Mind your business?

Expanding democratic business in the UK

Bartek Staniszewski
and Thomas Nurcombe

bright blue

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Executive summary

‘Democratic businesses’ come in all shapes and sizes: from local community groups to nationwide employee-owned retailers, from football clubs to housing developers. ‘Co-operatives’ and ‘employee-owned businesses’ in particular are illustrative of the democratic business model. Indeed, ‘democratic businesses’ carry a host of unique benefits, ranging from better productivity and employee satisfaction, through benefits for the stability of the local economy, to improved levels of freedom and legitimacy. Their historical importance – as briefly outlined in Chapter One – cannot be doubted, and, although, in many respects, ‘democratic businesses’ are doing very well, much can still be done to improve their situation and protect them from the problems they face. They remain a relatively small proportion of the broader UK economy, but, hopefully, with the recommendations of this report, their presence can be amplified and the benefits they bring be fully manifested.

Focus of this report and methodology

This report examines in detail the nature, history, advantages, problems and policies regarding democratic business in the UK. It adds to the important work done by other organisations that advocate for democratic businesses in this country, but seeks to offer a new, broader and better-grounded perspective that is agreeable to the centre-right of this country.

This report seeks to answer the following research questions:

1. What are the centre-right arguments for increased levels of democratic business?
2. What are the leading barriers to increased levels of democratic business?
3. How successful have centre-right policies, both historically and internationally, been in increasing the levels of democratic business?
4. What centre-right policies can be introduced to increase the levels of democratic business?

In order to answer these, we employed two research methods, as detailed in Chapter Two. First, we conducted an extensive literature review to examine the theory and history of 'democratic business,' as well as policy surrounding it both in the UK and abroad. Second, we interviewed a range of key stakeholders, thinkers and decision makers, such as MPs, business leaders, government advisers and former civil servants.

The principles and theory behind 'democratic business'

Chapter Three defines and explains the origins and operations of 'democratic businesses,' that is: 'mutuals,' which includes 'co-operatives' and 'employee-owned business,' and 'conventional' business with democratic elements.

The democratisation of a business lies on a continuous scale; businesses can be more or less democratic rather than being 'just' democratic or undemocratic. However, certain business types – namely, mutuals – have ownership structures that mean they are more prone to being more democratic than others.

In this report, mutuals are contrasted with 'conventional' businesses.

Co-operatives

This report uses a strict definition of co-operatives; that employed by the European Cooperative Society (ECS). Here, a co-operative is defined by three characteristics: first, membership of one is voluntary; second, their profits are distributed among their members or reinvested; and third, it is controlled by a democratic process whereby each member is entitled to exactly one vote.

For UK co-operatives, by far the biggest sectors they operate in are retail (£28.4 billion turnover in 2021, though over 78% of this is solely due to the size of the John Lewis Partnership, who are not included under our definition of 'co-operative,' and the Co-Operative Group), finance (23% of the mortgage market and 18% of the savings market, with a market size of around £15 billion, as of 2021) and agriculture (£7.8 billion turnover in 2021), with no other sector boasting a co-operative turnover of more than one billion pounds.

Employee-owned business

The other form of mutual, besides the co-operative, is 'employee-owned business.' Employee-owned companies can encompass any of four dimensions: the proportion of company shares owned by employees, the proportion of employees owning shares, the distribution of ownership amongst employees and the nature and extent of rights associated with ownership.

This can take a variety of forms. The John Lewis Partnership, for example, follows a trust-based model, having established a trust – such a trust is generally known as an employee ownership trust (EOT) – with the aim to benefit the employees of John Lewis. Employees do not own shares in the John Lewis Partnership, but they receive a substantial portion of the profits each year. They also have a substantial role in governance, with elected institutions at store, region, divisional and head office levels.

The alternative to this is for members to own shares in the company individually, with employees benefiting directly from company growth even if the company is not turning a profit.

Some businesses also choose to follow a hybrid model, whereby employees themselves own shares in the company and other shares are also held on the behalf of employees by a trust.

Currently, around 4% of the UK economy is employee owned, and has been at this level since 2014, having increased from 2% in 2012, according to the Employee Ownership Association. As of 2023, the largest employee-owned businesses were: the John Lewis Partnership; the Arup Group engineering consultancy; the Mott MacDonald Group management consultancy; the charitable social enterprise Greenwich; and the insurance broker Howden Group Holdings.

Community business

Democratic elements are also intrinsic to 'community businesses.' The charitable trust Power to Change define them as "businesses … owned by, rooted in, and accountable to their communities". They estimate that there are 11,000 community businesses operating in England as of 2022, with a total income of "just under £1 billion". Community businesses tend to operate a hybrid funding model, with 83% of them in the UK generating an income from trading and 84% of them receiving grant funding. They also employ a large number of volunteers – the average community business in the UK has nine employees but 29 volunteers, 90.5% of whom live locally.

Other forms of democratic business

In state-owned businesses, too, the way the government operates the business can be influenced by its political aims, which can involve democratic considerations. This is especially the case in democratically-elected governments, where the management of the business is answerable to the electorate.

Democratic business can also be a feature of 'conventional' businesses, such as by increasing the involvement of their employees in the decision-making process of the company, either through direct consultation or through general meetings where employees can voice their views.

Benefits of democratic business

Chapter Four examines the advantages of democratic business over rival business models. Those include economic advantages: for democratic companies themselves; for individuals involved with democratic businesses; and for the wider economy. They also include ethical advantages: the political legitimacy that they provide in a democracy; freedom; and greater levels of property ownership.

Greater productivity

Employee-owned business see superior productivity to non-employee-owned rivals. According to the Employee Ownership Knowledge Programme, as of 2023, employee-owned businesses are, on average, between 8-12% more productive than non-employee-owned businesses.

For co-operatives also, the evidence is that co-operatives are at least as productive as 'conventional' businesses, and that many 'conventional' businesses would produce more if they became co-operatives; co-operatives, on the other hand, always produce at least as much as they would were they to become 'conventional' businesses.

Improved innovation

Superior levels of innovation in democratic businesses are well-illustrated with the example of employee ownership. Twenty-six percent of workers in companies with high levels of employee ownership made a suggestion at least once a month, compared to only 18% among workers without shares in the company they work for. Similarly, 60% of public service mutual representatives report that "[m]ore innovative services" is a key benefit they had seen as a result of becoming a mutual – public service mutuals being public services where there is a significant degree of staff influence in the way that the business is run. Indeed, a 2023 study by the Employee Ownership Association suggests that employee-owned businesses are over 50% more likely to have increased investment in research and development (R&D) than non-employee-owned businesses.

Greater resilience

Democratic businesses are particularly resilient to economic shocks.

This can be seen through the example of co-operatives, the number of which operating across the UK grew by 1.2% over the course of the COVID-19 pandemic, with almost twice as many co-operatives created (197) as dissolved (107). In contrast, there was a net reduction in the UK's business numbers in the first year of the COVID-19 pandemic, with the number of new businesses down, and the number of company 'deaths' increasing from 344,660 to 389,956 in 2020. Co-operatives were four times less likely to cease trading during 2020, perhaps reflected in the fact that 44% of co-operative representatives surveyed identified the support of committed members as being a clear benefit during the pandemic.

This is not an isolated occurrence for democratic businesses. In the years 1998 to 2001, in the US, the likelihood of not surviving was noticeably lower for companies with more than 5% of stock owned by employees.

Greater employee satisfaction

The evidence shows that workers in democratic businesses are happier with their jobs. Nine percent of workers in companies with high levels of employee ownership reported that they were likely to look for a new job, as compared to 20% of employees firms without any form of broad employee ownership. Similar results have been reported across numerous different studies, with the Ownership Commission noting that "[s]everal studies have found that employee owners have more positive attitudes than their non-owning counterparts".

This is corroborated by studies which examine employees' loyalty or pride in their job. In one study, 58% of workers in companies with high levels of employee ownership reported greater loyalty to the firm, compared to 46% of workers with low employee ownership. One study also asked whether workers were proud to work for an employer: 44% of workers in companies with high levels of employee ownership reported a high level of pride, compared to only 29% of workers in companies with low levels of employee ownership.

Superior customer service

Evidence shows that mutuals provide a superior customer service to non-mutuals. This can be illustrated with the example of mutual banks, which outscore non-mutual banks by 17 percentage points in terms of being more trusted to act in the customers' best interests; by 11 percentage points in terms of being open and honest; by 24 percentage points in terms of being perceived as having higher ethical standards; and, finally, by 16 percentage points in terms of valuing their customers. The same trend holds for mutual insurers and for consumer co-operatives.

Staff retention

Democratic businesses are also better at staff retention. This is particularly true for employee-owned businesses, which retained more of their employees than their rivals between 2005 and 2009 in the UK, with their total employee number having increased by 7.5% per year in this period, as compared with less than 3.9% in non-employee-owned businesses. Indeed, one US firm where employee ownership increased from 22% to 80% discovered that reported intention to leave the company declined dramatically.

Economic stability

Evidence suggests that greater diversity of business models in the economy is advantageous for the stability of that economy. In one study for the World Bank, it was found that a financial system that presents a diversified institutional structure – which includes democratic businesses – will be more efficient in promoting economic growth and reducing poverty. Indeed, in the aftermath of the 2008 global financial crisis, the Centre for European Policy Studies (CEPS) produced two comprehensive studies of diversity in European banking. Both conclude that diversity in banking structures and models, which includes democratic businesses, is highly advantageous.

Economic multiplier

Mutuals also benefit the wider economy through superior economic multiplier – the ratio between an initial cash injection and the resultant increase in economic output. Since they do not spread out their profits to external shareholders, the economic value of mutuals is retained in the business. This value can then be used to enhance value to customers and members, to expand the business or to provide value to the community in which the mutual operates. Consequently, mutuals, and especially mutual banks, result in significant pro-growth impact within regions where they are strong.

Competitiveness

Evidence suggests that, in highly competitive markets, mutuals allow firms to protect themselves against monopolies. This can be clearly illustrated with the example of agricultural mutuals. When multiple farmers form a mutual, their selling power is greater, and, therefore, they are more resilient against monopoly action from suppliers of farming inputs. The same can be said for monopsony power – the ability of large buyers to dictate prices – and the farmers' purchasing power.

Legitimacy

If we take public participation as the condition of legitimacy for a political system, the greater presence of democratic business in the economy is also positive for a political system's legitimacy. If a business has democratic elements that enable its employees or customers or the broader community to influence its employment policy, then public participation in that element of the political system – that is, employment – is broadened, and so with every other element of the political system that the business impacts.

Furthermore, on some theories of legitimacy, what renders a political system legitimate is the equal distribution of power between the system's participants or the ability of the system's participants to consent to the political system. This view on the source of political legitimacy is manifested in democracies through the giving to each adult participant an equal vote. However, voting power is limited in its agency. It is both true that significant power is carried through the ability of businesses to use capital to influence others and that such use of capital often comes without the consent of the one being influenced. If the ownership of businesses in an economy, however, is distributed in a more equitable way throughout said economy, then the actions of those businesses acquire more democratic legitimacy.

Freedom

On any conception of freedom, democratic businesses are greatly conducive to a more free society. One of the greatest barriers to freedom in most societies are the barriers erected by the actions of businesses. Mundane examples include a private business fencing off a parcel of land to hinder a person from entering it, but a more relatable one may include a business increasing the price of an essential product that they provide, hence hindering a person who needs it from buying it.

Democratic forms of business ownership permit for those hindered by the actions of a business to influence those very actions, hence either removing unfreedoms that the business is responsible for or consenting to them.

Property

One of the central tenants of British conservatism – the key form of centre-right politics in the UK – has been the promotion of a 'property-owning democracy' or 'popular capitalism,' where property ownership is broadly distributed throughout the population.

Mutuals allow for the distribution of a vital form of property – capital – throughout the population. As people participate in mutuals in the relevant way – by becoming an employee in an employee-owned company or by becoming a member of a co-operative, and so on – they acquire some level of ownership in the mutual and the capital that comes with it.

It is also important to highlight that democratic businesses can arise as a result of privatisation. This allows for the transfer of property from the hands of the state into private hands – a distributive scheme favoured by those on the economic right.

Problems of democratic business

Chapter Five examines perceived and actual problems with starting and sustaining democratic businesses include: access to capital; lack of a clear legal model; shortage of professional advice; slow decision making; and external takeover pressure.

Access to capital

The main contributing factor to the failure of mutuals boils down to their struggle to secure sufficient capital. While all businesses have difficulties accessing capital – particularly smaller ones – additional difficulty is intrinsic to the nature of mutuals, which stand to lose their mutual status if external investors demand shares in the business in exchange for their investment. This can then result in demutualisation – the loss of mutual status by a mutual business and conversion into a 'conventional' business.

Demutualisations can take place in all mutuals, but the phenomenon has been particularly evident in building societies – co-operative banks owned by their customers. Many of the building societies that were demutualised in the 1990s or early 2000s ceased to exist.

Lack of a clear legal model

Mutuals – and in particular co-operatives – often struggle with the lack of a clear legal model. While the Co-operative and Community Benefit Societies Act 2014 is the primary legal framework for co-operatives, it does not recognise them as a distinct type of enterprise and fails to provide a statutory definition of the co-operative model.

In company law, a company exists for the benefit of its members. But members are often interpreted as shareholders, as with a 'conventional' company. Yet members can mean different things depending on the business model and can indeed refer to employees, consumers or even suppliers. So, the unique membership feature of mutuals, and in particular co-operatives, is not recognised in company law.

Shortage of professional advice and expertise

There endures a shortage of professional advice and expertise for all mutual businesses. First, entrepreneurs do not receive extensive advice on models other than those of 'conventional' business. Second, there is a dearth of people with experience of mutual business models who are adept at operating them.

This is of particular concern when a mutual is looking to expand. Growth necessitates the development of management systems and governance structures. Without support, it becomes very difficult to expand, develop and grow the business. Consequently, mutuals lose further ground against 'conventional' businesses that have the know-how to acquire greater levels of support from government, finance and other stakeholders.

Moreover, leaders of mutuals sometimes lack experience in high-level business leadership, as their motivations and interests instead lie in the social dimension of the mutual. Looking back, a lack of commercial skills and experience was seen as a significant hindrance to mutualisation by 75% of those that managed to complete the mutualisation process according to one study.

Slow decision-making

The democratic nature of decision making in democratic businesses can result in a slower decision-making process. This is inherent to their model; as more parties are more equally involved in the decision-making process, the process takes more time.

This can be observed empirically. McKinsey's research on co-operatives found that they scored lower on coordination and control metrics than 'conventional' firms, meaning that they generally measure business performance less consistently, leading to delayed action in addressing problems and opportunities. Interviews conducted by McKinsey with key leaders in the co-operative model demonstrated that democratic processes naturally slowed down decisions.

External takeover pressure

Sometimes an offer is made by the external company or investor to buy the mutual and take control of it, converting it into a 'conventional' business.

This is not always to the mutual's members' benefit. The members are not always presented with adequate information by company governance when it comes to takeovers. As such, members who vote on decisions may not have access to the full picture if the board is aiming to sell the mutual.

Current and historic policies to support democratic businesses

Chapter Five describes, examines and evaluates policy to promote democratic business, beginning with recent examples from the US and from continental Europe, and then moving on to a more comprehensive overview of recent policy developments in the UK.

Policies globally

The promotion of democratic business has been legislated for across the world. Spain and Italy, for example, have long-standing worker co-operative movements with supporting legislation; in the latter of them, co-operatives employ over 6% of the country's workforce.

The most notable EU legislation on democratic business concerns the principle of disinterested distribution, which relates mostly to co-operatives, rather than employee ownership. The essence of it is that, in the event of a co-operative winding up, assets and reserves in the co-operative can only be transferred to another body pursuing similar aims or other general interest purposes.

Following the principles of disinterested distribution, most EU companies also use indivisible reserves to allow the co-operative sector to flourish. Twenty-three European countries consider indivisible reserves to be important and have a specific provision for them in legislation.

Profit-sharing is another policy exemplified in the EU. In France, profit-sharing schemes are compulsory for firms with at least 50 employees. In 2018, nine million employees in France had access to at least one financial participation scheme, making up over half of private sector employees.

Finally, many European countries also have legislation for the representation of workers on the board of large firms. Commonly, around one-third of the board is allocated to workers. The first European country to mandate this was Germany. Other countries that now have such legislation include the Netherlands, Ireland, Austria, Denmark, Sweden, Poland, France, Greece, Hungary, Finland, the Czech Republic, Slovakia, Slovenia and Portugal.

Of the different forms of democratic business, employee ownership has been most prominently promoted in the US. In 2010, the US saw over 3,000 employee contribution plans that are invested in employer stock as compared to over 11,000 in 2020. The total number of listed companies in the US remained roughly the same within the same period, so growth in the employee-owned sector likely significantly outstripped growth in the economy overall.

The UK

There are three elements to recent UK government policy on democratic ownership: tax subsidies, privatisation and regulatory initiatives.

Tax subsidies

- One example of a tax subsidy initiative to support democratic business comes in the 1980 Finance Act, which introduced the Save As You Earn (SAYE) scheme.

- Under the scheme, a company can offer all of its employees company share options for up to 20% less than the market value share price. Employees who join the scheme can choose a contract period of three or five years to save a monthly amount from post-tax salary of between £5 and £500. At the end of the contract period, the savings are used to buy shares at the option price. If the share price has gone up during that time, the employee gains from that. This gain is taxed as capital rather than income.
- Each employee enjoys an annual exemption from Capital Gains Tax (CGT) of £11,000, which means all share price increases up to this amount are tax free. On the other hand, if the share price has gone below the option price, even with the discount, employees get all their savings back.
- The SAYE scheme continues to be a success. In the tax year 2020-21, the most recent for which data is available, 380,000 employees across 260 companies have been granted options under the SAYE scheme, with a total value of £2.59 billion.

Privatisation

- Privatisations of NHS Primary Care Trusts into public service mutuals were introduced by the Blair Government in 2008. The Trusts were given the 'Right to Request' to spin out of the NHS and form a public service mutual to deliver community health services instead. The Government then continued to support said spin-outs with waves of funding.
- The Conservative-Liberal Democrat Coalition Government has continued this policy with its 'Right to Provide' policy for NHS trusts and adult social care providers. The Coalition Government was also keen to extend the mutual model to children's social care, youth services, libraries and the fire and probation services.
- The result of those policies was a success. In 2010, there were nine public service mutuals. The biggest growth spurt came in 2011, when almost 50 public service mutuals formed. By 2013, there

were almost 60 public service mutuals functioning and, as of April 2019, there were 129 of them. The sector continues to grow faster than the remaining economy, having grown by over 9% in the two years between 2018 and 2019.

Regulatory initiatives

- A recent new regulatory initiative to support democratic business came in June 2023, when the Co-operatives, Mutuals and Friendly Societies Act 2023 – a Private Member's Bill sponsored by Sir Mark Hendrick MP of the Labour Party – received royal assent.
- The Act grants HM Treasury the power to make regulations to allow co-operatives, mutuals and friendly societies to opt to restrict what would happen if they were to close down, following the principle of disinterested distribution. Once this restriction is agreed on, it cannot be revoked.

New policies

We offer ten original and realistic centre-right policies for increasing the presence of democratic business in the UK economy.

When formulating policy, we applied three key principles.

- **Fiscal realism.** The UK public, currently, faces a record high level of tax burden as well as vast levels of government debt. Substantially adding to either government debt or the need for the government to raise revenue through further taxes would be irresponsible. Hence, this report's policy suggestions should only demand minimal, if any at all, further spending commitments from the government.
- **Incentivising, not mandating.** Democratic business carries with it a plethora of benefits, but it may not be right for every business or entrepreneur. Given the benefits of democratic business, businesses should be incentivised to democratise, but they should not be forced to do so. Hence, where possible, this report's policy suggestions avoid mandating that businesses behave in any particular way, but rather

merely seeks to incentivise behaviours that are helpful both for the businesses themselves and for the broader economy and society.

- **Importance of communities.** This report assumes that having more closely-knit communities is something intrinsically good, and that local communities are, all other things being equal, better stewards of their local area than individuals who are disconnected from that same area. In this, we echo the vision of strong communities and levelling up local areas that many of our interviewees shared with us. Hence, where possible, this report's suggestions seek to promote the interests of local communities and of said communities' democratic control over their local areas.

Policies to support mutuals

Recommendation one: Introduce a statutory definition of a co-operative in UK law, which is in line with the principles outlined by the Rochdale Society of Equitable Pioneers.

The UK lacks a clear legal framework for mutual businesses. Particularly, for co-operatives, the Co-operative and Community Benefit Societies Act 2014 does not recognise them as a distinct type of enterprise and fails to provide a statutory definition for them. Under the Co-operative and Community Societies Act 2014, a company is regarded as a co-operative simply if the Financial Conduct Authority (FCA) is satisfied that it is one and has at least three members.

While the FCA might use International Co-operative Alliance principles to satisfy its conditions, the lack of a clear legal definition and discretion given to the FCA creates a lack of certainty for co-operatives and makes it hard to implement specific tax and administrative regulations for co-operatives.

In Europe, co-operatives are often a legal form of company which is distinguished from 'conventional' business by emphasising both economic and social differences. In Italy, which has one of the most advanced pieces of co-operative legislation in the world, co-operatives are defined as those "with voluntary and open membership" and "[satisfying] a common interest of [their] members by making contracts/transactions with them," fitting the principles set in the foundations of the Rochdale Society – the original co-operative.

The UK Government should follow suit and provide a statutory definition for a co-operative. This should follow Rochdale Society principles of voluntary and open membership, democratic member control and distribution of surplus among members.

Recommendation two: Establish a tax-incentivised 'indivisible reserves' scheme to promote mutual business stability and investment.

There is a specific provision in legislation for 'indivisible reserves' in 23 different European countries – a reserve that cannot be accessed by members of mutuals for personal distribution. This legislation has generally been very successful. 'Indivisible reserves' guarantee the long-term stability of mutuals and the security of the funds invested into them by the members of said mutuals – a key concern especially for mutuals owned by lower-income members.

The UK Government should establish an 'indivisible reserves' scheme of its own. Under it, mutuals – that is, co-operatives as defined under our recommendation above, and companies where at least 50% of the company is owned either by at least 50% of its employees or by an EOT on behalf of at least 50% of the company's employees – should be able to claim Corporation Tax back on any profits they put into the newly-established 'indivisible reserves' scheme, up to 20% of the total sum the mutual has to pay Corporation Tax on. Money put in the scheme then cannot be accessed by members of the mutual for personal distribution, but must be reinvested, retained as savings or, as a last resort, used to cover losses.

To ensure that indivisible reserves are only used to cover losses as a last resort, rather than as a routine mechanism for avoiding losses – which could result in perverse incentives whereby a mutual is not sufficiently disincentivised to avoid loss-making behaviour – a mutual would be permitted to use the savings they put into indivisible reserves to cover losses if and only if all other resources and reserves have been applied to the loss.

The indivisible reserves scheme would be administered by HM Revenue & Customs (HMRC), but the money would never be held by them. The mutual would merely declare to HMRC that it is putting a given amount of profits into the scheme so as to not be charged Corporation Tax on it and then provide proof that said money was reinvested or retained as savings. Once money is put into the scheme, it would be non-withdrawable except for reinvestment or to cover losses, as explained above.

Recommendation three: Ensure that a minimum of 28% of the assets of a co-operative are maintained under co-operative control in the event of the co-operative winding up.

'Disinterested distribution' is another legislation that is common across continental Europe. It guarantees that the assets of a co-operative, in the event of demutualisation, are not also demutualised, but are retained in the co-operative economy, preventing external takeover pressure from diminishing the role that co-operatives play in the broader economy.

As of the passage of the 2023 Co-operatives, Mutuals and Friendly Societies Act, HM Treasury has the power to make regulations to allow co-operatives, mutuals and friendly societies to opt to restrict what would happen if they were to close down, following the principle of disinterested distribution. However, as of January 2024, this power has not been exercised by HM Treasury. Furthermore, even should the Treasury exercise said power, disinterested distribution would remain optional for UK co-operatives.

The UK should again follow the example of continental Europe and introduce a mandatory disinterested distribution framework. To add to existing legislation, in the event of a co-operative winding up, the value of any assets of the wound-up co-operative that are transferred to a non-co-operative or distributed to the co-operative's members should be taxed at 28%, which is currently the maximum Capital Gains Tax rate. This transferred money should then be distributed into the 'indivisible reserves' schemes of different, nominated co-operatives or co-operative.

Recommendation four: Amend the Levelling Up Fund *Assessment Framework for assessing, scoring and shortlisting bids* to include a positive consideration for bids made by local authorities that, as a part of their bid or otherwise, privatise municipal services into public service mutuals.

In the UK, there remain thousands of social care providers and libraries owned and operated by local authorities. Local authority-owned municipal services, such as social care providers and public libraries, should be encouraged to spin out as public service mutuals. Public service mutuals tend to perform better than their non-mutual counterparts in respect of key metrics such as productivity and the quality of customer service. Productivity in particular is poor in the UK public sector and is in dire need of improvement.

In order to incentivise the mutualisation of public services, plans to privatise local authority-owned municipal services into public services mutuals should be made a positive consideration in the assessment of local authority bids for the Levelling Up Fund.

Currently, the Department for Levelling Up, Housing and Communities (DLUHC) assesses bids for the Levelling Up Fund according to four criteria: index of priority places, strategic fit, economic case and deliverability. Each of these criteria is judged according to a number of further sub-criteria, for a total of up to 16 sub-criteria that are considered. All the criteria and sub-criteria are weighted equally, except for the sub-criteria that go into assessing the 'index of priority places' criterion – there, "need for economic recovery and growth" is prioritised above the other sub-criteria assessed. Our suggestion here is that the 'strategic fit' criterion, which is currently judged according to four sub-criteria, should instead be judged according to five sub-criteria, with plans to privatise local authority-owned municipal services into public services mutuals being introduced as a new sub-criterion.

Policies to support the democratisation of 'conventional' business

Recommendation five: Introduce the right for employees to access recorded information held by one's employer.

One of the key benefits of democratic business – improved transparency and the consequent lessened risk of moral hazard on the part of managers – can be extended across the broader economy by providing all employees with powers analogous to those provided by the 2000 Freedom of Information Act to members of the public. Currently, the 2000 Freedom of Information Act only makes provisions for the disclosure of information held by public authorities or by persons providing services for them, and not for the disclosure of information held by any private institutions.

The Government should also introduce the right for employees to access recorded information held by one's private employer. Exemptions would apply if the information were needed for any one of: the prevention, detection or investigation of a breach of company law; internal security; the assessment or collection of company taxes; employee appointments and contracts. The request for access could also be refused on grounds analogous to those in the 2000 Freedom of Information Act: if employee interest in non-disclosure outweighs the employee interest in disclosure, or if it is likely to cause distress or irritation without good reason.

Recommendation six: Introduce the right for employees of companies numbering over 2,000 employees to request a binding referendum on employee representation on boards.

Employee representation on boards is mandated across a large number of European countries, including Germany, the Netherlands, Ireland, Austria and France. Evidence explored throughout this report demonstrates that this has a positive effect on employee productivity and job satisfaction.

In order to incentivise employee representation on boards, the UK Government should grant employees in companies that number more than 2,000 employees a right to request a referendum on employee representation on the company's board.

Should a petition to host such a referendum be signed by at least 5% of the company's employees, the company would be legally required to either (i) host a referendum among all of the company's employees on whether the employees of the company should have the right to elect one of the company's board members, or (ii) give the employees of the company the right to elect one of the company's board members.

Once such a referendum is held, the company would not need to host another one for the next four years, so as to prevent repeat petitions mandating an unreasonably high number of referenda.

If a supermajority of 66.6% of those who vote in the referendum votes in favour of the employees of the company having the right to elect one of the company's board members, the company should be legally required to grant its employees said right. Even if a supermajority is not achieved, but a large proportion of employees show their support for the measure nonetheless, a company may opt to grant its employees the right to elect one of the company's board members nevertheless, voluntarily.

Recommendation seven: Strengthen the 'Community Right to Bid' to include a broader range of assets, preferential treatment for the bid for the seller of the asset and Stamp Duty exemption for the purchaser of the asset.

Currently, under the Community Right to Bid – a right that enables community interest groups to bid for assets of community value – can be nominated to the local authority by parish councils or by groups with a connection with the community. Following receipt of the nomination, the local authority then has eight weeks to make a judgement on whether the asset should be listed as an asset of community value, according to a set of criteria published by the DLUHC. Assets remain on the list for five years, unless they are sold within that time.

If the nomination is accepted, local groups will be given six months to come up with a bid for the asset if and when it is sold – the moratorium period. Should the bid be successful, the asset comes under the control of a relevant Community Land Trust – a membership organisation that manages assets to provide a benefit to the local community. There is no compulsion on the owner to sell it, and when they sell the asset they may sell to whomsoever they choose.

The current Right to Bid effectively gives communities no extra power to do what they could not have done anyway, if not for the fact that the bids can be sponsored by the meagre Community Ownership Fund, besides that they have more time to organise their bid as a result of the aforementioned moratorium period. Applicants may apply to the Community Ownership Fund for a maximum of 50% of the capital funding that they seek for a project.

Moreover, the current criteria for the nomination of 'assets of community value' is narrow. The asset must be a parcel of land or a building. Housing, the contents of a building and business assets are not eligible. Consequently, the Right to Bid has only been exercised 11 times in the four years since its inception under the 2011 Localism Act.

Government should strengthen the Right to Bid and allow it to cover a broader range of assets. Local businesses, such as local newspapers, shops, restaurants, cafes, clubs and bowling alleys should be eligible for nomination, with their relevant business assets included. Similarly, private rental housing should also be eligible for nomination.

Moreover, the Government should mandate preferential treatment for bids made through the 'Community Right to Bid.' As aforementioned, currently, when the owner of an asset of community value sells the asset, they may sell to whomsoever they choose. The Government should mandate that a bid made through the 'Community Right to Bid' cannot be refused in favour of any bid of equal or lower value.

Finally, in order to incentivise the owner of an 'asset of community value' to sell it to the local community and prevent it from being lost to them, government should exempt the purchase of the asset to the local community from Stamp Duty. A reduction in Stamp Duty allows the buyer to bid higher for their purchase than they would otherwise. As such, exempting the purchase of assets of community value to local communities from Stamp Duty would increase the purchasing power available to local communities when bidding for said assets.

Recommendation eight: Create a non-departmental public body for the accreditation and promotion of democratic business.

As the branding of mutuals is often adopted by 'conventional' businesses, for example by talking about 'members' rather than 'customers,' it is crucial that democratic businesses are championed and distinguished apart from their non-democratic rivals.

To achieve that, government should set up a non-departmental public body (NDPB) for democratic business. Besides acting as a champion of democratic business, liaising between democratic business and the government and promoting the brand of democratic business, the NDPB would introduce and manage an accreditation scheme for democratic businesses.

Under the scheme, democratic businesses would be able to display, on their premises and online, an accreditation promoting the fact that a business is democratic, analogous to the Food Hygiene Rating Scheme. The accreditation would also have different layers, discriminating between non-democratic business, 'conventional' democratic business, mutuals and co-operatives. This would help to distinguish between mutuals embracing a genuine mutual culture and 'conventional' businesses that merely adopt mutual branding. The NDPB for democratic business would be tasked with ensuring that the accreditations are awarded fairly and on the basis of reasonable evidence.

Policies to support democratic business generally

Recommendation nine: Introduce the right and provide finance for a minimum number of employees of a limited by shares company to give a counter-offer for the purchase of the company's controlling stake whenever a takeover bid is made.

Companies limited by shares are companies that have shares and shareholders; those shares can often be traded between different potential shareholders. A company limited by shares is controlled by a consortium of shareholders who, usually, altogether control over 50% of the company's shares. In some cases, a controlling interest in a company limited by shares – a bundle of shares with enough voting power attached to them to prevail in any shareholders' motion – is traded, and so grant its owner control over the company.

The Government should grant the employees of any company limited by shares with over a minimum number of employees the right to present a counter-offer on any purchase or sale of a controlling interest in the company they are employed by. A minimum number of employees should be able to participate in said counter-offer, and they should be able to claim a loan from the government at RPI + 3% for up to 50% of the value of the controlling interest being sold.

Moreover, to finance the bid, the employees participating in the counter-offer should be able to access up to three years' worth of their pension contributions from their pension pot. Furthermore, to give them the time to organise the bid, at least 20% of the company's employees should be able to request a six-week moratorium period during which the sale of the controlling interest cannot be finalised. The shares acquired by the employees as a result of a successful counter-offer would be then unsellable for at least two years following sale, so as to prevent using this as a tool for extorting the original bidder for the controlling stake.

Recommendation ten: Reform the Community Ownership Fund and the Community Housing Fund to support a broader range of community projects.

Currently, the Community Ownership Fund only supports the takeover of already-existing assets of community value which are at risk of being lost to the community, as in connection to the 'Community Right to Bid.' This leaves other community initiatives needing of funding. As community initiatives generally require funding from specific individuals, but are then ran for the benefit of the entire community – as opposed to just the people who fund them – they often rely on donations, which limits how often they come into existence.

To rectify this, it should also be possible to apply for money from the Community Ownership Fund to support other community projects: the development of community housing, community power generation and the work of community co-operatives. Especially the first two of those require significant levels of initial investment, to procure either residential property or energy infrastructure, respectively. With funding provided, however, they are able to provide affordable housing and energy to the local community in a way that avoids concerns regarding community consent that often surround the development of new housing or energy infrastructure.

Worth noting is that, currently, housing initiatives are not supported by the Community Ownership Fund at all, presumably because of the prior existence of the Community Housing Fund, the funding for which had run out in April 2020. This leaves CLTs with very limited options for government support. Assuming that the Community Housing Fund will not be restarted, instead, the two funds should be merged and housing initiatives included in the Community Ownership Fund.

Given the greater level of competition for funding from the Community Ownership Fund that this change would introduce, it is also desirable that, if fiscally responsible, the amount of money in the Community Ownership Fund is increased.

Conclusion

There are many reasons why this Conservative Government in particular should be interested in democratic businesses. A 'property-owning democracy' – the dream of many on the centre-right – comes into its own through democratic businesses, as people acquire greater control over and a stake in the economy they live in. Democratic businesses are also often grounded in their local community, exemplifying 'levelling up' at the most micro level. They are the middle ground between the ruthless individualism of right-wing laissez-faire libertarianism and the centrally-mandated collectivism of left-wing economic policy.

The recommendations made in this report are not exhaustive of all the useful policy options available to the UK Government, but they seek to maximise the advantages of democratic business while alleviating their difficulties to at least a reasonable degree. They are also fiscally responsible and conservative; we sought not to mandate or force anybody into endorsing democratic business, and especially not at the cost of taxpayer money, but rather to suggest innovative and well-evidenced incentives that would make it easier for the UK economy to become more democratic.

Chapter 1: **Introduction**

Throughout British history, there has always been a wide variety of goods and services provided by democratic organisations: organisations where those affected by the business are included in its decision-making process. During the twelfth century, guilds – associations of tradesmen and merchants designed to provide mutual protection of their professional practices – not only established norms of trade, but also provided employment, apprenticeships and sickness benefits. Their influence declined throughout the Early Modern period, having become almost extinct by the time of Adam Smith,[1] but, in the eighteenth and nineteenth centuries, amidst the profound socio-economic changes brought about by the Enlightenment and the Industrial Revolution, ideas of democracy in enterprise gained prominence again.

The first among them were 'co-operatives' – organisations the membership of which is voluntary, where profits are distributed among their members or reinvested and that are controlled by a democratic process whereby each member is entitled to exactly one vote; a definition argued for in Chapter Three. There nowadays exist other models of democratic business, but it is the co-operative model that has a distinctive early history in the UK. Co-operative enterprises were established by artisans, food producers and gardeners in the second half

1. Tom Woodin, David Crook and Vincent Carpentier, "Community and mutual ownership: A historical review", https://www.jrf.org.uk/sites/default/files/jrf/migrated/files/community-mutual-ownership-full.pdf (2010), 12.

of the eighteenth century to act as an insurance policy to protect their homes against fire,[2] similar to the peer-to-peer insurance companies of today, described in Chapter Three, which allow peers to pool risk and cover.

Early co-operative movements also attempted to counter wealth concentration that privileged local monopolies – the exclusive controllers of supply in a given market. Monopolies in England were prevalent, especially in food markets, where large suppliers could fix prices. As one report stated in 1767: "Millers have indeed within a few years raised immense fortunes, and with incredible expedition; and bakers in general thrive and get rich in a proportion far beyond what is seen in other trades".[3] So, shipwrights at the docks at Chatham and Woolwich established flour mills to circumvent the monopoly power that inflated bread prices.[4]

This was followed by 'villages of co-operation,' established by Robert Owen – a Welsh textile manufacturer and social reformer – to alleviate working-class poverty, where communities would produce and exchange on the basis of co-operative principles. Inspired by Owen's ideas, William King, a doctor in Brighton, then encouraged workers to set up co-operative shops. By the end of the 1820s, some 500 co-operative shops across different trades were in operation. However, by 1833, they had all but disintegrated.[5]

From the very origins of democratic forms of business, there is a common theme – they are run to serve and strengthen their community. This was later exemplified by the Rochdale Society of Equitable Pioneers in the 1840s, which saw the rebirth and regrowth of the co-operative movement.

2. Vera Zamagni, "A worldwide historical perspective on co-operatives and their evolution", in Jonathan Michie, Joseph R. Blasi and Carlo Borzaga (eds.), The Oxford Handbook of Mutual, Co-Operative, and Co-Owned Business (Oxford: Oxford University Press, 2017), 98.
3. Johnston Birchall, "Consumer co-operatives in retrospect and prospect", in Johnston Birchall (ed.) The New Mutualism in Public Policy (London: Routledge, 2001), 73.
4. Johnston Birchall, The International Co-operative Movement (Manchester: Manchester University Press, 1997), 4.
5. Johnston Birchall, "Introduction", in The New Mutualism in Public Policy (London: Routledge, 2001), 4-5.

Similarly to earlier attempts at democratic businesses, the Rochdale co-operative emerged in a poverty-stricken and disease-ridden urban centre. In 1840s Rochdale, ten miles outside of Manchester, the average life expectancy was only 21 years.[6] In October 1844, a small group of skilled workers and weavers registered their society and began operations in December of the same year, selling various food items and tobacco.[7] They declared that the co-operative was to "form arrangements for the pecuniary benefit and the improvement of the social and domestic condition of its members".[8]

Eight principles were outlined, principles which continue to align closely with today's co-operative ethos: democratic control, open membership, a fixed and limited interest on capital, distribution of the surplus as dividend on purchases, cash trading, a commitment to providing only pure and unadulterated goods, a commitment to education and political and religious neutrality.[9]

The democratic nature of the Rochdale co-operative was enshrined in an 1850 general meeting in which it was stated that, for the welfare of the Rochdale Society, "every member shall have full liberty to speak his sentiments on all subjects when brought before the meetings at a proper time, and in a proper manner".[10] As explained in more detail in Chapter Three, this principle underpins the most recognisable feature of a co-operative: member participation in decision making.

Also central was the dividend principle. Surpluses were regularly distributed to members in proportion to their purchases.[11] Members were incentivised to shop at the co-operative due to the dividends received and, subsequently, the organisation developed into a

6. Johnston Birchall, *The International Co-operative Movement* (Manchester: Manchester University Press, 1997), 3.
7. George Holyoake, *The History of the Rochdale Pioneers* (London: Swan Sonnenschein & Co, 1893), 11.
8. Ibid., 12.
9. Johnston Birchall, *The International Co-operative Movement* (Manchester: Manchester University Press, 1997), 7.
10. George Holyoake, *The History of the Rochdale Pioneers* (London: Swan Sonnenschein & Co, 1893), 20.
11. Johnston Birchall, "Consumer co-operatives in retrospect and prospect", in Johnston Birchall (ed.) *The New Mutualism in Public Policy* (London: Routledge, 2001), 74.

sustainable practice. Indeed, under the dividend principle, up to £50 million was returned to members before the First World War across the co-operative sector.[12]

By the end of the nineteenth century, the Rochdale Society of Equitable Pioneers went on to have stores nationwide and internationally, becoming a retail powerhouse.[13] Whilst in the meantime there were other attempts at forming co-operatives in Britain and abroad, the Rochdale system remains the most significant founding block of modern co-operative business, one leading model of 'democratic business'.[14] Indeed, to many in Rochdale, including the MP for Heywood and Middleton, Chris Clarkson, whom we interviewed for this project, there is great pride in the town's co-operative history, viewing it as "the home of co-operativism." Importantly, the Rochdale Society is seen to have had a "positive impact in the community," giving "less well-off communities a stake in the services they were using," according to Clarkson.

The co-operative movement continued to grow throughout the nineteenth century, expanding into different areas such as finance and agriculture. The century also saw a rise in workers' co-operatives – co-operatives owned by their employees. This form of business emerged chiefly in France in the nineteenth century. By 1848, there were over 250 workers' co-operatives in Paris alone. By 1900, the workers' co-operative movement had spread across several sectors, including manufacturing, agriculture and finance. The French Government also introduced in 1848 a government fund to help them financially, and they were given preference contracts for public works.[15]

Thus, in the early twentieth century, the political benefits of co-

12. Ibid., 82.
13. Vera Zamagni, "A worldwide historical perspective on co-operatives and their evolution", in Jonathan Michie, Joseph R. Blasi and Carlo Borzaga (eds.), *The Oxford Handbook of Mutual, Co-Operative, and Co-Owned Business* (Oxford: Oxford University Press, 2017), 101.
14. Johnston Birchall, "Consumer co-operatives in retrospect and prospect", in Johnston Birchall (ed.) *The New Mutualism in Public Policy* (London: Routledge, 2001), 10.
15. Vera Zamagni, "A worldwide historical perspective on co-operatives and their evolution", in Jonathan Michie, Joseph R. Blasi and Carlo Borzaga (eds.), The Oxford Handbook of Mutual, Co-Operative, and Co-Owned Business (Oxford: Oxford University Press, 2017), 102.

operatives became clear. The democratic nature of co-operatives continued to be seen as valuable in the turbulence of 1930s and 1940s Europe. Commentators, such as the American columnist Marquis Childs, saw co-operatives as forging a "middle way" between fascism and communism in Scandinavia.[16] As decisions in co-operatives are made through careful democratic consideration, they presented an alternative and an antidote to the radical anti-democratic polarities of the era. Scandinavia successfully tackled challenging social issues and maintained economic success in this period, in part due to its strong co-operative movement.[17]

Following the Second World War, the co-operative movement experienced a temporary expansion, being at the forefront of the development of supermarkets. However, by the late 1950s, the movement started to decline and, by 2000, the market share of co-operatives in UK food and retail has dropped to around 7%.[18]

The 1970s and 1980s in particular marked a dramatic shift away from the co-operative model in the British economy. Difficulties in acquiring sufficient capital and the promotion of private companies resulted in 'conventional' business becoming the dominant ownership model in the economy.[19] And yet, recent years have seen high levels of growth for co-operatives and 'employee-owned businesses' – another leading form of democratic business.

The uniqueness of this research

First, we believe that this report is one of the first pieces of research that approaches the topic of 'democratic business' – defined in detail in Chapter Three – with this level of breadth, depth and clarity. Proceeding

16. Victor A. Pestoff, "The social and political dimensions of co-operative enterprises", in Jonathan Michie, Joseph R. Blasi and Carlo Borzaga (eds.), The Oxford Handbook of Mutual, Co-Operative, and Co-Owned Business (Oxford: Oxford University Press, 2017), 83.
17. Ibid.
18. Johnston Birchall, "Consumer co-operatives in retrospect and prospect", in Johnston Birchall (ed.) The New Mutualism in Public Policy (London: Routledge, 2001), 77.
19. Jonathan Michie, "The importance of ownership", in Jonathan Michie, Joseph R. Blasi and Carlo Borzaga (eds.), The Oxford Handbook of Mutual, Co-Operative, and Co-Owned Business (Oxford: Oxford University Press, 2017), 5.

from clear definitions, this report aims to produce a comprehensive picture of democratic business in the UK, rather than focusing on merely a single aspect of it, such as co-operatives.

Second, this report considers democratic business from a distinctly centre-right perspective. Democratic business is often perceived to be a domain of left-wing politics; indeed, the UK Co-operative Party, which seeks to represent the interests of co-operatives has been in an electoral alliance with the Labour Party since 1927. Nonetheless, there is much to be said for democratic business also from a centre-right perspective. This report will unveil the centre-right arguments for democratic business with the aim to foster cross-party consensus regarding the promotion of democratic business in the UK.

The focus of this research

This report explores in detail centre-right arguments for greater levels of 'democratic business' in the UK. It makes an original contribution to this debate by also examining and offering detailed recommendations for the promotion of democratic business in this country. These recommendations are grounded in centre-right thinking and based on the areas of agreement that emerged during our evidence-gathering; in that, they seek to be original, impactful, realistic and fiscally responsible.

The main research questions that will be explored in this project are:

1. What are the centre-right arguments for increased levels of democratic business?
2. What are the leading barriers to increased levels of democratic business?
3. How successful have centre-right policies, both historically and internationally, been in increasing the levels of democratic business?
4. What centre-right policies can be introduced to increase the levels of democratic business?

The report is structured as follows:

- **Chapter Two** describes the research methods employed, including a literature review and stakeholder consultation, as well as outlining the definitions used in this report.
- **Chapter Three** explicates the key forms of democratic business and explains their origins and operations.
- **Chapter Four** analyses the economic and political benefits of greater levels of democratic business in the UK economy.
- **Chapter Five** analyses the economic and political problems connected to greater levels of democratic business in the UK economy.
- **Chapter Six** looks at current and historic government policies regarding democratic business, both in the UK and abroad. The chapter presents and describes those policies to then evaluate them.
- **Chapter Seven** recommends new policies to promote greater levels of democratic business in the UK economy from a centre-right perspective.

Chapter 2: **Methodology**

As Chapter One explained, this report aims to explore in detail the centre-right arguments for increased levels of democratic business in the UK. It then proposes a number of policies to facilitate greater levels of democratic business in the UK. This chapter aims to explain in detail the methods and definitions used to achieve this.

We employed two research methods in this project.

- **Literature review.** We conducted an extensive literature review to examine the theory and history of democratic business, as well as policy surrounding it both in the UK and abroad. We scrutinised and synthesised academic books and papers, government papers, statistics and studies and think tank reports.

  Economic data regarding democratic forms of business is difficult to find due to a lack of existing statistical studies and polling, but, where available, the most recent data is used. Our research focused on UK history and policy, however, where relevant, democratic business abroad has also been studied and analysed.
- **Expert stakeholder consultation.** Over the course of the project, Bright Blue convened with a range of key thinkers and decision makers, such as MPs, business leaders, government advisers and former civil servants, to have extensive interviews about democratic businesses.

Although the interviews were informal, and so, the interview guide was only used as an aid, the guide is included in the Annex, in order to give a sense of the kind of questions that were asked and the flow of the conversations.

The interviews were conducted between April and July 2023.

Box 2.1. Experts interviewed

The following persons were interviewed for this project:

- Bob Blackman MP CBE, Member of the Levelling Up, Housing and Communities Select Committee and of the Co-operatives, Mutuals and Friendly Societies Bill Committee.
- Christopher Clarkson MP, Member of the Co-operatives, Mutuals and Friendly Societies Bill Committee and one of the Members of Parliament for the Metropolitan Borough of Rochdale.
- Dame Clare Tickell, Independent Director of the John Lewis Partnership.
- Giles Wilkes, Former Special Adviser to Theresa May and Vince Cable.
- Graeme Nuttall OBE, Author of the government-commissioned 2012 *Nuttall review of employee ownership* and independent adviser on employee ownership to the Conservative-Liberal Democrat Coalition Government.
- Jerome Mayhew MP, Parliamentary Private Secretary to the Chancellor of the Exchequer.
- Joanna Gideon MP, Member of the Standing Orders Select Committee.
- John Godfrey, former Number 10 Policy Chief for Theresa May.
- John Penrose MP, former UK Anti-Corruption Champion, Parliamentary Secretary for the Cabinet Office and Lord Commissioner of the Treasury.
- The Rt Hon. the Lord Naseby PC, Vice Chair of the All-Party Parliamentary Group for Mutuals.
- Sir Philip Dilley, Former business adviser to David Cameron and Chairman of Arup.
- Sally-Ann Hart MP, Member of the Charities Bill Committee.

- Tim Pitt, Economic Adviser to the Prime Minister and former Special Adviser to the Treasury and the Ministry of Justice.[20]

A small number of other interviewees also gave off-the-record interviews. Their thinking has contributed to this report, but their arguments and ideas are not cited.

We now briefly describe the key definitions relevant to the report. These definitions and the rationale behind them are elaborated on in Chapter Three.

What is a 'democratic business?'

As alluded to in Chapter One, it is a business that is, to at least a meaningful degree, democratic; this means some democratic businesses can be far more democratic than other democratic businesses. A business is made more democratic the more equally involved are those affected by the business in the business' decision-making process.

What is a 'mutual?'

The loose way in which the term 'mutual' is often used in literature precludes producing a clear, intensional definition of mutuals. As such, this report adopts an extensional definition of mutuals: that they consist of 'co-operatives' and 'employee-owned businesses.' This is as opposed to what this report refers to as a 'conventional' business: for-profit non-mutual businesses. Both mutuals and 'conventional' businesses can be more or less democratic, but a base level of democratisation is inherent to all mutuals.

What is an 'employee-owned business?'

For the purposes of this report, employee-owned business is used

20. The interview with Tim Pitt was conducted before he started his role as Economic Adviser to the Prime Minister, and, therefore, the views expressed by him in this report do not reflect the vies of the Prime Minister.

as shorthand to mean business where a significant proportion of employees, as a collective, have a significant ownership stake in and say in the running of the business.[21] This means some employee-owned businesses can also be far more employee-owned than others, the more significant the proportion of employees who own a more significant ownership stake in the business. In that, it is subjective just what constitutes 'significant.' Where a less subjective definition is required, this will be clarified.

What is a 'co-operative?'

For the purposes of this report, and to distinguish it from other mutuals and businesses, a co-operative is defined by three characteristics: (1) membership of one is voluntary, (2) their profits are distributed among their 'members' or reinvested and (3) it is controlled by a democratic process whereby each 'member' is entitled to exactly one vote. This is as alluded to in Chapter One.

What is a 'member?'

Just what constitutes a member varies by type of co-operative, as explicated in Chapter Three, but all members have become so voluntarily and have equal decision-making power over the co-operative they are a member of.[22] Sometimes employee-owned businesses are also said to have members – this refers to the employees who own the business in question, but this report will use 'member' only in connection to mutuals generally and co-operatives, unless stated otherwise.

What is a 'community business?'

Significant disagreement exists concerning the definition of 'community business,' which makes data on community business

21. cf. gov.uk, "Employee ownership businesses", https://www.gov.uk/employee-ownership (2023).
22. Co-operatives UK, "The Community Shares Handbook", https://www.uk.coop/book-pdf/14825/send (2022), 15.

specifically difficult to analyse.[23] For this report, we will be using Power to Change's definition of community business: "businesses … owned by, rooted in, and accountable to their communities".[24] In that, community businesses can, but do not have to be, mutuals.

It is worth noting that the definitions of co-operative, employee-owned business and community business are not mutually exclusive, as per the above definitions.

These research methods and definitions enabled us to analyse, from a centre-right perspective, the principles and theory behind democratic business (Chapter Three), the benefits of democratic business (Chapter Four), the problems it faces (Chapter Five) and government policies concerning democratic business (Chapter Six). The report concludes with original policies to support democratic business in the UK (Chapter Seven).

23. See Plunkett Foundation, "Community ownership: a better form of business", https://plunkett.co.uk/wp-content/uploads/Community-Ownership-A-Better-Form-of-Business-2023-1.pdf (2023), 6, for a more narrow definition of community business.
24. Power to Change, "Community business market report 2022", https://www.powertochange.org.uk/impact/market-report-2022/ (2022).

Chapter 3:
The principles and theory behind democratic business

Having briefly outlined the history of democratic business in Chapter One, this chapter defines and explains the origins and operations of democratic businesses, that is: mutuals, which includes co-operatives and employee-owned business, and 'conventional' business with democratic elements.

What is a democratic business?

According to the authoritative Stanford Encyclopedia, democracy is defined as "a method of collective decision making characterized by a kind of equality among the participants at an essential stage of the decision-making process".[25] Adapted to businesses, a business is more democratic the more equally involved are those affected by the business in the business' decision-making process.

As such, the democratisation of a business can be increased twofold: by increasing the proportion of those affected by the business in the business' decision-making process; and by increasing the equality of those affected by the business in the business' decision-making process. Let us use the examples of companies A, B, and C, all with different decision-making structures.

Company A is governed by a CEO-Director alone. Company B issues

25. Tom Christiano and Sameer Bajaj, Edward N. Zalta (ed.), "Democracy", *The Stanford Encyclopedia of Philosophy* (2022).

shares to its employees, and company-wide decisions are made through the use of votes, with the power of one's vote being proportional to one's share ownership in the company. Finally, company C is a worker co-operative – defined later in this chapter – where every employee has equal decision-making power. Let us assume that each company has an equal number of employees.

According to our definition of democratic business – that a business is more democratic the more equally involved are those affected by the business in the business' decision-making process – company C is the most democratic and company A the least democratic. This is because company B involves a greater proportion of those affected by the business in the business' decision-making process than company A, and company C has greater equality of those affected by the business in the business' decision-making process without compromising on the proportion of those affected by the business in the business' decision-making process.

It is worth noting that, according to this, the democratisation of a business lies on a continuous scale; businesses can be more or less democratic rather than being 'just' democratic or undemocratic.

However, certain business types – namely, mutuals – have ownership structures that mean they are more prone to being more democratic than others. It is intrinsic to the ownership structure of mutuals to either involve more of those affected by the business in the business' decision-making process or to spread out decision-making power more equally among those affected by the business. According to the definitions of this report, mutuals can be divided into two – partly overlapping, within the sub-category of worker co-operative – categories: employee-owned businesses and co-operatives.

In this report, mutuals will be contrasted with 'conventional' businesses; although the historic tradition of mutuals is rich, other types of business command a more well-established convention in the UK, hence the choice of name. 'Conventional' businesses are often referred to as private or publicly limited companies, however, this definition is too broad for our purposes, as it includes some community-owned co-operatives and companies that have significant levels of employee ownership. As such, by 'conventional' business, we merely mean for-profit non-mutual businesses.

In this chapter, the types of businesses that have features effecting them to be more democratic than otherwise – henceforth called 'democratic businesses' – will be outlined, starting with mutuals and proceeding onto 'conventional' businesses with democratic elements. Those businesses will be defined and examined with their origins and operations explained.

Box 3.1. Forms of democratic business

The table below illustrates and defines each type of business under the umbrella term 'democratic business.' It demonstrates the variety among democratic businesses according to differences in function, ownership, control and profit, as well as providing an example of each type. Those types are explained further below.

Organisation type			Owners	Controllers	Profits	Share trading	trading
'Conventional' business			Private shareholders, who can be external to the organisation	Chief executive, who answers to shareholders	Reinvested or distributed to shareholders	Not intrinsically restricted	Facebook
	Community business	'Conventional' community business	Invested members of the local community	Invested members of the local community	Reinvested or distributed to the owners	Limited to members of the community	The Brewers Arms pub in West Malvern
Mutual	**Co-operative**	Community co-operative	Local community shareholders	Local community shareholders have equal and complete control	Reinvested or distributed among the local community shareholders	Can only be traded back to the co-operative	Glenwyvis Distillery
		Consumer co-operative	Member-customers of the organisation	Member-customers of the organisation have equal and complete control	Reinvested or distributed among member-customers	Can only be traded back to the co-operative	The Co-operative Group
		Producer co-operative	Members-suppliers of the organisation	Members-suppliers of the organisation have equal and complete control	Reinvested or distributed among member-suppliers	Can only be traded back to the co-operative	Aspatria Farmers
		Worker co-operative	Organisation employees own equal stakes in the organisation	Organisation employees have equal and complete control	Reinvested or distributed among the employees	Can only be traded back to the co-operative	Suma Wholefoods
	Employee-owned business	Direct ownership	Organisation employees individually own some shares in the organisation	Employees have control over the organisation as shareholders	Reinvested or distributed to shareholders	Not intrinsically restricted	Gripple
		Trust-based model	An employee ownership trust (EOT) owns a controlling stake in the organisation on behalf of employees	Organisation directors, but employees have some substantial role in governance	Reinvested or distributed to employees by the employer	Controlled by the EOT	John Lewis
		Hybrid model	Organisation employees individually own some shares in the organisation and an employee ownership trust (EOT) owns some shares in the organisation on behalf of employees	Employees have some control over the organisation, analogous to that of shareholders	Reinvested or distributed to employees via the trust	Controlled by the trust	BT Group

Note that the types of co-operative are not mutually exclusive; a co-operative may be owned and controllers by a hybrid of consumers, producers and employees.

This table does not outline community businesses, which are explored later in this chapter, as this would require the table to be three-dimensional, which would make it difficult to read. However, community businesses only comprise a small proportion of the UK economy in comparison to co-operatives and employee-owned businesses; their total income is under one billion pounds,[26] as compared to around £40 billion for co-operatives[27] and as much as £90 billion for the employee-owned section of the UK economy.[28]

Mutuals

There exists a breadth of different agreed definitions of what constitutes a mutual. Peter Hunt, the founder of the mutual business advocacy organisation Mutuo, in his government-commissioned review of democratic business, writes that one of the key issues with policy surrounding mutuals is the lack of a clear definition of mutuals;[29] a point also made by Graeme Nuttall, the author of the 2012 government review of employee ownership, in his interview with us.[30]

> “People have often struggled to come up with a precise definition of democratic business, and, as a result, they struggle to make practical recommendations or indeed come up with practical policy points, because they are too broad ranging.”
>
> **Graeme Nuttall OBE**

26. Power to Change, “Community business market report 2022”, https://www.powertochange.org.uk/impact/market-report-2022/ (2022).
27. Fintan Codd and Steve Browning, “The contribution of co-operatives and mutual societies to the economy and public life”, https://commonslibrary.parliament.uk/research-briefings/cdp-2021-0215/ (2021).
28. Employee Ownership Association, “Annual Review 2014”, https://employeeownership.co.uk/wp-content/uploads/Annual-Review-2014.pdf (2014), 3.
29. Peter Hunt, “The Hunt review: an independent review of the contribution that mutuals can make to growth, prosperity and fairness”, http://www.mutuo.coop/wp-content/uploads/2014/12/Hunt-Review.pdf (2015), 5.
30. It is worth noting that, while there is broad disagreement on just how to define ‘co-operative’ and ‘mutual,’ disagreement regarding the definition of employee ownership is scarcer.

According to UK government non-statutory guidance, a mutual is an organisation whose members have democratic control over their business. Such a definition, however, raises the question of what it means to be a member. The government guidance suggests them to be those "who are actively and directly involved in the business".[31] But this is not specific enough, for the level of involvement in a business necessary to become a member varies by mutual. For example, to become a member of the Co-operative Group, it is sufficient for one of their customers to purchase membership for the nominal price of one pound. On the other hand, to be a member of the John Lewis Partnership, it is necessary to be an employee of the John Lewis Partnership. Just what constitutes a member for the purpose of this report will be explicated later in this chapter, as it depends on the type of mutual involved, but all members have become so voluntarily and, if they are a member of a co-operative, have equal decision-making power over the co-operative they are a member of.[32]

Moreover, the UK government's definition is also too broad to be useful here, as, assuming that employees would constitute members, this definition includes some businesses traditionally deemed to be 'conventional' businesses. For example, many 'conventional' businesses give some level of democratic control to their employees, through instruments such as Annual General Meetings (AGMs) – as does, for example, the publicly-traded company Legal & General[33] – or giving their employees the ability to elect board members – as do large publicly-traded German companies, such as Volkswagen or Mercedes-Benz.[34]

Since a useful intensional definition of mutuals is difficult to come by, given the variety of companies that are routinely referred to as mutuals, this report will use an extensional definition instead: any business

31. Department for Business, Innovation & Skills, "A guide to mutual ownership models", https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/31678/11-1401-guide-mutual-ownership-models.pdf (2011), 2.
32. Co-operatives UK, "The Community Shares Handbook", https://www.uk.coop/book-pdf/14825/send (2022), 15.
33. Legal & General, "AGM", https://group.legalandgeneral.com/en/investors/retail-shareholder-centre/agm (2023).
34. Daniel Chandler, *Free and equal: what would a fair society look like?* (London: Allen Lane, 2023), 252-253.

referred to as a mutual in this report will either be a co-operative or an employee-owned business, both described briefly in Chapter Two and in detail below. One might object that this definition fails to include community benefit societies, which are routinely considered to be mutuals.[35] Those are similar to co-operatives, with the exception that community benefit societies aim to serve the broader interests of their community, rather than their members, and they must not distribute their profits to their members.[36] For the purposes of this report, community benefit societies will be treated together with co-operatives, especially as the aims of a co-operative can involve serving a broader social cause.

Co-operatives

Defining co-operatives is also problematic. An internationally-agreed statement defines a co-operative as "an autonomous association of persons united voluntarily to meet their common economic, social and cultural needs and aspirations through a jointly-owned and democratically-controlled enterprise".[37] Those can range from 'worker co-operatives,' controlled and owned by their employees, through 'consumer' and 'producer' co-operatives, controlled and owned by their customers and suppliers respectively, to 'community co-operatives,' controlled and owned by their local community.[38]

In the *Blueprint for a Co-operative Decade*, the umbrella organisation International Co-operative Alliance identifies two principles defining co-operatives. The first of those is participation; those involved in a co-

35. Department for Business, Innovation & Skills, "A guide to mutual ownership models", https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/31678/11-1401-guide-mutual-ownership-models.pdf (2011), 2.
36. Co-operatives UK, "The Community Shares Handbook", https://www.uk.coop/book-pdf/14825/send (2022), 15-16.
37. Department for Business, Innovation & Skills, "A guide to mutual ownership models", https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/31678/11-1401-guide-mutual-ownership-models.pdf (2011), 3-4.
38. Ibid.

operative are guaranteed a voice in the governance of said co-operative.[39] The second of them is sustainability – not compromising on the needs of others when meeting one's own needs. Former Director General of the International Co-operative Alliance Charles Gould writes that co-operatives "believe that they are by design inclined towards greater sustainability than other business models. This inclination is a result of the community regard that is inherent in co-operatives".[40]

Co-operatives are not necessarily incentivised to relocate to places where labour is less expensive or environmental regulations less protective,[41] and are not solely or chiefly motivated by the profit incentive, but are rather representative of the combined interests of their 'members,' as defined later in this chapter. For example, in a 1984 study of six co-operatives, only one co-operative was dominated by a personal profit-maximising attitude among members, while five of the co-operatives expressed their motivations in broader terms, related to sustainability, social aims and community.[42]

This view of co-operatives aligns with the 'democratic' school of co-operative thought, according to which "co-operatives are primarily seen as associations that pursue social goals by economic means".[43] This is as distinguished from the 'business' school, which asserts that "co-operatives are mainly business firms that have some unique social and associational features".[44] Both acknowledge co-operatives as member-owned organisations, but while the former school considers them to be primarily associations aimed at responding to their members' goals, the latter sees them as member-owned businesses that seek to compete

39. Charles Gould, "The Co-operative Business Model the shape of things to come", in Jonathan Michie, Joseph R. Blasi and Carlo Borzaga (eds.), *The Oxford Handbook of Mutual, Co-Operative, and Co-Owned Business* (Oxford: Oxford University Press, 2017), 600.
40. Ibid., 601.
41. Ibid.
42. Johnston Birchall and Richard Simmons, "Member participation in mutuals: A theoretical model", in Johnston Birchall (ed.) *The New Mutualism in Public Policy* (London: Routledge, 2001), 212.
43. Victor A. Pestoff, "The social and political dimensions of co-operative enterprises", in Jonathan Michie, Joseph R. Blasi and Carlo Borzaga (eds.), *The Oxford Handbook of Mutual, Co-Operative, and Co-Owned Business* (Oxford: Oxford University Press, 2017), 80.
44. Ibid.

with non-cooperative businesses and maximise profits.[45]

For the purposes of distinguishing co-operatives from other mutuals, this report will use a stricter definition of co-operatives, as introduced briefly in Chapter Two; that employed by the European Cooperative Society (ECS). Here, a co-operative is defined by three characteristics: first, membership of one is voluntary;[46] second, their profits are distributed among their members or reinvested; and third, it is controlled by a democratic process whereby each member is entitled to exactly one vote. Note that this does not preclude co-operatives having directors or managers, but it does mean that their decisions ought to reflect the wishes of the co-operative's members, analogously to how a director of a 'conventional' business ought to act in a way that reflects the wishes of the business' shareholders.

Co-operatives UK claim that there are over three million co-operatives in the world, with over one billion members.[47] As of 2020, co-operatives generated over $2.3 trillion in annual turnover.[48] Moreover, between 2010 and 2020, the number of cooperative businesses worldwide grew by 20%, while the global economy grew by just 7%.[49]

For UK co-operatives, by far the biggest sectors they operate in are retail (£28.4 billion turnover in 2021, though over 78% of this is solely due to the size of the John Lewis Partnership, who are not included under our definition of 'co-operative,' and the Co-Operative Group),[50] finance (23% of the mortgage market and 18% of the savings market,[51] with a market size of around £15 billion, as of 2021)[52] and agriculture

45. Ibid.
46. We are assuming that one's employment is always voluntary, as opposed to compelled by the force of economic circumstances, as some political theorists argue; otherwise, worker co-operatives could fail this condition.
47. Co-operatives UK, "Extending opportunity, wealth and freedom through co-operatives", https://www.uk.coop/resources/extending-opportunity-wealth-and-freedom-through-co-operatives (2021).
48. World Cooperative Monitor, "Exploring the cooperative economy", https://monitor.coop/sites/default/files/2021-11/WCM_2020_WEB%20FINAL.pdf (2020).
49. Ibid.
50. Co-operatives UK, "Co-op economy 2021: A report on the UK's co-operative sector", https://www.uk.coop/sites/default/files/2021-06/Economy%202021_0.pdf (2021), 9; 16.
51. Building Societies Association, "Latest BSA statistics", https://www.bsa.org.uk/statistics/bsa-statistics (2022).
52. IBISWorld, "Building Societies in the UK – Market Research Report", https://www.ibisworld.com/united-kingdom/market-research-reports/building-societies-industry/ (2023).

(£7.8 billion turnover in 2021), with no other sector boasting a co-operative turnover of more than one billion pounds.[53] Each of those sectors will now be briefly examined.

Retail co-operatives

Often, the John Lewis Partnership and the Co-Operative Group are listed as the largest co-operatives in the UK. However, according to the definitions of this report, the John Lewis Partnership is not strictly a co-operative, and therefore is examined later in this report, in the section on employee-owned business.

The Co-Operative Group is a co-operative in the strict sense of the term, fulfilling all three conditions of the definition we apply. Its annual revenue is £11.5 billion, and it has over 65,000 employees, as of 2022.[54] In their annual report, the Group state that "[v]oting for corporate members is in proportion to trade with the society. Each individual member has one vote in the appropriate region of the society and each region has voting rights calculated on the same basis as a corporate member".[55]

To become a member of the Co-operative Group, one has to purchase membership for the nominal price of one pound. Members of the Co-Operative Group are rewarded with 2% of what they spent on the Co-operative brand's products and services. A further 2% is donated to a local charitable or community cause which the members help to select. Additionally, members earn a share of the Group's profits. In 2021, members received £7.6 million, which was roughly a seventh of the Group's profits in that year.[56] Insofar as the Co-Operative Group prioritises redistributing profits to its customers, and the intention

53. Co-operatives UK, "Co-op economy 2021: A report on the UK's co-operative sector", https://www.uk.coop/sites/default/files/2021-06/Economy%202021_0.pdf (2021), 9.
54. Co-operative group, " Co-op Annual Report & Accounts for 2022", https://assets.ctfassets.net/5ywmq66472jr/5DRE1mfB6MtqZUj4k45AyC/2e10a54a4cef43785a55f50e1da7f025/Co-op_Annual_Report_and_Accounts_2022.pdf (2022), 3.
55. Ibid.
56. Retail Insight Network, "Co-op's profit before tax grew by £190m in fiscal 2022", https://www.retail-insight-network.com/news/co-op-result-2022/ (2023).

behind its membership is for it to be purchased by its customers, it is therefore a consumer co-operative, as in Box 3.1 further above.

Financial co-operatives

In the UK, co-operatives have been particularly common in the financial sector, as compared to in other countries. Financial co-operatives include credit unions, building societies and peer-to-peer insurance companies.

Credit unions, also known as co-operative banks, are one type of financial co-operative. They are owned and controlled by their customers, who can borrow at low interest rates from the money they have saved as a group; this also makes them consumer co-operatives, as illustrated in Box 3.1 above. Their profits are shared between the members. As of May 2023, £2.12 billion has been held as savings by credit unions in the UK,[57] which is around 0.2% of the total savings held by UK banks. There are over 246 credit unions across the UK, with over 1.44 million people using them.[58]

Building societies are the most significant type of financial co-operative. They lie between traditional banks and credit unions. Like credit unions, they are consumer co-operatives owned by their customers, but, like traditional banks, they can lend money to non-members. They account for 24% of total mortgage lending in the UK, as of 2022.[59]

Peer-to-peer insurance companies are a type of financial consumer co-operative whereby the members combine their assets into a pool that can be drawn from for insurance cover; typically including liability insurance, household contents insurance, legal expenses insurance and electronics insurance. Recent surveys are difficult to come by, but, as of 2017, 4% of insurance customers in the UK owned peer-to-peer

57. Penny Post Credit Union, "Trends of UK credit unions", https://pennypostcu.com/news/trends-of-uk-credit-unions/ (2023).
58. Bank of England, "Credit union quarterly statistics – 2022 Q4", https://www.bankofengland.co.uk/statistics/credit-union/2022/2022-q4 (2022).
59. Building Societies Association, "Latest BSA statistics", https://www.bsa.org.uk/statistics/bsa-statistics (2022).

insurance.[60]

Although historically prominent, the financial co-operative sector has suffered significantly in recent decades. Between 1986 and 2009, 60 building societies demutualised, selling the shares of their members to private investors, losing a total of £30 billion in market share.

The average windfall from the demutualisation of a building society per building society member was £2,000.[61] However, it is questionable whether this reflected the true value of the membership. In the course of our interview with her, Jo Gideon MP, for example, suggested that demutualisation was likely driven by a lack of understanding about the benefits of building society membership on the part of the members. The average building society member saved £1,000 per year in interest payments before demutualisation; a financial instrument which would allow one to do that would likely be valued at more than £2,000.[62]

This demutualisation has generally led to higher fees and charges for consumers. For example, the average building society charged £100 per year for a current account as of 2006, compared to £50 per year before demutualisation – significantly more even when adjusted for inflation.[63] Demutualisation has also led to a decline in customer service. For example, former building societies now have longer waiting times on the phone and are less likely to offer personal advice.[64]

That said, while the building societies sector has suffered, credit unions and peer-to-peer insurance have thrived. Between 2014 to 2022, the credit union sector in the UK increased in membership and loans by 20% and 67% respectively and increased in deposits and assets

60. Alexander Kunst, "Likelihood of customers purchasing peer-to-peer insurance* in the United Kingdom (UK) in 2017", https://www.statista.com/statistics/679638/likelihood-of-customers-purchasing-p2p-insurance-united-kingdom/ (2019).
61. The All-Party Parliamentary Group for Building Societies & Financial Mutuals, "Windfalls or shortfalls? The true cost of demutualisation", http://www.mutuo.coop/wp-content/uploads/2013/03/windfallsorshortfalls.pdf (2006), 18.
62. Ibid.
63. Ibid.; Bank of England, "Inflation calculator", https://www.bankofengland.co.uk/monetary-policy/inflation/inflation-calculator (2023).
64. The All-Party Parliamentary Group for Building Societies & Financial Mutuals, "Windfalls or shortfalls? The true cost of demutualisation", http://www.mutuo.coop/wp-content/uploads/2013/03/windfallsorshortfalls.pdf (2006), 18.

by 84% and 81% respectively.[65] Peer-to-peer insurance, meanwhile, is forecast to grow globally by 32.6% from 2020 to 2025,[66] though statistics on the sector in the UK specifically, as aforementioned, are hard to come by. Moreover, both credit unions and peer-to-peer insurance remain small sectors in comparison to the building society sector even in light of their growth.

Agricultural co-operatives

Whilst the origins of democratic business are often associated with industrial towns and cities, it would be wrong to neglect the fact that the movement spread to the countryside rapidly. Agricultural co-operatives surfaced in the second half of the nineteenth century in Europe before spreading to North America and, more recently, the developing world.[67]

Agricultural co-operatives are now the third largest co-operative sector in the UK. According to a 2019 report produced for Co-operatives UK, there are 420 agricultural co-operatives in the UK with 143,000 members; around half of the UK's farmers.[68]

The sector grew significantly between 2010 and 2018, from a turnover of £4.8 billion[69] to £7.7 billion; an increase of 62%.[70] By comparison, the UK economy only grew by 16% in the same period. That said, this only constitutes 6% of the UK's agricultural sector[71] and the number of agricultural co-operatives and their employees has shrunk, decreasing

65. Bank of England, "Credit union annual statistics – 2022", https://www.bankofengland.co.uk/statistics/credit-union/2022/2022 (2022).
66. IndustryARC, "Peer To Peer Insurance Market – Forecast (2023 – 2028)", https://www.industryarc.com/Report/17935/peer-to-peer-insurance-market.html (2023).
67. Samira Nuhanovic-Ribic, Ermanno C. Tortia and Vladislav Valentinov, "Agricultural co-operatives: a struggle for identity", in Jonathan Michie, Joseph R. Blasi and Carlo Borzaga (eds.), *The Oxford Handbook of Mutual, Co-Operative, and Co-Owned Business* (Oxford: Oxford University Press, 2017), 161.
68. Tom MacMillan and George Cusworth, "Farmer co-operation in the UK: opportunities for the industry", https://www.uk.coop/sites/default/files/2020-11/farmer_co-operation_in_the_uk_report.pdf (2019), 5.
69. Co-operatives UK, "Agricultural co-operatives: Report on the co-operative farming sector", https://www.farminguk.com/content/knowledge/Report-on-the-co-operative-farming-sector(7247-4337-2098-8613).pdf (2015), 4.
70. Tom MacMillan and George Cusworth, "Farmer co-operation in the UK: opportunities for the industry", https://www.uk.coop/sites/default/files/2020-11/farmer_co-operation_in_the_uk_report.pdf (2019), 5.
71. Ibid.

from 621 co-operatives with 155,000 members in 2015.[72] This is because the vast number of farmers that are members of co-operatives do not conduct all of their agricultural operations as a part of a co-operative – as noted below, a farmer may process agricultural produce through a co-operative, but conduct their other operations 'conventionally.'

Nonetheless, some of the UK's largest co-operatives operate in the agricultural sector: Arla Foods (£2.5 billion turnover, as of 2021), Openfield Group (£0.6 billion turnover, as of 2021), Dale Farm and Mole Valley Farm (both £0.5 billion turnover, as of 2021) all rank in the top 10 of the UK's largest co-operatives by turnover.[73]

The most common operations for agricultural co-operatives in the UK are purchasing inputs (28% of all UK farmers use agricultural co-operatives for that purpose, as of 2022), marketing (also 28%), processing of produce (24%) and storage (20%). Worth noting, however, is that farmers often also engage in non-co-operative collaborative ventures. For example, in 2019, 44% of UK farmers shared machinery, but only 8% did so through an agricultural co-operative.[74]

Agriculture is a common occupation among co-operatives globally, but, in comparison to other countries, the agricultural co-operative sector in the UK is small. While 6% of UK agriculture is conducted by co-operatives, this was found by a 2014 study to be 68% in the Netherlands, 55% in France and 45% in Spain.[75] A 2020 study that surveyed the views of farmers suggests that the primary reason for that is cultural: that UK farmers increasingly value independence and individualism,[76] a point also made by Chris Clarkson MP.

72. Co-operatives UK, "Agricultural co-operatives: Report on the co-operative farming sector", https://www.farminguk.com/content/knowledge/Report-on-the-co-operative-farming-sector(7247-4337-2098-8613).pdf (2015), 4.
73. Co-operatives UK, "Co-op economy 2021: A report on the UK's co-operative sector", https://www.uk.coop/sites/default/files/2021-06/Economy%202021_0.pdf (2021), 16.
74. Tom MacMillan and George Cusworth, "Farmer co-operation in the UK: opportunities for the industry", https://www.uk.coop/sites/default/files/2020-11/farmer_co-operation_in_the_uk_report.pdf (2019), 5.
75. Ibid.
76. Ibid., 8.

> "As a society, it's just not the model that we have traditionally pursued … Historically we are a mercantile society, it's fairly capitalistic, the idea is to accumulate wealth and move upwards. Spreading that out makes it much harder to do … It's all about capitalist acquisition … [and there are] a lot of cultural and historical reasons why."
>
> **Chris Clarkson MP**

Another factor may be the large size of UK farms. While the average farm in the EU was 17 hectares as of 2020,[77] the average UK farm, as of 2023, is 85 hectares.[78] This means that UK farms are more resilient to monopsony power – the ability of large buyers to dictate prices – and so do not have to band together in co-operatives to counteract it.

Co-operative governance

Having established the main sectors co-operatives are currently operating in in the UK, we now turn to the different forms of co-operative governance.

The aforementioned distinction between 'democratic' and 'business' co-operatives can be seen as reflected in their governance.[79] 'Business' governance, often based on the 1992 Cadbury Report which sought to raise the standards of corporate governance in the UK, relies on a board of elected directors that manages the organisation, similarly to how 'conventional' businesses operate.[80] Those directors can sometimes be elected from outside the member body for their business skill, with

77. European Commission, "Farms and farmland in the European Union", https://ec.europa.eu/eurostat/statistics-explained/SEPDF/cache/73319.pdf (2020), 1.
78. Department for Environment, Food & Rural Affairs, "Agricultural facts: North West Region", https://www.gov.uk/government/statistics/agricultural-facts-england-regional-profiles/agricultural-facts-north-west-region (2023).
79. Peter Couchman, "Governance and organizational challenges", in Jonathan Michie, Joseph R. Blasi and Carlo Borzaga (eds.), *The Oxford Handbook of Mutual, Co-Operative, and Co-Owned Business* (Oxford: Oxford University Press, 2017), 246.
80. The Committee on the Financial Aspects of Corporate Governance, "The Financial Aspects of Corporate Governance", https://www.frc.org.uk/getattachment/9c19ea6f-bcc7-434c-b481-f2e29c1c271a/The-Financial-Aspects-of-Corporate-Governance-(the-Cadbury-Code).pdf (1992), 15.

members given a secondary role.[81] This allows for a clear governance structure, faster decision-making and good levels of business acumen among the management, but erodes what distinguishes co-operatives from 'conventional' business and all the advantages that come with it, as will be discussed in Chapter Four.

'Democratic' governance, on the other hand, is largely seen in small co-operatives and is the approach that co-operatives have used historically. It is highly successful; for example, the survival rate after five years for village shops run as co-operatives in the UK was 99% in 2014, compared to only 45% for 'conventional' start-ups[82] and less than 76% for new shops.[83] It does not necessarily involve a formal governance structure, but often requires high levels of participation from members as well as high visibility of the inner workings of the organisation. Peter Couchman, the former Chief Executive of the Plunkett Foundation, suggests that this is because small co-operatives have a clearer co-operative purpose – to meet the needs of their members.[84]

Some larger co-operatives have sought to capture the benefits of 'democratic' governance by fostering high member participation levels. For example, co-operatives in Quebec in Canada follow a five-fold decision-making process on matters that do not require commercial confidentiality: management formulates an initial idea; initial member reaction is tested; management drafts a proposed policy; members are consulted on the policy; the policy is amended, rescinded or implemented.[85]

Member participation in co-operatives

Having established the different governance models for co-operatives, we now turn to examine the role of member participation in them.

81. Peter Couchman, "Governance and organizational challenges", in Jonathan Michie, Joseph R. Blasi and Carlo Borzaga (eds.), *The Oxford Handbook of Mutual, Co-Operative, and Co-Owned Business* (Oxford: Oxford University Press, 2017), 250.
82. Ibid., 252.
83. Barnsley Metropolitan Borough Council, "Record number of Barnsley shops experiencing sustained success", https://www.barnsley.gov.uk/news/record-number-of-barnsley-shops-experiencing-sustained-success/ (2023).
84. Ibid.
85. Ibid.

As established earlier, in a co-operative, 'members' should ultimately be in control of the business. They may delegate day-to-day decisions to an elected board, but have the final say about important decisions at general meetings or in a ballot.[86]

In some cases, co-operatives fail to engage with their members sufficiently, which means that members are unaware of their level of control or are unable to exercise it. This can contribute to the threat of demutualisation, as members become more likely to vote in favour of it; as management fails to involve the members in control over the organisation, what distinguishes a co-operative from a 'conventional' business erodes, as, for example, happened prior to the demutualisation of Standard Life in 2006.[87] This is especially as 'conventional' businesses seek to adopt the language of co-operatives for marketing purposes, speaking of being 'members' rather than 'subscribers' or 'customers'.[88]

In order for member participation to work in practice, a certain minimum level of member involvement is required. The expert in mutuals Johnston Birchall and sociologist Richard Simmons suggest that this comprises three aspects: taking part in decision making; carrying out tasks that further the co-operative's aims; and taking part in the social life associated with the co-operative.[89]

As aforementioned, the majority of members do not participate in co-operatives for personal gain. The sociologist Pitirim Sorokin and the political scientist Victor Pestoff identify a number of factors that impact participation levels in organisations in general, which Birchall and Simmons applied to analyse participation levels in co-operatives. This is shown in Table 3.1, below.

86. Johnston Birchall and Richard Simmons, "Member participation in mutuals: A theoretical model", in Johnston Birchall (ed.) *The New Mutualism in Public Policy* (London: Routledge, 2001), 203.
87. Ibid., 202.
88. Ibid., 222.
89. Ibid., 204.

Table 3.1. Factors that impact participation levels in co-operatives

Factors internal to the members' reasoning	Factors external to the members' reasoning
Adequacy – whether an organisation is succeeding in its aims.[90]	Duration – the older the organisation, the lower the participation levels.[91]
Purity – agreement with the aims of the organisation.[92]	Extensity – the larger and more geographically spread out the organisation, the lower the participation levels.[93]
Intensity – the sense of community among members.[94]	Organisational strategy – what the organisation does to foster member participation, such as enthusiastic leadership or member newsletters.[95]

Box 3.2. Origins of worker co-operatives

Beyond the rise of retail co-operatives, another notable development in the nineteenth century was the rise in workers' co-operatives – co-operatives owned by their employees. This form of business emerged chiefly in France in the nineteenth century. By 1848, there were over 250 workers' co-operatives in Paris alone. By 1900, the workers' co-operative movement had spread across several sectors, including manufacturing, agriculture and finance. The French Government also introduced in 1848 a government fund to help them financially, and they were given preference contracts for public works.[96]

In the UK, worker co-operatives have not grown in number in recent years. As of 2023, there are about 400 worker co-operatives in the UK employing 2,000 people. These are predominantly small to micro-businesses, created as startups.[97]

90. Ibid., 212.
91. Ibid., 215.
92. Ibid., 213-214.
93. Ibid., 215.
94. Ibid., 213-214.
95. Ibid., 215.
96. Vera Zamagni, "A worldwide historical perspective on co-operatives and their evolution", in Jonathan Michie, Joseph R. Blasi and Carlo Borzaga (eds.), *The Oxford Handbook of Mutual, Co-Operative, and Co-Owned Business* (Oxford: Oxford University Press, 2017), 102.
97. Andrew Pendleton, Andrew Robinson, and Graeme Nuttall, "Employee ownership in the UK", *Journal of Participation and Employee Ownership* (2023), 197.

Employee ownership

The other form of mutual, besides the co-operative, is employee ownership – described by Graeme Nuttall as "the exemplar of democratic business." It is important to note that employee ownership is not mutually exclusive with co-operatives. The worker co-operative, such as Suma Wholefoods, is a type of business that is both employee owned and a co-operative, insofar as its employees constitute its members, and thus have both full ownership and full and equal democratic control over the company.

Employee-owned companies can encompass any of four dimensions: the proportion of company shares owned by employees, the proportion of employees owning shares, the distribution of ownership amongst employees and the nature and extent of rights associated with ownership.[98] Since those can usually span a very broad distribution of options, what distinguishes an employee-owned business is not a binary question, but rather one of gradient; businesses can be more or less employee owned.[99] That said, for the sake of convenience, this report will use 'employee-owned business' to mean business where a significant proportion of employees, as a collective, have a significant ownership stake and say in the running of the business.

This can take a variety of forms. The John Lewis Partnership, for example, follows a trust-based model, having established a trust – such a trust is generally known as an employee ownership trust (EOT) – with the aim to benefit the employees of John Lewis. Employees do not own shares in the John Lewis Partnership, but they receive a substantial portion of the profits each year – sometimes as much as 17%. They also have a substantial role in governance, with elected institutions at store, region, divisional and head office levels.[100]

98. Douglas Krude and Joseph Blasi, "Employee Ownership, Employee Attitudes, and Firm Performance: A Review of the Evidence", in David Lewin, Daniel J.B. Mitchell and Mahmood A. Zaidi (eds.), *Human Resources Management Handbook, Part 1* (Greenwich: JAI Press, 1997).
99. Andrew Pendleton and Andrew Robinson, "Employee ownership in Britain today", in Jonathan Michie, Joseph R. Blasi and Carlo Borzaga (eds.), *The Oxford Handbook of Mutual, Co-Operative, and Co-Owned Business* (Oxford: Oxford University Press, 2017), 427.
100. Ibid., 428.

The alternative to this is for members to own shares in the company individually, providing a tangible and direct form of ownership, with employees benefiting directly from company growth even if the company is not turning a profit. Some such companies, for example the Sheffield-based wire manufacturer Gripple, mandate their employees to buy shares in the company for significant sums – £1,000 in the case of Gripple – though many make it optional. Some also sell shares to their employees for nominal sums, often one pound. This latter option is common among public service mutuals, described in Box 3.3 later.[101]

Some businesses also choose to follow a hybrid model, whereby employees themselves own shares in the company and other shares are also held on the behalf of employees by a trust.[102]

The largest employee-owned business in the UK is the John Lewis Partnership. The John Lewis Partnership Trust owns the John Lewis Partnership, which operates the John Lewis & Partners stores and the Waitrose & Partners supermarkets. The Partnership had an annual revenue of £10.84 billion and around 80,000 employees as of 2022.[103] Its highest level of its structure is the Partnership Council, a directly employee-elected body of 58 persons who both represent the employees and hold the Chairman of the Partnership to account for their running of the business. The Partnership Council have voting rights and the exclusive power to remove the Chairman from office. Biannually, the Council conducts a 'Holding to Account' session where the Chairman fields questions from representatives in an open meeting, following which a vote is held which indicates whether or not Councillors support the Chairman's leadership and the progress of the business.[104]

Instead of the members of the John Lewis Partnership or the aforementioned Partnership Council voting for the John Lewis

101. Ibid.
102. Ibid., 429.
103. John Lewis Partnership, "Annual report and accounts 2022", https://www.johnlewispartnership.co.uk/content/dam/cws/pdfs/Juniper/ARA-2022/John-Lewis-Partnership-plc-Annual-Report-and-Accounts-2022.pdf (2022).
104. John Lewis Partnership, "Employee Ownership", https://www.johnlewispartnership.co.uk/work/employee-ownership.html (2023).

Partnership's chairman, as would happen in a co-operative, upon the removal of the chairman, their nominee or a deputy takes over, or the board appoints someone.[105]

Employees of the Partnership usually receive an annual bonus, akin to a share of the profit. It is calculated as a percentage of salary, with the same percentage awarded to all employees. The bonus is dependent on the profitability of the Partnership each year, as with most mutuals that distribute their profits to their employees, normally varying between 5% and 20% of annual salaries, though it dropped to as low as 0% during the COVID-19 pandemic.[106]

Currently, around 4% of the UK economy is employee owned, and has been at this level since 2014, having increased from 2% in 2012, according to the Employee Ownership Association – a trade body that represents employee-owned organisations.[107] Worth noting is that to be included in the Employee Ownership Association's list, a business must be "at least 25% owned by employees on a broad basis".[108] The 4% figure falls well short of the Employee Ownership target of 10% by 2020 that they set in 2012.[109]

According to the Employee Ownership Association, as of 2023, 180,000 persons in the UK work for employee-owned businesses, the largest of which in terms of employee numbers are, respectively: the John Lewis Partnership retailer (80,000 employees and £10.8 million revenue, as of 2023); the Arup Group engineering consultancy (15,500 employees and £1.9 million revenue, as of 2023); the Mott MacDonald Group management consultancy (15,000 employees and £1.8 million revenue, as of 2023); the charitable social enterprise Greenwich Leisure (8,500

105. Ian Snaith, "Is the John Lewis model perfect for the Co-operative Group?", https://www.thenews.coop/85112/sector/john-lewis (2014).
106. BBC, "John Lewis scraps bonus for first time since 1953", https://www.bbc.co.uk/news/business-54187674 (2020).
107. Employee Ownership Association, "Annual review 2014", https://employeeownership.co.uk/wp-content/uploads/Annual-Review-2014.pdf (2014).
108. RM2, "Employee Ownership Top 50 2023", https://www.rm2.co.uk/resources/eo-top-50/employee-ownership-top-50-2023/ (2023).
109. Employee Ownership Association, "Annual review 2014", https://employeeownership.co.uk/wp-content/uploads/Annual-Review-2014.pdf (2014).

employees and £0.25 million revenue, as of 2023); and the insurance broker Howden Group Holdings (7,500 employees and £1.0 million in revenue, as of 2023).[110]

How employee ownership arises

The way that employee ownership arises in the UK has evolved in recent years. According to a 2020 study, 69% of employee-owned businesses in the UK have arisen this way.[111] This is as compared to only 31% as recently as 2015.[112] Increased awareness of employee ownership as a way of achieving business success in recent years means the majority of new UK employee-owned businesses are now created as result of business succession.

When business owners want to exit the business, but retain an emotional attachment to it, they may wish to move it into employee ownership.[113] This kind of businesses can benefit from the trust-based model, as then the owner can provide a loan to the trust to purchase their shares, alleviating employee wealth and liquidity constraints.[114]

In the past, it was also reasonably common for employee ownership to arise is through start-ups (21% of employee-owned businesses in 2015) and existing firms (26% of employee-owned businesses in 2015)[115] choosing to adopt employee ownership to retain human capital. However, in recent years, start-ups have become a very rare way for employee ownership to arise. As of 2020, only 3% of existing UK employee-owned businesses have adopted employee ownership at start up and only 20% of existing UK

110. RM2, "Employee Ownership Top 50 2023", https://www.rm2.co.uk/resources/eo-top-50/employee-ownership-top-50-2023/ (2023).
111. Andrew Pendleton, Andrew Robinson, and Graeme Nuttall, "Employee ownership in the UK", *Journal of Participation and Employee Ownership* (2023), 209.
112. Andrew Pendleton and Andrew Robinson, "Employee ownership in Britain today", in Jonathan Michie, Joseph R. Blasi and Carlo Borzaga (eds.), *The Oxford Handbook of Mutual, Co-Operative, and Co-Owned Business* (Oxford: Oxford University Press, 2017), 436.
113. Andrew Pendleton and Andrew Robinson, "Employee ownership in Britain today", in Jonathan Michie, Joseph R. Blasi and Carlo Borzaga (eds.), *The Oxford Handbook of Mutual, Co-Operative, and Co-Owned Business* (Oxford: Oxford University Press, 2017), 436.
114. Employee Ownership Association, "Employee ownership impact report", https://employeeownership.co.uk/wp-content/uploads/The-Impact-Report.pdf (2011).
115. Andrew Pendleton and Andrew Robinson, "Employee ownership in Britain today", in Jonathan Michie, Joseph R. Blasi and Carlo Borzaga (eds.), *The Oxford Handbook of Mutual, Co-Operative, and Co-Owned Business* (Oxford: Oxford University Press, 2017), 439.

employee-owned businesses have introduced employee ownership as an already-existing firm but not as a means of business succession.[116]

Firms may attempt to guard against employment insecurity and staff turnover by giving employees rights commensurate with those of shareholders, with the hope of securing employee commitment as a result. Academics Andrew Pendleton and Andrew Robinson write that, as "value generation by the firm resides in employee skills and knowledge, it seems appropriate to provide employees with rights to control and to the returns to human capital".[117]

Finally, employee ownership can arise through privatisation (5% of employee-owned businesses as of 2020,[118] but used to be as high as 22% in 2015).[119] In an appeal to market ideals or to relieve financial stress on governments, ownership of a company may shift from the state to its employees as a part of national or local government policy.[120] Indeed, this is how most UK public service mutuals, described in Box 3.3 below, arose, during the period when the UK government actively supported public service mutuals.

Box 3.3. Public service mutuals

To be classed as a public service mutual, it suffices that there exists "a significant degree of staff influence or control in the way [that the business] is run".[121] Since 1982, the UK has seen a significant number of public services turned employee-owned as a means of privatising them. This has an obvious appeal from a centre-right economic perspective,

116. Andrew Pendleton, Andrew Robinson, and Graeme Nuttall, "Employee ownership in the UK", *Journal of Participation and Employee Ownership* (2023), 209.
117. Andrew Pendleton and Andrew Robinson, "Employee ownership in Britain today", in Jonathan Michie, Joseph R. Blasi and Carlo Borzaga (eds.), *The Oxford Handbook of Mutual, Co-Operative, and Co-Owned Business* (Oxford: Oxford University Press, 2017), 431.
118. Andrew Pendleton, Andrew Robinson, and Graeme Nuttall, "Employee ownership in the UK", *Journal of Participation and Employee Ownership* (2023), 209.
119. Andrew Pendleton and Andrew Robinson, "Employee ownership in Britain today", in Jonathan Michie, Joseph R. Blasi and Carlo Borzaga (eds.), *The Oxford Handbook of Mutual, Co-Operative, and Co-Owned Business* (Oxford: Oxford University Press, 2017), 437.
120. Ibid., 438.
121. Social Enterprise UK, "Public service mutuals: the state of the sector", https://allcatsrgrey.org.uk/wp/download/governance/Public_Service_Mutuals_-_State_of_the_Sector_April_2018.pdf (2018), 12.

as it decreases the level of government control over the economy. As a result, there are currently around 130 public services mutuals in the UK. They collectively deliver over £1.6 billion in public services, including social care, health care, education and housing.[122] Examples include Greenwich Leisure, which manages over 100 leisure centres and sports pitches in London, RISE, which offers rehabilitation and offender management services, and Central Surrey Health, which provides community nursing and therapy services.

Until recently, the public service mutuals sector continued to grow rapidly. In 2008, the Department for Health created the Right to Request for community health services to spin out as private public service mutuals. The Government then supported said spin-outs with waves of funding,[123] with almost 50 public service mutuals forming in 2011 alone. Indeed, the sector grew by over 9% in the two years between 2018 and 2019,[124] compared with 3% growth by the UK economy as a whole in that same period. Since 2011, however, in no year have more than 20 public service mutuals formed.[125] According to Graeme Nuttall, many public service mutuals have closed because of a lack of funding and because their public service contracts have not been renewed by government.

Community business

Besides mutuals, democratic elements are also intrinsic to community businesses – though, as with employee ownership and co-operatives, the categories are not mutually exclusive.

In community businesses, the members of the community are involved in the decision-making process of the business and are often a consideration in the operations of the business, unlike in businesses not located or centred around a particular community. In that, they

122. Social Enterprise UK, "Public service mutuals: the state of the sector", https://allcatsrgrey.org.uk/wp/download/governance/Public_Service_Mutuals_-_State_of_the_Sector_April_2018.pdf (2018), 12.
123. Ibid., 4.
124. Ibid.
125. John Maddocks and Jan Myers, "Public service ethos: the blending values of public and mutual organisations", *The London School of Economics and Political Science*, 22 April 2016.

are intrinsically democratic. The charitable trust Power to Change define them as "businesses … owned by, rooted in, and accountable to their communities". They estimate that there are 11,000 community businesses operating in England as of 2022, with a total income of "just under £1 billion".[126]

Community businesses tend to operate a hybrid funding model, with 83% of them in the UK generating an income from trading and 84% of them receiving grant funding. They also employ a large number of volunteers – the average community business in the UK has nine employees but 29 volunteers, 90.5% of whom live locally – and provide a significant role in providing people in need: 45% employ someone who had no previous paid employment in the last 12 month and 48% operate in the 30% most disadvantaged areas in England. Moreover, they consider themselves to provide significant positive impacts to their local communities. At least 97% of them in the UK report to have a positive impact on community health, wellbeing, cohesion and empowerment, as well as towards reducing social isolation.[127]

Of particular importance to regional and local communities are community businesses that are also mutuals: notably, community co-operatives.

Community co-operatives tend to operate in energy provision, retail, housing and as pubs.[128] They arise as a means for a business to raise capital, and have become increasingly common since the launch of the 2009 Community Shares Programme, conducted by Co-operatives UK together with the think tank Localis and the Department for Communities and Local Government (DCLG).[129] Shares in the business are sold to members of the local community through a community shares market. Each person who purchases a share in the co-operative

126. Power to Change, "Community business market report 2022", https://www.powertochange.org.uk/impact/market-report-2022/ (2022).
127. Ibid.
128. Co-operatives UK, "Communities doing it for themselves: celebrating a decade of the Community Shares Unit", https://www.uk.coop/sites/default/files/2023-01/community-shares%20report-2023.pdf (2023), 24.
129. Ibid., 7.

becomes a member, and so is entitled to one vote in the running of that co-operative. They demonstrate remarkable resilience, as 92% of businesses that have raised capital through community shares are still trading today; this is as compared to 42% of all new companies that make it through to the end of their fifth year.[130]

Community co-operatives seem to follow the 'democratic' school of co-operative governance: according to a survey conducted by Co-operatives UK, 80% of those who invested in community co-operatives did so for the sake of social or environmental benefits, while only 17% did so for the prospect of a financial return.[131]

Box 3.4. Notable forms of community business

Community land trusts (CLTs)

A notable form of community business is the community land trust (CLT). CLTs may adopt the structure of a community co-operative, though CLTs need not be community co-operatives to exist.

CLTs take ownership of land to provide community-led, affordable housing and community assets on it, such as pubs or community centres. CLTs are defined in the Housing and Regeneration Act 2008 as membership organisations that acquire and manage land to provide a benefit to the local community, are non-profit, are controlled and owned by their members, who are often volunteers, and open their membership to all residents and workers in the local community – in that, they are strongly democratic in nature. That said, they need not be mutuals – they can be non-mutual non-profit businesses that anybody who works or lives in the local community can contribute to.

130. Isla McCulloch and Alice Wharton, "Understanding a maturing community shares market", https://www.uk.coop/sites/default/files/2020-10/community-shares-report-2020-final_0.pdf (2020), 5.
131. Ibid., 11.

As of 2023, there are over 500 CLTs in England and Wales, around twice as many as there were in 2019.[132] They have had over 1,000 homes built on their land and have over 7,000 more homes already in the development process,[133] which is between 1% and 2% of the UK's ongoing housing development as of 2023.[134] Indeed, Tom Chance, the chief executive of the Community Land Trust Network, estimates that "between 5 and 10[%] of housing in England and Wales could be community-led — including CLTs, co-housing, self-build and housing co-operatives".[135]

Community energy

Another form of community business worth mentioning is the community ownership of energy infrastructure. There are around 500 community energy organisations in the UK and the advocacy organisation Community Energy England estimates that their activities have saved British residents £3.35 million in energy bills in 2021.[136]

This is very little as compared to energy generation in the UK overall: community-owned renewable energy projects, for instance, accounted for just over 1 GW of energy generation across England and Scotland as of 2019, around 2% of overall renewable energy capacity in the UK.[137]

That said, there exist numerous government schemes designed to promote community energy: the Feed-in-Tariffs Scheme,[138] designed to allow communities and individuals to generate low-carbon electricity

132. Community Land Trust Network, "What is a community land trust (CLT)?", https://www.communitylandtrusts.org.uk/about-clts/what-is-a-community-land-trust-clt/ (2023).
133. Ibid.
134. Scottish Land Commission, "Community ownership", https://www.landcommission.gov.scot/our-work/ownership/community-ownership (2023).
135. Francesca Perry, "Community land trusts offer a fresh take on housing development", *Financial Times*, 1 September 2023.
136. Community Energy England, "State of the Sector Summary Report", https://communityenergyengland.org/files/document/615/1654781666_CommunityEnergyStateoftheSectorUKSummaryReport2022.pdf (2022), 2.
137. Energy Saving Trust, "How community energy schemes can help the UK reach net zero", https://energysavingtrust.org.uk/how-community-energy-schemes-can-help-the-uk-reach-net-zero/ (2021).
138. See Department of Energy & Climate Change, "2010 to 2015 government policy: low carbon technologies", https://www.gov.uk/government/publications/2010-to-2015-government-policy-low-carbon-technologies/2010-to-2015-government-policy-low-carbon-technologies#appendix-8-feed-in-tariffs-scheme (2015).

using small-scale systems; the Non-domestic Renewable Heat Incentive,[139] designed to help individuals and small organisations meet the cost of installing renewable heat technologies; the £15 million Rural Community Energy Fund (RCEF),[140] designed to support rural renewable energy projects; and the £10 million Urban Community Energy Fund (UCEF),[141] designed to kick-start renewable energy generation projects in urban communities across England. The efficacy of those is questionable; umbrella group Community Energy England write that, had the aims set out in the 2015 government Community Energy Strategy been followed more closely, there would currently be ten times more community-owned energy provided in the UK than there is currently.[142]

Community-owned sports clubs

Both in the UK and worldwide, there exists a rich tradition of community ownership within sports; especially in association football. England alone is home to over fifty association football clubs that are majority-owned by a community of their fans; some of those, such as F.C. United of Manchester, are co-operatives, as per the definition of this report.[143]

As of 2023, the most successful fan-owned association football club in England is Exeter City F.C.,[144] who play in the third tier of English football. Fan-owned association football clubs are particularly common in Scotland; notably, Heart of Midlothian F.C., who have won the Scottish association football league championship four times, is majority owned by a community of its fans.[145]

139. See Ofgem, "Non-domestic Renewable Heat Incentive (RHI)", https://www.gov.uk/non-domestic-renewable-heat-incentive (2023).
140. See Department for Energy Security and Net Zero and Department for Business, Energy & Industrial Strategy, "Community Energy", https://www.gov.uk/guidance/community-energy (2015).
141. See Department for Energy Security and Net Zero and Department for Business, Energy & Industrial Strategy, "Urban Community Energy Fund", https://www.gov.uk/guidance/urban-community-energy-fund (2016).
142. Community Energy England, "Community Energy England response to the BEIS Net Zero Review: Call for evidence", https://communityenergyengland.org/files/document/657/1666910384_CEENetZeroReviewresponse.pdf (2022), 9.
143. Exeter City Supporters' Trust, "Annual Supporter Report for the year ending June 30th 2022 For Exeter City AFC Ltd", https://www.weownexetercityfc.co.uk/_files/ugd/144d06_4d15f480f0724106a411198edfec1b0a.pdf (2022), 13.
144. Ibid.
145. Mark Atkinson, "Hearts fans will officially own their club TODAY as FoH shares transfer is completed", *Edinburgh News*, 30 August 2021.

Indeed, multiple sports clubs in the UK operate very closely with their local communities and fans, with fans often having significant decision-making power over the dealings of the club. For example, the Supporters Board of Liverpool Football Club, the third most valuable association football club in the world as of 2022,[146] has veto power over any major decisions taken by the club.[147]

But community-owned association football clubs have an even stronger presence outside of the UK. Indeed, the two most valuable association football clubs in the world, Real Madrid CF and FC Barcelona,[148] are owned by a community of their fans, referred to as *socios*: both clubs have over 100,000 *socios*.

In Germany, German Football League rules mandate that football clubs are not allowed to play in the *Bundesliga* or *2. Bundesliga*, Germany's top two tiers of association football, if less than 50% + 1 of the club's shares are owned by the club's fans.[149] The most successful German club, Bayern Munich, is 75% owned by the Bayern Munich fans' member club, FC Bayern München eV, which has 300,000 members.[150]

There have been calls in the UK to expand the scope of fan ownership of association football clubs.[151] In February 2023, the UK Government published the *A sustainable future – reforming club football governance* white paper, which mandates that association football clubs consult their fans before introducing any major changes. The white paper also considered mandating that fans own a share of any association football club, but ultimately decided against it.[152]

146. Mike Ozanian and Justin Teitelbaum, "The World's 50 Most Valuable Sports Teams 2022", *Forbes*, 8 September 2022..
147. Spirit of Shankly, "Role of the Supporters Board", https://spiritofshankly.com/supporters-board-2/ (2022).
148. Mike Ozanian and Justin Teitelbaum, "The World's 50 Most Valuable Sports Teams 2022", *Forbes*, 8 September 2022.
149. Bundesliga, "Explaining the Bundesliga's 50+1 rule", https://www.bundesliga.com/en/faq/what-are-the-rules-and-regulations-of-soccer/50-1-fifty-plus-one-german-football-soccer-rule-explained-ownership-22832 (2023).
150. FC Bayern Mùnchen, "Mia san mia – join us!", https://fcbayern.com/en/club/become-member (2023).
151. See, for example, Paul Rees, "Fan ownership would give rugby and football clubs stability, says thinktank", *The Guardian*, 26 May 2020.
152. Department for Culture, Media and Sport, "A sustainable future – reforming club football governance", https://www.gov.uk/government/publications/a-sustainable-future-reforming-club-football-governance (2023), 57

Fan-owned association football clubs suffer particularly from limited access to capital, which limits their ability to compete with association clubs owned by private investors willing to spend money on upgrading the club's assets. For example, in the Premier League, the top tier of English association football, where no club is majority owned by fans, expenditure on bringing in football players reached £2.1 billion in the summer of 2023 alone; by comparison, in the aforementioned Bundesliga, expenditure on bringing in football players reached only £600 million in the same time period.[153] This means that Premier League clubs were able to spend 250% more than Bundesliga clubs on bringing in football players despite the Premier League's total revenue being only around 70% higher than that of the Bundesliga.[154]

Other forms of democratic business

In state-owned businesses, too, the way the government operates the business can be influenced by its political aims, which can involve democratic considerations. This is especially the case in democratically-elected governments, where the management of the business is answerable to the electorate. For example, the aims of a state-owned coal mine may include not merely the maximisation of profits, but also low unemployment and the prosperity and priorities of the local community, insofar as those may be some of the political priorities of the government managing the mine. Notoriously, the National Coal Board, which managed coal mining in the UK until 1987, consistently

153. Alasdair Mackenzie, "Global transfer record broken in summer 2023 as Premier League and Saudi Pro League splash out record fees", https://www.tntsports.co.uk/football/transfers/2023-2024/global-transfer-record-broken-in-summer-2023-as-premier-league-and-saudi-pro-league-splash-out-recor_sto9770895/story.shtml (2023).
154. Statista, "Revenue of clubs in the Premier League in England from 2011/12 to 2021/22, with a forecast to 2023/24, by stream", https://www.statista.com/statistics/556893/premier-league-clubs-revenue-by-stream/ (2023); Statista, "Total revenue of the Bundesliga from 2008/09 to 2021/22", https://www.statista.com/statistics/282611/revenue-german-bundesliga-soccer/ (2023).

took losses for every tonne of extracted coal since the 1970s,[155] but, as of 1984, 173 coal mines were still operating in the UK in order to provide employment and good living standards to those who worked there.[156]

Democratic business can also be a feature of private 'conventional' businesses; it has been suggested that those, too, can be more or less democratic, such as by increasing the involvement of their employees in the decision-making process of the company, either through direct consultation or through general meetings where employees can voice their views. In Germany, notably, employees even in 'conventional' businesses have the right to elect one-third of the board, as long as the company has more than 500 employees. In companies with over 2,000 employees, they can elect half the board. Similar democratisation policies exist in 14 other European countries too, such as Austria, Norway and France.[157] Such rights give employees powers analogous to those of shareholders – the owners of a business.

155. Alexander Eadie, *Answer to question on the profit per ton on opencast coal each year from 1957 to 1974*, 13 March 1975, https://api.parliament.uk/historic-hansard/written-answers/1975/mar/13/coal-mining-profits; Keith Boyfield, "Put pits into profit: alternative plan for coal", https://cps.org.uk/wp-content/uploads/2021/07/111028092310-PutPitsintoProfit1985.pdf (1985), 16-25.
156. Emily Gosden, "Britain to have just one remaining coal pit after UK Coal announces closures", *The Telegraph*, 2 April 2014.
157. Daniel Chandler, *Free and equal: what would a fair society look like?* (London: Allen Lane, 2023), 252-253.

Box 3.5. Islamic banking

It is worth noting that Islamic finance, which is a recently-expanding sub-sector of the finance sector,[158] involves an element of democratisation.

Islamic finance is a way to manage money that keeps within Islamic Sharia, which, notably, forbids the charging of interest. Islamic banking involves a democratic element, as Islamic banks engage in profit sharing instead of paying out interest from savings accounts and investment instruments. As such, the relationship between an Islamic bank and its customers in respect to profit-sharing can be similar to that between an employee-owned company and its employees, or between a co-operative and its members.

The Islamic finance sector is growing. In the UK, there are estimated to be more than 100,000 Islamic finance retail customers with a net value of assets of around £600 million.[159] The UK holds 85% of total European Islamic banking assets, with Islamic finance growing at a compound annual growth rate of 10.1% percent between 2016 and 2021.[160]

But, although Islamic banking is more democratic than traditional banking, it does not involve democratic features to the same extent as the types of democratic financial institutions listed earlier in this chapter, given that Islamic banks are not normally owned by their customers.

Other views about how a 'conventional' business can be more democratic have also been expressed. For example, the Democracy Network suggest that what makes an institution more democratic

158. TheCityUK, "The UK remains the leading Western hub for Islamic finance", https://www.thecityuk.com/news/the-uk-remains-the-leading-western-hub-for-islamic-finance/ (2022).
159. Business Wire, "UK Islamic finance market report 2022-2027: growing market awareness of Islamic finance by large financial institutions driving expansion – researchandmarkets.com", https://www.businesswire.com/news/home/20220803005668/en/UK-Islamic-Finance-Market-Report-2022---2027-Growing-Market-Awareness-of-Islamic-Finance-by-Large-Financial-Institutions-Driving-Expansion---ResearchAndMarkets.com (2022).
160. Bloom, "The Complete Guide To UK Islamic Finance", https://bloommoney.co/learning-hub/the-complete-guide-to-uk-islamic-finance (2023).

are factors surrounding accountability, transparency and providing power or a voice to those who otherwise lack it.[161] Those suggestions, however, proceed from a disagreement of just what constitutes democracy. Insofar as this report employs the Stanford Encyclopedia's definition of democracy, as explicated earlier in this chapter, we understand a 'conventional' business to be more democratic only to the degree that it involves those affected by the business in the business' decision-making process. While this may often come alongside greater accountability or transparency, those are not the factors that will be focused on.

This report will now move on to examine the benefits of democratic business.

161. George Bolton et al., *Collaboration for democratic change: a guide for practitioners and academics* (London: The Democracy Network, 2023).

Chapter 4:
Benefits of democratic business

Having established the origins and operations of democratic business in the previous chapter, this chapter will explore the benefits of democratic business. Democratic businesses offer a plethora of advantages over rival business models.[162] The most well-evidenced of those advantages will be examined in this chapter, beginning with economic advantages: for democratic companies themselves; for individuals involved with democratic businesses; and for the wider economy. The chapter will then move on to examine, from a centre-right perspective, the ethical advantages of democratic business ownership: namely, the political legitimacy that they provide in a democracy; freedom; and greater levels of property ownership.

Economic advantages

Advantages for democratic businesses

First, from amongst advantages for democratic businesses, we consider improved productivity, innovation and resilience.

Greater productivity

In our interview with her, Sally Ann-Hart MP noted that democratic

162. See also Employee Ownership Association, "The Ownership Dividend: The economic case for employee ownership", https://employeeownership.co.uk/wp-content/uploads/The_Ownership_Dividend_The_economic_case_for_employee_ownership.pdf (2018).

business results in better buy-in, commitment and productivity from employees; a point also emphasised by Chris Clarkson MP, who claimed that "giving people a certain amount of skin in the game would incentivise them to [be more productive]." And indeed, there exists a host of evidence that democratic businesses tend to have greater productivity than their less democratic rivals.

Public service mutuals in the UK serve as one example. There, yearly productivity growth – the yearly increase in the ratio between the value of goods or services produced and the number of hours worked by employees – averages 3.7%, which dwarfs the 0.3% average yearly productivity growth in non-mutual public services in the UK.[163] This is despite the fact that conventional measures of productivity do not capture the full scope of democratic businesses' value. For many democratic businesses, including these public service mutuals, their intended output is not purely financial or economic but social. Financial metrics tend not to capture the positive and negative social and environmental externalities produced by economic activity.[164]

Moreover, many social sector mutuals – mutuals set up explicitly with the intention to pursue social aims rather than profit maximisation – often intentionally choose to work with lower-skilled individuals, take on a greater proportion of staff with disabilities, work in sectors which are not capital intensive and operate in geographical areas which are not well served by infrastructure, which we might expect to limit their relative productivity, as conventionally assessed.[165]

Indeed, employee-owned business more generally see superior productivity to non-employee-owned rivals. According to the Employee Ownership Knowledge Programme, as of 2023, employee-owned businesses are, on average, between 8-12% more productive than non-

163. Social Enterprise UK, "Public Service Mutuals: The state of the sector", https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/951811/Public_Service_Mutuals_-_The_State_of_the_Sector_2019_V2.pdf (2019), 18.
164. Ibid.
165. Ibid.

employee-owned businesses.[166]

The superior productivity of democratic businesses is also exemplified in co-operatives. A 2012 study found that worker co-operatives are at least as productive as 'conventional' businesses, and that many 'conventional' businesses would produce more if they became co-operatives; co-operatives, on the other hand, always produce at least as much as they would were they to become 'conventional' businesses.[167]

Even more convincingly, a meta-study done in 1995 by the economist Chris Doucouliagos that synthesised the results of 43 other published studies found that productivity is positively correlated with all of profit sharing, employee ownership and employee participation in decision making; all crucial features of democratic business. The positive correlation, moreover, was stronger among firms both owned and controlled by their employees. On the other hand, the correlation was weaker among firms where levels of employee ownership were lower.[168]

Improved innovation

Besides democratic business giving their employees more of a stake in the business, and so more motivation to be productive, another reason for their superior productivity may be improved innovation. Employees in employee-owned businesses, for example, tend to be more entrepreneurial and more inclined to innovate. This idea was expressed to us by Graeme Nuttall, who said that "[e]mployee ownership works because individuals feel they have an individual voice in that they can speak up and say to their manager that they have a good idea … without the manager saying 'get back in your box, I'm in charge.'"

166. Employee Ownership Association, "People Powered Growth Report", https://employeeownership.co.uk/kp/ (2023).
167. Fathi Fakhfakh, Virginie Pérotin and Mónica Gago, "Productivity, capital, and labor in labor-managed and conventional firms: an investigation on French data", *ILR Review* (2012).
168. Chris Doucouliagos, "Worker participation and productivity in labor-managed and participatory capitalist firms: a meta-analysis", *ILR Review* (1995), 58.

According to a 2011 National Bureau for Economic Research study, 26% of workers in companies with high levels of employee ownership made a suggestion at least once a month, compared to only 18% among workers without shares in the company they work for.[169] Similarly, 60% of public service mutual representatives report that "[m]ore innovative services" is a key benefit they had seen as a result of becoming a mutual.[170] More recently, a 2023 study by the Employee Ownership Association suggests that employee-owned businesses are over 50% more likely to have increased investment in research and development (R&D) than non-employee-owned businesses.[171]

Greater resilience

Since democratic businesses often serve a purpose beyond profit maximisation, democratic businesses tend to engage in less short-termism – prioritising short-term goals at the cost of long-term sustainability. As such, they are unlikely to fold merely as a result of poor returns on investment. The view that democratic businesses are "less short-termist" was notably shared by John Godfrey and Sir Philip Dilley in our interviews.

> "Some of them [the building societies that demutualised] might have been more secure if they remained where they were, as mutuals, rather than chasing glory … Yes, [building societies - a type of democratic business - have more resilience because they're less short termist]."
>
> **John Godfrey**

169. Joseph R. Blasi, Richard B. Freeman and Douglas L. Kruse, "Evidence: what the US research shows about worker ownership", in Jonathan Michie, Joseph R. Blasi and Carlo Borzaga (eds.), *The Oxford Handbook of Mutual, Co-Operative, and Co-Owned Business* (Oxford: Oxford University Press, 2017), 216.
170. Social Enterprise UK, "Public Service Mutuals: The state of the sector", https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/951811/Public_Service_Mutuals_-_The_State_of_the_Sector_2019_V2.pdf (2019), 10.
171. Employee Ownership Association, "People Powered Growth Report", https://employeeownership.co.uk/kp/ (2023).

> “One benefit is long termism. A [democratic] company can take a long-term view about things. … There is not this expectation of growth on an annual basis … and it gives the opportunity to take a long-term view, whereas a [non-democratic] company structure tends to promote a shorter-term view.”
>
> **Sir Philip Dilley**

As a result of their long-termist approach, democratic businesses have greater resilience than their rivals, as the evidence from academic literature highlighted below illustrates.

As an example of short-termism on the part of non-democratic business, the Ownership Commission – established by the UK Government in 2010 to review the state of business ownership in the UK – has found that the managers of publicly-listed, ‘conventional’ companies are rewarded for short-term gains for the company’s shareholders, possibly at the expense of the long-term sustainability and stability of the company. This is reflected in the short-term trading strategies that institutional investors often have. The Commission writes that “[r]apid, transactional investment strategies have grown in influence over the last few decades: in 1945, stock was held on average for four years; today it is 2 months. Moreover, 35% of all European trades are high frequency trades (HFT) and in the United States, it is two thirds”.[172] HFTs are trades where a very high number of orders is executed in a very short timespan to make short-term gains. This is as opposed to buying a stock as an element of a long-term strategy.

The advantages of long-termism in democratic business, on the other hand, are well exhibited with the example of employee-owned businesses. In 2008 to 2009, following the global financial crisis,

172. The Ownership Commission, “Plurality, stewardship and engagement”, http://www.mutuo.coop/wp-content/uploads/2012/03/Ownership-commission-2012.pdf (2012), 34.

sales growth in employee-owned businesses was 11.1% in the UK; a significant improvement on non-employee-owned businesses, which produced sales growth of only 0.6%.[173] The political economists Silvio Goglio and Panu Kalmi, who contrast mutual banks – as described in detail in Chapter Three earlier – with "profit-maximising banks," found that the profitability of mutual banks declined only marginally during the 2008 global financial crisis, while the profitability of shareholder banks declined considerably. Consequently, the bank stability ratings of mutual banks deteriorated less during the global financial crisis.[174] Indeed, mutual banks have been shown to be generally less responsive to monetary policy changes, suggesting that they have smoother lending cycles and are, therefore, beneficial to overall economic stability, as argued later in this chapter, as well as more resilient to monetary shocks.[175]

Besides long-termism, another reason for the resilience of democratic businesses, and in particular co-operatives, is that they permit risk-sharing in markets with high risk levels. This can be easy to understand with the example of agriculture. In seasons when crop yields are negatively affected, or when natural disasters, such as fires or disease, have destroyed much of a farmer's yield, that loss can be covered by the other members of a mutual who have not been as affected. For example, on a particularly dry summer, a crop farmer's losses may be compensated by a hen farmer, but, importantly, in a season with rampant bird flu, the hen farmer can be compensated by the crop farmer. Risk-mitigating measures such as this will become increasingly important as climate change mandates greater climate resilience.

Democratic businesses demonstrated their resilience particularly remarkably during the COVID-19 pandemic. This can be seen through the example of co-operatives, the number of which operating across the UK grew by 1.2% over the course of 2020, with almost twice as many

173. Ibid., 72.
174. David T. Llewellyn, "Conversion from stakeholder value to shareholder value banks: the case of UK building societies", in Jonathan Michie, Joseph R. Blasi and Carlo Borzaga (eds.), *The Oxford Handbook of Mutual, Co-Operative, and Co-Owned Business* (Oxford: Oxford University Press, 2017), 564.
175. Ibid.

co-operatives created (197) as dissolved (107). In contrast, there was a net reduction in the UK's business numbers in the first year of the COVID-19 pandemic, with the number of new businesses down, and the number of company 'deaths' increasing from 344,660 to 389,956 in 2020. Co-operatives were four times less likely to cease trading during 2020,[176] perhaps reflected in the fact that 44% of co-operative representatives surveyed identified the support of committed members as being a clear benefit during the pandemic.[177]

This is not an isolated occurrence for democratic businesses. The same was true in the years 1998 to 2001, the years of a certain Standard and Poor study. In that timespan, in the US, the likelihood of not surviving was noticeably lower for companies with more than 5% of stock owned by employees – employee ownership being the other key form of democratic business besides co-operatives.[178]

However, this stability and resilience only held when members were discouraged from placing too much of their wealth in the mutual. This was evident in the examples of Enron and WorldCom, employee-owned businesses which saw employees' stock holdings wiped out between 2001 and 2002. This risk can be reduced with the use of share trust vehicles and indirect employee ownership, as in trust-based employee-owned companies – Box 3.1 much earlier illustrates the comparisons between the different forms of employee-owned organisations. For example, the John Lewis Partnership does not expect employees to invest their own savings in the business, and some mutuals even forbid it.[179] The risk is also reduced with the use of indivisible reserves frameworks, which are described in detail in Chapter Six later.

It is also worth highlighting that risk-avoidance is not always a good thing. Sometimes, taking risks allows for a business to grow faster or

176. Co-operatives UK, "Co-op economy 2021: A report on the UK's co-operative sector", https://www.uk.coop/sites/default/files/2021-06/Economy%202021_0.pdf (2021), 4.
177. Ibid., 5.
178. The Ownership Commission, "Plurality, stewardship and engagement", http://www.mutuo.coop/wp-content/uploads/2012/03/Ownership-commission-2012.pdf (2012), 74.
179. Ibid.

more efficiently. Whether democratic businesses engage in excessive risk-avoidance is explored in the subsequent chapter.

Box 4.1. Wage costs and democratic ownership

It is worth noting that superior employee satisfaction and productivity, as evidenced earlier in this chapter, can, theoretically, have a beneficial effect on a company's wage costs. Greater employee productivity and satisfaction mean that a job in a worker co-operative is likely to be less costly, all else being equal, than a job in a 'conventional' firm. This is both because a more productive employee produces more in fewer hours, and because a more satisfied employee is less likely to demand as high a wage. The economist Virginie Pérotin suggests that this difference in costs allows mutual firms to compete with non-mutuals that offer higher wages.[180]

On the other hand, greater levels of employee control mean that employees are more able to demand higher wages.

In truth, given the lack of substantial evidence for differences in wage levels between democratic and non-democratic businesses, it is difficult to ascertain exactly the conflicting effects of greater employee satisfaction and productivity and the effects of greater levels of employee control on company wage costs.

Advantages for individuals involved with democratic businesses

Next, from amongst advantages for individuals involved with democratic businesses, we consider superior employee satisfaction, customer service and staff retention.

Greater employee satisfaction

Greater employee satisfaction in democratic businesses is analogous to greater citizen satisfaction in democratic countries; just as the voters'

180. Virginie Pérotin, "Worker co-operatives: good, sustainable jobs in the community", in Jonathan Michie, Joseph R. Blasi and Carlo Borzaga (eds.), *The Oxford Handbook of Mutual, Co-Operative, and Co-Owned Business* (Oxford: Oxford University Press, 2017), 138.

control over their country protects them from bad decisions on the part of the country's government, in democratic businesses, the employees' or members' control of the company protects employees from moral hazard on the part of managers. For example, investment decisions are less likely to prioritise profit or the managers' utility over job losses.[181] Indeed, in our interview, John Godfrey remarked that mutuals align the interests between owners and employees, and Chris Clarkson MP noted that "transparency of the [democratic] business process [means that] you are not going to get some [questionable] business decisions made without people double-checking." Likewise, Sir Philip Dilley emphasised the strong, positive family culture that existed at Arup, the UK's second-largest employee-owned company, during his time working there.

Evidence for this can be seen with the example of employee ownership. In a 2011 National Bureau for Economic Research study, 9% of workers in companies with high levels of employee ownership reported that they were likely to look for a new job, as compared to 20% of employees firms without any form of broad employee ownership.[182] Similar results have also been reported across numerous other studies, with the Ownership Commission noting that "[s]everal studies have found that employee owners have more positive attitudes than their non-owning counterparts".[183]

This is corroborated by studies which examine employees' loyalty or pride in their job. In the aforementioned National Bureau for Economic Research study, 58% of workers in companies with high levels of employee ownership reported greater loyalty to the firm, compared to 46% of workers with low employee ownership. The General Social Survey, a major American social research survey ran by the National Opinion Research Center at the University of Chicago, also asked in 2010 whether workers were proud to work for an employer: 44% of

181. Ibid.
182. Joseph R. Blasi, Richard B. Freeman and Douglas L. Kruse, "Evidence: what the US research shows about worker ownership", in Jonathan Michie, Joseph R. Blasi and Carlo Borzaga (eds.), *The Oxford Handbook of Mutual, Co-Operative, and Co-Owned Business* (Oxford: Oxford University Press, 2017), 215.
183. Ibid., 222.

workers in companies with high levels of employee ownership reported a high level of pride, compared to only 29% of workers in companies with low levels of employee ownership.[184]

Although improved employee satisfaction is most evident in employee-owned companies, the underlying reasons for this – improved employee control and reduced risk of moral hazard on the part of employees' managers – are present to some degree also in other types of democratic business. Currently, fewer than half of UK employees feel satisfied with their volume of involvement in their business' decision-making.[185]

Superior customer service

There are also reasons to think that democratic businesses benefit customers. In our interview, Chris Clarkson MP and Clare Tickell both noted that mutual models of business lead to superior customer service.

> "[In a democratic business, the people providing the service are] not just employees, it's members of society. If you have a company model where the public at large has a stake in the company, it improves the quality of service … The best decisions are the ones that are made close to the people who are affected by them."
>
> **Chris Clarkson MP**

> "If people had skin in the game, they would give better customer service … [This] can be a huge motivator … Our purpose [as a democratic business] is about how we can contribute positively and make local communities happier, and our partners happier, and our customers happier."
>
> **Clare Tickell**

184. Ibid., 216.
185. Daniel Chandler, *Free and equal: what would a fair society look like?* (London: Allen Lane, 2023), 244.

One good example of this can be seen with the case of building societies, as explained in Chapter Three earlier. Evidence from a variety of surveys suggests that consumers have more trust and confidence in building societies than in 'conventional' banks. Research conducted in 2013 shows that customers of mutual banks consider the customer service they receive superior compared to the customers of competitor banks. They outscore non-mutual banks by 17 percentage points in terms of being more trusted to act in the customers' best interests; by 11 percentage points in terms of being open and honest; by 24 percentage points in terms of being perceived as having higher ethical standards; by ten percentage points in terms of treating customers fairly; by 16 percentage points in terms of valuing their customers; and finally by 12 percentage points in terms of overall satisfaction in the mortgage market, and ten percentage points in the savings market.[186]

Indeed, other evidence suggests that mutual insurance companies provide an objectively better claims experience for their customers than non-mutuals do, paying out 95% of their claims in 2019, as contrasted with only 85% among non-mutuals.[187]

The same trend held true in a different sector in 2017, when 74% of public services in general were rated as good or outstanding by the Care Quality Commission (CQC), a regulator of health and social care in England, compared to 87% of mutual public services, and 25% of statutory services were rated as requiring improvement, compared to under 13% of mutuals requiring improvement.[188] Public service mutuals also performed well outside of healthcare; of the five educational mutuals rated by the Office for Standards in Education, Children's Services and Skills (OFSTED), four were rated 'Good' and one 'Excellent.'

186. David T. Llewellyn, "Conversion from stakeholder value to shareholder value banks: the case of UK building societies", in Jonathan Michie, Joseph R. Blasi and Carlo Borzaga (eds.), *The Oxford Handbook of Mutual, Co-Operative, and Co-Owned Business* (Oxford: Oxford University Press, 2017), 564.
187. Peter Hunt, "Demutualisation and how to stop it", https://www.mutuo.coop/wp-content/uploads/2022/07/Demutualisation-and-how-to-stop-it.pdf (2022), 12.
188. Social Enterprise UK, "Public Service Mutuals: The state of the sector", https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/951811/Public_Service_Mutuals_-_The_State_of_the_Sector_2019_V2.pdf (2019), 19.

Consumer co-operatives, as described in detail in Chapter Three, in particular benefit their customers. They are likely to foster a different culture to 'conventional' businesses, as consumers there have a firmer, more explicit relationship with the company, by virtue of their membership. It also means there is reduced conflict of interest between consumers and shareholders, as the shareholders are themselves customers.[189] Moreover, as a part of their culture, consumer co-operatives tend to maintain an equal price policy between small and large stores, which prevents local monopoly pricing in areas where they are the only provider of their service.[190] Indeed, commenting on consumer co-operatives, Chris Clarkson MP said that "I think [they have] had a positive impact in the community. During its heyday … it had a massive impact … You had the retail sector which gave less well-off communities a stake in the services they were using."

Staff retention

Staff retention at democratic businesses has been observed by the Cass Business School in their *Model Growth* report. There, they note that employee-owned businesses – a key form of democratic business – retained more of their employees than their rivals between 2005 and 2009, with their total employee number having increased by 7.5% per year in this period, as compared with less than 3.9% in non-employee-owned businesses.[191] Similarly, one 2010 study looked at a US firm where employee ownership was increased from 22% to 80% and discovered that reported intention to leave the company declined dramatically.

High levels of staff retention in employee-owned businesses can

189. Silvio Goglio and Panu Kalmi, "Credit unions and co-operative banks across the world", in Jonathan Michie, Joseph R. Blasi and Carlo Borzaga (eds.), *The Oxford Handbook of Mutual, Co-Operative, and Co-Owned Business* (Oxford: Oxford University Press, 2017), 152.
190. Johnston Birchall, "The performance of member-owned businesses since the Financial Crisis of 2008", in Jonathan Michie, Joseph R. Blasi and Carlo Borzaga (eds.), *The Oxford Handbook of Mutual, Co-Operative, and Co-Owned Business* (Oxford: Oxford University Press, 2017), 581.
191. The Ownership Commission, "Plurality, stewardship and engagement", http://www.mutuo.coop/wp-content/uploads/2012/03/Ownership-commission-2012.pdf (2012), 72.

perhaps be explained by employees' relative job satisfaction, explicated earlier in this chapter. Worth noting is that this high staff retention enables employee-owned firms to retain tacit knowledge, build trust and avoid the inefficiencies that go with high levels of staff turnover, and so is beneficial for the business itself, and not just its employees.[192]

Advantages for the wider economy

Finally, from amongst benefits for the wider economy, we consider improved economic stability and competitiveness, as well as greater economic multiplier levels.

Economic stability

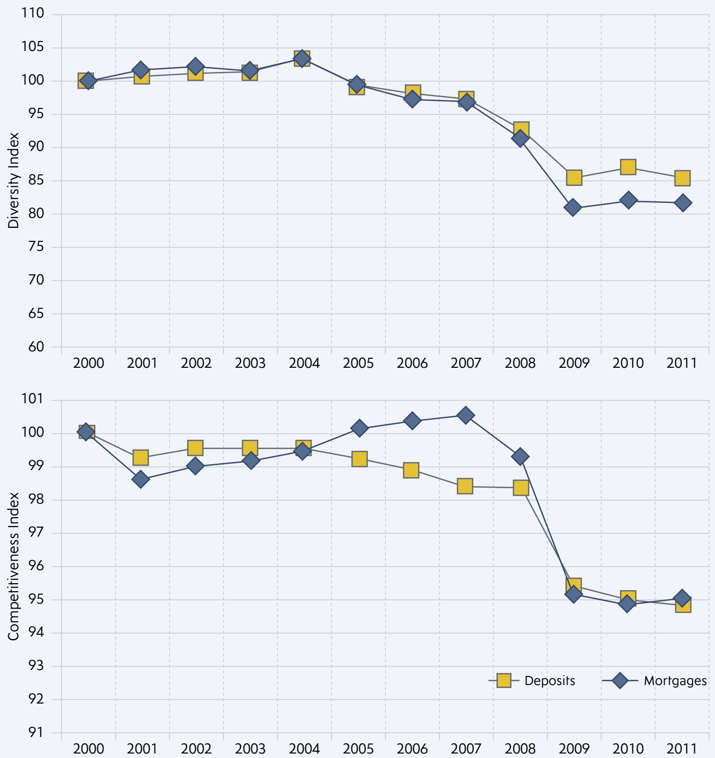
It should not come as a surprise that, since democratic businesses have greater resilience against economic shocks and downturns, as we illustrated earlier in this chapter, sectors and economies with a strong democratic business presence are themselves more stable. But this is not merely because more resilient businesses in a sector make for a more stable sector; it is also because more types of businesses, with their own unique strengths and vulnerabilities that respond to different external stimuli, makes for a more diverse and therefore resilient sector. The UK economy, which only sees between 3.5 and 5.5% of its GDP comprised of mutuals – this is difficult to know exactly due to the overlap between co-operatives and employee ownership[193] – could therefore benefit from an increased presence of democratic business.

The benefits of diverse forms of business ownership are especially evident in the financial sector. The Oxford economist Jonathan Michie and Christine Oughton, an economics professor at the University of

192. Ibid., 73.
193. While we can estimate how much of the economy is employee owned, and how much of the economy is comprised of co-operatives, worker co-operatives are both employee owned and co-operatives. We have not been able to find figures just on worker co-operatives, and, so, cannot merely add the figures for employee ownership and co-operatives to calculate the proportion of the UK economy that is mutual, as, then, worker co-operatives would be double-counted.

London, go as far as to argue that a lack of diversity within the financial sector – in terms of ownership models, market share, funding models and geographical concentration – is directly linked with the decrease in competitiveness – the presence of numerous competitors within a market – that has happened within the financial market since 2007, as illustrated in Chart 4.1, below.

Chart 4.1. Correlation between the diversity and competitiveness of the UK financial sector over time



Source: Jonathan Michie, Joseph R. Blasi and Carlo Borzaga (eds.), The Oxford Handbook of Mutual, Co-Operative, and Co-Owned Business (Oxford: Oxford University Press, 2017), 555-557.

A similar conclusion is drawn by the former Director of the Bank of England Andy Haldane[194] and the economists Charles Goodhart and Wolf Wagner[195] as well as the ecologist Robert May,[196] all of whom explicitly encourage a diversity of ownership models within markets.

Indeed, many studies argue for the merits of structural diversity – including democratic business structures – within the financial market. In a study for the World Bank, Carlos Cuevas and Klaus Fischer, for example, argue that a financial system that presents a diversified institutional structure will be more efficient in promoting economic growth and reducing poverty. Similarly, in the aftermath of the 2008 global financial crisis, the Centre for European Policy Studies (CEPS) produced two comprehensive studies of diversity in European banking. Both conclude that diversity in banking structures and models, which includes democratic businesses, is highly advantageous.[197] And, as long as 'conventional' businesses are the dominant form of business ownership in a sector, an increase in the volume of mutuals in said sector leads to it being more diverse.

From a centre-right perspective, one also ought to avoid radical confidence in any single innovation, but rather exercise caution and, so, support a diversity of approaches. Dame Clare Tickell noted in our interview that "a plurality in ways of how businesses are run [is generally desirable]." As Jonathan Michie writes, "we cannot know which [business] model will prove to be superior in all possible future circumstances, so we ought to be rather cautious before destroying any successful corporate forms." Were the financial system more diverse, some of the consequences of the 2008 global financial crisis, and indeed

194. Andy Haldane, "Credit is trust", https://www.bankofengland.co.uk/speech/2009/credit-is-trust (2009).
195. Charles Goodhart and Wolf Wagner, "Regulators should encourage more diversity in the financial system", https://cepr.org/voxeu/columns/regulators-should-encourage-more-diversity-financial-system (2012).
196. Andrew Haldane and Robert May, "Systemic risk in banking ecosystems", *Nature* (2011).
197. Carlos Cuevas and Klaus Fischer, *Cooperative financial institutions: issues in governance, regulation, and supervision* (Washington: World Bank, 2006).

of any future potential crises, could have been lessened;[198] especially if that system includes democratic businesses, which are marked by particular resilience against economic shocks and shortfalls, as explicated earlier in this chapter.

Economic multiplier

Mutuals – the key form of democratic business – also benefit the wider economy through superior economic multiplier – the ratio between an initial cash injection and the resultant increase in economic output.

This can be demonstrated through the example of the John Lewis Partnership. The company pays an annual bonus to each of its 79,500 employee-owners. In 2013, this sum totalled around £210 million. Distributed among 79,500 relatively low-paid families – the average salary at John Lewis is £24,375 per year[199] – the money will have had a significant economic multiplier, as a significant proportion of it will have been spent on consumer goods. By contrast, the roughly £270 million dividend distributed by the similarly-sized Marks and Spencer went overwhelmingly to financial institutions – as of August 2023, the five top shareholders of Marks and Spencer are all investment funds, such as Schroder and Blackrock. Much less of Marks and Spencer's dividend, as a proportion, is spent on consumer goods, as compared to John Lewis' dividend, and more on financial instruments that produce questionable benefit to the broader economy, and possibly even harm it; for example by inflating house prices via investment that speculates on property and land prices.[200]

Indeed, Peter Hunt writes that the proportion of turnover that is redirected to shareholders in the EU increased from 1% in 1992 to

198. Jonathan Michie, "The importance of ownership", in Jonathan Michie, Joseph R. Blasi and Carlo Borzaga (eds.), *The Oxford Handbook of Mutual, Co-Operative, and Co-Owned Business* (Oxford: Oxford University Press, 2017), 8.
199. talent.com, " John Lewis average salary in United Kingdom, 2023", https://uk.talent.com/salary?job=john+lewis (2023).
200. David Erdal, "Creating socially sustainable enterprise", in Jonathan Michie, Joseph R. Blasi and Carlo Borzaga (eds.), *The Oxford Handbook of Mutual, Co-Operative, and Co-Owned Business* (Oxford: Oxford University Press, 2017), 594.

4% in 2018[201] – a point emphasised also by Sir Philip Dilley in our interview.

> "[In terms of the benefits of mutuals], there is a profit share arrangement, which actually gives some profit to everyone in the business … And that is much appreciated. There is no external shareholder group pulling out those profits and distributing them."
>
> **Sir Philip Dilley**

Thereby, mutuals have an advantage, as that economic value is retained in the business. This value can then be used to enhance value to customers and members, to expand the business or to provide value to the community in which the mutual operates.[202] Consequently, as the academic Johnston Birchall writes, mutuals, and especially mutual banks, result "in significant pro-growth impact within regions where they are strong".[203] This view is shared by several of our interviewees, including Sally Ann-Hart MP, Chris Clarkson MP, Bob Blackman MP, Lord Naseby and Graeme Nuttall, who in our interview phrased the positive economic multiplier effect produced by mutuals in terms of 'levelling-up.'

> "Levelling up means different things to different people. But, most importantly, it is all about, wherever you are in the country, you should be given opportunities … [Democratic business] gives an opportunity for people across the country to have a stake in their society."
>
> **Bob Blackman MP**

201. Peter Hunt, "Demutualisation and how to stop it", https://www.mutuo.coop/wp-content/uploads/2022/07/Demutualisation-and-how-to-stop-it.pdf (2022), 12.
202. Ibid.
203. Johnston Birchall, "The performance of member-owned businesses since the Financial Crisis of 2008", in Jonathan Michie, Joseph R. Blasi and Carlo Borzaga (eds.), *The Oxford Handbook of Mutual, Co-Operative, and Co-Owned Business* (Oxford: Oxford University Press, 2017), 581.

> “[As a result of having more mutuals in the economy] you’re talking a lot about growth now, you’re talking a lot about increased productivity, about levelling up.”
>
> **Lord Naseby**

> “Generally speaking… I’m confident there’ll be a lot more money being spent locally than there was before [with an increase in the proportion of mutuals in the economy], because [the members of mutuals] tend to be consumers rather than savers. Even if an owner of a [non-mutual] business was earning a million pounds a year, he was probably saving most of that. Yes, [mutuals are] much better for economic multiplier. If a million pounds is being spent on expanding the company, developing it, hiring more employees, and distributing bonuses to its employees [instead of on the owner’s remuneration], that money will be spent in the [local] economy.”
>
> **Graeme Nuttall OBE**

Competitiveness

It is worth mentioning that, in highly competitive markets, a key form of democratic business – co-operatives – allow firms to protect themselves against monopolies. This can be clearly illustrated with the example of agricultural mutuals. When multiple farmers form a mutual, their selling power is greater, and, therefore, they are more resilient against monopoly action from suppliers of farming inputs, such as seed or agricultural equipment suppliers. The same can be said for monopsony power – the ability of large buyers to dictate prices – and the farmers’ purchasing power.

This also has the effect of minimising transaction costs, and therefore the overall costs of running a business. Again taking the example of agricultural mutuals, farmers in a co-operative can share their equipment and products. An animal farmer can purchase grain used in the animals' feed at prices that are more beneficial both to the seller and the buyer, as it eliminates 'middle-men' on top of any monopoly or monopsony power. Similarly, multiple farmers can share a single piece of expensive farming equipment that only sees limited use within a single farming season, such as a combine harvester.[204] A 2018 study of Ethiopian agricultural co-operatives argues that 63% of rural markets in Ethiopia require co-operative services to remain competitive.[205] Close to 100% of Ethiopian agricultural co-operatives collectively acquire fertiliser to provide it to their members at a lower cost, and over 60% of Ethiopian agricultural co-operatives collectively acquire seeds and market data to provide it to their members.[206]

This benefit is of particular interest to the centre-right, as centre-right economic theory emphasises the importance of competitive markets, insofar as they are a linchpin of market capitalism. The economist and political philosopher Friedrich Hayek, for example, writes that competitive pricing is the most effective way to coordinate economic activity and that monopoly power is best countered by the ability of rival firms to challenge the monopoly's goods and services.[207]

Ethical advantages

Having explored the economic advantages of democratic business, we now turn to unearthing their ethical advantages. The centre-right holds particular philosophical commitments to liberalism – broadly,

204. Samira Nuhanovic-Ribic, Ermanno C. Tortia and Vladislav Valentinov, "Agricultural co-operatives: a struggle for identity", in Jonathan Michie, Joseph R. Blasi and Carlo Borzaga (eds.), *The Oxford Handbook of Mutual, Co-Operative, and Co-Owned Business* (Oxford: Oxford University Press, 2017), 162.
205. Getaw Tadesse, Gashaw Abate and Kebebe Ergano, "The boundary of smallholder producers' cooperatives: A conceptual and empirical analysis", *Journal of Agricultural Economics* (2019), 539.
206. Ibid., 540.
207. Cento Veljanovski, "Hayek on competition and antitrust in a digital age", https://www2.itif.org/2021-hayek-competition-antitrust-digital.pdf (2021), 22.

the belief that personal freedom ought to be protected and enhanced[208] – and conservatism – broadly, the belief that we should be cautious about revolutionising established practices and ideas.[209]

Democratic business has often been associated with and championed by the political left. This is largely due to the close relationship between the left and the promotion of equality. Democratic businesses are uniquely situated to alleviate inequality, as they are capable of not merely levelling financial differences, but also inequalities to do with power and status. In a co-operative enterprise, there are intrinsic limits to the relative levels of power and status one participant of the co-operative can have against another,[210] and in every democratic business, their members or employees have some level of power that is greater than that guaranteed in 'conventional' business.

However, in fact, democratic business also has a plethora of benefits from a uniquely centre-right perspective, including besides the economic, as explained earlier. The main three of those are the promotion of legitimacy, freedom and property, all of which we now describe in detail.

Box 4.2. Sceptical attitudes towards democratic business among the centre-right

It is worth noting that our interviewees expressed a variety of views about the political appetite for democratic business among the UK centre-right. Those ranged from obvious enthusiasm – the reasons for which are expressed in the rest of this chapter – to dislike and suspicion,

208. See, for example, Richard Dagger et al., "liberalism", *Encyclopedia Britannica*, (2023); Shane Courtland, Gerald Gaus and David Schmidtz, Edward N. Zalta (ed.), "Liberalism", *The Stanford Encyclopedia of Philosophy* (2022).
209. Cf. Andy Hamilton, Edward N. Zalta (ed.), "Conservatism", *The Stanford Encyclopedia of Philosophy* (2020).
210. Stuart White, "Liberal philosophies of ownership", in Jonathan Michie, Joseph R. Blasi and Carlo Borzaga (eds.), *The Oxford Handbook of Mutual, Co-Operative, and Co-Owned Business* (Oxford: Oxford University Press, 2017), 36.

the reasons for which are explained in this box; one interviewee went as far as to say that "it would face an enormous push-back, particularly from the more right-wing of the [Conservative] Party."

> "[Democratic business ownership] is much more associated with the Labour Party and the politics of the left, so, you know, that is quite a big barrier to get over."
>
> **Tim Pitt**

The main issue with democratic business, from a political point of view, that our interviews identified, was the extent that government interference would be required to promote democratic ownership. A number of interviewees, including Graeme Nuttall, John Penrose MP, Chris Clarkson MP and Sally Ann-Hart MP, stated that the centre-right is likely to oppose any measures that render aspects of democratic business, such as employee representation on company boards, mandatory.

> "As Conservatives… It's really for the business community to decide whether or not this is a good business model for them. I am always very wary about the Government telling the business community what to do."
>
> **Chris Clarkson MP**

> "You can't force people who set up a business and do well to make it [democratic]. So it has to be driven by the people who set businesses up, and I don't think the Government should legislate [to force democratisation] … we must be careful not to make it mandatory."
>
> **Sally Ann-Hart MP**

Giles Wilkes went slightly further, suggesting that the centre-right is likely to oppose any action that prioritises the collective over the individual, including the promotion of democratic business.

> "It's the centre-right, or the right in general, who objects to … ideas imposed because they are supposedly good for all of us. Is it not a core tenant of the centre-right that everyone looking out for their own interests … is the right way to run things? … It's a nice idea, and if the evidence is really really strong I would recommend [policies to support democratic business] to a left-wing government, because it's the sort of thing a left-wing government does."
>
> **Giles Wilkes**

Doubts were also expressed about the perception of democratic businesses among the centre-right. Graeme Nuttall suggested that mutuals that focus on social or environmental aims, rather than on profit, may be seen as undesirably caught up in the so-called 'culture wars.'

> "If you talk too much about wider corporate purpose and environmental issues as well as society and governance, that upsets Trump supporters, in that it's seen as taking away too much liberty, imposing too much on businesses on the direction they should take."
>
> **Graeme Nuttall OBE**

According to Nuttall, despite the fact that many employee-owned businesses uphold employee ownership as the means for higher standards of environmental, social and governance (ESG) obligations, no American employee-owned business has officially announced its support for ESG initiatives thus far.[211]

211. See Graeme Nuttall, "Employee ownership – the solution to higher standards of ESG", https://www.fieldfisher.com/en/insights/employee-ownership---the-solution-to-higher-standa (2020).

Some interviewees also saw disinterest, rather than dislike, as the main political obstacle to the promotion of democratic business among the centre-right. Lord Naseby observed that one "will [regrettably] normally find more sympathy to the mutual movement… from a Labour Government than a Conservative Government" and noted that the view that there are "bigger fish to fry" when it comes to democratic business is a "missed … opportunity." Indeed, multiple interviewees, including Lord Naseby and Chris Clarkson MP emphasised the importance of a public advocate for democratic business in order to generate interest; an advocate who could influence political manifestos and organise industry representatives to act together and promote democratic business. Tim Pitt and Jerome Mayhew MP, however, noted that it is crucial that action on this is driven primarily by and from the private sector, rather than by government, in order for this to be popular among the centre-right.

> "[On a government-appointed advocate for democratic business] I think it's very unlikely to happen… it's the type of thing you might see on the left. On the right, it is harder to see… It's got to be business-led. And government can support and encourage that, but you've got to have a coalition of businesses who say they are going to drive [this forward]."
>
> **Tim Pitt**

> "Governments cock it up … Set the rules, give the signal, let the markets exploit it."
>
> **Jerome Mayhew MP**

Legitimacy

According to the liberal political philosopher John Rawls, in democratic liberalism, the political system must be legitimised by laws made in "a sufficiently open, egalitarian and contestable way." Moreover, they ought to reflect deliberated judgements about what best secures the common good – which Rawls defines as conditions to everyone's advantage – of the democracy's participants.[212]

However, this raises the question of what economic model best secures said common good. Rawls argues that it cannot be laissez-faire capitalism, as it would lead to radical inequality that concentrates the good in the hands of the few to the detriment of the common good, and it also cannot be a command economy, as it does not afford its subjects sufficient freedom or respect. He writes in *A Theory of Justice* that the ideal is "not simply to assist those who lose out through accident or misfortune [as a command economy would], but instead to put all citizens in a position to manage their own affairs and to take part in social cooperation on a footing of mutual respect under appropriately equal conditions".[213] Democratic businesses can help achieve that, as they give their employees a greater ability to manage their own affairs, as related to their employment, and give them a greater part in social cooperation by granting them greater control over an element of the economy; all in a less hierarchical, and therefore more equal, place of employment. Therefore, the greater role that democratic business plays in the economy of a political system, the more legitimate that system is.

On a similar note, if we take public participation or deliberation as the conditions of legitimacy for a political system, the greater presence of democratic business in the economy is also positive for a political system's legitimacy. For, a lot of power over the participants in a political system is exercised not just by government, but also by businesses – for example, in the determination of whether or not one is employed in a given job. The Nobel-prize-winning economist Kenneth Arrow writes that in "capitalist democracy there are essentially two methods by which social choices can be made: voting, typically used to make

212. Stuart White, "Liberal philosophies of ownership", in Jonathan Michie, Joseph R. Blasi and Carlo Borzaga (eds.), *The Oxford Handbook of Mutual, Co-Operative, and Co-Owned Business* (Oxford: Oxford University Press, 2017), 33.
213. John Rawls, *A Theory of Justice* (Cambridge: Belnkap Press, 1999), xv.

'political' decisions, and the market mechanism, typically used to make 'economic' decisions".[214] If those market mechanisms include a greater element of public participation or deliberation, then the system that they are a part of is consequently more legitimate. This is what the case is with democratic businesses. If a business has democratic elements that enable its employees or customers or the broader community to influence its employment policy, then public participation in that element of the political system – that is, employment – is broadened, and so with every other element of the political system that the business impacts.

And while not all persons consider public participation or deliberation as the conditions of legitimacy for a political system, it is a common position among liberal political philosophers, including, but not limited to, Jürgen Habermas, Joshua Cohen[215] and David Miller.[216] There exists a rich library of philosophical literature on why public participation may be considered a condition of political legitimacy, which cannot be given justice to in this brief section. That said, some arguments for why broader public participation improves a political system's legitimacy include: that it ensures that a broader spectrum of the interests and perspectives of all citizens are taken into account; that it reduces the likelihood of partiality; that it recognises a greater proportion of citizens as equals; and that it reduces the prospect of coercion. All those arguments are applicable to when public participation is broadened by a greater level of democratic business within an economy.

Furthermore, on some theories of legitimacy, what renders a political system legitimate is the equal distribution of power between the system's participants[217] or the ability of the system's

214. Kenneth Arrow, *Social choice and individual values* (New Haven: Yale University Press, 2012), 1.
215. Thomas Christiano and Sameer Bajaj, Edward N. Zalta (ed.), "Democracy", *The Stanford Encyclopedia of Philosophy* (2022).
216. David Miller, "Deliberative democracy and social choice", *Political Studies* (2007), 54-67.
217. See, for example, Philip Pettit, *On the people's terms* (Cambridge: Cambridge University Press, 2012) or Thomas Christiano, *The constitution of equality* (Oxford: Oxford University Press, 2008).

participants to consent to the political system. The latter idea, known as voluntaryism, is especially often manifest in centre-right thinking. Stemming originally from the mediaeval philosopher and friar John Duns Scotus and his successors,[218] the view that political legitimacy derives from the consent of the governed is a common view among classical liberals, such as Robert Nozick,[219] and their predecessors, including Hugo Grotius, Thomas Hobbes, John Locke and Jean-Jacques Rousseau.[220]

Those views on the source of political legitimacy are manifested in democracies through the giving to each adult participant an equal vote. However, it is uncontroversial that voting power is limited in its agency. It is both true that significant power is carried through the ability to use capital to influence others and that such use of capital often comes without the consent of the one being influenced. For example, large social networks are able to influence public debate in a way not unlike the government can legislate on laws surrounding freedom of speech. Whether those social networks doing so is legitimate can be questioned on the grounds that their use of this power is not subject to democratic scrutiny unless a democratically-legitimised body, such as a democratic government, intervenes in the actions of said social network. If the ownership of businesses in an economy, however, is distributed in a more equitable way throughout said economy, then the actions of those businesses acquire more democratic legitimacy, and so do not raise as significant concerns of whether what they are doing is legitimate, and, therefore, permissibly just.

This idea is often reflected in public discourse, where concerns are raised that persons do not "hold a stake" in the economy[221] – there is

218. Fabienne Peter, Edward N. Zalta (ed.), "Political legitimacy", *The Stanford Encyclopedia of Philosophy* (2017).
219. Eric Mack, Edward N. Zalta (ed.), "Robert Nozick's political philosophy", *The Stanford Encyclopedia of Philosophy* (2022).
220. Fabienne Peter, Edward N. Zalta (ed.), "Political legitimacy", *The Stanford Encyclopedia of Philosophy* (2017).
221. Connor MacDonald, "Property-owning democracy", https://policyexchange.org.uk/blogs/property-owning-democracy/ (2023).

nothing that legitimises, from those persons' perspectives, the impact that the economy has on their lives. Worth noting here is the view of John Rawls – that one reason why we ought to obey the laws of the community we live in is because we cooperate with its other participants to produce common advantages, and we lose the rights to those advantages if we forgo that cooperation by breaking the community's laws.[222] The other side of this view, however, is that if one does not acquire any advantages from participating in the national economy, then one has less reason to obey national laws. This problem could be alleviated by giving more persons a stake in the national economy and be advantaged by the economy performing well, as would be the case if more persons participated in some form of democratic business. For this to be possible in the UK, however, more democratic businesses have to be present in the UK economy. As John Godfrey emphasised to us, "[democratic business is] a good thing for capitalism because what you don't want is a situation where 90% of the population say that [they] don't have any interest in the success of the capitalist system because [they] do not have a direct stake." Similar views were also presented to us by Tim Pitt, John Penrose MP and Bob Blackman MP.

> "I see it as part of a broader point around asset and wealth inequality. I think that is a problem. You want prosperity to be broad-based. There is a great Thatcher quote … which talks about inequality and she famously said, 'I don't care that much about income inequality,' but she does want prosperity to be broad-based. That is a fairly standard Tory argument. You want prosperity to be broad-based and it can't be concentrated."
>
> **Tim Pitt**

222. Simon Caney, *Justice beyond borders: a global political theory* (Oxford: Oxford University Press, 2005), 134.

> "It is better for a capitalist society to have more people with capital. The more you have with capital and a stake in society, a commercial and economic stake, the better. And so, if I can own one share in the company, that is highly democratic. If you can distribute shares to customers or staff, that is a really good way of achieving inclusive growth."
>
> **John Penrose MP**

> "Not just economic [benefits] … but there are also political rewards to be reaped [from more democratic business]. And that is that if people recognise the value of capitalism in its own right, they are more likely to vote for parties that believe in popular capitalism. They are more likely to vote for us, basically."
>
> **Bob Blackman MP**

Freedom

There exist three notable conceptions of liberty: positive, negative and republican.[223] In centre-right thought, traditionally a negative conception of liberty has been prevalent; that freedom to do something consists in a lack of obstacles to doing it. This is as opposed to a positive conception of freedom to do something, which, broadly, consists in an agency to do it,[224] and a republican conception of freedom, which implies that a free person is somebody that nobody is able to arbitrarily interfere with.[225]

But on any conception of freedom, democratic businesses are greatly conducive to a more free society; a point noted by Chris Clarkson MP, who saw democratic business as conducive to individual agency.

223. Ian Carter, Edward N. Zalta (ed.), "Positive and Negative Liberty", *The Stanford Encyclopedia of Philosophy* (2022).
224. See Isaiah Berlin, *Liberty* (Oxford: Oxford University Press, 2002), 166-217 for a classic treatment of the distinction.
225. See Philip Pettit, "The Republican Ideal of Freedom" in David Miller (ed.), *Liberty Reader* (Abingdon: Routledge, 2016) for a widely-accepted treatment of republican freedom.

> “[Democratic business facilitates a] transparency [in] the business process. People have an inherent desire and requirement to understand how a company is structured and what it is doing … You are not going to get some risky business decision made [because people have agency over it] … as Conservatives, we like to be involved in decision making. We like to see how it all works and where the money is coming from.”
>
> **Chris Clarkson MP**

One of the greatest barriers to freedom in most societies are the barriers erected by the actions of businesses. Mundane examples include a private business fencing off a parcel of land to hinder a person from entering it, but a more relatable one may include a business increasing the price of an essential product that they provide, hence hindering a person who needs it from buying it.

Democratic forms of business ownership permit for those hindered by the actions of a business to influence those very actions, hence either removing unfreedoms that the business is responsible for or consenting to them – which, according to some views on what freedom consists in,[226] means that they are no longer true cases of unfreedom, but rather mere hindrances. For example, should the Co-operative Group decide to raise the price of a particular product sold at Co-op Food, anybody can become a member of the Co-operative Group and vote on their business decisions, as explained in Chapter Three.

Property

One of the central tenants of British conservatism – the key form of centre-right politics in the UK – has been the promotion of a ‘property-owning democracy’ or ‘popular capitalism,’ where property-ownership is broadly distributed throughout the population – a sentiment

226. See, for example, David Miller, *The liberty reader* (Edinburgh: Edinburgh University Press, 2006), 193.

conveyed, among others, by Bob Blackman MP and John Penrose MP in our interviews.[227]

> "The Conservative Party … needs to change to embrace a mass movement rather than being seen on the side of the rich and those [who are] gaining more and more of the capital of this country. It is also an existential threat to us that unless you do that, more and more wealth is in the hands of a small group of individuals … and therefore, the stake in society for the average individual is reduced. What this does is spread wealth in a democratic way and is an opportunity for people to grow their own wealth … It is also a way of engendering a share-owning democracy."
>
> **Bob Blackman MP**

> "If you believe in shareholder democracy and capitalism, the more people that have got capital in a capitalist society, the better your capitalist society is going to work."
>
> **John Penrose MP**

Mutuals, the key form of democratic business, allow for the distribution of a vital form of property – capital – throughout the population. This view was expressed by John Godfrey in our interview, who positively remarked that mutuals widen the economic franchise by distributing property to a broader proportion of society. As people participate in mutuals in the relevant way – by becoming an employee in an employee-owned company or by becoming a member of a co-operative, and so on – they acquire some level of ownership in the mutual and the capital that comes with it. This relates to the point made earlier in this chapter; mutuals are capable

227. Thad Williamson, "Constitutionalizing property-owning democracy", *The Good Society* (2013).

of levelling financial differences by spreading the profits made by mutuals among the mutuals' members, rather than concentrating them in the ownership of a few owners. It is worth sharing that, in our interview, Jerome Mayhew MP's remarked: "Rather than having one capitalist and a thousand employees, you now have a thousand capitalists. You create capitalists out of the workforce. You are seeing the absolute benefit of private property and the use of capital. Your endeavour can make success for you … The centre-right is not about making the rich richer, it is about aspiration, it's about aspiration for everyone. And that includes people sharing in corporate ownership because they can share in their own success. I think that's a deeply conservative philosophy."

It is also important to highlight that democratic businesses can arise as a result of privatisation, as mentioned briefly in Chapter Three in the context of employee ownership and explored more deeply later in this report. This allows for the transfer of property from the hands of the state into private hands – a distributive scheme favoured by those on the economic right. For example, the famous political philosopher Robert Nozick writes, broadly, that a transfer of property is only just if it is voluntary.[228] Since state ownership of assets usually requires taxation, which most often involves an involuntary transfer of property – that of money from the taxpayer to the government – the state of ownership of assets is undesirable, and they should be privatised instead, especially if they cost the government more money than they make. Enthusiasm for mutualisation as a means of privatisation was expressed in our interviews, among others, by Chris Clarkson MP and Sir Philip Dilley.

> "The less government the better for me."
>
> **Chris Clarkson MP**

228. Robert Nozick, *Anarchy, state, and utopia* (Oxford: Blackwell Publishers, 1974), 160.

> “One argument … for democratic business ownership is that this could actually be quite a palatable form of privatisation.”
>
> **Sir Philip Dilley**

Indeed, according to Tim Pitt, the kind of reasoning regarding the broader distribution of capital among the population expressed earlier in this chapter was a part of the rationale behind the privatisation of public service mutuals under the Thatcher Government, which will be described in more detail in Chapter Six.

> “The other bit of me thinks back to the 1980s and the privatisation agenda and the way that was sold by Lawson and Thatcher around, essentially, broader public ownership.”
>
> **Tim Pitt**

Having established the various economic and ethical advantages of democratic business, this report will now move on to consider the various potential disadvantages of or barriers to democratic business in the UK.

Chapter 5:
Problems with democratic business

Despite the benefits of democratic business, as outlined in the previous chapter, there is also an array of actual and presumed problems related to establishing and maintaining such businesses. In this chapter, the most important of these will be explored or debunked, so that recommendations may be made in the final chapter for alleviating the relevant ones.

Actual problems with democratic business

The actual problems with starting and sustaining democratic businesses include: access to capital; lack of a clear legal model; shortage of professional advice; slow decision making; and external takeover pressure.

Access to capital

The main contributing factor to the failure of mutuals – the key form of democratic business – often boils down to their struggle to secure sufficient capital.[229] While all businesses have difficulties accessing capital – particularly smaller ones – additional difficulty is intrinsic to the nature of mutuals, which stand to lose their mutual status if external investors demand shares in the business in exchange for their investment.

Consequently, mutuals have significant difficulties in attracting

229. The Ownership Commission, "Plurality, Stewardship and Engagement", http://www.mutuo.coop/wp-content/uploads/2012/03/Ownership-commission-2012.pdf (2012), 86.

investment into the business without risking the loss of member control. They may struggle to compete with investor-led companies, as their capital comes via members and profits rather than floating shares to be bought by external investors. In times of hardship, this can further exacerbate issues. John Godfrey remarked that mutuals have a lack of an equity cushion that they can fall back on, meaning that, if losses are sustained, it is harder for them to survive, while 'conventional' businesses often have shareholder funds that can protect the business.

> "When you get a retail downturn … they don't have an equity base, a cushion that they can fall back on. So [they have] to reassure the market that credit lines are strong and there is a cash pile … You are totally reliant on debt and ground funding from the government. You don't have an equity cushion. And therefore, once you've reached your borrowing limit, you can't go back for more because nobody will lend you the money."
>
> **John Godfrey**

Whilst it is difficult for mutuals to borrow money as well, Sir Philip Dilley, former Chairman of Arup and former business adviser to the then Prime Minister David Cameron, believes that this actually encourages organic growth.

> "The downside is that [a mutual] is not a listed company, therefore it's quite difficult to borrow money. And actually I say as a downside, in reality, the question arises as to what's the purpose of the business. And Arup [an employee-owned business that Sir Philip used to work for] has grown very successfully through organic growth – the occasional acquisition, but very much organic growth."
>
> **Sir Philip Dilley**

Generally, however, many mutuals need other sources of funding to survive and grow.

When a business seeks external capital, private external investors usually demand to acquire a share in the business in exchange – unless the capital is acquired in exchange for some form of preferential treatment or as a voluntary donation. However, in order for a private external investor to acquire a share in a mutual, the mutual must change their structure and become a 'conventional' business. This is a scenario known as 'demutualisation'. Demutualisation occurs when ownership is transferred into a non-mutual company, with shares allocated to existing members, or the members receiving compensation for their loss of membership rights, known as 'windfall'.[230] By losing membership rights, members often lose a democratic say in the business. As Bob Blackman MP expressed, "you are going to lose control if you are dragging in institutional investors." The social purpose of the organisation is diminished in favour of returns on investment and the benefits listed in Chapter Four dissipate.[231] Indeed, as Jo Gideon MP stated: "If a company is demutualised, the original purpose is lost completely."

Demutualisations can take place in all mutuals, but the phenomenon has been particularly evident in building societies – co-operative banks owned by their customers. Many of the building societies that were demutualised in the 1990s or early 2000s ceased to exist. For example, Woolwich Building Society was converted into a 'conventional' bank and was subsequently taken over by Barclays in 2000. In 2015, Barclays announced that it was phasing out Woolwich. It is not rare for mutuals that demutualise to eventually become obsolete due to corporate acquisitions. Similar situations occurred within Alliance and Leicester, National and Provincial and Abbey National which were all acquired

230. Ibid., 11.
231. Peter Hunt, "Demutualisation and how to stop it", https://www.mutuo.coop/wp-content/uploads/2022/07/Demutualisation-and-how-to-stop-it.pdf (2022), 6.

and rebranded under Santander Bank.[232]

Indeed, in the UK, no demutualised building society continued to operate as an independent bank; rather, they became part of larger banks or failed to remain sustainable and were converted to public ownership – even if only briefly – before being sold to a bank.[233] This is shown in Table 5.1 below.[234]

Table 5.1. Building Societies that have demutualised

Building society	Date of demutualisation	Takeover Bank	Date of takeover	Still exists?
Abbey National	July 1989	Santander	November 2004	Not since 2010
Cheltenham and Gloucester	August 1995	Lloyd's Bank	August 1995	Not since 2017
National and Provincial	August 1996	Abbey National	August 1996	Not since 1996
Alliance and Leicester	April 1997	Santander	October 2008	Not since 2013
Halifax	June 1997	Bank of Scotland	2001	Yes, as a subsidiary of Lloyds Banking Group
Bristol and West	July 1997	Bank of Ireland	July 1997	Yes, as a shell company[235]
Woolwich	July 1997	Barclays Bank	October 2000	Not since 2015
Northern Rock	October 1997	Temporary public ownership, but then sold to Virgin Money	Public ownership: February 2008 Virgin Money: November 2011	Not since 2012
Birmingham Midshires	April 1999	Halifax (Lloyds Banking Group)	April 1999	Yes, as a subsidiary of Lloyds Banking Group
Bradford and Bingley	December 2000	Nationalised, whilst retail savings transferred to Abbey National	September 2008	Not since 2023

232. Ibid., 9-10.
233. Ibid., 10.
234. Ibid., 9-10.
235. A shell company is a company with no operations and only nominal, if any, assets.

Even if a mutual successfully acquires the capital to expand, the difference between the mutual and a 'conventional' business can erode, as the level of control that those involved with the business have is either diluted or concentrated in the hands of those who had it prior to the business expanding. For example, if a company is fully employee owned and has five employees, each employee can have a 20% stake in the company. If the company expands to 100 employees, this stake is then either diluted (to 1%, if each employee has equal ownership of the company) or new employees are deprived of equal ownership levels with the initial five employees, concentrating control in the initial employees' hands.

While it is common for mutuals to convert to 'conventional' businesses in the process of demutualisation, it is often rare that 'conventional' businesses change their ownership model to become mutuals. This is because, as John Godfrey described, "entrepreneurs are reluctant to give up control."

As Lord Naseby remarked, there is a huge problem with raising capital across the mutual sector and behind this struggle there are regulatory challenges. As such, this necessitates analysis of the legal model of mutuals.

Lack of a clear legal model

Alongside a lack of access to external capital, mutuals – and in particular co-operatives – often struggle with the lack of a clear legal model. While the Co-operative and Community Benefit Societies Act 2014 is the primary legal framework for co-operatives, it does not recognise them as a distinct type of enterprise and fails to provide a statutory definition of the co-operative model.[236]

Generally, according to John Godfrey, in company law, a company exists for the benefit of its members. But members are often interpreted as

236. Antonio Fici, "The essential role of co-operative law and some related issues", in Jonathan Michie, Joseph R. Blasi and Carlo Borzaga (eds.), *The Oxford Handbook of Mutual, Co-Operative, and Co-Owned Business* (Oxford: Oxford University Press, 2017), 540.

shareholders, as with a 'conventional' company. Yet, as has been shown in previous chapters, members can mean different things depending on the business model and can indeed refer to employees, consumers or even suppliers. So, the unique membership feature of mutuals, and in particular co-operatives, is not recognised in company law.

> "[According to the 2006 Companies Act] a company exists for the benefit of its members. And members is usually interpreted as shareholders … [as opposed to] the shareholders plus the customers, plus the employees, plus the whatever."
>
> **John Godfrey**

The only statutory definition concerning mutuals that the law provides is through its registrar outlined in the 2014 Act, the Financial Conduct Authority (FCA).[237] The Act states that a co-operative is any society registered under the Act, which is made by sending an application to the FCA. The only relevant conditions for registration as a co-operative are "that the society is a bona fide co-operative society," that is has at least three members and that it does not make "profits mainly for the payment of interest, dividends or bonuses on money invested or deposited with, or lent to, the society or any other person".[238] In that, the 2014 Act is very vague on just what constitutes a co-operative. Consequently, as Jo Gideon MP stated, that there needs to be a "complete refresh on how you define a business."

Prior to the 2014 Act, co-operatives could not undertake banking business directly and needed to use a company subsidiary. For example, the Co-operative Wholesale Society had to separate its banking department to be incorporated as the Co-operative Bank due to restrictions on co-operatives engaging in banking activities. Due to

237. International Cooperative Alliance, "#coops4dev", https://coops4dev.coop/en/4deveurope/united-kingdom (2020).
238. Credit unions, described in Chapter One, are subject to different rules, outlined instead in the 1979 Credit Unions Act. The main difference there is that credit unions are required to have at least 21 members.

these regulations, the subsidiary bank could not attract investments without losing its co-operative nature.[239]

Even for building societies, legislation has been unclear and inhibiting. The Building Societies Act 1986 was poorly drafted and allowed for large-scale demutualisation, facilitating members to voting for conversion from a building society to a 'conventional' bank; the Act allowed ten out of the 12 largest building societies to demutualise and convert to 'conventional' banks.[240] The conversion provisions inserted into the Building Societies Act failed to protect long-standing assets and allowed thousands of potential investors to make deposits in building societies and then vote for conversion to appropriate the capital that had been built up over many generations. Thus, those who had built up capital for many years saw their benefits diluted by a sudden influx of investors seeking short-term gains.

Indeed, the distribution of legacy assets is a crucial area where UK law has long fallen short. Legacy assets are a proportion of a business' working capital that happened to have been built up over generations of membership. Several European countries have legal frameworks that prohibit the distribution of legacy assets. Under these rules, legacy assets must be used for the business' purpose or transferred to a mutual with a similar purpose – this is often known as disinterested distribution, as will be explained later in this chapter.[241] Legislation on legacy assets can provide valuable external capital to similar firms when another winds up. Without it, mutuals do not receive this source of capital and are disadvantaged and may have to retain more of their revenue as a reserve. This has resulted in mutuals in the UK – and especially co-operatives – having had limited expansion and growth as compared to their European counterparts in the past.

239. The Ownership Commission, "Plurality, stewardship and engagement", http://www.mutuo.coop/wp-content/uploads/2012/03/Ownership-commission-2012.pdf (2012), 88.
240. David T. Llewellyn, "Conversion from stakeholder value to shareholder value banks", in Jonathan Michie, Joseph R. Blasi and Carlo Borzaga (eds.), *The Oxford Handbook of Mutual, Co-Operative, and Co-Owned Business* (Oxford: Oxford University Press, 2017), 558-560.
241. Peter Hunt, "Demutualisation and how to stop it", https://www.mutuo.coop/wp-content/uploads/2022/07/Demutualisation-and-how-to-stop-it.pdf (2022), 6.

That said, as of the passing of the Co-operatives, Mutuals and Friendly Societies Act in 2023, a voluntary framework for disinterested distribution has become available for UK co-operatives. As of the Act, the Treasury has the power to give co-operatives the option to amend their constitution such that, in the event of the co-operative winding up, any legacy assets can only be used to continue to conduct the activities of the wound-up co-operative. This amendment then cannot be revoked.[242] That said, the scope of the Act is limited, and, unlike is the case with the legislation of many European countries, disinterested distribution in the UK is not mandatory. This incentivises co-operatives not to amend their constitution in the way outlined above, as it limits the payout that the members of the wound-up co-operative can receive from the sale of the co-operative's legacy assets.

Shortage of professional advice and expertise

There endures a shortage of professional advice and expertise for all mutual businesses. Since the 2012 Nuttal Review, the volume of advice and expertise regarding conversions of 'conventional' businesses to employee ownership has increased, but the shortage of advice and expertise nevertheless remains a problem for mutuals generally.

First, entrepreneurs do not receive extensive advice on models other than those of 'conventional' business. Second, there is a dearth of people with experience of mutual business models who are adept at operating them.[243] Regarding the former, Jerome Mayhew MP, the former managing director of the employee-owned company Go Ape, remarked that, when he was looking at the employee ownership route for the company, he had to "search out legal advisors … and it wasn't easy," indicating the aforementioned lack of advice.

242. Steve Browning, Philip Loft, "Co-operatives, Mutuals and Friendly Societies Bill 2022-23: Progress of the Bill", https://researchbriefings.files.parliament.uk/documents/CBP-9647/CBP-9647.pdf (2023), 16.
243. The Ownership Commission, "Plurality, stewardship and engagement", http://www.mutuo.coop/wp-content/uploads/2012/03/Ownership-commission-2012.pdf (2012), 68.

> “We had to search out legal advisors who’d done it before and it wasn’t easy. It was absolutely us going out on a limb … If you go down a [mutual] route, what bill do they cash? They don’t. If you do any kind of transaction [selling company shares], it costs you a million quid … in fees at this sort of level. And the [professional advisors we hired], if we’d done a private equity sale or a trade sale, they’d have got their million quid. If we [sell to an employee trust instead], they get fifty grand.”
>
> **Jerome Mayhew MP**

Indeed, for new ‘conventional’ start-ups, venture capital can provide a valuable source of not only capital, but also business advice. It allows entrepreneurs to access the aid of business leaders to assist in the development of a business.[244]

This, alongside corporate lawyers, accountants, auditors and lending institutions creates an environment for a comprehensive advice network for ‘conventional’ firms. However, as the Ownership Commission states, for mutuals, there is a paucity of expert accountants, lawyers, auditors and financiers on mutual ownership, providing a substantial barrier to their development.[245]

This is of particular concern when a mutual is looking to expand. Growth necessitates the development of management systems and governance structures.[246] Without support, it becomes very difficult to expand, develop and grow the business. Consequently, mutuals lose further ground against ‘conventional’ businesses that have the know-how to acquire greater levels of support from government, finance and other stakeholders.

Many mutual leaders regarded local authorities, clients, insurance

244. Ibid., 45.
245. Ibid., 69
246. Ian Vickers et al., “Public Service Mutuals: Transforming how services are delivered through social enterprise and democratic governance?”, https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/1101570/Public_Service_Mutuals_Longitudinal_Case_Study.pdf (2021), 31.

companies and pensions advisers as lacking understanding of the mutual model, leading to issues when attempting to mutualise, as a report by the CIPFA found in 2017.[247]

Moreover, leaders of mutuals sometimes lack experience in high-level business leadership, as their motivations and interests instead lie in the social dimension of the mutual.[248] Looking back, a lack of commercial skills and experience was seen as a significant hindrance to mutualisation by 75% of those that managed to complete the mutualisation process.[249]

For example, according to a survey of senior executives from large co-operatives conducted by McKinsey, co-operatives were found to be less agile – with McKinsey defining organisation agility as the pace at which an organisation changes – in hiring and developing the talent needed. Moreover, they found that co-operatives scored low among respondents for having access to "individuals with practical and leadership skills, as well as institutional enablers".[250]

Indeed, as John Penrose MP argued, "if there is no share price, how do you know you have got average management … Who is going to come along and say this place needs a shake up?" The lack of a market measure of performance means that there are fewer mechanisms in mutual businesses to show when company performance is not optimal or when the business is failing. As such, John Godfrey believes that there is a case for having a better 'how-to' guide to ensure that directors are adequately prepared for alternative ownership models.

247. Chartered Institute of Public Finance and Accountancy, "Research into the Public Services Mutuals sector", https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/603356/Research_into_the_Public_Service_Mutuals.pdf (2017), 44.
248. Ibid., 20
249. Ibid., 18.
250. McKinsey & Company, "Improving cooperatives' agility", https://www.mckinsey.com/~/media/mckinsey/dotcom/client_service/Strategy/McKinsey%20on%20Cooperatives/PDFs/McK_on_Cooperatives-Improving_cooperatives_agility.ashx (2012), 14-16.

Slow decision-making

The democratic nature of decision making in democratic businesses can, unsurprisingly, result in a slower decision-making process. This is inherent to their model; as more parties are more equally involved in the decision-making process, the process takes more time.[251]

This can be observed empirically.[252] For example, McKinsey's research on co-operatives found that they scored lower on coordination and control metrics than 'conventional' firms, meaning that they generally measure business performance less consistently, leading to delayed action in addressing problems and opportunities. Interviews conducted by McKinsey with key leaders in the co-operative model demonstrated that democratic processes naturally slowed down decisions.[253]

Some democratic businesses manage to strike an effective balance between democracy and decisiveness. The Dutch dairy co-operative FrieslandCampina, for example, created an operating subsidiary which it remained the owner of. However, the subsidiary has its own board to create a distance between co-operative democracy and quick decision making. The co-operative's members elected nine of the subsidiary company's 13 board members. Thus, whilst the co-operative's members remained close to the new board and elected the majority of its members, the roles of the board members were defined so there was limited interference in day-to-day decision making by members.[254]

Examples like this are rare, however, and many democratic businesses lack similarly effective arrangements to enhance quick responsiveness under rapidly changing conditions while maintaining their democratic

251. McKinsey & Company, "McKinsey on cooperatives: autumn 2012", https://www.mckinsey.com/uk/~/media/mckinsey/dotcom/client_service/strategy/mckinsey%20on%20cooperatives/pdfs/mck_on_cooperatives-full_issue.pdf (2012), 20.
252. The Public Service Mutual Task Force, "Public Service Mutuals: The case for a Third-way for delivering public services in Australia", https://static.squarespace.com/static/52045752e4b0330b6437dade/t/53914920e4b0b6fb01558bd6/1402030368396/PSMs_GreenPaper_FinalV1.pdf (2014), 31.
253. McKinsey & Company, "McKinsey on cooperatives: autumn 2012", https://www.mckinsey.com/uk/~/media/mckinsey/dotcom/client_service/strategy/mckinsey%20on%20cooperatives/pdfs/mck_on_cooperatives-full_issue.pdf (2012), 14.
254. Ibid., 18.

nature. As a result, democratic businesses may face challenges in keeping pace with investor-led competitors.

External takeover pressure

Whilst it is often the case that demutualisation, as described earlier in this chapter, occurs when ownership is transferred into a 'conventional' company in order to access capital, another route to demutualisation is the sale of a mutual to an external company or investor, which is more common for mutuals in financial services. In this type of demutualisation, an offer is made by the external company or investor to buy the mutual and take control of it. As such, it is a takeover.[255]

This is not always to the mutual's members' benefit. The members are not always presented with adequate information by company governance when it comes to takeovers. As such, members who vote on decisions may not have access to the full picture if the board is aiming to sell the mutual.[256] As outlined by Peter Hunt, in some financial sector mutuals, a "fair price" for the loss of mutual membership rights is determined by an "independent expert" appointed by the board. But, if that board is seeking demutualisation through a takeover, then the independence of said expert is called into question.[257] Therefore, in the process of an external takeover, democratic decision making is undermined by the lack of information.

Supposed problems with democratic ownership

We will now tackle supposed problems with democratic business and the wider effects of them; notably, aversion to risk, the free rider problem and perverse reaction to market stimuli.

255. Peter Hunt, "Demutualisation and how to stop it", https://www.mutuo.coop/wp-content/uploads/2022/07/Demutualisation-and-how-to-stop-it.pdf (2022), 11.
256. Ibid.
257. Ibid.

Aversion to risk

Perhaps as a result of a lack of investor pressure and a lack of professional advice and expertise, if opportunities arise that are outside the needs of the membership base, co-operatives often have difficulty seizing it, especially when members fail to see tangible benefits from a decision.[258] This is a key reason for co-operatives' weaker performance in portfolio momentum; that is, revenue growth resulting from entering new markets, rather than from increasing their share in the markets where they already operate. Between 2005 and 2010, co-operative portfolio momentum grew at a rate of only 3.3% annually as compared to 5% for 'conventional' companies.[259]

As such, unlike the other supposed problems with democratic business in this section, aversion to risk is a true facet of democratic business, However, it is not an actual problem insofar as it is not truly a problem.

Studies have found that mutuals can experience overall growth and keep pace with 'conventional' companies despite their risk aversion and relatively poor portfolio momentum, as demonstrated in the previous chapter. For instance, in Europe between 2005 and 2010, co-operatives had an average annual growth rate of 8.9% compared to 'conventional' companies' 7.3%.[260] This can be also observed globally. In the USA, the top 100 co-operative businesses experienced a 5% increase in revenue between 2011 and 2012, as compared to 1.5% in the US economy as a whole. In India, one agricultural co-operative, the Indian Farmers Fertiliser Co-operative, operates overseas subsidiaries and, in 2014, returned an annual profit of $200 million.[261]

258. McKinsey & Company, "McKinsey on cooperatives: autumn 2012", https://www.mckinsey.com/uk/~/media/mckinsey/dotcom/client_service/strategy/mckinsey%20on%20cooperatives/pdfs/mck_on_cooperatives-full_issue.pdf (2012), 19.
259. Ibid., 5-6; International Labour Organization, "Promoting co-operatives: an information guide to ILO recommendation no. 193", https://www.ilo.org/wcmsp5/groups/public/---ed_emp/---emp_ent/---coop/documents/publication/wcms_311447.pdf (2014), 20.
260. McKinsey & Company, "McKinsey on cooperatives: autumn 2012", https://www.mckinsey.com/uk/~/media/mckinsey/dotcom/client_service/strategy/mckinsey%20on%20cooperatives/pdfs/mck_on_cooperatives-full_issue.pdf (2012), 5-6.
261. International Labour Organization, "Promoting co-operatives: an information guide to ILO recommendation no. 193", https://www.ilo.org/wcmsp5/groups/public/---ed_emp/---emp_ent/---coop/documents/publication/wcms_311447.pdf (2014), 20.

In that, while it is true that mutuals exhibit a higher degree of risk avoidance, this does not harm their capacity for growth. Indeed, short-term risk is not necessarily in the long-term interest of most businesses.

Free riding

There have been suggestions that mutual models of democratic business cannot continue to operate successfully in the long term because each employee has an "incentive to shirk [from work]." This means that the business model fails to motivate people to work hard.[262] As such, it is seen that this 'free riding' is a barrier to maintaining a mutual and to its success. Such suggestions have been made, among others, by the economists Richard Caves, Bruce Petersen[263] and Charles Knoeber.[264] However, empirical data suggests an opposite trend in practice. As explained in the previous chapter, mutuals have demonstrated higher productivity compared to their non-mutual competitors.

Indeed, the risk of 'free riding' is generally lower in mutuals than in 'conventional' firms. Workers in companies with employee stock ownership plans or profit-sharing schemes were more likely to step forward and take action against shirking behaviour. A 2010 study of 40,000 employees in 14 corporations found that the combination of employee ownership and profit sharing alongside a supportive corporate culture "led to great efforts by fellow employees to intervene with [a worker who engaged in free-riding]".[265] Indeed, this very factor is listed by Chris Doucouliagos as one of the key benefits of democratic business, insofar as it decreases employee monitoring costs.[266]

262. Joseph R. Blasi, Richard B. Freeman and Douglas L. Kruse, "Evidence: what the US research shows about worker ownership", in Jonathan Michie, Joseph R. Blasi and Carlo Borzaga (eds.), *The Oxford Handbook of Mutual, Co-Operative, and Co-Owned Business* (Oxford: Oxford University Press, 2017), 218-219.
263. Richard Caves and Bruce Petersen, "Cooperatives' shares in farm industries: Organizational and policy factors", *Agribusiness* (1986), 1-19.
264. Charles Knoeber and David Baumer, "Understanding Retained Patronage Refunds in Agricultural Cooperatives", American Journal of Agricultural Economics (1983), 30-37.
265. Joseph R. Blasi, Richard B. Freeman and Douglas L. Kruse, "Evidence: what the US research shows about worker ownership", in Jonathan Michie, Joseph R. Blasi and Carlo Borzaga (eds.), *The Oxford Handbook of Mutual, Co-Operative, and Co-Owned Business* (Oxford: Oxford University Press, 2017), 210-220.
266. Chris Doucouliagos, "Worker participation and productivity in labor-managed and participatory capitalist firms: a meta-analysis", *ILR Review* (1995), 58.

While claims of inherent free riding incentives in mutuals exist, the available evidence suggests that these concerns are not borne out in practice. Mutuals have shown the ability to motivate workers and foster a sense of collective responsibility and engagement, leading to improved performance and outcomes.

Distorted reactions to market stimuli

Classical economic thinking, such as by the American economist Benjamin Ward, suggests that increasing the scale of operations for mutuals combined with their governance structure means that they have a distorted reaction to market stimuli; they make suboptimal decisions that would not be made by a 'conventional' business. Ward argued that Yugoslav worker-owned enterprises reacted to increased output prices by reducing supply and to increased capital costs by increasing production and employment.[267] A 'conventional' business, on the other hand, would react conversely – increase supply in response to higher output prices and decrease production and employment in reaction to higher capital costs. However, this thinking – which is largely theoretical – has not been confirmed empirically.

Some other economists also predict dire results for an economy with high levels of mutual business. They suggest that increasing the volume of mutual businesses in the economy reduces a country's capital stock, ultimately increasing unemployment and reducing labour income and national output.[268] This is because these economists believe individuals to be self-interested, meaning that members would veto any business decisions that did not produce a higher cash-flow per member. This is often a negative way for a business to react to market stimuli. For example, if a business decision led to the mutual increasing its profits by 10%, but

267. Carlo Borzaga and Ermanno Tortia, "Co-operation as co-ordination mechanism: a new approach to the economics of co-operative enterprises", in Jonathan Michie, Joseph Blasi and Carlo Borzaga (eds.), *The Oxford Handbook of Mutual, Co-operative, and Co-owned Business* (Oxford: Oxford University Press, 2017), 65.
268. David Erdal, "Creating socially sustainable enterprise", in Jonathan Michie, Joseph R. Blasi and Carlo Borzaga (eds.), *The Oxford Handbook of Mutual, Co-Operative, and Co-Owned Business* (Oxford: Oxford University Press, 2017), 590.

also employing 20% more workers, such a decision, theoretically, would be vetoed by the current membership of the mutual, as the cash-flow per member would then fall by 8.3%. This comes at a cost to an increase in output and employment. A 'conventional' business would seek to maximise profits instead, and so go through with the aforementioned decision.[269]

Nevertheless, these projections have been disproved several times. Other economists, such as David Erdal – an expert on employee ownership – suggest that democratic ownership helps to drive economic wellbeing and behaviour.[270] In fact, member involvement correlates positively with productivity in democratic businesses.[271] As explored earlier, in Chapter Four, the evidence suggests that democratic businesses are more productive and resilient than 'conventional' businesses, as well as producing benefits for the broader economy, including better levels of employment, economic stability and economic multiplier.

To summarise, the following are the actual barriers and problems related to democratic business and severity of those problems:

Table 5.2. Actual problems related to democratic business

Problem	Scope	Seriousness
Access to capital	All mutuals	Very significant
Lack of a clear legal model	Co-operatives	Significant
Slow decision making	All democratic business	Significant
Shortage of professional expertise	Some mutuals	Significant
External takeover pressure	All mutuals	Minor

We will now move on in the next chapter to analyse examples of current and historic government policies designed to support democratic businesses.

269. Michael Jensen and William Meckling, "Rights and production functions: an application to labor-managed firms and codetermination", *Journal of Business* (1979), 504.
270. David Erdal, "Creating socially sustainable enterprise", in Jonathan Michie, Joseph R. Blasi and Carlo Borzaga (eds.), *The Oxford Handbook of Mutual, Co-Operative, and Co-Owned Business* (Oxford: Oxford University Press, 2017), 591.
271. Chris Doucouliagos, "Worker participation and productivity in labor-managed and participatory capitalist firms: a meta-analysis", *ILR Review* (1995), 58.

Chapter 6:
Policies to support democratic businesses

Given the benefits of democratic business outlined in Chapter Four, it should not come as a surprise that successive governments in this country and overseas have often introduced policy to promote democratic business, with varying success. This chapter will describe, examine and evaluate those attempts, beginning with recent examples from the US and from continental Europe, and then moving on to a more comprehensive overview of recent policy developments in the UK.

Policies globally

The promotion of democratic business has been legislated for across the world. Spain and Italy, for example, have long-standing worker co-operative movements with supporting legislation; in the latter of them, co-operatives employ over 6% of the country's workforce.[272] Where it comes to employee ownership, South Africa has legislation that encourages employee ownership by black persons as a means to overcome the lingering social impacts of apartheid – in particular racial inequality[273] – however, the countries that have legislated on employee ownership most extensively are the USA and the UK.

Of the different forms of democratic business, employee ownership

272. Loren Rodgers, "How to think about global employee ownership", in Jonathan Michie, Joseph R. Blasi and Carlo Borzaga (eds.), *The Oxford Handbook of Mutual, Co-Operative, and Co-Owned Business* (Oxford: Oxford University Press, 2017), 195.
273. Ibid.

has been most prominently promoted in the US. The initial employee stock ownership (ESOP) model, as described in Box 3.1 much earlier, was developed in the 1980s by a small number of professional services providers who were able to weld together various legal instruments, such as employee benefit trusts and profit-sharing schemes, to create feasible means for firms to increase their employee ownership level. The ESOP form of employee ownership had developed in the United States after the Employee Retirement Income Security Act of 1974 as a response to the perceived failure of the formerly main form of employee ownership – the worker co-operative. One of the appeals of the emergent ESOP form, as contrasted with co-operatives, was that worker ownership could be combined with the benefits of 'conventional' forms of company management.[274]

US policy on employee ownership has been highly effective. In 2010, the US saw 1,676 employee contribution plans that are invested in employer stock but are not ESOPs,[275] and 1,400 ESOPs,[276] as compared to, respectively, 4,866 and 6,467 in 2020.[277] The total number of listed companies in the US remained roughly the same within the same period,[278] so growth in the employee-owned sector likely significantly outstripped growth in the economy overall.

That said, between 2014 and 2020, the total number of ESOPs in the US had declined in number.[279] Fewer than 240 ESOPs were formed each year in 2019 and 2020, as compared to 322 in the UK in 2022.[280]

274. Pendleton and Andrew Robinson, "Employee ownership in Britain today", in Jonathan Michie, Joseph R. Blasi and Carlo Borzaga (eds.), *The Oxford Handbook of Mutual, Co-Operative, and Co-Owned Business* (Oxford: Oxford University Press, 2017), 432.
275. National Centre for Employee Ownership, "Employee ownership by the numbers", https://www.nceo.org/articles/employee-ownership-by-the-numbers (2023).
276. The Menke Group, "The ESOP Association and the Employee Ownership Foundation release results of the 2010 ESOP company survey", https://www.menke.com/esop-archives/the-esop-association-and-the-employee-ownership-foundation-release-results-of-the-2010-esop-company-survey/ (2010).
277. National Centre for Employee Ownership, "Employee ownership by the numbers", https://www.nceo.org/articles/employee-ownership-by-the-numbers (2023).
278. Federal Reserve Bank of St. Louis, "Number of Listed Companies for United States", https://fred.stlouisfed.org/series/DDOM01USA644NWDB (2023).
279. Karen Kahn, "As Total Number of ESOPs Drops, Number of Participants Rising, https://www.fiftybyfifty.org/2022/02/as-total-number-of-esops-drops-number-of-participants-rising/ (2022).
280. National Center of Employee Ownership, "Employee Ownership by the Numbers", https://www.nceo.org/articles/employee-ownership-by-the-numbers#2 (2023).

The EU

In contrast, the lack of action on employee ownership in the EU – as opposed to co-operatives, which have been the more prominent form of democratic business in the EU – has taken place alongside a lack of success for employee ownership among EU firms. In late 2014, the European Commission (EC) released a pilot project to support the development of employee ownership throughout the EU, named 'Promotion of Employee Ownership and Participation.' However, early in 2015, the European Federation of Employee Share Ownership (EFES) released a report reacting to the provisions in the pilot project and expressing its strong disagreement with the proposed legislation. Accordingly, the pilot project's legislation did not include financial incentives to promote employee ownership, and the EFES argued that those are necessary for the successful growth of broad employee ownership in the EU.[281] Consequently, since 2007, the proportion of employee shareholders from amongst all employees in the EU has peaked in 2010, at 23.5%, and declined steadily to reach 18.7% in 2018, remaining at roughly the same level since.[282]

Disinterested distribution

The most notable EU legislation on democratic business concerns the principle of disinterested distribution, which relates mostly to co-operatives, rather than employee ownership. As mentioned earlier in this report, the essence of disinterested distribution is that, in the event of a co-operative winding up, assets and reserves in the co-operative can only be transferred to another body pursuing similar aims or other general interest purposes. As such, assets cannot be transferred to a private company or distributed to members. This principle acts as a "legal barrier to demutualisation by removing the incentive for

281. Loren Rodgers, "How to think about global employee ownership", in Jonathan Michie, Joseph R. Blasi and Carlo Borzaga (eds.), *The Oxford Handbook of Mutual, Co-Operative, and Co-Owned Business* (Oxford: Oxford University Press, 2017), 206.
282. Marc Mathieu, "Annual economic survey of employee share ownership in European countries", http://www.efesonline.org/Annual%20Economic%20Survey/2022/Survey%202022.pdf (2021), 12.

members to cash-out the value of the business".[283]

The principle of disinterested distribution is seen within EU law; notably in the 2003 Statute for a European Co-operative Society. The EU has created common principles for the registering of EU co-operatives and their preservation. Moreover, it has also encouraged member states to ensure that, upon the dissolution of a co-operative or a mutual, assets are to be distributed according to disinterested distribution. The success of this EU legislation was limited – it only led to changes to national legislation in five of the – at the time – 30 EU member states.[284] A 2010 study commissioned by the EU to evaluate the impact of the legislation blamed it on a few factors, including that the legislation was poorly written from a legal point of view, that the legislation did not raise awareness of the existence of the co-operative model, and that in countries where the co-operative model was already popular, no new legislation was required: all issues that are avoidable in a future UK context.[285] Also worth mentioning is that this legislation came after the demutualisations that happened in the UK in the 1980s and 1990s and, therefore, did not prevent them from happening.

Assets built up by the co-operative over generations are, under disinterested distribution, 'locked in' to the objectives of those co-operatives. Asset stripping is thus blocked and the original objectives of the co-operative are respected.[286] The rationale behind this is to provide protection to co-operative assets by ensuring that during a takeover, "the wishes of members and the objectives of the co-operative are respected".[287] This sentiment was received positively by Jo Gideon MP and Bob Blackman MP in our interviews, with the former mourning

283. The Ownership Commission, "Plurality, stewardship and engagement", http://www.mutuo.coop/wp-content/uploads/2012/03/Ownership-commission-2012.pdf (2012), 90.
284. Cooperatives Europe et al., "Study on the implementation of the regulation 1435/2003 on the statute for European cooperative society", https://op.europa.eu/en/publication-detail/-/publication/494bb15b-c34d-4bdf-8518-75d6bde38cbb (2010), 152.
285. Ibid., 28.
286. Commission of the European Communities, "Communication from the Commission to the Council and the European Parliament, the European Economic and Social Committee and the Committee of Regions on the promotion of co-operative societies in Europe", https://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:52004DC0018&qid=1679393896498&from=EN (2004), 13.
287. Ibid.

that "[in the event of demutualisation] you forget the original purpose that the money [was meant for]."

Indivisible reserves

Following the principles of disinterested distribution, most EU companies also use indivisible reserves to allow the co-operative sector to flourish. The indivisible reserve is created by allocating a set percentage of annual surpluses and placing them in an indivisible reserve fund. The co-operative with this reserve can use it like any other retained earnings, but it cannot be accessed by members for personal distribution. As such, indivisible reserves provide capital for long-term investment.[288]

There is technically no EU law that mandates indivisible reserves, however, the European Economic and Social Committee – an EU advisory body that issues opinions to other EU institutions – published an opinion in 2012 stating that EU member states should introduce laws arranging them.[289] This arrangement is probably best demonstrated by Law 118/2005 in Italy, which followed Law 381/1991 on social co-operatives – co-operatives set up explicitly with the intention to pursue social aims rather than profit maximisation. This Italian Law stated that none of social co-operatives' profits can be distributed to members or owners and that they must instead be reinvested for public benefit or to increase the co-operative's assets, which are fully locked.[290]

The nature of indivisible reserves also ensures that disinterested distribution is respected. When the co-operative ceases to exist as a co-operative, this reserve fund will go to another body pursuing similar aims,

288. Hazel Cocoran, "What if we had an antidote to worker co-ops selling out?", https://www.fiftybyfifty.org/2020/01/hazel-corcoran-what-if-we-had-an-antidote-to-worker-co-ops-selling-out/ (2020).
289. European Economic and Social Committee on 'Cooperatives and restructuring', "Opinion of the European Economic and Social Committee on 'Cooperatives and restructuring'", https://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=OJ:C:2012:191:0024:0029:EN:PDF (2012).
290. European Commission, "Social Cooperatives Law in Italy: Adjustment of an existing cooperative law to support social enterprise development", https://betterentrepreneurship.eu/it/content/social-cooperatives-law-italy-adjustment-existing-cooperative-law-support-social-enterprise (2023).

rather than being distributed amongst members.[291] Fundamentally, as Peter Hunt states, "having indivisible reserves underlines how mutuals are a collaborative endeavour, through which individuals share personal financial benefits and rights in order that the mutual may prosper and achieve its purpose".[292]

Indeed, 23 European countries consider indivisible reserves to be important and have a specific provision for them in legislation.[293] Mandatory indivisible reserve frameworks underpinned by legislation correlate with the growth of co-operatives. The worker co-operative movement was exceptionally large and fast-growing in Mondragon in Spain, the Emilia Romagna region of Italy and France. All of these places have a mandatory indivisible reserve framework.[294] The example of Italy is worth highlighting; the Basevi Law of 1947 in Italy ensures that at least 20% of co-operative profits are to be deposited into the company's indivisible reserve which can provide long-term capital. The Law also prohibits the distribution of assets in the case of winding up.[295] Later, the updated 2003 Civil Code stated that, upon dissolution, a co-operative's should be deposited in a co-operative development fund, thus preserving the purpose behind the capital left over by the co-operative.[296]

Consequently, Italy has seen enormous success in the co-operative sector. Between 2001 and 2011, 30% of all new jobs created in Italy came from that sector, with co-operatives operating in all sectors of the economy. They hold there a substantial market share in social services (over 50%), retail (33%), insurance (33%), agriculture (25%), construction and housing (11%) and the service industry (10%), as of 2018.[297]

291. Hazel Cocoran, "What if we had an antidote to worker co-ops selling out?", https://www.fiftybyfifty.org/2020/01/hazel-corcoran-what-if-we-had-an-antidote-to-worker-co-ops-selling-out/ (2020).
292. Peter Hunt, "Demutualisation and how to stop it", https://www.mutuo.coop/wp-content/uploads/2022/07/Demutualisation-and-how-to-stop-it.pdf (2022), 22.
293. Ibid.; the only EU countries in Europe that do not have do not have any legal requirement for the setting aside indivisible reserves are Austria, Czechia, Denmark, Ireland, Norway and the UK.
294. Hazel Cocoran, "What if we had an antidote to worker co-ops selling out?", https://www.fiftybyfifty.org/2020/01/hazel-corcoran-what-if-we-had-an-antidote-to-worker-co-ops-selling-out/ (2020).
295. Piero Ammirato, *The growth of Italian cooperatives: innovation, resilience and social responsibility* (Oxford: Routledge, 2018).
296. Ibid.
297. Ibid.

Marcora's Law

Italy's legislation to support co-operatives does not stop with indivisible reserves. In the 1980s, the then Minister of Trade and Industry Giovanni Marcora passed a law to support worker buyouts which helped to create 257 new worker co-operatives. The essence of the law, now known as Marcora's Law, was that a lump sum of three years of future unemployment benefits could be used to enable those about to lose their job to engage in co-operative entrepreneurship and acquire the firm.

Once a group of workers begins to co-operate, they can purchase a part or all of the target company via capital purchases in which each worker would contribute a minimum of €4,000 to use as start-up capital. Moreover, capital could be acquired through the co-operative movement's mutual fund which is contributed to through existing Italian indivisible reserve legislation.

Resulting from Marcora's Law, co-operatives that were established through worker buyouts after 2007 had an 87.16% survival rate.[298] And although it is true that co-operatives only make up 1.5% of the total firms operating in Italy, they are often larger than the average business. For instance, they represent 17% of medium-sized businesses and 15% of large businesses.[299] In that, the aforementioned legislation on asset distribution and profit allocation – as well as Marcora's Law – has played a key role in the success and continued prosperity of Italian co-operatives.

Employee financial participation in France

In France, profit-sharing schemes are compulsory for firms with at least 50 employees. Under the 2008 Article L.3324-1 of France's Labour Code, employees gain a share in the company's results based on its net

298. International Cooperative Alliance, "The Marcora Law supporting worker buyouts for thirty years", https://www.ica.coop/en/media/news/marcora-law-supporting-worker-buyouts-thirty-years (2015).
299. Piero Ammirato, *The growth of Italian cooperatives: innovation, resilience and social responsibility* (Oxford: Routledge, 2018).

profit. The company, however, gets to choose how bonuses are allocated to employees; they can be equal for all employees, proportionate to salary, or a combination of the two. At the same time, employees can choose to have their share paid out to them directly or deposited into an employee savings scheme.

Employee financial participation in France is "designed to bolster solidarity and social ties within companies, to align interests between employers and employees and to strengthen capital stability for publicly listed companies".[300] In 2018, nine million employees in France had access to at least one financial participation scheme, making up 50.9% of private sector employees. That year, French companies paid out €19.4 billion to their employees. Unsurprisingly, given that it is compulsory for firms with 50 or more employees, this model in France is heavily weighted towards larger firms. Of the employees covered by financial participation schemes, fewer than 5% were from companies with under 11 employees.[301]

Worker representation on boards

Many European countries also have legislation for the representation of workers on the board of large firms. Commonly, around one-third of the board is allocated to workers. However, in France, only one seat is reserved for worker representation. Conversely, in Germany, firms with over 2,000 employees are required to give employees representation at least equal to that of shareholders.[302]

Germany introduced legislation in 1951 which guaranteed employees the right to be represented in boardrooms, particularly in the coal, iron and steel industries. In the 1970s, several other European nations followed suit: the Netherlands, Ireland, Austria, Denmark, Sweden and Portugal. This was followed by four more countries passing employee

300. Cyprien Batut and Chakir Rachiq, "Employee financial participation schemes in France and Europe", https://www.tresor.economie.gouv.fr/Articles/45f13d10-09b7-4341-9d99-94e45298e7ca/files/1a69883c-ebe0-4fa8-bdec-186afb72e200 (2021), 2.
301. Ibid., 3-4.
302. Daniel Chandler, *Free and Equal: What Would a Fair Society Look Like?* (London: Allen Lane, 2023), 253.

board representation legislation in the 1980s: Poland, France, Greece and Hungary. In the 1990s, four more followed: Finland, the Czech Republic, Slovakia and Slovenia.[303] The UK, however, never implemented any legislation in this regard, despite the suggestion having been once made by the then Prime Minister Theresa May.[304]

There is evidence that German board-level employee representation has ensured higher output, with between a 2-8% increase in labour productivity for firms that have adopted employee representation on boards between 1994 and 2014.[305] Indeed, at the 2011 annual World Economic Forum meeting, the then managing director of Blackstone, John Studzinski, stressed that employee representation on German companies' boards was one of the major factors in the nation's success in mitigating crises.[306]

The UK

In Europe, it is the United Kingdom that has had the most notable developments in legislation on employee ownership in recent decades, mirroring the US; whereas, on co-operatives, continental Europe has had a more advanced legal framework, as described above. There are three elements to recent UK government policy on democratic ownership: regulatory initiatives, tax subsidies and privatisation. We examine all three governments that pursued this in recent decades. Worth noting is that employee ownership can be manifested in two forms: financial participation, which consists in sharing business profits with employees, and employee engagement, which consist in giving employees control over the business' decision-making, as highlighted in

303. Aline Conchon, "Board-level employee representation rights in Europe: facts and trends", European Trade Union Institute Research Paper 121, https://www.etui.org/sites/default/files/R%20121%20Conchon%20BLER%20in%20Europe%20EN%20WEB.pdf (2011).
304. Larry Elliott, "Theresa May misses a trick after U-turn over workers on boards", *The Guardian*, 10 June 2018.
305. Simon Jäger, Benjamin Schoefer and Jörg Heining, "Labor in the boardroom", *The Quarterly Journal of Economics* (2021), 672.
306. Aline Conchon, "Board-level employee representation rights in Europe: facts and trends", European Trade Union Institute Research Paper 121, https://www.etui.org/sites/default/files/R%20121%20Conchon%20BLER%20in%20Europe%20EN%20WEB.pdf (2011), 8.

the Nuttal Review; past UK government policy on employee ownership largely consists of promoting the former.

The Thatcher Government, 1979-1990

Regulatory policies to promote democratic business in the UK comprised the establishment of legal instruments for employee share ownership and the provision of tax concessions for employee-owned businesses.

An example of the latter comes in the 1980 Finance Act, which introduced the Save As You Earn (SAYE) scheme. Under the scheme, a company can offer all of its employees company share options for up to 20% less than the market value share price. Employees who join the scheme can choose a contract period of three or five years to save a monthly amount from post-tax salary of between £5 and £500. At the end of the contract period, the savings are used to buy shares at the option price. If the share price has gone up during that time, the employee gains from that. This gain is taxed as capital rather than income. Each employee enjoys an annual exemption from Capital Gains Tax (CGT) of £11,000, which means all share price increases up to this amount are tax free. On the other hand, if the share price has gone below the option price, even with the discount, employees get all their savings back.[307]

The SAYE scheme continues to be a success. In the tax year 2020-21, the most recent for which data is available, 380,000 employees across 260 companies have been granted options under the SAYE scheme, with a total value of £2.59 billion. That said, the scheme has declined in popularity in recent years. Its popularity peaked in 2001-02, when 1.3 million employees were granted options under the SAYE scheme, and has been steadily declining since.[308]

307. Employee Share Ownership Centre, "Save As You Earn", https://esopcentre.com/metapages/save-as-you-earn/ (2023).
308. H&M Revenue and Customs, "Employee Share Scheme statistics", https://www.gov.uk/government/statistics/employee-share-scheme-statistics (2023).

The Thatcher Government also introduced the Discretionary Share Option Plan (DSOP) in 1984, which was replaced by the similar Company Share Option Plan (CSOP) in 1996. Under the CSOP, a company may offer any of their employees share options at a price equivalent to the market value of the shares at the time at which the option is granted, up to the value of £60,000 per employee. The income used to buy those options is then exempt from Income Tax and National Insurance contributions if the options are held for at least three years. The company offering the CSOP will generally qualify for a Corporation Tax deduction equivalent to the amount of gains realised by the employees on the exercise of their options.[309]

The CSOP has considerably declined in popularity in recent years. The Plan arguably peaked in popularity in the tax year 2000-01, when 415,000 employees were granted share options via the CSOP to the total value of £2.2 billion. Since then, its uptake has been steadily decreasing. In the tax year 2020-21, the most recent for which data is available, only 30,000 employees were granted options via the CSOP, to the total value of only £180 million.[310] The increase of the value of options per employee to £60,000 from £30,000, with effect from April 2023, is intended to arrest this decline.[311]

Another policy of the Thatcher administration came in 1989, when the Government introduced the Qualifying Employee Share Trust (QUEST), designed to simplify employee share ownership creation by enabling the use of one, rather than two, trusts, and by making expenses incurred in establishing a trust tax deductible by statute. Most notably, it provided an incentive for business owners to establish QUESTs by allowing CGT rollover relief – a delay on any CGT payment until the equity that is being taxed is sold – if at least 10% of the company's

309. Employee Share Ownership Centre, "Company Share Option Plan", https://esopcentre.com/metapages/company-share-option-plan/ (2023).
310. Ibid.
311. HM Revenue & Customs, "Employment Related Securities Bulletin 48", https://www.gov.uk/guidance/employment-related-securities-bulletin-48-february-2023 (2023).

equity was sold to the QUEST.[312]

The QUEST form was not widely used, however, because the conditions for securing tax concessions were inflexible. For example, it was required that a majority of the trustees of the QUEST should be elected by the entire workforce, meaning a lack of control over the composition of the board of trustees by those initiating the QUEST establishment process.[313] This condition was changed in 1994,[314] but the QUEST scheme was withdrawn by the Blair Government in 2003.

The Blair Government, 1997-2007

Employee ownership formed a part of New Labour's move away from nationalisation as a key means to achieve social ownership and towards the notion of a 'social market economy.' In 2000, the Blair Government introduced the Share Incentive Plan (SIP), which replaced Approved Profit Sharing introduced in 1978 under the Labour Callaghan Government.[315] The SIP provides tax relief for employees acquiring shares in the company they work for and has two conditions: the shares provided for it must be held in a trust for at least five years, and all company employees must be able to purchase shares through the SIP, as opposed to only some.

If those conditions are fulfilled, the employees who purchased shares through the SIP do not have to pay Income Tax or National Insurance contributions on the income that was used to buy said shares, up to £1,800's worth of shares or 10% of the employee's salary, whichever one is lower. Dividends paid on those shares are also exempt from tax, provided they are paid as additional shares. A company can also elect to

312. Andrew Pendleton and Andrew Robinson, "Employee ownership in Britain today", in Jonathan Michie, Joseph R. Blasi and Carlo Borzaga (eds.), *The Oxford Handbook of Mutual, Co-Operative, and Co-Owned Business* (Oxford: Oxford University Press, 2017), 433.
313. Ibid.
314. Graeme Nuttall, "How Robert Oakeshott made paritarian governance good practice for employee ownership trusts", https://ownershipatwork.org/wp-content/uploads/2021/06/Graeme-Nuttall-June-2021-How-R-Oakeshott-made-partitarian-governance-good-practice-for-EOTs.pdf (2021), 3.
315. Andrew Pendleton and Andrew Robinson, "Employee ownership in Britain today", in Jonathan Michie, Joseph R. Blasi and Carlo Borzaga (eds.), *The Oxford Handbook of Mutual, Co-Operative, and Co-Owned Business* (Oxford: Oxford University Press, 2017), 435.

award their employees shares for free – though no more than £3,600's worth per employee – in which case the cost of doing so is deductible against Corporation Tax.[316]

The SIP quickly gained popularity. The value of shares awarded under the SIP reached one billion pounds in the tax year 2006-07 and has remained roughly at this level since, peaking in 2012-13 at £1.26 billion. The tax year 2020-21, the most recent for which data is available, saw £780 millions' worth of shares awarded under the SIP.[317]

Also in 2000, the Blair Government introduced the similar Enterprise Management Incentives (EMIs) through the 2000 Finance Act. EMIs allow a company with assets of £30 million or less to sell shares to their select employees up to the value of £250,000 over a three-year period. Those shares are then tax deductible; employees who purchased shares through the EMI do not have to pay Income Tax or National Insurance contributions on the income that was used to buy said shares. Notable is that some companies are excluded from participating in the EMIs: banks, farms, property developers, legal services and ship builders.[318]

Even more so than the SIP, the EMIs continue to thrive. The number of companies exercising the EMIs has increased almost every year since their introduction in 2000, as has the number of employees awarded shares under the EMIs and the value of said shares. In 2020-21, the most recent tax year for which data is available, under the EMIs, 4,550 companies have granted shares worth £510 million to 44,000 of their employees.[319]

The Conservative-Liberal Democrat Coalition Government, 2010-2015

As Leader of the Opposition in 2007, the future Prime Minister David

316. Employee Share Ownership Centre, "Share Incentive Plan", https://esopcentre.com/metapages/share-incentive-plan/ (2023).
317. H&M Revenue and Customs, "Employee Share Scheme statistics", https://www.gov.uk/government/statistics/employee-share-scheme-statistics (2023).
318. Employee Share Ownership Centre, "Enterprise Management Incentives", https://esopcentre.com/metapages/enterprise-management-incentives/ (2023).
319. Ibid.

Cameron praised the Rochdale Pioneers and stated that, "for me the co-operative model represents an enormously exciting possibility for public service reform and the fight against poverty and social breakdown".[320] This set the stage for policies undertaken during the Coalition Government's tenure. The concept of 'Big Society,' espoused by the Conservatives at the time, led to the formulation of measures aimed at expanding the use of mutuals to drive economic growth.

The Conservative-Liberal Democrat Coalition Government introduced new tax policies to promote mutuals. Beginning in 2012, the Coalition Government initiated a major review of employee ownership, known as the *Nuttall Review*, by the expert Graeme Nuttall, to consider the barriers to employee ownership. The Coalition Government undertook to implement most of the proposals put forward in the *Nuttall Review*, most of which focused on overcoming barriers to employee ownership, such as inadequate informational and financial support.[321] These policies are described next.

In the 2014 Finance Act, a series of measures were implemented to encourage trust-based employee ownership, as described in Box 3.1 much earlier. Owners selling 50% or more of their company to an Employee Ownership Trust (EOT), a trust holding company shares in the name of the company's employees, were exempted from CGT on their growth in value. At the same time, firms with at least 50% ownership by an EOT became able to award shares to employees that are exempt from Income Tax up to a value of £3,600 each year. This was designed to mirror the tax reliefs available in the SIP introduced by the New Labour Government.[322]

Following the 2014 Finance Act, employee ownership has expanded massively in the UK. The number of employee ownership trusts (EOTs)

320. David Cameron, Cameron's Co-op Speech, 8 November 2007, http://news.bbc.co.uk/1/hi/uk_politics/7084865.stm.
321. Andrew Pendleton and Andrew Robinson, "Employee ownership in Britain today", in Jonathan Michie, Joseph R. Blasi and Carlo Borzaga (eds.), *The Oxford Handbook of Mutual, Co-Operative, and Co-Owned Business* (Oxford: Oxford University Press, 2017), 433.
322. Ibid.

has increased from 17 in 2014 to 576 in 2021.[323] More broadly, there was a drastic rise in the number of employee-owned businesses in the years following the rule of the Coalition Government. There were 1,418 employee-owned businesses in the UK in June 2023, as defined by the Employee Ownership Association;[324] three times as many as there were in 2020[325] and around eight times as many as there were in 2014.[326] The yearly number of businesses transitioning into employee ownership has increased by over tenfold since 2012.[327] Conversely, the proportion of employee-owners from amongst all employees has been declining across Europe as a whole. Amongst the 2,438 largest European companies, the proportion of employee-owners from amongst all of their employees fell from 20.4% in 2013 to around 18.7% in 2022; on the other hand, the proportion of employee-owners from amongst all employees has been improving in the UK, having risen from 21.8% in 2013 to 26.7% in 2022.[328] As such, the European Federation of Employee Share Ownership wrote in 2022 that "employee share ownership is [becoming] less and less democratic in Europe. This has been the case in all European countries over the past decade, with the notable exception of the United Kingdom".[329]

Another of the Conservative-Liberal Democrat Coalition Government's flagship policies on democratic businesses was the shares-for-rights scheme, which came into law in 2013. It was designed to allow workers to swap shares for employment rights in companies that signed up to the scheme. An 'owner-employee contract' offered staff CGT-exempt shares worth between £2,000 and £50,000 in return for losing

323. Employee Ownership Association, "EOT Survey EO Day Snapshot | June 2021", https://employeeownership.co.uk/resources/what-the-evidence-tells-us/ (2021).
324. Employee Ownership Association, "White Rose Centre Employee Ownership Profile | June 2023", https://employeeownership.co.uk/resources/what-the-evidence-tells-us/ (2023).
325. Karen Kahn, "UK Announces Surge in Employee-Owned Businesses", https://www.fiftybyfifty.org/2022/07/uk-announces-surge-in-employee-owned-businesses/ (2022).
326. Andrew Pendleton, Andrew Robinson and Graeme Nuttall, "Employee ownership in the UK", *Journal of Participation and Employee Ownership* (2023), 12.
327. Employee Ownership Association, "White Rose Centre Employee Ownership Profile | June 2023", https://employeeownership.co.uk/resources/what-the-evidence-tells-us/ (2023).
328. Marc Mathieu, "Economic survey of employee share ownership in european countries in 2022", https://www.efesonline.org/annual%20economic%20survey/presentation.htm (2022), 147.
329. Ibid., 141.

certain rights and protections, including unfair dismissal, statutory redundancy pay and the right to request flexible working. The Coalition Government expected around 6,000 companies to sign up to the scheme and for hundreds of millions of pounds to be invested into the contracts. However, take-up was low, and, unlike the 2014 Finance Act, the scheme was a failure. By the summer of 2013, only six companies made inquiries into the scheme, some of which were made by law firms interested in how the scheme might affect employment law.[330] The scheme was abolished in December 2016.[331]

Box 6.1. Privatisation

Privatisation – the sale of a government property into private hands, which can include into mutual forms of business – is the other main government activity that has stimulated employee ownership. Waves of conversions into employee ownership correspond with privatisation programmes in Britain.

Two main phases can be discerned: the first is the privatisation programme of the Thatcher–Major Governments in the 1980s and first half of the 1990s; and the second is the privatisation programme started by the Blair Government and continued by the Coalition Government soon after it.

In the first phase of privatisation, notable conversions to employee ownership included the National Freight Consortium, and central and local government-owned bus passenger companies in England and Scotland. At its peak, most of the major bus operators in most of the largest English and Scottish cities were employee-owned.[332]

Privatisation into employee ownership was encouraged by governmental offers of preferential pricing. Whilst many local authorities were ideologically opposed to privatisation, they viewed employee

330. Elizabeth Rigby, "Chancellor's 'shares for rights' plan flops", *Financial Times*, 28 June 2013.
331. Vanessa Houlder, "Hammond scraps Osborne's shares-for-rights scheme", *Financial Times*, 23 November 2016.
332. Andrew Pendleton and Andrew Robinson, "Employee ownership in Britain today", in Jonathan Michie, Joseph R. Blasi and Carlo Borzaga (eds.), *The Oxford Handbook of Mutual, Co-Operative, and Co-Owned Business* (Oxford: Oxford University Press, 2017), 434.

ownership as preferable to acquisition by private companies based elsewhere, with consequent loss of local control of bus services. Although national trade unions were generally hostile to privatisation, local union organisations often preferred employee ownership to acquisition by new entrants to the bus industry with reputations for changing wage and employment structures.[333]

The second phase of privatisation has involved the sale of local authority, national government and National Health Service (NHS) activities into the hands of public service mutuals, as described in Box 3.3 earlier. Sales from the NHS were introduced by the Blair Government in 2008, whereby the staff of Primary Care Trusts – subdivisions of geographical divisions within the NHS that existed between 2001 and 2013 – were given the 'Right to Request' to spin out of the NHS and form a public service mutual to deliver community health services instead.[334] The Government then continued to support said spin-outs with waves of funding.[335]

The Conservative-Liberal Democrat Coalition Government has continued this policy with its 'Right to Provide' policy for NHS trusts – also generally geographical divisions within the NHS – and adult social care providers. Support has also been given for the creation of public service 'spin-outs' from national and local government services by the Mutuals Support Programme, which provided a "professional consultancy support to organisations that were either seeking to become a [Public Service Mutual]" and ran between 2012 and 2020.[336] Examples of public service spin-outs include children's social care, youth services and libraries, as well as healthcare. The Coalition Government was also keen to extend the mutual model to the fire and probation services.[337]

333. Ibid.
334. Ibid.
335. Ibid., 4.
336. Helen McCarthy, James Edgar and Christina Bovill Rose, "Evaluation of the Mutual Support Programme 2", https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/1101579/Evaluation_of_Mutual_Support_Programme_2.pdf (2020), 1.
337. Andrew Pendleton and Andrew Robinson, "Employee ownership in Britain today", in Jonathan Michie, Joseph R. Blasi and Carlo Borzaga (eds.), *The Oxford Handbook of Mutual, Co-Operative, and Co-Owned Business* (Oxford: Oxford University Press, 2017), 434.

It seems that the result of those policies was a success. In 2010, there were nine public service mutuals. The biggest growth spurt came in 2011, when almost 50 public service mutuals formed. By 2013, there were almost 60 public service mutuals functioning and, as of April 2019,[338] there were 129 of them.[339] However, the total turnover of those 129 mutuals is only around £2.3 billion, and so, their contribution to the democratisation of UK business in general is relatively small.[340] Nonetheless, the sector continues to grow faster than the remaining economy, having grown by over 9% in the two years between 2018 and 2019.[341]

Contemporary policies, 2015-2023

We now turn to describe the most recent policy developments designed to support democratic business.

The tax benefits that employee ownership offers in the UK have come under scrutiny in April 2023, when the Rishi Sunak Conservative Government issued a consultation on "reform to the Employee Ownership Trust and Employee Benefit Trust tax regimes".[342] The concern of the consultation is that the aforementioned tax benefits could be used for tax avoidance rather than the incentivisation of the benefits that greater levels of employee ownership bring. Indeed, this concern was also raised by a number of our interviewees, including Giles Wilkes, who asserted that the current tax incentives "can get gamed."

The most notable means by which employee ownership tax incentives can facilitate tax avoidance is in situations where the conditions for employee ownership are nominally fulfilled, but, in practice, the previous owner of the company retains similar levels of control. The consultation states that "where

338. Philip Clifford, "Mutual Public Services", London Councils (2012), 2.
339. Department for Digital, Culture Media & Sport, "Public service mutuals: the state of the sector", https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/951811/Public_Service_Mutuals_-_The_State_of_the_Sector_2019_V2.pdf (2019), 12.
340. Ibid.
341. Social Enterprise UK, "Public service mutuals: the state of the sector", https://allcatsrgrey.org.uk/wp/download/governance/Public_Service_Mutuals_-_State_of_the_Sector_April_2018.pdf (2018), 12.
342. HM Revenue and Customs, "Taxation of Employee Ownership Trusts and Employee Benefit Trusts", https://www.gov.uk/government/consultations/taxation-of-employee-ownership-trusts-and-employee-benefit-trusts/taxation-of-employee-ownership-trusts-and-employee-benefit-trusts#annex-a-relevant-current-government-legislation (2023).

the former owner retains control of the company through majority control of the EOT trustee board, it is questionable whether such an arrangement delivers meaningful change for the employees of the company".[343]

To combat this, the consultation is proposing "to prohibit former owners and connected persons from retaining control of an EOT-owned company post-sale by appointing themselves in control of the EOT trustee board" and perhaps to "require that the EOT trustee board includes persons drawn from specific groups, such as employees or independent persons".[344]

The consultation also makes a number of other, but more minor, proposals regarding changes to the tax structure surrounding employee business ownership, generally aimed at closing 'tax loopholes' and averting unintended consequences resulting from current tax law. For example, currently, an Employee Ownership Trust that has at least one non-UK trustee is treated as non-UK resident for tax purposes. Consequently, company shares can be transferred into it to avoid CGT on the onward sale of company shares to a non-UK party. As such, one of the proposals that the consultation makes is that an Employee Ownership Trust should always be treated as UK resident for tax purposes.[345]

Another recent policy development came in June 2023, when the Co-operatives, Mutuals and Friendly Societies Act 2023 – a Private Member's Bill sponsored by Sir Mark Hendrick MP of the Labour Party – received royal assent.[346]

Although its scope was initially broader, since the Act was brought to the House of Commons, it instead focuses solely on granting HM Treasury the power to make regulations to allow co-operatives, mutuals and friendly societies to opt to restrict what would happen if they were to close down, following the principle of disinterested distribution, as described earlier in this chapter.[347]

343. Ibid.
344. Ibid.
345. Ibid.
346. Steve Browning and Philip Loft, "Co-operatives, Mutuals and Friendly Societies Bill 2022-23", https://commonslibrary.parliament.uk/research-briefings/cbp-9647/ (2022).
347. Ibid.

Box 6.2. Policies to promote community businesses

It is worth mentioning very recent policies designed to promote community ownership of businesses and business assets: the Community Ownership Fund, the Community Housing Fund and the 2015 revision of guidance concerning Compulsory Purchase Orders. As explained in Chapter Three, community businesses are intrinsically democratic, insofar as the community they affect is key to their decision making.

The Community Ownership Fund is a £150 million fund designed, in conjunction with the 2011 'Right to Bid' that enables community interest groups to bid for assets of community value, to support community groups to take ownership of assets which are at risk of being lost to the community. The fund was opened in March 2021 and closes in March 2025.[348] Because the fund is ongoing, it is difficult to evaluate its impact, however, the effect of it on the democratisation of the UK economy is likely to be negligible given the small sums offered; by comparison, EMIs – a scheme introduced in 2000 to promote employee ownership of businesses, as described earlier – alone cost the Government £400 million just in the 2020-21 tax year, let alone across a four-year period.[349]

The Community Housing Fund is a bidding scheme where community groups, such as CLTs – as described in Box 3.4 much earlier – and housing co-operatives can bid for funding to support the development of community-led housing projects. The idea behind the Community Housing Fund originated in 2016, when the nascent Theresa May Government offered £60 million to 148 local councils to support community housing. In April 2018, an additional £163 million was offered up to March 2020 to community groups across England.[350] Following this, the scheme has been withdrawn. The impact of the Fund is likely to be relatively negligible for the same reason as with the Community Ownership Fund.

348. Department for Levelling Up, Housing & Communities, "Community Ownership Fund: prospectus", https://www.gov.uk/government/publications/community-ownership-fund-prospectus/community-ownership-fund-prospectus--3 (2023).
349. H&M Revenue and Customs, "Employee Share Scheme statistics", https://www.gov.uk/government/statistics/employee-share-scheme-statistics (2023).
350. Homes England, "Community Housing Fund: prospectus, accessible version", https://www.gov.uk/government/publications/community-housing-fund-prospectus/community-housing-fund-prospectus-accessible-version (2021).

Finally, in 2015, the then Ministry of Housing, Communities & Local Government issued revised non-statutory *Guidance on compulsory purchase process and the Crichel Down Rules* covering the right of community organisations to call on local authorities to issue Compulsory Purchase Orders on land or buildings which are unused and have been, or could be, of benefit to the community. Guidance now states that authorities can receive requests to use their Compulsory Purchase powers to acquire community assets, which may have been designated as Assets of Community Value, that are in danger of being lost where the owner of the asset is unwilling to sell or vacant commercial properties that are detracting from the vitality of an area. Local authorities are encouraged to consider such Compulsory Purchase Order requests from local communities or volunteers in particular. If the request is considered positively, the purchase is then financed either by the local authority, those making the request, or a combination of the two.[351] Data on Compulsory Purchase Orders generally does not list the reason why a Compulsory Purchase Order was issued, therefore, it is difficult to assess the impact of this change.

This chapter examined a number of recent government policies, both in the UK and internationally, to support democratic business. The UK has aligned itself more closely with the US than with continental Europe in terms of its legislative approach, focusing on employee ownership in favour of co-operatives. That said, more remains to be done in the UK on both fronts, as well as regarding the democratisation of 'conventional' business, considering the clear benefits outlined in Chapter Four. In the final chapter, therefore, we propose a set of public policies to achieve just that.

351. Mark Sandford, "Assets of community value", https://commonslibrary.parliament.uk/research-briefings/sn06366/ (2022), 27-28.

Chapter 7: Policy recommendations to support democratic business in the UK

So far, this report has examined the history of democratic business in the UK and worldwide, its advantages, their actual and perceived problems and recent government policies in the UK and overseas that have sought to support them. This chapter sets out some policies to strengthen democratic business.

Many democratic businesses, and especially mutuals, have declined in the role they play in the broader economy. The model is not as recognisable as it used to be, political interest in them is limited – at least in the UK – and some of their most historically salient forms, such as building societies, have become less common in the UK.

On the other hand, although not all, some of the public policies that have been used to support democratic business in recent years have been a success. The UK and the US saw significant increase in their employee-owned business, while continental Europe has succeeded in protecting and promoting their co-operative sector.

Some international successes can be transplanted onto the UK, but the promotion of democratic business need not be limited to mutuals; 'conventional' businesses can, too, become more democratic with the help of public policy.

Policy approach

When formulating policy, we applied three key principles that our recommendations seek to exemplify.

- **Fiscal realism.** The UK public, currently, faces a record high level of tax burden[352] as well as vast levels of government debt.[353] Substantially adding to either government debt or the need for the government to raise revenue through further taxes would be irresponsible. It is easy to try to suggest improvements when money is abundant, but, given the competing priorities of government spending, it is crucial that any policy suggestions do not rely on the government committing to increasingly significant expenses. Hence, this report's policy suggestions should only demand minimal, if any at all, further spending commitments from the government.
- **Incentivising, not mandating.** Democratic business carries with it a plethora of benefits, but it may not be right for every business or entrepreneur. Indeed, the freedom for entrepreneurs to make business decisions and for the market to dictate what decisions produce the most successful businesses is a key benefit of a pro-market approach to economic policy. Given the benefits of democratic business, businesses should be incentivised to democratise, but they should not be forced to do so. Hence, where possible, this report's policy suggestions avoid mandating that businesses behave in any particular way, but rather merely seeks to incentivise behaviours that are helpful both for the businesses themselves and for the broader economy and society.
- **Importance of communities.** This report assumes that having more closely-knit communities is something intrinsically good, and that local communities are, all other things being equal, better stewards of their local area than individuals who are disconnected from that same area. One of the things that makes a democratic system work is the voters in a democracy genuinely caring and cooperating with other participants of that democratic system.

352. Institute for Fiscal Studies, "How have government revenues changed over time?", https://ifs.org.uk/taxlab/taxlab-key-questions/how-have-government-revenues-changed-over-time (2023).
353. Reuters, "UK's Hunt delivers his Autumn Statement", https://www.reuters.com/world/uk/uks-hunt-delivers-his-autumn-statement-2023-11-22/ (2023).

> Local communities often know best what is good for their own interests. In this, we echo the vision of strong communities and levelling up local areas that many of our interviewees shared with us. Hence, where possible, this report's suggestions seek to promote the interests of local communities and of said communities' democratic control over their local areas.

This chapter offers ten original centre-right policies that would support democratic business in this country, as well as maximise the benefits democratic business brings while minimising the problems it carries. Those policies are divided into three categories: policies to support mutuals; policies to support the democratisation of 'conventional' business; and policies to support both of the former. These policies are not exhaustive, and we would also support others' good ideas for the promotion of democratic business in the UK, but they would make for a significant step towards a more productive, fair and, ultimately, democratic UK economy.

Policies to support mutuals

Recommendation one: Introduce a statutory definition of a co-operative in UK law, which is in line with the principles outlined by the Rochdale Society of Equitable Pioneers.

As demonstrated in Chapter Five, the UK lacks a clear legal framework for mutual businesses. Particularly, for co-operatives, the Co-operative and Community Benefit Societies Act 2014 does not recognise them as a distinct type of enterprise and fails to provide a statutory definition for them. Under the Co-operative and Community Societies Act 2014, a company is regarded as a co-operative simply if the FCA is satisfied that it is one and has at least three members.

While the FCA might use International Co-operative Alliance principles to satisfy its conditions, the lack of a clear legal definition and discretion given to the FCA creates a lack of certainty for co-operatives and makes it hard to implement specific tax and administrative regulations for co-operatives. As the UN has stated, "policies can be effective only if they take into account the special character of cooperatives and the cooperative movement, which differs significantly from that of associations and enterprises that are not [organised] according to cooperative values and principles".[354]

In Europe, co-operatives are often a legal form of company which is distinguished from 'conventional' business by emphasising both economic and social differences. In Italy, which has one of the most advanced pieces of co-operative legislation in the world, co-operatives are defined as those "with voluntary and open membership" and "[satisfying] a common interest of [their] members by making contracts/transactions with them," fitting the principles set in the foundations of the Rochdale Society, as described at the beginning of Chapter One. This is also the case in French, Portuguese, Finnish and Hungarian law, which also place membership at the centre of their definitions.[355]

The UK Government should follow suit and provide a statutory definition for a co-operative. This should follow Rochdale Society principles of voluntary and open membership, democratic member control and distribution of surplus among members. These three Rochdale principles also align with our definition of co-operatives, outlined in Chapter Two, as inspired by that of the European Cooperative Society. Doing so would also provide the basis for further effective legislation on corporate and tax law for co-operatives and our recommendations.

Recommendation two: Establish a tax-incentivised 'indivisible reserves' scheme to promote mutual business stability and

354. United Nations General Assembly Economic and Social Council, "UN guidelines aimed at creating a supportive environment for the development of cooperatives", https://documents-dds-ny.un.org/doc/UNDOC/GEN/N01/375/39/PDF/N0137539.pdf?OpenElement (2001), 15.
355. Antonio Fici, "Italian co-operative law reform and co-operative principles", *Euricse Working Paper N.002*, https://library.uniteddiversity.coop/Cooperatives/Emilia_Romagna/Italian_Co-operative_Law_Reform_and_Co-operative_Principles.pdf (2010), 7-8.

investment.

There is a specific provision in legislation for 'indivisible reserves' in 23 different European countries – a reserve that cannot be accessed by members of mutuals for personal distribution. This legislation has generally been very successful, as explicated in Chapter Six. 'Indivisible reserves' guarantee the long-term stability of mutuals and the security of the funds invested into them by the members of said mutuals – a key concern especially for mutuals owned by lower-income members.

The UK Government should establish an 'indivisible reserves' scheme of its own. Under it, mutuals – that is, co-operatives as defined under our recommendation above, and companies where at least 50% of the company is owned either by at least 50% of its employees or by an EOT on behalf of at least 50% of the company's employees – should be able to claim Corporation Tax back on any profits they put into the newly-established 'indivisible reserves' scheme, up to 20% of the total sum the mutual has to pay Corporation Tax on. Money put in the scheme then cannot be accessed by members of the mutual for personal distribution, but must be reinvested, retained as savings or, as a last resort, used to cover losses.

To ensure that indivisible reserves are only used to cover losses as a last resort, rather than as a routine mechanism for avoiding losses – which could result in perverse incentives whereby a mutual is not sufficiently disincentivised to avoid loss-making behaviour – a mutual would be permitted to use the savings they put into indivisible reserves to cover losses if and only if all other resources and reserves have been applied to the loss. Such a condition on the use of indivisible reserves to cover losses is also present in Italian law concerning indivisible reserves.[356]

The indivisible reserves scheme would be administered by HM Revenue & Customs (HMRC), but the money would never be held by

356. Antonio Fici, "Italy", in Dante Cragona, Antonio Fici and Hagen Henrÿ (eds.), *International Handbook of Cooperative Law* (London: Springer, 2013), 490.

them. The mutual would merely declare to HMRC that it is putting a given amount of profits into the scheme so as to not be charged Corporation Tax on it and then provide proof that said money was reinvested or retained as savings. Once money is put into the scheme, it would be non-withdrawable except for reinvestment or to cover losses, as explained above. This would incentivise the mutual to reinvest a sufficient proportion of profits to ensure sustainable long-term growth and also safeguard the long-term stability of the mutual, so as to prevent the members of the mutual from losing out on their membership.

Recommendation three: Ensure that a minimum of 28% of the assets of a co-operative are maintained under co-operative control in the event of the co-operative winding up.

'Disinterested distribution' is another legislation that is common across continental Europe, as explicated in Chapter Six. It guarantees that the assets of a co-operative, in the event of demutualisation, are not also demutualised, but are retained in the co-operative economy, preventing external takeover pressure from diminishing the role that co-operatives play in the broader economy.

As of the passage of the 2023 Co-operatives, Mutuals and Friendly Societies Act, HM Treasury has the power to make regulations to allow co-operatives, mutuals and friendly societies to opt to restrict what would happen if they were to close down, following the principle of disinterested distribution. However, as of January 2024, this power has not been exercised by the Treasury. Furthermore, even should the Treasury exercise said power, disinterested distribution would remain optional for UK co-operatives. This is despite the fact that co-operatives are incentivised not to exercise this option in order to maximise the potential payout for members that follows demutualisation. As noted in Chapter Four, demutualisation is rarely to the benefit of a co-operative's members, and so should be disincentivised.

As such, the UK should again follow the example of continental Europe and introduce a mandatory disinterested distribution framework. To add to existing legislation, in the event of a co-operative winding up, the value of any assets of the wound-up co-operative that are transferred to a non-co-operative or distributed to the co-operative's members should be taxed at 28%, which is currently the maximum Capital Gains Tax rate. This transferred money should then be distributed into the 'indivisible reserves' schemes of different, nominated co-operatives or co-operative. In case no such co-operative is nominated by the co-operative that wound up, co-operatives with a similar purpose to the co-operative that wound up should be able to bid for the funding, with the bidding process managed by a new non-departmental public body for democratic business, as recommended below, or the money should be absorbed into the Community Ownership Fund, as explained in Box 6.2.

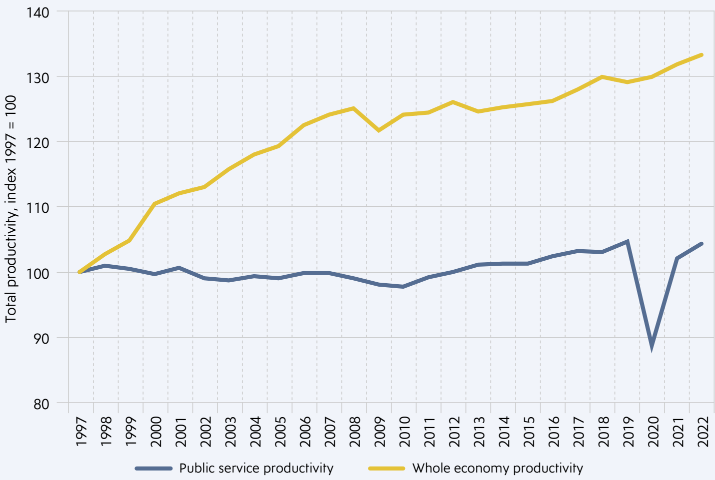
Recommendation four: Amend the Levelling Up Fund *Assessment Framework for assessing, scoring and shortlisting bids* to include a positive consideration for bids made by local authorities that, as a part of their bid or otherwise, privatise municipal services into public service mutuals.

In the UK, there remain thousands of social care providers and libraries owned and operated by local authorities. As of 2022, there were 3,064 libraries owned by local authorities in Great Britain – 681 fewer than there were in 2012[357] – and 20.1% of local authority expenditure on social care (around £4.4 billion) has been going towards the local authority's own provision, as opposed to towards the provision of social care by other organisations.[358] Local authority-owned municipal services, such as social care providers and public libraries, should be encouraged to spin out as public service mutuals, which are explained in Box 3.3 earlier. As explained in Chapter Four,

357. Tim Coates, "Statistics", https://www.publiclibrariesnews.com/useful/statistics (2022).
358. NHS Digital, "Adult Social Care Statistics in England: An Overview", https://digital.nhs.uk/data-and-information/publications/statistical/adult-social-care-statistics-in-england/an-overview/local-authority-expenditure-on-adult-social-care (2022).

public service mutuals tend to perform better than their non-mutual counterparts in respect of key metrics such as productivity and the quality of customer service. Productivity in particular is poor in the UK public sector, as can be seen in Chart 7.1 below, and is in dire need of improvement.

Chart 7.1. Total productivity in the UK economy as a whole as compared to public service productivity in the UK between 1997 and 2022.[359]



Source: Office for National Statistics, "Public service productivity, UK: 1997 to 2022", https://www.ons.gov.uk/economy/economicoutputandproductivity/publicservicesproductivity/articles/publicserviceproductivityuk/1997to2022 (2023); Statista, "Economic output per hour worked in the United Kingdom from 1st quarter 1971 to 2nd quarter 2023", https://www.statista.com/statistics/1271774/uk-productivity/ (2023).

In order to incentivise the mutualisation of public services, plans to privatise local authority-owned municipal services into public services

359. Office for National Statistics, "Public service productivity, UK: 1997 to 2022", https://www.ons.gov.uk/economy/economicoutputandproductivity/publicservicesproductivity/articles/publicserviceproductivityuk/1997to2022 (2023); Statista, "https://www.statista.com/statistics/1271774/uk-productivity/", https://www.statista.com/statistics/1271774/uk-productivity/ (2023).

mutuals should be made a positive consideration in the assessment of local authority bids for the Levelling Up Fund – a pot of central government funding that local authorities can bid for designed to reduce regional disparities and boost economic growth across the United Kingdom, launched in 2021. Bids for said funding are assessed using the *Assessment Framework for assessing, scoring and shortlisting bids*, which is included in the *Levelling Up Fund Technical Note* and reflected in the *Levelling Up Fund Prospectus*. The *Assessment Framework for assessing, scoring and shortlisting bids* should include as a factor whether the local authority, as a part of their bid or otherwise, did or seeks to privatise municipal services into public service mutuals.

Currently, the DLUHC assesses bids for the Levelling Up Fund according to four criteria: index of priority places, strategic fit, economic case and deliverability.[360] Each of these criteria is judged according to a number of further sub-criteria, for a total of up to 16 sub-criteria[361] that are considered. All the criteria and sub-criteria are weighted equally, except for the sub-criteria that go into assessing the 'index of priority places' criterion – there, "need for economic recovery and growth" is prioritised above the other sub-criteria assessed.[362] Our suggestion here is that the 'strategic fit' criterion, which is currently judged according to four sub-criteria,[363] should instead be judged according to five sub-criteria, with plans to privatise local authority-owned municipal services into public services mutuals being introduced as a new sub-criterion.

360. Department for Levelling Up, Housing & Communities, "Levelling Up Fund Round 2: technical note", https://www.gov.uk/government/publications/levelling-up-fund-round-2-technical-note/levelling-up-fund-round-2-technical-note (2022).
361. Bids by local authorities in England are judged against a total of 16 sub-criteria; bids by local authorities in Scotland and Wales against a total of 15 sub-criteria; and bids by local authorities in Northern Ireland against a total of 12 sub-criteria. See the technical note to the Levelling Up Fund for a full explanation of the reasoning behind this disparity.
362. Department for Levelling Up, Housing & Communities, "Levelling Up Fund: Prioritisation of places methodology note", https://www.gov.uk/guidance/levelling-up-fund-prioritisation-of-places-methodology-note (2021).
363. Currently, those are: MP endorsement; stakeholder engagement and support; the case for investment; and alignment with the local and national context.

Policies to support the democratisation of 'conventional' business

Recommendation five: Introduce the right for employees to access recorded information held by one's employer.

One of the key benefits of democratic business – improved transparency and the consequent lessened risk of moral hazard on the part of managers – can be extended across the broader economy by providing all employees with powers analogous to those provided by the 2000 Freedom of Information Act to members of the public. Currently, the 2000 Freedom of Information Act only makes provisions for the disclosure of information held by public authorities or by persons providing services for them, and not for the disclosure of information held by any private institutions.[364]

The Government should also introduce the right for employees to access recorded information held by one's private employer. Exemptions would apply if the information is needed for any one of: the prevention, detection or investigation of a breach of company law; internal security; the assessment or collection of company taxes; employee appointments and contracts. The request for access could also be refused on grounds analogous to those in the 2000 Freedom of Information Act: if employee interest in non-disclosure outweighs the employee interest in disclosure, or if it is likely to cause distress or irritation without good reason.

Insofar as a business is made more democratic the more equally involved are those affected by the business in the business' decision-making process, the involvement of those affected by the business in the business' decision-making process can be controlled or reduced by withholding relevant information from them. For example, the employees of a company are unable to oppose the company engaging in unethical practices unless they know that the company is indeed engaging in

364. This proposal also goes beyond the right of access introduced in the UK General Data Protection Regulation (GDPR), which only allows individuals to access a copy of their personal data.

them. As such, promoting freedom of information in businesses is key to achieving greater levels of democratisation in the economy.

This policy would also prevent the information asymmetry that can occur during demutualisations. As noted in Chapters Three and Five, the true costs of demutualisation are sometimes not revealed to the members of a mutual during the demutualisation, leading to them losing out on potentially greater payments or being underpaid for the loss of valuable memberships.

Recommendation six: Introduce the right for employees of companies numbering over 2,000 employees to request a binding referendum on employee representation on boards.

As noted in Chapter Six, employee representation on boards is mandated across a large number of European countries, including Germany, the Netherlands, Ireland, Austria and France. Evidence explored throughout this report demonstrates that this has a positive effect on employee productivity and job satisfaction.

In order to incentivise employee representation on boards, the UK Government should grant employees in companies that number more than 2,000 employees a right to request a referendum on employee representation on the company's board. We went with such a large number because companies with a large number of employees affect a greater number of people – their employees – with their decisions, and so it is more important that their employees are involved in their decision making. Moreover, this limits the number of companies affected. There are 165 publicly-traded companies in the UK with more than 2,000 employees,[365] as compared to around one million companies in the UK with more than one employee.[366] We did not want to introduce

365. CompaniesMarketCap, "Top publicly traded UK companies by number of employees", https://companiesmarketcap.com/united-kingdom/largest-companies-by-number-of-employees-in-the-united-kingdom/?page=2 (2023).
366. Becky Shaw, "UK business; activity, size and location: 2022", https://www.ons.gov.uk/businessindustryandtrade/business/activitysizeandlocation/bulletins/ukbusinessactivitysizeandlocation/2022 (2022).

additional regulation to companies that may not have the economies of scale to easily deal with it.

Should a petition to host such a referendum be signed by at least 5% of the company's employees, the company would be legally required to either (i) host a referendum among all of the company's employees on whether the employees of the company should have the right to elect one of the company's board members, or (ii) give the employees of the company the right to elect one of the company's board members.

Once such a referendum is held, the company would not need to host another one for the next four years, so as to prevent repeat petitions mandating an unreasonably high number of referenda.

If a supermajority of 66.6% of those who vote in the referendum votes in favour of the employees of the company having the right to elect one of the company's board members, the company should be legally required to grant its employees said right. We suggest a supermajority instead of a simple majority to ensure that a company is only mandated to grant its employees the right to elect one of the company's board members if there is very widespread support for the measure amongst the employees. It is worth noting that, even if a supermajority is not achieved, but a large proportion of employees show their support for the measure nonetheless, a company may opt to grant its employees the right to elect one of the company's board members nevertheless, voluntarily. In that, even if a supermajority is not achieved, the referendum can act as a measure to incentivise but not mandate employee representation on the company board.

Recommendation seven: Strengthen the 'Community Right to Bid' to include a broader range of assets, preferential treatment for the bid for the seller of the asset and Stamp Duty exemption for the purchaser of the asset.

Currently, under the Community Right to Bid – as described in Box 6.2 – assets of community value can be nominated to the local authority by parish councils or by groups with a connection with the community.

Following receipt of the nomination, the local authority then has eight weeks to make a judgement on whether the asset should be listed as an asset of community value, according to a set of criteria published by the DLUHC. Assets remain on the list for five years, unless they are sold within that time.[367]

If the nomination is accepted, local groups will be given six months to come up with a bid for the asset if and when it is sold – the moratorium period. Should the bid be successful, the asset comes under the control of a relevant Community Land Trust – a membership organisation that manages assets to provide a benefit to the local community, as described in Box 3.4. There is no compulsion on the owner to sell it, and when they sell the asset they may sell to whomsoever they choose.[368]

The current Right to Bid effectively gives communities no extra power to do what they could not have done anyway, if not for the fact that the bids can be sponsored by the meagre Community Ownership Fund, besides that they have more time to organise their bid as a result of the aforementioned moratorium period. The Community Ownership Fund numbers £150 million and runs for four years, beginning in March 2021.[369] Applicants may apply to the Fund for a maximum of 50% of the capital funding that they seek for a project.[370]

Moreover, the current criteria for the nomination of 'assets of community value' is narrow. The asset must be a parcel of land or a building. Housing, the contents of a building and business assets are not eligible.[371] Consequently, the Right to Bid has only been exercised 11 times in the four years since its inception under the 2011 Localism Act.[372]

The Government should strengthen the Right to Bid and allow

367. Mark Sandford, "Assets of community value", https://commonslibrary.parliament.uk/research-briefings/sn06366/ (2022), 7-8.
368. Ibid.
369. Department for Levelling Up, Housing & Communities, "Community Ownership Fund: prospectus", https://www.gov.uk/government/publications/community-ownership-fund-prospectus/community-ownership-fund-prospectus--3 (2023).
370. Mark Sandford, "Assets of community value", https://commonslibrary.parliament.uk/research-briefings/sn06366/ (2022), 10.
371. Ibid., 8.
372. Ibid., 12.

it to cover a broader range of assets. Local businesses, such as local newspapers, shops, restaurants, cafes, clubs and bowling alleys should be eligible for nomination, with their relevant business assets included. Similarly, private rental housing should also be eligible for nomination. Important to note here is that the power to accept the nomination remains with the local authority, who ought to only accept it if it fulfils the relevant criteria determined by the DLUHC. This is meant to ensure that the asset is indeed of crucial importance to the local community and would be lost to it unless it is taken over by the local community.

Moreover, the Government should mandate preferential treatment for bids made through the 'Community Right to Bid.' As aforementioned, currently, when the owner of an asset of community value sells the asset, they may sell to whomsoever they choose. The Government should mandate that a bid made through the 'Community Right to Bid' cannot be refused in favour of any bid of equal or lower value.

Finally, in order to incentivise the owner of an 'asset of community value' to sell it to the local community and prevent it from being lost to them, government should exempt the purchase of the asset to the local community from Stamp Duty. A reduction in Stamp Duty allows the buyer to bid higher for their purchase than they would otherwise. As such, exempting the purchase of assets of community value to local communities from Stamp Duty would increase the purchasing power available to local communities when bidding for said assets.

Recommendation eight: Create a non-departmental public body for the accreditation and promotion of democratic business.

Tim Pitt, in his interview, noted that "[democratic business] has political potential but you really need to get someone to grab it and own it and run with it. Without a champion for it, it sort of sits there." Indeed, a similar sentiment was expressed by Chris Clarkson MP.

As the branding of mutuals is often adopted by 'conventional' businesses, for example by talking about 'members' rather than 'customers' – one example among many is Amazon referring to the subscribers of their subscription service as "members" –[373] and the presence of democratic businesses in the economy is less visible than it was historically, it is crucial that democratic businesses are championed and distinguished apart from their non-democratic rivals.

While some of this work is already achieved by organisations such as Co-operatives UK and the Employee Ownership Association, the presence of a governmental organisation that conducts this work and cooperates closely with central government could make said work more effective and give it more legitimacy in the eyes of the public.

To achieve that, government should set up a non-departmental public body (NDPB) for democratic business. In the typology pioneered by Bright Blue together with the Fabian Society, the NDPB would be classed as a transparency body – a body to give facts, figures and forecasts to politicians and the public – as opposed to an advice or enforcement body.[374] Besides acting as a champion of democratic business, liaising between democratic business and the government and promoting the brand of democratic business, the NDPB would introduce and manage an accreditation scheme for democratic businesses.

Under the scheme, democratic businesses would be able to display, on their premises and online, an accreditation promoting the fact that a business is democratic, analogous to the Food Hygiene Rating Scheme. For example, it would grant a superior accreditation for businesses that open their shares to their employees through the SIP and SAYE scheme and that hold regular and meaningful general meetings for their employees. The accreditation would also have different layers, discriminating between non-democratic business, 'conventional' democratic business, mutuals and co-operatives. This would help to distinguish between mutuals embracing a genuine

373. Todd Spangler, "Amazon Prime Tops 200 Million Members, Jeff Bezos Says", https://variety.com/2021/digital/news/amazon-prime-200-million-jeff-bezos-1234952188/ (2021).
374. Ryan Shorthouse, Andrew Harrop and Sam Robinson, "Framing the future: a new pensions commission", https://brightblue.org.uk/wp-content/uploads/2020/01/Fabian-Society-and-Bright-Blue-%E2%80%93-Report_January-2020_AWK_web.pdf (2020), 20-21.

mutual culture and 'conventional' businesses that merely adopt mutual branding. The NDPB for democratic business would be tasked with ensuring that the accreditations are awarded fairly and on the basis of reasonable evidence.

Policies to support democratic business generally

Recommendation nine: Introduce the right and provide finance for a minimum number of employees of a limited by shares company to give a counter-offer for the purchase of the company's controlling stake whenever a takeover bid is made.

Companies limited by shares are companies that have shares and shareholders; those shares can often be traded between different potential shareholders. A company limited by shares is controlled by a consortium of shareholders who, usually, altogether control over 50% of the company's shares. In some cases, a controlling interest in a company limited by shares – a bundle of shares with enough voting power attached to them to prevail in any shareholders' motion – is traded, and so grant its owner control over the company.

The Government should grant the employees of any company limited by shares with over a minimum number of employees the right to present a counter-offer on any purchase or sale of a controlling interest in the company they are employed by. A minimum number[375] of employees should be able to participate in said counter-offer, and they should be able to claim a loan from the government at RPI + 3% for up to 50% of the value of the controlling interest being sold.

Moreover, to finance the bid, the employees participating in the counter-offer should be able to access up to three years' worth of their pension contributions from their pension pot. Furthermore, to give them the time to organise the bid, at least 20% of the company's employees

375. Otherwise, this tool could be misused, for example by an individual employee making a bid individually on behalf of a friend's or family company.

should be able to request a six-week moratorium period during which the sale of the controlling interest cannot be finalised; this mirrors the moratorium period that is already present when the Community Right to Bid is exercised on assets of community value whenever an asset of community value is being sold. The shares acquired by the employees as a result of a successful counter-offer would be then unsellable for at least two years following sale, so as to prevent using this as a tool for extorting the original bidder for the controlling stake.

This policy would strengthen the presence of employee ownership in the economy at little or no cost to the government; given the impressive resilience of employee-owned businesses, especially in connection with our second recommendation of this report, we expect the government to make positive returns on said loans in the long term.

It is also worth noting that this mechanism would also be present in the instance of government bailouts when the government acquires a controlling stake in a failing business; the employees would, then, be able to take control of the government's bid for the controlling stake of the business and take ownership of it themselves, preventing the nationalisation of business through bailouts.

Recommendation ten: Reform the Community Ownership Fund and the Community Housing Fund to support a broader range of community projects.

Currently, the Community Ownership Fund only supports the takeover of already-existing assets of community value which are at risk of being lost to the community, as in connection to the 'Community Right to Bid,' as described in Box 6.2. This leaves other community initiatives, such as those described in Box 3.4, needing of funding. As community initiatives generally require funding from specific individuals, but are then ran for the benefit of the entire community – as opposed to just the people who fund them – they often rely on donations, which limits how often they come into existence.

To rectify this, it should also be possible to apply for money from the Community Ownership Fund to support other community projects: the development of community housing, community power generation and the work of community co-operatives. Especially the first two of those require significant levels of initial investment, to procure either residential property or energy infrastructure, respectively. With funding provided, however, they are able to provide affordable housing and energy to the local community in a way that avoids concerns regarding community consent that often surround the development of new housing or energy infrastructure.

Worth noting is that, currently, housing initiatives are not supported by the Community Ownership Fund at all, presumably because of the prior existence of the Community Housing Fund, the funding for which had run out in April 2020. This leaves CLTs with very limited options for government support. Assuming that the Community Housing Fund will not be restarted, instead, the two funds should be merged and housing initiatives included in the Community Ownership Fund.

Given the greater level of competition for funding from the Community Ownership Fund that this change would introduce, it is also desirable that, if fiscally responsible, the amount of money in the Community Ownership Fund is increased.

Conclusion

This report has examined in detail the nature, history, advantages, problems and policies regarding democratic business in the UK. It adds to the important work done by other organisations that advocate for democratic businesses in this country, but seeks to offer a new, broader and better-grounded perspective that is agreeable to the centre-right of this country.

Democratic businesses come in all shapes and sizes: from local community groups to nationwide employee-owned retailers, from football clubs to housing developers. They also carry a host of unique benefits, ranging from better productivity and employee satisfaction, through benefits for the stability of the local economy, to improved levels of freedom and legitimacy in a property-owning democracy. Their historical importance cannot be doubted, and, although, in many respects, democratic businesses are doing very well, much can still be done to improve their situation and protect them from the problems they face. They remain a relatively small proportion of the broader UK economy, but, hopefully, with the recommendations of this report, their presence can be amplified and the benefits they bring be fully manifested.

The recommendations made here are not exhaustive of all the useful policy options available to the UK Government, but they seek to maximise the advantages of democratic business while alleviating their difficulties to at least a reasonable degree. They are also fiscally responsible and conservative; we sought not to mandate or force anybody into endorsing democratic business, and especially not at the cost of taxpayer money, but rather to suggest innovative and well-evidenced incentives that would make it easier for the UK economy to become more democratic.

Annex:
Interview questions

1. What do you think constitutes a democratically-owned business?
2. What is the most successful democratically-owned business you can think of?
   a. Why has it been this successful?
3. What do you think are the current perceptions of democratic business ownership in business?
4. What forms of democratic ownership are the most promising, and why?
   a. Conversely, what forms are the least promising?
5. Can you think of any government policies in recent history that have helped to boost democratic business ownership?
6. Do you think that the current Government is acting to promote democratic business ownership?
7. Which recent British Government, do you think, has done the most to promote democratic ownership?
8. Will democratic ownership models have an increasing, declining or broadly the same role to play in the British economy?
   a. What is the ideal/successful proportion for democratic ownership in the British economy?
9. What are some of the most interesting policies to do with democratic ownership adopted internationally?
   a. Which country has done the most to promote democratic business ownership?

10. What do you see as the main benefits for increased democratic ownership of businesses in the UK?
11. What do you see as the main centre-right arguments for increased democratic ownership of businesses in the UK?
    a. Conversely, are there any reasons why the centre-right may be disinterested in democratic business ownership?
12. Do you think increased democratic ownership can help achieve some key economic goals, such as growth and productivity?
13. What type of business is best suited to being democratically owned?
    a. Are local or regional businesses better suited to being democratically owned?
14. Can you think of any prominent examples of democratic businesses having a positive impact, in particular on your local area or community?
15. What do you think are the main barriers that have prevented the widespread adoption of democratic ownership models in the UK?
16. What are the current political challenges that you can see when it comes to achieving greater levels of democratic ownership?
17. What are some bad arguments that you have heard articulated for democratic ownership, and why are they bad?
18. Do you think that democratic ownership is seen as too much of a left-wing policy goal?
19. What are some of the drawbacks of greater levels of democratic ownership?
    a. How could those be alleviated, if at all?
20. What more can be done to help existing democratically-owned businesses?
21. Can policy help increase democratic ownership?
22. *(only if they expressed broad support for increased democratic business ownership)* How can the businesses in your local area be best helped to become democratically owned?
23. Is there anyone else we should talk to about democratic ownership, or any sources you would recommend we look at?

Democratic businesses come in all shapes and sizes: from local community groups to nationwide employee-owned retailers, from football clubs to housing developers. They also carry a host of unique benefits, ranging from better productivity and employee satisfaction, through benefits for the stability of the local economy, to improved levels of freedom and legitimacy in a property-owning democracy.

Despite this, democratic businesses remain a relatively small proportion of the broader UK economy. This report reveals why that ought to be changed and how that can be achieved.

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