



TOWARDS AN INTEGRATED ENVIRONMENTAL, SOCIAL, GOVERNANCE AND FINANCIAL REPORTING BY WORKER COOPERATIVES

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Abstract

Worker cooperatives operate on a dual social-economic purpose, balancing democratic governance, workplace democracy, and labor empowerment with financial viability and community well-being. Standard corporate reporting paradigms—such as International Financial Reporting Standards (IFRS) and mainstream corporate Environmental, Social, and Governance (ESG) frameworks—are fundamentally optimized for investor-owned firms (IOFs). This study integrates empirical research on integrated reporting initiatives in worker cooperatives with a critical review of cooperative accounting, ESG disclosure, and integrated reporting (IR). Empirical investigations show that worker cooperatives effectively address social challenges—including unemployment, workplace democratization, fair trade, and environmental conservation—with 79% of surveyed cooperatives rating their performance as satisfactory or somewhat satisfactory. Simultaneously, theoretical analyses reveal how traditional accounting misclassifies labor as an expense and struggles with member equity under IAS 32 / IFRIC 2. By synthesizing empirical findings from worker co-operatives in Britain with accounting and strategic frameworks, this study demonstrates how an integrated reporting model tailored to labor sovereignty harmonizes financial metrics with social, environmental, and democratic governance performance.

Keywords: Integrated reporting, worker co-operatives, Investor-owned firms, democratic governance, sustainability reporting

INTRODUCTION

Integrated reporting performance initiatives evaluate the impact of present organizational actions on future ecosystems, societies, and environments. Operationalized through a long-term strategic focus, these initiatives encompass ethical practices, employee rights, environmental stewardship, and community responsibilities. Worldwide, these practices have driven the adoption of integrated reporting across entity financial, environmental, social, and governance (ESG) dimensions.

Worker cooperatives are socio-economic business models in which enterprise ownership, governance, and residual claimancy are held directly by employee-members on a democratic basis ("one member, one vote"). Formed to provide goods and services, create stable employment, and stimulate community development, worker cooperatives bridge the economic and social needs of members. They give individuals control over their livelihoods, democratize the work process, and reduce social exclusion. Recognizing this, United Nations General Assembly Resolution 56/114 highlighted that cooperatives promote the fullest possible participation in economic and social development.

Despite their role in fostering workplace democracy and social resilience, worker cooperatives face systemic friction under traditional reporting regimes:

1. **Inadequacy of Traditional Accounting:** Investor-owned frameworks treat labor as a cost item to be minimized and capital as the primary value driver. In a worker cooperative, labor is the sovereign stakeholder and capital serves a secondary servicing role.
2. **Standardization Gaps in ESG Disclosures:** Global sustainability reporting frameworks (e.g., GRI, ISSB) evaluate governance through top-down board independence and shareholder protection, ignoring democratic worker participation, pay ratio compression, and community-centered equity.

Integrated Reporting (IR) synthesizes multiple forms of capital (financial, manufactured, intellectual, human, social/relationship, and natural) into a connected narrative. To be effective for worker cooperatives, IR must synthesize traditional financial accounting with cooperative identity, democratic governance metrics, and social value creation.

THEORETICAL FOUNDATIONS & PARADIGM CONFLICTS

Multiple Stakeholders and Organizational Strategy

Organizations implementing integrated reporting initiatives often register higher financial performance than non-engaging peers. Grounded in stakeholder theory, business enterprises hold ethical responsibilities to shareholders, employees, customers, suppliers, and the broader

community. To maintain legitimacy, entities must integrate community, employee, environmental, and consumer issues into core strategic decision-making.

For worker cooperatives, balancing social and economic goals is central to business strategy. Unlike conventional corporations focused strictly on profit maximization, co-operatives operate with social and environmental bottom lines. Profit maximization is treated not as an ultimate end, but as a means to achieve the economic and social promotion of members.

Labor-Managed Firm (LMF) Theory vs. Investor-Owned Firm (IOF) Paradigm

The structural limitations of standard financial reporting stem from fundamental paradigm differences between Investor-Owned Firms (IOFs) and Labor-Managed Firms (LMFs):

CONVENTIONAL IOF PARADIGM

Capital (Sovereign) —————> Hires & Remunerates —————>
 Labor (Cost / Resource) [Holds Voting Rights & Residual Claimancy]

WORKER COOPERATIVE (LMF) PARADIGM

Labor (Sovereign) —————> Hires & Services —————>
 Capital (Cost / Service) [Holds Voting Rights & Residual Claimancy]

In an IOF, capital providers purchase labor services at a market wage rate with residual net income belonging to capital. In an LMF (Worker Cooperative), worker-members hold personal rights of governance and residual claimancy by virtue of their work. Labor hires capital at a rental/interest rate. The net returns to labor per worker are maximized.

Standard accounting misinterprets net returns to labor per worker by categorizing labor compensation as an operational expense, artificially suppressing the income statement and presenting minimal or zero net income.

Historical Evolution & Strands of Worker Cooperatives

The ideology of worker cooperatives is built on key historic waves:

1. **Common Ownership Model:** Pioneered by philanthropic business owners (e.g., Ernest Bader), emphasizing common ownership where assets are held collectively and shareholding is purely nominal.
2. **Worker Takeovers / Rescue Cooperatives:** Enterprises formed to save jobs in declining industries by converting failing businesses into worker-managed firms (e.g., the Tony Benn cooperatives of 1974–1975 in Britain).
3. **"Alternativist" Collectives:** Formed during the 1970s in wholefoods, radical bookselling, and community printing. These collectives were started to meet social needs, promote democratic ideals, and counter ecologically destructive tendencies.

RESEARCH METHODOLOGY

The research study utilized mainly the quantitative data collection and analysis methods. However, reasonable use of qualitative techniques was made in data collection to supplement the quantitative methods. In particular, the investigation used the “between-methods triangulation” technique in which one method complements and / or supplements the other.

The data collection process began by first carrying out informal, open-ended interviews with officials of co-operative and job ownership organizations. The organizations selected for the informal interviews included the Co-operative-UK, the umbrella body for worker co-operatives, the Job Ownership Limited, the Industrial Common Ownership Movement, the Industrial Common Ownership Finance (Cambridge office) and the Co-operative College. The officials interviewed included a chief executive, a national strategy coordinator, and project managers. The objective of this phase was to collect relevant background information regarding the past, present and future opportunities and threats as well as strengths and weaknesses influencing the performance of worker co-operatives in Britain.

According to Co-operatives-UK, it was estimated that there were approximately 390 worker-owned and controlled co-operatives in Britain. Mail-survey questionnaires were therefore sent out to the entire population of worker co-operatives in Britain as maintained in the directory of their umbrella organization, the Co-operative –UK. In total, the entire 390 worker co-operatives were surveyed on various issues relating to the research hypothesis. A total of 142 responses were eventually obtained from the 390 worker co-operatives surveyed. Eleven (11) of the responses were not very useful since the respondents were either dormant, under liquidation or had converted to non-co-operative enterprises. The overall result was therefore a sample of 131 active worker co-operatives out of a population of 379 active worker co-operatives. This is a response rate of 35%.

The responses were from a wide spectrum of worker co-operatives in terms of the economic and social sectors represented. These sectors included consultancy and professional services, wholefoods, arts and the media, printing and publishing, care and support services, crafts and woodwork, leisure, and other retail services.

FINDINGS

Empirical Survey Findings on Worker Cooperative Objectives

A comprehensive empirical study of worker cooperatives in Britain (net sample of 131 active worker co-operatives across sectors including consultancy, wholefoods, printing, care services, and retail) examined key organizational goals.

Table 1: Worker Co-operatives' Major Objectives (Wanjare, Empirical Finding)

Objectives	Major Goal (%)	Minor Goal (%)	Not Goal (%)
Employment Creation	70.2	22.1	7.6
Stability	63.4	29.8	6.9
Promotion of Fair Trade	59.5	22.9	17.6
Community Service	51.9	26.0	22.1
Promotion of Co-op Principles	44.3	32.8	22.9
Profitability	42.7	34.4	22.9

The data indicates that employment creation (70.2%) and enterprise stability (63.4%) are the top major goals. Profitability is cited as a primary objective by only 42.7% of cooperatives, serving as a functional means to sustain social and employment objectives rather than an end in itself.

Performance Satisfaction and Member Commitment

Evaluating worker co-operatives based on their non-financial and social goals demonstrates high levels of performance satisfaction:

- *Satisfied: 38.9%*
- *Somewhat Satisfied: 40.5%*
- *Not Satisfied: 20.6%*

In total, 79.4% of surveyed worker cooperatives rated their overall performance as satisfactory or somewhat satisfactory.

Statistical analysis confirms a positive association between community focus, fair trade commitment, and member dedication:

- **Community Well-being & Member Commitment:** Positive association verified ($\chi^2 = 18.840$, $p < 0.05$; Cramer's $V = 0.268$, $p < 0.05$).
- **Fair Trade Goals & Member Commitment:** Strong positive association (Spearman's $\rho = 0.342$, $p < 0.05$; $\chi^2 = 24.297$, $p < 0.05$; Cramer's $V = 0.305$, $p < 0.05$).

ACCOUNTING FORMULATIONS: MEMBER EQUITY, PATRONAGE, AND IAS 32

Mathematical Formulation of Member Surplus & Patronage Refunds

In a worker cooperative, member compensation comprises advance labor distributions (Wa) during the operating cycle and end-of-period patronage refunds (Pr).

Let R be total revenue, C_{Op} non-labor operating costs, and I_k limited interest paid on member capital shares. Total gross operating surplus (S_{gross}) before labor distribution is:

$$S_{gross} = R - C_{Op} - I_k$$

IAS 32 / IFRIC 2 Equity Reclassification Mechanics

Under standard IAS 32 (*Financial Instruments: Presentation*), member capital shares redeemable upon exit are classified as financial liabilities, artificially inflating leverage and distorting balance sheets.

Worker cooperatives resolve this distortion via IFRIC 2. If the board of directors maintains unconditional discretion to refuse redemption or if statutory redemption caps exist, capital is reclassified as true cooperative equity:

Balance Sheet Impact Comparison

CONVENTIONAL
IAS 32 BALANCE

SHEET |—
Assets:
\$1,000,000
|— Liabilities:
|— External Debt: \$400,000
|— Member Capital:
\$500,000 (Redeemable) |—
Equity:
|— Indivisible
Reserves: \$100,000
[Distorted Debt-to-
Equity Ratio = 9.00]

ADJUSTED COOPERATIVE
BALANCE SHEET (IFRIC 2)

|— Assets: \$1,000,000
|— Liabilities:
|—
External
Debt:
\$400,000 |—
Cooperative
Member
Equity:
|— Individual
Accounts: \$500,000
(Equity) |—
Indivisible Reserves:
\$100,000
[True Debt-to-Equity Ratio = 0.67]

COMPARATIVE SYNTHESIS OF REPORTING FRAMEWORKS

Traditional corporate, sustainability, and cooperative-specific reporting systems exhibit varying degrees of alignment with worker cooperative principles:

Reporting Framework	Primary Audience	Capitals Covered	Governance Perspective	Cooperative Alignment
IFRS / US GAAP	Investors & Lenders	Financial Capital	Shareholder ownership	Low: Misclassifies member equity (IAS 32); treats labor purely as an expense.
GRI (Global Reporting Initiative)	Broad Stakeholders	Human, Social, Natural, Financial	Multi-stakeholder ethics	Moderate: Strong environmental/social focus; lacks workplace democracy metrics.
ISSB (S1 & S2)	Capital Markets	Financial Material Sustainability	Enterprise risk management	Low-Moderate: Focused primarily on investor-centric financial materiality.
International Integrated Reporting <IR>	Financial Capital Providers	6 Capitals Model (Financial, Manufactured, Intellectual, Human, Social, Natural)	Multi-capital value creation over time	High (Potential): Flexible multi-capital structure; adaptable to labor sovereignty.
Co-op Social Audit / Social Economy Frameworks	Members & Local Community	Social, Human, Cooperative Identity	1 Member = 1 Vote & ICA Principles	High: Purpose-built for cooperatives; lacks global standardization across capital markets.

INTEGRATED ESG AND FINANCIAL REPORTING FRAMEWORK

To bridge accounting standards and social performance, worker cooperatives require an Integrated Reporting Framework structured around key thematic pillars:

1. Financial & Manufactured Capital

- Accounting for member surplus distributions distinct from external capital servicing.
- IFRIC 2 compliant balance sheet reporting reflecting indivisible reserves and member equity.

2. Human Capital & Workplace Democracy

- Tracking job stability, equitable pay structures, and internal wage compression ratios.
- Measuring worker participation in strategic planning and operational governance.

3. Democratic Governance Capital

- Operationalizing a **Democratic Capital Index (DCI)** and tracking Democratic Participation Rates (DPR):
- Disclosing decision-making transparency, information symmetry, and board accountability to worker-members.

4. Social, Community, and Relationship Capital

- Sourcing from local suppliers, adhering to fair trade principles, and re-investing surplus into local community projects.
- Integrating marginalized workers, offering social care services, and expanding equal employment opportunities.

5. Natural Capital & Environmental Stewardship

- Annual tracking of greenhouse gas (GHG) emissions, carbon neutrality targets, and renewable energy adoption.
- Sourcing zero-waste, organic, GM-free, and non-animal-tested products across the supply chain.

CRITICAL RESEARCH AGENDA

To advance integrated reporting in labor-managed firms, future empirical and theoretical research should focus on five key gaps:

1. **Gap 1: Standardizing "Democratic Capital":** Operationalizing metrics for member voice efficacy, participatory budgeting, and information symmetry beyond simple board independence.
2. **Gap 2: Double Materiality (CSRD/ESRS) vs. Labor Sovereignty:** Evaluating whether standardized European sustainability mandates cause isomorphic pressure on worker co-op identities.
3. **Gap 3: Empirical Validation on Cost of Capital:** Testing whether integrated reporting reduces borrowing spreads from commercial and ethical banks:
4. **Gap 4: Digital Governance & Web3 Assurance:** Exploring smart contracts for automated, transparent patronage allocation and pay ratio enforcement in platform co-ops.
5. **Gap 5: Scope 3 Social Value Chains:** Developing accounting frameworks to track workplace democracy and inter-cooperative purchasing across supply networks via a Cooperative Supply Chain Multiplier (CSCM).

CONCLUSION

Standard investor-oriented accounting and corporate ESG disclosures inadequately capture the unique operating structure of worker cooperatives. By treating labor as a cost expense and evaluating governance solely through investor protection, traditional frameworks obscure the social, economic, and democratic value generated by labor-managed firms.

Adopting an integrated reporting model adapted for labor sovereignty allows worker cooperatives to properly account for member equity, present transparent financial statements,

and communicate their holistic performance across social, environmental, and democratic dimensions.

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