-making throughout the enterprise. Various models of enterprise are designed to meet the different purposes of those setting-up an enterprise. Whatever the purpose of an enterprise, it is vital that those involved both choose the correct model to achieve their purpose and fully understand the characteristics of the chosen model, also the practices and systems required to sustain the model.
2. **'Not-for-profit enterprises'** (also known as a 'non-profit organization', or 'non-commercial organization') - means an organization that uses surplus revenues to achieve its goals rather than distributing them as profit or dividends. While not-for-profit organizations are permitted to generate surplus revenues, they must be retained by the organization for its self-preservation, expansion, or plans; or be donated to a charity (The treatment of surpluses/profits will be governed by taxation regulations within each specific country).
3. **'Member-controlled Enterprises'** (MCEs) encompasses: credit unions, building societies, friendly societies, community benefit societies, insurance mutuals, social clubs, co-operatives and mutuals of all kinds, including: co-operatives of consumers, farmers & growers, communities, workers, tenants, artists, artisans, and professionals; Also, housing co-ops, social co-ops, and many other forms and types of MCEs. The differences between the various forms lie in the specific practices that each form has adopted to meet their specific purposes.
4. **'Belief system'** – meaning a set of mutually supportive beliefs. The beliefs of any such system can be classified as religious, philosophical, ideological or a combination of these.
5. **'Shareholder value'** – meaning the value that a shareholder is able to obtain from their investment in a company. This is made up of capital gains, dividend payments, proceeds from buyback programs and any other payouts that a firm might make to a shareholder. Making wise investments and generating a healthy return on invested capital are two main drivers of shareholder value. However, there is a fine line between responsibly growing shareholder value and doing whatever is needed to generate a profit. Reckless decisions and aggressively chasing profit at the expense of the environment or others can easily cause shareholder value to decline.
6. **'Cause'** – meaning a principle, belief, or purpose for which efforts are made; for example, a movement or a charity.
7. **'Market intervention'** – meaning that the enterprise acts within a marketplace in the collective best interest of its membership, which involves getting a better deal for members, providing a better organization, and providing members with a better future.

8. **'Democratic control'** – in the context of MCEs, democratic member control means, at the very least that the people setting the overall direction and the most important policies of the enterprise are appointed by and are responsible to the membership. Also, that all really significant decisions about the purpose, objectives and the constitution of the organization are made only by the members constituted in a general meeting open to all members; and that the majority of the persons directing the affairs of the enterprise are appointed by and from the membership. 'Member control' also means 'democratic control' – one member one vote.
9. **'Beneficial, mutual ownership'** – meaning that the current members have use of the assets of the enterprise and benefit from their use. However, current members are in effect trustees, jointly holding the assets on behalf of both current and future members. The principle is typically implemented through inserting two clauses in a company's memorandum of association, or an Industrial and Provident Society's rules. The first provides that the assets shall be applied solely in furtherance of its objectives and may not be divided among the members or trustees. The second provides for "altruistic dissolution", whereby if the enterprise is wound up, remaining assets exceeding liabilities shall not be divided among the members but shall be transferred to another enterprise with similar aims or to charity.

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