

# Factsheet 2: People and communities

## 2.1 Community building

There are two main reasons for engaging in community investment. One obvious reason is to raise capital finance. The other, less obvious but possibly more important reason, is to build community support, which will have long-term benefits for the viability and sustainability of a venture. When people are offered the opportunity to purchase equity, they are also being offered membership of that organisation.

Some community organisations already have well-established membership structures, and will be fully familiar with the community-building benefits of membership. In these cases community investment will help them to develop even stronger ties with their members. But organisations that are starting from scratch, and have no membership or supporter database, need to plan how they will build their community. The first step in this process is to define the target community.

## 2.2 Defining community

The concept of community is central to the Community Shares programme, and provides the starting point for all initiatives. There are three main types of community:

**Geographic communities:** People who live or work in a geographic area with clear boundaries, often identified through a place name.

**Communities of interest:** People who share a common interest or common purpose. For instance, they might share a common interest in environmental issues, or be committed to a common purpose, such as the pursuit of an activity, or the development of an organisation.

**Communities of identity:** People who share the same or similar identity, be it through birth (e.g. gender, ethnicity), belief (e.g. religious faith, political views), allegiance (e.g. supporters of a football club) or role (e.g. residents, tenants, customers, workers).

Anyone developing a community investment offer needs to think carefully about exactly what type of community they are targeting. It will probably be a mixture of these three types of community. For instance, many of the community-based renewable energy schemes, like Westmill Wind Farm,

appeal to both geographic communities and to a community of interest: people with a shared interest in renewable energy. Traidcraft combines communities of interest, in its case people with an interest in fair trade, with communities of identity. Traidcraft describes itself as a Christian response to poverty, and many of its members are drawn from Christian church groups.

It is important to get the definition of a target community right. If it is defined too narrowly it may be a struggle to raise the required capital. Define it too broadly, and the target audience might not feel part of the community.

### 2.3 The membership offer

Having identified a target community the next thing is to think about what is being offered to these people. The first and most immediate offer is to address their needs, interests and identity. This means closely aligning the purpose and activities of the organisation with the needs, interests and identity of the target community. Geographic ties can be strong, but are often not strong enough on their own to persuade people to invest in new ventures. By focusing on their needs, interests and identity it is possible to start building a lasting relationship with members.

Membership is a very powerful offer, especially when membership is based on ownership of share capital in the organisation. All shareholders are members and have rights set out in the constitution of the organisation. Of course, it is possible to have members who are not shareholders: if an organisation decides to issue bonds instead of shares, it can still offer membership to the people who purchase them.

Shareholder members normally have voting rights which are set out in the governing document of the organisation. There are some significant differences in these voting rights depending on the legal format of the organisation. All companies, including Community Interest Companies (CICs), follow the principle of one-share-one-vote, whereas Industrial and Provident Societies (IPs) follow the principle of one-member-one-vote. Thus, whilst IPs are democratic, CICs can be controlled by a minority of shareholders, or even just one shareholder, if they hold a majority of the shares.

### 2.4 Ownership and control

Community shares create a direct link between investment and control over the organisation, in a way that community bonds do not. By giving people membership of an organisation through share certificates they are being

given control of the organisation. The choice between a democratic approach to voting and one where the voting powers are directly proportional to the amount invested is absolutely critical.

To date, most community investment practitioners have chosen the democratic approach, embodied in IPS legislation, which is the format used by 34 of the 41 successful community share offers made in the last ten years. During this time there have been five ethical public limited company share issues, including one by the high profile social enterprise, Cafédirect. Cafédirect has clauses written into its constitution that prevent new shareholders from owning more than 15% of its shares.

Some people may have concerns about giving control to investors, even if it is on a democratic basis and the investors have accepted limitations to the financial returns they can expect to receive. For those who are closely involved in developing ambitious new community initiatives, the thought of allowing other people to control the organisation can be worrying. But these worries should be counterbalanced by the benefits of a having a large and democratic membership supporting a community project. The founders and entrepreneurs behind many of the recent community investment initiatives say that it is fantastic to experience the support of their communities, and to have this endorsed not only through member investment, but also through their votes at general meetings.

But the real advantage of giving members ownership and control is that it provides them with the first step on a ladder of participation. Members bring with them their skills, knowledge and expertise, and will offer their practical help to make the business a success. They will relish the opportunity to use their talents for the benefit of the organisation and the broader community that it serves.