Opportunities and Challenges in the Diffusion of Social Innovation: French Cooperatives of Salaried Entrepreneurs¹

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Abstract

This paper on the diffusion of social-organizational innovation examines a relatively new organizational form in France, one created to overcome some of the poverty traps inherent in a welfare state. The object of study is a Cooperative of Activities and Employment (or CAE), a hybrid organization and shared-enterprise model: it is a cooperative where the members are entrepreneurs and salaried employees. The paper uses in-depth interviews as well as drawing from a variety of research literatures to document and interpret advantages and disadvantages of this model. In particular, the paper brings together theoretical and empirical treatments of social innovation, cooperative functioning, and innovation diffusion to address the barriers to and opportunities for widespread adoption. The paper chronicles the development of a new organizational form, helps to broaden the research on cooperatives, and offers policy makers an analysis of the economic and social tensions inherent in creative enterprises such as CAEs.

Keywords

governance, cooperatives, social innovation, innovation diffusion, institutional and social entrepreneurship, micro-entrepreneurship

Introduction

Although there is considerable research literature on *alternative organisations*, especially cooperatives and related forms, and on *social innovation* and *entrepreneurship*, there have been very few bridges built between these areas. Moreover, when these two areas are linked, discussions have usually focused on the ideas or interventions of *founders* of cooperatives and other socially inspired organisations. There have been very few treatments of processes by which social innovations of alternative organisations actually develop and spread. This paper describes a specific cooperative social innovation in France—a model pursued for and by entrepreneurs—and analyses its diffusion and impact. Along the way, we consider both the distinctive characteristics of an entrepreneurship-based cooperative and the conditions and challenges for the spread of such a social innovation that unites democratic organising with entrepreneurial enterprise. We conclude with a

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discussion of implications for similar models in other countries and with consideration of the merits of such projects and enterprises for economic and workplace democracy in general.

Key terms

While social innovation and social entrepreneurship have multiple meanings, we are applying both terms to the context of cooperative businesses, especially to those that are worker owned and governed. We focus on a *Coopérative d'Activité et Emploi* (CAE) or, in English, Cooperative of Activity and Employment. What distinguishes this business form is that it is a cooperative of entrepreneurs who do not take dividends but do receive a salary. Another use of the term social innovation is for solving a social problem. *Above all, the CAE organisation fosters entrepreneurship with the objective of lifting people out of unemployment; in this regard it is aimed at a major social problem and may be considered a type of social enterprise* (Mook et al., 2015). We argue that the case of CAEs in France offers an important avenue for investigating the interrelations of democratic organisational forms, social entrepreneurship, and social diffusion. Our discussion proceeds by examining the multiple contexts for these CAEs, their history, characteristics, functioning, actual and potential diffusion, and wider applicability. Our analysis is both empirical and critical in terms of grounding observations about the potential for economic and social transformation in a close assessment of the performance of these French cooperatives. The analysis is interpretive in its reliance on in-depth interviews and individual actors' understandings of opportunities and difficulties associated with the CAE model.

National and international contexts for the development of CAEs

Recognition of the poverty traps inherent in the welfare state model is crucial to understanding the purpose and functioning of the entrepreneurial cooperative presented in this paper. We believe that the CAE model may be a small part of the solution, for the developing as well for as the developed world. Although the CAE model has been described in research papers in French (Bost, 2011, Charles-Pauvers and Schieb-Bienfait, 2010, Sangiorgio and Veyer, 2008, Stervinou and Noël, 2008), case studies and analyses in English remain scarce (Ashta, 2013a, 2015).

The need for the type of innovation exemplified in the CAE model should be placed in broader socio-economic and business-organisation contexts. A move from the high-growth, mass-production and mass-consumption models of the Fordist era to the low-growth, differentiated production, and selective consumption of the post-Fordist era has also entailed a shift from the centrality of wage relations to that of market relations (Lipietz, 1988, Petit, 1999). In many industrialised countries over the past 35 years, in fact, wage

increases have fallen far behind profits and top-management salaries, leading to increased inequalities, as demonstrated powerfully by Piketty (2014). These income inequalities have reduced aggregate demand and created a rift between individual savings and corporate investment. A myopic focus on short-term growth has also meant that development has not been sustainable for most economies (Azkarraga et al., 2014).

To address both unsustainability and inequality issues, there have been calls for 'de-growth' (Martínez-Alier et al., 2010, Speth, 2012), limiting salaries of top managers, increasing minimum/living wages (Ashta, 2013b), making more firms not-for-profit (Lux, 2003) or cooperatives/mutuals (Booth, 1995, Webb and Cheney, 2014), and of course focusing on localisation rather than globalisation as commonly known (Curtis, 2003). In fact, the cooperative model—and here we use the term as an umbrella for a variety of forms of democratic business ownership and governance—has been shown to be surprisingly resilient for members and the market. The social innovation discussed in this paper combines elements of all these approaches to doing business and considers its wider applicability.

Social innovation, social entrepreneurship, and diffusion of social innovations

Schumpeter (1989 [1951]) declared innovation to be "a historic and irreversible change in the way of doing things" (p. 138). For him, this included new products, new methods of production, new markets, new sources of raw material; and even new organisations. Thus, the innovation could be technological, but it might also be social. In this paper, we examine *innovation through organisation*.

There is a plethora of definitions of social innovation. Some definitions focus more on the new social relationships involved in the enterprise.

'First, social innovations are usually new combinations or hybrids of existing elements, rather than being wholly new in themselves...Second, putting social innovations into effect usually involves cutting across organisational, sectoral or disciplinary boundaries...Third, social innovations, unlike most technological ones, leave behind compelling new social relationships between previously separate individuals and groups.' (Mulgan et al., 2007 p.34)

Other observers of innovation focus on solving a 'wicked' problem that may be circular, persistent, without alternative solutions, referring to durable poverty or environmental degradation (Dorado and Ventresca, 2013, Churchman, 1967) or on the satisfying of social needs.

'Innovation that is explicitly for the social and public good; innovation inspired by the desire to meet social needs which can be neglected by traditional forms of private market provision or be poorly served or unresolved by services organised by the state. Social innovation can take place inside or outside of public services and can be developed by the public, private or third sector, users and communities; however, some innovations developed by these sectors do not qualify as social innovation because they do not directly address major social challenges'. (Harris and Albury, 2009 p.16)

These two basic features of social innovation are often combined in practice. For our purposes here, *social innovation* includes new arrangements in society which help to meet unmet social needs; these actions can take place on local, regional, national or even global levels (Moulaert et al., 2005). For example, group lending in microfinance represented a new arrangement at a local level forty years ago (Yunus and Weber, 2011). On the macro level, the formation of international bodies, such as the United Nations, constituted new social arrangements at an international level.

'Social entrepreneurship' is a term that has been used to stress socially inspired and usually leader-driven change in an organisation in any of the three major sectors (See, e.g., Roper and Cheney, 2005). While social entrepreneurship is most commonly associated with an individual, often charismatic leader, the term applies as well to the group or collective context. The matter of institutionalising or finding an alternative to charismatic leadership and its personal energising force is no simple task, as Weber ([1956] 1978) explained so well. Still, an important and necessary advance for social entrepreneurship comes when values, motivation and leadership are shared.

The Mondragon cooperatives of the Basque Country, Spain have embodied social entrepreneurship in several ways. First, the very structures were contemplated and developed as social innovations, particularly the dual governance model of each cooperative, where elected and appointed leaders (president and general manager) work together with a social council explicitly designed to represent workers' interests (Whyte and Whyte, 1991). Second, early on, the system institutionalised social entrepreneurship in a cooperative dedicated to creating new businesses; that was the forerunner to several such co-ops now in existence (Arando et al., 2010). Third, although the autonomy of individual cooperatives has diminished over time as the corporate structure has expanded, we still find distinctive cultures in the cooperatives and latitude for their leaders and members to explore ways to strengthen or revitalise participation (Ortega, In progress). Fourth, the system as a whole periodically undergoes self-examination and policy changes,

sometimes in response to external pressures but also to address internal demands by worker-member-owners that the core values are re-applied for the new times (Azkarraga et al., 2012). In these ways, the Mondragon cooperatives reveal diverse understandings and manifestations of social entrepreneurship, along continua from individual to collective efforts and informal to formal structures. Still, as we emphasise, research has focused perhaps excessively on a few successful cooperative cases and not enough on other replicable cooperative models that, taken together, may make a bigger dent in persistent social problems.

Although some academic as well as practitioner-oriented observers consider social entrepreneurship necessarily for profound innovation (see Perrini et al., 2010 p 515), not all social entrepreneurship is in fact innovative: some initiatives may involve well-worn strategies and techniques; others may be partly or thoroughly novel in their approaches (Grimes et al., 2013). Of course, social entrepreneurs involved in a familiar initiative may also be innovative and use both technological and social innovations for continuous improvement. A good example is SKS Microfinance which distributed standardised loan products in the 2000s inspired by McDonalds and Starbucks as process models and Grameen Bank's group lending product (Akula, 2010). A genuinely new social innovation usually entails untried structures, processes, and/or relationships, such as was the case for Grameen Bank's group lending scheme when it was first introduced in the 1970s (Yunus, 2003). Once a social innovation is found to be workable, it may be scaled up through expansion and/or replication (Perrini et al., 2010). The scaling-up may be a function of the social entrepreneur's moral intensity, which would favour open organisation methods as well as his need for control which would favour closed organisation forms (Smith et al., 2016). Moral intensity includes magnitude of consequences; social consensus; probability of the effect; temporal immediacy; proximity; and concentration of effects. Thus, diffusion of a social innovation involves its thoroughgoing use in the initial or source organisation as well as promoting its replication by other firms.

The idea of this *need for diffusion* is captured in the definition provided by Mulgan et al. (2007):

Innovative activities and services that are motivated by the goal of meeting a social need and that are predominantly developed and diffused through organisations whose primary purposes are social. This differentiates social innovation from business innovations which are generally motivated by profit maximisation and diffused through organisations that are primarily motivated by profit maximisation (p. 5).

To be scaled up *and* to be sustainable, social innovation demands essential problem-solving and management skills, such as creating shared values and beliefs (Phillips et al., 2013), motivating people, creating an appropriate organisational framework or rules, and effective leadership (Bry, 2011). This effort may also require normal business functions such as creating effective cultural and political demand for the innovation as well as supply of alternative proposals (Westley and Antadze, 2010). Moreover, social innovation requires creation of *new social relations* to overcome economic and social exclusion and create empowerment, boosting the confidence of the normally excluded and providing them hope of success through interaction with eminent but locally embedded actors or 'known strangers' (Marti et al., 2013), who themselves are motivated either by public awareness or by a dissonant form of loyalty. An example could be local bureaucrats who paid a high price (for exams) for earning their place but do not personally believe in development; however, their presence motivates the poor/excluded (Dorado and Ventresca, 2013). They may require external partnerships to break the vicious circle (Nurkse, 1952) because the social innovator cannot achieve anything alone but requires bringing together not only of financial, technical and human capital, but also bridging, bonding and linking types of social capital (Gerometta et al., 2005, Lybbert, 2008, Putnam, 1995). The successful diffusion requires connectors or 'bees', usually individuals and small organisations, who help replicate the social innovation by finding supporting 'trees' that are large organisations, the government and/or NGOs (Mulgan et al., 2007).

The complexity of social innovation—and indeed for social enterprise—is observed when institutional actors with different interests join in to solve a common social problem, such as public corporations collaborating with not-for-profits (Harrisson et al., 2012) on training for the unemployed. Such a partnership requires sharing beliefs and objectives, enacting them, and creating frameworks for the collaboration to survive. Whether designed for profit or as not-for-profit, the long-term organisational success of a business demands financial sustainability (Phills, 2009).

Further, successful social innovation requires overcoming inertia in the existing system and resisting cooptation that either perpetuates the exclusion or finds new ways to exploit (Moulaert et al., 2013, Moulaert et al., 2005, Khavul et al., 2013). For example, the poor may come to see their condition as being due to lack of ability or effort. This belief may be nourished by institutional norms justifying that the wealthy are more capable and are getting a return on their abilities. The agency paradox of taking action against norms embedded in the belief system and perpetuated by education and media can be overcome by institutional entrepreneurs who are engaged in transforming systems (Lawrence et al., 2009, Westley and Antadze, 2010).

They do this by creating new networks or using existing networks (Perrini et al., 2010) and by appealing to *alternative roles* for the embedded conservative forces (Marti, 2009, Marti and Mair, 2009), influencing public policy and legislation.

The actual motivations of social innovators are of course diverse. Social innovators could be philanthropically oriented or driven by a desire to perpetuate an organisation, as observed in the famous John Lewis Partnership (Paranque and Willmott, 2014), where employees as partners influence the governance of the company and receive a significant part of their remuneration from profit-sharing. The timing of new institution creation, even if in accord with market principles, is always a difficult question (Fleck, 2000). Moreover, even successful social innovations, such as the John Lewis Partnership, are for a variety of reasons infrequently replicated (Paranque and Willmott, 2014).

Research methodology

The primary objective of this paper is to discuss central issues in social innovation diffusion via a case study of an entrepreneurship-based, employee-owned cooperative as illustration. The case study illustrates a social innovation and its influences. The CAE is a business cooperative of entrepreneurs who have the status of salaried employees. This is a new organisational form and a social innovation that overcomes the structural and individual barriers to people starting businesses in developed mixed economies. Further, this new organisational and business form represents an important extension of democratic and cooperative organising into domains of explicit entrepreneurship and innovation. This extension has important practical advantages, including the leverage for the spread of cooperativism and the capacity of cooperatives to move further into the mainstream of community and state-level economic development.

Besides accessing secondary sources such as databases and published papers, we conducted seven interviews of CEOs and other personnel of such cooperatives (including the specific one used for an illustration) and solicited their views on advantages and limitations of the CAE model and accelerators for and brakes to its diffusion. For this, we conducted interviews in Paris (two) and Strasbourg (four) but resorted to Skype for the CEO of a cooperative in Toulouse (one). These interviews of 30 to 50 minutes were semi-structured and open-ended. The interviews highlighted key themes yet allowed space for the free flow of discussions.

From the website of an apex network of these CAEs, twenty emails were sent to those within geographical reach, given the budget and time constraints. Those who responded were contacted. An additional interview materialised

from someone who contacted the first co-author for something else. In total, we were able to establish contact with seven such CAEs, including three CEOs, a co-founder, two accountants, and an entrepreneur who was also working part-time as communications support staff in the CAE. All interviews were conducted in French and audio-recorded. One interview was by Skype, and one was in a restaurant. The others were face to face in offices. Citations from the interviews are the first author's translations with careful paraphrasing in line with the spirit of the interview. The size of these CAEs varied greatly and some were in the same group of CAEs. Unofficial figures given to us at the time of the interview indicated that in our sample Coobâtir had five employees, Val-Talents had about 20 associate employees, Coopénates 60 employees; Antigone 80 employees; Arternréel 110 employees, Alter-bâtir 110 employees, and Coopaname had about 700 employees²

The case

France has been facing relatively high unemployment for many decades. Part of the problem is camouflaged because the 'long-term unemployed' are no longer considered *as* unemployed for statistical records if they cease to actively seek a job. Another part of the problem is obscured if those who are unemployed are undertaking professional training or retraining. It is widely believed that the official unemployment statistics include only *half* of those who could be considered as unemployed. Nevertheless, even the official statistics indicate that French unemployment is close to 10 percent³ of the labor force.

One of the reasons for this labor market problem, common to many developed countries (see Komlos, 2014), is that corporate globalisation has led to increased competition and ease in the flow of capital across borders. Coupled with the obsession of the financial markets with short-term profits, this has led to firms shedding labor partly because of high minimum wages (that is, as compared to those of developing countries).

Conventional solutions do not seem to work. These include laissez-faire capitalism (which simply does not address the problem); unemployment doles (which tend to create dependency), and state-subsidised jobs (which also conceal the problem)⁴. One possible solution is the promotion of entrepreneurship through easier entry, public guarantees of loans,

² The number of employees changes frequently as some entrepreneurs leave the CAE and others enter. A 2012 flyer indicates 55 entrepreneurs in Coopénates, 70 in Antigone and 120 in Arternréel. The 2013 annual report of Coopaname indicates 672 employees.

³ Source: Lexusmundi who cites CIA Factbook, or any issue of *The Economist* in 2014.

⁴ The above listing of possible solutions is of course incomplete and does not include experiments such as work-sharing (the famous 35-hour week), but these other solutions are not pertinent to the discussion here.

accompanying (hand-holding/coaching/ mentoring)⁵ by volunteers. This partnership between public and private may offer a scale, which NGOs alone cannot achieve. However, the sparse academic research on entrepreneurship and poverty focuses on *institutional* voids, especially during the spread of neo-liberal economic principles and the downsizing of governmental social programs; and the research on management and poverty focuses mostly on the potential role of large enterprises to enlist and assist people at the lowest rungs of the economic ladder (Bruton et al., 2013, Prahalad, 2006).

Promoting entrepreneurship, however, is easier said than done. This is because people are not only opportunity-seeking; they are also loss averse, or averse to downside risk (Ashta and Otto, 2011, Quattlebaum, 1988, Tversky and Kahneman, 1991, Thaler et al., 1997, Schmidt and Zank, 2005). Many would-be entrepreneurs know well that a small enterprise can rarely compete with a large one and that they would therefore risk losing their savings if they embark on such a venture without some sorts of downside protection. Moreover, if people are on the dole, they risk losing their benefits if they are employed in their *own* entrepreneurial venture. Further, while many people may be competent in their trade, they may not have the skills or the time to engage in administrative functions. Finally, this dilemma is hardly unique to France.

- **A cooperative solution**

According to resource-based theory, firms are seen as a bundle of resources; the extent to which these resources are inimitable, rare, valuable, and non-substitutable determines their competitive advantage and superior performance vis-à-vis other firms (Barney, 1991, Newbert, 2008). One potential solution to compete with large business is that of getting together in cooperatives or marketing federations for economic ends. For example, women's workers' cooperatives such as SEWA (Self Employed Women's Association) in India are good examples of social enterprises to empower women (Datta and Gailey, 2012), and credit and savings cooperatives may be a good solution to develop microfinance for micro-entrepreneurs (Périlleux, 2013), especially if the enterprises are well-governed and members thoroughly trained (Allemand et al., 2013). However, while we have seen workers' cooperatives where employees may get bonuses, and even quasi-cooperatives like John Lewis where workers are partners and get dividends (Paranque and Willmott, 2014, Storey et al., 2014), *we had not witnessed*

⁵ The French notion of *accompagnement* translated as accompanying, literally means keeping company with and encompasses more than the notions of sponsoring, mentoring, coaching and even hand-holding or sharing networks: it includes a notion of being present to end the isolation of the entrepreneur.

cooperatives of salaried entrepreneurs. Such a new way of doing business is a social innovation in that sense (Mazzarol et al., 2014, pp 545-6).

Certainly, cooperatives of entrepreneurs need to reduce downside risk for their members who would have variable, irregular and uncertain incomes; therefore, cooperatives should have limited liability. Finally, to overcome the dole poverty-trap, it is important for the would-be entrepreneurs to not only keep getting the dole till their business provides them more, but also that if the business fails to break-even, they should be able to go back to the dole. And yet, if the entrepreneurs do manage to get high returns, they should be able to either keep these for themselves or share it with those who helped them grow.

It is important to understand the *institutional blocks* that need to be overcome before a solution can be adopted. These include both 'soft' (ideology, attitudes) and 'hard' (laws, regulations) features. In addition to the risk aversion discussed above, there is the need to locate workers who value being in cooperatives because of job security which mitigates loss aversion (Heras-Saizarbitoria, 2014). An example of ideological block is that in a for-profit business, it is usually expected that shareholders, and not the employees, would gain from dividend and capital appreciation. This ideology could include theory and research that indicate that cooperatives tend to diminish in either economic performance or democratic vitality with time (Storey et al., 2014, Heras-Saizarbitoria, 2014, Cornforth, 1995)⁶. Similarly, research in poorer countries also indicates that cooperatives are often less effective in human resource management than traditional firms (Hudon, 2010). An example of a regulatory block would be that French entrepreneurs do not have the right to get dole, which is for *former* salaried workers. Similarly, the salaried do not normally have a right to share in profits.

Despite these obstacles, several phenomena have helped to foster innovative organisational solutions. Firstly, there has been the rise of the stakeholder theory (Freeman and Reed, 1983) and the notion of corporate social responsibility for stakeholders other than the shareholders (Carroll, 1979, Drucker, 1984, Freeman and Liedtka, 1991, Garriga and Mélé, 2004). Thus, the importance of providing profits exclusively to shareholders is attenuated by a responsibility to include multiple stakeholders on the board of directors and the oversight committees of the firm. Practically, this multi-stakeholder

⁶ Note: Storey et al (2014) also validate that there is a regeneration of cooperatives values after some degeneration. Thus, they describe a U-shaped curve.

approach including workers already existed in France in a special type of cooperative called the *Société Coopératif et Participatif* (SCOP)⁷.

Secondly, we have been witnessing the success of a few large cooperatives in the Western world, notably that of Mondragon, which is a Basque worker cooperative with over 75,000 employees the world over in 256 enterprises. This cooperative is well-researched (Flecha and Ngai, 2014, Paraque and Willmott, 2014, Storey et al., 2014, Heras-Saizarbitoria, 2014, Cheney, 2002); Whyte & Whyte, 1991). These success stories were in line with Booth (1995), who had indicated that cooperatives tend to grow faster and use non-labor inputs more efficiently than purely capitalist firms.

Thirdly, French cooperatives such as the SCOP are limited liability companies (*Société Anonyme* or *Société à Responsabilité Limitée*), thus reducing downside risk. The challenge was how to use this SCOP form to allow people to keep the dole and yet seek opportunities.

In 1995, a special kind of SCOP called a CAE emerged, according with a shared enterprise model. It is essentially a cooperative of entrepreneurs with each entrepreneur being considered a salaried employee of the CAE. *It is neither strictly a worker cooperative nor a credit cooperative.* In a worker cooperative, the worker-owners do not have their own individual businesses but have a more or less equal ownership stake. In a credit cooperative, the common savings can be distributed to members or non-members as loans. However, in the CAE, each entrepreneur brings one's own equity and assets specific to the business but also shares common resources in return for a fee. The CAE is a new organisation of economic relations and is therefore a social innovation in that sense, called co-entrepreneurship by their members (Les CAEs, 2014). Since 2001, when another legal form, the SCIC (*Société Coopératif d'intérêt collectif*)⁸ was created, some CAEs are using the SCIC

⁷ In SCOPs, employees have at least 51 % of the share capital and 65% of voting rights. Profit sharing includes shares for different kinds of stakeholders, but employees get profit-sharing and incentives in addition to dividends. On average 40 to 45% of earnings are kept as reserves to ensure its sustainability. At the end of 2012, there were 2,165 SCOPs with 43,860 employees. The growth in 2012 has been from new enterprises created (70 percent), as well as transformation from associations (15 percent), transformations from other business firms (15 percent). SCOPS survive better than normal enterprises: The survival rate is 82.5 after 3 years compared to a French average of 66 percent for all enterprises, and 66 percent after 5 years compared to 50 percent for all French enterprises. <http://www.les-scop.coop/sites/fr/les-chiffres-cles/> for all figures relating to SCOPs, last consulted on July 24, 2013.

⁸ In a SCIC, the governance mechanism uses stakeholder colleges. A minimum of three colleges of stakeholders is required: employees of the cooperative (or, in the absence of employees, producers), beneficiaries, and other natural or legal persons who contribute by any means to the business of the cooperative. The governance principle of cooperatives (each member has one vote regardless of his shares in the share capital) is often changed to one vote in the stakeholder college. Thus, in some SCICs, consistent with this principle but to ensure a balance

legal form too. Today, it is estimated that about 10% of the CAEs are organized as SCICs. One advantage of a SCIC is the ease of getting subsidies, but this has to be weighed against the fact that collective interest has to be demonstrated and approved by the French administration. Another advantage of this type of business is that:

Even if entrepreneurs leave the CAE, they can retain links with the CAE in a SCIC by their new firms becoming stakeholder members of the SCIC (Respondent 3).

Recently, a CAE has been *legally* defined and this definition has been inserted in the law on cooperatives⁹:

The principal objective of the Cooperatives of Activity and Employment is to provide support to the creation and development of economic activities by entrepreneurs who are physical persons.

These cooperatives provide an individualized accompaniment of the physical persons and shared services. (Article 26-41, clauses 1 and 2)¹⁰

The CAE employs a few salaried employees who provide structural support and constitute shared resources for the entrepreneurs. Essentially, as with a small business incubator or accelerator, the unemployed people get together and test their ideas. Each cooperative democratically determines *what proportion of shared resources* it is able to provide the entrepreneurs. This is also enshrined in the new law and added to the Cooperatives Act.

Under this model, there is no need for the entrepreneur to form a separate company to test her idea. She can bill for products and services in the name of the cooperative and obtain legal accommodation. In return, she pays the cooperative about 10 percent of her turnover (it generally varies from 7% to 12% of gross margin)¹¹ for shared structural expenses. While her initial income is low, she can be considered a part-time worker and continue getting part of her dole money for fifteen months (for the other part of the full time). Moreover, the salary she earns enables her to maintain her right to receive

of power in a diverse shareholder base, the vote of the shareholders in general meetings may be counted by voting college. In this case, no college vote may not dispose of the majority alone (10% to 50% by college vote).

⁹The original law was loi n° 47-1775 du 10 septembre 1947 portant statut de la coopération.

¹⁰ This new article was inserted into the law of 1947 op cit by the first clause of Article 32 of Act No. 2014-856 of 31st July 2014 pertaining to the social and solidarity economy

¹¹ See Les Caes (2014) *Entreprendre pour soi; Réussir ensemble : Projet de loi relatif à l'économie sociale et solidaire -VOLET - Coopératives d'activités et d'emploi*. Paris: Confederation Generale Des SCOP. that mentions 7% to 12% of the gross margin. All our respondents mentioned 10% of turnover and we use this figure in the paper, but there is no limit.

future unemployment benefits if her idea does not work out and she becomes unemployed again (Stervinou and Noël, 2008).

If the business grows, the entrepreneur would have the option either to become a member of the cooperative (and therefore participate in electing a representative to the board or being elected to the board herself) or to exit from the cooperative. This model allows the person to avoid downside risk and either to share the benefits or keep them, depending on the inclinations of the entrepreneur. The inherent flexibility of the model makes it more palatable to a wider range of professions than the more traditional worker-cooperative model. It has been observed that of those who exit, 42 percent create their own enterprise, 35 percent find a regular job, and 23 percent go back to the dole¹². However, some may want to stay with the cooperative since they have formed relationships which work and as pointed out by Kranton (1996), there is a high risk involved in leaving the relationships they already have to venture outside and form new alliances.

- **Focus on a specific cooperative: Coopaname**

We studied the largest of these CAE cooperatives in France, Coopaname, which started in 2003 and is based in Paris. At the end of 2013, Coopaname hosted 676 entrepreneurs. 64 percent of the entrepreneurs are women, and 62% are university graduates. About 80% are unemployed when they come to Coopaname, and about 90% are born abroad¹³, indicating that the cooperative is strongly oriented towards the inclusion of immigrants. The income statement of Coopaname suggests several organisational insights. The income statement is *transparent*, and the columns show the breakdown of the total income into those of entrepreneurial activities and those of the structure that provides support. The total income for 2013 was 7.6 million euros, of which 9 percent was in the form of government subsidies. These state subsidies are provided to CAEs in the hope that more than this would be saved by not paying doles. An interesting statistic presented by Coopaname is that taxes and social security contributions paid are five times the subsidies that they receive. The CEOs or top managers we interviewed insisted that a CAE should never be started unless the regional government is willing to participate in the process through grants. The Annual Reports also show that the employees of the structure can *sell* their training services outside the cooperative to raise some additional income. The Coopaname case clearly illustrates the success of the social innovation at a micro-level.

¹² Statistics quoted at an orientation session of a business cooperative in Dijon, *Envol*. Note, another source says a third of those who leave create their own enterprises (ibid.)

¹³ The last three figures were taken from the 2011 Annual Report. The others are from the 2013 Annual Report.

The CAE, organisational performance, and the problem of systemic unemployment

In a previous section, we discussed the risk reduction through creating viable options for the entrepreneur: the option to go back on the dole if the enterprise does not work, and the option to stay with the cooperative or start on their own, if the enterprise does work. Such options create value (Amram and Kulatilaka, 1999, Dixit and Pindyck, 1995, Luehrman, 1998). In this section, we look at the other *organisational advantages* of the cooperative.

There are advantages of this organisational model to the entrepreneur because it provides her resources, capabilities and opportunities. Firstly, the entrepreneur obtains the resource advantages of an incubator. She can test her idea and overcome the initial cost obstacles by being legally sheltered by the cooperative. She also gets free advice from the staff of the cooperative—with a mutual interest in making her idea work. The support staff of the structure and the entrepreneurs are thus collaborators and not competitors and would get the benefits of collaborating such as open discussion of problems and controversies and assistance with networks (Tjosvold and Weicker, 1993). More important, the entrepreneur is provided an identity, related to her professional work: "I don't have a job" gets translated to "I am nobody", while "I am a gardener working with Coopaname" is a professional identity. The entrepreneur can take her time to build a solid foundation:

We are not in a hurry: so the entrepreneur can take his time, compared to incubators who want to turn around projects and take on new ones (Respondent 5).

Secondly, the entrepreneur benefits from an *accelerator or shared enterprise*. Initially, there is *mutualisation* of costs such as accounting or making collective fliers for advertising as well as collective formalities. Evidently, administrative costs such as tax filing, social security returns and legal documentation are all shared by the single enterprise for all entrepreneurs.

Even the taxation authorities recognise that an entrepreneur spends more than 40% of his time on administration formalities....in a cooperative this is reduced to 10% of the entrepreneur's time, since the support staff do most of the work, thus allowing the entrepreneur to focus on this core business (Respondent 1).

The cost sharing enables lowering of the break-even point. Moreover, because the cost of the support structure is a fixed percentage of the revenue, it means that at the beginning, when there is little revenue, the *costs* for the budding micro-entrepreneur are minimal. At the same time, she retains the autonomy on her business and gets knowledge and benefits from knowledge-sharing by competitors as well as complementary actors, facilitated by regular contact in workshops and seminars on subjects such as management, marketing and communication. Coaching, training and support services increase the probability of success of the entrepreneur. As the cooperative grows larger,

the members achieve economies of scale as well. Moreover, as they become members, they also get a part of the profit of the cooperative. The member also gets the value of the option of staying within the cooperative or leaving it. With the recent 2014 law, this option must be exercised within three years.

Thirdly, the cooperative acts as a *catalyst*. This is because the cooperative becomes a *network* of people who can act collectively to influence the market and bid for tenders, even if individually they would not have the necessary resources. They also have a captive internal market since they can sell to each other, as we showed in the Coopaname case (Sangiorgio and Veyer, 2008). Thus, beyond resources and capabilities, the cooperative is providing the entrepreneurs opportunities to treat each other as potential resources/capabilities in addition to the support staff and the infrastructure.

Fourthly, all this is especially important because start-ups may have initial problems in commercialising their products through alliances. Hsu (2006) summarises four such problems: (a) start-ups face high search costs in locating appropriate cooperation partners; (b) start-ups may not want to engage in cooperative activity because they fear expropriation; (c) start-ups are of unknown quality, and so would-be cooperative partners have difficulty evaluating them; and (d) start-ups are not sufficiently developed to engage in cooperative relationships. In the CAE model, these problems are solved because the recurring geographical proximity between these employer-employees breeds the trust necessary to build up alliances within the cooperative. Once such intra-firm alliances start within the cooperative, the partners obtain relational rents akin to inter-firm alliances, as suggested by Dyer and Singh (1998). These relational advantages include investments in relation-specific assets, knowledge exchange, combining of resources, and lower transaction costs. Again, we are reminded of the capacity of cooperatives to incorporate mixed-motive designs where, in the best cases, individual and collective incentives are in a complementary and balanced relationship (see, e.g., the collection of articles in Pencavel (2013).

All these advantages are of course based on the cooperative's survival. It will survive as long as it is prudent in its decisions and allocations. For this, it is required, for either as a SCOP or as an SCIC, to place a part of its profit in reserves. These ensure the survival of the cooperative, which in turn means that it is sustainable and therefore able to provide its services to the entrepreneurs. As one interviewee commented:

From the moment the entrepreneur decides to bring his project into the context of the social and solidarity economy and to share his company [CAE], to take the plunge to have a form of democratic governance in the company [CAE], then in order to be able to redistribute wealth at the end of the year, he has to consolidate the company's [CAE's] own funds by allowing it to retain 57.5% in equity capital,...we do not

distribute the entire benefits as a dividend to the entrepreneur in order to perpetuate jobs that are sustainable and cannot be relocated out of France. (Respondent 3)

Potentials and pitfalls of the cae model with respect to social innovation diffusion

The difference between an invention and an innovation is in the diffusion of the invention. The question therefore is whether this elegant innovation has been replicated and broader support enlisted. The French law has silently accepted this form of cooperatives since 1995:

It was considered as the right to experimenting (Respondent 4).

Although the first such cooperative was formed in Lyon at that time, it was soon replicated and by 2000, there were 20 such cooperatives around France.

These cooperatives tripled in number to 61 by 2006, with over 1500 salaried entrepreneurs, an average of 25 entrepreneurs per cooperative. The growth has been endogenous as well as exogenous. The number of members per cooperative increased to 54 by 2012, and the total number of cooperatives increased to 92. Other statistics show that the median CAE has 37 entrepreneur-employees. There are two outliers who have more than 200 entrepreneur-employees (Les CAEs, 2014). Thirty-seven of the CAEs employ roughly 1000 people, are single-industry firms (example, construction, services to individuals, etc.), while 55 CAEs are multi-activities, employing about 4000 people. Only 20 percent of the employees (that is 1000 out of 5000) have become associates. This is because, if the business model works, many would graduate out of the cooperative. The profile of the entrepreneurs who join is overwhelmingly the unemployed (71 percent) and those who were long-term unemployed (another 20 percent)¹⁴.

Invariably, the success of the cooperatives requires connecting the bees and trees, meaning large organisations, the government or NGOs (Mulgan et al., 2007) who would provide referrals to the unemployed people to try to form their own enterprises using the CAE model. These would include the unemployment agencies, chambers of commerce, chambers of artisans and other actors in the economic solidarity movement. This requires each cooperative to set up communication links with each of these actors and be present at different forums organised by their movements, with brochures, visiting cards and newsletters. Such networks call to mind the web of cooperatives and supporting institutions in Emilia-Romagna, Italy, where social capital is very strong (Webb and Cheney, 2014). Because the contacts are made at local level, each CAE must independently do this.

¹⁴ PROJET DE LOI relatif à l'économie sociale et solidaire: ESSX1315311L/Bleue, ETUDE D'IMPACT for 2012.

We are even present on Facebook and YouTube. For this, the CAEs communication manager needs to know graphics designing, web design, webmaster, referencing, communication strategy, and community management (Respondent 6).

The cooperative sector is a small but growing part of the economy in France, where the growth of cooperatives has been faster than that of the rest of the French economy, in number and size of establishments as well as in number of employees, during the period 2005-2010. However, the 92 CAE's collectively constitute not even 1 percent of the cooperative sector. The 5,000 jobs they have created are miniscule in comparison with the needs of the French economy. But the French take each job created very seriously.

The advantages of the model

The advantages to the economy are evident. First, the state can encourage micro-entrepreneurship. Second, as these entrepreneurs become successful, the total cost of the dole reduces. Third, these are all locally anchored initiatives that will not fly away with globalisation. Fourth, there are multiple impacts because cooperation develops citizenship, democratic behavior, civic engagement and an ideology of sharing, all of which are important in building social capital and wealth of nations (Putnam, 1995). Fifth, profit accrues to workers who are members and thus shareholders too (Stervinou and Noël, 2008).

Finally, as one of our respondents remarked:

Crisis often lead to changes in values. Today, people realise that employment is fragile and they would rather invest their energies in creating their own enterprise (Respondent 6).

At the same time, the success of the Cooperative of Activity and Employment and the shared enterprise model that it represents can be best indicated by the imitation it has invoked in Europe. Already, the CAE model has been copied, with local adaptations, in Portugal, Spain, Germany, Sweden, Italy, Switzerland¹⁵, and Belgium and Quebec¹⁶. For example, Belgium, which has adopted this innovation, has recently passed a royal decree on the subject.¹⁷ It will be important to observe related legal and business developments in

¹⁵ http://www.entreprise-partagee.eu/index.php?easiestml_lang=en last accessed July 20, 2013

¹⁶

http://www.avise.org/sites/default/files/atoms/files/2009_avise_entrepautrement_cae.pdf last accessed Feb 1, 2016

¹⁷ http://www.jyb.be/images/stories/JYB/ar-15-6-09_officiel.pdf last accessed July 20, 2013. More recently, <http://www.jyb.be/fr/presentation/quest-ce-une-cooperative-> accessed on 1, 2016. The text of the Belgian law was found at http://www.jyb.be/images/stories/JYB/wet-kamer_loi-chambre_sessie_5-51026.pdf last accessed on Feb 1, 2016.

other countries and the extent to which more cooperatives of entrepreneurs appear on the scene.

If the CAE is being replicated in so many countries, we can say that for this social innovation, the business-organisational design seems to be sound. We can also see that while the number of replications in France has been limited (to less than a hundred), within this movement of CAEs, there are firms that can have many salaried entrepreneurs. Thus, it is possible for the model to bring together large groups of entrepreneurs, as anticipated by the existing research (Stervinou and Noël, 2008, Bost, 2011, Sangiorgio and Veyer, 2008).

The crisis and the rupture it has created has made many people think that the wage model is no longer dependable: they may as well develop something of their own which gives them more independence and conforms to their values of getting back to manual work, or sustainable development, or cooperation (Respondent 1).

So there is a need for such enterprises, but most people have not heard of the CAE model. To date, the diffusion has largely been through word of mouth.

Limitations to the CAE model and its diffusion

The progress made by CAEs in solving the unemployment problem has admittedly been limited to date. In the same period of fifteen years, there are movements such as microfinance that reached millions of people. The CAEs have reached only 5,000 in France. Partly, this is because the French population is smaller than that of countries like India, Mexico, Bangladesh or Indonesia; partly because, besides loss aversion, there may be other factors that make French people less entrepreneurial than populations of some other countries. Nevertheless, with three million registered unemployed and another million long-term unemployed, the scope for inclusion was large.

We have stressed that the success of a social innovation depends on the strength of *institutional entrepreneurship*. With any intervention in the direction of scaling up or institutionalising entrepreneurship, including the bringing together of entrepreneurs to form a new kind of enterprise, the paradox of embedding and fostering agency must be confronted and then managed creatively (Garud et al., 2007, Powell and DiMaggio, 1991). *Changing institutions requires identification of the institutions that act as a block, either directly or indirectly, and leveraging partnerships with fitting entrepreneurs to create appropriate institutions, including both hard and soft public policy.* There may also be an unclear understanding of whether a social enterprise creation is a 'snob norm' or a 'bandwagon norm' (Kübler, 2001). If it is a snob norm, then limiting the number of followers creates greater social returns for the incumbent chiefs of CAEs.

The first problem that we see with the CAE regime is that, until July 2014, there was an absence of specific regulation.¹⁸ The initial law governing the CAE was that of the SCOP, although later SCICs were allowed also to be used as CAEs. However, one could not find any legislation on how the CAE was related to a SCOP or a SCIC. Therefore, those who like to know exactly what they are getting into must rely on information available from the networks of CAE's, who provide limited information on their own operations, notably financing, on their websites.

The experiences of the respondents of our interviews also showed that the absence of specific legislation produces risks and uncertainties. Although most joiners or recruits of these businesses are committed to cooperative values and respect each other's rights, there are grey areas where the rights are not clear in the absence of legislation. Some contractual and organisational problems indicated by our respondents include:

- *The chain of command* is not clear. Does the salaried-entrepreneur report to the CEO? Moreover, who really manages the shared-service support staff in a cooperative? The problem of free-riding needs to be solved. The auto-management or joint-production model works well for 10 employees, but is difficult to achieve for 700.
- If an entrepreneur-employee wants an employee, how should the cooperative *recruit* a salaried employee for her exclusive use? First, this employee may not want to be a salaried entrepreneur but a normal employee, such as support staff. Second, if the entrepreneur-employee quits the cooperative, she leaves the salaried person with the cooperative, who may not have any alternative use for her skills.
- The entrepreneur must have *sales* to have a salary. If she does not have any activity, the CAE can give her leave without pay. But for this, she has to give a letter but there are people who do not provide any news when they do not sell. The CAE staff loses time for which they are not paid.
- There is also a problem if an entrepreneur quits because the *contract* has been interrupted because then she asks that the legal indemnity of the rupture be paid as per the labor law. For example, this could be one month's pay for someone who has worked for five years. This indemnity is required for her to get back on the dole. The cost

¹⁸ <http://www.mef-mulhouse.fr/documents/AXE3/NouvelleFormeTravail/CAE.pdf> last accessed October 13, 2013

must be paid by the CAE. These are rare cases only if the person can access the dole.

- A similar problem comes if the entrepreneur wants a *loan* and the cooperative takes the loan for her activity: If the entrepreneur quits, who repays? If the entrepreneur takes a personal loan, the interest cannot be deducted from her revenue. So she has to share profits with the rest of the cooperative without taking into account this direct expense since the loan is taken by her outside the cooperative.
- How should the *reserves* created by the cooperative be utilised? Part of these must be reinvested. An example could be a cooperative where graphics designers would like to invest in software, while artists would like to buy a bus to be able to travel together to perform. Is thoroughgoing democracy the best way? What is in the interest of the cooperative enterprise may be very different from the interest of the entrepreneurs. The question is how to serve the common good.

It is interesting to see that these latter questions of surplus-sharing are resolved more easily if one person, such as the chairman in the John Lewis Partnership, has the final decision (Paranque and Willmott, 2014): his decision may be more expeditious but perhaps less democratic. In a democratic structure, all such questions of direction of investment and the use of reserves require the organisation of a meeting and voting. That is, it is time consuming, expensive and reduces the reactivity of the business.

Besides the difficulties faced by the entrepreneur-employee, there are also difficulties faced by the entrepreneur who starts the CAE, who is often the administrator (*gérant*). First, the initial working capital often must come from the personal savings of the founder-administrator because banks will not lend for such new projects. However, because a cooperative's capital is shared, it is difficult for the founder to take out his initial capital. This also means that there is no exit value as in the case of a normal enterprise that the entrepreneur sells upon his retirement. Therefore, the administrator who starts a CAE has a set of social-security needs for retirement that other entrepreneurs may not have. So, he is dependent on salaries rather than on a profit motivation.

Second, the administrator has many risks. For example, he has to trust that the entrepreneur-employees will manage their affairs where his legal responsibility is not evoked, leading to imprisonment.

As a result, in a CAE, we are not looking to integrate projects that are profitable, but rather projects that are non-dangerous to the health of the cooperative. This results in choosing projects with low risk, which implies low return (Respondent 1).

There are also risks that the entrepreneur may ask the client to accept a bill or to make a check in his personal name, to avoid paying 10% to the CAE.

Therefore, while the innovation can be set up, its replication is not easy (Cornforth, 1995, Phills, 2009, Pinnell, 2008). Recognising this problem, in 2014, France introduced a law including a *definition* of a CAE¹⁹. The lack of a regulation indicates the inability of institutional entrepreneurs to overcome conservative forces. For example, there may be a well-entrenched belief that only large enterprises are profitable, or that the market is already adequately served by existing organisational forms. In such cases, starting new small enterprises, even as cooperatives, may not seem to be a socially efficient outcome; and the legislator may prefer relying on unemployment programs rather than promoting a new organisational form, especially given the legal and tax-related requirements often associated with the creation of a new category of businesses.

We have mentioned that providing state-aided jobs also reduces employment and provides a social identity to the beneficiaries. If cooperatives are viewed as subsidised efforts to produce the same result, the political actor must balance alternative use of public policy. These subsidies undermine the idea that cooperatives can be self-reliant (Datta and Gailey, 2012). Yet, the CEOs of cooperatives we interviewed were clear that without such subsidies, the model cannot work.

All those who tried to make it work, without subsidies, failed. It was their hubris that made them think they could make it work alone. But without having a partnership with the local government, in the form of subsidies, the model cannot work (Respondent 1).

Additionally, for such a small number of cooperatives, there are two apex federating networks, each providing very different information on their websites. One is Coopérer pour entreprendre <http://www.cooperer.coop/> and this website lists 89 CAEs²⁰ without providing details on their operations, but the link to the 89 members is available. Elsewhere, the website indicates that there are 68 members with 4000 employees. Alongside, there is Copea who indicates that it is an 'Association nationale des coopératives d'activités' without adding 'et emploi'. It has another 23 members²¹. It indicates that it is

¹⁹ LOI n° 2014-856 du 31 juillet 2014 relative à l'économie sociale et solidaire

²⁰ http://www.cooperer.coop/index.php?nom_adh=&cp_adh=tous&ville_adh=&spec_adh=toutes&rub=carte&srub=recherche&chercher=lancer+la+recherche last consulted on August 3, 2013.

²¹ <http://copea.fr/les-membres.html> last consulted on August 3, 2013.

a cooperative of salaried entrepreneurs. According to many of our respondents, the two networks diverged, owing to disagreements on the working of the CAE model. For example:

The Cooperer *pour entreprendre* network members provide conventions for accompanying to each entrepreneur" while we at Copea enter into a Contract for the Support of the Project of the Entrepreneur²² (Respondent 3).

Some social movement organisations which have distributed leadership through consensus or rotation (Sutherland et al., 2014), but we cannot comment on this from the standpoint of our study because two federating organisations were created. Recently, some efforts have been made for the two networks to work together, including through a Congress organised in Marseille in 2012.

Although the networks maintain that their role includes representing the sector to the government, there seems to be little action. The 'news' section of their websites does not have links to the press and media papers on the movement. The number of entrepreneurial profiles are very limited (three on the Cooperer *pour entreprendre* network). In short, if the work of the network is to disseminate information on a new business model, it is not being done through the Internet. Rather, it seems to be done by stands at entrepreneurial fairs.

The problem is that too much of the communication of the CAEs was based on the testing of activity. Today, we realise that the model is also for profitable activities. The result of this faulty communication means that people who don't want to test don't come to the CAE. Moreover, prescriptors will send us only those who will need guidance on testing or projects which are not really viable (Respondent 4).

Both of these reasons mean that the CAE spends its time and energy supporting weaker entrepreneurs. The implication for the organisation's development is that instead of having a representative fair share of profitable and weak project which would give the CAE an equal chance of success as the rest of the economy through cross-subsidization, it is forced to survive based on enormous efforts to support weaker projects.

The image of a cooperative may also not help the CAE movement. In some countries, especially in Eastern Europe, cooperatives may be negatively viewed in that they may be reminiscent of forced collectivization without democratic principles or profit-sharing or ineffective state bureaucratic structures (Lambru and Petrescu, 2014). In other countries, cooperatives could be considered with multi-stakeholder governance structures. Image building may require rhetorical strategies contrasting the business

²² These support contracts are called Contrat d'Appui au Projet d'Entreprise (CAPE). They were initiated by a law of 2003.

cooperative with charity and doles or against the inequalities generated by market mechanisms. The image would also be boosted if the staff of the structure or those helping the entrepreneurs included, in each CAE, 'known strangers' or eminently successful people.

The network would gain momentum if the target audience knew the advantages. Thus, it should be in the interest of unemployment agencies to explain the model to the recipients of doles. However, there is no intrinsic motivation for these agencies to do so. The intrinsic motivation to develop entrepreneurship rests only with the employees of the 'structure' of each CAE whose income is a percentage of the turnover of the entrepreneurs, and whose subsidies from regional governments could also depend on the number of entrepreneurs being helped.

The market may not have perfect information; however, if a model works, the market would know it fairly soon and replication would occur. So, perhaps, the problem is that many CAEs have not led to very successful entrepreneurship, despite the promised advantages. This may be because the resources/capabilities of the entrepreneurs may be limited, non-valuable, non-rare, imitable and substitutable and not easy to develop (Charles-Pauvers and Schieb-Bienfait, 2010). Therefore, even if the CAE removes the threats of entrepreneurship (such as loss aversion to losing the dole, limited liability) and provides some amount of relationship rentals, these are neither necessarily present (unless the CAE searches for suitable alliance partners for their members) nor sufficient for micro-entrepreneurs to earn significant competitive advantages. Moreover, the competitive advantage has to offset the transaction costs implicit to any alliance, internal or external. To the extent that internal transfer pricing (between entrepreneurs) or cost-allocation is based on mutual trust and negotiation, there are uncertainties and risks embedded in the system: for example, how do you *value* free advice given by people to each other? Therefore just as strategic alliances do not perform (Madhok and Tallman, 1998), internal alliances may also be complex and expensive and either not lead to profitability or not undertaken because the entrepreneurs do not have the minimal resources required to take risks. Those who do translate competitive advantage into performance, would rationally leave the cooperative. In terms of cooperative culture and solidarity this means that, once again, the cooperative would be left with unsustainable weaker entrepreneurs and only those strong entrepreneurs who have a very strong cooperative sentiment. One recommendation would be to bolster the spirit of cooperativism during the incubation period so that more successful entrepreneurs stay with the CAE.

To all this, we would add mission drift. Member-based cooperatives have one body of stakeholders with aligned interests. For the CAE, the SCOP regime

involves different stakeholders having different blocks of votes. This may cause mission drift to the concept of a cooperative if one set of members try to dominate others (Mazzarol et al., 2014). For example, the block of workers may dominate the block of customers or the block of financiers may dominate the block of employees.

Conclusion

The Cooperative of Activity and Employment (CAE) is an innovative social model to respond to a social problem, which has been confronting many developed countries. Because conventional solutions are not working, the social innovation of the CAE empowers unemployed people on the dole through a new form of cooperative that allows them to remain independent entrepreneurs yet be salaried professionals at the same time, thus removing their downside risk. This model goes against conventional wisdom that cooperatives cannot be successfully in the face of competition from joint-stock companies. This new business model brings entrepreneurs together and creates democratic forums for further social innovation. The example of Coopaname, which now has 700 entrepreneur-members, demonstrates that the model can work and that the enterprise can succeed in the marketplace. However, we have shown how stressing internal stakeholder (or employee-member) interests can create tensions with respect to future investments by the firm and the growth of the cooperative.

We have found that while the business model is sufficiently attractive that other countries have replicated it, within France, the growth seems to be still limited to a few cooperatives jointly employing a few thousand entrepreneurs on part-time and full-time bases. There is a pressing need for broad scale education on cooperative models that includes linkages to communities of professionals engaged in innovation and entrepreneurship.

This study has added to the literature on scaling up social enterprises and diffusion of social innovation. As this study has shown, there are internal as well as external reasons for the slow diffusion of the CAE-type model. A lack of regulation and institutional support, considered vital for this multi-stakeholder organisation to succeed, could be a function of conservative opposition and/or lack of awareness of this organisational option on the part of most policy makers. At the same time, the social innovator may not have taken the necessary institutional entrepreneurial actions and the managerial and marketing activities required for the diffusion of the innovation. Recruitment of new members though successful 'demonstration projects' is also crucial. Finally, the study reinforces the view that dynamic systems of training and communication are crucial for replication and the fostering of social entrepreneurship in larger networks (Pinnell, 2008, Perrini et al., 2010).

Future research could look at all these factors through more in-depth qualitative interviews with the principle actors. It may be necessary to establish the recruitment criteria of the CAE structural staff that is subsidised by the regional governments. Similarly, while we know that most of the entrepreneurs were from the ranks of the unemployed, it would be interesting to include their level of education and prior income. Beyond this, a class-conscious analysis of the wider possibilities of the CAE-type model would be valuable. Finally, institutional research may be required to see how to encourage such cooperation in countries that have held to the free-market discourses and neoliberal policies.

It is possible that social innovations such as specific cooperative models may not succeed in their country of origin for a variety of reasons: the idea was not feasible; motivation was inadequate; expertise was lacking; the innovator or founding group was not effective at management; the implementation process was weak; there was a lack of suitable demand or supply for the product/service; appropriate partners were not found who shared the values and orientation; needed regulatory changes were not made; or because of strong opposing market forces.. At the same time, these factors may play a different role in other countries, and the success of the diffusion of social innovation would then depend on the conditions in that particular country. The paper is therefore of interest to policy makers and cooperative change agents who aim to experiment with similarly innovative practices in their own countries.

In this study, we have taken a close look at the external and internal dynamics of an innovative cooperative form: a cooperative owned by salaried entrepreneurs in France (or CAE). We have considered the economic and political contexts for this type of social enterprise and shown how general (or popular) assumptions about business and cooperative functioning impact the operations of this model as well as its potential diffusion within and across nations. We have also shown how the mixed motivations built into the model and experienced by members provide lessons for expanding the cooperative economy in the current market context. We urge researchers and practitioners to continue investigations of this and other entrepreneurial types of cooperatives in order to understand better the nuances and possibilities associated with hybrid organisational and business forms.

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