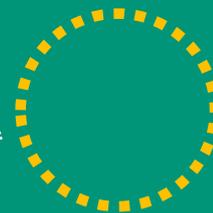


**Create and retain
1 million good
jobs through
employee and
worker ownership**



**A submission
to the 2021
Spending
Review**

Summary of proposal

What?

Allocate **up to £6 million** over three years in SR21 to **support significantly more businesses across the country to adopt employee and worker ownership**, with the potential for **over 100,000 good jobs to be retained or created** in the process.

Why?

A major expansion in employee and worker ownership would help government address the priorities it has set in SR21 for levelling up and growth. Such an expansion would:

- **Create thousands of high-performing and resilient SMEs**
- **Create or sustain 1 million jobs by 2030**
- **Enhance the wellbeing of 1 million workers**
- **Reduce inequalities through day-to-day business**
- **Strengthen the private sector in places that need this the most**

How?

Government action is needed to address clear information and support failures that prevent too many entrepreneurs and businesses from exploring and adopting employee and worker ownership, even when there is a fit with their economic and social aspirations.

Our Ownership Hub is a new funded programme that works nationally and in partnership with local administrations on a cross-party basis, to support the adoption of employee and worker ownership during business start-up and planned ownership succession. Our first local partner is Sheffield City Region (announced June 2021) and we expect more places to join the Ownership Hub in the near future.

We propose that in SR21 government allocates up to £6 million in tranches over three years, to fund an expansion of our Ownership Hub to work in up to 12 new places in England.

Return on investment

Government could expect a **sixfold return on investment** for every pound spent.

What is employee and worker ownership?

Employee and worker ownership in a business can be partial, controlling or total. It can be exercised through worker co-operatives, employee ownership trusts (EOTs), employee shareholding schemes and hybrids of these. It includes business owned by their employees and freelancer co-operatives.

There are two key processes driving the current growth in employee and worker ownership:

- **Conversion** of SME and family owned businesses, using the EOT model and/or hybrid with employee shareholding schemes
- **Start-up** of businesses that are worker owned either from the outset or very early in their development, using the worker co-operative model

The **EOT model** is well-suited to the conversion of SME businesses. It allows for a phased, full or partial, transfer of equity and control which locks in collective employee ownership and stewardship of the business for the long term. EOTs can be designed to allow for genuine accountability and voice for employees, which is not always the case in wider employee shareholding models.

The **worker co-operative model** is particularly well-suited to start-ups, early evolutions and in some cases, conversions. It has simple and flexible legal and governance arrangements and can evolve easily as the business develops. The co-operative model can be used by self-employed workers as well as employees. The model also creates straightforward arrangements for worker-led governance.

1. Our Spending Review Proposal

The Employee Ownership Association (EOA) and Co-operatives UK propose that through Spending Review 2021 (SR21), the Westminster Government supports our ambition for a major expansion in employee and worker ownership over the coming decade.

With the right conditions, we could see a fivefold increase in employee and worker ownership by 2030, which could create and sustain 1 million good jobs UK-wide. We are already taking action to help create these conditions through our new [Ownership Hub](#).

Evidence shows such an expansion would help government address the priorities it has sent for SR21, specifically:

- levelling-up and strengthening the private sector
- meeting objectives in the Plan for Growth not least in relation to skills and innovation, in addition to levelling-up

In SR21 we are calling on government to **allocate up to £6 million in tranches over three years, to fund an expansion of our Ownership Hub to work in up to 12 new places in England.**

2. Why aim for a major expansion in employee and worker ownership?

Such an expansion in employee and worker ownership would:

- **Create thousands of high-performing and resilient SMEs** – Giving workers a stake and a say is regularly found to enrich culture, aid innovation, increase engagement and boost business performance.^{1 2 3 4 5} Employee and worker owned businesses are also shown to be more resilient than businesses generally,^{6 7 8 9} and recent studies have highlighted their resilience during the COVID pandemic.^{10 11}
- **Create or sustain 1 million jobs by 2030** – We project that with the right support, it is feasible to see a fivefold increase in the number of employee and worker owners in the UK, from over 200,000 now to 1 million, by 2030. The conversion of existing businesses to employee ownership is already helping to retain thousands of jobs in the UK each year that would otherwise be put at risk from unfavorable acquisition or failed succession.¹² There is strong evidence from abroad that conversions help to secure otherwise at risk jobs over the long term.^{13 14} Meanwhile new start worker co-ops are shown to be markedly more resilient¹⁵ and better at creating jobs than new businesses generally,^{16 17} making co-operative entrepreneurship a potentially attractive option for many who need to replace or rebuild their livelihoods after COVID.
- **Enhance the wellbeing of 1 million workers** - There is evidence that more engaging and empowering workplaces are good for worker satisfaction and wellbeing.^{18 19 20 21} And new evidence suggests that employee and worker owned businesses have been effective at protecting worker wellbeing during the COVID pandemic.^{22 23}
- **Reduce inequalities through day-to-day business** - Employee and worker owned businesses have markedly lower pay ratios than businesses generally,^{24 25 26} while also distributing profits to workers and offering opportunities to increase asset wealth through shareholdings. Giving workers a say in corporate governance also helps to reduce inequalities in power.
- **Strengthen the private sector in places that need levelling-up** - Employee and worker ownership gives people a stake and a say in the economy and makes an aspirational and enterprise-focused offer to 'left behind' communities. This is critical to the Prime Minister's vision for levelling-up.²⁷ The model also roots operations, jobs, investment and decision-making in places. The conversion of established businesses to employee ownership limits

the number of successions that fail, or fail to deliver for local economies and communities. This can be critically important for struggling places in an era of mobile and itinerate capital and talent.

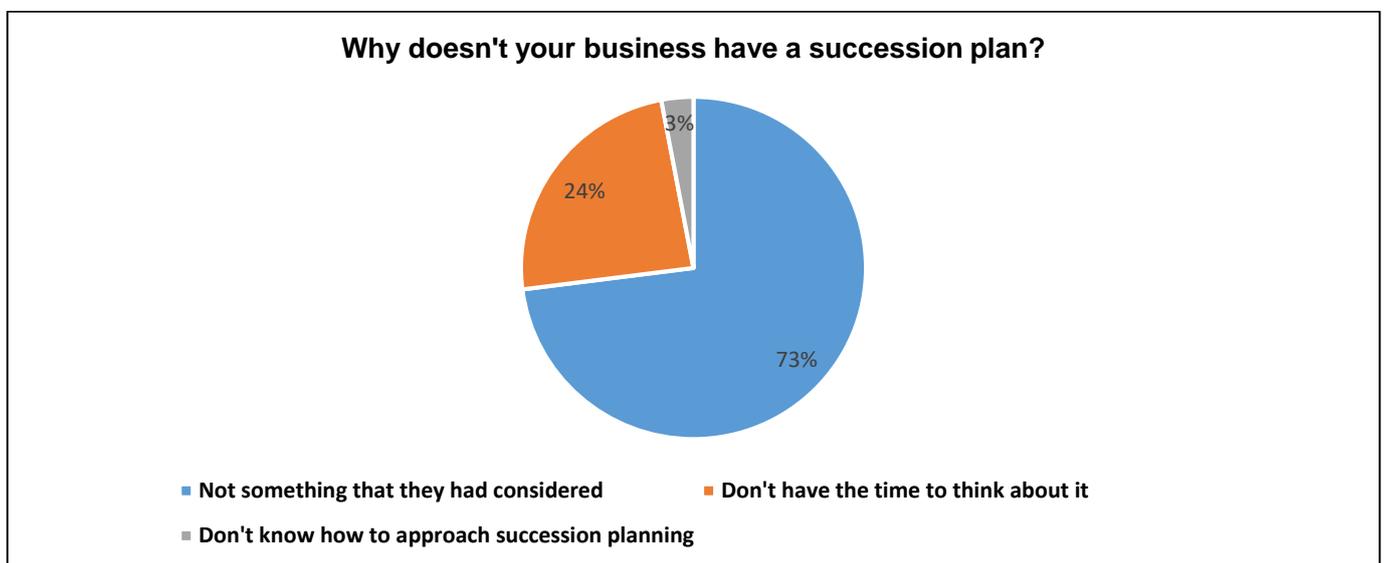
3. What is the Ownership Hub?

The [Ownership Hub](#) is a new programme created by the EOA and Co-operatives UK, with seed funding from a charitable foundation. It works nationally and in partnership with local administrations on a cross-party basis, to support the voluntary adoption of employee and worker ownership during business start-up and planned ownership succession.

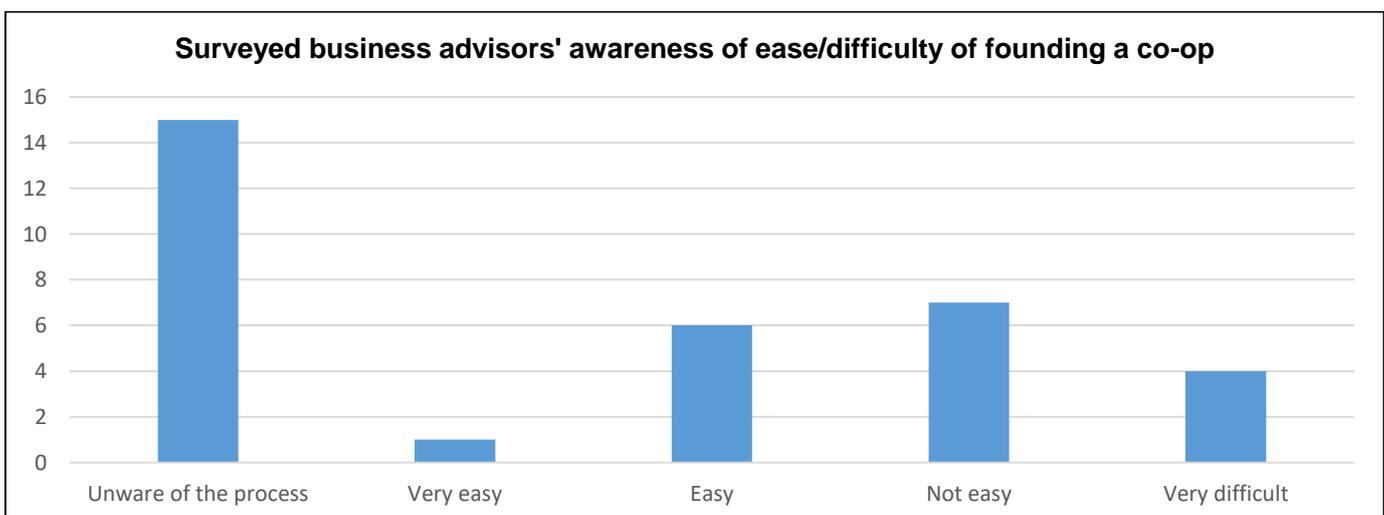
In June 2021 Sheffield City Region was announced as the first partner place in the Ownership Hub.^{28 29}

Addressing market failures

At present significant information failures and gaps in business support prevent too many entrepreneurs and businesses from exploring and adopting employee and worker ownership, even when there is a fit with their economic and social aspirations.^{30 31}



Data from Wavehill (2017) 'How Dangerous is the Business Succession Time Bomb? – SME succession planning support in Wales'



From Alliance Manchester Business School (2018) 'The Co-operative Business Model: promoting awareness amongst business advisers'

Drawing on 'what works'

There are some excellent examples of governments resourcing interventions that effectively address these 'market failures' in awareness, information and support, not least in Scotland in relation to conversions,³² and in a number of cities in the United States in relation to both start-ups and conversions.³³

The Ownership Hub consciously draws on these examples to provide effective interventions in places. But crucially, interventions in a place are coproduced with local partners, adapting rather than just seeking to copy what has worked elsewhere.

What the Ownership Hub provides

The Ownership Hub is primarily designed to operate in Combined Authority and LEP Areas to:

- **increase awareness and understanding** of employee and worker ownership among entrepreneurs, workers, business owners and those who advise them
- **provide expert advice and support** to aid the voluntary adoption of employee and worker ownership at start-up, during early development and via conversion

The programme is a **business and market oriented solution**. It focuses on providing private actors with relevant information, options and support, so that they can make better-informed choices for themselves.

It also focuses on long-term systemic change, by helping business advisors to cover employee and worker ownership as part of their services and ultimately mainstreaming these options.

A scalable programme

The Ownership Hub operates with a scalable 'hub and spoke' model, with minimal central administration supporting locally embedded interventions.

In this first phase, the Ownership Hub is expanding gradually to run pilots in carefully selected places, coproducing interventions with local partners.

Our first local partner is Sheffield City Region (announced June 2021). Over the next three years, we expect the Ownership Hub to train dozens of business advisors and support the creation of more than 30 employee and worker owned businesses in Sheffield City Region, through start-up and conversion.

What happens in Sheffield City Region will be just the beginning. We are in advanced talks with other city regions and expect to add more partner places to the Ownership Hub programme in the near future.

4. Expanding the Ownership Hub: impact, value for money, return on investment

As set out in **2** above, a major increase in employee and worker ownership would contribute to government's objectives for growth and levelling up. Funding the next expansion phase of the Ownership Hub is a straightforward, effective and value-for-money way for government to make an impact in this area.

While we expect to add more partner places to the Ownership Hub in the near future, **national government could be instrumental in helping us expand the reach and impact of the programme, providing more support in more places, more quickly.**

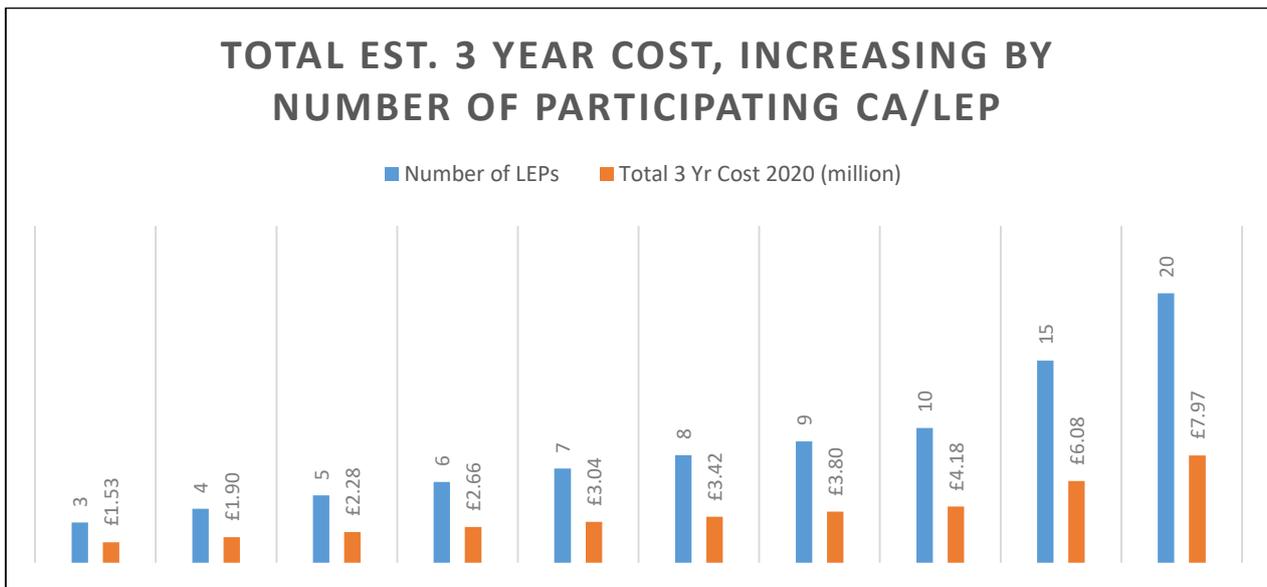
We propose that in SR21 government allocates **up to £6 million in tranches over three years**, to fund an expansion of our Ownership Hub to work in **up to new 12 new places** (most likely Combined Authorities or LEP Areas) in England.

Leveraging other resources

By investing in the Ownership Hub, government would be leveraging other private and public resources that are already being allocated to employee and worker ownership. At present, the Ownership Hub combines privately funded resources from within the co-operative and employee ownerships sectors, as well as some resources within combined authorities. The Ownership Hub also brings together the vital specialist knowledge and relationships that these partners provide.

Economies of scale

The hub and spoke design of the Ownership Hub creates substantial economies of scale as more places participate. Projected costs rise slowly, in proportion to increases in the number of participating places. These economies of scale are visualised below.



Immediate outcomes

Over three years in the expanded Ownership Hub, 12 places could be expected to generate the following:

- approximately 360 *additional* businesses³⁴ adopting employee and worker ownership through either start-up or conversion, with the potential for over 100,000³⁵ good jobs retained or created
- approximately 720 *additional* SME owners helped to plan their ownership succession and to understand the employee ownership option, up to diagnostic and feasibility study
- approximately 720 *additional* founders (of founder groups) helped to explore a co-operative option for their start-up, up to technical diagnostic, feasibility study and group facilitation
- approximately 120 *additional* business advisors with enhanced awareness and understanding of employee and worker ownership

Return on investment

Rigorous evidence suggests that government could expect to get at least a **sixfold return on investment** for every pound spent in the Ownership Hub.³⁶ This does not fully take into account the social value added.

Longer-term outcomes

This first round of government support for the Ownership Hub would start to address the information and support failures we have identified as the most significant barrier to major growth in employee and worker ownership. From 2025-26 onwards we would expect to see significant organic growth in employee and worker ownership, in part aided by a mainstreaming of these approaches in both public and privately funded business support.

This intervention is intended to act as a catalyst that over time significantly increases the frequency with which entrepreneurs and businesses become aware of, explore and adopt employee and worker ownership.

In participating places, we envisage this will lead to a self-sustaining expansion of employee and worker ownership that will continue long after the three year pilot ends. Employee and worker ownership options will become more 'mainstream' within the local business community and its supporting eco-system. This mainstreaming will reduce the cost of supporting employee and worker ownership.

We envisage that this momentum will result in many more places allocating resources to support and expansion of employee and worker ownership in their areas.

Based on current numbers of employee and worker owners, and assuming that some large businesses will convert to employee ownership, expanding the Ownership Hub to every combined authority or LEP area could make a very substantial contribution to achieving 1 million additional employee and worker owners by 2030 (see table below).

3 year period	CA/LEPs participating	Additional EWOBs	Low end additional EWOs *	Mid-range additional EWOs	High end additional EWOs **
2022-25	12	360	32,400	142,200	252,000
2025-28	30	900	81,000	355,500	630,000
2028-31	38	1,140	102,600	450,300	798,000
	Total additions by 2031	2,400	216,000	948,000	1,680,000

EWOBs = employee and worker owned businesses

EWOs = employee and worker owners

* Based on mean number of employees in businesses converting to employee ownership in recent years (90)

** Based on the median number of employees in the top 50 employee owned businesses (700)

Crucially, these projections assume that in a three year period in a given place, 30 employee and worker owned businesses will be created. However, while this is our initial projection for the first pilots of the Ownership Hub, as momentum builds and as more SME owners look to retire and sell, we expect the number of additional employee and worker owned businesses per place over three years, to increase.

Also, these figures do not account for all the activity we expect to see in Scotland, Wales and Northern Ireland.

Once the approaches we advocate here are mainstreamed in business eco-systems across the UK, and as the momentum builds, there is every chance of achieving one million employee and worker owners in the UK by 2030.

5. Next steps

We will continue to develop the Ownership Hub, forging new partnerships with local administrations on a cross-party basis and seeking new funding opportunities.

In July we received a letter from the previous Chief Secretary to the Treasury (CST), inviting us to provide details of our asks in relation to employee and worker ownership. We responded then by making the same proposal that we are making here as part of SR21.

We would be delighted to continue this dialogue with HM Treasury, to explore the benefits of employee and worker ownership, the Ownership Hub and our policy proposals in more detail.

Please contact

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About the Employee Ownership Association

The EOA is a not for profit, politically independent organisation that represents and supports the development of the £30+bn employee ownership sector. It campaigns to influence, inspire and support UK employee ownership to become more respected, more widespread and more successful. The EOA connects its members with learning and support and works closely with them to champion the sector by sharing their stories, best practice and expertise.

About Co-operatives UK

Co-operatives UK is a politically independent, not for profit association that unites, develops and promotes thousands of co-ops across the UK. From high street retailers and community owned pubs, to agricultural producer organizations and worker owned businesses, co-ops are everywhere and together they are worth £39.7 billion to the UK economy.

References

¹ Employee Ownership Association (2017) '[The Ownership Dividend](#)'

² See the evidence presented in the 2012 [Nuttall Review of Employee Ownership](#)

³ Kruse (2016) [Does employee ownership improve performance?](#)

⁴ Virginie Pérotin (2012) '[The performance of worker co-operatives](#)'

⁵ Fathi Fakhfakh, Virginie Pérotin, Monica Gago (2011) '[Productivity, Capital and Labor in Labor-Managed and Conventional Firms](#)'

⁶ Co-operatives UK (2019) '[Co-operative Business Survival](#)'

⁷ Virginie Pérotin (2012) '[The performance of worker co-operatives](#)'

⁸ Lampel, Bhalla & Chordia (2014) '[Does employee ownership confer long-term resilience?](#)'

⁹ EURICSE (2015) '[Cooperation in Italy during the crisis years](#)'

¹⁰ According to the latest research from Scottish Enterprise, almost half as many Scottish employee owned businesses reported reduced turnover as a result of the pandemic compared with SMEs generally ([see here](#))

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- ¹¹ Co-operatives were **four times less likely to permanently close** during 2020 than UK businesses as a whole ([see here](#))
- ¹² For data on the rapid growth in employee buyouts [see here](#)
- ¹³ CECOP (2013) '[Business Transfers to Employees under the Form of a Cooperative in Europe](#)
- ¹⁴ Vieta, Depedri & Carrano (2015) '[The Italian Road to Recuperating Enterprises and the Legge Marcora Framework Italy's Worker Buyouts in Times of Crisis](#)'
- ¹⁵ Co-operatives UK (2019) '[Co-operative Business Survival](#)'
- ¹⁶ The average worker co-op supports 6 livelihoods after 5 years of trading, which compares very favourably to average employee numbers in small/micro businesses ([see here](#)). Meanwhile comparison of all available data on worker co-op turnover and employee numbers and UK government business statistics shows that worker co-ops in the UK create 35 percent more 'job' with every £1 of turnover than UK employers as whole.
- ¹⁷ Virginie Pérotin (2015) '[What do we really know about worker co-operatives?](#)
- ¹⁸ National Centre for Employee Ownership (2017) '[Employee Ownership and Economic Well-Being](#)'
- ¹⁹ Coad & Binder (2014) '[Causal linkages between work and life satisfaction and their determinants in a structural VAR approach](#)'
- ²⁰ Employee Ownership Association (2017) '[The Ownership Dividend](#)'
- ²¹ Cultural Workers Organise (2020) '[Sharing Like We Mean It: Working Co-operatively in the Cultural and Tech Sectors](#)
- ²² Scottish Enterprise (2021) '[Employee-owned Resilience and Recovery](#)'
- ²³ Co-operatives UK (2021) '[Ready for what's next](#)'
- ²⁴ Virginie Pérotin (2015) '[What do we really know about worker co-operatives?](#)
- ²⁵ Democracy at work institute (2019) '[2019 Worker Cooperative Economic Census](#)'
- ²⁶ Co-operatives UK (2018) '[Gender Pay Gap Report](#)'
- ²⁷ <https://www.gov.uk/government/speeches/the-prime-ministers-levelling-up-speech-15-july-2021>
- ²⁸ <https://www.scrgrowthhub.co.uk/services/ownership-hub/>
- ²⁹ <https://www.yorkshirepost.co.uk/business/why-employee-ownership-is-key-to-a-resilient-economy-3281212>
- ³⁰ Wavehill (2017) '[How Dangerous is the Business Succession Time Bomb? – SME succession planning support in Wales](#)'
- ³¹ Alliance Manchester Business School (2018) '[The Co-operative Business Model: promoting awareness amongst business advisers](#)'
- ³² Scotland now accounts for 16 percent of all EOT-owned businesses ([see here](#)) in the UK but only has 6 percent of all UK businesses ([see here](#)). Experts in the field believe this is because Scottish Government has developed a very effective programme over the past decade; one that increases awareness of employee ownership as a succession option and then provides access to specialist advice and support to help conversions happen. See Graeme Nutall [here](#).
- ³³ Democracy at Work Institute (2021) '[Economic Recovery and Employee Ownership](#)
- ³⁴ Based on our initial projection of 30 additional employee and worker owned businesses per place over three years in the first phase of the Ownership Hub. As momentum builds, and as more SME owners look to retire and sell, we expect the number of additional employee and worker owned businesses per place over three years to increase.
- ³⁵ This is a mid-range projection. A low-end projection is 32,400 jobs retained or created, based on the average number of employees involved in past EOT conversions (90). But experts at the White Rose Centre for Employee Ownership predict that the average number of employees in conversions is likely increase. We also expect our Ownership Hub programme to prompt some larger conversions. The COVID pandemic is also expected to make some larger conversions more likely. So we also include a high-end projection of 252,000 jobs retained or created, based on the median number of employees in the [top 50 employee owned businesses](#) (700).
- ³⁶ See [this independent evaluation](#) of Scottish Enterprise's programme to support conversions to employee and worker ownership:
<http://www.evaluationsonline.org.uk/evaluations/Documents.do?action=download&id=766&ui=browse>

