



CO-OPERATIVES UNLEASHED

DOUBLING THE SIZE OF THE
UK'S CO-OPERATIVE SECTOR

CONTENTS

EXECUTIVE SUMMARY	2
1. OWNING THE FUTURE	6
2. THE CO-OPERATIVE APPROACH: A DIFFERENT FORM OF ENTERPRISE	8
3. CO-OPERATIVES AS SYMPTOMS AND AGENTS OF SYSTEM CHANGE	11
4. THE CO-OPERATIVE ADVANTAGE	12
5. THE CO-OPERATIVE ECONOMY TODAY	14
6. THE UK IN CONTEXT: LAGGING BEHIND	17
7. THE IMPERATIVE OF NOW: THE OPPORTUNITIES AND CHALLENGES FACING CO-OPERATIVES	18
8. CASE STUDIES	23
9. THE BARRIERS TO CO-OPERATIVE EXPANSION	27
10. THE CO-OPERATIVE ECONOMY BY 2030	30
11. POLICY RECOMMENDATIONS	33
ENDNOTES	44
BIBLIOGRAPHY	45

EXECUTIVE SUMMARY

For 40 years, the economy has been a one-way-street. Assets and equity have flowed upwards and outwards, and with them wealth. Margaret Thatcher promised a world 'where owning shares is as common as having a car'. But the grand promise of a share-owning democracy, and with it broad-based economic power, has crumbled.

Now, more than half of UK company equity is owned abroad and only just over 12% by individuals. The interests of those who own Britain's businesses are often misaligned with those of other stakeholders, such as employees, customers, service users and local communities. And even were they are better aligned, a concentration of shareholding and the distant power of capital markets hollows out the agency of individual shareholders.

A different kind of business and, as a result, a different kind of economy is possible, but it will not happen by accident. Co-operatives are both journey and destination in this quest. They are a vector for democratic change in the economy, and a more democratically-owned economic model that distributes wealth and is viable today. And yet a lack of policy and support, and a hostile economic environment for co-operation in the UK, holds them back.

This report is about doubling the size of the UK's co-op sector. It is also about how enterprise can serve the interests of the people it employs and those in the communities around them. And it is about how doing business can increase economic democracy, and how the wealth created can be more broadly and equitably shared.

BROKEN ECONOMY

By most measures, the 40-year-old economic model, ushered in by Margaret Thatcher after her election in 1979, is broken: growth is anaemic; wages and productivity are stagnant or falling; inequality is stark; investment is low; consumer debt is high and crippling; asset bubbles are frequent.

The flaws in the neoliberal model came to a head 10 years ago during the great financial crisis and resulting economic crash. Since then, profound structural changes have been few

and far between. Instead the broken economy has lumbered on zombie-like, leading to greater inequality and a growing political tension between a relatively narrow, elite group of winners and those whose living standards have stagnated.

OWNERSHIP MATTERS

This economic malaise and growing sense of injustice is related to the changing patterns of company ownership and control because who owns enterprise determines how the wealth businesses create is shared. Powerful, distant shareholders have presided over a time when unprecedented levels of wealth created have flowed in their direction while employees and others have experienced a declining share.

In addition, ownership shapes purpose. Creating an economy that addresses the real-world challenges we face, such as an ageing society or climate change, and produces goods and services designed to meet these challenges, is immeasurably more difficult if control lies in the hands of powerful shareholding conglomerates whose habitat is capital markets. The new economy mission becomes more achievable if the power to determine the direction and strategy of business is in the hands of those with an interest in addressing today's challenges and who live in the communities directly affected.

THE CO-OPERATIVE ADVANTAGE

Co-operatives are at heart free enterprises. In the countries in which they have thrived, they are often rooted in resistance to oppressive government or the march of a market economy that is prejudiced in favour of an extractive and financialised model. Co-ops are by nature organisations with a purpose, and are very often established to achieve a specific social

or environmental goal by pooling the resources of a defined group of people.

Co-operatives exist to share risk, power and reward. They are therefore more democratic and accountable forms of business that, again by nature, cannot sell equity on capital markets and so are beyond the influence of the shareholding conglomerates. Recent studies have shown them to be more enduring and resilient in the face of market disruption, more profitable, more productive, happier and longer-lasting than non-co-operative forms of enterprise.

DOUBLING THE SIZE OF CO-OPERATIVES IN THE UK

If co-operatives are better businesses that can help create a better economy, society and environment, why have they not thrived in the UK? And why have they thrived elsewhere? To achieve the aim of doubling the turnover of the UK co-operative sector by 2030, we must address these two fundamental questions.

The answer is not one of rocket-science complexity. Our research finds that co-operatives and the wider cause of democratising and more evenly spreading the benefits of enterprise are held back due to an absence of legislation and policy, institutional support, advice, incentive and promotion. With an economy that does nothing to help co-ops thrive and everything to create a hostile environment for models of co-operation, it is unsurprising that the UK has one of the smallest sectors of any country.

In those places where there is a more significant co-operative ecosystem (Italy, France, Canada, USA, Costa Rica), there is also – to varying degrees – a corresponding ecosystem of policy and an institutional architecture that helps develop and

shelter the co-operative economy. In the UK this has not hitherto been the case. However, there are signs of improvement in Wales and Scotland, where non-statutory agencies have been established – at a very modest level of investment – to encourage the uptake of co-operatives. Though relatively young, they show significant success.

One area of focus in Scotland has been on 'business succession'; the moment in the development of an enterprise when an owner or founder seeks to move on, often because of retirement. By promoting more democratic forms of ownership at this moment, Co-operative Development Scotland has had significant success in moving businesses towards the co-op model.

New NEF research, published here for the first time, suggests that there are around 120,000 family-run small and medium enterprises in the UK expected to undergo a transfer of ownership in the next three years. If just 5% of these businesses were supported to make the transition to employee ownership or one of the other mutual or co-operative models available in the UK, then the number of entities in the sector would double.

But doubling the number of co-ops does not equate to doubling turnover. The UK co-operative sector currently accounts for roughly 1% of business turnover, but around half of this is achieved by two businesses: the Co-operative Group and the John Lewis Partnership.

To double turnover requires further effort and almost certainly a cohesive web of legislation, support and promotion. Creating this will in turn almost certainly lead to the development of a co-operative sector that, perhaps even before 2030, will be more than double its current

size. We therefore recommend that the Co-operative Party, which has commissioned this research and which exists to promote the cause of co-operation in policymaking, sets its sights not only on a doubling of turnover, but also on a profound transformation in business ownership.

POLICY RECOMMENDATIONS

Based on the findings of our research, we recommend a cohesive programme of law, policy and institutional arrangements, including a right to own for employees, a Co-operative Economy Act and a new, statutory Co-operatives Development Agency for England and Northern Ireland.

We have organised our programme of recommendations into five interlocking steps:

1. A new legal framework for co-operatives.
2. Finance that serves the co-operative agenda.
3. Deepening co-operative capabilities through a Co-operative Development Agency.
4. Transforming business ownership.
5. Accelerating community wealth building initiatives.

We firmly recommend that all five steps are taken up with gusto by policymakers. It is probable that some form of doubling of UK co-operatives could be achieved with a more modest programme. But growth in co-operation and the democratisation of business will likely stall unless we transform the hostile economic environment into one that is conducive.

To this end, we also recommend a 'heartbeat' policy we call an Inclusive Ownership Fund, which would either

compel or strongly incentivise (or both) all shareholder- or larger privately-owned businesses to deposit a small, annual share of profits in the form of equity into a worker-controlled fund. Over time – like a beating heart in the economy – these funds would reach a tipping point, at which time employees could opt to take various forms of control over the running of the business.

If this sounds radical, then it is only as radical as John Lewis because, in effect, the Inclusive Ownership Fund would create more businesses as employee-owned partnerships sharing the wealth they create and involving employees and other stakeholders in decision making and, in particular, in determining purpose.

This report was commissioned by the Co-operative Party, which was established by co-operative societies and works to provide a political voice for the sector and to make the case for co-operative approaches in the UK economy and wider society.

NEF was asked to take undertake an independent examination of the policy framework required to meet the challenge of doubling the size in terms of turnover of the UK co-operative sector. We combined a quantitative analysis with a review of relevant literature. We also conducted detailed interviews with people across the sector and sought their views through an online survey, which more than 70 people completed.

1. OWNING THE FUTURE

Our economy is marked by deep fissures and longstanding structural problems. In the long wake of the cataclysmic financial crisis of a decade ago, UK employees have endured the most persistent stagnation in earnings for 150 years. Growth in the economy has not benefited the majority of people and large parts of the country have yet to see a recovery.

The UK has the richest region in Europe – inner London – but most other areas are now poorer than the European average, with poverty rising. The UK's productivity performance has been abject for a decade, while finance remains overmighty and too distant from production.

Young people for the first time are set to earn less over their lifetime than the generation before them. The basic building blocks of life, from housing to education to transport, are costly and inadequate for many, driving destabilising levels of indebtedness. And in our era of hyper-globalisation, value added has shifted from labour to capital, leaving many places and communities of people behind as institutions of collective agency have been hollowed out and democratic power in the economy weakened. Overarching and reflecting this, we are operating beyond the planet's ecological limits as we move deeper into the Anthropocene, our human-made era of deepening environmental crisis. Unsustainable, inequitable and undemocratic, our economic model is broken.

Addressing these problems will require more than tinkering. We will need to transform the economic institutions that generate today's unequal, unsustainable and dysfunctional economic outcomes, such as how firms are owned and governed. Central to this must therefore be a 21st century enterprise agenda that democratises the ownership and control of business. This is because how businesses are owned – who has distributional and control rights within the firm and also who captures the value they add – vitally shapes how they operate, in whose interests, over what time horizon, and how they distribute their profits. In turn this determines the nature of enterprise and the distribution of economic power and reward in society.

Crucially, though there are many purposeful businesses in the UK, our economy faces structural challenges that are rooted in the dominance of private, investor-led, extractive models of business ownership and management: the short-termism in decision-making it engenders, and its relationship to our poor productivity and investment performance; the lack of control most of us have over those decisions, despite the UK's weak record on management performance; and the inequality and insecurity it promotes, including in the stewardship of common but finite natural resources (Co-operative Party 2017; Labour Party 2017). As Marjorie Kelly puts it, 'ownership is the gravitational field that holds our economy in its orbit, locking us all into behaviours that lead to financial excess and ecological overshoot' (Kelly 2012).

The primacy of shareholders in our largest companies excludes workers and consumers from exercising corporate governance rights and incentivises short-termist and extractive business behaviour. Though businesses are institutions that bring together capital and labour for the purpose of production, involving political relationships of control and the exercise of authority, capital is sovereign and labour without governance rights in our dominant business models. Unsurprisingly then, the UK comes near the bottom of OECD economies in terms of the extent to which patterns of ownership and business forms support economic democracy (Cumbers 2016).¹

At the same time the distribution and nature of business ownership is a critical factor in inequality. Capital's share of national income has risen over time, and is likely to rise further, driven by trends such as increasing automation, the rise of platform winner-take-all 'superstar firms', and

the UK's dysfunctional land market. If capital was broadly owned, this would be less of a problem. However, the wealthiest 10% of households own 45% of the nation's wealth, five times more than the bottom half, and almost 70% of financial wealth, including stocks and shares (ONS 2018a). The narrow ownership of economic assets, including business equity, in a time of rising capital income is therefore likely to drive rising inequality without redistribution of ownership.

At the heart of any enduring economic transformation must therefore be the development of a new architecture of democratic ownership. Piecemeal reform that leaves current models of ownership and the distribution of economic assets untouched will leave the fundamental values and operation of our economic system unchallenged. In place of extractive, disconnected and short-termist forms of ownership, we have to build forms of ownership that are distributive by design, generative in purpose, democratic in orientation, and have a sense of connection to place (Raworth 2016).

There is no single step that can achieve this. What is required is a pluralistic and proactive strategy to scale alternative models of ownership that can reorientate enterprise towards the common good, shape production toward democratic needs, stem financial leakage and build a future of shared economic plenty by sharing the rewards of our collective economic endeavours. Co-operatives – a tried and tested means of democratising and equitably sharing the benefits of enterprise – must be at the heart of this.

2. THE CO-OPERATIVE APPROACH: A DIFFERENT FORM OF ENTERPRISE

The International Co-operative Alliance 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' (ICA 2018). As such, they are a form of enterprise in common, rooting ownership, control and benefits with the members and beneficiaries of the co-operative, not external investors.

From their origins as a form of mutual self-help in response to the hardships and exploitation of the Industrial Revolution, co-operatives have applied democratic, collaborative processes to economic organisation. They are owned and democratically run by the people who work and use them. Their ownership structure aims to ensure people – whether producers or consumers – have a genuine, democratic stake in their enterprise, and share in the wealth they create. By putting genuine control in the hands of workers or consumers, not the providers of capital, with formal equality among members in terms of economic decision making, co-operatives embody a different vision of how power should be organised and used in economic activity, one that institutionalises justice in production (Hsieh 2007).

From their emergence in Rochdale in 1844, co-operatives have been based on shared values, driving co-operation to meet common needs. These values remain central to co-operation today: self-help, self-responsibility, democracy, equality, equity and solidarity. The seven foundational principles of the co-operative movement provide guidelines for practical action to realise those values: voluntary, open ownership; democratic owner control; owner economic participation; autonomy and independence; education, training and information; co-operation among co-operatives; and concern for the community.

Co-operative membership is voluntary and open to anyone who can benefit. Democratic control rests with the co-operative's members based on one member one vote, regardless of capital contribution, and there are limited returns on capital. An emphasis is placed – cultural and operational – on co-operative autonomy and the collective development of the capacity of ordinary people independent of both

capital and the state. Co-operatives also seek to deepen wider co-operative culture, stressing the importance of non-market values as well of different values for acting in markets than profit maximisation, through education among co-operators and the wider community.

Co-operatives are consequently radically distinct from capitalist firms in organisation and purpose, producing very different outcomes. They are not simply a nicer form of economic organisation. The right of capital is replaced by the sovereignty of collective membership. They are owned differently, governed differently, and operate differently; their risk is shared differently and the rewards are distributed differently.

Co-operatives exist to serve and service the needs of their members. Direct control and ownership lies with the members and beneficiaries of the co-operative. Members of a co-operative are all equal and determine democratically the co-operative's policies and practices. This contrasts with the membership of a company, where control rights are in proportion to the number of shares owned and shareholders are assigned first and overriding priority in the governance of the business over other stakeholders, at least in Anglo-American corporate governance.

Although both a co-operative and a company are enterprises, in a co-operative people come together as equals, and strive collectively and collaboratively to achieve the business aim together; whereas a company is a mechanism for operating a business whose ownership and control is open to whoever is able and willing to acquire it regardless of their objectives or incentives (Alcock and Mills 2017).

Membership is consequently a more committed relationship in

a co-operative, compared to the transactional and more fluid financial participation of a shareholder in a company, as Labour's independent Alternative Models of Ownership report argued (2017). Another related difference is that while shareholders own the entirety of the value of the company, the membership of a co-operative only has a shared claim via common ownership, with a core part of the underlying capital remaining locked and not claimable by the members. Members consequently give up an element of influence and financial gain for the benefit of the membership collective. This reflects the differing purposes of the organisations: a company exists for the private benefit of its shareholders, whereas a co-operative is trading for the benefit of its members (Malleon 2012). The co-operative is a dynamic self-help mechanism enabling people to collectively meet their shared needs in a broader social context.

As a form of common democratic ownership, any surplus generated by the co-operative is returned to the co-op's members through dividends or lower prices, or otherwise reinvested in the co-op, held in reserves, or used for some other social purpose, all in accordance with the wishes of the members. This reflects their differing purpose: to provide for the needs of their members rather than maximise profit for external shareholders, embedding the principle of an economy that puts people before profit in their organisational fabric. As such, they are fundamentally social in orientation, a form of 'enterprise for the common good' (Alcock and Mills 2017).

In an era of often deliberately rootless ownership – as capital seeks to cut costs and exposure to redistributive obligations (ie taxation) – and sharp economic inequalities of place, co-operatives are mostly anchored in their localities. They act to serve

their members and whatever profit is generated is retained in the locality or among members; they generate and keep wealth in communities, whether geographic or membership-based. In doing so, by pooling talent, resources and interests together for the benefit for the membership, rather than external investor-owners, co-operatives are 'a direct manifestation of socialist progression' (Hunt and Willets 2017).

The legal and institutional framework of co-operatives consequently make them purposeful by design, established to serve specific needs and populations, generating beneficial social and economic outcomes in the process. There are typically five types of co-operative in terms of membership:

1. worker and freelance co-operatives, with a controlling majority in the hands of the co-operatives workers;
2. consumer co-operatives, where membership is based on the customers of the co-operative;
3. producer and enterprise co-operatives, such as in farming, where independent producers – usually small and micro businesses – come together as members to form a co-operative, reducing their shared fixed costs, participating in R&D, investing in infrastructure, capturing more value-added in supply chains, and improving negotiating positions with other companies;
4. community co-operatives, where members are typically a group of people with a defined common interest;
5. and multi-stakeholder co-operatives, where members typically represent more than one co-operative group, such as workers, consumers, service users or producers.

While there are a variety of legal forms

in UK law that form part of the sector, the critical defining characteristic of co-operatives is that they are, in the words of Co-operatives UK, 'run not by institutional investors or distant shareholders, but by their members. People like you and me – customers, employees, residents, farmers, artists, taxi drivers'.² (Co-operatives UK 2017c). Whatever the co-operative form, the objective remains the same: to capture the value added by doing business within a defined community rather than opening it up for extraction.

There are therefore strong arguments for a large and broad-based co-operative sector. Nevertheless, because it has received so little attention and support, the UK co-operative sector across this whole spectrum remains small. Much more incentive, support and encouragement is therefore needed now for those wanting to establish or transform their business as a fully-fledged, wholly democratic entity – the kind that many in the current movement have told us they consider to be a true co-operative. But we argue that these interests will also be served by implementing a policy agenda that also seeks a more gentle transition across the whole economy towards greater democracy and participation in firms – not just co-operatives – of all shapes and sizes. These are not mutually exclusive, but mutually reinforcing strategies.

3. CO-OPERATIVES AS SYMPTOMS AND AGENTS OF SYSTEM CHANGE

Overcoming our deep, structural economic challenges will require systemic solutions, because our poor outcomes are rooted in how we currently organise the economy and its institutions. If more people are to benefit from economic production, then economic power and control must rest more equally, requiring measures to redistribute ownership and control in society and, ultimately, capital.

The co-operative model – with its differing ownership and governance model generating different outcomes – should be ubiquitous in an economy that is successful at democratising ownership and sustaining purposeful enterprise at scale. A growing co-op sector would be one of many factors that could catalyse systemic change. But a flourishing sector will also be a symptom of a different type of economy emerging, one where thriving businesses are organised so they address deep democratic deficits generated by current patterns of ownership, and operate with values of participation and community control, while placing a primacy on social and ecological goals.

Co-operative flourishing in a more democratic, equitable, sustainable economy would advance what Raymond Williams called ‘the long revolution’ – the difficult and ongoing struggle to build a society defined by democratic, open and purposeful relationships, where hierarchies of power and illegitimate authority are replaced with values of co-operation, dignity and solidarity in an equitable, democratic and sustainable economy. Scaling democratic forms of ownership through co-operative expansion is critical to that endeavour.

4. THE CO-OPERATIVE ADVANTAGE

The co-operative advantage derived from its organisational form is considerable. Wide-ranging evidence suggests that productivity in co-ops is at least as high if not higher than 'conventional' firms, primarily due to improved motivation through a sense of collective ownership and profit-sharing, and more effective internal coordination due to higher levels of trust and the better use of employee know-how.

The geographic range of evidence is striking. The productivity bonus of co-operatives has been confirmed in the USA (Kruse, Freeman and Blasi 2010; Pencavel and Craig 1994), France (Fakhfakh et al 2012), Spain (Bayo-Moriones, Galilea-Salvatierra and De Cerio 2003), Italy (Maietta and Sena 2008) and Germany (Cable and FitzRoy 1980), among others.

Studies in the UK, meanwhile, have found that co-operatives, mutuals and employee-owned enterprises with 75 employees or fewer are outperforming conventional businesses, creating higher profits (both gross and per employee) than non-employee owned businesses (Welsh Co-operative and Mutuals Commission 2016). They are also more resilient. More than 90% of co-operatives survive their first three years of operation compared with 65% of conventional businesses (ibid). The evidence suggests that the co-operative model not only offers all of the systemic benefits of widening and deepening the ownership and control of free enterprise, but is also durable and highly economically viable.

There is also evidence that even relatively diluted forms of employee ownership brings business benefits. Publicly listed companies quoted on the London Stock Exchange or AIM that have 3% or more of their equity capital under employee control outperform the wider FTSE all share.³

Crucially, the co-operative model generates genuine social, economic and political benefits for its members, particularly compared to conventional businesses. Co-operatives have been found to have far lower levels of staff turnover compared with the average, lower pay inequality within the firm, and lower absenteeism rates (Mayo ed. 2015). Workers in co-operatives report much higher levels of job satisfaction and economic well-being than those in privately owned firms, as well as higher

rates of engagement and productivity (Mayo ed. 2015; Freeman et al 2010).

Strikingly, in an era of unaccountable corporate power and the facilitation by footloose capital of grand-scale tax avoidance, the five largest co-operatives paid 50% more corporate tax than Amazon, Facebook, Apple, eBay and Starbucks combined (Co-operatives UK 2016). And in an often extractive global economic system co-operatives can localise finance. One 2011 study found that employees of John Lewis spent between 20% and 25% of their partnership bonus (18% of annual salary in that year) within the same local authority area as the shop in which they worked (NEFC 2011).

This is not to say co-operatives do not contain trade-offs. Co-operatives are not suited to all industries or businesses. In particular, sectors involving high capital intensity are sometimes less suitable, due to the higher cost and risks that members would bear. In these cases, other models of democratic governance and ownership are likely to be more appropriate. The growing complexity and size also typically require more focus and work to maintain co-operative governance and democratic processes.⁴

Membership can also be demanding. Participation takes time, sustaining a rich democratic life requires effort and resource, and being an active member takes commitment. Nor do co-operatives dissolve the hierarchies of complex organisations or the potential tensions of the workplace. However, they are at least better legitimated and negotiated through the democratic structure of co-ops, and the sharing of formal decision-making powers. And it is exactly the democratic costs that underpin the benefits of co-operativism. Moreover, while scale can potentially be an issue, this can be addressed through networking and

co-operative federation, where small to medium sized co-operatives share functions under an umbrella structure.

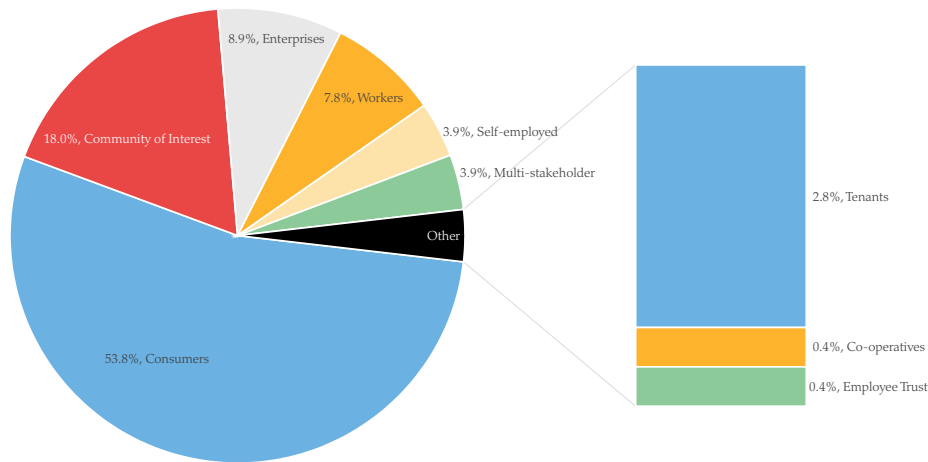
5. THE CO-OPERATIVE ECONOMY TODAY

The UK's co-operative economy is significant and spread across all regions and nations of the UK. In 2017 there were around 6,000 co-operatives, with 13.6 million members and just over 226,000 employees and 118,000 workers and freelancers working in co-operatives.

The majority of co-operatives are small scale, with only 41 of the 6,000 qualifying as medium or large businesses.

The co-operative economy had a combined turnover of around £35 billion, up from £34.8 billion in 2014 (Co-operatives UK 2017a). By far the biggest sector in these terms is retail – some £23 billion – which includes the Co-operative Group and John Lewis.

NUMBER OF CO-OPS BY OWNERSHIP TYPE

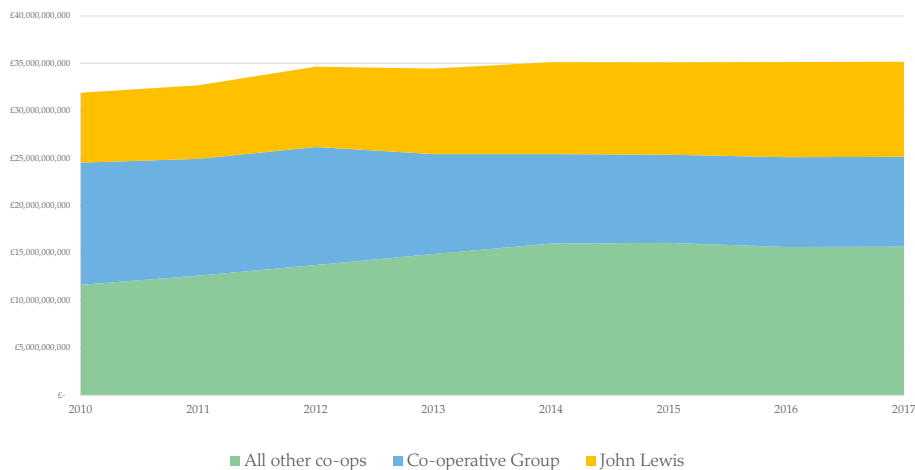


CO-OP TURNOVER BY INDUSTRY

Industry	Turnover £	% of all co-ops
Retail trade, except of motor vehicles and motorcycles	23300677278	66.98%
Crop and animal production, hunting and related service activities	7096975170	20.40%
Wholesale trade, except of motor vehicles and motorcycles	1738553993	5.00%
Real estate activities	831586944	2.39%
Sports activities and amusement and recreation activities	603308054	1.73%
Activities of membership organisations	431838383	1.24%
Education	283248185	0.81%
Human health activities	62518894	0.18%
Other professional, scientific and technical activities	56682958	0.16%
Manufacture of food products	55826268	0.16%

However, while the sector is measurably larger in terms of turnover in 2018 than it was in 2010, since around 2014 growth has stalled. Currently, including John Lewis Partnership and the Co-operative

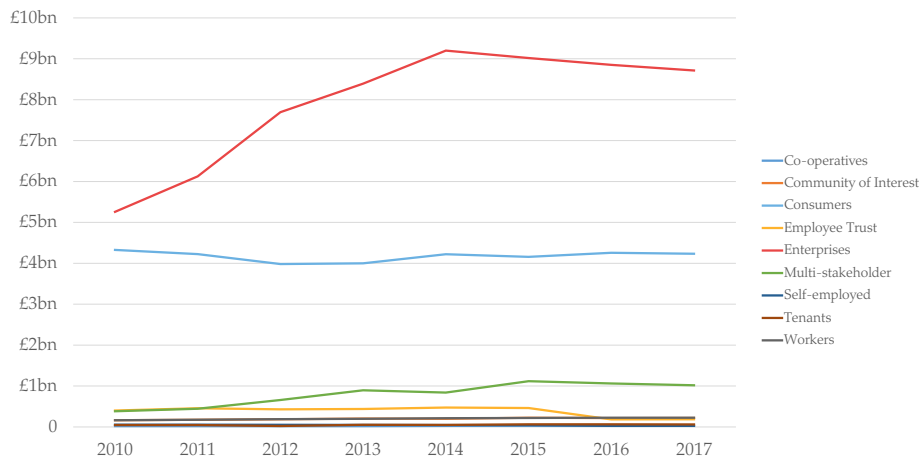
Group, the broad range of entities that make up the UK co-operative sector accounts for less than 1% of UK business turnover.



Other notable areas of strength included education (325 with a turnover of £409.3m), manufacturing (75 with a turnover of £264.1m), health and social care (97 with a turnover of £131.1m), and professional and legal services (151 with a turnover of £101.5m) (Co-operatives UK 2017a). Excluding the Co-operative Group and John Lewis shows the importance

of other enterprises (largely driven by big agricultural co-ops) but this has been slowly contracting since 2014. Consumer co-ops are still important, even discounting the Co-operative Group, and their turnover has been relatively stable over the course of the decade. Removing John Lewis massively shrinks the impact of employee trusts.

TRENDS IN TURNOVER



6. THE UK IN CONTEXT: LAGGING BEHIND

Despite the benefits of co-operatives, the UK has disproportionately fewer co-operatives and mutuals than most other OECD countries (Ownership Commission 2012). Germany has a co-operative sector four times the size of the UK's as a proportion of GDP and France six times (ibid), while in the Netherlands, Finland, Sweden and New Zealand co-operatives amount to between 5 and 10% of GDP compared to 2% in the UK (McCarthy 2018).

In the EU, where the income for the sector is €1.3 trillion each year, people are twice as likely (20% of EU citizens) to be a member of at least one co-operative than a shareholder in a listed company (11% of EU citizens) (Hunt and Willets 2017). In eleven countries in the EU, including Germany, France, Italy, Spain, Denmark and Sweden, co-ops and mutuals are worth a per capita income of over €2,000 per citizen each each, compared to between €350-2,000 in the UK (ibid).

The bigger size of co-operativism in other European economies and the evidence of the success and viability of the co-operative as a model of enterprise both in the UK and internationally, suggest that their relative rarity in the UK is not due to their ineffectiveness as a business form, but a result of contingent factors and barriers that can be addressed. It is no accident that co-operatives are more prolific in countries where policy has provided them with incentives and made their creation a priority.

7. THE IMPERATIVE OF NOW: THE OPPORTUNITIES AND CHALLENGES FACING CO-OPERATIVES

As we enter a period of disruption, of which Brexit is only the start, the values and benefits of co-operation are needed more than ever. The social, economic and ecological forces transforming society provide both an opportunity and need for the expansion of co-operatives, while also containing substantial risks to the sector. How society and the co-operative economy chooses to shape and respond to these trends will in part determine the success of the sector.

- **Automation and ownership – rising inequality or a future of shared plenty?**

The growing ability of machines to substitute or augment human labour is likely to increase inequality without a transformation in patterns of economic ownership. This is because automation is likely to accelerate the trend of capitals share of income rising over time as capital is substituted for labour in the production process (Karabarbounis and Neiman 2014). As capital is narrowly owned, if a growing share of income flows to capital, this will increase inequality (Lawrence, Roberts, King 2017). At the same time, technological change is likely to boost the income and power of people whose skills complement technological change further polarising the labour market. Reversing this dynamic of divergence will require broadening ownership of capital to fairly distribute the benefits of technological change. Co-operatives as a form of collective ownership can therefore play a crucial role in building a future of shared economic plenty by helping democratise capital.

- **The future of the platform economy: surveillance capitalism or 'social-ist' networks?**

Industrial capitalism is giving way to platform capitalism (Srniczek 2016) and what Shoshana Zuboff calls 'surveillance capitalism' (2015). This epochal shift is driven by a set of networked technologies – smartphones, mobile internet, cloud computing, sensor and locative technologies, computing power – that enable the capture, analysis and monetisation of mass data, coupled to a financial system seeking new sites of profit. The platform monopolies leading this

process are transforming models of production and consumption, reshaping the traditional employment relationship, and financialising everyday life. In the process, they are reaping enormous economic reward, underpinned by their control of society's data and the digital infrastructure. They occupy the commanding heights of the contemporary economy. Without reform, we risk ceding the future to them.

Yet an alternative world is possible contained within the technological infrastructure and values of the digital age: networked technologies can enable us to co-operate and collaborate more effectively than ever (Murray 2010); value is increasingly found in our common data if we can harness it; and the growing real time ubiquity of digital information could help us plan more justly and efficiently than the price mechanism in the decades ahead. Co-operatives have the potential to further spread these benefits.

- **Neoliberal exhaustion – a growth model out of steam?**

The perverse outcomes of a shareholder-driven model of hyper-global capitalism have long been noted; it is now increasingly matched by a growing recognition of the exhaustion of our growth model. Advanced economies are struggling to break out of secular stagnation and risk becoming trapped in a low growth, low inflation, low interest rate equilibrium. They remain over-reliant on unsustainable levels of debt to generate what (ecologically unsustainable) growth there is, while corporations are increasingly financialised and short-termist institutions (Keen 2017, Carney 2016, Krippner 2012). In short, there is a sense that neoliberalism

is running out of steam. But alternative business models are flourishing. Crucially, this includes a new generation of small and medium-sized co-operatives, from creative industries to community pubs, football supporter trusts to locally-owned energy schemes, housing co-ops to community care (Co-operative Party 2017). Consolidating and expanding this surge of alternative enterprise is a significant opportunity.

- **An ageing society – co-operative demand and the coming wave of business transition.**

The UK is an ageing society. The population aged 65 or over is expected to grow by a third by 2030, even as the working age population stays essentially flat (Lawrence 2016). This will drive demand for services such as health and social care, areas that co-operative models have the potential to thrive in with the right support. At the same time, as the baby boomer generation approaches retirement, it is likely to trigger a wave of business exits, marking a profound moment of ownership transition. For example, 63% of small business owners are over 50 and more than one in five are aged 61-70, with many of these businesses being sold in the coming decade. Yet of those over 60, little more than a third (36%) agree that they have a clear succession plan (BCMS 2016). Original NEF analysis shows that 120,000 family businesses are likely to close or transfer ownership over the next three years. To double the number of co-ops in the UK within that time, only around 5% of them would need to opt for employee ownership. If the right mechanisms are established to incentivise existing businesses to transform into co-operatives, then the decade ahead could provide

a key opportunity to shift the landscape of enterprise.

- **Ecological overshoot and the impossibility of the present.**

We are firmly in the Anthropocene, the geological era in which human activity is the dominant and destructive influence on the planet's ecosystems. The scale of compounding crises already underway will require us to transform how we produce and consume. The status quo is unsustainable; with multiple planetary boundaries already exceeded by our actions, we have already entered an 'unsafe' environmental operating space, threatening the preconditions upon which society can flourish (Stockholm Resilience Centre 2015). More democratic, equitable and long-term orientated enterprises such as co-operatives are well suited to providing the regenerative forms of enterprise we urgently need.

Social, economic and ecological trends are set to make the 2020s a decade of disruption. This is likely to drive the growth of a number of key sectors in which co-operatives can thrive (National Co-operative Development Strategy 2017b):

- **Freelancer co-ops**, where the self-employed come together to provide mutual self-aid. The growth in self-employment appears to be an enduring trend. An estimated 15.1% of the UK workforce is self-employed, up from 12% in 2001 (ONS 2018b), and is expected to grow in the coming decade (Dromey et al 2017). Networks of co-operative freelancers, pooling their resources and skills, are ideally suited to provide the mutual self-help that can deepen the security and capabilities of the self-employed.

- **Social care co-ops**, serving but also empowering people in need through multi-stakeholder models that align the interests of care workers and receivers. Due to demographic trends, demand for care is expected to grow significantly in the 2020s. For example, the number of people who will need daily physical assistance to wash, feed or clothe themselves will double between 2010 and 2030 to two million people (Lawrence 2016). As seen in countries such as the Netherlands, where co-operatives provide an important role in the provision of social care through the Buurtzorg system, there is a significant opportunity to expand more humane forms of care provision in the context of an ageing society via the expansion of both user and worker care co-operatives.
- **Platform co-ops**, offering shared ownership and collaboration through digital platforms. Digitalisation is already enabling the aggregating of dispersed workers onto digital platforms to provide goods and services. However, at present, the platform provider typically pushes the risk onto the providers and users of the platform, undermines the employment relationship and the rights that go with it, and extract significant amounts of value. If the technical, financial and legal infrastructure was developed to enable the development of co-operative platforms, where users and workers could co-ordinate efficiently but without an extractive and often exploitative platform provider at the centre, co-op platforms could thrive.
- **Professional and creative services co-ops**, where the co-operative advantage is a competitive advantage. Co-operatives and mutuals have already developed

a successful if small niche in professional services in the UK, such as digital agencies, architecture and accountancy (Co-operatives UK 2017a). Given this employment-rich sector is expected set to expand in the 2020s (Dromey et al 2017), there is an opportunity to increase the share of co-operatives in a growing sector. This is particularly the case because the comparative advantage of co-operatives is typically most pronounced in employment intensive, as opposed to capital intensive sectors, making them well suited to the high-skilled, human-focused provision of services (Borzaga et al 2011).

- **Co-operatives participating in public services**, as they are moved from private to public sector in the wake of the Carillion collapse. The experiment of the widespread outsourcing of public goods and services to democratically unaccountable, financially overleveraged large private sector actors who rely on public contracts to function has failed. Carillion's entry into receivership and the uncertain position of several other firms exposes a business model that is not fit for purpose: over extended, unsustainably indebted, poor value for money, opaque and barely accountable to the public. In its wake, there is a growing momentum to reclaim the public realm, with many local authorities looking to inhouse public services and growing calls government departments and agencies to do the same (Walker and Tizard 2018). Many public institutions will look first to bring public services back under public control and accountability. But co-operatives could play an important role alongside this in providing goods and services to the public sector – as has been the case in Preston for instance.

- **Reshaping agriculture.** As Brexit takes shape and the subsidy regime and supply chains shift, co-operation between farms – already a strong facet of agriculture in some UK regions and nations – can be a key way to reshape food production and supply. Traditionally, smaller scale farms have always shared machinery and other common functions, but greater collaboration in the production of social and environmental goods as well as in providing supply at volume could significantly help increase resilience in post-Brexit agriculture. Also, linked to more co-operation in digital platforms, individual farms can access markets in new ways as some fishing communities such as St Ives already are, bypassing some of the traditional market gatekeepers.

Others sectors that exemplify a co-operative fit include childcare and education, banking, renewable energy, creative industries, tourism, and transport, all of which are likely to see growth in the decade ahead, offering opportunities for significant co-operatisation (Co-operatives UK 2017a).

A durable expansion of the co-operative economy is likely to be driven by growth in these sectors by three types of co-operative.

- First, the development of more medium and large co-ops that can operate at scale.
- Second, through the proliferation of smaller and more locally rooted co-ops in these sectors, whether through encouraging new start-ups, growing existing micro co-operatives, or transitioning existing businesses to the co-operative model. Often these will share back-office services and other networked facilitation, such

as website hosting, that can also be provided co-operatively.

- Third, if the sector does grow effectively, co-operatives that provide infrastructural services to other co-ops, including back-office functions, advice and training, could be a source of future growth. 'Co-op of co-ops' networks are most likely to operate and deepen co-operative footprints at the regional level.

Growth in turn is likely to be driven by a combination of the expansion of existing co-ops of various sizes, the establishment of new co-operative businesses and the conversion of existing businesses into co-operatives. Taken together, there are a wide range of sectors well-suited to co-operatisation that are expected to grow significantly in the 2020s and are ideally placed to drive an ambitious project of co-operative expansion.

8. CASE STUDIES

MONDRAGON: THE CO-OPERATIVE FORM AT SCALE

Mondragon, arguably the world's leading co-operative group, was established in the Basque country in 1956 to provide local employment. Since then, it has grown to become the tenth largest business group and the fourth largest employer in Spain, with more than 260 different companies and subsidiaries, over 75,000 workers in 35 countries, and annual revenues of over €2 billion (Young Foundation 2017).

In that time, Mondragon has consistently recorded significantly higher labour productivity than conventional Spanish firms, with its growth outpacing the average of Spanish companies (Malleon 2012).

Its success attests to the economy viability, indeed vitality, of the co-operative model at scale. This has been achieved alongside delivering the broader social gains associated with co-operativism. Wages are more equal than comparable capitalist firms, with salary ratios between the lowest and highest paid workers of 1:6 compared to an average of 1:129 for a FTSE 100 company (Young Foundation 2017). Democratic participation and decision-making power, from the strategic to the everyday, is also higher than 'conventional firms'. The Mondragon complex has also exhibited far greater resilience in terms of retaining and expanding employment than conventional Spanish firms (Malleon 2012).

The success of Mondragon demonstrates the economic viability of industrial co-operativism at scale, with valuable lessons and challenges to be learnt from its experience.

First, the creation of a co-operative bank – the Caja Laboral (CL) – in 1959 is generally regarded as critical to Mondragons later success (ibid). Structured as a co-op of co-ops, CL enables the co-operatives of the Mondragon group to pool their resources to finance development. This has enabled the group to fund expansion without entanglement with forms of finance that would put pressure on co-operative ownership and governance. The CL also has a business unit – the Empresarial division – whose purpose is to support co-operative business development, with tailored support and expertise on hand.

Second, the internal structure of the group ensures a high level of internal investment, to sustain and grow Mondragon. This is achieved by requiring that 10% of the surplus of a Mondragon group co-operative is given to charities, 45% is mandated to go to Mondragon's collective reserve for co-operative specific financing, and 45% go into individual members' capital accounts, that divorce membership rights from property and income rights (Young Foundation 2017).

Third, it has constitutionalised democratic structures such as the Governing Council and the Social Council, which enable employees to act as both workers and co-owners, sharing formal decision-making powers.

This are nevertheless substantial challenges to the Mondragon model, not least the threat of co-operative degeneration. Due to rapid expansion and growing internationalisation, for a period in the 2000s, a majority of employees were non-members, particularly in non-Spanish subsidiaries, threatening the co-operative status of the enterprise. A subsequent effort to re-democratise the firm has increased employee membership to 81% (Young Foundation 2017). Nonetheless, it does suggest the potential pressure that globalisation and competition can place on co-operatives. Overall though, the success of Mondragon underscores that co-operatives can be successful, large-scale enterprises with the right institutional underpinnings.

ITALIAN CO-OPERATIVISM: CULTURE, NETWORKS AND CO-OPERATIVE SUCCESS

It is a striking fact that one of the richest and most equal regions of Europe is also home to one of the

densest co-operative economies. The 8,000 or so co-ops of Emilia Romagna produce 40% of the region's GDP and a quarter of the population either work for or belong to a co-operative (Malleon 2012). The region is the apex of Italy's vibrant co-operative economy that is among the largest and most successful in Europe. A number of factors underpin this.

First, under the umbrella of La Lega (the National League of Co-operatives), an enabling co-operative network operates to provide mutual support, problem solving, training, and general support for the establishment and expansion of co-operatives.

Second, supportive government policy has bolstered Italian co-operativism. This has included: tax reliefs on income that is deposited in a co-op's indivisible reserve, a supportive public procurement environment that privileges co-ops for certain public contracts; targeted and specialist forms of financial support, first through the National Institute of Co-operative Credit and today with the National Labour Bank; and a legislative framework that requires co-ops to significantly re-invest their surpluses, forbids sell-offs, and requires co-ops to contribute 3% of their profits to a development fund that finances wider co-op development and worker takeovers. The 1985 Marcora Law allows workers to capitalise buyouts of their company if it is closing by bringing forward two years of their benefits payment and has helped create more than 250 worker-owned co-operatives in the past 30 years (Duda 2016). Taken together, these measures ensure co-operative wealth is not transferred out of the sector, and more positively, support the steady growth of co-ops.

Italy's political culture has helped drive the growth of its co-operative

movement (Gann 2018). In particular, a broad and deep socialist lifeworld that existed outside of Italian capitalism, bolstered by the active social presence of the Italian Communist Party in many of the heartlands of Italian co-operativism, was crucial to providing the institutional, cultural, and political space and momentum for the development of co-operativism. This suggests that a supportive institutional framework is best enabled and embedded by a broader political culture conducive to co-operation. If culture and institutional support are in place, the Italian experience suggests co-operatives can thrive.

THE PRESTON MODEL: THE IMPORTANCE OF PLACE-BASED INNOVATION

In 2011, faced with among the largest central government cuts in the country, and with a £700 million investment in a new shopping centre falling through, the city of Preston embarked on an effort to reimagine its growth model. Instead of relying on often footloose and extractive forms of inward investment to drive the local economy, the council – led by councillor Matthew Brown – began pioneering a community wealth building strategy. At the heart of this approach is an effort to build a more inclusive, rooted and democratic economy, drawing on the collective strength of the local public sector, businesses and communities.

Central to this has been an innovative use of public procurement, which explicitly aims to develop the co-operative sector. This began with the identification of 12 major institutions that are geographically rooted in Preston, ranging from the hospital to the police to the university and city council. The procurement strategies of each of these was redesigned to ensure that these institutions and their supply chains as far as possible

paid the living wage. The council have also helped establish two worker co-operatives to fill procurement gaps. Alongside this, concerted efforts have been made to redirect spending to local businesses, including co-operatives. For example, spending from the anchors with Preston-based organisations has increased from 5% of total spend in 2012/13 to 18.2% of total spend in 2016/17 (Todd/CLES 2017).

In partnership with the University of Central Lancashire and with support from the Centre for Local Economic Strategies (CLES) the council is expanding the co-operative economy through Preston's Co-operative Network – supporting new and existing co-operatives to grow and bid for contracts from anchor institutions. Efforts are also underway to build up the co-operative common wealth through the pooling of members' capital and the storing of surpluses in reserves to support broader co-operative development.

The council is in the process of establishing a Lancashire Community Bank designed to lend to co-operatives and small businesses that currently struggle to access finance, while it has also supported the re-establishment of Guild Money, a city-wide credit union with 500 members.

The Preston Model is in its infancy, yet highlights, in the face of austerity, the vital partnership role innovative local government can play in fostering co-operatives and a more rooted local economy, not least through innovative procurement policy and a supportive local financial system.

CO-OPERATIVE DEVELOPMENT SCOTLAND: THE ROLE FOR A NURTURING STATE

Co-operative Development Scotland, a subsidiary of Scottish Enterprise, exists to support new and existing

co-operatives to grow and develop, along with raising the profile of co-operatives as a viable business model. The Wales Co-operative Centre fulfils a similar function in Wales. CDS's record demonstrates the important role an innovative, proactive and nurturing state can play to expand the co-operative sector.

The body seeks to promote co-operatives and raise awareness, and increase the adoption and growth of co-op models. This includes the provision of technical support to vendors considering an employee buy-out, information sharing and facilitation of introductions. Notably, it is backed by a thicket of policies to promote workplace innovation, engagement and collaboration, from the Scottish Business Pledge, to the Community Right to Buy, to the Scotland CAN DO framework to support inclusive ownership. CDS estimates that for every pound spent supporting the organisation (totalling just over £5 million between 2009-2016), it generates cumulative gross value added ten times that, and has a target for developing 350 new co-operatives in ten years.

A review of the CDS's impact by Ekosgen suggests that a supportive, entrepreneurial state encouraging co-operative and social enterprise can make a real difference. The 'return on investment (RoI), based on total actual spend of over the 2009/10 to 2014/15 period of £4.4m, is £4.4 to 1 for impacts to date, rising to £6.4m to 1 if future forecast impacts are realised' (Ekosgen 2015). Across 'the 148 CDS supported businesses since 2009 this generates total net additional turnover of £54.2m and GVA of £27.9m'. There are were also a range of further social and economic benefits from CDS intervention. For example, partly as a result of working with the CDS, 88% of businesses surveyed

have either implemented or are planning to implement more flexible working practices; seven in 10 EO businesses report increased employer engagement; seven in 10 report input to decision-making; 56% have seen better employee performance to date and the remainder expect to see this in future; and half already improved productivity; two thirds of consortia and EO businesses have improved knowledge-sharing wholly as a result of consortium working/EO, and half have increased skills / knowledge partly or wholly as a result in the change of business operation, while almost two-fifths had also seen new innovations (Ekosgen 2015).

In short, CDS has already played a hugely positive role in supporting the co-operative sector on a small budget, with many positive social and economic spillovers. Moreover, the Wales Co-operative Centre, which has supported the sector since its foundation in 1986, also has a track record in helping grow the Welsh co-operative movement. A similar institution tasked with proactively nurturing co-operatives in England and Northern Ireland could play a vital role in expanding the sector.

9. THE BARRIERS TO CO-OPERATIVE EXPANSION

An ambitious expansion of the co-operative sector must address the barriers that have held back the sector, while identifying what constructive steps can be taken to support expansion. There is broad consensus on the factors constraining co-operative development.

These include:

- Finance:** the difficulty co-operatives face in accessing effective affordable, patient (ie the opposite of short-term high-return) finance is a critical inhibitor of the sector's growth, whether it is financing start-ups or expanding established enterprises. For example, almost half of co-operatives and mutuals have experienced difficulty accessing finance (Welsh Co-operative and Mutuals Commission 2016). This is partly due to the structure of a co-operative, which makes raising external equity finance difficult and often excludes them from traditional investment method including debt-financed investment. However, other European economies provide a deeper and more effective range of alternative sources of finance for co-operatives, whether through direct public funding, legislation to ensure the development of common co-operative development, or support for innovative financial instruments tailored to the local co-operative economy. The paucity of long-term finance available in the UK means that co-operatives risk under-investing, triggering economic deterioration or potential acquisition by firms better able to access finance. It also inhibits the formation and expansion of co-operative businesses. Conversely, financial and regulatory innovation, drawing on successful international practice, suggests a supportive financial ecosystem for co-operatives can be developed. It is important to note though that while tax measures and financial institutional arrangements are not necessarily conducive to co-operative growth, many of the solutions arguably lie in non-governmental and co-op to co-op action, which if there was a groundswell in new co-op activity would likely create an impetus and

capacity to develop solutions to the finance challenge co-ops face.

- **Regulatory challenges:**

co-operatives are democratic fish swimming in a capitalist, acquisitive sea. The legal, regulatory, auditing and financial institutions of the UK economy are designed for private companies, tailored to their needs. By contrast, and as a result, co-operatives operate under a framework that disadvantages them, burdening them with a layer of rules and regulations that equivalent conventional firms do not face. They also face hurdles in bidding for public contracts, with public procurement geared towards major private companies. An unequal playing field consequently places the sector at a competitive disadvantage and makes it easier for new enterprises to adopt conventional business models. Perhaps as important, the regulatory environment for co-operatives in the UK fares poorly in safeguarding co-operative degeneration relative to the most successful co-operative economies. This includes having no statutory asset lock to retain co-operative wealth in the co-op sector, or strengthening democratic practices, such as requiring a majority of employees or users to be members. Societies are also registered under the Financial Conduct Authority, not Companies House, which creates differing and often more onerous duties for co-operatives compared to other businesses.

- **Organisational durability:** related to the regulatory and financial challenges co-operatives face there is the risk that key institutional features of co-operative economies common to other European countries are missing in the UK. In particular, the UK's co-op sector

lacks mandatory indivisible reserves requirements that provide co-ops with a financial buffer and de-couple resource dependency from a narrow pool of members. At the same time, the lack of a statutory asset means that wealth generated in the co-op sector risks leaking out, with assets leaving the movement and inhibiting the development of co-operative wealth. It also removes the scope for potentially destabilising investor speculation.

- **The 'know-how' gap:** another major challenge is the absence of a broad common knowledge of what co-operatives are, how they operate, and their advantages. One manifestation of this is staffing difficulties – including issues around recruitment, retention and skills – which just over half of co-operatives surveyed for the the National Co-operative Development Strategy highlighted as an inhibitor of success (2017b). There is also inadequate support for co-operative business planning or advice provision, for financial management during different parts of the business life cycle, or for building democratic governance and succession planning. Indeed, as the Welsh Co-operative and Mutuals Commission concluded, the 'provision of specialist business advice, support and mentoring that meets the specific needs of co-operatives' is crucial to the prosperity of the sector, but too often is lacking (2016). Relatedly, at points of business transition, for example when a founder is deciding whether to sell their business and to whom, the option to co-operatise is little known and currently lacks adequate technical and financial support to make that a common option. Addressing what Schwartz (2012) calls the 'familiarity effect' – whereby due to awareness and knowledge about how to start and

run a 'conventional' firm, this model predominates – is important to expanding the sector.

- **Membership:** membership is a source of massive strength to the co-operative movement, particularly when the interests of members align. However, there is also the risk that it limits the pool of resources available for co-operatives to draw upon, whether capital or labour, in turn inhibiting the ability to either establish or grow the enterprise. Much of this is the fault of capital or regulatory barriers, with which we deal below. But some academics have also suggested that the nature of member-owners leads to under-investment due to a 'horizon problem'; members do not potentially want to invest beyond their expected membership and a free-rider problem leads to short-term investment decisions (Giannakas et al 2016). The requirements of membership may also make co-operatives too demanding for some. An ambitious expansion of co-operative membership, while making active membership as easy as possible and reducing the transaction costs and burdens of co-operation (costs, financial and non-financial), is therefore an important step toward co-operative success. Shared platform technologies and co-operative infrastructures offer massive opportunities in this regard.
- **Cultural isolation:** the most successful co-operative ecologies have grown out of broader social, cultural and political movements that have struggled for an economy with fundamentally alternative social and environmental purposes beyond capital acquisition. It is that connection to a vibrant alternative economic lifeworld that has sustained and scaled

the most successful co-operative regions. As Robin Murray argued: 'Radical co-operative development depends on creating networks and institutions that can mutually strengthen each other' (2010). One potential barrier to co-operative expansion is therefore the need to develop the political, social and cultural forces needed to popularise and embed a culture and institutional strategy that can ensure co-operatives aren't, in the words of Raymond Williams, 'simply trading organisations isolated from any struggle for alternative social purposes'.⁵ More deeply embedding co-operatives in wider social movements and communities will help give co-ops the strong cultural and social underpinnings that have driven the most successful co-operative economies elsewhere. Finally, co-operatives face an image problem, that they are an ethical alternative but not especially effective business model, which will need addressing to enable the co-op model to achieve widespread popularity and normalisation.

Addressing these barriers is fundamental to any ambitious agenda for the co-operative economy. However, what exactly would constitute ambition in this context and how should it be defined?

10. THE CO-OPERATIVE ECONOMY BY 2030

Co-operatives can play a critical role in building a more democratic, sustainable society. To have that effect, however, will require a significant expansion of the sector in the 2020s. In turn, to expand the co-operative sector substantially will require the creation of a new business and economic culture, perhaps already underway in Scotland and Wales, but largely absent in England and Northern Ireland.

Given this, it is encouraging to see a growing political commitment to the sector's expansion and the doubling of the co-operative economy by turnover by 2030 (Co-operative Party 2017).

In such a vision, there is scope for a broad range of co-operative models, but an imperative that all roads lead in the same general direction, which is towards the creation of a new economy that puts people before profit. The reason co-operatives offer the promise of both journey and destination is that their proliferation bakes in more stakeholder control and better sharing of the wealth created by enterprise into the economy. The more of them there are, the closer to a new economy we edge.

At the same time, given that a defining feature of the sector is putting member experience and benefits above corporate growth, it is important that a bundle of metrics are used to monitor co-operative expansion, not just turnover.

With this in mind, there are a number of key metrics that a doubling of the sector by 2030 can be measured against:

- The number of co-ops: from around 6,000 to more than 12,000.
- Turnover (co-operative total and as percentage of all business turnover): £35.7bn to £71bn, from 1% to 2% of turnover.
- Number of members: from 13.6 million to 26 million.
- Number of employees (and as percentage of total employment): 226,000 people to 450,000; from 0.7% to 1.4%.
- Pre-tax profit (total and as percentage of turnover).

- The number of co-operative champions (medium to large co-op business): from 41 to 80.

One place to start is with the potential for business succession to boost the number of co-operatives. Both Co-operative Development Scotland and the Welsh Co-operative Centre have identified that family-owned SMEs whose owners are looking to retire and have no clear plans for succession could present an opportunity for worker co-operatives.

Their work suggests families who own businesses are more likely to face issues around business succession and to transfer ownership over to employees as a way of prioritising business longevity and keeping jobs in the local areas. Examples includes larger and

older companies such as Scot & Fyfe Ltd (CSD 2017), which was owned by the Tough family and transitioned to employee ownership and smaller companies such as Skye Instruments, owned by John and Gill Wilde⁶.

NEF has independently analysed and estimated the proportion of UK businesses that are family run and are likely to be transitioning ownership in the next three years. The baseline sample of businesses in the UK is taken from the Annual Business Survey, which gives counts of businesses by number of employees. The initial size band is 0-9 employees, so in order to estimate how many of these do have employees, the proportion of registered businesses with no employees in this size band is taken from the Business Population Estimate (52%).

		0 to 9	10 to 49	50 to 249	Source
Baseline number of UK businesses registered for VAT/PAYE		2,386,740	231,715	40,530	UK business workbook
Proportion of registered UK businesses with 0-9 employees that have no employees	52%				Business Population Estimate, Table 1
		1 to 9	10 to 49	50 to 249	
Adjusted baseline sample		1,152,846	231,715	40,530	

To estimate what proportion of these SMEs are family businesses likely to be facing business succession issues, results from the Small Business Survey

2016 on this subgroup are used, taken from Institute for Family Business' State of the Nation report (IFB 2017).⁷

		1 to 9	10 to 49	50 to 249	Source
% of private businesses family firms		75%	59%	47%	BEIS SBS 2016
% family firms anticipate closure or transfer of business		16%	11%	6%	BEIS SBS 2016
% family firms not anticipating transfer to family	76%				BEIS SBS 2016
Number of family businesses could be open to employee ownership		105744	11741	887	
Total				118,372	

This suggests that there are around 120,000 family-run SMEs in the UK likely to be facing a transfer of ownership in the next three years. There are approximately 6,000 co-ops in the UK, so to double this number, only 5% of these family businesses would need to be supported to use a transition to employee ownership as an option for business succession. While this would clearly not constitute a doubling in turnover, if repeated over successive three-year periods, it could clearly set the UK on a path towards this measure of doubling by 2030.

If achieved, this would constitute the beginnings of a significant change in the economy, with a substantially broader co-operative footprint in terms of employment, economic activity, and membership. Other indicators of success could include the densification of the co-operative economy, including increasing the number of co-operatives working in networks, clusters and federations, greater trade between co-operatives, and an increased reproduction rate among co-operatives.

However, arguably a deeper measure of success is not simply the doubling of certain metrics, but the establishment of a new and enduring legal, financial and technical framework that can enable the sector to enduringly flourish. This will require embedding, reinforcing and creating co-operative-specific institutions that have underpinned co-operative success

internationally, while deepening and expanding the strengths, capabilities and culture of co-operativism in the UK.

If this is achieved in the coming years, then the potential exists to profoundly alter the trajectory of the co-operative economy. In particular, an ambitious institutional agenda could underpin even bolder targets for success. Doubling the sector is the core goal.⁸

Beyond that though by the early to mid-2030s we should aim for a co-operative economy where half the population enjoy the benefits of membership, employees of co-operatives represent 5% or more of the workforce, and turnover is equivalent to 10% of GDP. This would be a bold stepchange, and provide a powerful mechanism for cumulative, enduring economic transformation.

To do so will require an equivalently bold reform agenda, to which we now turn.

11. POLICY RECOMMENDATIONS

Significant co-operative expansion – beginning with at least doubling the turnover of co-ops in the UK by 2030 – will not happen under the current legal, financial and operational arrangements, which inhibit the sector's development. Nor can or should we expect co-operativism to expand dramatically through the force of ethical example and exceptional effort, not least because co-operatives are currently subject to intense external pressures due to their operating in a wider, extractive and dysfunctional economy.

Instead, it should be because they are a form of purposeful, successful enterprise that most effectively brings together the ability and interests of ordinary people backed by a supportive institutional, financial and legal framework. Co-operatives should thrive, in other words, as a form of economic organisational 'common sense'.

For an economy with free but co-operative enterprise at its heart, many of the specific policies and approaches that are needed (outlined below) would be at their most effective if set within a wider framework of economic development and prosperity that sought at heart to broaden democratic ownership and control.

This would see small- and medium-sized enterprise as the primary economic building block, networking between businesses as essential and, by extension, co-operation and community wealth creation as key objectives. In this context, the co-operative model would no longer be exceptional; it would be foundational.

NEF notes that for relatively little investment, Co-operative Development Scotland and the Wales Co-operative Centre have made significant inroads. CDS remains nevertheless a modest player sitting inside a larger national enterprise agency.

How much more could be achieved if co-operatives were given the undivided attention of a better-resourced agency? And how much more ambitious could the cause of democratising businesses be if we sought to inspire and provide incentives for all firms to give employees a stake?

To be certain that co-operatives could double in size and, perhaps more profoundly, to create the conditions

for much more ambitious growth – a new economy based on wealth-sharing enterprises and economic democracy, no less – NEF recommends a five-step programme.⁹

FIVE STEPS TO CREATING A CO-OPERATIVE ECONOMY

Five interlocking steps can form part of such a strategy and so drive co-operative expansion:

1. **A new legal framework for co-operatives**
2. **Finance that serves the co-operative agenda**
3. **Deepening co-operative capabilities through a Co-operative Development Agency**
4. **Transforming business ownership**
5. **Accelerating community wealth building initiatives**

The foundational step is to **develop a legal framework tailored to the specific needs of co-operatives and supportive of their future development**. This must address the current disincentives to co-operative growth that exist in regulation and law, ensure co-operative wealth is rooted in the wider co-operative economy, and create the conditions for the accumulation of co-operative capital and commercial expansion.

1. A CO-OPERATIVE ECONOMY ACT SHOULD ESTABLISH THE FOLLOWING:

- **Create a statutory underpinning for the creation of co-operative indivisible reserves and an asset lock.** Co-operatives should be given the option of creating an asset lock on co-operative wealth and building up a common indivisible

reserve via statutory underpinning. An asset lock would enshrine the 'disinterested distribution' principle common in other European countries, which ensures that there can never be a benefit from 'cashing out' via liquidating or selling the co-operative because the assets must be transferred to another co-operative. This ensures co-operatively earned wealth stays within the co-operative economy. While the asset lock and indivisible reserve incentivise, reward and utilise 'common wealth creation', the process should be optional for co-operatives, depending on their circumstances.

- **Introduce a right to own to support employee buyouts and the co-operatisation of existing businesses.** This should be underpinned by the legal framework, financial instruments and institutional mechanisms needed to allow for a negotiated employee buyout between workers, exiting owners and the co-operative sector. Further details are set out in recommendation 4: transforming business ownership.
- **A duty to develop the diversity of corporate form.** The government must provide official recognition of co-operatives as inclusive business models, and introduce a new statutory duty to foster diversity of corporate forms to help enable a new culture of co-operative entrepreneurship, and broader pluralism of ownership in the economy as a whole. This would include amending the government's impact assessment on new legislation and regulation, to make sure that all legal forms are properly considered and fairly treated, and to identify and remove burdensome unintended consequences of new government policy. To assist

the growth of diverse corporate forms, reform should include a requirement for the Competition and Market Authority to review its competition policy with a view to fostering markets with different legal forms, not just focusing on the size of market share among often monocultural enterprise forms. It is noticeable that economies with significant co-operative sectors have statutory duties to promote them. For example, both the Italian and Spanish constitutions oblige the government to promote co-operatives and underpin supportive legislative frameworks.

- **A Co-operative Development Agency in statute.** To strengthen the development of the sector, a Co-operative Development Agency for England and Northern Ireland should be established on a statutory basis. This would mirror the institutional support provided to co-operatives in Scotland and Wales. We recommend that both Co-operative Development Scotland and the Welsh Co-operative Centre are given statutory underpinning, which they currently lack. Further details on the role the agency could play are set out in recommendation three.

Legislation should also review areas where co-operatives are currently at a disadvantage compared to other types of business in legislation, regulation and other areas, redressing this where appropriate. For instance, while people in the co-operative movement have spoken to us favourably of the Mutuels Team at the Financial Conduct Authority, through which co-operatives are registered, the disconnection between establishing a business via companies house and a co-op via the FCA speaks to the disjointed nature of government's current approach.

Finally, while there are substantial benefits to the co-operative movement to not having too narrow and singular a definition of what constitutes a co-operative, there may be an advantage in greater definition of co-operative endeavour in particular sectors. Consideration should therefore be given to whether greater definition in legislation is required for specific forms of co-operative enterprise; these might include in certain sectors or activities that require legal definition as a condition for legal recognition, such as housing or energy.

2. BUILDING FINANCE THAT SERVES THE CO-OPERATIVE ENDEAVOUR

The second step is to develop a range of **financial instruments and institutions tailored to the needs of the co-operative economy**. Crucially, these must be capable of providing patient forms of capital without requiring control rights in exchange, enabling co-operatives to continue to employ capital in pursuit of enterprise, rather than capital dictating and distorting their purpose. A range of interventions can develop such an ecosystem.

- **A National Investment Bank should be established that includes a mandate to supply patient risk capital specifically to the co-operative, mutual and social enterprise sector.** NEF, along with many other organisations and academics, has called for the establishment of a National Investment Bank with regional divisions to provide the productive investment that the private sector is failing to supply (Macfarlane 2016). A division of the bank should be tasked with tackling another market failure of the UK's banking system: the failure to adequately finance co-operative development. This would require the development

of national and regional expertise of the differing requirements of co-operatives compared to other business forms. The focus would most likely be on scaling already medium to large co-ops, financing substantial worker buyouts, and financing the co-operatisation of existing public assets, such as Royal Bank of Scotland, if such an asset was transforming to a co-operative governance and ownership model.¹⁰ The development of a co-operative financing wing of a National Investment Bank should be part of a broader strategy to ensure it is a 'mission-oriented' bank, with one such mission being expanding alternative forms of business ownership. In the absence of a National Investment Bank being established, consideration should be given to establishing a public bank focused on providing long-term funding to the co-operative and social economy, learning from the successful Green Investment Bank prior to its ill-advised privatisation.

- A new model for co-operative financing should be developed to allow the **provision of non-member investment, which provides capital in return for a limited return but no participation rights**. It would be similar to the co-operative bond investment market common in leading co-operative economies in Europe.
- **Legislate for the creation of mutual guarantee societies, ending the UK's anomalous position**¹¹. Mutual guarantee societies are private guarantee institutions created by small and medium sized businesses who benefit from mutual loan guarantees and better access to finance. Critically, the UK is almost unique in Europe in terms of not supporting

SMEs through legislating for mutual guarantee societies. We are missing out: 8% of small businesses in the EU used a mutual guarantee society to access finance, with a portfolio of €80bn, while the OECD concluded that mutual guarantee schemes represent 'a key policy tool to address the SME financing gap, while limiting the burden on public finances' (OECD 2013). To redress this gap, legislation should create a definition of a mutual guarantee society and add mutual guarantees to the list of regulated activities as set out in the Financial Services and Markets Act 2000, rather than being considered – as they are under current legislation – as a commercial insurer, which imposes significant and inappropriate regulations, conditions and capital requirements.

- **Introduce tax relief on profits reinvested in asset-locked indivisible reserves and on profits paid into a co-op development fund to incentivise common wealth creation**. The UK should adopt the model that is common and successful in many European countries, in which co-operatives receive a discount on corporation tax if the eligible profits are paid into their asset locked indivisible reserves, with a proportion paid into a national or regional co-operative development fund established by the sector or by the state, to support new and growing co-operatives. There is broad and proven acceptance of this model in terms of economic and competition policy. For example, the European Court of Justice decision on 8 September 2011 was decisive in supporting differential taxation regimes for co-operatives because of the distinctive ownership and social benefits of the model (Ibarra 2014). Even at a relatively low level, a bold commitment to incentivising common wealth

building could catapult the sector forward. Tax relief should be accompanied by a requirement on co-operatives to complete an independent co-operative audit of their performance against the co-operative principles once every five years, as a form of accountability.

- **Offer people facing unemployment or receiving in-work benefits the opportunity to start a business using a 'co-operative enterprise grant'** and allowance to start a co-operatively run business. The Co-operative Development Agency would provide advice and support for business development. It will also require holistic support, including ensuring access to skills and retraining options, to support people to explore their co-op options.

It is worth noting that most small and micro firms – whatever their structure – struggle for finance, especially in order to grow once established. If attractive forms of finance can be found for financing co-ops, there is a strong case to say that many micro firms will be actively incentivised to change structures. A better ecology for financing co-operative production could act as an accelerator for existing co-ops and a pull for other business forms to co-operatise.

3. A CO-OPERATIVE DEVELOPMENT AGENCY

The **third step is to develop and extend the capabilities of the co-operative movement by establishing a new Co-operative Development Agency**. As we have seen, the most successful co-operative regional economies are underpinned by a thick ecosystem of institutions and cultures that provide the information, advice, expertise and support necessary for co-operatives – both individually

and as a network – to grow.

In Scotland and Wales existing institutions provide this function admirably already, but scaling such efforts across the rest of the country is crucial. We therefore propose establishing a Co-operative Development Agency for England and one for Northern Ireland that would seek to replicate and expand on the success of Co-operative Development Scotland and the Welsh Co-operative Centre across the rest of the country. In Scotland and Wales, given the success of their development agencies on a tight budget, we recommend expanding their funding.

The agency would provide a network of support and capacity building to co-operatives large and small to facilitate networking, federating and risk sharing among co-operatives, and act to increase familiarity with the co-operative model. A central public agency is particularly well placed to provide buyout support, support for co-operation between co-ops, and digital platform development. In other areas, the need for a diverse, flexible, networked weave of things independent of politicians and the state is important; the agency should also seek to nurture, enable and partner not take over all direction of co-op development.

A Co-operative Development Agency should operate at multiple levels: nationally in England and Northern Ireland, co-ordinating with existing Welsh and Scottish equivalents, as well as providing tailored support to city regions, local government, combined authorities, and local co-operative ecosystems. Specific actions it could undertake or have responsibility for include:

- **Facilitating knowledge exchange among co-operatives** by helping

co-operatives share best practice and costs. This could include supporting the development of co-operative clusters and federations, thickening networks of co-operative support and exchange. It could also promote peer support and mentoring programmes based on sector-specific focus and provide pooled training, expanding on the excellent but currently limited activities provided through the Co-operative College, Co-operatives UK, Plunkett, ABCUL, Confederation of Co-op Housing and others.

- **Supporting co-operative business development:** the agency could work with the sector, at differing scales, to promote economic co-operation between co-ops. This could include connecting up co-operative supply chains and helping to encourage inter co-operative trading, alongside providing support for co-operative federation.
- **Enhancing the image of co-operatives.** Young communicators and creatives in the co-op movement should be funded by the agency to promote and modernise the image of the co-operative model. While in many ways well suited to new start-ups, if the co-operative sector is going to expand it is crucial that attitudes to co-operativism shift, and more early businesses take on the model. This will likely require changes in the broader infrastructure to make it easy to form and operate a co-op, but also a sustained effort to make the co-operative model more widely attractive. It is vital that strategies to promote co-operatives are part of a grassroots economic development strategy, with supportive arrangements in place to help people explore and then develop their co-op options.
- **Fund the development of a core co-op API that could provide the building blocks of a common digital infrastructure.** This would be a pivotal step to enabling co-operatives to use digital technologies to operate at scale. Benefits of digital connectivity could include more meaningful membership participation in governance, greater collaboration within and between co-operatives, and better relationships with co-operative customers and members. This would build on existing developments. The Scottish Government's Expert Advisory Panel on the Collaborative Economy has recommended developing a digital infrastructure for the common good, including a core co-operative API that could then be adopted. The UK government has also set in motion the creation of a 'Workertech Catalyst' to the same effect. Building and deepening these through a dedicated co-operative development agency would accelerate the process.
- **Replicate, shelter and expand successful co-op models by providing an accessible co-op replication service.** This would provide the required support to enable the replication and proliferation of successful co-operative models. In doing so, it would help shelter new co-operatives by providing support with the core infrastructural requirements, reducing costs in the process. It could potentially develop certain functions, such as auditing or accounting capabilities, that co-operatives could join together to buy at a discounted price, further assisting them. It could also support peer mentoring and other forms of co-operation between co-ops. The agency should work with local government to reproduce successful co-operative initiatives, for example

supporting city regions to develop and expand ride-sharing co-op platforms or co-op care networks. In doing so, it should work within the context of community development and place-based economic strategies.

- **Provide the technical support to assist in worker buy-outs.** This should include providing workers who are considering buying out their company and transforming it into a co-operative (see next recommendation for further details) with professional business feasibility studies for assessing the viability of new worker co-ops, as well as legal and technical assistance during the process.

4. ACCELERATING THE 'CO-OPERATISATION' OF EXISTING BUSINESS

As the discussion of Co-operative Development Scotland above suggests, perhaps the greatest near-term opportunity to increase the volume and scale of the co-operative sector in the UK is through 'co-operatisation' of existing business.

Without steps to accelerate new models of ownership, it will be impossible to achieve a step-change in the size of the co-operative economy. Private capital will remain the privileged actor within the firm, while growing returns to capital will increase inequality. Scaling democratic, inclusive forms of ownership is therefore crucial to addressing the systemic problems of inequality and ecological crisis confronting us. Two steps to democratise capital at scale are recommended:

- **Prioritise promotion of co-operatives or more democratic options at point of business transition.** The pace of business transition is speeding up as baby-

boomer business owners reach the end of their careers and seek to pass on their business. With relatively little resource, Co-operative Development Scotland has managed to persuade more than 50 business owners to build greater democracy and take steps towards co-operatising their businesses as they look to move on. The Wales Co-operative Centre has had a similarly successful track record. This approach, alongside the suite of advice and support available to people at all stages in the cycle of entrepreneurship, should be a core strategy of the new Development Agency.

- **Introduce a right to own to support employee buyouts and the co-operatisation of existing businesses.** This should be underpinned by the legal framework, financial instruments and institutional mechanisms needed to allow for a negotiated employee buyout between workers, exiting owners and the co-operative sector.
 - New legislation should be introduced, potentially as part of the Co-operative Economy Act, that would give employees a statutory 'right to request' employee ownership during business succession, with the potential to extend this to any point in the life cycle of a business.
 - To support the ability to do this effectively, an 'early warning' resource should be introduced, which would mean workforces were informed in advance of insolvency or disposal of a viable business, allowing them to assess the scope for acquisition and prepare a bid if appropriate. The Co-operative Development Agency would provide technical

assistance in this process.

- Employees should be able to purchase part or all of the target business through a variety of ways: share capital purchases made via their savings and/ or redundancy payments in the case of a potential business closure; advances of up to three years of their cash transfer-based and employer portions of their unemployment insurance benefits, as in the successful Marcora Law for worker buyouts in Italy¹²; debt capital financing from either the co-operative fund within the National Investment Bank for large businesses or the network of co-op development funds for medium to small firms secured on the projections of future revenues of the business and/or on the collateral offered through the assets acquired from the target business. The co-operative should have limited liability to protect workers from losing their personal assets in the case of business failure.

5. ANCHORING CO-OPERATIVES WITHIN PLACE-BASED INDUSTRIAL AND COMMUNITY WEALTH BUILDING STRATEGIES

Finally, co-operatives must be supported to thrive in their communities and localities as genuinely rooted businesses capable of retaining power and control within that place and returning value to communities. This requires creating real life contexts across the UK where people can come into contact with co-op ideas and realise how they can be applied to their livelihood and community. **Innovative place-based community wealth building and local industrial strategies are crucial to this and hence to co-operative development.**

At present, local economies are too often indifferent to people and place (Birley 2017), underpinned by extractive, distant and often footloose ownership models that suck capital out of places under the guise of inward investment. An alternative approach is that of community wealth building, which seeks to embed co-operative values of participation, social responsibility, reciprocity and democratic accountability in the operation of the local economy. This will require radical, place-based enterprise strategies; literally, rooting enterprise in a place within the context of wealth-building orientated, spatial industrial strategy. This would develop democratic models of ownership and control, and increase the retention and circulation of wealth within local communities. A number of interlocking steps can help achieve this:

- **Local authorities should be required to produce place-based industrial strategies that seek to retain and build wealth at the district or borough level.** These should interlock with regional or city regions' industrial strategies and fall within nationally-described parameters, such as key environmental limits. The local fund of funds described above, and other aspects of growing and investing in the creation and retention of local wealth, would develop in line with these strategies. Co-operatives should be seen as a key aspect of these strategies because of their innate capacity to hold wealth in place (Birley 2017).
- **A new approach for genuine and powerful place-based localism** with an economic focus. More strategic and place-based community development strategies, co-op option programmes and enterprise support; an ecosystem of private business, co-ops, community

groups and anchor institutions will all play their part. New powers to support this could include a new community right to shape local industrial and economic strategies; a new community right to list and bid for an asset of economic value, and to share ownership of local developments; establish more diversified measures of local economic success than gross value added (GVA).

- **Encourage local procurement and commissioning strategies to support, where appropriate, co-operatives and social enterprises.** There remains a lively debate as to whether Brexit will allow for greater flexibility in socially oriented procurement (Guinan and Hanna 2017). Regardless, there is clearly a case for the more strategic use of procurement and commissioning, beginning with using the spending and supply chain footprint of local anchor institutions to support local businesses and co-operatives. As a first step, anchors should commit to using local small and medium sized businesses, community sector, third sector, social enterprise and co-operatives where possible and appropriate. Contracts above a certain value should require bidders to demonstrate how they will use the local supply chain, and all other suppliers should be encouraged to source locally where possible and to consider local businesses and co-operatives when sub-contracting. Larger procurement should be broken into smaller lots where possible, to enable and encourage local SME, third sector, co-operative and social enterprise participation. Where larger contracts are unavoidable, there should be a requirement on suppliers to obtain quotes from co-operatives, social, community and local SME enterprises (Wright 2016)

- **Local authorities, in combination**

with the community, social oriented enterprises and unions, should work together to increase the capacity of co-ops and other local businesses to bid for anchor institution contracts. This could include pre-market engagement to provide training, advice, mentoring and meaningful feedback to help prepare bids; supporting the formation of local consortia if larger contracts require scale; and the creation of local portals to enable co-operatives, social enterprises and SMEs to easily see available opportunities, and anchors and larger businesses to understand the local market and more easily obtain quotes (Mayo 2017). The regional Co-operative Development Agency should support local authorities in developing such community wealth building strategies, in partnership with groups such as Co-operatives UK.

CREATING AN UNDERLYING CULTURE OF DEMOCRATIC OWNERSHIP: THE INCLUSIVE OWNERSHIP FUND

It is no coincidence that the co-operative sector in the UK is smaller, weaker and more atomised than in countries such as Italy, France, Canada, Costa Rica and even the US. While the sector itself has worked hard to preserve and promulgate the spirit of co-operation first pioneered in Rochdale, it has done so against a backdrop of ruthless, extractive, deregulated, neoliberal capitalism and with little supporting legislation and active promotion.

As the political sun sets on neoliberal economics and hyper-globalisation, and demand grows for greater wealth-building and sharing of value with those that add it, there is a real need for policy that creates the kind of enterprises that can fulfill this demand.

In addition to the five steps described

above, further policy is needed to create a deep economic heartbeat that consistently and over time transfers the ownership and control of businesses to workers and other key stakeholders.

We call this an **Inclusive Ownership Fund**. Under this proposal, all shareholder- or larger privately-owned businesses would transfer a small amount of profit each year in the form of equity into a worker or wider stakeholder-owned trust. Once there, these shares would not be available for further sale.

In a world that presumes companies are owned privately or by distant shareholders, this may sound far-fetched. And yet even in the US (and for a while under Thatcherite privatisation in the UK), through Employee Stock Ownership Plans (ESOPs) workers can be rewarded in the form of shares which are transferable and held in an ESOP trust until the worker retires.

ESOPs, however, while opening up ownership to workers are not generally accompanied by control rights and can also often be bought and sold. In the UK, many ESOPs, developed as a means of retaining worker control when local authorities were required to privatise services, merely went the way of the wider share-owning democracy concept, with ownership eventually conglomerating in the hands of a relatively small number of often distant asset owners. While revived timidly and in dilute form under George Osborne through the introduction of Employee Ownership Trusts, the concept of employee ownership has never taken root in the UK, perhaps again because of the hostility of the business and economic environment.

One exception is John Lewis Partnership, which is owned by its employees – or partners – through

a non-tradable stake. Partnership stakes carry with them democratic control rights over the management and direction of the business. In many respects, our proposal for an Inclusive Ownership Fund can be thought of as a John Lewis law.

An economic heartbeat of this sort would ensure that over time and in all businesses, the ownership and control of workers and other designated stakeholders, such as users of social care, would grow. This could be achieved by mandating the transfer of the equity of firms into an Inclusive Ownership Fund, with formally designated stakeholders, annually and at a low level, or by incentivising this transfer through the business tax system. Or both approaches could be adopted: mandating at a low level and incentivising to allow some business to opt for a more rapid transfer.

When the fund reached a controlling level of ownership of a firm (or, in the case of businesses succession, proposed takeover or crisis, a lower but significant level of ownership) the stakeholders controlling the fund could opt to assume control of the business. But prior to that, steps could be built into the fund that would see incremental improvements in worker or wider stakeholder participation when the fund reached certain levels.

While for some, becoming a member of or setting up a full co-operative will be the answer to the questions posed by the dramatic scale of current economic injustice and lack of democracy, for many a greater share of the wealth created by a business, and the opportunity to participate in its governance, will be enough.

While not strictly about greater co-operatisation, in the current economic context and with such deep economic inequalities, the Inclusive Ownership Fund demands political attention.

APPENDIX: INTERVIEWS AND SURVEY

NEF conducted a series of informal interviews to explore with those involved in the UK co-operative sector the barriers to growth and to discuss potential interventions. Alongside a literature review and the result of the survey, these underpinned our research, conclusions and helped steer our thinking as we sought to develop recommendations.

The following interviewees agreed to be listed as having taken part:

- Russell Gill – Co-operative Group
- Paul Gerrard – Co-operative Group
- Ed Mayo – Co-operatives UK
- James Wright – Co-operatives UK
- Russell Marsh – Co-operatives UK
- Simon Borkin – Co-operatives UK
- Johnny Gordon-Farleigh – Stir to Action
- Matt Parsons – Outlandish/Fixed Abode
- Bob Cannell – Co-operative Business Consultants
- Sion Whellens – Calverts
- Ieva Padagaite – Blake House
- Dr Rob Jump – University of the West of England
- Charlotte Christison – John Lewis Partnership
- Deb Oxley – Employee Ownership Association
- Sarah Deas – Co-operative Development Scotland
- Adotey Bing-Pappoe – University of Greenwich

NEF also asked organisations and members of various co-operative networks to complete a survey looking at the barriers to and steps towards doubling the size of UK co-operatives.

77 people responded. However, NEF had no control over the population of the survey; it was taken by anyone who received the link and wanted to participate. Therefore, the results – however significant – should only be viewed as broadly indicative of the preferences of existing people with the UK sector.

The results can be viewed at <https://neweconomics.org/uploads/files/co-op-survey1.pdf>

ENDNOTES

- 1 The analysis is a composite of four different measures of economic democracy, of which the level of collective, co-operative and employee ownership and employee share ownership, and the distribution of economic decision-making powers within an economy, are critical factors for a country's overall score.
- 2 See <https://www.uk.coop/about/what-co-operative>
- 3 See http://www.employeeownershipindex.co.uk/wiki/index.php5?title=Welcome_to_the_UK_Employee_Ownership_Index
- 4 An interesting test will be whether Nisa remains a store-owner mutual following its takeover by the Co-op group, or whether incorporation into a larger scale entity will change its character.
- 5 This point, and the Williams quotation, was made in Tom Gann's review of Labour's Alternative Models of Ownership document.
- 6 See <http://www.kellogg.ox.ac.uk/wp-content/uploads/2015/11/Employee-ownership-defusing-the-business-succession-time-bomb.pdf>
- 7 The baseline numbers are first multiplied by the proportion of all UK businesses that self-report as family firms; this includes businesses that have one single owner. This is then multiplied by the proportion of UK family businesses that anticipate the full closure or transfer of ownership of their businesses in the next three years. Finally, this is multiplied by the proportion of family businesses anticipating a closure of ownership but who aren't planning to transfer ownership to another member of their family.
- 8 Crucially, there is growing political support for such a goal; for example with a commitment in the Labour Party 2017 manifesto as well as the independent report commissioned by the Labour Party examining the case for alternative models of ownership.
- 9 It is worth noting that the ILO Recommendation 193/2002 on the promotion of co-operatives is a key global policy influence on nation states and arguably one that puts a soft law obligation on the UK to take action to develop the co-operative sector. The strategy set out would help the UK meet its obligation.
- 10 A specific investment remit for the investment bank would echo the Industrial Common Ownership Act 1976, which gave seed-funding to the Industrial Common Ownership Movement, which successfully financed more than 2,000 worker-owned co-operatives.
- 11 The society acts as a guarantor on behalf of the SME, insuring and supporting businesses in their engagement with financial institutions. Societies are typically co-operative or mutual, with capital provided by the member SMEs, who apply for a loan guarantee in the form of co-operative or mutual shares. Each member has equal voting rights and elects the society's general assembly and board. For banks the mutual guarantee provides a form of security on otherwise unsecured enterprise lending. By lowering the risk, societies reduce the cost to members, increasing the supply of capital to SMEs under a co-operative framework.
- 12 Italy's 'Marcora Law' provides funds and business support for employee buyouts, and has generated an economic return of 6.8 times the capital invested by the funding mechanisms.

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