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# Ending the monoculture

How diversity  
of business can  
bring prosperity

January 2024

# Acknowledgement

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## Summary

The UK is suffering due to a monoculture within UK business. Repeated reviews, such as the Kay Review, have identified the short-termism of British businesses as a major barrier to improved economic performance. Whilst firms that primarily exist to maximise profits may dominate the economy, they are not the only form of business that exists. Increasing the diversity of business models within the UK economy could bring prosperity to communities across the country and open opportunities to people that have been excluded in the past.

In France, for example, social enterprises and cooperatives account for 10% of French GDP. In Germany, they account for 12% of German GDP. In the Netherlands, it is even higher, at 14% of GDP. In the UK, the social economy is worth around 3% of the UK economy and employs around 6% of workers. That said, less than 1% of firms within the UK are cooperatives or social enterprises.

At the same time, the UK suffers from lower levels of investment, worse economic performance and ultimately lower standards of living for workers. To build a better economy, we cannot keep returning to failed orthodoxies, hoping that tax cuts and subsidies alone will unlock investment and new business opportunities. Instead, we need to pluralise our economy and shift decision making power to a more diverse business base committed to the communities they serve and prioritising long-term development, over short-term profit.

Comparing the UK with peers in Europe (France, Germany and the Netherlands) which have a higher density of cooperatives and social enterprises within their economies, we find that countries with more social enterprises and cooperatives have:

- Higher levels of investment (both physical and R&D);
- Higher levels of investment in training;
- Higher wages;
- Better quality of work;
- Greater voice and representation for workers in firms.

A higher proportion of social enterprises and cooperatives within the UK economy would significantly increase living standards in the UK through greater investment in people, bringing a greater diversity of entrepreneurs into the economy and shape a healthier business culture within the UK where the rewards of enterprise are more fairly distributed throughout the economy.

Increasing the proportion of social enterprises and cooperatives within the UK economy from 3% of GDP contribution to 12% (the median of the comparator economies in this report) would also have significant benefits to the economy, including:

- A significant increase in average wages – up to £2640 per worker.
- 400,000 more workers paid the Living Wage Foundation's Living Wage.
- A £14bn increase in UK investment – around 1% of GDP per annum.
- A significant increase in training at work – with 75,000 more employers training their staff.
- Providing 4.2m workers with a meaningful say over how the businesses they work for operate.
- Improving quality of work through greater access to initiatives such as the four-day week and flexible working.

This research indicates that there is an urgent need for a conversation about how we increase the diversity of business models in the UK to create a fairer and stronger economy.

# Introduction

The United Kingdom was the birthplace of the modern cooperative movement in 1844. Social reformer Robert Owen founded one of the world's first social enterprises in 1799 when he turned the New Lanark Mill in Scotland into a business that would use its profits to run social and welfare programmes for its workers.

However, despite pioneering the development of different forms of business, the UK has a distinctly unbalanced economic ecosystem. On average, out of every 500 businesses in the UK only one is a social enterprise. On average, out of every 1,000 businesses in the UK only one is a cooperative. The UK is a business monoculture.

Environmentally, we are living in the Anthropocene – the age in which human beings are having a significant impact on the global environment. Socially, we are living in an age in which our society is significantly impacted by companies driven primarily by profit.

The UK is an outlier in Europe when it comes to the composition of its economy. In France, for example, the 'social economy'<sup>1</sup> accounts for 10% of French GDP.<sup>2</sup> In Germany, the social economy is worth around 12% of German GDP.<sup>3</sup> In the Netherlands, it is worth around 14%.<sup>4</sup> In the UK, the social economy is worth

around 3% of the UK economy and employs around 6% of workers.<sup>5</sup>

This unbalanced composition has had real world results. The UK has experienced some of the lowest increases in disposable income amongst its peers over the past fifteen years. Median disposable income has increased by just 9% in the UK between 2005-2018, compared to 34.5% in the Netherlands and 40% in France and Germany.<sup>6</sup> The UK has seen far lower levels of productivity growth than its peers and this has translated to low levels of economic growth.

This is not the fault of British workers. According to the TUC, workers in the UK work some of the longest hours in Europe – 3 hours more a week than the Netherlands and France, two hours a week longer than in Germany.<sup>7</sup> We have large amounts of skilled workers. The World Bank's Human Capital Index ranks the UK higher than Germany and France, and only narrowly behind the Netherlands.<sup>8</sup>

The problem is the lack of long-term patient investment in people and equipment in the UK economy.<sup>9</sup> Repeated reviews, such as the Kay Review, have identified a primary factor as the short-termism within British businesses.<sup>10</sup> It is the premise of this paper that the structure of business is a major factor behind that short-termism, driven by lack of diversity in corporate structures in the United Kingdom.

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<sup>1</sup> Definitions of the social economy vary, for the purposes of this paper we define this as the collection of cooperatives, social enterprises, trading charities and other businesses whose primary purpose is to generate positive social and economic impact, with profit as a secondary factor.

<sup>2</sup> British Council & Social Enterprise UK, Think Global, Trade Social, September 2015

<sup>3</sup> Ibid.

<sup>4</sup> Dutch Council of Cooperatives, Top 100 Cooperatives, accessed February 2023 and World Bank Data, accessed February 2023

<sup>5</sup> Social Enterprise UK, The Hidden Revolution, October 2018

<sup>6</sup> The New Statesman, UK wages have fallen behind European rivals, 5 July 2022

<sup>7</sup> TUC, British workers putting in longest hours in the EU, TUC analysis finds, 17 April 2019

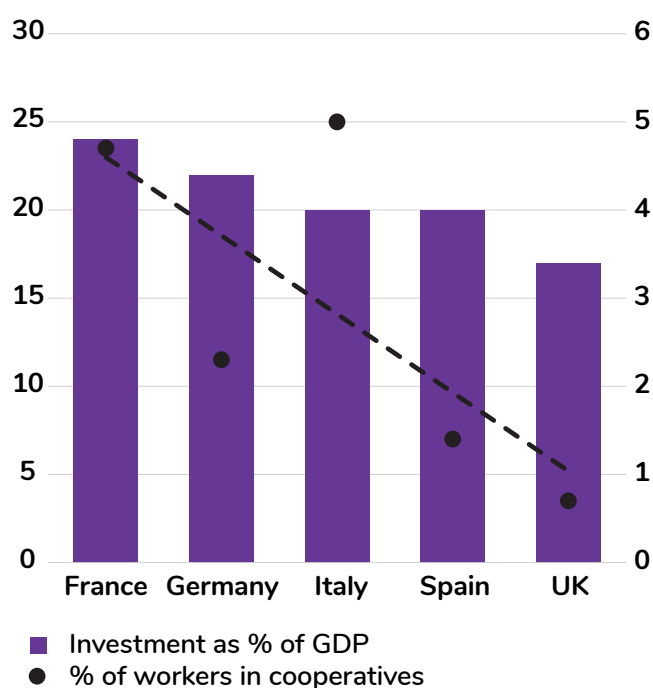
<sup>8</sup> World Bank, Human Capital Project, accessed February 2023

<sup>9</sup> National Institute of Economic and Social Research, Why is UK Productivity Low and How Can It Improve?, 26 September 2022

<sup>10</sup> Centre for Progressive Policy, Breaking the cycle of business short-termism to drive levelling up, 2 January 2022

For example, if we look at the five largest economies in Europe, the UK has the lowest proportion of workers employed by cooperatives. It also has the lowest level of investment amongst its peers. France has the second highest number of workers employed by cooperatives and the highest level of investment as a percentage of GDP. Generally speaking, the more people employed by cooperatives, the higher the level of investment across these large European economies.

**Figure 1: Investment as percent of GDP and percent of workers employed by cooperatives in Europe's five largest economies by country**



Source: International Cooperative Alliance & World Bank

The UK Government has identified boosting investment in the UK economy as one of its primary goals. The Prime Minister in his Mais

Lecture identified increasing “capital” as one of the “three priorities” for the government.<sup>11</sup> Labour’s Industrial Strategy similarly aims to boost investment in the UK economy as a priority.<sup>12</sup> However, investment alone will not bring prosperity to people. The United States has a significantly higher level of investment as a proportion of GDP than the UK (21% v 17%), but is also one of the most unequal countries in the developed world. We need structures that can ensure that prosperity is fairly shared across the population, so that everyone benefits from higher levels of investment. Spain, Germany and France all have larger social economies and have lower levels of inequality than the UK.<sup>13</sup> Italy has similar levels of inequality to Britain, but interestingly the Emilia-Romagna region, where a third of the economy is cooperative, has a far lower levels of inequality than the UK. The Gini Coefficient (a standard measure of inequality) for Emilia-Romagna is 0.3 compared to 0.34 in the UK.<sup>14</sup> The same is true in the Basque Country in Spain, which has a high density of cooperatives, most notably the Mondragon Corporation, and also has a lower level of inequality than the UK (0.3 to 0.34).<sup>15</sup>

Ecologically, we know that monocultures eventually degrade the environment leading to ever diminishing results. After forty years of experimenting with what Professor Colin Mayer has called an “extreme form of capitalism” focused purely on one method of doing business, we can see the same results in Britain.<sup>16</sup> This extreme form of capitalism has seen the role of business solely focused on generating returns for shareholders, rather than distributing the prosperity generated through business more widely with communities, workers and the wider economy. This has led to a reduction in

<sup>11</sup> HM Government, Chancellor Rishi Sunak’s Mais Lecture 2022, 24 February 2022

<sup>12</sup> The Labour Party, Prosperity through partnership: Labour’s Industrial Strategy, September 2022

<sup>13</sup> World Bank, Gini Index, accessed February 2023

<sup>14</sup> OECD, Regional Well Being, accessed February 2023 & World Bank World Bank, Gini Index, accessed February 2023

<sup>15</sup> Ibid.

<sup>16</sup> BBC, UK ‘has particularly extreme form of capitalism’, 27 November 2019

investment in people and places compared to our peers with a greater diversity of business models. Any attempt to create a “high productivity, high wage” economy will falter unless we create a truly mixed economy, where for-profit businesses compete with socially-driven businesses and where companies are incentivized to create better conditions for workers, communities and protect the planet.

## Why does the structure of business matter?

It is a common myth that all businesses are the same. In this common view, businesses exist to maximise returns for their owners, managers and shareholders. Given the structure of the UK economy where less than 1% of firms are cooperatives or social enterprises, the public can be forgiven for thinking that this is the case.

However, as identified in our research for the Alex Ferry Foundation, *Social Enterprise and Quality of Work*, not all businesses are the same. Some businesses exist primarily to make society better and to protect the planet. Although they compete with profit-driven businesses, they make different choices. For example, offering more flexible working conditions to their workers, providing greater levels of training and development and offering higher levels of basic pay.<sup>17</sup> Different models of business also make these decisions differently. Cooperatives, operating on democratic principles, work in partnership with their workers to make decisions affecting strategy and investment. The vast majority of

social enterprises are also more likely to include workers and communities in decision making about their organisation.<sup>18</sup>

The purpose and governance of firms can make a significant difference to the way that they operate. For example, for a firm that is focused solely on profitability it can make sense to hold down the pay of workers if this can create higher financial returns for shareholders in the short term, even if it damages the quality of life for those employed by the company. For a social enterprise with a focus on maximising positive social impact, holding down the pay of workers to generate higher financial returns would be irrational. There may be other factors that affect decision making in this area (e.g. available resources) but the purpose of a social enterprise cannot be achieved through damaging the quality of life of those employed by it. In this scenario, two rational businesses can come to widely different conclusions about what it is ‘best’ for the company.

As *Social Enterprise and Quality of Work* has shown, this is not merely a theoretically discussion. Social enterprises are better employers, on average, than their peers in the private sector. They are more likely to train their staff, more likely to offer flexible working, more likely to give workers a say in how they work and more likely to pay their staff a living wage.

Different models of business help create more jobs and invest in their workforce. For example, social enterprises are far more likely to use their revenues to create jobs and economic opportunities for people compared to other firms. According to the latest data, private sector businesses on average create 0.65 jobs per £100,000 turnover.<sup>19</sup> By contrast, social enterprises create 3 jobs per £100,000 of turnover.<sup>20</sup> Social enterprises are also almost

<sup>17</sup> Social Enterprise UK, *Social Enterprise and Quality of Work*, January 2023

<sup>18</sup> Social Enterprise UK, *No Going Back – State of Social Enterprise Survey 2021*, October 2021

<sup>19</sup> Department for Business, Enterprise and Industrial Strategy, *Business Population Estimates 2022*, December 2022

<sup>20</sup> Social Enterprise UK, *The Hidden Revolution*, October 2018

twice as likely to be investing in training their workers compared to other forms of business. 81% of social enterprises are investing in training and development of their workers<sup>21</sup> compared to 43% of other businesses.<sup>22</sup>

Social enterprises can also play a critical role in tackling regional inequalities. One in five social enterprises are based in the most deprived communities as measured by the Index of Multiple Deprivation and, counterintuitively, social enterprises in the most deprived communities are larger on average than those in the least deprived communities, as social enterprises prioritise investing in those places that most need support.<sup>23</sup> Over half of social enterprises (51%) actively seek to employ people from disadvantaged groups (e.g. ex-offenders, care leavers, homeless etc.)<sup>24</sup>. Nearly half of social enterprises (47%) are led by women and 12% are led by people from minoritised communities. Social enterprise is closing the gaps between different parts of our country and society.

The closure of businesses can also have a significant impact upon workers and communities. Unlike for-profit firms that will close down or downscale when trading conditions become tough or to boost profits for shareholders, cooperatives and social enterprises are more likely to keep trading through difficult conditions helping to keep people employed and keeping resources within local communities. Cooperatives, for example, were found to be four times less likely to close than other firms during the pandemic.<sup>25</sup> We have seen in many parts of Britain, the long-term scarring that can be

created through the closure of businesses and the difficulties in bringing economic activity back to communities once businesses have closed and workers have moved on.

Finally, models of business that aim purely for profit are less successful than those that have a wider 'purpose', typically around creating social good or protecting the environment. This is not a new idea. Since the 1990s, a growing body of literature has found that 'purpose' driven businesses are more successful than their peers as they are 'built to last'.<sup>26</sup> The Future of the Corporation project by the British Academy found that there were significant benefits both to business and the economy through embedding purpose into the structure of business.<sup>27</sup> Even government itself has recognised this point. The Advisory Panel to the Mission-Led Business Review in 2016 found that on average businesses which embrace social priorities "perform better, reflect people's ideals and ambitions and so are primed for success."<sup>28</sup>

Economically, we know that social enterprises and cooperatives that put social and environmental priorities ahead of profit think longer term than those that purely consider profitability. They are also better able to respond to crises within an economy, as demonstrated through the greater resilience of social enterprises and cooperatives through the COVID pandemic. Long-termism leads to higher levels of investment in people and places, generating higher levels of productivity which in turn generate higher levels of wages and prosperity within communities. The benefits of long-termism for workers and the

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<sup>21</sup> Ibid.

<sup>22</sup> Department for Business, Enterprise and Industrial Strategy, Small Business Survey 2021, August 2022

<sup>23</sup> Social Enterprise UK, No Going Back – State of Social Enterprise Survey 2021, October 2021

<sup>24</sup> Ibid

<sup>25</sup> Cooperatives UK, The Cooperative Economy 2021, June 2021

<sup>26</sup> J. Collins & J. Porras, Built to Last, 1994 & Harvard Business School, The Business Case for Purpose, 2015

<sup>27</sup> British Academy, Reforming Business for the 21st Century, 2018

<sup>28</sup> Advisory Panel to the Mission-led Business Review, On a Mission in the UK Economy, 2016



economy could be significant. Research by the McKinsey Global Institute found that firms that had demonstrated focus on the 'long-term' in the United States invested 50% more in R&D than their peers and grew by 47% more on average than other businesses.<sup>29</sup> Along the way this created new, high-paid, jobs and improved conditions for workers.

The structure of business matters. It matters for pay and conditions. It matters for investment in people and places. It matters for the long-term interests of communities and the planet. If we want to see a different economic model for the UK, we need a greater diversity of businesses.

## What can we learn from other countries?

As noted in the introduction, the UK is an outlier compared to larger economies in Europe when it comes to the diversity of business models. This section compares the UK to three other European economies: France, Germany and the Netherlands. These economies share similar economic characteristics such as high levels of human capital, robust legal structures and have been at the frontier of economic development in Europe for centuries.

**Table 1: Cooperatives and social enterprises within France, Germany, the Netherlands and UK**

	France	Germany	Netherlands	UK**
Number of cooperatives	9660	7319	3,300	7063
% of workforce employed by cooperatives	4.7	2.3	1.5	0.8
Number of social enterprises*	96603	77459	5500	30753
% of workforce employed by social enterprises	6.3	2.4	2.1	1.4
Social enterprises & cooperatives as % of GDP***	10	12	14.3	3

Sources: Social Enterprise UK – The Hidden Revolution, International Cooperative Alliance, Dutch Council of Cooperatives - Top 100 Cooperatives, European Commission - Social Enterprises and their ecosystems in Europe, January 2020

\*Definitions of social enterprise vary across Europe and there will be some cooperatives that are considered social enterprises and some that are not.

\*\*In order to compare across European economies, the definition of social enterprise used in this data is the European Union definition which does not include some private firms that have passed resolutions to become social enterprises but do not escribe to a specific legal form recognized as a 'social enterprise by the European Union

\*\*\*Based on Social Enterprise UK's Think Global, Trade Social & Hidden Revolution reports<sup>30</sup> as well as turnover data from the Dutch Council of Cooperatives. GDP based on current local currency prices in 2019.

Source: International Cooperative Alliance & European Commission

<sup>29</sup> McKinsey & Company, Measuring the Economic Impact of Short-Termism, 2017

<sup>30</sup> British Council & Social Enterprise UK, Think Global, Trade Social, September 2015 & Social Enterprise UK, The Hidden Revolution, October 2018

As Table 1 shows, France, Germany and Netherlands all have higher levels of cooperatives and social enterprises than the United Kingdom. In France in particular, a significantly higher level of the workforce is employed by cooperatives and social enterprises compared to the United Kingdom. Germany and the Netherlands also have higher levels of employment in cooperatives and social enterprises than the UK. In particular, Germany has more than double the number of people working in cooperatives compared to the UK and 40% more workers employed in social enterprises. Social enterprises and cooperatives also make up significantly greater proportions of these economies, with the lowest (France) having social enterprises and cooperatives make up three times more of the economy than the UK. The Netherlands, which has a higher proportion of social enterprises and cooperatives within its economy, has nearly five times the size of our social economy.

Some of this difference can be explained by factors such as higher levels of welfare and health services provided by cooperatives in Europe compared to the UK where statutory provision is the norm. There is also a greater use of cooperatives in agriculture compared to the UK.<sup>31</sup> However, it would be wrong to dismiss cooperatives and social enterprises as purely working in these fields. The Top 100 Dutch Cooperatives, for example, includes a number of large insurance and financial services firms.<sup>32</sup> In Germany, the largest cooperative (REWE Group) works in retail.<sup>33</sup> The density of social enterprises and cooperatives within these economies cannot be dismissed as purely to do with the structure of welfare services or agricultural production.

Given what we know about the impact of social enterprises and cooperatives on the economy, we should expect that countries with higher levels of cooperatives and social enterprises should see higher levels of investment in capital, training, productivity and wages. In the rest of this paper we test this hypothesis across the economies as well as considering two regions (The Basque Country in Spain and Emilia-Romagna in Italy) which have high levels of social enterprises and cooperatives within their economy.

## Cooperatives and Social Enterprise in Action – The Basque Country

In the 1940s, the Basque Country was one of the poorest areas in Spain having been devastated by the Spanish Civil War.<sup>34</sup> The Basque Country is now one of the richest areas in the European Union. At the centre of this revival has been the development of a dense network of cooperatives, most notably the Mondragon Corporation. This cluster of over 100 cooperatives alone contributes 12% of the GDP of the Basque Country and has been adding employees at a time when the rest of Spain has suffered high levels of unemployment, particularly amongst young people.<sup>35</sup> KONFEKOOP, the regional body representing cooperatives in the Basque country, estimates that there are 1,400 cooperatives, around 10% of all firms in the region. Together, they employ around 60,000 people, around 6% of the total workforce.<sup>36</sup>

<sup>31</sup> Hiberts Solicitors, Farmer Owned Co-operatives in the UK continue to drop, 13 November 2019

<sup>32</sup> Dutch Council of Cooperatives, The Cooperative Landscape, accessed February 2023

<sup>33</sup> International Cooperative Alliance & EURICSE, Exploring the cooperative economy, 2022

<sup>34</sup> The New Yorker, How Mondragon Became the World's Largest Co-op, 27 August 2022

<sup>35</sup> El Pais, Mondragon's cooperative model adapts to changing times, 20 April 2016

<sup>36</sup> KONFEKOOP, About Us, accessed February 2023

These cooperatives work across a range of businesses from retail and teaching cooperatives to manufacturing and financial services. A significant portion of Mondragon's revenues come from exports overseas, bringing in fresh investment into the region and providing sustainable employment. A key part of the cooperative model in the Basque Country is democratic voting by workers on key decisions and profit reinvestment, with at least 10% of profits from each cooperative put aside for investment into R&D or other funds to guard against contingencies. Profits are also shared with workers, depending on the financial conditions of the business.

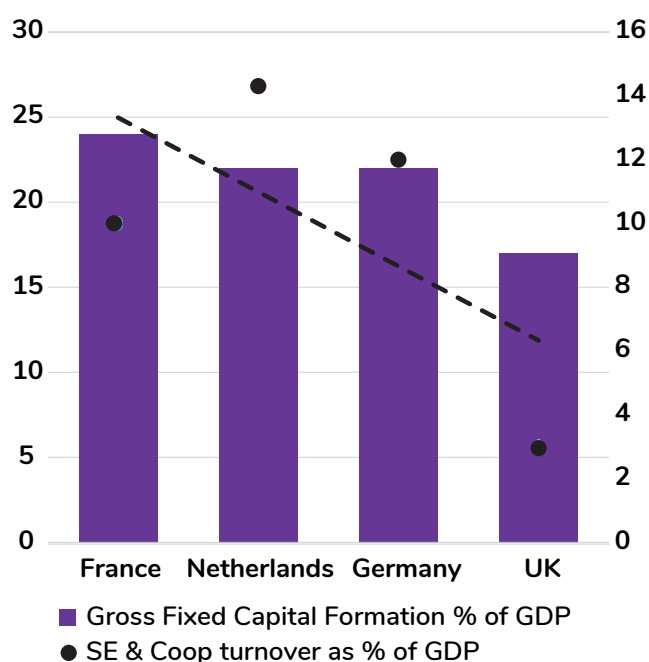
GDP per capita in the Basque Country is 26% higher than the rest of Spain.<sup>37</sup> Wages were also 17% higher in the Basque Country compared to the rest of Spain. Unemployment in the Basque Country was also five percentage points lower than the rest of Spain. Inequality is also lower in the Basque Country than it is in any other part of Spain.

The high density of cooperatives in the region has been cited as one of the reasons for its higher levels of economic performance and better working conditions compared to the rest of Spain.<sup>38</sup>

## Investment in capital and people

Investment in people and capital are essential to long-term living standards and quality of work. Figure 2 shows, as expected, the countries that have a greater proportion of cooperatives and social enterprises within their economy have higher levels of gross fixed capital formation (a standard measure of economy wide investment) than those with lower levels of the workforce employed by social enterprises.

**Figure 2: Investment as percent of GDP and social enterprise and cooperatives turnover as percent of GDP**



Source: World Bank & SEUK analysis

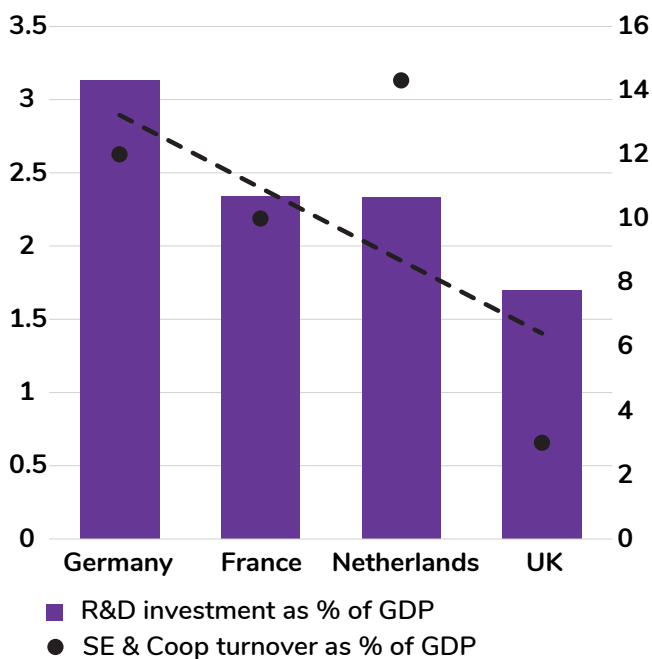
Figure 3 also shows that these same countries also have higher levels of investment in research and development, an important

<sup>37</sup> Eurostat, Regional Gross Domestic Product (Million PPS) by NUTS 2 regions, accessed February 2023

<sup>38</sup> The New York Times, Co-ops in Spain's Basque Region Soften Capitalism's Rough Edges, 29 December 2020

form of investment for long term productivity, compared to the UK which has a much lower proportion of social enterprises and cooperatives within its economy.

**Figure 3 – R&D investment as percent of GDP and social enterprise and cooperatives turnover as percent of GDP**



A weakness in the UK economy has been the relatively low levels of investment in vocational education and training compared to our peers.<sup>39</sup> CIPD has specifically identified low levels of investment in Continuous Vocational Training (CVT), this is training that is funded partially or fully by the employer.

Data from the Continuous Vocational Training Survey in 2015, the last year where the UK was compared with peers in the European Union, found that Netherlands and France both had significantly higher levels of

investment in CVT, with workers spending 40-50% more time in training compared to the UK. Netherlands, which saw workers spend the highest number of hours in CVT, is also the country with the highest level of cooperatives and social enterprises as part of their economy.

Higher levels of investment in people and capital tend to lead to higher levels of productivity which in turn lead to higher wages and living conditions over time. In 2021 the Netherlands, the country with the highest density of cooperatives and social enterprises as part of their economy, had output per hour worked (a standard measure of productivity) 21% higher than those in the United Kingdom.<sup>40</sup>

### Cooperatives and Social Enterprise in Action – Emilia-Romagna

Emilia-Romagna is arguably home to the densest concentration of cooperatives and social enterprises in Europe. In 1970, Emilia-Romagna was near the bottom of Italy's twenty regions on economic performance, now it is one of the richest in Italy.<sup>41</sup> Central to this has been the role of cooperatives in providing patient, long term investment and good quality jobs for the local economy.

15,000 out of Italy's 43,000 cooperatives are based in the region. Cooperatives directly account for 30% of the region's Gross Domestic Product, significantly higher than most parts of Europe.<sup>42</sup>

<sup>39</sup> CIPD, From 'inadequate' to 'outstanding': making the UK's skills system world class, September 2017

<sup>40</sup> International Labour Organisation, Statistics on labour, accessed February 2023

<sup>41</sup> J. Restakis, The Emilian Modell – Profile of a Co-operative Economy, September 2007

<sup>42</sup> Apolitical, The Italian region where 30% of GDP comes from cooperatives, 8 Jan 2018

GDP per capita in Emilia-Romagna is 20% higher than the rest of Italy and 17% higher than the EU average.<sup>43</sup> Interestingly, both Emilia-Romagna and the Basque Country (see previous text box) have the almost the same GDP per capita, outperforming both their own countries and the EU average.<sup>44</sup> Emilia-Romagna also has lower levels of inequality compared to the rest of Italy, with a Gini coefficient of 0.30 compared to 0.35 for Italy as a whole.<sup>45</sup> Inequality in Emilia-Romagna is also lower than the EU average.

The cooperative model in Emilia-Romagna is based around patient investment, supported by a policy environment that has allowed for greater fundraising and capital investment from cooperative members in the region.<sup>46</sup> Undistributed profits are also not taxed, providing an incentive for cooperatives to continue investing into the business rather than giving all profits back to cooperative members. Cooperatives are also obliged to provide a portion of their profits for investment into new cooperatives, bringing in new investment into the sector as a whole.

Emilia-Romagna, like the Basque Country, highlights the benefits of a diversified economy and the strengths of the cooperative models.

## Quality of work

Higher investment alone will not necessarily improve the working conditions of people in the UK. A conscious effort will be required to ensure that the benefits of increased investment are shared with workers and communities through higher standards of work.

The Taylor Review of Modern Working Practices in 2017 identified six indicators of job quality:

- **Wages;**
- **Employment quality.**
- **Education and Training;**
- **Working conditions;**
- **Work-life balance;**
- **Consultative participation and collective representation;**

We have already considered investment in education and training which tends to be higher in economies with higher levels of social enterprise employment. This section will consider wages, work-life balance and employment quality.

Average gross full-time salaries tend to be higher in countries with greater levels of social enterprises and cooperatives within their economy. In the Netherlands, the country with the highest level of social enterprises and cooperatives within its economy, the average gross full-time salary is 4% higher than in the UK. In France, it is 6% higher. This is true not only on an average basis but also in terms of minimum wages. In France, the country with

<sup>43</sup> Eurostat, Regional GDP per capita ranged from 30% to 263% of EU average in 2018, March 2020

<sup>44</sup> Ibid.

<sup>45</sup> OECD, Regional Well Being, accessed February 2023 & World Bank World Bank, Gini Index, accessed February 2023

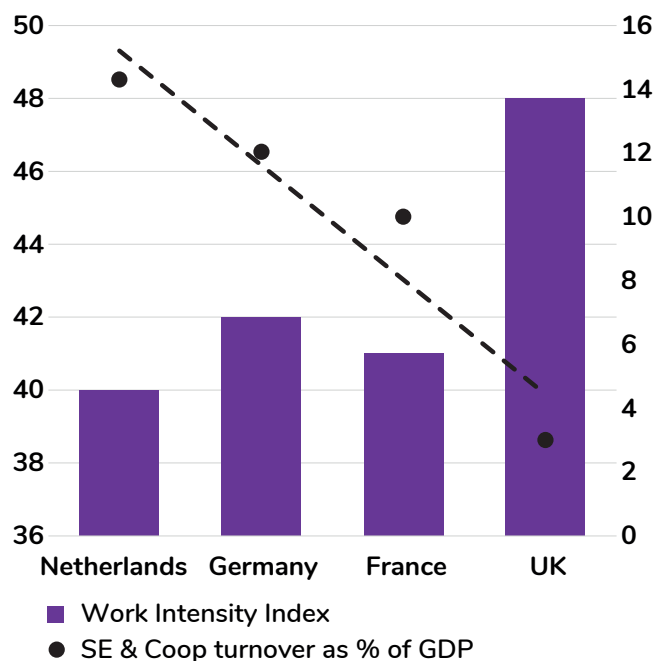
<sup>46</sup> Apolitical, The Italian region where 30% of GDP comes from cooperatives, 8 Jan 2018

the highest density of employment in social enterprises, the minimum wage is 11% higher than the UK.<sup>47</sup>

This is in line with what we know about the trend towards lower wage growth in the UK over the past decade. Median disposable income has increased by just 9% in the UK between 2005-2018, compared to 34.5% in the Netherlands and 40% in France and Germany.<sup>48</sup>

Higher wages are only one factor in considering high quality work. Working conditions are an important factor too. The European Foundation for Improvement of Living and Working Conditions (Eurofound) Working Conditions Survey regularly surveys countries on the quality of work and work-life balance. As part of this survey, Eurofound has developed a “Work Intensity Index to measure how demanding working conditions are across different countries. The Index considers the quantitative (the pace of work) and emotional demands of work, the higher the score on the index, the more demanding working conditions are (i.e. higher pace of work, more emotionally demanding).

**Figure 4: Work Intensity Index (2005-2015 average score) by country and social enterprise and cooperatives turnover as percent of GDP**



Source: Eurofound

Figure 4 compares the UK, Germany, France and Netherlands on working intensity. Again, countries with higher levels of cooperative and social enterprise employment perform better on work intensity compared to the UK. The Netherlands, the country with the largest proportion of social enterprises and cooperatives within its economy also has the lowest level of work intensity compared to Germany, France and the UK. This is despite, as noted above, the Netherlands having a much higher level of productivity per hour worked.

Participation and representation at work are also important in assessing quality of work. Eurofound also asks participants whether their organisations have a trade union, works council or similar committee representing

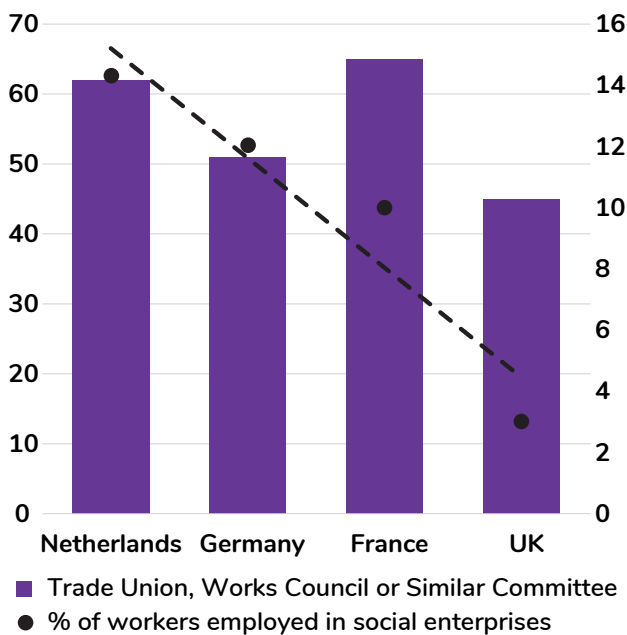
<sup>47</sup> International Labour Organisation, Statistics on wages, accessed February 2023

<sup>48</sup> The New Statesman, UK wages have fallen behind European rivals, 5 July 2022



employees. Figure 5 compares answers across our selection of countries. Again, it seems to be clear that economies with higher proportions of their economy made up of cooperatives and social enterprises see workers have greater access to trade unions, works councils or other forms of worker representation compared to the UK.

**Figure 5: Workers that report having access to a trade union, works council or similar committee and social enterprise and cooperatives turnover as percent of GDP**



Across a range of statistics, it is clear that economies with a greater density of social enterprises and cooperatives as part of their economy tend to have higher quality of work than the UK which has a relatively lower proportion of social enterprises and cooperatives within its economy.

## Why do more social enterprises and cooperatives create better economies?

Social enterprises and cooperatives perform better as businesses than other types of firms across a range of measures. However, although the three countries that we have considered in this paper (France, Germany and the Netherlands) all have a greater density of social enterprises and cooperatives within their economies than the United Kingdom, they are still relatively small proportions of overall economic activity.

Given their relative size, how can a greater density of social enterprises and cooperatives have a positive impact on the wider economy and the standard of living of working people?

### Raising levels of human capital –

one of the strengths of the social enterprise and cooperative business models is their investment in people through providing greater amounts of skills and training. This approach to developing people has spillover effects on the wider economy. It is well documented that higher levels of investment in education and training benefit individual workers and sectors through higher wages. However, as these workers move on from one firm to another there are wider spillovers to the economy. In the UK, social enterprises have provided a significant benefit to local economies in boosting employability and providing skills for workers that go onto other firms or industries. A greater density of social enterprises and cooperatives within the economy is likely to create a higher skilled workforce that benefits not only the individual and the social enterprise they work for, but in

time, the wider economy as they move into future job roles. Social enterprises also help to bring in workers into the labour market, further improving the overall pool of workers available. Emilia-Romagna, the region in Italy with the greatest density of cooperatives in Europe, has significantly higher levels of productivity than the rest of Italy.<sup>49</sup> The Basque Country, with a similarly high density of cooperatives, also has higher levels of productivity than the rest of Spain. Further research into the positive spillover effects of social enterprises and cooperatives within economies would be useful.

### **Creating opportunities for a wider group of entrepreneurs –**

it is a belief in mainstream business policy that only financial incentives motivate people. However, the existence of social enterprises and cooperatives demonstrate that there are other factors that motivate people to take part in business. Providing alternative models of business such as social enterprises and cooperatives is likely to attract people into business that otherwise would not do so. There is already evidence to suggest that social enterprises have leaders and entrepreneurs from more diverse backgrounds. In the UK, for example, nearly half of social enterprises are led by women compared to less than one in five SMEs.<sup>50</sup> Similarly, social enterprises are more likely to be led by people from minoritised communities or those with disabilities. A greater density of social enterprises and cooperatives within the economy can generate a wider pool of entrepreneurs further generating economic activity, creating jobs and investment that further improve living standards. Again, further research into the impact of social enterprises and cooperatives in bringing in new entrepreneurs and leaders into business would be welcome.

### **Shaping wider business culture –**

simply by existing and competing within the market, alternative forms of business such as social enterprises and cooperatives can have an impact on the wider economy. The success of cooperatives and social enterprises can encourage other businesses to adopt their practices, from higher standards of social and environmental responsibility to greater levels of investment. For example, in the UK, we have seen a growing focus on the creation of additional economic, social and environmental wellbeing (also called social value) due to the example set by social enterprises. A lower level of social enterprises and cooperatives within an economy reduces the pressure on firms to be 'good citizens' as well as successful commercial enterprises. Workers also benefit when there are examples of other firms' purpose approaches that are different from conventional businesses. Cooperatives and social enterprises tend, for example, to pay their CEOs less than their peers in the private sector. The Mondragon Corporation, for example, has a pay ratio of 9:1 for its chief executives, compared to 143 for Spain as a whole.<sup>51</sup> In France, with a significantly higher level of cooperatives and social enterprises in its economy, CEOs on average are paid 20% less than in the UK.<sup>52</sup> Cooperatives and social enterprises are also less likely to close than their peers in the private sector, seeking to preserve jobs and employment opportunities where conventional firms may choose redundancies and closure to preserve financial returns.

Inevitably there are challenges attributing the benefits of cooperatives and social enterprises. Do countries benefit from having more cooperatives and social enterprises or do social enterprises and cooperatives benefit from the

<sup>49</sup> Scope, Italy: weak labour productivity challenges medium-term growth perspectives, 31 May 2022

<sup>50</sup> Social Enterprise UK, No Going Back – State of Social Enterprise Survey 2021, October 2021

<sup>51</sup> Craftsmanship Quarterly, Could Co-ops Solve Income Inequality?, Summer 2020 & Statistica, Ratio between CEO and average worker pay in 2018 by country, accessed February 2023

<sup>52</sup> City AM, By far best-paid in Europe: CEOs in UK make 759 per cent more than their employees, 18 November 2021



economic models pursued in those countries? However, the data around the performance of social enterprises and cooperative models of businesses is strong and there are *prima facie* reasons to explain how a greater proportion of social enterprises and cooperatives could have a significant positive impact on economies and the living standards of working people.

## The benefits to the UK of greater diversity in business models

What would be the tangible benefits of increasing the proportion of social enterprises and cooperatives within the UK economy?

In *Social Enterprise and Quality of Work* we estimated that there could be significant benefits to workers if all companies across the UK adopted a social enterprise approach to employment.<sup>53</sup>

However, in this section we consider a more modest change – increasing the share of the economy of social enterprises and cooperatives in line with the median of France, Germany and the Netherlands. This would lead to social enterprises and cooperatives making up 12% of UK GDP, up from 3% currently.

### Wages

If social enterprises and cooperatives made 12% of the UK economy, this would significantly increase the number of workers paid the Living Wage Foundation's Living Wage by over 400,000. This would provide a 5% pay

increase to hundreds of thousands of workers currently receiving the National Living Wage.

Additionally, there would likely be a significant benefit to overall wages within the economy. Using the example of the Basque Country in Spain where wages are approximately 17% higher with cooperatives and social enterprises making up one third of the economy, we could expect a smaller but significant increase in wages in the UK – perhaps up to 8-9%. This would be significant. In comparative terms, an increase in wages of that scale would close the gap between France and the UK and significantly improve the standards of living for households. On average this would be worth £2,640 per worker.

### Education and training

Data on the levels of investment in training between social enterprises and cooperatives indicates that double the number of social enterprises and cooperatives train their workers compared to their peers in the private sector. Assuming social enterprises made up a significantly larger proportion of employers in the UK (around 12% in line with overall economic contribution) an additional 76,000 SME employers would train their workers compared to the current average. This would have a significant impact upon improved skills levels within the overall economy and provide a higher quality of work for workers. We would also likely see a significant increase in the quantity and quality of education, based on the experience of countries such as France and the Netherlands which have higher proportions of social enterprises and cooperatives within the economy.

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<sup>53</sup> Social Enterprise UK, *Social Enterprise and Quality of Work*, January 2023

## Flexible and quality work

Our previous research<sup>54</sup> indicates that up to 40,000 more workers could benefit from a four-day week, although this is likely to increase as more social enterprises and cooperatives experiment with this form of work-life balance, if social enterprises and cooperatives made up a sixth of the economy. Another 120,000 workers would be in firms that offered flexible working hours.

Moreover, based on data from countries such as Germany, France and the Netherlands, work intensity would also significantly decrease, leading to higher levels of job satisfaction and greater work/life balance.

However, given the cultural change that would likely occur with a more diverse economy, this is likely to be a significant underestimate of the potential impact.

## Worker voice

Unfortunately, there are no statistics currently on trade union representation within social enterprises and cooperatives within the UK currently. However, a greater density of social enterprises and cooperatives in the UK economy would significantly increase workers' voice at work – giving over 4.2m workers a meaningful say in the way that the businesses they work in are run. This would likely have a much wider impact on the overall economy and the way that business operates within the UK.

## Investment

UK businesses made £224bn in profits in 2021.<sup>55</sup> Assuming social enterprises reinvest half of their profits, based on the current definition of social enterprise, this could

immediately increase investment in the UK economy by £14bn a year. This would boost UK investment by 0.8% of GDP – a significant increase based on the current low levels of UK investment.

Higher levels of investment would also have significant further spillover effects on the rest of the economy, boosting productivity and ultimately living standards in the long run as well as increasing tax revenues to pay for public services.

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<sup>54</sup> Ibid.

<sup>55</sup> Office for National Statistics, Profitability of UK companies time series, 27 July 2022



Social Enterprise UK (SEUK) is the UK's membership body for social enterprises. We lead the world's largest network of businesses with a social purpose who together are helping to create a fairer economy and a more sustainable future for everyone. SEUK exists to be a strong voice for social enterprise, to evidence the difference that social enterprises are making and to demonstrate solutions and influence decision-makers to create an environment in which social enterprise can thrive. We work with mainstream businesses and public sector institutions to help them bring social enterprises into their supply chains.

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