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Accounting for Sweat Equity

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Worker sweat equity plays a significant role in some worker and housing co-operatives, contributing to the resources available to a co-operative, whether in the short term at start up, or during economically difficult periods, or longer term in sustaining otherwise unviable services and goods. While there has been some discussion of sweat equity in co-operatives, little has been said regarding whether and how sweat equity might be accounted for. Drawing on research on different types of volunteering encountered in the third sector, this paper explores different types of sweat equity and ways in which they might usefully be accounted for and incorporated into annual co-operative accounting and reporting.

Sweat equity is broadly understood as unremunerated labour which contributes to a co-operative through reducing labour costs (Andrews, 2015). Said to be a feature of some worker and housing co-operatives, the contribution of unremunerated labour to establishing and sustaining the co-operative may be an initial, longer-term, sporadic or regular feature of a co-operative (Cornforth et al., 1988; Murray & Pearson, 2008; Andrews, 2015). Within a broad understanding of sweat equity as unremunerated labour, however, there are several more specific interpretations of the concept. Andrews (2015), for example, defines sweat equity as unremunerated labour which has the specific goal of contributing to building a co-operative's capital. A reduction in labour costs allows a co-operative to generate additional earnings which are retained by the organisation and so grow a co-operative's equity base. In a similar vein, Cornforth et al. (1988) suggest sweat equity in a worker co-operative context can be understood as retained surplus derived from low wages or unpaid overtime. In both cases, sweat equity is seen as an alternative source of investment in a co-operative, generating additional financial capital. This type of personal investment of unpaid or low paid labour is seen as a feature of some worker co-operatives with limited access to other forms of financing (Cornforth et al., 1988) as well as some housing co-operatives where members contribute construction labour for building homes (Harris, 2001; Murray & Pearson, 2008).

In other cases, however, the term sweat equity is used to describe situations where unpaid or low paid labour is an ongoing feature which assists with sustaining a co-operative that would otherwise run at a financial loss. This type of sweat equity may be a temporary measure where workers are prepared to reduce labour costs in the short term and in response to a particularly difficult economic climate or trading period. Or, the unremunerated labour may take the form of an ongoing longer-term commitment by employees where both a strong social commitment to the goals of the co-operative and opportunities to control their work exist (Cornforth et al. 1988; Spear & Thomas, 2015). Cornforth et al. (1988), provide examples of these two types of gifting or donating of labour, including a radical bookshop where low wages were accepted over the long term because of a commitment to the co-operative's social objectives, and a food wholesale co-operative where workers accepted temporary restrictions on wages during years where the net financial surplus was low.

Third sector research on volunteering points to several possible motivations for contributing unpaid labour. Rochester et al. (2010), identify three types of volunteering and associated motivations: unpaid work or service, activism, and serious leisure. The first type is a view of volunteering as a gift of time or labour which is used to support the activities, products or services of an organisation. The volunteer contributes their time because they support the goals of an organisation. This is similar to Cornforth et al.'s (1988) radical bookshop example, where workers effectively volunteered some of their time because of their commitment to the social goals of the co-operative. The second type of volunteering identified by Rochester et al. (2010) is where volunteers participate as members of an organisation which can be on a self-help or mutual aid basis to meet shared needs and address common social, environmental or economic problems (Lyons et al., 1998). This is similar to worker and housing co-operative examples

referred to earlier where members' contributions of unpaid labour may be motivated by recognising the social benefits arising from participation such as access to affordable housing or greater control over the work environment. The third type of volunteering is 'serious leisure' (Rochester et al., 2010), where the volunteer finds specific unpaid roles and activities interesting and rewarding for them personally. The volunteer develops an unpaid or volunteer career in an area of interest to them, gaining and utilising relevant knowledge and expertise. The notion of serious leisure may apply in some co-operatives where members find particular work roles and tasks personally interesting and rewarding in themselves.

The three types and motivations for volunteering are not mutually exclusive, and Rochester et al. (2010) suggest four hybrid forms which combine two or three of the types discussed above. Figure 1 below sets out the three distinct types and four potential hybrid forms of volunteering.

Figure 1: Distinct types and hybrid forms of volunteering (based on Rochester et al, 2010)

Distinct types ->	Unpaid work	Activism	Serious leisure
Combinations:			
Unpaid work + Activism			
Activism + Serious leisure			
Serious leisure + Unpaid work			
All three types			

These types and hybrids of volunteering appear to have relevance to understanding sweat equity in co-operatives. Cornforth et al. (1988), for example, refer to some worker co-operatives where very low wages, below what would be considered a fair or living wage, are the norm. In such situations and applying the notion of a fair or living wage, the worker's labour can be understood as comprising a paid element at a living wage rate and an unpaid element which represents a contribution by the worker to the co-operative of unpaid work. Sweat equity as activism, in the context of co-operatives, can be understood in terms of active member participation in the co-operative and its goals which involves additional commitments in time or labour which are not financially remunerated. Examples could include unpaid overtime or taking on an unpaid voluntary position on the co-operative's governing body. Serious leisure may be a contributing motivating factor in some forms of sweat equity, where, for instance, a person is willing to contribute labour because of the social purposes of the co-operative but also because it provides them with an opportunity to engage in roles and activities which they find intrinsically rewarding.

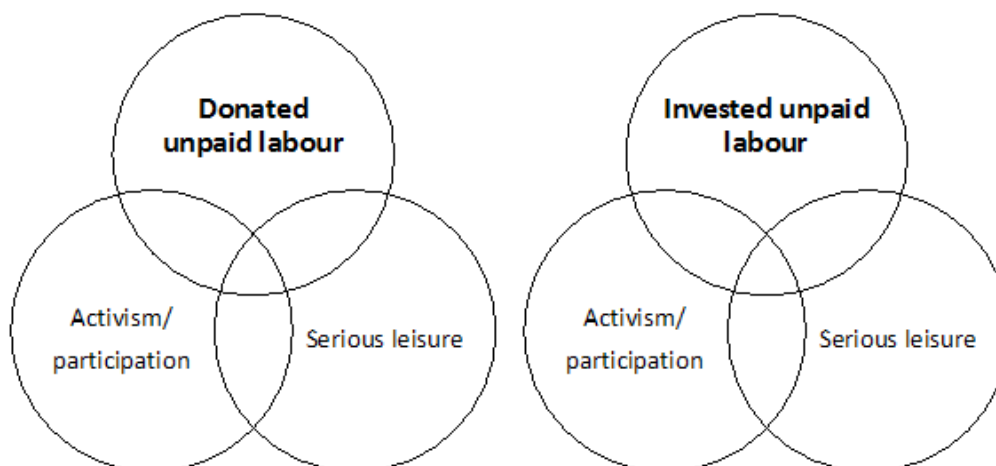
The model, however, can be extended to take account of sweat equity as an investment in the co-operative which, at some point, is expected to provide a personal economic benefit to the worker in the form of, for example, long-term paid employment in a worker co-operative or an affordable home in a housing co-operative. This type of sweat equity can be described as a non-financial investment in the co-operative. By adding investment to the types of volunteering we can then produce a model which incorporates four types and seven combinations of motivating factors (see Figure 2 below). Combinations involving both donated unpaid labour and invested unpaid labour have been excluded from the table on the basis that these two types are mutually exclusive in that the sweat equity is either donated without expectation of an economic return or invested with the expectation of a shared and/or personal economic return at some point.

Figure 2: Attributes and combinations of co-operative sweat equity

Distinct types ->	Unpaid work (Labour gifted to the co-operative)	Activism (Participation)	Serious leisure (Personal interest in role)	Investment (Building co-operative financial equity)
Combinations:				
Unpaid work + Activism				
Unpaid work + Serious leisure				
Activism + Serious leisure				
Activism + Investment				
Serious leisure + Investment				
Unpaid work + Activism + Serious leisure				
Activism + Serious leisure + Investment				

Furthermore, while the above table identifies four potential motivations for providing unpaid labour which can combine with other motivations in various ways, in terms of the notion of sweat equity there appear to be two main different forms based on the primary purpose of the sweat equity provided. These two main forms are unpaid labour donated to the co-operative and unpaid labour invested to generate financial equity in the co-operative. Other motivations or attributes — activism/participation and serious leisure — may also be features of sweat equity but the primary purpose is the contribution of a resource to the co-operative, either in the form of a donation of unpaid labour as an ongoing key element of a co-operative's business model or an investment of unpaid labour which is converted into financial equity (see Figure 3).

Figure 3: Two main forms of sweat equity and potential other attributes



What we have, then is a complex picture of multiple forms of sweat equity and combinations of attributes or motivations, which may give rise to differing accountabilities and account giving. In particular, it points to the importance of understanding the expectations of the provider of the sweat equity and how the co-operative's actions, activities, and results match up to those expectations. It is therefore appropriate to consider how a co-operative could usefully account for its actions and results in respect of the two main purposes of sweat equity: contribution of donated unpaid labour or contribution of invested unpaid labour. Both of these types of unpaid labour represent non-financial resources made available to a co-operative by those persons providing their unpaid labour. Possible approaches to accounting for and reporting on these two forms of sweat equity are now considered in turn.

Donated unpaid labour

Donated unpaid labour represents a non-financial resource voluntarily gifted to the co-operative by those providing their labour. There is no expectation on the part of the donor that they will receive any financial benefit in return in either the short or longer-term. The donated labour may constitute all or part of the labour they provide. So, for example, a person's labour may be 100% unpaid or a mix of paid and unpaid labour. Where it is a mix it is important that there is clarity regarding the relevant percentages of unpaid and paid labour. This will involve agreeing and disclosing the wage rate applied to the paid portion of the work. For the sake of comparability and stability in representing a paid portion of the labour this could be fixed at a generally accepted fair or living wage rate, or at an average market rate for a particular work role. While applying a fair or living wage rate lacks the subtlety of differentiating market rates for different roles and expertise, it overcomes potential difficulties in establishing an applicable rate where a work role may range over multiple areas of diverse activity. Further, a fair or living wage rate could provide a useful common baseline below which labour provided by a worker starts to incorporate an unpaid or donated element.

While the paid element can be reported as a monetary value, the donated unpaid labour should not be represented as a monetary value. This is because, as a voluntary element the labour may take on other characteristics and attributes associated with volunteering which are not readily translatable into monetised values. Accounting for volunteer input has already been considered by researchers and commentators and various methods for reporting have been proposed (see for example Mook et al, 2003; 2007). It is not clear, however, that current models comprehensively address the range of types of volunteering and their differing characteristics, costs, and benefits. While some models suggest monetising volunteer input/output, the nature and characteristics of volunteer or unpaid worker relationships with an organisation do not equate to that of a paid employee relationship. Furthermore, where market rates are not discernable, as is the case with volunteering, the likelihood is that highly subjective, variable, and shifting representations of donated unpaid labour would result (Barker & Schulte, 2017).

As such, reporting on donated unpaid labour could be incorporated into narrative reporting on a co-operative's non-financial resources (Maddocks, 2019). This could include more objective and verifiable information on the number of persons providing unpaid labour, number of hours provided, and types of activity undertaken. The narrative could also describe the importance of the contribution of unpaid labour to the co-operative's business model in the short and longer term. Such a description could include a percentage breakdown of paid and unpaid work at a co-operative analysed by key areas of activity. Information on resources used to support unpaid workers could also be included, such as: supervision and training provided, expenses remunerated, opportunities to participate in decision making, and unpaid work policies and practices.

Invested unpaid labour

Invested unpaid labour differs from donated unpaid labour in that there is an expectation of an economic return for the co-operative which may also include personal economic benefit for the provider of sweat equity in the form of future opportunities for paid work or access to certain

goods or services. In such situations, accounting for the co-operative's progress towards those desired economic goals is important for those contributing their unpaid labour as well as others with an interest in a co-operative's primary purpose.

A statement of return on invested unpaid labour could form part of the narrative reporting of a co-operative, possibly incorporated into both financial and non-financial reporting on resources. The financial statements could include a note highlighting the contribution of unpaid labour to generating equity and how it is represented in the form of retained earnings or assets. The narrative reporting could provide information on the total unpaid hours provided and the resulting retained earnings and/or assets accumulated. The narrative could also address a co-operative's future strategic plans and goals regarding generating paid work or assets for the benefit of those providing the sweat equity and/or for the benefit of a wider membership or community.

In conclusion

Sweat equity and volunteering can play a significant role in some co-operatives, in day-to-day operations as well as in an organisation's governance structure. Further, unpaid labour, as an in-kind donation, has an economic dimension (Mook et al., 2007; Tooley & Hooks, 2019). The existence of multiple forms and motivations for providing unpaid labour result in differing representations of the contribution of sweat equity. In the context of co-operatives, sweat equity represents a non-financial resource which can take two distinct forms — donation or investment — and which give rise to differing accountabilities to the providers of unpaid labour and other constituencies with an interest in the purpose and activities that the unpaid labour enables. The inclusion of sweat equity in co-operative annual reporting would highlight a key differentiating structural characteristic of some smaller co-operatives, make clear the particular type of sweat equity provided and its contribution and account for a co-operative's effectiveness in drawing on and managing this resource. In addition, by regularising reporting on sweat equity in annual reporting, the importance of these forms of non-financial resource is recognised alongside financial resources, as is their contribution to co-operative structural differences in regard to member participation and reciprocity.

Further research is needed into the prevalence of sweat equity, the different forms and the nature of its contribution to the development of sustainable co-operative business models, particularly in relation to local and smaller co-operatives. Following on from this, further work is also needed on how best to account for and report on sweat equity in annual reporting. Questions for co-operative accounting and reporting practice include what forms of co-operative sweat equity and volunteering need to be accounted for and how.

The Author

John Maddocks is treasurer of UK Society for Co-operative Studies. He is a community accountant researching, identifying, and reporting on social value and ex-director of the Centre of Excellence in Accounting and Reporting for Co-operatives. He also has held the post of policy and technical manager (third sector and sustainability) for the Chartered Institute of Public Finance Accountants.

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