



# Localising the Economy

Broadening employee ownership of enterprise is a recognised way of keeping it local. Employees who have a say in the buying and selling of their company are less likely to opt for a quick profit in the short term if it means the prospect of unemployment in the longer term. Company directors and managers are generally more mobile than shop floor workers and are more likely to see moving from one post to another as a necessary part of developing their career structures. And certainly non-local shareholders feel no loyalty towards local economies with which they are unconnected.

Co-operative Development does not occupy itself exclusively with small business "start-ups". Co-operative Development Bodies (CDBs) also seek opportunities for "conversion". Conversion is simply the process of vesting all or part of the ownership of an existing company in its employees. This might be done in its purest form by simply creating a new co-operative limited company and transferring the assets and goodwill of the old company to the new one. Or it might be done by selling and/or gifting shares to employees over an agreed period of time. Or it might be done in part by selling or gifting a proportion of the shares to employees so that they have a stake but not a controlling interest. What is certain is that the higher degree of employee ownership, the lower the potential for re-location.

The potential for "closure" is also reduced. Employee share-holders are far more likely to try to trade their way out of hard times whatever the returns on their shareholdings. Shareholders based elsewhere in the world would much prefer to see a significant return on their shares than to worry about closures in places with which they have no direct connection.

## Relevance

The relevance of this to local Economic Development committees and officers should not be lost. Important as getting new commerce into the area ("inward investment") may be, keeping existing commerce there must be even more important. The very services and infrastructure that Local Government works so hard to provide is of negligible interest to distant shareholders. Employee shareholders, as LOCAL shareholders, appreciate local economic stability. They appreciate the fabric of their community; the economic filaments (schools, libraries, shops, local business), and the social filaments (clubs, churches, associations, voluntary activity, friendships). They do not take decisions to re-locate elsewhere on the basis of short term financial incentive alone.

Local CDBs have seen some degree of diversification of objectives. In common with the movement nationally, they have moved towards encouraging a wider variety of models of co-ownership. This is not because Directors and Staff have lost confidence in the pure, wholly employee owned and controlled limited company. This is still very much the ideal for all concerned. What has been recognised is the difficulty in making the altruistic case to hardened owner-managers and high-flying company directors.

Employee Share Ownership Plans offer a sort of half way house. Existing legislation allows tax benefits for owners of companies who transfer ownership, in whole or in part, to employees. The scheme tends to involve a rolling programme so that the actual transfer and the associated

payments are spread out over a negotiated period of time. Besides reducing the tax burden, this protraction provides time for all parties to adjust to a slightly different way of operating.

The benefits are that employees get a stake and take a greater interest in the fortunes of the company. The vendors get the direct benefit of increased employee commitment combined with a tax advantageous way of realising the capital value of their business. This becomes particularly important when owner-managers are nearing retirement and realise that they haven't planned a graceful exit from ownership.

For example, a local medium sized enterprise was faced with a succession problem. The proprietors, a husband and wife team plus a third director, wished to realise part of the capital value of their business and also reduce the management burden they felt they were beginning to struggle under. The local CDB was very pleased to assist with a series of negotiations and with the transition that eventually emerged. Selling up to a competitor was not a favoured option for the owner-managers, but if they had, it is certain there would have been rationalisations and job losses and that the bulk of the business would subsequently have been located out of county.

CDBs generally do not have much of a publicity budget. Glossy brochures do not sit easily with basic, "no frills" income and expenditure. It is therefore sometimes difficult to get the message across to the right people. For much of this, they will rely upon word of mouth from officers and councillors involved in economic development. Once notified, CDB personnel can make the case directly to people facing some of the situations outlined above.

- Martin Strube, 2001

