EMPLOYEE OWNERSHIP
ASSOCIATION

THE VOICE OF CO-OWNED BUSINESS

Richard Reeves

CoCo Companies

Work, Happiness and Employee Ownership

www.employeeownership.co.uk

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About the author

Richard Reeves is a writer, researcher and consultant. Described by The Guardian as 'Britain's leading expert on workplace trends', he has worked with Accenture, ICI, Microsoft, Orange, PricewaterhouseCoopers, BT and the NHS. In November 2005 he presented the BBC2 series Making Slough Happy. Richard is a columnist for Management Today and an essayist for the New Statesman. His previous publications include *The Politics of Happiness* for the New Economics Foundation and *Happy Mondays – putting the pleasure back into work* for Pearson. Richard's biography of John Stuart Mill is being published in 2007 by Atlantic Books.

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Publisher

The Employee Ownership Association – formerly Job Ownership Limited [JOL] – is the voice of co-owned business in the UK. A network of companies wholly or substantially owned by the people who work for them, the Employee Ownership Association's role is to serve its member companies and promote employee ownership.

Our members include the John Lewis Partnership; other long-established co-owned companies such as founder member Scott Bader; major global corporations Mott MacDonald, Unipart Group and Arup Group; the Baxi Partnership, Tullis Russell and other successful enterprises of all sizes from a diverse spread of sectors.

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Foreword

The opening line of the John Lewis Partnership's Constitution is often quoted as an illustration of the extent to which we're a different kind of business:

"The Partnership's ultimate purpose is the happiness of all its members".

Less frequently quoted are the following words:

"… through their worthwhile and satisfying employment …"

So, John Lewis and Waitrose shops aren't just filled with rollicking workers exuding bonhomie and safely cocooned from the rigours of commercial life. Happiness comes from having jobs which have purpose and a value to the general community and which create a sense of personal fulfilment. And then there are the final words of the sentence:

"… in a successful business."

In its entirety, the purpose of the Partnership is a successful business. That success is defined in terms of the fulfilment derived by the people working in it, but it's inextricably linked to an ability to compete and flourish in an economy dominated by conventionally structured companies.

In CoCo Companies Richard Reeves examines this proposition, not just in relation to the John Lewis Partnership but also the many other co-owned firms which account for at least £20 billion in turnover and make up 2 per cent of the UK economy. He makes clear that co-ownership is the starting point, but its power only clicks in when combined with the full engagement of employees in 'co-creation' of value - the CoCo companies. The coincidence of happiness, customer service and commercial success is no accident. CoCo companies hold genuine competitive advantage.

The significance of this assessment is in the final chapters:

- why don't we hear more about the advantages of this business model?
- and why don't we try to create more businesses to add to our stock of human happiness and to boost the productivity of our national economy?

To a large extent the Employee Ownership Association has been established precisely to respond to both those questions. The analysis produced by Richard Reeves merits wider attention by companies and by Government, and the Association is ready to help and encourage other businesses considering this route but uncertain how to start down it.

Sir Stuart Hampson
President, Employee Ownership Association
Chairman, John Lewis Partnership

1. Introduction

Capitalism has won. But it has yet to fulfil its own promise. Market-driven economic growth has succeeded in making us richer; but it is no longer enriching our lives. Money isn't buying happiness.

The sources of a good life are increasingly to be found in the quality of our relationships with each other, and in the conduct of purposeful, rewarding work. This is why Gordon Brown has called for "full and fulfilling" employment and why David Cameron – a decade later – supports a "modern vision of ethical work" as part of a drive towards "general wellbeing". There is a strong, consistent link between job satisfaction and overall happiness. Work is where economics becomes human, where the connection between the creation of wealth and cultivation of wellbeing is strongest.

At the same time, the financial success of organisations now relies on the whole-hearted participation and extra effort – in other words on the "engagement" - of employees. Labour productivity, economically speaking, is where the action is. Successful enterprises are ones in which employees are active "co-creators" of value, rather than passive followers. But there are no MBA-taught wheezes which can boost an individual's interest in the overall success of an organisation.

Co-ownership, co-creation

Clear leadership, decent management and humane policies can all help. But it is necessarily an uphill struggle to convince people to go "the extra mile" for the firm, when the additional money thereby generated flows into other hands. As Marx (Groucho, not Karl) put it: "What makes wage slaves? Wages!"

There is a mechanism by which the real quality of working life and the productivity of organisations can be lifted: giving employees a real financial stake in their firm and the opportunity to add value. People who are co-owners of an enterprise are inescapably invested in its success or failure.

But co-ownership is only half the story. It is when a structure of co-ownership is combined with a culture and systems of co-creation - consultation, information-sharing, employee forums – that organisational performance moves into a new gear[1]. Co-ownership and co-creation weave together, like the twin strands of a DNA helix, to deliver a new way of doing business and a better way of doing work. These "CoCo companies" hold out the potential for meeting two vital objectives, which are too often seen as diametrically opposed. They are vehicles for meeting the productivity challenge but also for generating happiness; a CoCo company is a wellbeing creator as well as a wealth creator.

These are far from modest claims. This paper provides some support for them, including evidence from those at the sharp end, working in co-owned firms. But it is also necessary to be candid about the gaps in our knowledge. "More research is required" is of course the classic cop-out, but it is hard to think of an area of our collective life where the plea could be more justified.

Even with growing evidence in their favour, moves towards CoCo companies are hindered by an array of financial, information and attitudinal obstacles, not least of which is a powerful ethic of individual acquisitiveness. This paper makes some suggestions for creating

[1] In the paper the term "co-ownership" applies to companies in which employees have a significant, even if not a majority share: the term "employee ownership" usually refers to the latter.

a climate more conducive to the formation of CoCo companies. The sector is also mobilising: the leading CoCo companies have formed a business association, with the lobbying group Job Ownership being transformed into the Employee Ownership Association (the publisher of this report).

Birth of a business model

Co-ownership is not a new idea. Nor is the suggested link between ownership and co-creation an intellectual breakthrough. In the nineteenth century, some of the greatest minds of the age rested their hopes for the future on a democratisation of capital. John Stuart Mill believed that different forms of co-operation were "destined to divide the field of employment between them".[2]

The thinkers of the nineteenth century illuminate current debates, because they were writing at a time when the nature of work was a burning issue and before both the rise of the joint stock company as the foundation for Western capitalism and the rise of state socialism which, for most of the 20th century, counter-posed it. Now, after the Cold War and the collapse of communism, it is once again possible to safely ask what kind of capitalism we want. For Mill, a century and a half ago, the granting of a stake in companies to the individuals working within them was the most promising avenue for society's future.

The benefits of such a transformation included: "the healing of the standing feud between capital and labour; the transformation of human life, from a conflict of classes struggling for opposite interests, to a friendly rivalry in the pursuit of a common good to all; the elevation of the dignity of labour; a new sense of security and independence in the labouring classes; and the conversion of each human being's daily occupation into a school of the social sympathies and practical intelligence".[3]

Few would today put the case for co-ownership so strongly, or in such high-blown terms. Finance directors considering new forms of corporate structure or Chancellors contemplating new tax incentives might admire Mill's eloquence but would rightly want to see evidence for the impact on the bottom line. (Evidence which is steadily accumulating.)

But Mill's vision contains something else too. CoCo companies may indeed represent a business model whose time has finally come, after the ideological experiments of the 20th century. But CoCo capitalism is not fundamentally about productivity and profits. It is about the way we work and live together. It must never be forgotten that profits, productivity and economic growth are all means to an end. And that end is the opportunity for each and every one of us to cultivate a good life. In 1930, John Maynard Keynes correctly predicted that within a century the material standard of living in the West would have improved by between four and eight times. This, to his mind, would mean that "the economic problem" would have been solved, and so: "For the first time since his creation, man will be faced with his real, his permanent problem – how to use his freedom from pressing economic cares…which science and compound interest have won for him, to live wisely and agreeably and well'.[4]

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[2] John Stuart Mill; Collected Works Vol. XV p.966-7
[3] John Stuart Mill: Principles of Political Economy, Oxford Classics Edition, p.153
[4] John Maynard Keynes, Essays in Persuasion, (1983) Norton, p.367

And there is currently growing interest in the scholarship of wellbeing, captured in the work of Professor Richard Layard and others, as well as in the politics of happiness, with the government's Strategy Unit and DEFRA examining the sources of life satisfaction.[5]

Perhaps Mill's phrases "the common good", "dignity of labour" or "social sympathies" provoke a response of scepticism from hard-headed 21st century captains of industry or investors. But if so the fault is with them, not the words. For if market capitalism is not, after all, about making life better, its victory might come to feel hollow. CoCo companies offer a means by which more people can live and work "wisely, agreeably and well" - and make their firms more profitable into the bargain.

[5] Richard Layard, Happiness – Lessons from a New Science, Allen Lane 2005; Strategy Unit paper, "Life Satisfaction" by David Halpern (Cabinet Office, 2003)

2. Talking Money: The Financial Case for CoCo Companies

"It's the economy, stupid." Bill Clinton

"The primary task of management is to get people to work together in a systematic way", suggest the authors of a recent Harvard Business Review article. It is hard to argue with that. In the course of their dissertation, the three business school academics list a number of "tools for co-operation" including "fiat, force, coercion and threats". Managers, the trio correctly observe, "can use a wide range of carrots and sticks to encourage people to work together and accomplish change".[6] But the most striking aspect of the article is the absence of arguably the most powerful "tool for co-operation" of all: giving employees a stake in the business. Charismatic leadership, training, strategic planning and measurement systems are all well and good. But they pale in comparison to co-ownership.

The HBR authors correctly diagnose the need for employees to work together, share information and feel invested in the overall performance of the firm. But they offer the usual lame prescriptions. Firms do have to secure the collaborative loyalty of their employees. Or to put it another way, co-workers have to become co-creators. And the evidence for the superior financial performance of firms with high levels of trust and collaboration is strong.[7] (Although, as ever, teasing out cause and effect is delicate work.)

A new enterprise culture

In theory, co-ownership should enhance organisational performance in two ways. Co-owners should be incentivised to work together, in the knowledge that the success of another means the success of all. And co-owners should be motivated to work harder, treat customers better and manage costs more effectively. As Conyon and Freeman, authors of the most authoritative research on the economic dynamics of co-ownership put it: "Shared capitalist modes of pay should improve the economy in two ways. They should improve communication and consultation with workers…They also should ideally induce employees to think and act like owners, making decisions that increase corporate value."[8]

Gordon Brown agrees with them, having declared in 1999: "I want to encourage the new enterprise culture of teamwork in which everyone contributes and everyone benefits from success". And he has been as good as his word, providing some incentives for wider employee share ownership through schemes such as the Share Incentive Plan (SIP), Company Share Option Plan (CSOP) and Enterprise Management Incentive (EMI).

How does the theory survive contact with the real world? Firms in which a significant share is owned by employees report a connection with profitability. In a survey of co-owned firms, 72% reported that staff worked harder, 81% that they took on more responsibility, 49% that competitiveness was enhanced and 44% that profits were higher.[9] But these results, while encouraging, cannot be seen as conclusive. Co-owned firms are after all unlikely to trash the idea. Similarly, the evidence for greater customer loyalty, staff retention and innovation in these firms is rather like a contemporary supermodel: good-looking but thin.

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[6] "The Tools of Co-operation and Change" by Clayton M. Christensen, Matt Marx and Howard H. Stevenson, HBR, October 2006 p.72-80

[7] One of the best studies is Good to Great: Why Some Companies Make the Leap..and Others Don't, by Jim Collins, HarperCollins, 2001

[8] Martin Conyon and Richard Freeman: Shared Modes of Compensation and Company Performance: UK evidence, National Bureau of Economic Research, Working Paper 8448. http://www.nber.org/papers/w8448.

[9] Burns, Employee Ownership Association, p.4

2. Talking Money: The Financial Case for CoCo Companies

Does it work?

So where's the beef? What hard evidence do we have that co-ownership boosts performance? The truth is that the evidence base is at this stage relatively small: few rigorous studies have been carried out. But what evidence that does exist suggests strong links between shared compensation schemes and corporate outcomes. A study conducted for the Employee Ownership Association by Professor Jonathan Michie, Director of Birmingham University Business School and colleagues, reports strong links between co-ownership and a range of business outcomes, including productivity, innovation, customer loyalty, talent recruitment and retention and shareholder value.[10]

Similarly, Conyon and Freeman show that companies with a scheme for sharing profits with employees via shares boast a 19% productivity dividend. Those with a Company Share Option Plan (largely used in senior executive packages) enjoy a 12% productivity bonus.[11] And in firms which introduce a significant element of variable pay, almost two-thirds of managers report that productivity rises significantly.[12]

And the work of Estrin et al estimates a productivity boost of around six per cent from a profit-sharing scheme worth between five per cent and 10 per cent of market wages to each employee.[13] And those at the sharp end are wholly convinced of the financial benefits. Mike Thompson, chief executive of childcare provider Child Base - which is one-third employee owned and moving towards an employee controlling stake - says: "I look at our P/E and so on, and we are top of the sector in most areas. Of course it is hard to quantify it – but we are suddenly a different company. Our margins have improved. Is that because of the new structure? I can't prove it - but I know it."

Andy Street, personnel director of the John Lewis Partnership – which operates the John Lewis stores and Waitrose supermarkets - agrees: "We have to achieve at least market-equalising returns, or we wouldn't be able to keep trading over the long run. And the evidence of the last 75 years is that this firm thrives under this structure."

Against another benchmark of financial performance - share price - co-owned firms also appear to do well. The Employee Ownership Index (EOI) has consistently outperformed the FTSE All-Share. In cash terms, an investment of £100 in the EOI in 1992 would have been worth £349 at the end of June 2003; the same amount invested in the FTSE All-Share would have been worth £161.[14] Conyon and Freeman estimate that an All Employee Profit-Sharing Scheme boosts share values by "about 9.79". (Note: only micro-economists can prefix a two-decimal point regression result with the word "about".) But while the link to share price performance is strong, this is an even harder area to extract a causal relationship – firms with higher returns may simply be more likely to share them.

[10] This evidence is summarised in Shared Company – How employee ownership works, Employee Ownership Association (2005)
[11] Conyon & Freeman p.18
[12] Conyon & Freeman p.30
[13] Estrin S et al. (1997) "Profit Sharing in OECD Countries: A Review of Some Evidence". Business Strategy Review Vol 8, Issue 4 p.27-32.
[14] http://www.equityincentives.co.uk/documents/library/ukeoi/2424848_1.pdf

Ownership plus

An important caveat to these results is that co-ownership on its own appears to be fairly limited in its impact: the big gains seem to come when it is combined with a structure and culture of participation and co-creation. This may be because even in a firm in which employees have a stake, it can be hard for an individual to see how their own apparently minor contribution can affect overall outcomes. It is rather like a voter's influence at the polls. As Conyon and Freeman put it: "Employees lower in the firm's hierarchy have little direct effect on the company share price. They lack a clear "line of sight" linking their decisions to the share prices/company profit levels that would affect their pay".

Structures which allow employees to see the connections, as well as to share ideas and decision-making, help to solve this problem. So while US firms with Employee Stock Ownership Plans (ESOPs) show a better financial performance than their competitors, there is considerable variation around the mean, according to an analysis by Kruse and colleagues: "[A]round the average effect is a wide band of outcomes that makes it clear that giving employees an ownership stake is by no means a cure-all to company or workplace problems."[15]

The ESOP firms reaping the biggest rewards are those which also have robust forms of consultation and employee involvement. What seems to make the difference is a culture and structure which allows employees the opportunity to contribute to the firm at a wider level as well as in the simple performance of their job. Kruse and his colleagues report: "Our analysis of variation in worker-reported effort…tends to support the need to combine the incentive of ownership with the involvement of participation. We find significant differences in worker assessment of work effort across ESOP firms, indicating that even in firms with substantial employee ownership, other factors influence outcomes."[16]

Investors and senior executives in co-owned firms agree. "You need the whole package," says Andy Street, personnel director of the John Lewis Partnership. He likens the Partnership's model to a constitutional democracy – which combines leadership with representation. Switch manufacturer Herga's move into co-ownership was built on a culture of shared responsibility. "For us it is a story of evolution rather than revolution. In some ways we would be disappointed if there was too big a change" says managing director Richard Chatham. Co-ownership "should be the icing on the cake." And Sue Carter, an employee at Scott Bader, says: "Anyone can see from looking at the business that these schemes are good business."

David Erdal, a director of the Baxi Partnership which invests in and advises on employee ownership says: "The evidence for the superior financial performance of these firms is, in my view, overwhelming: but only if ownership is combined with a participative management style."

[15] Motivating employee-owners in ESOP firms: human resource policies and company performance by Douglas Kruse *et al*. National Bureau of Economic Research Working Paper 10177. (2003) p.5
[16] Kruse et al p.25

2. Talking Money: The Financial Case for CoCo Companies

To be clear: co-ownership does have some positive effect all by itself. Similarly, participative cultures can boost performance even in the absence of any shared compensation systems.[17] But the greatest benefits seem to flow when co-ownership is combined with real opportunities for co-creation. These "CoCo" firms are the ones to watch.

An emerging sector

Right now CoCo enterprises make up a vibrant if modest part of the economy: the Employee Ownership Association estimates that co-owned firms account for at least £20-£25 billion turnover annually – or two per cent of the UK economy[18]. The co-owned category contains firms of all shapes, sectors and sizes, from the retail giant John Lewis Partnership through polymers manufacturer Scott Bader, the medium-sized architecture firm Make to the tiny Micro-Robotics, as well as the Arup and Unipart groups, the management and engineering consultancy Mott MacDonald, PA Consulting, the Eaga Partnership, papermakers Tullis Russell and preserves company Wilkin. (See Panel for some examples.)

Panel: A Sample of CoCo Companies

Arup

Arup is a 7,500-strong international engineering and consultancy business. With a turnover of £500 million, this sixty-year old firm is entirely owned by trusts including a charitable trust and employee trusts. See: www.arup.com

Child Base

Established in 1989, the firm provides childcare services in 32 centres around the country, Employees currently hold 36 per cent of the shares (30 per cent in Trust, the remainder directly). The Trust is in the process of acquiring a further 20 per cent of stock from the founding family, transforming the £19 million turnover business into an employee-controlled enterprise. See: www.childbase.com

Herga

A switch manufacturer established in 1947, Herga has a turnover of £5 million and is controlled by an employee trust. Over time the Trust, of which the employees are beneficiaries, is acquiring more of the firm. Based in Bury St Edmunds, it provides 155 jobs to the local community. See: www.herga.com

John Lewis Partnership

Still the oldest and biggest CoCo firm in the country, the John Lewis Partnership retail firm was established in 1864. It is entirely owned by an employee trust, with employees of John Lewis and Waitrose – "partners" – numbering 65,000 and a turnover of over £5 billion. See: www.johnlewispartnership.co.uk

Loch Fyne Oysters

An important West Coast employer, Loch Fyne Oysters has 120 staff, who own most of the firm, through a mix of a controlling employee trust and directly-held shares. The company supplies seafood, meat and game. See: www.lochfyne.com

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[17] The Work Foundation: High Performance Organisations
[18] Gross Domestic Product for 2005 was £1,253 billion. (Office for National Statistics, 2006)

2. Talking Money: The Financial Case for CoCo Companies

Make

Established in 2004, this architecture practice has a turnover of £12 million – up sixfold since its first year of trading. It is now home to more than a hundred professionals in central London, and every one is a member of the employee trust which wholly owns the company. See: www.makearchitects.com

St. Luke's Communications Group

Established in 1995 and now employing 80 staff in two agencies: St Luke's offering brand strategy and advertising services; and The Nest providing design. An employee owned group, managed by an employee trust. See: www.stlukes.co.uk

Scott Bader

Six hundred employees at Scott Bader manufacture polymers for the international market. Based near Wellingborough, it has plants around the world, including Croatia, France, United Arab Emirates and South Africa. Turnover is around £150 million. Staff are encouraged to become members of the charitable trust which wholly owns the company. See: www.scottbader.com

Sunderland Home Care Associates

Employees in this care provider – established in 1994 - own the majority stake, with an employee trust holding a controlling share and the bulk of the remainder in employees' hands. Turnover is £1.75 million, and staff numbers are around 175. See: www.sunderlandhomecare.co.uk

Note: Data from Employee Ownership Association database, November 2006: see individual company website for up-to-date information.

And the sector is, without much fanfare, on a growth trajectory. It is currently a stealth sector of the economy. But there are a number of reasons to believe (and many more to hope) that CoCo firms offer a better path than traditional corporate structures. As the novelist JG Ballard observed, the future is already here, it is just unevenly distributed.

The "business" case for co-ownership and co-creation is not open-and-shut, although the results to date are encouraging. And it is also clear that co-ownership is not the right business model for every firm, or at every stage in corporate development. But the significance of CoCo enterprises goes well beyond organisational performance. In advanced nations, there is now a weak link between economic growth and levels of happiness. Wellbeing springs less from monetary accumulation than from good relationships, trusting cultures, and opportunities for personal development and autonomy[19]. If we want to live in a good society, we must pay attention not only to how much wealth is generated, but how it is produced and for whose benefit.

In Keynes' vision of the future, quoted in the introduction, leisure played a key role. And few would argue that good family and community life are vital components of a life worth living. But a good life is not constructed outside the walls of the workplace. The quality, purpose and rewards of work impact on the wellbeing of every member of society. And CoCo capitalism offers greater possibilities for working in ways which enrich our lives – in other words for working wisely, agreeably and well.

[19] Richard Layard, Richard Reeves. The Politics of Happiness, New Economics Foundation (2005)

3. “Wisely”: CoCo Citizens

“Work is not first of all what we do to “make” a living. Work is human living – human being and human becoming”.
John Raines and Donna Day-Lower in Modern Work and Human Meaning.[20]

Work offers an unparalleled opportunity for personal development, not least through our interactions with others. Work is – or should be – about learning and sharing knowledge. At the same time, work offers us the chance to make commitments which will enhance our own wellbeing: commitments to a task, to an organisation, and to each other. These are the ingredients of wisdom at work. And CoCo capitalism performs better against these benchmarks than what David Erdal of Baxi Partnership calls the “short-term ethic of the Anglo-Saxon model”.

The experience of co-ownership suggests that it facilitates the development of higher levels of responsibility and self-direction – what some writers dub “organisational citizenship”. Being co-owners also seems to encourage faster circulation of information and ideas. And co-ownership allows firms to take decisions over a longer timescale: to be wise well before the event.

Citizens

CoCo organisations are typically characterised by higher levels of employee autonomy. Managerial oversight tends to be less; levels of self-direction tend to be higher. A necessary warning: these assessments fit with economic theory but are made on the basis of evidence provided by the firms themselves, which is often anecdotal in nature.

Andy Lane, chairman of Loch Fyne Oysters, which is already half-owned by its employees and moving to full employee ownership, says that behaviour and attitudes have changed. “I have seen people’s confidence in themselves rising, in their ability to do things themselves. One of the results is that they get more active in the community as well.”

Margaret Elliott, managing director of Care and Share Associates and founder of Sunderland Home Care, a co-owned eldercare business, which has just been awarded the prize as “Overall Winner” in the Enterprising Solutions Awards 2006, run by the Social Enterprise Coalition says: “I’ve seen people change in the way they work and live. A lot of people see money as the number one in life. Once people get to know this [the way of working in a co-owned firm] it changes them. We all get to make a living, possibly a good one, but it is not the be-all and end-all. I am sure that the result of doing it this way is better people, leading richer lives.”

If CoCo organisations do allow greater autonomy, there is no doubting that there is a resulting beneficial impact on wellbeing: one of the most powerful predictors of job satisfaction is the degree of self-direction in an individual’s working life.[21] And the impact of greater autonomy “spills over” into family and community life too, as Andy Lane suggests. The scholar Robert Lane, summarising the findings of Kohn and Schooler’s magisterial Work and Personality, writes: “An occupation that requires self-direction does not merely recruit intellectually more flexible workers, it develops those cognitive powers of the workers as well”.[22]

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[20] Philadelphia: The Westminster Press (1986) p.14-15
[21] Ryan, Richard and Edward Deci (2000) Self-Determination Theory and the Facilitation of Intrinsic Motivation, Social Development, and Well-Being. *American Psychologist* 55(1): 68-78
[22] Robert Lane, The Market Experience (1991) p,242, CUP.

3. "Wisely": CoCo Citizens

As Mill suggested, the workplace can become a "school of social sympathies". One of the most exciting prospects of moves towards a CoCo business model is that attitudes of citizenship acquired at the workplace positively influence community life – and perhaps even political life - more generally too. The role of employment is too often overlooked in the drive to create and sustain a cohesive, mutually respectful and positive society. But good work has a very strong civilising influence, strengthening individuals, families and societies. To a significant extent, the way we live and interact reflects the way we work. CoCo companies have a role in creating not only good lives, but a good society, too.

Information sharing and innovation

We have seen that co-owned firms believe themselves to be more innovative. And there is some limited empirical evidence for this claim, especially in US ESOPS and among small firms.[23] The US business writer John Case has described employee-firms as "idea factories."[24] But once again it looks as if a combination of both the incentives of ownership and the cultures and structures of co-creation works best in terms of promoting what Rosen and Carberry call a "lasting culture of innovation".

One of the principal obstacles to innovation is a resistance to the sharing of ideas and information: co-ownership provides a counter-incentive. "At an individual level, knowledge is not power in this place," says Barry Cooke, co-founder of Make, an employee-owned architecture practice, "because if you hoard it, that hurts all of us. "

Long-termism

Working wisely means thinking about the long term: at an individual level, employees with a share in a business are more likely to be loyal; all the co-owned companies named in this report have staff turnover rates significantly below their sector averages. At the John Lewis Partnership the staff turnover rate is 21 per cent, much lower than the figures for competitors,[25] This must partly be because of the kind of people who want to work for such firms in the first place – but not wholly.

Even more significant, co-ownership often allows organisations themselves to take the wiser, longer-term view, because of a reduced reliance on the external capital markets. The John Lewis Partnership provides a good case study. The firm's performance was sluggish in the 1990s, in part because of significant restructuring and investment (eg in the refurbishment of the flagship Peter Jones store and in an internet-based retail platform). Now these investments have paid off and the firm is in good financial shape, posting half-yearly profits in September 2006 of £112 million, 25% up on the previous year – with internet-driven sales providing much of the boost. Last year each partner in the company received 15 per cent of their salary in additional pay.

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23 Rosen, C. and Carberry, E. (2002) Ownership Management: Building a culture of lasting innovation, National Center for Employee Ownership; Gudmundson D. et al (2003), Innovation in small businesses: Culture and ownership structures do matter. *Journal of Developmental Entrepreneurship*, 8(1): 1-17.
24 Quoted in Rosen and Carberry
25 For Feb 2005 to Jan 2006, equivalent figures for some other firms were Next (43%), Woolworths (42%) and WH Smith (38%).

3. “Wisely”: CoCo Citizens

“If we had been a Plc, you could write a script that we would have been under severe scrutiny in those years,” says personnel director Andy Street. “But our structure allows us to operate on slightly different timescales”.

Employees with a citizenship mindset and a willingness to share ideas; mechanisms for collective reflection and decision-making; organisations able to take decisions for the long-term – these are all features of an organisation working wisely. It gets better, though. CoCo capitalism feels good, too.

4. “Agreeably”: Happy Workers

“Degradation follows inevitably from the refusal of men to give the purpose of industry the first place in their thought about it…”[26] R.H. Tawney in The Acquisitive Society.

Work and happiness are often seen as polar opposites. As the Loverboy song has it, “everybody’s working for the weekend”. This is all wrong. Good work is good for happiness. No, good work is great for happiness. If you doubt it, talk to someone on the dole queue. The mere fact of being in paid employment provides an individual with as much happiness as an extra £100,000 a year in income.[27] As Robert Lane puts it: “Work is the market’s principal contributor to both happiness and human development”.[28]

Job satisfaction is very strongly related to overall life satisfaction. And the causality runs both ways. Happy people are happier at work – but happiness at work also spills over into happiness with life in general.[29] In most taxonomies of what the social scientists call “subjective wellbeing” work is the second most important ingredient, after the quality of family life.[30] For a worker on a $65,000 a year salary, an increase from a job satisfaction score of 8/10 to 9/10 delivers as much extra happiness as an extra $35,000 in their pay packet.[31]

To put it another way – to help workers to have better lives, employers can either increase the wage bill by 50% or help staff to feel better about their jobs. It is simply impossible to be serious about wellbeing without being serious about worker wellbeing.

Better work

The debate about wellbeing and work tends to focus on “work-life balance”. This is misplaced. Of course it is possible for people to work too hard, or for too long, or under duress. But these are not the big challenge facing us. The most urgent need in the labour market is for better work – for work which is personally fulfilling, and purposeful. And job satisfaction is not just about the individual’s relationship to his or her work – there are powerful collective, workplace-based influences too.

As the authors of one study conclude: “[T]here are happy and unhappy workplaces, as well as happy and unhappy workers, with very different patterns of turnover and productivity in these workplaces.” [32]

William Morris, in his essay Useful Work versus Useless Toil, beautifully captured the distinction between good and bad work. “Here, you see, are two kinds of work – one good, the other bad; one not far removed from a blessing, a lightening of life; the other a mere curse, a burden to life. What is the difference between them, then? This: one has hope in it, the

26 From *The Acquisitive Society* (1920), p.35; quoted in Lane p.265

27 Andrew Oswald (1997) Happiness and Economic Performance. Economic Journal 107(445): 1815-31.

28 Lane p.235

29 Timothy Judge and Shinicnhio Watanabe (1993) Another Look at the Job Satisfaction-Life Satisfaction Relationship. *Journal of Applied Psychology* 78(6): 939-48.

30 Richard Layard (2005) Happiness – Lesson from a New Science.

31 (2005) p.18 “How’s the Job? Well-being and social capital in the workplace” John F. Helliwell & Haifang Huang NBER Working Paper 11759. http://www.nber.org/papers/w11759

32 “Can a work organization have an attitude problem? The impact of workplaces on employee attitudes and economic outcomes.” (2003) Ann Bartel et al. NBER Working Paper 9987. http://www.nber.org/papers/w9987.

other has not….hope of rest, hope of product, hope of pleasure in the work itself…pleasure enough for all of us to be conscious of it while we are at work; not a mere habit, the loss of which we shall feel as a fidgety man feels the loss of the bit of string he fidgets with.”[33]

“Work provides not only income”, writes Professor Richard Layard, “but also an extra meaning to life…But it is also important that the work be fulfilling. Perhaps the most important issue is the extent to which you have control over what you do. There is a creative spark in each of us, and if it finds no outlet, we feel half-dead.”[34]

Bad work is a blight on civilisation. It wastes time, humanity and hope. And co-ownership and co-creation are potentially hugely powerful incubators of better work. In some cases this aim is explicit: the first sentence of the John Lewis Partnership constitution is: “The Partnership’s ultimate purpose is the happiness of all its members, through their satisfying and worthwhile employment.”[35] It is worth reflecting on how our economy and society might look if such a constitutional aim were the rule rather than remarkable exception. If a firm as long-standing, large and commercially successful as the John Lewis Partnership can have the promotion of happiness at its very core, why not others? Why not, indeed, the economy as a whole? While all companies have to worry about financial returns – whether to shareholders or other owners – CoCo companies might lead the way to a new valuation of other kinds of “returns” from enterprise.

The happiness connection

But do workers in CoCo companies have happier, more “agreeable” lives? Once again it is hard to produce definitive direct evidence. The job satisfaction levels in these organisations do seem to be well above the average – but this is true of lots of non-CoCo firms too. As far as I know, there is no direct causal evidence for a link between co-ownership and worker happiness. However, there is research relating worker wellbeing to a range of factors – including autonomy, trust, respect, involvement and information - which are also characteristic of co-owned organisations. It takes a leap of faith to say that co-owned, co-created organisations are more agreeable places to work: but not too big a leap.

According to the research by Professor Michie and colleagues, co-owned firms have higher-than-average levels of trust.[36] And workplace trust is very powerfully related to overall life satisfaction – more strongly, in fact, than trust in any other area of life. For the employee on a $65,000 salary, a one-point increase in the levels of workplace trust delivers as much happiness as a $13,000 lift in income.[37]

For some of us, the prospect of a significant rise in wellbeing is enough reason for a wholesale move towards co-ownership. But others will want to be convinced that there are commercial pay-offs too: that there is a “business case” for happiness at work. There are two ways to respond to this. The first to point out that there is in fact some good evidence that happier workers are more productive.[38] But this might not convince the hard-head: after all, if it costs more to make workers happier, we would really need to show that the increased productivity more than matched any pro-happiness “investments”.

[33] *Selected Writings and Designs*, ed. Asa Briggs p.117-118, London: Penguin (1885/1977)
[34] Layard, p.67-68
[35] Constitution, John Lewis Partnership
[36] Shared Company, Employee Ownership Association, p14
[37] Helliwell and Huang p.21
[38] Michelle Iaffaldano and Paul Muchinsky (1985), Job Satisfaction and Job Performance: A Meta-Analysis. Psychological Bulletin 97(2): 251-73.

4. “Agreeably”: Happy Workers

Enterprise partners

The firms themselves are convinced of the connection between happiness and profits. The chairman of the John Lewis Partnership jokes that he is one of only three leaders committed to the “pursuit of happiness” as a principal objective; the other two being the King of Bhutan and (late convert) David Cameron. People who feel good about themselves and their job create a better product – it is as simple as that”, says Barry Cooke of Make.

The John Lewis Partnership top brass agree, but with reservations. Andy Street resists even separating the “human” argument for enhanced wellbeing and the “business” case for more wealth creation. “I don’t allow the distinction between the two” he says. “We are getting a greater level of commitment from our partners: therefore we make more profits. I’m not sure about how to define happiness; it sounds like a “taking” word. We are always thinking about responsibility as well as rights. But what is clear is that our partners have a passion for who and what they are.” (I think the “what” is important here. The company’s partners may not, every year, do better financially than if they worked elsewhere (although in many years, of course, their bonuses mean they will do much better). The deeper point is that they are something different at work: they are partners in the enterprise, co-creators of its final performance.)

The second response is to question whether corporate performance should trump worker wellbeing anyway. It is certainly true that a ruthlessly efficient firm is good for consumers, who get keenly-priced products as a result. But from a wellbeing perspective, consumption offers us fairly little, certainly by comparison to the huge importance of the quality and texture of working life.

Robert Lane argues that we need to move from a consumer economy to a “producer economy” in which worker wellbeing is given its due attention, even at the cost of lower productivity. The problem, as Lane himself admits, is how, even if you buy the argument, in an open competitive economy to get from here to there.

Fortunately, it looks as if the trade-off between productivity and happiness does not have to be made: CoCos tend to be more productive and almost certainly happier too. On this dimension at least, CoCos represent a “win-win”. (Sadly this is not where the roadblocks are, as we shall see.) But if work in CoCos is indeed more agreeable, as well as wise, this is not the end of the story. Good work also requires, as Morris said, “hope of product”. It requires the pride that comes from the knowledge of a job well done.

5. "Well": Professionalism and Profits

"Good work is where excellence and ethics meet" - Howard Gardner, Mihaly Csikszentmihalyi and William Damon in Good Work[39]

If opportunities for development and happiness are essential ingredients in good work, so is the third: professionalism. Working well means working responsibly to a high standard, with pride in the resulting product or service. The current system, as Mill put it, provides "the dubious merit of allowing a nation's labour to serve as a hired factor at the pleasure of its capital, rather than as an economy-wide partner in production"….[40] Co-ownership can promote an ethic of professional partnership, in which employees take more responsibility for their own work – but also for the work of others.

Allowing workers to be partners in production, Mill argued, would have beneficial economic consequences. It would "increase the productiveness of labour, [through a] vast stimulus given to productive energies, by placing the labourers, as a mass, in a relation to their work which would make it their principle and their interest – at present it is neither – to do their utmost, instead of the least possible, for their remuneration".[41] CoCo companies, given their structures and incentives, should promote excellence and professionalism.

Work effort

The evidence for improved labour productivity has been briefly reviewed in section 2. But one of the difficulties in assessing the link between co-ownership and financial performance is that people with certain attributes will be more attracted to co-owned firms in the first place. In other words there is a "selection bias" in the data. There is indeed some evidence that the people joining co-owned enterprises have higher levels of work motivation – and it is therefore hard to disentangle cause and effect. There is some evidence that co-ownership is an asset to organisations in the war for talent – in one survey of recent hires to a large employee-owned international firm of consulting engineers, the opportunity to participate in the ownership of the company ranked fifth out of thirty one reasons given for joining the company.[42]

Hugh Johnston, an assistant financial accountant at Loch Fyne Oysters, believes that he and his colleagues work differently as a result of the structure: "You get the rewards that the company gets – instead of going to some big fat cat, you are the recipient of your effort, which definitely motivates you more. Hopefully you already take pride in your work – but this gives it an extra edge." Johnston says that this problem eases over time, however, as CoCo enterprises self-select – and de-select – staff; "The longer we've been doing it," he says, "the small minority who just come and do the job and go home and have no interest in the firm generally is getting smaller and smaller."

So does co-ownership encourage people to work well, or are people who work hard and take pride in their work simply drawn to the cultures and structures of CoCo companies? The available evidence suggests while both factors are at work, co-ownership and co-creation clearly foster a desire to work well. At the end of the day, of course, it does not

[39] Good Work – When Excellence and Ethics Meets, Howard Gardner, Mihaly Csikszentmihalyi & William Damon, New York, Basic Books, 2001.
[40] Martin Weitzman (1984) *The Share Economy – Conquering Stagflation*, Harvard University Press.
[41] Mill, *Principles*, p.153.
[42] Employee Ownership Association: Unpublished research for global environmental consultancy, 2006.

matter which way the causality works. Whether CoCos attract or develop good people, or a bit of both, the result can only be good.

Lean machines

Working well also means taking personal responsibility for your work – but also taking responsibility for the activities of the firm as a whole. Co-ownership appears to reduce the need for management and control. "It takes out the politics," says Barry Cooke. "People just relax and get on with doing their best work. It also, I am absolutely convinced, enhances creativity….As a result we are far more profitable than similar-sized practices." The proof is in the pudding: Make has increased its turnover six-fold, from £2 million to £12 million in three years.

CoCo firms may also be able to control costs more effectively, although the evidence for this is currently anecdotal. "Because we all work for ourselves, we don't fly business class," says Cooke. "We'll take the tube rather than automatically jump in a taxi. All of us, all of the time, are buying into the fact that it is our firm."

Salaries in CoCo organisations tend to be at or slightly below market levels: only the success of the enterprise takes remuneration up. This means that fixed wage costs are if anything somewhat below those of competitors, allowing firms to ride out tougher points in the business cycle. "We don't aim to pay the very best wages", says Andy Street of the John Lewis Partnership. "But when the business does well we all do well".

Peer policing

There is also some evidence that costs related to absenteeism and managerial oversight are lower in CoCo organisations. This is because employees themselves take more responsibility for themselves, but also for each other - acting as an internal police service against "free riders". "We have huge evidence for peer policing," says Street. "There is no question that peer management is a big advantage of the structure. Our sickness absence record is 3.4 per cent". (This compares to an average rate of 7.8 per cent for the retail sector as a whole.[43])

Andy Lane of Loch Fyne Oysters singles out increased collective responsibility as one of the most marked changes since moving toward co-ownership: "One of the things we have noticed is the difference in the way the small element of the disaffected are being treated…there is now quite a high degree of intolerance for knocking the company. Some of the most persistent complainers have actually gone: and there is now peer pressure on absentees, who are now seen as not pulling their weight. Our absentee logs are greatly reduced which has pushed our productivity way up. It is not just about the money as such – I think that the money is a kind of symbol, a sort of proof that they are being considered."

While co-ownership alone may raise the levels of collective responsibility, once again it looks as if the big changes occur when there are also opportunities for consultation, discussion and involvement. Co-owners who serve on employee involvement committees or taskforces are much more likely to tackle a colleague who they consider to be shirking than those who do not.[44] Combining co-ownership and co-creation seems once again to give the greatest yield.

[43] *Absence Management*, Chartered Institute of Personnel and Development, 2006
[44] Kruse et al.

Corporate social responsibility

Businesses are under increasing pressure to consider the impact of their activities on the environment and the wider community: to demonstrate corporate social responsibility. CoCo firms are ahead of this curve. Four out of five surveyed co-owned enterprises believe that greater social responsibility is an advantage of co-ownership – and that this in turn makes them more attractive to customers. Senior members of CoCo firms are unanimous on this point. Andy Lane says: "The definition of corporate success has to include longevity, the fact that there is something there for future generations, that we are creating employment opportunities for the local community – in our case affecting the fabric of the whole community of the west coast of Scotland – I just don't think you can isolate business from society."

There is some evidence to suggest that localities with high levels of employee ownership may have better levels of health than the community as a whole.[45] There is strong anecdotal evidence that CoCo companies are more likely to encourage employee volunteering – and voluntary work is itself related to wellbeing, as well as corporate performance. Volunteering is also a central theme for the Chancellor, Gordon Brown.[46]

A professional work ethic alongside personal, collective and corporate responsibility: these are some of the most important elements of working well. And co-owned, co-created firms seem to provide richer opportunities for their achievement. Keynes was right. Living "wisely, agreeably and well" is our permanent problem. CoCo companies create work of a kind that contributes to its solution.

[45] Erdal, David: The Psychology of sharing: an evolutionary approach. University of St Andrews. PhD thesis. 2000
[46] See Gordon Brown's speech at www.hm-treasury.gov.uk/newsroom_and_speeches/press/2006/press

6. I Should CoCo: What's Stopping You?

"The sheer possession of power tends to lead to its perpetuation". Richard Hall in *Dimensions of Work.*[47]

On the face of it, the case for a CoCo business model is good. On the available evidence, it offers clear economic and social benefits. More productive firms and happier workers – who could argue against? CoCo capitalism works with the grain of market competition while simultaneously promoting worker wellbeing. The potential is therefore enormous.

As Martin Weitzman puts it in his prescient The Share Economy: "Just let labor be paid on a share system – and turn loose the dogs of competition. That simple change will unleash more powerful forces for economic prosperity and social progress than are to be found in the wildest visions of national planners or cultural revolutionaries".[48] The problem with that sentence is the first word. There is no "just" about it. While some of the obstacles to a widespread adoption of CoCo philosophy could be fairly easily surmounted, the principal ones remain fairly high – and go to the very heart of the structures of power in contemporary institutional life.

Slowly does it?

Of course CoCo firms have disadvantages – and these may act against their adoption. A single owner is likely to be able to take more risks, perhaps even act more entrepreneurially, than co-owned organisations. As Richard Chatham of Herga puts it: "There is a certain amount of freedom gained, but certain amount of freedom lost – we are not at liberty to risk all." Andy Street agrees, but disputes how far this loss of the freedom should be mourned; co-owned firms can still engage in new activities, and take bets (as the John Lewis Partnership just has with its new direct services firm Greenbee) even if they can't bet the whole farm.

A related disincentive is the danger of a serious slowdown in decision-making. This report has argued that employee involvement is a positive corollary of employee ownership – but it is necessary to acknowledge that this comes at some cost in terms of time. As Freeman and Lazear point out, "co-determination provides better information, creativity and thereby expected output. The cost is delay."[49] Street concedes the point that more time is required: but he believes the benefits outweigh the costs. "Close scrutiny from our partners can be time-consuming," he says. "This could be breaking: but in fact it leads to a better decision." And the leaders of the smaller co-owned firms interviewed for this report said there was no change in the speed of decision-making.

A related potential barrier in the way of moves towards a CoCo culture is the additional demands made of employees. The value of co-ownership, as this report has argued, is much greater when combined with co-creation: which requires time and effort. "It is an educational process I think" says Sue Carter, an employee at Scott Bader. "For people who are used to traditional companies, the idea of involvement can seem a bit strange." But for Carter, involvement is the point of the exercise. We are now taking the view that if

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[47] Richard Hall (1986) Dimensions of Work. p.312, New York: Sage Publications.
[48] Weitzman p.146
[49] In relation to Works Councils (see NBER 4918 p.23) but the point can be applied to most forms of consultation and communication.

someone is good enough to be an employee [of the firm] then they are good enough to be a member [of the owning charity]". The firm is piloting a "general assembly" of staff to scrutinise and debate decisions.

Virginia Sumsion, from Loch Fyne Oysters, agrees that a change of culture has to take place at all levels in the firm. "There is quite a lot of effort in getting people on board – it can be a difficult transition to a very different structure, one which asks for a lot more commitment. We didn't realize quite how demanding it is in terms of commitment." Sumsion believes it is a particularly tough change for middle managers, who are in the thick of the drive to involve staff. "It can be hard work for these managers," she says.

Lack of awareness

One of the obstacles to wider take-up of a CoCo model is a straightforward lack of awareness. Few people starting a business are likely to know about co-ownership options. As Cooke puts it: "Nobody would advise you to take this route. If you go to an accountant or consultant, they'll talk about limited companies, partnerships and so on. Employee ownership won't come up." Over a third of co-owned firms cite a lack of knowledgeable advice as a hurdle.[50]

Baxi's David Erdal says that new businesses are unlikely to get "radical advice" from accountants and lawyers, which are "very conservative sectors of a very conservative society". One of the challenges, then, is to bring the prospect of co-ownership before a wider audience. In business schools and among professional groups such as financial advisers, lawyers and accountants, the traditional business models predominate.

Greed

If co-owned businesses are so great why aren't there more of them? "Greed," says Cooke. "You have got to overcome the initial greed." Andy Street echoes the point: "Because somebody has to give something away to make it happen." And Herga is only co-owned because the founder and principal shareholder, Mr Tracy, gave his shares to the new employee trust rather than selling them on the open market or to a management buy-out. "The firm," explains managing director Richard Chatham, "is one of Mr Tracy's three great loves – family, sailing and Herga; although that order might depend on the weather conditions."

Mike Thompson and Margaret Elliott made similarly selfless decisions. Thompson says he could "unquestionably have got more by selling on the open market but I didn't get here just through my own efforts and this would not acknowledge the contribution of others. For me just to take a big cheque would be morally wrong. I am not going to just give it away – but the legacy will be that they own the firm they helped to build."

"People say if you hadn't done it this way, you'd be a millionaire by now," echoes Elliott "But I don't feel that loss. I'm more interested in the way people are treated and valued."

Of course not all co-ownership requires such a great act of generosity: the Loch Fyne transfer was at market rates. (Although even here, employees are clear that if the firm's owners had acted from pure self-interest, it would not be a co-owned firm today: "it will be an uphill struggle [to widen co-ownership] in a culture in which cash is king".)

50 Employee Ownership Association survey.

6. I Should CoCo: What's Stopping You?

For firms which establish themselves with a co-ownership structure from the outset it is necessarily impossible to calculate the difference between two imaginary futures. "It could be seen as giving away money in a sense," says Cooke. "But the firm is much more profitable than it would otherwise be: we [the two founders] might get a smaller slice of the pie – but it is definitely a much bigger pie."

The problem is that moving from a traditional corporate structure to co-ownership is likely to involve some immediate losers – the current owners of the capital. For the employees to gain a share, someone will have to lose some. Richard Freeman and Edward Lazear point out that the incentive for moving towards any system giving workers more power is likely to be weak because "institutions which give workers power in an enterprise affect the distribution as well as the amount of surplus."[51]

A share dilemma?

Here, then, is the rub. Notwithstanding potential productivity gains, it is often not in the personal financial interests of the owners of a company's capital to share a significant proportion of it with employees. From their financial perspective, all the evidence about gains in productivity and wellbeing has at most some curiosity value. Better to own 80% of a mediocre firm than 20% of a high-performing one.

David Erdal is clear-eyed about this challenge. "To make any real progress we need to have a significant proportion of the elite trying to make a better system, rather than taking as much cash as they can out of the existing one." And the existing system is acting as an extremely effective cash-machine for the few; wealth inequalities are rising: the top one per cent now own 23 per cent of the nation's wealth; the top 10 per cent own more than half.[52] Indeed, it is likely that one of the principal advantages of CoCo companies is that they can act as preventative medicine against the rising inequalities being generated by the existing labour market.

Today, the John Lewis Partnership has a hugely successful CoCo business model and philosophy, the envy of many competitors. But as Sir Stuart Hampson, chairman of the Partnership (and president of the Employee Ownership Association), notes in his foreword to the new constitution, the Partnership only exists because of the "extraordinary vision and ideals of its founder".

Three quarters of a century ago, John Spedan Lewis signed away all his personal ownership rights to future generations of employees, choosing modest wealth combined with idealism rather than cashing in. It was not a giveaway: in fact, the John Lewis Partnership is arguably the world's biggest employee buy-out. Nonetheless, Spedan Lewis did behave in an extraordinary manner.

There may be a terrible paradox here. Higher levels of co-ownership would be good for the competitiveness of the national economy, general levels of wellbeing and the financial health of the majority of our citizens. But the transition to co-ownership may damage the bank balances of precisely those few individuals with the power to bring it about.

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51 An Economic Analysis of Works Councils (1994), National Bureau of Economic Research , Working Paper 4918
52 Wages and distribution of wealth in the UK, Economic and Social Research Council Factsheet. See http://www.esrc.ac.uk/esrcinfocentre/facts/index41.asp

7. What is to be done?

"People do not buy economic systems or work cultures, they inherit them" Robert Lane in The Market Experience.[53]

Despite the barriers to co-ownership, the sector looks to be growing.[54] A cadre of owners are increasingly reluctant to hand their creations to venture capitalists or leave them to the mercies of the capital markets. For them, leaving the firm at last partially in the hands of those who work for it makes up an important part of their personal legacy. If people like Mr Tracy, Margaret Elliott and Mike Thompson were the rule rather than exception, co-ownership would be the standard corporate model.

At the same time, some people establishing new firms, especially those in creative sectors, may be attracted to the economic and social benefits of co-ownership, and it is of course much easier to start with a co-ownership structure than make the transition later.

Another potentially huge area of growth for co-ownership is the public sector. One of the central challenges of public sector reform is how to improve productivity and customer focus without damaging the public service ethos. Public services also rely especially heavily on the co-creativity of employees. In a paper called 'A Stake in the Post', the Employee Ownership Association has already shown how one public service, the Royal Mail, could become an employee-owned enterprise. This paper is not the place for a detailed discussion of the many possibilities in the public sector; but the vision of CoCo organisations competing within a "quasi-market", say in health care, has obvious attractions. The case for the "CoCo state" is worthy of further explication.

What can be done to further the cause? Getting a clearer sense of the size, scope and potential of the sector is a vital first step. And greater awareness is part of the equation, not least among professional advisors. More support from the Government in the form of financial incentives would of course help. The schemes that already exist are hugely to be welcomed, but are modest in their overall impact, and some recent changes to the tax regime have been unhelpful. Public procurement also offers a potentially powerful lever for change. (See below for a list of proposed policies to support co-ownership.)

A cultural shift

But what is required above all is a change of attitude, perhaps even what Mill called a "moral transformation". The necessary shift is cultural as much as institutional. David Erdal believes it boils down to leadership: "Change will come about when we have leaders who see their responsibilities as including the development of employees so that they become full players in the business, rather than simply exploiting them for the sake of shareholders….We need a new ethic of leadership responsibility."

If the analysis of the previous section is correct, there is a great deal of work to be done. If there is a conflict between the long-term social and economic interests of the nation and the immediate financial interests of the elite, what hope is there for radical change? Even if we can show conclusively that CoCo capitalism would be better than the current version, there remains the thorny business of getting to there from here. We might speculate what a

[53] Lane p.235
[54] Shared Company, Employee Ownership Association.

radical Chancellor who shares this analysis might do to change the incentives of the current holders of capital. Perhaps the Treasury could offer to buy shares at market rates and then distribute them, at a subsidised price, directly to employees - acting as a sort of Spedan Lewis to the nation? (We should probably not hold our breath).

Our hopes, then, must lie elsewhere. Political leaders can do their bit, not least through exhortation and example – perhaps through the formation of the kind of CoCo public interest company that the Employee Ownership Association called for in its 'A Stake in the Post' paper about the ownership of Royal Mail.

Educational establishments and professional training bodies have a key role to play. But what is required is a change of mind among those people who wield power in our existing economy, about the kind of capitalism, and the kind of society, we want. Here is how the economist E.F.Schumacher described the challenge:

'It is no longer possible to believe that any political or economic reform, or scientific advance, or technological progress could solve the life-and-death problems of industrial society. They lie too deep, in the heart and soul of every one of us. It is there that the main work of reform has to be done'.

Ten Changes to Promote CoCo Companies

1. The Chancellor should instruct the Treasury, with the Office for National Statistics, to conduct a research review of the co-owned sector, with a specific focus on firm-level financial performance. Specifically, data on ownership structure should be added to the Workplace Employment Relations Survey [WERS].

2. Business schools should consider adding a module on co-ownership to relevant business education courses.

3. The ACCA, Legl, IFA etc should include knowledge of co-ownership structures in their training and accreditation schemes – just as for partnerships, limited companies and PLCs, It should not be possible to advise without a full knowledge of the range of options.

4. All Regional Development Agency (RDA) Business Link advisers and their equivalents in Scotland and Wales should have, at minimum, a basic knowledge of co-ownership structures and systems as part of their brief to advise local companies.

5. The Health and Safety Commission should ask the Health and Safety Executive to conduct a study of the connection between co-ownership and employee health and wellbeing.

6. The Treasury should pilot an early-stage investment "Angel" fund for start-up co-owned enterprises - possibly in economic development priority areas - tracking performance and returns over a medium-term period.

7. The Treasury should also review options for fiscal concessions for investors and lenders supporting co-owned start-ups in areas of social and economic deprivation.

8. The Department for Communities and Local Government and the Department of Health should conduct a review of the scope for more outsourced services to be provided by co-owned enterprises.

9. The Treasury should restore the scope for employee buy-outs and stable co-ownership structures by repealing the Finance Act 2003 withdrawal of tax relief for companies contributing funds to an employee benefit trust to enable it to buy shares.

10. The TUC should examine with the Employee Ownership Association the scope for trade union-backed employee buy-outs to play a role in preserving employment in viable businesses threatened with insolvency.

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