

**LOCAL OWNERS:
PROMOTING
EMPLOYEE
OWNERSHIP
LOCALLY**

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Sam Sims*

LOCAL OWNERS: PROMOTING EMPLOYEE OWNERSHIP LOCALLY

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FOREWORD



Employee ownership has captured the attention of politicians in recent years, rightly so as the economic crisis puts the pursuit of shareholder value to the test and government and business alike look to alternative models for creating long term economic gain.

The welcome focus on growing employee ownership has helped to break down barriers to entry, improving access to capital, simplifying legal structures and raising awareness of the model as an alternative form of ownership. Significant progress has been made. The Coalition Government has introduced two new tax reliefs which are hugely important catalysts for change. As a result the sector is growing in numbers and in importance.

Despite being a growing force in the economy, we are a long way from employee ownership entering the mainstream. In recent years the Employee Ownership Association and other established employee-owned businesses, including John Lewis Partnership, have helped to make clear the economic case for supporting the sector. We have researched and described the benefits of employee ownership for long term economic growth, resilience and the well being of employees and communities.

There is still more to do, however, and we asked Centre for London to consider how we can create the right conditions to support and promote the model at a local level. Looking at the evidence from locations where employee ownership flourishes, Centre for London has identified a challenging set of recommendations which go to the heart of business culture in the UK. They have identified the need for a shift in culture and approach which relies on concerted action from a multitude of players, fulfilling roles from market-maker to match-maker, evangeliser to advisor. Where we can create these conditions, there is great potential for employee-owned businesses to increase in number.

This is a critical moment for employee ownership. The government has laid the right foundations so we have the tools for growing the sector at our fingertips.

I believe it is now the role of businesses like ours, of academics and experts, of business champions and advisers, and of promoters of a more balanced and plural economy to step up and support this movement.

Sir Charlie Mayfield

Chairman of the John Lewis Partnership

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1

INTRODUCTION: GOING LOCAL

In the last few years, employee ownership has enjoyed something of a renaissance in political and policy circles. The Deputy Prime Minister, Nick Clegg, has called for the creation of a ‘John Lewis economy’, and the Coalition Government has recently introduced some important new tax advantages for employee-owned companies. At a national level, political support for employee ownership is perhaps as high as it has ever been.

This is good news not only for the employees of these companies, but for the economy as a whole. Firms owned at least in part by their staff tend to survive longer and perform better. The financial crisis and economic downturn have also cast new light on the greater resilience of employee-owned firms. They are more stable, with less volatility in performance year on year, and have done much better in terms of weathering the economic storm than other firms. Employee-owned firms are not recession-proof: but they do appear to be more resilient economic institutions.

At the same time, there has been a shift – albeit a modest one – in a localist direction, partly reversing the long trend towards the centralization of power in the United Kingdom. Following the handover of some limited and varied powers to Wales, Scotland and London by the previous Labour government, the Coalition has taken some steps towards greater autonomy at a local level, particularly in health, housing and economic development. Greater financial freedom from the Treasury has also been granted to Local Authorities.

So far, however, these moves towards greater localism and employee ownership have taken place apart from one another. The push on ownership has come almost entirely from the UK national government; while the shift in a more localist direction, although incorporating some elements of economic development, has barely touched on issues of corporate structure. There is a missing ‘localist’ dimension to the employee ownership debates. Those with an interest in employee

ownership have looked almost exclusively to central government to do more to promote it. (A small but important exception has been in the area of ‘public service mutuals’, where some local authorities, such as Lambeth, have shown an interest in the development of state-funded, employee-owned public services.)

Getting a better deal for employee-owned firms at the national level, particularly in terms of tax treatment, was a necessary condition for the cultivation of the sector, but it is not sufficient. Of course, employee ownership can be promoted further at the national level, primarily through awareness-raising by professional associations and training bodies especially for accountants, financial advisers and lawyers. There is also unfinished business from the Nuttall Review,¹ but much of the action will now have to be at the sub-national level, aimed at cultivating the UK’s nascent clusters of employee ownership.

There are three reasons to shift towards a local approach to the promotion of employee ownership.

1 – Evidence from around the world, highlighted in this report, shows that employee ownership tends to cluster in certain regions and cities, usually as a result of some combination of local culture, knowledge networks and ‘anchor’ institutions. Understanding the development of the employee-owned sectors means understanding these local dynamics. Drawing on interviews with key actors at a local level, including a research visit to Cleveland, Ohio, this report describes how clusters form and why, and what can be done at a local level to promote employee ownership. Five local factors seem to weigh most heavily: knowledge, culture, leadership, anchor institutions, and market-making.

2 – National, ‘top-down’ attempts to develop economic clusters – of high-tech firms or entrepreneurial enterprises, for example –

have a poor record of success. By definition, the dynamics of clustering – networks, embedded institutions, culture – are local ones. The evidence for what works in terms of promoting clusters is still developing, so encouraging a multiplicity of policy experiments designed and run locally in different areas, with plenty of experimentation and evaluation, is likely to be the most fruitful approach.

3—Many of the economic and social benefits of employee ownership will be felt at a local level. As John Logue, the academic who led a drive for employee ownership in Cleveland, Ohio, puts it:

The substantial multiplier effect that employee-owned companies can have in spreading employee ownership and increasing community economic activity has the greatest impact at the state or provincial and local levels.²

Concerted action from individuals, associations and institutions, including local government and local economic agencies, can promote further growth of employee-owned firms, especially in those areas where some cultural and/or institutional supports already exist, and where policy will therefore be working with the grain of the local economic environment.

The question is: how? Based on the evidence to hand, four approaches offer the best prospects:

1—**Market-Making:** deliberate market-making in the capital, labour and product markets is a powerful kick-starter for employee ownership, through pre-commitments to buy, cultivation of supply chains, and financial sharing schemes;

2—**Evangelising:** employee ownership is, as Graeme Nuttall told the government, “a great idea”.³ But even great ideas need to be sold, repeatedly and

persuasively, and in most cases, local individuals rather than remote technocrats play the vital role in catalysing a shift towards more employee ownership;

3—**Match-making:** connecting employee-owned firms with similar firms that might be considering employee ownership. This helps spread the norms that underpin employee ownership, share knowledge, and build confidence in the model. Meeting with other employee-owned firms, and seeing the model in action, has a salience and power that far outweighs the power of a well-written information pack on a central government website.

4—**Anchor Institutions:** perhaps most important of all is building a local institution with the specific, narrow goal of promoting employee ownership, to act as a clearing house for knowledge, a match-making service and a technical adviser. These roles will likely be fulfilled by different organisations in each area, building on their particular institutional strengths and histories.

2

**EMPLOYEE
OWNERSHIP:
WHAT IS IT
GOOD FOR?**

Companies whose employees own a significant stake have a combined annual turnover of over £30 billion, around 3% of GDP.⁴ The Employee Ownership Association has ambitions for this figure to grow to 10% of GDP by 2020.

There are sound reasons for policy to support the development of the employee-owned sector, especially in terms of creating a more balanced, fairer, and more stable economy. Employee-owned firms have the potential to deliver a wide range of economic and social benefits, from greater employee engagement and satisfaction to higher levels of job creation and innovation. Overall, the evidence suggests that employee-owned (EO) firms are more than a match, economically speaking, for non-EO competitors, and superior in terms of financial stability, job quality and employee engagement. Employee-owned firms are at least as good as non-EO firms at delivering economic value, and are better producers of ‘social value’.⁵ In the context of the search for ‘good growth’ and ‘responsible capitalism’, especially in the wake of the financial crisis, the strengths of employee ownership are becoming ever more apparent.

One of the difficulties with research in this field is teasing out cause and effect. Employee-owned companies differ from others on a range of other variables, most obviously in terms of leadership, corporate culture, and employee commitment. It may be these factors that are behind the higher performance of employee-owned firms. The best studies therefore attempt to compare the performance of employee-owned enterprises with non-employee-owned ones, as similar as possible in terms of size, market, maturity and so on.⁶

Before proceeding, it is important to be clear about the definition of employee ownership, which can vary by context. For our purposes, employee ownership is a spectrum. To be ‘employee-owned’ a firm must be more than 50% owned by employees, either directly via shares or indirectly via an employee benefit trust, or some

combination of the two. As the Nuttall Review states: “A company in which a controlling stake is held by or on behalf of all employees is an employee-owned company.”⁷ However, there is a very big range between 0% and 51% employee-owned. Many companies will transition over time from a small minority employee share to a substantial minority and ultimately majority share. The benefits of employee ownership will be visible at ownership shares well below 50%, especially if ownership is combined with broader employee engagement. This is why Nuttall points out that employees may have a ‘substantial stake’ (he mentions a figure of 25%) even when they fall short of a ‘controlling’ stake:

[O]wnership means a significant and meaningful stake in a business for all its employees. If this is achieved then a company has employee ownership: it has employee owners.⁸

Like Nuttall, our primary interest is in the promotion of employee-owned firms (i.e. more than 51% or more), but with an additional strong interest in firms with a substantial proportion of employee-owners (around 25–50%).

Three points are worth making here about the comparative performance of employee-owned companies. First, there is strong evidence that employee-owned firms are better places to work. This is especially true in terms of job satisfaction, involvement and sense of job security and commitment, but in some cases it is also seen in terms of financial rewards. A number of studies have found that total compensation, including the financial value of the employee’s stake in the firm, tends to be higher in employee-owned firms.⁹ Companies with a wide dispersal of ownership rights also appear to have a more equal dispersal of pay. One study of wholly employee-owned companies in which there was also some sort of participatory management found that income, wealth, power, prestige and privileges were all

distributed more equally than in non-EO equivalents.¹⁰ Given rising concerns about wage inequality, this is an important advantage of the employee-owned model.

Second, when productivity benefits of employee ownership have been found by researchers, they appear to be triggered not just by ownership in and of itself, but by the *combination* of ownership with forms of employee engagement, power-sharing and internal communication. What has been labelled the ‘complementarities thesis’¹¹ applies powerfully to employee-owned firms. As Bryson and Freeman write:

*Firms should adopt shared capitalist modes of pay and complementary forms of work organization as a package rather introducing them individually.*¹²

Graeme Nuttall, in his review for HM Government, stressed a similar point:

*The employees’ stake must underpin organisational structures that promote employee engagement in the company. In this way employee ownership can be seen as a business model in its own right.*¹³

“[E]mployee stock ownership programs alone are not sufficient to develop higher levels of organizational resilience,” write Lampel, Bhallan and Jha:

*Managers must combine employee stock ownership with employee involvement in governance if they wish to build up resilience in advance of adverse economic conditions.*¹⁴

There is also some evidence that the implications of employee ownership for productivity may be greater among small and medium-size companies, of fewer than 75 employees.¹⁵

Third, employee ownership brings benefits which are particularly important during economic downturns. The latest studies are able to collect data from at least

the early years of the Great Recession, and the results are quite striking. Lampel, Bhallan and Jha found, for example, that while employment growth was higher in employee-owned firms between 2005 and 2008 (7.5% per annum, compared to 3.9% for similar non-employee-owned companies), even bigger gaps can be seen for the recessionary period of 2008–9, when job growth dropped to 2.7% in non-employee-owned firms, but rose to 12.9% in employee-owned firms.¹⁶ This reflects the belief of employee-owned businesses, noted in their earlier report, that,

*staff recruitment and retention are crucial in economic recovery: nearly three-quarters of EOBs strongly believe that employee commitment is a central advantage of the employee-owned model.*¹⁷

A review of the US economy suggests that various forms of ‘shared capitalism’ have been increasingly adopted in recent years, leading the authors to speculate that “the US is arguably the world leader in shared compensation and decision-making arrangements.”¹⁸

Employee-owned firms have less volatility in sales, employment and profitability, which may be another factor explaining their greater resilience in economic downturns. This resilience has become more apparent in recent years, and may help to explain the increased interest in various forms of ‘shared capitalism’, especially in the UK and the US. The stereotypical view of employee-owned firms is perhaps that they are ‘tender’: kind to staff and well-meaning in community relations, but perhaps not up to the rigours of market competition. The recent recession suggests that the opposite is the case, that in terms of riding out difficult economic times, employee-owned firms are not tender, but tough.

Overall, the academic evidence on employee ownership points very strongly in a positive direction. There is no consensus that employee-owned firms are better on every dimension (although there is very

nearly a consensus in terms of job satisfaction and commitment), and nor should we expect it. Employee-owned firms are not magical institutions. However, there is no evidence whatsoever that employee ownership brings disadvantages, and there is good, mounting evidence for its benefits: enough, certainly, to suggest that the current drive to promote the sector is a sensible policy. An economy in which employee-owned firms played a bigger role would be just as prosperous and expansive as the one we have today: but would also be fairer, more stable, and better-balanced.

3

**WHAT MAKES
EMPLOYEE
OWNERSHIP
GROW?**

Employee ownership is, then, a powerful business model, perhaps especially for smaller and medium-sized firms, offering more stability, greater equity, deeper employee engagement, and higher levels of job satisfaction. There is some evidence that the benefits of employee ownership are greatest in tough economic times; that employee-owned firms are more likely than non-EO firms to be built to last.

It should not be a surprise, then, that the sector appears to be growing quite strongly, by as much as 10% per year, according to the Employee Ownership Association.¹⁹ But employee-owned firms still make up a small slice of the UK economy: as little as 3–4% of GDP on some estimates.²⁰ The Association wants to see that share rise to 10%: an ambitious but plausible goal.

So what will it take? There are four critical ingredients leading to the creation of employee ownership: money, knowledge, culture, and individual leadership. Some combination of these four is almost always required if employee ownership is to flourish. Right now, in much of the UK, many of these ingredients are in short supply.

Money

Employee ownership is not the most straightforward way, right now, to establish, sell or pass on a business. Until recently, there have also been few financial incentives to go in the direction of employee ownership. In the US, where ESOP companies receive favourable tax treatment under pension regulations, the financial case for employee ownership can be fairly clearly made.

With the new tax treatment of EO firms introduced by the Coalition Government in 2013, there will be strong fiscal incentives for employee ownership in the UK: financially, the incentives for employee ownership in the reformed tax system now point in the right direction.²¹ Indeed, the Employee Ownership Association was able to boast that the Government had delivered on every single one of its demands for tax reform.²² In particular, individuals or trusts selling shares

to an employee-owned trust (EOT) with a controlling stake will be exempt from Capital Gains Tax; in addition, from 1 October 2014, up to £3,600 can be paid, tax-free, to an employee in an employee-owned firm, representing a maximum £1,620 income tax saving for additional rate tax payers. These are overdue, vital steps forward for the sector. In terms of fiscal policy, the scene has been set for a significant increase in employee ownership.

The second financial issue for employee-owned firms is access to capital. Traditional lenders are often more reluctant to extend business loans to what they see as non-traditional businesses; the fact that employees own a substantial share of the firm reduces the interest of venture capital firms in supporting young employee-owned firms. Proposals to help close the capital gap include commitments from state-owned banks to ensure a certain proportion of their lending goes to employee-owned firms; a dedicated investment bank; or – most relevant to our own study – ‘revolving door’ funds, typically locally-based, through which one generation of employee-owned firms supports the next.

Knowledge

But money is not enough. Even if the tax treatment for employee ownership is positive, little will happen if nobody knows about it. So the second ingredient is simple to describe but hard to achieve: greater awareness. As Nuttall wrote, after extensive consultation leading up to his review:

An overwhelming message received during this review is that awareness of employee ownership is extremely low among all involved in business.²³

Many businesspeople and business advisers have not heard of employee ownership, or have a vague and frequently mistaken view of what it is and what it entails. Very often it is seen as an eccentric, exceptional approach to doing business, rather than as a legitimate

hard-headed choice of corporate form. Unless this perception can be altered – unless employee ownership makes it into mainstream of business – all the tax changes in the world will have a limited impact.

Awareness of employee ownership can be raised at different levels and in different ways. Political support from national leaders can make a big difference, not least by generating interest in the UK's strongly nationally-oriented media. Nationally-recognized employee-owned companies have a role to play too: the recent 150-year celebrations of John Lewis were used to highlight the firm's ownership structure, again helping to raise general awareness. The Employee Ownership Association is the leading voice for the sector, promoting awareness through research, events and media outreach.

But the most powerful knowledge is acquired locally, and on a personal basis. Business leaders facing a strategic decision frequently go to their peers for advice, rather than just to professionals, according to most studies: "Thus, what gets diffused is not best practice, but friendly advice".²⁴ There is a tendency in business, as in life, towards what anthropologists label 'homophily', and what the rest of us call being a copycat: individuals in the same social and professional networks tend over time to gravitate to similar ways of living, and similar ways of making a living. Businesspeople are not immune to these elements of human nature. What this means is that networks matter a great deal for the diffusion of positive ideas about and practical examples of employee ownership. By definition, such networks are most likely to operate at a local level, a subject we turn to below.

Culture

The third element in the promotion of employee ownership is perhaps the most difficult to pin down: a supportive culture. It is clear that in many of the places where employee ownership has flourished, there has been a particular regional or local social, political and economic environment that has facilitated the growth of employee-owned companies. Sometimes this has

been part of a counter-culture, set against the national norm, and an element of local or regional identity: the flourishing of Mondragon in the Basque region of Spain during Franco's era is the most vivid example; but elements of this differentiation can also be seen in the defensive cooperation of displaced workers in Naugatuck Valley in Connecticut, and also in the historic roots of cooperative forms of organisation in London and Sheffield in the UK.

There is still perhaps some life in the counter-cultural imperative towards employee-owned models, or at least the attachment to civic pride and identity. There looks to be an element of this exceptionalist strand in the current Scottish drive towards employee ownership. It is part of a different, Scottish way of doing things.

But it is also important to shift employee ownership into the 'normal' column, for it to become a standard way to do business rather than a revolutionary departure. Getting the balance right between these two motivations – difference and normalisation – is likely to be an important challenge over the next few years.

Nuttall's proposal for a 'right to request' employee ownership should be seen as a cultural policy rather than an economic one.²⁵ This policy is now being trialled over three years as a voluntary rather than legal measure, which may be a sufficient 'nudge'; time will tell. As with the right to request flexible working, the main goal of such a policy shift is to force organisations and leaders to consider alternative paths. Even if the answer turns out to be 'no', the possibility has been aired and considered. By putting the option of employee ownership on the table, the question is altered in an important way: rather than asking 'Why Employee Ownership?' a different question must be addressed: 'Why not?'

Individuals

The role of individuals is all too often left out of analyses of social and economic trends. But there would be no Open University without Michael

Young; and there would be no John Lewis, or at least no employee-owned version, without John Spedan Lewis.

When employee ownership has flourished in a particular area or at a particular time, it is often possible, as the case studies demonstrate, to identify a key individual: somebody with the power, the conviction and the persistence to bring about real institutional change. As Sarah Deas from Cooperative Development Scotland told us, it is hard to underestimate the value of what she referred to as ‘evangelising individuals’, who are willing to invest time and energy promoting and spreading the values of EO to others.

Of course these individuals operate within the culture around them, as well as shaping it. They often do their most important work through networks of other individuals; and build institutions that outlast themselves. But very often they provide the key spark, setting off a chain reaction in their local area.

National efforts, then, should now be focused on raising awareness and ‘normalisation’ of employee ownership, and putting further pressure on professional bodies to bring employee ownership into the mainstream of training, practice, and advice. But the momentum of employee ownership is now likely to shift to the sub-national – urban and local – level. Indeed it must, if the hopes for a more flourishing sector are to be achieved, since it is at this scale that the vital ingredients of culture, individual impetus and network knowledge have the most impact.

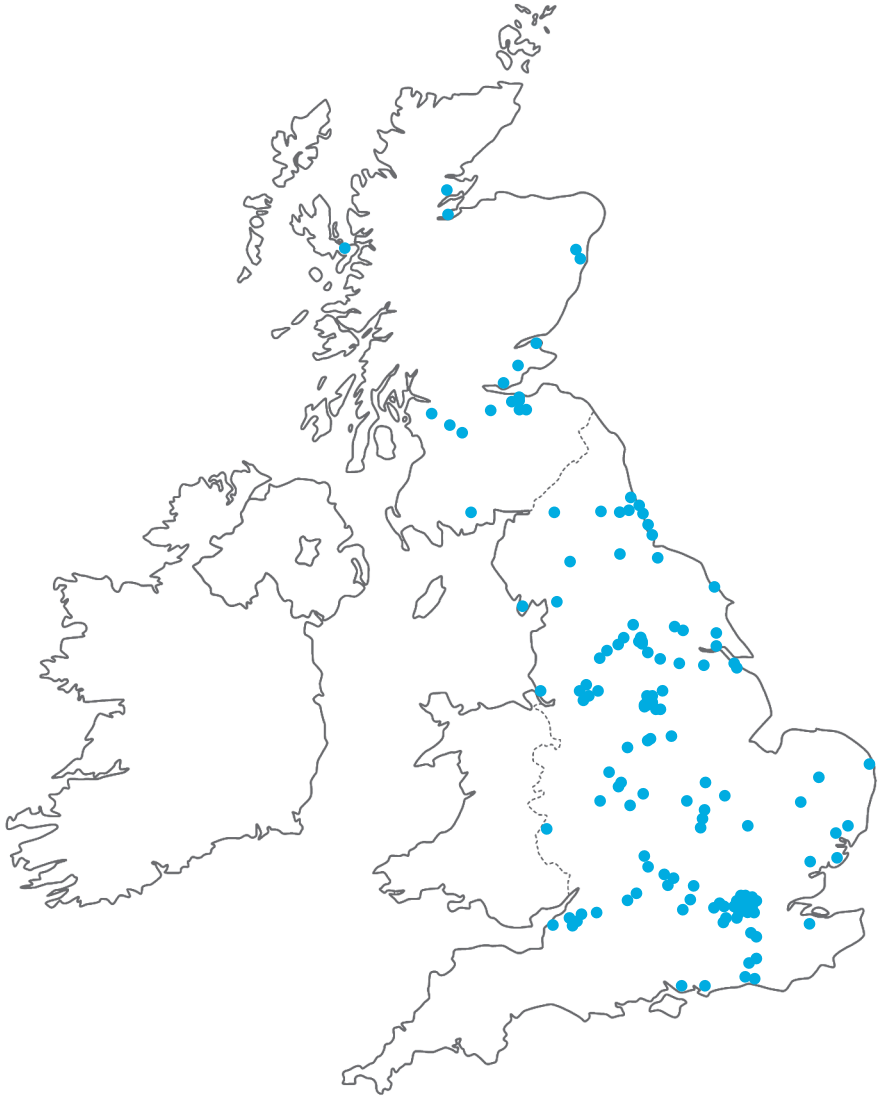
If many of the most important factors for the promotion of employee ownership are to be found in local settings, rather than at the nation state level, we would expect to find worker-owned firms clustering in particular localities. Rather than an even spread of employee-owned firms, there will be a ‘lumpiness’ in the geographical distribution. What we know so far about the UK picture suggests that this is the case. The Employee Ownership Association, for instance, has more members from certain parts of the UK than from others (see map, below).

Getting a clear sense of the geography of the employee-owned sector in the UK will require careful empirical analysis of particular datasets. (Some work along these lines is in progress, for publication later in 2014.) So what galvanizes and cultivates the clusters of employee ownership? If the key contributory factors identified above are correct, we would expect to see a strong influence from access to capital, local knowledge-sharing, a supportive culture, outstanding individuals – or some combination of the four. But there will also be other factors at work.

Three case studies – two from Europe, one from the United States – cast some light on the cultivation of clusters of employee ownership: Mondragon, in northern Spain; Emilia Romagna in northern Italy, and Cleveland, in Ohio, USA. The diversity of the settings is instructive, and speaks to the breadth of the appeal of the employee ownership form, across the political spectrum, from communist northern Italy to the intensely free-market United States.

Map of Members of the Employee Ownership Association.

Source: Employee Ownership Association website



4

**CATHOLICISM
AND
CO-OPERATION:
MONDRAGON**

The Mondragón Corporación Cooperativa (MCC) is the Mecca of employee ownership. It is a huge, inspiring, successful example of the model, now enmeshed in the local economy and community. Jo Grimond visited Mondragon, then came back to help Robert Oakeshott establish the Job Ownership Limited, forerunner of the Employee Ownership Association. A delegation from Ohio visited Mondragon, and glimpsed a different version of economic organisation (see below).

Mondragon has enjoyed a double success: it has (largely) retained its principles and social vision but, crucially, it has also remained profitable through several deep recessions – including the most recent, which hit Spain hard; Spain's entrance into the EU; and intensifying international competition. The Mondragon co-operatives manage assets of over €33.5 billion,²⁶ have combined sales of around €13 billion and employ approximately 85,000 people.²⁷ Mondragon is now the seventh largest private firm in Spain.

But Mondragon's birth owed a great deal to one man: a local priest, named Don Jose Maria Arizmendiarieta. Steeped in the values of Catholic social thought,²⁸ Arizmendiarieta saw in the 1940s that his local community was fading. The Basque region received little support from Franco's regime – unsurprisingly, given the region's active support of the Second Spanish Republic (1931–39).²⁹ Socially and economically, it was a closed society. Industrial enterprise licensing was strictly controlled by the anti-Basque government, and the Union Cerrajera, Mondragon's principal industrial employer, offered little mobility or economic opportunity. Its stock was held by a network of friends and family, all but the most junior positions were unavailable to outsiders, and even its apprenticeships were limited to the sons of employees.³⁰

In 1943, Arizmendiarieta founded the first workers' education school, or Escuela Politecnica in the region.³¹ The school did not only provide skills and knowledge, it disseminated a strong, three-fold conception of social justice, which would go on to form the foundations of

the Mondragon co-operatives. First, that people have the basic right to participate in forming the world they live in, a belief that strongly informed the robust culture of workplace participation in the initial founding of the firm. Second, solidarity – felt by Arizmendiarieta to be the “secret of true social life and the key to social peace”³² – underpinned both ‘inter-cooperation’ between different co-operatives to facilitate a ‘no lay-off’ policy, and a degree of payment solidarity between managers and workers. This solidaristic ethos also directed the social responsibilities of firms outwards, beyond their factories and into the communities in which they were embedded.³³ Third, a dedication to the dignity of individual work, and especially the sovereignty of labour over capital; the latter served the former, rather than the other way round.³⁴

These values, which support an integrated economic and social system, were not isolated from the broader context. They are also reflected in the wider Basque history of placing a high value on the autonomy of the individual (and, of course, the region), as well as strong internal solidarity.³⁵ This religious and social context made Mondragon fertile ground for the development of employee ownership, based on principles so thoroughly embedded in regional identity, history, and understandings of one’s place in the world.

In 1956, the first five graduates from the Escuela Politecnica, with the support and guidance of Arizmendiarieta, founded the first employee-owned business, ULGOR, producing paraffin stoves. This was the seed from which the MCC would grow. ULGOR was deeply embedded in its locality – indeed, it was founded with money contributed by members of the community, followers of Arizmendiarieta who believed in his vision. From this small beginning, a huge enterprise would grow.

One key to this growth was a spawning system: as soon as any product line matured to be self-sufficient, it would spin off from the original, allowing the expansion of interrelated firms. The high degree of cooperation

between these firms which grew from, and then produced for, one another led to the establishment of the first co-operative group, ULARCO, in the 1960s. This model for business expansion has to be understood in the context of the values that inspired it. Supporting the Basque people by creating local jobs has always been at the heart of the Mondragon enterprise. Even today, it is best seen as a local business driven by local goals.

The most important event in the initial development of employee ownership in Mondragon was the founding of the Caja Laboral Popular in 1959. The CLP, a co-operative bank set up to provide support to the Mondragon employee-owned firms, was an early innovation that has facilitated the remarkable growth of the MCC. The founding members of ULGOR were initially opposed to the idea of founding a bank, but were persuaded by Arizmendiarieta's conviction.³⁶

Economic growth in the region required services and infrastructure that did not exist in Mondragon in the post-war decades, and the long-run success of the firms demanded investment in industrial research and development. But raising capital from private banks risked pulling the worker-owned enterprises away from their strong commitment to social and economic justice. Some external support and capital was required. The founding of the CLP was the first step in this direction, providing employee-owned firms with access to capital for expansion, administrative services to support fledging firms, and – later – an entrepreneurial division which oversaw the creation of new employee-owned start-ups in the region. An industrial research and development facility, Ikerlan, was established in 1974 with an initial \$2 million, to help employee-owned businesses and co-operatives invest in essential research and development.

Manuel Quevedo, the first head of Ikerlan, gathered support from other Basque research institutions to collectively lobby the government to assist in the expansion of the region's capacity for applied industrial research.³⁷ Quevedo had in fact started to spend more money in this direction, even

before a regional government existed to lobby. His bet paid off – by the 1980s, the Basque government was supporting substantial fellowship grants at Ikerlan. Like Arizmendiarieta, Quevedo had a clear understanding of the future needs of Ikerlan and long-term plans to address them and keep industry in the region viable. Integration was also largely horizontal (spreading out, firmly rooted in a community) rather than vertical (national/international, with little regard for the local).

So the story of Mondragon is a story of knowledge, localism and leadership. But the broader macro-economic environment was a key factor, too. Perversely, given its neglect of the Basque region, the Franco regime played an inadvertent role in its beginnings.

International isolation provided a protected domestic market, allowing the young firms to become more established before facing competition from overseas. In addition, the Franco government's support for agricultural co-operatives in the south of Spain resulted in tax advantages that also helped the employee-owned firms of the Basque region.³⁸ Spanish co-operatives (almost all the employee-owned firms in the Mondragon network are also co-operatives) pay a corporate income tax rate of 10% of profits compared to private corporations taxed at 28%.³⁹ Further, Spanish law requires co-ops to establish a social fund to receive 10% of profits. These social funds support training of members, managers and board directors as well as making contributions to the community.⁴⁰ But perhaps the most important public policy supporting the development of employee ownership has been the legal requirement for corporate 'indivisible reserves': 20% of annual net surplus must be committed to these funds, which can only be drawn on to secure long-term sustainability and maintain employment. The network of employee-owned firms in Mondragon end up retaining a significant section of their annual profits as assets, which have proved vital both in terms of sustaining firms in downward economic climates and creating the infrastructure and support necessary to facilitate massive expansion.

In 1995, the United Nations chose MCC as one of the 50 most successful social-economic projects in the world; in 2013, Mondragon won the *Financial Times*' 'Drivers of Change' category at the annual 'Boldness in Business' awards.

5

**SMALL IS
BEAUTIFUL:
EMILIA
ROMAGNA**

The Emilia Romagna region in northern Italy is one of the most prosperous in Europe, with one of the highest indices of social cohesion and social capital in the world.⁴¹ It also has an unusually high concentration of co-operatives and employee-owned businesses – over 7,500 co-ops, two thirds of which are worker-owned.⁴² Worker co-operatives are economically significant in the region, generating about 30% of GDP, and up to 60% in some cities, such as Bologna. In Emilia Romagna there are two kinds of employee-owned co-operative: traditional employee co-ops (the dominant type), largely in crafts, manufacturing and construction; and new social service co-ops that have emerged in part to fill a gap left by the state's withdrawal from social service provision.

Alongside employee-owned co-operative firms, largely in industry and manufacturing, there are large numbers of consumer-led co-operatives, especially in the services sector. (Under Italian law, employee-owned companies fall under general cooperative law,⁴³ and are covered by legislation pertaining to co-operatives.)

As in Mondragon, the ethic of employee ownership that developed particularly in the second half of the 20th century, has deep roots in local political and intellectual culture.⁴⁴ The firms are part of a broader political economy, influenced by both Catholic social thought and leftist political ideas of democratic organisation, in the spirit of Antonio Gramsci.⁴⁵ Emilia Romagna has been consistently run by the Communist Party (PCI), sometimes in coalition with the Socialist Party (PSI) since World War II,⁴⁶ leading to its nickname as the 'Red Belt' of Italy.⁴⁷ The strength of the regional identification with leftism, and the strength of Catholicism nationally, helps to explain why co-operatives and employee ownership are so firmly entrenched, both economically and socially, in the region.

These political roots have remained strong, and co-operative federations (which are conglomerations of employee-owned and co-operative businesses) maintain strong affiliations to political parties.⁴⁸ The three major federations (Lega, Confcoop, and Associazione) have

been considered ‘front and centre’ of Italian political life, with representatives on governmental bodies, in offices and on commissions that deal with relevant issues. The main federations are important stakeholders in both national and regional government, and are seen as key agents in economic policy and planning. Political parties remain involved with the federations, with senior politicians often making significant appointments within them;⁴⁹ at the same time, the federations are considered a strong, legitimate voice within national politics. Their unions are consulted on major economic and social development issues, and even on the formation of new national governments.⁵⁰

Corcoran and Wilson characterise Italian public policy as “very enabling of co-op development and maintenance.”⁵¹ This is a not an overstatement. Public policy has leaned strongly towards the development of employee ownership in Italy generally, in particular because of the high coincidence of employee ownership with co-operativism – which has such high social value that it is recognised in the Italian constitution.⁵² Three elements of national policy, in particular, have been supportive of worker-owned firms: taxation, regional economic development and access to development funds.

At a national level, the tax system has facilitated self-capitalisation in the co-operative sector, including for worker co-ops. Employee contributions to indivisible reserves (also a key feature of the development of Mondragon) are tax exempt,⁵³ as are reinvested operating surpluses.⁵⁴ These tax advantages were reduced under Berlusconi around 2001, but have remained significant, helping firms to keep up reserves and flows of capital.⁵⁵

Regional economic development has been pro-employee ownership, especially in the small and medium-sized sector (where, unlike the Corporacion Mondragon, the majority of employee-owned businesses in Emilia Romagna are to be found). The regional government has maintained an industrial relations framework that favours SMEs, with policies

specifically intended to counterbalance the financial and technological advantages of large firms.

Most importantly, a regional development agency, ERVET, was established in 1974, with a mandate to co-ordinate industrial policy and other policies such as formal education and vocational training to support SMEs.⁵⁷ ERVET has also invested in supporting employee-owned businesses and co-ops more directly, especially through the creation of local industrial sector service centres, providing shared services, research and development, education and training, and HR and finance functions that often lie beyond the procurement means of individual SMEs. Industrial service sector centres also coordinate collaboration of small businesses in joint bids for major contracts that none would be able to carry out alone. By co-ordinating flexible manufacturing, shared marketing and exporting strategies, they facilitate economies of scale and operate in competitive global markets.⁵⁸

Finally, development funds have been available to co-ops, including employee-owned firms, especially since the passing of the 1985 Marcora Act. It is a legal requirement that at least 30% of co-op profits (thus including the profits of many employee-owned firms) are invested in such funds to develop co-operatives, and consequently also employee ownership, in the region, by providing the capital to create new ones, develop and grow existing ones, and fund conversions of private firms.⁵⁹ The conversion of private firms, and indeed the tax exemption on indivisible reserves more widely, can only be properly understood within the context of Italy's constitutional support for co-operatives where employment is seen as a public good that ought to be sustained and supported. Coopfond, for example, invested \$101 million to create 7300 jobs between 1994 and 2001.⁶⁰

6

**A NEW
AMERICAN
DREAM:
CLEVELAND,
OHIO**

Although the results have been different, Mondragon and the Emilia Romagna region have strong similarities, above all a political and official culture strongly oriented towards state intervention, co-operation, and social justice. In this sense, their success stories are not easy to transplant to a very different political culture, especially one with a more free-market ideology, such as the United States. But the US has a fairly strong employee-owned sector of its own, with one in five companies having some form of employee ownership.⁶¹ ESOP plans are eligible for tax relief as a pensions saving vehicle. The top 100 employee-owned companies (with at least 50% employee share) currently employ nearly 710,000 people.⁶² The largest employee-owned firm in America is the Florida-based grocer Publix. According to *Forbes* Magazine, the retailer is the seventh largest private firm in America (the same rank as Mondragon in Spain) with \$27.5 billion in sales, and has an employee-owned fund controlling 80% of the company.⁶³

There have been three waves of interest in employee ownership in the USA (the first and second occurring in the 1920s and the 1940s⁶⁴) but it has been the third wave, which began in the 1970s, which seems to have become self-sustaining. The interest in employee ownership in Ohio in the 1970s was sparked by the decline of manufacturing across America's 'rust belt' that stretches across the eastern and central parts of the northern United States. These large industrial cities were built on manufacturing and industrial production – particularly steel in Ohio – and began a long decline in the latter part of the 20th century as industry and manufacturing relocated overseas and to other parts of the USA, particularly the southwest.

The development of employee ownership in the US has, in general, had a less local feel than in Europe: indeed, the 15 largest employee-owned firms (above the 50% mark) are from 15 different states. And there is a distinctly capitalist feel to 'shared capitalism' in the US, by contrast to the socialist-flavoured approaches in the Basque region and Emilia Romagna.

There are divergent motivations for employee ownership in the United States. For individuals, ESOP plans offer straightforward tax advantages; for corporate America, employee ownership and involvement in management has become a competitiveness strategy; for unions and some towns, a job-retention and enrichment one; for communities, a matter of self-preservation; and for government, part of an ‘enlightened’ economic strategy.⁶⁵ Unlike the collective terms in which employee ownership has been framed in Mondragon and Emilia Romagna, these stakeholders share largely individualistic understandings of economic equality, a contemporary understanding of the Jeffersonian ideal of America as a land of independent producers in town and country.⁶⁶ Some US scholars are now comparing the opportunity to own shares in your own company with the opportunity to own land in the 19th century push to the West: a new form of ‘manifest destiny’, but with the frontier this time being within the corporation.

The Davey Tree Company, based in Kent, Ohio, was bought from the Davey Company by its employees in the late 1970s: it is now one of the largest wholly-employee-owned companies in the United States. But as the CEO Doug Cowan explained in 2004,

*[We] run the company as if it were a public company... While employees are owners, they have no more rights than they would as shareholders in a public company.*⁶⁷

It is hard to imagine Father Arizmendiarrrieta saying anything similar.

But Ohio, and especially Cleveland, is becoming a small crucible of employee ownership promotion. Compared to the origins of employee ownership in Emilia Romagna as far back as the 19th century, and Mondragon’s establishment in the 1950s, employee ownership in Ohio is a relatively recent innovation, and sparked by two factors: the desire by a powerful philanthropic institution to build local wealth and

prevent poverty and its consequences, rather than continually ameliorating them; and a determined, influential individual.

In the early 2000s, The Cleveland Foundation, a well-regarded and influential charity that supports local social and economic projects, brought together local businesses and charities in an attempt to find a better way to address the city's problems, especially in the poorest neighbourhoods. Since its industrial prime, the city has suffered massive population decline (914,000 at its peak to 433,478 in 2008), resulting in a shrinking tax base in the city, leaving it hard-pressed to address problems around poverty, unemployment, and business stagnation.⁶⁸ The Foundation discovered growing frustration that publically funded institutions in Cleveland (the Cleveland Clinic, Case Western Reserve University, University Hospitals and Cleveland Museum of Art) were allowing money to bleed out of the city by using services from outside the city, even from outside the state.

If the purchasing power of local organisations could be used to support local businesses, more of the money would remain in the local economy, helping local people. But the businesses did not exist. In partnership with the Democracy Collaborative and the City of Cleveland the Foundation set out to try and solve the problem, in a way that would not only create, but sustain, local jobs. But what kind of firms?

Enter Professor John Logue and his creation, the Ohio Employee Ownership Centre (OEOC). Logue, from Kent State University's Political Science Department, had led several attempts in the 1970s to convert steel mills in Youngstown to a model of community/employee ownership to prevent massive job loss in the area. He enjoyed some success: some firms were kept open under worker ownership for many years before bowing to the inevitable and going under. But as one senior labour figure told us:

*You can say it was a failure if you like,
since they all went bust in the end.*

But for the folks working there, many in their fifties, those years made all the difference: it meant they got a pension. There's value in delay, even if you are delaying the inevitable.

But Logue had bigger ambitions. He saw employee ownership as a model for the future, but he also saw that he and others lacked the tools to lead transitions in many medium-sized and larger companies. Logue continued researching these limitations while at Kent State in the 1980s, before establishing the Ohio Employee Ownership Centre at the university – which provides information and technical assistance to help firms make the transition to employee ownership.⁶⁹

Together, the Foundation and the OEOC took the critical steps to create a mini-Mondragon, an employee-owned cluster of firms to provide services and products to local institutions. (A delegation from Cleveland visited Mondragon in 2008, to soak up some of the Basque co-operative culture.)

The new firm, The Evergreen Cooperative Initiative, was established with pre-committed buyers: the market was, to some extent, made for it. This is an example of consciously place-based development: when new businesses are tied to local institutions, they are strongly incentivised to remain in the city, where their client-base and support is located.

The first Evergreen business was a laundry cooperative, followed by a company installing solar panels, and a hydroponic greenhouse. All aimed to address environmental sustainability as well as employment in the targeted neighbourhoods. The laundry was launched in 2009, and is the greenest industrial laundry in north-eastern Ohio, with the capacity to process up to 12 million pounds of laundry annually. The company has struggled, in part because some of the organisations who had committed to buying services have been unable to escape existing contracts with other firms, but it is now financially stable.

The second firm, Ohio Solar, also founded in 2009, had a quicker and more successful start. Initially installing solar panels, the company quickly expanded into weather-proofing, with employment projections for the first three to four years doubling.

The final Evergreen co-op is a hydroponic greenhouse in the city, growing lettuces and herbs, and supplying them to local restaurants and also to the food-providers contracted to the anchor institutions. A fourth company is being planned, in another sector (for now, not disclosed).

The Evergreen experiment has been far from plain sailing (see interview with John McMicken, the CEO, overleaf). The company tried, initially, to be all things to all people: a social services department, an advisory body to other companies, a rehabilitation programme for ex-offenders, an environmental activist, and a media story. It almost forgot that it needed, above all, to be a profitable firm. Evergreen has recently become less democratic, with financial powers moving up from the boards of the individual companies to the main board, but it has survived, and looks poised for some growth. For a firm that was created virtually out of thin air, in a deep recession, this is no small achievement, and the innovative start-up has lessons that could be usefully taken on elsewhere.

Although Evergreen gets the attention, under Logue's direction from 1987 until his death in 2009, the OEOC has focused on the conversion of existing firms to employee-owned firms, rather than on start-up businesses. As Roy Messing, current head of the OEOC told us:

With start-ups, there is always a high risk of failure in any case: that just comes with the territory. And for someone just starting out, employee ownership can seem too out of the ordinary. With an existing firm, there is already some experience there, you've got a business that is already up and running:

it's just lighter lifting to convert rather than start from scratch.

The OEOC experience is that companies of between 30 and 200 employees are typically the right size for conversion. Much smaller, and the resources are too tight; much larger and the capital can be harder to raise.

There are also incentives for ESOPs in the US federal tax system, especially in succession planning.⁷⁰ Owners who sell at least 30% of their business to an ESOP can defer capital gains tax indefinitely. Dividends distributed to shareholders in an ESOP are also exempt from corporation tax; and are only taxed at an individual level when the individual retires and withdraws their share. In a 2001 study of employee-owned firms in Ohio, Logue and Yates argue that, for many business owners, it is these financial incentives that secure the decision to sell to employees.

Unsurprisingly, ESOPs are the most common mechanism of employee ownership in Ohio, and indeed in the United States.

The OEOC now has a strong focus on business succession planning. By the Center's calculations, many firms established by baby boomers are likely to be coming up for sale in the years ahead, and in many of these cases selling to employees will be an attractive option, both personally and economically, for the owner. The Center is running seminars and producing technical guides on succession, hoping that employee ownership can receive another fillip from the wave of sales of boomer businesses.

Catching Fire: An Interview with Roy Messing, Director, OEOC

You need a combination of money and know-how to get a business off the ground. In Cleveland a number of institutions were willing to act as ‘anchors’, and commit to providing contracts to Evergreen (a start-up employee-owned firm). I don’t think it would have happened if it was not employee-owned. We were able to help because of our know-how, especially John Logue who had learned a lot about what made employee ownership work.

Conversions are a better bet than start-ups. With start-ups, there’s the question of whether this person can make it go anyway. Then if you add employee ownership to the mix, it can be too much: people are asking, ‘what does that mean?’ With a firm that’s a bit further down the road, there’s some experience there, some stability. Then employee ownership can seem less threatening to some. It’s basically a lighter lift in terms of getting it done.

There is a potential crisis coming as the baby boomers with firms want to sell them and maybe can’t find a buyer, or the market gets flooded and prices drop. But that crisis is an opportunity too: for employee ownership. The wave of potential successions that is coming could be turned towards employee ownership – if people know enough about it.

Finding candidates for employee ownership is not always easy, partly because businesspeople don’t want it widely known that they are thinking about selling. That’s one reason personal contact is so important. Quite often the senior guys in the Chamber of Commerce know who’s quietly thinking about a sale: we talk to them a lot.

It’s been quite a journey for the Center, and for the area. But I think the idea of employee ownership is now starting to catch fire. It is a cultural thing, too: it just becomes a normal way of doing business.

7

**FIVE FACTORS
DRIVING
CLUSTERING
OF EMPLOYEE-
OWNED
COMPANIES**

Why do employee-owned firms cluster together? In answering this question, it is important to distinguish between a cluster resulting from the simple fact of certain kinds of firm being geographically close together, and a cluster in which there are connections and shared resources between those firms. It might be possible to promote the creation of certain kinds of firms in certain localities through incentives of one kind or another, without enhancing the connections between them. But the evidence available on employee-owned firms suggests that clustering is likely to be both a spatial description (the firms are close together) and a local process (the firms are connected to their local institutions, and/or to each other).

The extensive research literature on the clustering of certain forms of economic activity has, so far, tended to focus on specific corporate sectors, such as high-tech or digital companies, rather than specific corporate *forms*, such as employee ownership.⁷¹ But the factors we have identified in the evolution of clusters of employee-owned companies are very similar to those uncovered in research on economic clusters more generally. This suggests that efforts to cultivate employee ownership at a local level can learn from the successes and failures of other parallel efforts.⁷² But it also means that a richer understanding of the development of employee ownership in certain localities may contain some lessons for sub-national economic policy-making more broadly.

Our three case studies describe the growth of employee ownership in particular localities, under particular conditions. There are of course sharp differences between them: the Basque culture, heavily political, has little in common with the culture of inner city Cleveland, for example. The case studies, research literature, and our own interviews in the UK and the US indicate that the four pro-EO factors identified in chapter two, i.e. money, knowledge, culture and leadership – have all played an important, if varying, role in the development of clusters of employee-owned firms. But there appears to be one more important element in

the clustering process, one that often underpins the other four: the central role played by local anchor institutions in providing technical and financial support and advice to the nascent employee-owned sector and through cultivating networks and supporting local evangelists.

Local Money

When employee-owned firms share geographical space, they can often share resources, ideas, capital, and markets. In Mondragon, the Caja bank was developed to lend money drawn from locals' savings, including risk capital. But once new EO firms became profitable, they had an obligation to pay a fixed proportion of profits – 'indivisible reserves' – back into the fund (similar institutional arrangements exist in Emilia Romagna (Coopfund) and Ohio (United Partnership Bank).

In Mondragon, the philosophy of collaboration is so strong that firms are expected to share labour (in order to avoid redundancies), and also to trade with each other if possible. If one MCC firm feels unable to buy from another firm, they are expected to provide feedback on how that firm can improve its offer. In Cleveland, the Evergreen Companies share back office costs. But there is little evidence of any attempts by employee-owned firms to favour other employee-owned firms in the market in Cleveland: an indication, perhaps, that the growth of employee ownership in the United States is based more on economic self-interest than on values of social justice and collaboration.

There is clearly a balance to be struck here. Most employee-owned firms have an implicit or explicit values model (more likely to be explicit in Southern Europe, implicit in Anglo-Saxon markets). And these firms are, first and foremost, market-facing, profit-making entities. Many will have scarce additional resources of time or money to offer to others. As Ewan Hall, Legal Advisor to Baxendale Ownership, told us, "many of them are heads-down", working hard to be a successful business. John McMicken in Cleveland agrees:

“We can’t forget that we are a business, above all.” But more mature, better-resourced employee-owned firms may have the capacity to look up and around, and do more to assist other companies who have made the transition, or who seek to.

However, the Cleveland experiment was also a demonstration project for market-making in a different context, in order to enable a start-up in a deprived urban area. In effect, the pre-commitments of public institutions to purchase from Evergreen meant that the business could raise capital and get off the ground: a market was already waiting for it. Especially for employee-owned firms in these harder economic and social conditions, this kind of ‘market-making’ could prove an important catalyst.

Local Knowledge

Mondragon started with the transmission of knowledge, in the Escuela Politecnica. The philosophy of John Logue’s OEOC was that every caller should receive at least some help or information, however modest. Raising awareness of employee ownership has also been important in the UK in recent years and even months (the EOA estimates a 10% rise in employee ownership in the past year). And as Ewan Hall says, “it’s interesting how much a little bit of help makes a big difference: it just creates momentum.”

In Scotland, support is being given by Scottish Enterprise specifically for awareness-raising and advice through the ‘Employee Ownership Ambassadors’ programme.⁷³

In Ohio, the Employee Owners Network, run by the OEOC, bring firms together in twice-yearly fora to share experience and expertise relating to the successful development of employee-owned businesses. This process of sharing knowledge, or social learning⁷⁴ reduces the costs of employee ownership and creates a virtuous cycle, in which new EO firms create new social learning, and lower the barriers for other firms to make the transition.

Local Culture

The case studies show vividly how much local culture counts. Mondragon and Emilia Romagna are cases in point: the industrial EO complex in Mondragon was, as we have seen, shaped strongly by local attachment to certain tenets of Catholic social thought;⁷⁵ in Emilia Romagna, norms and values, again linked to Catholic social thought but also to strongly socialist politics, have played an important role.⁷⁶ The impetus behind employee ownership in Scotland also undoubtedly owes something to a different view of the world, and especially economic fairness, from that south of the border.

Of course, culture cannot simply be changed by policy; nor does it change quickly. This suggests that working in areas with receptive cultures is likely to deliver greater benefits; wherever possible, we should seek to go with the cultural grain. But we also know that culture change can happen, even in Ohio. While there is no comparison to the Spanish and Italian examples, there is no question that employee ownership is, as Roy Messing says ‘catching fire’ in the Cleveland area – at least as an ideal.⁷⁷

People are apt to copy the behaviour of those around them, occupying the same social and professional networks. Homophily is human nature: we tend to join with, and imitate, the practices of our peers and those we perceive to be similar to ourselves. This is one way, perhaps the main way, that culture change can occur.

In terms of promoting a positive culture for employee ownership, there is an important role for existing employee-owned firms. While heeding McMicken’s warning about focusing on their core business, mature employee-owned firms can help to raise awareness by flying the flag a little. Ewan Hall told us that Gripple, a commercially successful and evangelical employee-owned firm has played an important PR role in Yorkshire, “without a doubt hugely beneficial,” by providing a plausible role model.

The message is: this isn't weird, this is normal, so commercially successful exemplars can really help, because people say: 'Hey, that's a business like us.'

The long, hard slog of changing social norms has less immediate appeal than a tax change here or a deregulation there, but is an essential part of any move towards wider employee ownership. The decision to become employee-owned is often values-driven; and values are developed and sustained partly through our interactions with others.⁷⁸ Because we are more likely to interact with those that are near to us⁷⁹ being located in an area with more EO firms makes other firms more likely to become EO:

Organizations tend to become similar, because they imitate, intentionally or unintentionally, structures and processes of organizations that they compare themselves with.⁸⁰

Local Leaders

If we ever doubt that change is possible, we can always look to the startling individuals who have played such an important role. When you look at Mondragon, you can see the handiwork of Don Jose Maria Arizmendiarieta; in Naugatuck Valley, the community organiser Ken Galdston; in Ohio, the political scientist John Logue. These individuals are not economic X-Men, able to create clusters of employee-owned firms out of thin air, but they have been the catalyst for change, in part by raising awareness and building networks, and by inspiring others to follow suit. If not a superhero, they might perhaps each be fairly described as a local hero.

“Don Jose Maria’s charismatic personality motivated people to do things,” writes Greg MacLeod in *Mondragon: A 21st Century Company*.

For fifteen years he imbued in young people a sense of the values that he was himself a living example of. When he succeeded in finding enough

followers who agreed with his message, he would say, "Let's get going!" He was an extraordinary inventor of structures, an excellent promoter, and a fine teacher.⁸¹

John Logue's role in Ohio was also pivotal: he was described as an 'exemplary public intellectual'. Without him, it is almost certain that Evergreen and the OEOC would not exist. Sometimes, a motivated individual can have a reach that extends not just to the local area, but around the world: the day after Logue's death, the Employee Buyout Centre, modelled on the OEOC and advised by Logue himself, was established in Sydney, Australia.

Local Anchors

Individuals, then, can often spark a movement: but it takes an institution to sustain them. In every cluster of employee ownership, there has been at least one 'anchor' institution, acting as adviser, technical assistant, network-creator and advocate for employee ownership. As Andy Street, Managing Director of John Lewis and Chairman of the Birmingham LEP told us:

Institutional support is absolutely vital in my view – in terms of providing an infrastructure of support, and bringing the right people together.

These institutions can be in the public or private sector; and there will be no single model that can be applied in every location.

In Emilia Romagna, the regional government explicitly set out to create secondary institutions, providing shared services in R&D, education/training, marketing, export assistance, and many other areas to support small businesses. One of the largest, Legacoop, now provides financial services, training, facilities for collective bargaining, and a lending and equity investment fund to member co-ops.

In Ohio, the OEOC has also played a crucial role, providing outreach services to persuade firms to become EO, loans through the 'revolving fund' it manages, and expertise and professional advice about how to undertake a successful conversion to EO. This last point about the technical know-how to conduct a successful conversion should not be underestimated. The OEOC was set up by Logue in part as a result of his frustration at the failure of many early attempts at conversion. Since 1987, it has helped employees to buy all or part of 92 companies, creating around 15,000 employee owners. Bringing together existing and potential employee-owned firms is an underestimated function of these anchor institutions: the simple fact of real contact with real employee-owned firms turns out, in many cases, to be the magic ingredient.

8

**ACTION:
PROMOTING
EMPLOYEE
OWNERSHIP
LOCALLY**

We have some knowledge, then, of the factors helping to explain the clustering of employee-owned companies in particular. It is of course one thing to describe these factors, and quite another to prescribe them, especially in terms of concrete policies. It would be nice if we could change historic cultures or convert charismatic individuals with a policy paper or two. Sadly, the evidence suggests this is not the case. Our more modest goal in this paper is to marshal the evidence to hand, and point to potential action that could be taken at a local level to encourage employee ownership.

Some preliminary points should be made by way of context. First, there is the need for some humility about how much we know about what works. We know a little about the economic benefits of clustering, and a little about how the process of clustering takes place, not just for EO firms, but the evidence regarding the efficacy of specific policies aimed at promoting clusters is sobering, especially for those policies that have been formulated at a national level. There is a danger here of attempting to artificially recreate what is necessarily an organic process, or what the philosopher Jon Elster described as “willing what cannot be willed.”⁸² As Nathan and Overman put it:

*A physical cluster is the outcome of what entrepreneurs, firms, and workers do. As we have seen, because the cluster is an emergent property of these interactions it is very difficult to make policy that targets cluster outcomes and manipulate the cluster itself.*⁸³

Clusters grow organically, rather than as a direct result of specific public policies. The goal for policy-makers, then, is not to try and ‘create clusters’, but to identify emergent clusters and encourage and facilitate their growth: to work with the grain of changes that are already occurring.

Second, policies to promote employee ownership should be seen as part of a process of experimentation

and evaluation. Since the evidence for what works is still modest, a wide variety of different approaches ought to be welcomed as an opportunity to learn more about the role policy can play. This is a further argument for a local rather than national approach, allowing for more diversity, experimentation and therefore learning. The key will be to ensure that this learning is shared, of course, and here national government will have an important role to play. Cities in the UK are gradually acquiring more powers, albeit painfully slowly. City Deals, Local Enterprise Partnerships and the Heseltine Review are important steps along this journey, but there is clearly very much further to go. Local efforts to promote employee ownership should be seen in the context of what Nathan describes as the “experimental state”.⁸⁴

Third, it is important to be agnostic about the specific levers of change, or the institutions or individuals best placed to lead it. By definition, different localities will have different institutions, of varying strength; different social and economic priorities; and different forms and quality of local leadership. The recommendations set out below are not aimed at a single institution, or even a single kind of institution. Depending on the local circumstances, some combination of the Local Authority, Mayor’s Office (in London at least), Local Enterprise Partnership, Chamber of Commerce, University Department, financial institution, existing employee-owned firm, or network of firms could be the main catalyst for growth. It is important, however, that various local agents and agencies do not sit waiting for somebody else to act. It is also important to be aware that most Local Authorities are working within painfully tight budget constraints, and that many LEPs are little more, at this point, than skeleton operations. This makes the need for collaboration between local agencies and local businesses even more important.

Fourth, the future growth of employee ownership will require it to be seen as part of a growth strategy, rather than simply a job-saving strategy. This is true at

both the national and local levels. Employee ownership has sometimes been sold as a policy suited to industries and areas in economic trouble. This has been somewhat less true in the UK than in other nations, especially the US, where employee ownership has a strong element of what Bill McIntyre from the OEOC calls ‘layoff aversion’. This was also the motivation in the Naugatuck Valley, Connecticut, where employee ownership propped up, temporarily, some dying businesses.⁸⁵ There are dangers in coupling employee ownership too tightly with economic development, in this more negative sense, not least of which is that firms in struggling sectors are more likely to fail, regardless of their ownership structure. Of course, a key element of local support for employee ownership will be to protect and grow the local labour market, but employee ownership has to be sold as a way not to save the old economy, but to build a new one.

Fifth, a local approach is likely to be most effective when combined with a specific goal of supporting or reaching out to particular sectors or cohorts of firms. In some cities, London especially, digital entrepreneurs are a nascent EO cluster. In other areas, certain sectors of creative industries, or engineering, or care services may be more fertile territory. In many localities, it may pay dividends to seek out firms looking out for succession strategies, especially ‘boomer’ firms, whose principal owners are looking to retire and sell their business.

Based on what we know, and bearing in mind the limits of the current knowledge of policy effectiveness, what can be done to promote nascent employee ownership clusters at a local level? We suggest four main avenues for action:

1 – Market-Making

Traditional economics assumes that the market exists outside of institutions and culture; that while institutions and products can be made, markets make themselves. The truth is that markets are made, too:

by regulations, by social norms, by competing institutional pressures. Creating local markets for employee-owned firms should be an explicit goal of policy-makers, especially in terms of capital; and in terms of purchasing and supply.

Capital

Employee-owned firms often struggle to access capital, especially where there is limited cultural awareness of the model. As Roy Messing from the Ohio Employee Ownership Center told us, “Sometimes they react like you’re letting the inmate run the asylum!” The Ohio Center runs a ‘revolving door loan fund’, providing funds for transitions to employee ownership, using capital provided by employee-owned firms, who previously benefited from support. In Emilia Romagna, supported by national fiscal policy, employee-owned co-operatives have built up sizable stocks of ‘indivisible reserves’, available to fledging worker co-ops.

In the UK, the Employee Ownership Association has led the way with the creation of Capital For Colleagues, a £3 million investment vehicle aimed at lending money to aspiring or existing EO firms. The fund has recently joined the ICAP Securities & Derivatives Exchange Growth Market and made five major investments.⁸⁶ “We are looking, crucially, to invest in firms where ownership is open to all employees,” says CEO John Eckersley.

But there is potential for local initiatives on the capital front, too. In particular, local capital markets within the employee-owned sector itself are a potentially important avenue. Local institutions, including LEPs and Local Authorities could act as incubators, connecting more established employee-owned firms, who may be looking for investment opportunities that are both local and pro-EO, and fledgling or potential employee-owned firms who are in search of capital. The hope here is that employee-owned firms are likely to be willing to invest in employee-owned firms, confident of decent returns, through locally-based ‘revolving funds’.

How would a local capital market for employee ownership work in practice? In the first place, it would require the commitment and underpinning of a particular ‘anchor’ institution, willing to provide some administrative, technical support and possibly seed financing. In an ideal world we would see a variety of different approaches taken in different localities, allowing for a comparison and evaluation. Here, we suggest two possible business models for a local EO fund:

i) **An EO to EO ‘revolving fund’:** the local fund would be financed through returns on investment in employee-owned firms, with an explicit mission to use those funds for new or growing employee ownership funds. This is similar to the fund established in Ohio, the Common Wealth Revolving Loan Fund. Since its establishment in 1987, the Fund has raised roughly US\$450,000 in lending capital, and made 24 low-interest loans totalling US\$756,899 to diverse employee-owned and co-operative businesses. The permanent capital of the Fund is low – around \$20,000 – since the purpose is to get money into the hands of firms who need it. So far the Fund reports not a single missed loan payment.⁸⁷ The difficulty, of course, is raising funds to get the ball rolling: an injection of working capital from an outside investor is required. In the Ohio case, significant investments have been made by church groups, especially from the Catholic Diocese. One specific idea is for the Church of England, which is attempting to shift investments from its £6 billion fund in a more ethical direction, to offer initial support to local EO-focused lenders (rather than payday lenders, for example).

ii) **Local Employee Ownership Bonds:** In this model, investors would buy bonds through a clearing house institution that uses funds to invest in local employee-owned firms. Local authorities are in the

process of reviving the municipal bond market, with support from the Local Government Association; charities and social enterprises are also turning to the idea of ‘social bonds’ to support longer-term investments. National governments are pursuing ‘social impact bonds’ to attract private or semi-philanthropic capital into social interventions. A variant on these proposals could be an EO-specific, place-specific bond: the Sheffield Ownership Bond, for instance. Since employee-owned firms have been shown to have good success rates, such bonds may attract investors more easily than some of the socially-oriented efforts. The challenge here is that the bonds will have to be underwritten, and public bodies, even if they were willing to take on the risk, are prohibited by Treasury rules. There is a potential role here for independent investment bodies such as NESTA to support a pilot project for local EO bonds.

And while the focus of this paper is on sub-national policy, there may be help available at the supra-national level. The European Union is committed to improving long-term financing of the European economy, and to the promotion of wider financial participation among employees. A specific proposal is that European Long-Term Investment Funds (ELTIFs) be explicitly charged with promoting employee ownership, especially by facilitating employee buyouts on succession. The UK Government should support this move.⁸⁸

These two models are not the only way to approach local capital markets for employee ownership: there are any number of alternatives, including community financing, direct lending from one EO firm to another; or extra support from mutual lenders, especially if they succeed in their attempt to gain access to more capital themselves (the Mutuals’ Redeemable and Deferred Shares Bill, a Private Members Bill, received its First Reading in the House of Lords on 5 June 2014).

Purchasing

The second potential area for market-making is in demand for goods and services rather than supply of capital. Active purchasing strategies offer the potential to help employee-owned firms to get off the ground.

While Mondragon-style cooperation is a utopian aspiration for the UK, there are less ambitious forms of sharing that could help support local markets for employee-owned firms. The Evergreen experiment provides an important example: with local institutions agreeing to be supplied by a new employee-owned firm. In that case, the institutions were in the public sector; but there is no reason why private sector companies with an interest in promoting employee ownership, above all employee-owned firms themselves, could not actively pursue supplier and purchaser relationships with other similar companies.

So far, there is little evidence of this kind of market-making in the UK. The only example we discovered in the course of this research was that School Trends has purchased warehouse equipment from Loadhog (both are employee-owned). There does appear to be an appetite in principle for these kinds of connections, but few know where to start. Three possible models for active procurement policy could be pursued:

- i) **Public Sector procurement:** In Ohio, large providers of public services acted as pre-committed buyers of Evergreen products and services. Importantly, these were not state-run, or subject to government procurement rules. In the UK, it would be necessary to provide some flexibility to public bodies, allowing them greater latitude in the Best Value framework for Local Authorities, or in procurement rules in the NHS, that currently explicitly rule out a “procurement process” that gives “an advantage to any market sector.”⁸⁹ These are good rules, intended to ensure value for money for taxpayers, and open, fair competition in tendering

for public sector contracts. But given the desire to promote employee ownership, and in the spirit of experimentation, it would be worthwhile to pilot a project that allowed public sector purchasers to provide a marginal preference to employee-owned firms, without altering any of the other terms and rules of procurement.

ii) **Mature EO Firm procurement:** In some localities, there are sizable employee-owned firms or branches of employee-owned firms. These firms could use their market power to promote other EO firms, by seeking them out as suppliers. It may be that there are no suppliers of sufficient size or quality that are employee-owned, especially in terms of product procurement. However, some services such as cleaning or (as in Evergreen) laundry may offer some potential. At least for John Lewis, one of the obstacles is that even these services are purchased via national, rather than local, contracts. Perhaps it would be worth allowing local purchasing of services, with an explicit goal of promoting local employee ownership, in one potential cluster, and assessing the results.

iii) **‘Peer-to-Peer’ Procurement Networks:**

Promoting greater connection in terms of purchasing and supply among employee-owned firms could be an explicit goal of bringing employee-owned firms together in a particular locality (see below). A local agency could support the development of these networks by offering free consultancy and advice in the drawing up of contracts and bids.

There are other ways in which the market for the employee-owned sector might be deliberately grown. Employee-owned firms that reach a certain size and maturity could also potentially help other, smaller EO firms by providing advice and expertise (and there is evidence that this is common); though investments;

or by using the company's weight in the marketplace to draw attention to other employee-owned firms, say by providing free or cheap advertising in the company magazine, in stores or on a locally-focused website. Lastly, it may be possible to generate more demand for professional services for employee-owned firms by increasing the supply of such firms. The OEOC in Ohio deliberately encourages and promotes the development of financial advisers, accountants and lawyers with a specialism in employee ownership, in part through the provision of free, accredited training. As Bill McIntyre from the OEOC says,

If you educate one business advisor, you are probably indirectly educating say 50 business people; that's why continuing professional education is so important.

Given the lack of awareness of employee ownership, the visible presence of specialist advisers may bring forward greater demand from potential converts: a service-based version of 'build it and they will come'. There are limits here, of course. In general, demand for such services will drive their provision. But a nudge on the supply side may help.

2—Match-Making

People and organisations like to be like each other, especially like their peers: that is the central finding of the literature on 'homophily'. This is true at an individual level, and has been identified as an important factor determining the decision of employees to take up ownership opportunities. As Bryson and Freeman report:

[C]o-worker behavior influences decisions. Indeed, workers say that they pay most attention to other workers and little attention to company HR management in their decision on joining.⁹⁰

At the same time, simple face-to-face contact can be a powerful influence on behaviour, helping to 'normalise' employee ownership as a legitimate business model. Experience of and exposure to the employee-owned model strongly influences behaviour. A concrete example in the UK is Cubiks, a firm which specialises in psychological assessment tools for corporate recruitment purposes. The company was previously part of a large employee-owned firm called PA consulting, before it was sold off at the turn of the century. Cubiks' Chairman and Chief Executive, Barry Spence, described to us how it was far easier to persuade the Board that Cubiks should itself become employee-owned, because they were already familiar with the model, and so already saw it as a legitimate way to develop the business. One of the UK's newest employee-owned firms, Mary Knowles Homecare, was established by Dan Knowles, a former partner of John Lewis, who said he wanted to replicate the ethos of his old company.

The trend towards homophily, then, has an impact at both individual and institutional levels. As Strang and Soule put it, in academic terms:

Domains of organizations similar in functions or products and services offered constitute another institutional environment that grants legitimacy. Dominant organizations or organizations that are perceived as successful often serve as a source for institutionally accepted elements... Thus organizations tend to become similar, because they imitate, intentionally or unintentionally, structures and processes of organizations that they compare themselves with... Therefore the diffusion of financial participation practices is also likely to occur through mimetic isomorphism.⁹¹

For the avoidance of doubt, we are not proposing the creation of Mimetic Isomorphism Agencies! But the evidence for the impact of these natural human processes

of imitation should not be ignored in the creation of localist policies for employee ownership. Normalizing employee ownership through personal contact must therefore be a key policy aim. That means that an important goal is deliberate matchmaking between employee-owned firms, and between existing and potential employee-owned firms. Creating a 'community of interest' around employee ownership is likely to have powerful effects, as in other sectors and business types.

But match-making is a difficult goal, since by definition the most important connections are made organically. The value of the network is lost when it does not emerge naturally. There is a role for outside agencies to facilitate and support the development of networks, however, even though they cannot create them. In the UK, the EOA facilitates visits between firms as much as possible, but by definition, connecting is very often a local activity, taking place through business networks, Chambers of Commerce, Rotary Clubs, and social circles.

One specific match-making goal, suggested to us by Roy Messing of the OEOC, would be to survey local businesses and identify those that are owned by baby boomers and are therefore quite likely to be up for sale in the next few years (if there is no family succession plan). Connecting the owners of these companies with successful, existing employee-owned firms – and with expert advisers – opens up the possibility of significantly increasing the rate of conversions to employee-owned status, especially in combination with the favourable capital gains tax regime coming into force in late 2014.

Gripple in Yorkshire has a reputation as a firm which consistently hosts visits from other EO (or potential EO) firms to share their model and talk about some of the specific challenges faced by EO firms and how they have dealt with them. Other mature companies, including John Lewis, also support local contacts and networking. In general, though, it looks as though social norms currently play a limited role

in the UK sector, suggesting that there is scope for real progress on this front. Norms cannot be parachuted into localities, but deliberate efforts can be made to strengthen and normalize employee ownership through personal connections. Specifically, firms and agencies seeking to support the local growth of employee ownership could:

- provide administrative support to existing networks or groups;
- supply meeting spaces;
- fund IT-based platforms for collaboration and connection;
- support survey work to identify ‘boomer’ businesses;
- sponsor local meetings and conferences of EO businesses and potential EO businesses.

3 – **Evangelising**

Individuals count for a great deal in the creation of employee-owned firms and clusters of employee-owned firms. Employee ownership needs capital, knowledge, networks and financial incentives, but at this point it also needs salespeople. John Logue knew that in Ohio: Father Arizmendiarieta proved it in Mondragon.

Cubiks’ Barry Spence says that making the transition to employee ownership is in large part about enthusiasm and attitude: “I just get a big buzz out of people having shared ownership.” That buzz has to be heard and felt more widely. It is hard, of course, to prescribe policies here, since we are talking about the time and energy of individuals, but there are some ways to promote individual activity.

Scottish Enterprise has glimpsed the importance of the individual persuader, and is supporting its ‘ambassadors’ programme as a result. This is a fairly

top-down approach that would be inappropriate in England and Wales, but supporting the work and development of evangelists is vital. There are a number of steps that could be taken:

- i) Local Authorities or LEPs could appoint their own local ambassadors, especially with the support of the EOA and other stakeholders. Importantly, the evangelists do not need to be very senior figures; it may be more important that they are local figures, especially for small and medium-sized businesses. The manager of the local John Lewis has considerable potential persuasive power, especially with local audiences. Many business organisations and civic organisations are constantly on the lookout for external speakers.
- ii) Large employee-owned firms could consider formally adding EO evangelism to the job requirement of senior managers, and incorporating the role into annual performance metrics.
- iii) A ‘Speakers for Share-Ownership’ scheme could be established, similar to the successful ‘Speakers for Schools’ initiative (deploying local figures to encourage university applications). Some seed financing could be provided by central government. When people are willing to undertake the demanding tasks of evangelising for employee ownership, support has to be provided in terms of administration, travel, and so on.
- iv) The promotion of employee ownership could be incorporated into local ‘rebranding’ initiatives. Many cities are seeking ways to strengthen local economic identity and ‘civic pride’, increasingly recognised as a vital social and economic ingredient in growth. This could be connected to the idea of local firms owned by local people creating local jobs and building local wealth. The slogan ‘Working

Together' is less tired when it refers to people actually working together, in their own firm.

v) An inspirational figure could be selected and paid to evangelise for and catalyse employee ownership, moving from nascent cluster to cluster over the course of at least a year. Tech City in London has had somebody in a similar role, most recently Ben Southworth, with the official role of Deputy CEO of the Tech City Investment Organisation. Crucially, this is a job he was given in recognition of the significant work he was already doing evangelising for the cluster, rather than one invented and filled with the best candidate that came along.

As Steve Clem from the OEOC told us, "You need a local champion, someone who if you like takes ownership of the ownership agenda, who keeps the ball rolling."

4 – **Anchor Institutions**

All of the previous three avenues are significantly more likely to be pursued if there is a locally-grounded 'anchor' institution promoting employee ownership.

In all the case studies examined, there has been at least one key anchor institution around which a cluster can grow. The precise nature of the anchor can vary: it can be a school, a church, a university, a regional development agency, a local authority, an enterprise partnership, or a firm. But a cluster needs an institutional stake in the ground, a node for networks, a resource point, a centre of excellence. Sometimes described as 'secondary institutions', these are specifically targeted at providing services in a particular area. In this way, such local anchors provide more opportunities for 'horizontal' coordination within a certain area, as opposed to 'vertical integration' between firms at a national or even international level.

As Andy Street, Managing Director of John Lewis and Chair of the Birmingham Local Enterprise Partnership told us, "we need institutional support for

a growth infrastructure”: LEPs act as hubs for local networks, says Street, but advice and expertise are also critical. Street points to the role of Aston Business School in Birmingham as an influential institution, with a strong interest in small to medium-sized firms and conversion to employee ownership models. “Connecting the university sector and the business sector is a priority in any case,” he says, but he also believes that Universities are powerful potential anchors for employee ownership in particular. Certainly that view is supported by the Ohio experience. Business-facing, entrepreneurial university departments are strong candidates for anchor institutions.

The OECD reports that one common set of policies for cultivating economic clusters focuses on building a pipeline between university research and start-up formation. As Chatterji and colleagues suggest:

Broadly, regional cluster policy levers to encourage start-up formation and growth typically aim to spur knowledge transfer across various organizational boundaries, whether it be universities, incumbent firms, or other start-ups. Government funds are most often used to convene various organisations and facilitate networks, and less frequently directly invested into new firms. In light of the positive studies of university contributions noted earlier, efforts in this regard may yield decent returns.⁹²

In some areas, existing, mature EO firms may be able to take on a version of the ‘anchor’ role: Baxendale specialises in delivering legal and other technical consultancy work for firms converting to EO. In Cleveland, Evergreen is beginning to offer reasonably-priced consulting services to other companies wishing to go down the employee-owned route. “We’re becoming more and more of an anchor ourselves,” Evergreen’s John McMicken told us. In some localities, more mature employee-owned firms, such as Gripple or a branch of John Lewis, may be able to extend their role to include

anchoring for EO, but only if external resources are forthcoming.

So far, there is limited evidence of anchor institutions for employee ownership at a local level in the UK. This is not surprising, given the centralized nature of political and economic decision-making, and the national focus, thus far, of efforts to promote wider employee share ownership. But in the next, heavily local, phase of the journey, it will be vitally important to identify a key institution willing to act as such an anchor in each nascent cluster of employee ownership, into which support from other agencies could then be concentrated.

The key is that, in terms of promoting a cluster, rather than a range of different institutions each doing a little, it will often be better if one institution, dedicated to the employee ownership cause, does a lot. In many cases, an anchor institution will emerge from within another organisation, or as a result of the drive of an individual. But in terms of local policy, it will typically be useful to know the answer to this question: 'In locality A, what is the anchor institution?'

9

CONCLUSION

There is strong cross-party support for both employee ownership and localism. As discussed, the Coalition Government has introduced a number of reforms aimed at ‘mainstreaming’ employee-owned businesses. The Labour opposition has committed itself to promoting more employee-owned firms, along with other social business models – such as co-ops and social enterprises – as a way of fostering a more ‘responsible capitalism’. At the same time, we have seen considerable devolution to Scotland, Wales, Ireland and London over the last decade and a half, and whatever the result of the Scottish referendum, this is likely to continue. All the main political parties say they are committed to devolving further powers to Britain’s cities. It makes sense, then, to focus on the local dimension of employee ownership in the years ahead.

Easier said than done, of course. And some switches in emphasis and mindset will be required to bring about the desired changes in policy and practice.

From national to local

In terms of promoting employee ownership, the biggest impact is now likely to be at the sub-national rather than national level. The Coalition Government has moved on tax breaks, and ought to continue to bang the drum for what the Deputy Prime Minister calls the ‘John Lewis Economy’. Using the media to promote awareness remains an important priority for national leaders and organisations. This role is not just for politicians, but for other national organisations, including trade unions, think-tanks, and especially business organisations such as the Institute of Directors, CBI and the British Chambers of Commerce.

From cash to culture

The principal obstacles to employee ownership in the UK will now not be financial, they will be cultural: in terms of both tacit and explicit knowledge, wider awareness of and support for the employee ownership ideal is necessary. There remains room for progress on

the ‘hard’ policy side, in terms of financing, regulations and so on, but the big gains are likely to be on the ‘soft’ side of policy, in terms of promoting culture change.

From rationalism to evangelism

Employee ownership, in the optimal sense of combining both a financial stake and real democratisation, flourishes as a result not simply of a cost-benefit analysis by an accountancy firm (necessary though that is), but as a result of a genuine commitment to doing business differently.

These switches run against the grain of recent approaches to policy-making in the UK. Our political and business culture inclines towards centralism in decision-making, economism in policy design; and rationalism in argument. Evangelising for culture change at a local level is not, it is fair to say, the natural British *modus operandi*. But if we want to seize the opportunity that has now been offered to bring about a step-change in the employee-owned sector, that is what it will take.

10

**POSTSCRIPT-
LOOKING
BACKWARD:
2030 TO 2014**

At the end of the 19th century, Edward Bellamy published *Looking Backward, 2000 to 1887*, a utopian socialist novel narrated by an inadvertent time traveller. In Bellamy's imagined future, everybody works for the National Industrial Army, and all businesses are owned not by employees, but by the state. Though the book sold well enough, it was a statist vision of the future that found limited resonance in the United States. Even in the UK, William Morris's *News From Nowhere*, an agrarian, libertarian socialist vision, quickly became more famous than *Looking Backward*, to which it was a reply.

Here our goal is rather more modest. Rather than imagining a world many decades in the future, we have sketched two localities – London and Sheffield – in which, by 2030, employee ownership is flourishing.

London

Following the declaration by the new mayor in 2016 that she would seek a 'London Economy for Londoners', came new research in 2017, showing that London-based employee-owned firms had outperformed non-employee-owned companies in the decade following the recession. With the backing of the Mayor's Office, the London Assembly and the employee-owned business community, a new London Employee Ownership Network (LEON) was established in 2018, with an institutional base at Cass Business School, the London Employee Ownership Research Centre. The Centre rapidly became self-financing, offering advice and training to employee-owned firms and financial advisors. In 2020, a director of Gamevy, which had become one of the fastest-growing online businesses in the UK, decided to take a 'Speaking Sabbatical', and visited 3,000 companies in a single year, advocating for employee ownership. Every year since, another evangelist has stepped into his shoes. A video montage depicting working life in London's burgeoning employee-owned firms in the digital and tech sectors went viral in 2023, and caused a spike in conversions to employee ownership. The London Employee Ownership Association, an offshoot of the EOA, calculated that by

2025 there were over 1,000 networks of employee-owned firms in existence across the capital. Many of these small, sector-based networks received light-touch support in the shape of the provision of meeting spaces (usually by existing employee-owned firms), or administration. The largest of these networks, TOG (Tech Owners Group), became a high-profile advocate for employee ownership, following a wave of conversions in the sector. By 2025, Selfridges, Harvey Nichols and Liberty were majority employee-owned, after a London-wide campaign for fairer wages in retail. By 2030, according to an independent report by the OECD, London's employee-owned sector accounts for 25% of the capital's GDP, the highest proportion of any city region in the world.

Sheffield

In 2016, the former Chairman of a large employee-owned retailer became Chair of the Sheffield City Region Local Enterprise Partnership, with an explicit mission to 'make Sheffield the ownership capital of the UK'. During his tenure (which lasted until 2026), the LEP, with some support from the EU Structural Fund, established the Sheffield Owners Loan Fund, providing financial support to start-up employee-owned firms and mezzanine financing to the employees of hundreds of firms being sold by their retiring owners. In 2018, facing a lack of interest from local business associations, ten young managing directors of employee-owned firms established their own association, the Red House Chamber (named after the pub where the group held their first meetings). Within five years, the Chamber had more members than any other business association in the City. A Sheffield Ownership Bond was issued in 2020 to provide additional financial support. The bond was underwritten by a wealthy local businessman, who had become persuaded of the case for employee ownership. In 2023, the Sheffield City Region LEP established an arms-length Sheffield Ownership Training Centre, which over the next five years trained 50% of locally-based financial advisers and accountants on some aspect of

employee ownership. Existing employee-owned firms gave some financial support to the new chamber, but allowed it to grow organically. In 2026, the Centre was spun out – as an employee-owned enterprise. Sheffield City Council won Treasury permission in 2027 to pioneer new purchasing rules, giving priority to local firms with ownership structures that ‘help to keep local money local’ – including employee-owned firms. By 2030, employee-owned firms accounted for 20% of the GDP of the Sheffield City Region.

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Employee ownership gives staff a stake, and a say, in their work. Firms are more productive and more resilient as a result. Employees have higher job satisfaction.

It is no surprise then that policy makers from both left and right are clamouring to promote the ‘John Lewis economy’. But which policy levers, if any, are effective?

This report analyses the development of three notable clusters of employee-owned firms in Europe and the US. It argues for a new policy approach – one that harnesses the power of norms and personal networks – to unleash a new wave of *local ownership*.

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