Rebuilding business for society

How a more diverse corporate landscape can work better for everybody

September 2020
The Association of FinancialMutuals represents insurance and healthcare providers that are owned by their customers, or established to serve a defined community. Mutual insurers manage the savings, pensions, protection and healthcare needs of over 30 million people in the UK, collect annual premium income of £20 billion.

The Building Societies Association represents all 43 building societies and six of the largest credit unions in the UK. Building societies are owned by their 25 million customers, or members, and account for 23% of mortgages and 18% of savings deposits in the UK.

Co-operatives UK is the national association of co-ops of all shapes and sizes, from major customer-owned retailers, to worker-owned tech start-ups and community businesses. There are more than 7,000 co-ops in the UK turning over £38.2 billion a year.

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

Social Enterprise UK is the biggest network of social enterprises in the UK, with over 2,600 members. Social enterprises are businesses with core social and environmental missions and ownership structures which reflect this.

This report has been produced by the following organisations, which between them represent mutuals, cooperatives and social enterprises operating right across the UK economy, and which employ over 2 million people.
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Foreword

This year, the way we view the world changed. The Covid-19 pandemic has laid bare existing social and economic divides in our country. But it has also demonstrated that we rely on the people around us more than we might have ever realised.

The worlds of business, government and local communities have been shown to be deeply dependent on each other.

Yet over preceding decades the goal of maximising shareholder value above all else had dominated corporate thinking, and has become embedded as the default in the legal and regulatory framework. As the country seeks to rebuild after the pandemic, there is an opportunity to develop a business landscape that drives more broadly-based prosperity.

Together, we represent a broad range of cooperatives, mutuals, employee-owned firms and social enterprises, operating across all sectors of the UK economy. We believe that businesses don’t exist just to make money. They exist to meet various needs in society too.

The research in this report shows that who owns a business is an important factor in shaping how it responds to meeting the needs of society. Rebuilding the corporate ecosystem to enable different forms of business to thrive can give greater voice to various groups in society, including consumers, employees and local communities.

Businesses of all types that embrace the spirit of togetherness seen in recent months can help to build a more sustainable future for everybody.

We look forward to playing our part.

Martin Shaw  
Chief Executive, Association of Financial Mutuals

Mike Regnier  
Chairman, The Building Societies Association

Don Morris  
Chairman, Cooperatives UK

Deb Oxley OBE  
Chief Executive, Employee Ownership Association

Peter Holbrook  
Chief Executive, Social Enterprise UK
A greater variety of businesses can better meet society’s needs

Consumers want businesses to be good corporate citizens. A YouGov survey in July 2020 showed 85% agreed that they would prefer to buy from businesses that had a strong record for good conduct, with 38% agreeing strongly. This was up from 78% in 2017, when just 21% agreed strongly.¹

Even before Covid, business groups had begun to see that a greater recognition of the role of business in, and impact on, society was required. This has led to a rapid growth in assessing a firm’s Environmental, Social and Governance (ESG) impacts and actions, and more broadly, a reawakening of the question of purpose – why does a business exist, what societal need is it seeking to address, and how does it deliver this?²

This requires managing the trade-offs between different stakeholders – groups that are directly and indirectly involved with the organisation and its activities.

This report reveals the contrasting views employees of different types of firm have about their workplaces in terms of purpose, and the importance of ownership to these perceptions. Taking these results, we discuss why diverse forms of ownership are necessary to achieve the broader social objectives that are now accepted by many business leaders and policymakers in rebuilding after the Covid pandemic, and tackling global issues such as climate change.

To achieve a more diverse and purposeful business environment, and deliver more value for all, we need:

• An enabling environment for forms of business ownership beyond shareholder owners. The current operating framework has built up with shareholder-ownership as the default. The frameworks necessary for other types of firm need to be strengthened and supported by raising awareness and putting in place processes to reduce unintended discrimination in policymaking.

• An option for businesses that are seeking to recapitalise after the Covid pandemic to introduce employee or customer ownership, including repaying Government support out of future earnings. This option should be publicised, and guidance and support should be offered, including to those wishing to start new ventures.

• Support for community-led economic development, particularly in the hardest-hit regions, to engage local people in incubating new forms of wealth creation.

¹YouGov Plc. Percentages exclude "Don’t knows". Fieldwork was undertaken between 16th - 17th July 2020 with a sample of 2,062 and 24th - 25th January 2017 with a sample of 2,088. The surveys were carried out online. The figures have been weighted and are representative of all GB adults (aged 18+).

²A notable example was a statement in August 2019 by the influential American Business Roundtable, comprising chief executives of large US firms, which heralded a retreat from shareholder primacy, to what they called a “modern standard for corporate responsibility”.

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From profit-focused to people-focused

Over several decades, maximising profits for shareholders became the dominant rationale for businesses. It was believed that doing so would benefit everybody, as it incentivised an efficient use of resources and spurred innovation, creating more value for all, consumers and workers included.

However, a focus on profits has not always led to such a happy outcome. Imbalances of power, differences in the availability of information, and a reliance on trusted relationships rather than complete contracts are more accurate descriptions of most markets, such that maximising returns for shareholders has often been seen to come at the expense of other groups.

In particular, the nature of shareholding has also shifted from direct ownership to ownership via institutional, overseas and transient investors, who have put less active pressure on managers to pursue with equal passion a range of objectives beyond profit (British Academy, 2018), with managers incentivised accordingly. The effect can be a focus on short-term financial results to satisfy analysts on the quarterly earnings call, potentially at the expense of the company’s long-term objectives. The recent growth of ESG criteria aims to redress this balance, with investors putting more weight on considerations around sustainability.

To explore this we asked people working in various organisations to what extent they believed maximising profits was the main purpose of their employer. There were wide variations in views across different ownership structures and firm types, as shown in Figure 1.

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**Figure 1:**

*The main purpose of the organisation where I work is to maximise profits*

*YouGov figures are for Plc, Private company and Public Sector. Base: All GB adults in work*
People working for shareholder-owned plc’s were far more likely than employees in other ownership types to agree that the main purpose of their employer was maximising profit: 87% of the Plc workforce agreed to some extent, with more than half agreeing strongly. Almost three quarters agreed at other privately owned organisations. In contrast, at consumer-owned cooperatives and mutuals, just 27% agreed while 53% disagreed, and at employee-owned firms 45% agreed to some extent, and 29% disagreed. At the other extreme, around four-fifths of people working in both social enterprises and the public sector disagreed that profit was the main purpose of their employers.

These results show substantial differences in organisational purpose based on ownership structure, and they raise the question of how ownership determines where benefits created by a business flow to various stakeholders. We explore this in the next section.

The Midcounties Co-operative is one of the largest UK co-operatives fully owned by consumers. The Society offers a range of services from food and travel to pharmacy and childcare, and has a turnover of £1.5 billion, 700,000 members and 8,000 colleagues.

During the Covid-19 lockdown the Society worked with its members and local communities to ensure support it gave was timely, relevant and effective at a local level. The Society facilitated self-help in the communities where it trades, building on its strong community links to make over 70,000 food and pharmacy deliveries to vulnerable customers in partnership with 100 local mutual-aid groups and over 700 volunteers. The co-op also worked with members to raise over £45k for local foodbanks and helped those who help others by donating over £75k to a community restart fund for local charity partners.

The Society also supported many local suppliers during the lockdown period, providing supply opportunities for those affected by the collapse in the hospitality trade as well as providing temporary employment to almost 1,000 new colleagues where their employment in other industries had ceased.

\[1\] The employees surveyed at social enterprises were predominantly working at community interest companies limited either by guarantee, or by shares.
3 Who owns a firm determines who gets the value it creates

Organisations create value when converting various inputs into the goods and services that individuals and businesses need. But how is the value that an organisation creates distributed between different groups of stakeholders, and how does that distribution relate to the organisation’s ownership and purpose?

We asked employees which stakeholder groups they believe derive the value created by the organisation where they work. The results are shown in Figure 2.

Each ownership structure appears to give the most weight to whichever group represents the ‘owners’. For example:

- employees in Plcs said that shareholders received 27% of the value created by the firm, and consumers received 19%.
- In contrast, workers in consumer cooperatives and mutuals believed that shareholders and external investors received just 3% of the value their employers created, and consumers received 43%.
- Employee-owned firms were perceived to grant 27% of the value they create to their workers.
- And public sector employees thought that their places of work delivered 19% for both the community and wider society.

**Figure 2:** How is the value created by the organisation where you work shared between different groups of stakeholders?

*YouGov figures are for Plc, Private company and Public Sector. Base: All GB adults in work.
Ownership shapes culture and the delivery of purpose

The results (in the previous sections) show that who owns a firm has a significant impact on what the firm does, and for whom it does it for. This implies that an organisation’s ownership structure is an important influence on how it puts its purpose into effect – and simply stating an organisation’s purpose will not be sufficient to achieve it.

Looking back on the lapses in the banking sector during the financial crisis, John Sutherland of the FCA, the UK’s financial conduct regulator, looked at what could be learnt about organisational culture (Sutherland 2017). In his work, he highlights the gap between senior management’s stated purpose and how that purpose is delivered in practice on the ground. This gap is filled by drivers of behaviour including how much the purpose is trusted, how it is communicated, how decisions are made and what behaviours are actually incentivised.

Beyond a desire to have a positive impact, a business needs to put in place processes and arrangements that support the delivery of the purpose right through the organisation, so that it is reflected in the behaviour of the people working there. Ownership is a structural influence that can help to shape these processes and arrangements.

For example, if front-line decisions are made on the basis of maximising profit, they are likely to have different outcomes than if another objective, such as customer welfare, is the metric by which decisions are judged. Alternatively, communication of a purpose is likely to be very different in a Plc compared to an employee-owned firm, where those who must deliver it are also the owners.

Having said this, ownership in itself does not guarantee that specific outcomes or purposes will be achieved. How effectively purposes are delivered will vary across firms and over time.

<table>
<thead>
<tr>
<th>Trust and trustworthiness</th>
<th>Does the tone from the top “stack up”; is the purpose believable? Does it fit with behavioural norms exhibited by the workforce?</th>
</tr>
</thead>
<tbody>
<tr>
<td>Communications</td>
<td>How clearly, consistently and effectively is the purpose shared through the organisation?</td>
</tr>
<tr>
<td>Decision-making</td>
<td>Are the factors that are important in decisions consistent with the stated purpose?</td>
</tr>
<tr>
<td>Incentive structures</td>
<td>What are the financial and non-financial rewards and how are they earned?</td>
</tr>
</tbody>
</table>

What ownership means to Transport Friendly Society

We at Transport Friendly take the view that, as a customer-owned mutual organisation, we must be there to support our members at their times of need. The Society considers its members – being from the transport industry – as key workers, servicing other key workers such as NHS staff during lockdown, as well as members of the public all the time.

From the start of the pandemic, the Society set its claims guidelines on its Sickness Plans on the basis that all Covid-19 related claims are considered, including self-isolation even if the need to self-isolate is due to a medical condition affecting a family member. The Society also decided not to pursue premium arrears at such difficult times and continues to maintain protection and life cover on this basis until the new normal is resumed.

The feedback from members has been positive within the Society’s affinity base, with a common view that the benefits received have not just been financial, but also include the relief that, as we have been there to process their claims almost seamlessly and quickly, we have not added to the anxiety caused by their sickness during these unprecedented times.
However, our surveys highlight some clear differences by ownership structure on some cultural metrics relating to the treatment of customers, as shown in Figure 3.

These snapshots of how people believe their employer treats its customers are related to the distribution of value shown in the previous section. Privately owned firms that are more likely to have profit maximisation as their main objective are believed to be less trustworthy, ethical, friendly, straightforward to deal with or likely to put customers first.

The results in this and previous sections suggest that who owns a firm has important effects on what it seeks to achieve and how. Enabling businesses with different ownership structures to operate could therefore help to promote responsible and accountable corporate behaviour.

What ownership means to Jerba Campervans

Jerba Campervans is one of a small number of registered Motorcaravan Body Builders for Volkswagen Commercial Vehicles. The team takes the skeleton of the VW T6.1 van and builds it into a bespoke campervan, from its base in North Berwick, East Lothian, Scotland.

Founders, Simon Poole and Cath Brookes, started the business in 2006 after honing their passion and understanding from ten years of using campervans around the world.

In 2018, they transferred 100% of the shares into an Employee Ownership Trust (EOT) – giving the 15 employees a stake and a say in the business. This has seen increases in productivity ever since with employees feeling empowered to make suggestions and changes that help the business to thrive.

The trust built up through a culture of transparency has stood the business in good stead to deal with the Covid-19 crisis. Founder Simon Poole said: “If you do the right things in the first place, your people will trust you,” with regard to furloughing employee owners. “I shared early on ‘Here’s what’s in the bank’ and reassured that, thanks to the number of campervan sales completed before lockdown, we were in a secure position to pay everyone’s full pay for months to come, regardless of when we received any grant funding.”

Regular communication has secured the on-going support of its employees as well as bringing them together to plan a return to work that supported the needs of everyone – they all returned in July 2020.

Figure 3: The organisation where I work is… (% agreeing)

*YouGov figures are for Private ownership (incl Plcs) and Public Sector. Base: All GB adults in work.

- Private Ownership (incl Plcs)
- Public Sector
- Mutuals/coops, employee-owned social enterprises

However, our surveys highlight some clear differences by ownership structure on some cultural metrics relating to the treatment of customers, as shown in Figure 3.
The business environment needs to enable different types of firm

In its programme of research on the purpose of business, the British Academy identified a framework of eight principles that enable a business to deliver its purpose (British Academy 2019). As well as ownership, these relate to institutional factors such as the legal structure, how voice is given to different stakeholders and how value is distributed between them. This framework is helpful in considering what structural features need to be in place to support different ownership types to deliver their respective purposes.

Our research suggests one of these features – ownership – is critical, and in Figure 4 the other seven dimensions are compared against different ownership structures.

This indicates that how an institution is owned significantly shapes, or is shaped by, the other factors set out in the British Academy framework. It can’t just be the case that we have a corporate environment built on a “Plc-first” mindset, that is then applied directly to others, or with a few tweaks added as an afterthought. The whole system needs to enable different types of business. To support diverse corporate forms there must be diversity across various dimensions of the system shown in Figure 4 (overleaf).

<table>
<thead>
<tr>
<th>What ownership means to Yorkshire Building Society</th>
</tr>
</thead>
<tbody>
<tr>
<td>Our member-owned model means that we always act to protect and enhance value for our members and our customers. Throughout the pandemic, this has enabled us to take an approach which puts our customers, colleagues and communities first.</td>
</tr>
<tr>
<td>From the outset, we have prioritised keeping members in their homes, ensuring their savings are safe and looking after colleagues’ health and wellbeing.</td>
</tr>
<tr>
<td>Our contact centres and the vast majority of branches and agencies have remained open throughout to support customers with essential financial transactions.</td>
</tr>
<tr>
<td>Our online support has been enhanced to help almost 40,000 borrowers who needed a mortgage payment holiday.</td>
</tr>
<tr>
<td>We offered staff unlimited dependants and carers leave at full pay, and full sick pay for anyone shielding, unwell or self-isolating.</td>
</tr>
<tr>
<td>For our communities we delivered financial wellbeing and education, with colleagues providing online Money Minds financial education lessons to 1,450 families across the country during lockdown. On top of this The Yorkshire Building Society Charitable Foundation made more than £140,000 in donations to 145 small charities.</td>
</tr>
<tr>
<td>We also continued our work to help homeless young people, launching a bond for our charity partner End Youth Homelessness, which raised more than £75,000, bringing the total raised for the charity to more than £1.1m and helping 455 young people with 95 dependent children into a home.</td>
</tr>
</tbody>
</table>
## Figure 4:
How do the principles for purposeful businesses differ when applied to various forms of organisational ownership?

<table>
<thead>
<tr>
<th>Ownership</th>
<th>Plc and private company</th>
<th>Consumer owned cooperative or mutual</th>
<th>Employee and worker owned organisation</th>
<th>Social enterprise</th>
<th>What needs to be facilitated for alternative ownership structures to thrive?</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Governance</strong></td>
<td>Shareholders</td>
<td>Customer members</td>
<td>Employee owners and EOT Trustees</td>
<td>A mix of staff, community, customers, shareholders or others, depending on form</td>
<td>Give voice to respective member-owners, seeking and enabling their participation. Aims to balance with other stakeholders’ interests.</td>
</tr>
<tr>
<td>Who typically has rights to appoint board members, ask questions at AGMs and hold directors to account?</td>
<td>Companies Act 2006</td>
<td>Co-operative and Community Benefit Societies Act 2014</td>
<td>Companies Act 2006, including ownership by Employee Owned Trusts.</td>
<td>Companies Act 2006</td>
<td>Law protects companies that promote purposes other than maximising shareholder value. Enshrines the influence and interests of member-owners, protects against inappropriate dilution.</td>
</tr>
<tr>
<td><strong>Law</strong></td>
<td>Large private companies, and Plcs in particular, are considered the norm.</td>
<td>Must adhere to same regulation as all privately owned businesses.</td>
<td>Must adhere to same regulation as all privately owned businesses.</td>
<td>Needs to recognise the motivation of dual (or even triple) purpose business models and variety of legal and ownership forms.</td>
<td>Sensitive to specificities of ownership structures, respectful of diversity of form and objectives. Alive to risk of unintended consequences across ownership types.</td>
</tr>
<tr>
<td>What are the main pieces of legislation affecting the adoption of corporate purpose?</td>
<td>Building Societies Act 1986</td>
<td>Regulation needs to appreciate nature of business and resulting difference in behaviour and incentives.</td>
<td>Regulation needs to appreciate nature of business and resulting difference in behaviour and incentives.</td>
<td>For-profit, but generally motivated to consider the longer-term creation of value, with the employee shareholders aligned to the benefits to the business rather than to individual employees.</td>
<td>Sustainable business delivering social and/or environmental impact.</td>
</tr>
<tr>
<td><strong>Regulation</strong></td>
<td>Large private companies, and Plcs in particular, are considered the norm.</td>
<td>Risk of regulatory capture due to people moving to and fro between large plcs and regulators.</td>
<td>Must adhere to same regulation as all privately owned businesses.</td>
<td>Needs to recognise the motivation of dual (or even triple) purpose business models and variety of legal and ownership forms.</td>
<td>Profit is not the overriding goal, but will be presented alongside other goals in so far as it supports them by contributing to and demonstrating sustainability.</td>
</tr>
<tr>
<td>Where firms are regulated, how are the “rules of the game” set and how is a licence to operate granted?</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Performance</strong></td>
<td>Maximising returns to shareholders.</td>
<td>Maximising member value, while making sufficient profit to make the business sustainable, often with consideration of impact on society/environment.</td>
<td>For-profit, but generally motivated to consider the longer-term creation of value, with the employee shareholders aligned to the benefits to the business rather than to individual employees.</td>
<td>Sustainable business delivering social and/or environmental impact.</td>
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<tr>
<td>What typically counts as success?</td>
<td></td>
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</table>

*Approximately 28% of social enterprises are registered as Companies Limited by Guarantee, 20% as Community Interest Companies, 18% as Companies Limited by Shares, 15% as Industrial and Provident Societies. REF: https://www.socialenterprise.org.uk/wp-content/uploads/2019/11.Capitalism-in-Crisis.pdf*
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<td></td>
<td></td>
<td></td>
<td>Social enterprises can register as different legal forms⁵</td>
<td></td>
</tr>
<tr>
<td>Measurement</td>
<td>What metrics are commonly used to assess performance in delivering purpose?</td>
<td>Metrics relate to profitability, with implicit assumption of profit maximisation. For example, increasing return on equity, minimising cost/income ratios, and increasing market share. Recent growth of ESG disclosures.</td>
<td>Member value, member satisfaction. Growth in member numbers and volumes of business. Metrics such as return on equity not meaningful when majority of equity is commonly owned and accrued from previous generations of owners.</td>
<td>Employee-owned businesses will use the financial measures of most for-profit businesses, but in addition most will also use measures of employee engagement/satisfaction, and some will be subject to measures around social and environmental performance.</td>
<td>Diverse measurement approaches across ownership, stakeholder engagement, social/environmental intentions and outcomes.</td>
</tr>
<tr>
<td>Investment</td>
<td>On what basis are investments made in order to achieve purpose?</td>
<td>Allocated to maximise shareholder value, often over short time horizons. Profits re-invested into business to secure value for future generations of members. Invest in service, including customer access and community links.</td>
<td>Generally allocated on the basis of long term returns on investment, seeking to support the future sustainability of the business, not a short term return.</td>
<td>Often low risk appetite and many are unable to take on ‘conventional’ equity. Blended, patient finance.</td>
<td>Patient, long term investment. The social value generated by mutual and democratic models needs to be better-recognised in ‘social value’ policy and impact (ESG) investing.</td>
</tr>
<tr>
<td>Finance</td>
<td>What or who is the source of risk capital, and how does it relate to purpose?</td>
<td>Shareholders. Reinforces focus on maximising returns. Consumer co-ops raise some equity from members. Sometimes this is very significant, especially in the start-up and growth phase. In some cases (eg building societies) limited or no role for external capital as retained profit is the main source.</td>
<td>Workers often contribute some equity at start up, or over time by reinvesting part of their profit shares. Some worker co-ops have successfully raised patient debt and equity from external investors, in ways that protect their purpose, ownership and control. More are now exploring how this could be done.</td>
<td>Through grants and/or returnable capital, from foundations, commercial investors and social investors. Some models allow community ownership and investment through community shares. Often perceived as risky by traditional investors due to dual social/financial purpose.</td>
<td>Investors aligned to purpose. Capital structure prevents investors diluting other parties in order to maintain ownership and protect purpose. Limited returns, and often curtailed voting rights.</td>
</tr>
</tbody>
</table>

To achieve this, we need meaningful change in the institutions that shape the business environment in order to counteract the hegemony of shareholder-ownership in the way the corporate world is structured. We call for greater appreciation and consideration of different organisational forms, as well as a better understanding of the benefits of diversity in general across the system.

The existence of different ownership structures should be included in induction programmes and professional development in relevant government departments and agencies; certain staff may be given the role of championing different types of firm; and expressions of support for corporate diversity should be made by figures in authority to help to build a culture that accepts and understands diverse ownership structures. Teaching and research in business schools and universities should be encouraged to consider alternative models and their roles.
But this is just a first step. We need to go further than raising awareness, and seek to **develop an enabling regime for a diversity of corporate forms** – this is not supplementary, but needs to be designed into the policy-making system with checks and balances to ensure that impacts on different types of firm have been considered.

It is not about unduly favouring one type of organisation over another, but instead, stepping back and asking what do different forms bring to solving the problem at hand, and therefore how careful do we need to be not to inadvertently discriminate against or disadvantage a particular organisation type in a market.

The wide range of factors in Figure 4 show the considerable risk of unintended consequences if diversity is not valued or understood. For example, improvements to companies’ legislation that aren’t reflected in changes in the corresponding legislation or regulation for other types of business could put them at a disadvantage, or a policy or rating that includes a threshold based on a single metric such as profitability implicitly assumes that profit maximisation is the central purpose for all firms.

What ownership means to Community Dental Services

Community Dental Services (CDS CIC) came out of the NHS in 2011 to establish an employee-owned social enterprise. It now covers much of East and Central England, employing almost 500 people.

CDS provides care for people who find it difficult to access high street dental services, including people with learning disabilities and complex needs, or in places traditional dentistry has limited access, such as rough sleepers.

Developing a highly engaged and motivated workforce of employee owners has been central to CDS and this is regularly measured and evidenced; 95% of employees feel organisational values are important, 96% believe in CDS’s social mission and 86% believe they can contribute to how CDS is run.

A third of the Board are Employee-Elected Directors and the majority of the Board are dental registrants. The employees have a direct influence on the strategic direction of the company via our Representative Employee Groups.

As employee-owners, the workforce shares a keen interest and collective responsibility for how patient care can be improved and a culture has been established to support employee-led innovations such as provision of dental care in prisons.

Health and well-being of employees has been central to the Covid-19 response evidenced in the latest survey with 91% of employees stating they felt very well supported to perform their role safely.

During the Covid-19 crisis, CDS was at the forefront of the drive to set up Urgent Dental Care Centres so that clinical care could be safely delivered.
Enabling people to participate can rebuild business for society

The social, environmental and technological disruptions that have been amplified by the Covid pandemic were already raising questions about the sufficiency of the economic system, and whether the aims of society and corporate institutions had become misaligned.

Colin Mayer of Said Business School at the University of Oxford describes the problem as a “systems design issue”, and has proposed that we should reject the traditional view of capitalism as private ownership pursuing profit, managed by boards that engage others through contracts. Instead we should also consider the social system that is integral to the capitalist system, and the wider dispersion of ownership among stakeholders. Ownership is more than just rights, he suggests, it is a set of obligations and responsibilities “to deliver profitable solutions to the problems of people and planet. ... And firms are not just nexuses of contracts but nexuses of relations of trusts based on principles and values enshrined by the boards of directors.” (Mayer 2019)

This is echoed by economists Samuel Bowles and Wendy Carlin (2019) who suggest that debates focused on the State versus the Market have overlooked the social character of people, and therefore the ethical or moral dimensions of the challenges we face, from racial and generational inequality to climate change. Recognising a third, complementary dimension of civil society opens up opportunities for policy to point us in a more positive direction. Cooperatives and social enterprises are more connected in this arena than typical private companies, as indicated in Figure 5. Paul Collier and John Kay also note that rather than the market and community being at loggerheads, effective markets are embedded in communities, though social and technological changes have meant that communities may now also be on platforms online as well as in the same locality (Collier and Kay 2020).

Similarly, former IMF Chief Economist and Governor of the Bank of India, Raghuram Rajan, has described the necessary renaissance of strengthened communities as a Third Pillar to counter growing despair and unrest. Profit maximisation has undermined trust, but a greater role for community can fill gaps not catered for effectively by the market or the state. However, rather than pushing down the pillars of the market or the state, it is better to raise up and strengthen community through “inclusive localism” (Rajan 2019). Alex Edmans has also proposed that seeking to maximise value for society, not just the firm, can grow the pie for everybody (Edmans 2020). And it is often in combination between sectors that greater results are achieved overall (Mazzucato 2013).

Cooperatives and mutuals were founded to bring people together in response to the deprivation, exclusion and inequality caused by seismic technological and economic changes in the nineteenth century. While the current social context is not as desperate, as we come to recognise the dangers of having neglected the role of community in recent decades, cooperatives, mutual, employee owned firms and social enterprises offer a tried, tested and trusted approach to incorporate a more balanced sense of
purpose to the corporate world. They can bring a democratic approach to engaging various stakeholders, including employees and consumers, and can help to balance the distribution of returns and increase accountability.

In the face of uncertainty, we cannot say any one type of firm is always better than the others at meeting society’s needs. Instead, if we enable different types of firm to access and serve markets so that everybody’s ideas and approaches can compete, informed by different incentives, effective and dynamic competition can result in a better balanced outcome between stakeholders, and shape the norms of all firms operating in a market. Different organisations can act as a competitive constraint on each other, enabling society to reap the benefits of alternative models, and shift between them as circumstances and stakeholder interests change over time. In some markets, such as those that are very commoditised, Plcs may dominate, in others where trusted relationships are important, mutuals may play a greater role.

An enabling framework as set out in the previous section will help to support the growth of this diversity. But a more direct approach would be to make it possible to implement employee or consumer ownership, in full or in part, as a way to recapitalise businesses after the current crisis. The trade body The City UK has estimated that this need is substantial, as around £100 billion in lending to businesses could be unsustainable by the first quarter of 2021 (The City UK 2020). For some businesses, employees or customers may be keen to take ownership but lack the initial capital to invest themselves. They could do so on the basis of using the business’s long-term earning potential to repay a Government loan via a deferred payment plan so that the Government is fully reimbursed over time, and potentially earns a return. Alternatively, workers or consumers of failed businesses may want to come together to start a new venture. These approaches could support the recovery and growth of these businesses and develop a more varied business landscape for future generations. Information, guidance and support would need to be provided to potential participants so that they understood their options. This could be coordinated through The City UK’s proposed UK Recovery Corporation and its toolkits of options to support recapitalisation, and longer term, it could also provide growth capital for mutuals.

Cooperatives and mutuals are often linked to a particular region, place or profession, even if they trade nationally or internationally. They can play a role in reinvigorating communities, especially those left behind by economic or social change. A set of approaches that are well established in Canada and the US are referred to as Community Economic Development (CED) (Cooperatives UK 2017). These bring together local people to act to create economic opportunities that improve social conditions. It is a bottom-up process that integrates local businesses, community organisations, local government and residents to improve skills and employment, economic development and social outcomes. Cooperatives and mutuals are a natural fit with this approach.

As part of its ambitions to “level up” different regions, the Government should encourage and support Community Economic Development to ensure that reforms and investments benefit from local expertise and engage all parts of society, to develop a local economy that supports people’s shared aspirations and sustainable wealth creation.
Conclusion: a more sustainable future

This report demonstrates the important differences that employees experience in different types of firm ownership. These differences have been underplayed and undervalued for too long. The challenges we face in rebuilding society after Covid, alongside the imperative to adapt to the huge environmental, technological and social changes affecting the world, suggest we need to give a stronger voice to various groups of stakeholders.

In many ways, the Covid pandemic has brought out the best in people and their communities, and we should seek to facilitate the development of institutions that embrace this spirit. By building on their heritage of democratic ownership, cooperatives, mutual, employee-owned firms and social enterprises can integrate communities and play a leading role in securing a more sustainable economic, social and environmental future for all.

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Methodology

To get an inside view of corporations across the economy we asked the people who work in them how they view the organisation’s purpose and how it delivers for different groups in society.

As a group of representative bodies for alternative forms of ownership, we explored the views of people working in mutuals, cooperatives, employee-owned firms and social enterprises. And we worked with YouGov to investigate what people working in Plcs, other private sector companies, and the public sector thought. In total, we received the input of over 5,000 people in work. Surveys took place before the Covid pandemic.

For the employee survey conducted by YouGov the total sample size was 3,439 adults who work. Fieldwork was undertaken between 6th - 11th December 2019. The survey was carried out online. The figures have been weighted and are representative of all GB adults (aged 18+).

The BSA, EOA, AFM and SEUK surveyed 1,798 employees working in their member firms between December 2019 and February 2020. The surveys were carried out online using the same questions as YouGov.

The results are therefore workers’ opinions, rather than a precise calculation of how value is created and shared, or of customer satisfaction.

In this report we use the term “ownership” of a business as is commonly understood – as ownership of equity in a business with some associated rights over the business strategy, directly or indirectly through a board of directors. We therefore overlook the strict legal definitions, for example shareholders owning a claim on a share of a company’s earnings rather than formally owning the company. In addition shares may be held by institutional investors rather than individuals.

There is a huge variety of organisational forms in the UK. In this report we distinguish public limited companies (Plcs) which have shares quoted on public stock exchanges, from other private companies, which will include limited companies, sole traders and partnerships. Some of the respondents in these categories will therefore be owners as well as employees. Many of these companies could also be family firms, have private equity investors, or have venture capital financing, which may affect the responses but are not explored here.

Cooperatives and mutuals are owned by and run for the benefit of their members who are directly involved in the business, as its employees, consumers or community. Cooperatives can take various legal forms, including Industrial & Provident Societies and specific forms such as building societies. In this report we categorise consumer cooperatives and mutuals and employee owned firms, to include worker cooperatives and structures such as employee-owned trusts.

Social enterprises can also take many legal forms, including Companies Limited by Guarantee, Community Interest Companies, Companies Limited by Shares as well as cooperatives.