

# **Liberal Democrats Policy Consultation**

## **Mutualisation, Employee Ownership and Workplace Democracy**

**Consultation Paper 106**





## Background

This consultation paper is presented as the first stage in the development of new Party policy in relation to mutualisation, employee ownership and workplace democracy. It does not represent agreed Party policy. It is designed to stimulate debate and discussion within the Party and outside; based on the response generated and on the deliberations of the working group a full mutualisation, employee ownership and workplace democracy policy paper will be drawn up and presented to Conference for debate.

The paper has been drawn up by a working group appointed by the Federal Policy Committee and chaired by Chris Nicholson. Members of the group are prepared to speak on the paper to outside bodies and to discussion meetings organised within the Party.

Comments on the paper, and requests for speakers, should be addressed to: Rachael Clarke, Mutualisation, Employee Ownership and Workplace Democracy Working Group, Policy Unit, Liberal Democrats, 8-10 Great George Street, London, SW1P 3AE. Email: [Rachael.Clarke@libdems.org.uk](mailto:Rachael.Clarke@libdems.org.uk)

Comments should reach us as soon as possible, and no later than 31<sup>st</sup> March 2012.

**Federal Policy Consultation Paper No. 106 © February 2012**

*Published by the Policy Unit, Liberal Democrats, 8-10 Great George Street, London SW1P 3AE.  
Layout and Design by Christian Moon.*

ISBN: 978-1-907046-47-6

Printed by Contract Printing, Rear of CMS Building, Unit 11, Whittle Road, Corby, NN17 5DX

Printed on 100% Recycled Paper

## Background and Party Context

*"...the civilising and improving influences of association, and the efficiency and economy of production on a large scale, may be obtained without dividing the producers into two parties with hostile interests and feelings...the relation of masters and work-people will be gradually superseded by partnership, in one of two forms: in some cases, association of the labourers with the capitalist; in others, and perhaps finally in all, association of labourers among themselves" - John Stuart Mill, "Principles of Political Economy"*

*"We want to see democracy, participation and the co-operative principle in industry and commerce within a competitive environment in which the state allows the market to operate freely where possible but intervenes where necessary" - Preamble to the Liberal Democrat Federal Constitution*

1.1 Liberal Democrats have always believed in helping individuals to take and use power, enabling them to be involved in the decisions which affect their lives. We believe that employee participation in the workplace together with wider employee ownership is important for diffusing economic power, promoting enterprise, increasing job satisfaction, and improving service to customers.

1.2 We believe that every individual has the right to play a meaningful role in society regardless of their occupation, wealth, gender, role, or position. To achieve this requires a rebalancing of power, economic and otherwise, providing citizens with a stake in their own economy and involvement in their own future. And part of it is ensuring that every person involved in the economy has a sense of self-worth about what they contribute – about the work that they do and the skills that they use. In this way a system of ethical, fair, and collaborative capitalism can prosper.

1.3 For these reasons, we believe that not only would a step change in the number of associations, partnerships, retail and worker co-operatives, friendly societies, mutual insurers, and credit unions have an intrinsic benefit for both workers and businesses – it would also have a positive effect on the resilience and sustainability of our economy as a whole. Furthermore the hoarding of economic power is not only problematic for the economy, but also has the potential to be socially destabilising.

1.4 Recent economic history has given rise to a renewed interest in a variety of proposals in this field, and it is our opinion that we are in a unique position to produce policy in this area given both our strong, liberal traditions and current economic circumstances. It is our belief that the encouragement of and support for varied methods of commercial organisation, such as mutualisation, employee ownership, and participation will give us the opportunity as Liberal Democrats to have a fundamental, and beneficial, effect on the way our economy operates and how the benefits of its successful operation are distributed.

1.5 In addition to this belief, policy paper 100, *Facing the Future* as passed at Autumn Conference 2011 provided us with a clear framework for our operation – to encourage the growth of these business models in the private sector, and to recognise the benefits to individuals and businesses of increasing and improving employee participation in corporate governance and decision-making.

## The Economic and Political Context

2.1 The economic downturn, and declining real incomes for most low- and middle-income earners, has led to many questions being raised as to the way the UK economy is currently structured.

- What can be done to restart economic growth by improving the supply side of the economy?
- How can the economy be rebalanced and made more resilient to economic shocks?
- What is the role of financial services in the economy and how can we ensure that banks and other financial institutions serve the needs of the whole economy not just their own sector?
- Can the benefits of economic growth be spread more equitably, so that it is not just top executives and bankers who benefit, through changing the ownership and power structures of the economy rather than simply through tax and benefit policies?
- Can the distribution of economic and political power be more widely spread so that individual citizens have greater control over the decisions which affect their lives?

2.2 Political concern about these issues has become apparent with cross-party forays into the area, including David Cameron's plea for 'moral capitalism', and Ed Miliband's 'predator companies'. Our concerns were put best by Nick Clegg recently, when he said "We also need to put much more power in the hands of the other stakeholders in the economy – shareholders and employees – when it comes to setting top pay. Trusting not the unfettered market, nor the interventionist state, but trusting people. That is the core of the more responsible capitalism: power in the hands of people. Strong economic citizens able to keep vested interests in check."

2.3 Liberal Democrats have a critical role to play in this debate, drawing on the liberal principles of association and partnership set out by John Stuart Mill, in a way that the Conservative and Labour Party cannot, captured as they are by the interests of capital and the unions. In addition to Mill's two forms of partnership we have also seen other partnerships develop – retail co-operatives, friendly societies, mutual insurers, and credit unions. Concentration of capital can cause ownership to become complacent in the oversight of management and for the interests of the few to outweigh the wellbeing of the many. Therefore, a significant part of overhauling this form of economy for us is to redistribute power more widely, particularly to employees.

2.4 Whilst in employee-owned companies employee participation is more likely to occur naturally, as a result of ownership rights, it is conceptually distinct. As was rightly pointed out in the last policy paper on this issue, Federal Green Paper 16, *Citizens at work*, "if there is one belief which Liberal Democrats hold above all others, it is in the rights of individuals to take part in the affairs of the community to which they belong ... In few places is this less realised in Britain today than in the workplace." Employees of retail co-operatives, friendly societies, credit unions or indeed public sector institutions have as much right to influence decisions affecting their lives as those in the private sector.

## Mutualisation, Employee Ownership and Workplace Democracy

2.5 Of course, the type of changes we desire will not necessarily result directly from a change from a traditional share-holder or private ownership structure. However, what does seem clear to us is that governance, and culture, move forward together – and that greater employee participation is likely to bring with it the improvements outlined here.

2.6 This paper sets out to explore how the principles of mutualisation, employee ownership and participation might be applied to the UK; the barriers which are faced in creating a more diverse, co-operative, democratic liberal economy; and the policy options for achieving such an economy.

### **Issues to consider**

1. *Should employee participation/workplace democracy be treated as a separate, though related, issue from employee ownership and mutualisation?*

# What do we mean by Mutualisation, Employee Ownership and Employee Share Ownership?

3.0.1 It is important to distinguish between **employee-owned firms** and **employee share ownership**. By employee-owned firms we mean those firms with significant employee share ownership. For convenience we adopt the Employee Ownership Association test and thus include those firms with employee ownership in excess of 30%. Such ownership can be held collectively, as with the John Lewis Partnership and employee co-operatives, or shares can be held individually by employees. By contrast many firms have employee share schemes to reward and motivate employees but collectively these may amount to a relatively small shareholding in the company. They may nevertheless enable individual shareholders to accumulate considerable assets and share in the growth in value of a firm, as well as accumulating assets which may make a significant difference to their later life.

3.0.2 **Co-operatives** are member groupings which can encompass a range of memberships such as consumers (eg the Co-operative retail group), workers (eg the Mondragon worker co-operative in Spain), or more hybrid multi-stakeholder forms (eg co-operative schools), where parents, teachers and members of the local community are members.

3.0.3 There is also a long tradition of **financial mutuals** in the UK. A financial mutual is an organisation that supplies financial services products, and which is owned by its customers, or members. That means there are no shareholders to pay dividends to or account to, and a mutual can concentrate entirely on delivering products and services that best meet the needs of its customers. These range from building societies (eg Nationwide), to insurance companies (eg Royal London), to friendly societies (eg Benenden Healthcare Society). We also include **credit unions** within this general category.

## 3.1 Mutuals, Employee-Owned Firms and Employee Share Ownership in the UK economy

3.1.1 The UK economy has, with some exceptions, become generally less diverse in its ownership structure since the 1980s. In the past 15 years alone mutual insurers have gone from 50% of the market to just 5%, despite evidence showing that consumer trust and satisfaction with mutual organisations are high. Since the act permitting demutualisation of the building societies in 1986 there has been a similar decline, and this is attributed by some as a reason for the unsustainable boom in lending to the housing market in the period leading up to the financial crisis. Whilst in the last few years there has been a welcome growth in the co-operative sector this is still a relatively small share of the economy compared to other countries. In the UK, co-operatives are estimated to comprise 2% of the economy compared to 7% in Germany and 5% in the US. In the US 40% of the population belong to credit unions compared to 2% in England and Wales.

### **3.2 Definition**

3.2.1 Throughout this paper, to avoid lengthy descriptions or incomplete umbrella terms, we will refer to mutuals, employee-owned, and employee share owned businesses (including financial mutuals) as MEESOs. In employee share owned businesses, we include traditional firms who have share schemes for all employees, even if the percentage share ownership by employees is low. MEESOs are our primary focus, and we do not prescribe (or indeed, proscribe) any one form of business as the 'right' type of MEESO.

#### **Issues to consider**

2. *Do you agree that these are the firms and organisations which we should be considering in this policy paper, or are there other forms which should be included or created?*



# What do we mean by Employee Participation and Workplace Democracy?

4.1 **Employee participation** is a rather more nebulous term and is often used interchangeably to cover concepts such as **employee empowerment**, **industrial democracy**, **workplace democracy** and **employee voice**. Participation is a necessary but insufficient condition for workplace democracy which exists when employees have real control over organisational goal setting and strategic planning.

4.2 Some formal structures of **employee empowerment** (eg works councils), can be little more than tools for managers to inform their employees of pre-made decisions and enlist their help in implementing them. In other, more usefully-implemented forms, they can provide important opportunities to share views and influence policy and practice. A key factor is whether employee representation is through direct election or union appointment or a combination of the two. Currently in the UK the only legal provisions are under the Information and Consultation Regulations of the Employment Relations Act 2004 which gives employees the right to request (triggered by a request from 10% of employees) that their employer set up a procedure to consult with them over:

- The recent and probable development of the undertaking's activities and economic situation.
- The situation, structure and probable development of employment within the undertaking and on any anticipatory measures envisaged where there is a threat to employment.
- Decisions likely to lead to substantial changes in work organisation or in contractual relations.

4.3 Most other West European countries already have more extensive national regulations on workplace democracy, most commonly defined by statute or regulation. In the UK, voluntary take-up has been low. In Germany there are two-tier boards with representation of workers, shareholders, and senior managers; this was a legacy of the post-war occupying powers, who wanted to avoid undue concentrations of power – whether industrial or political. In other countries such as the Netherlands and France, there are statutory systems of works councils.

4.4 There is evidence that, distinct from the benefits of employee ownership and share ownership, employee participation in decision-making has a positive impact on an organisation's performance. There is also emerging strong evidence that employee wellbeing is positively affected by employee participation. Stress now accounts for more days lost to sickness than any other ailment and stress is reduced where employees have more autonomy and the ability to influence the decisions which affect their lives.

## Issues to consider

3. *Do you agree that this is how we should be defining and considering employee participation and workplace democracy?*

## A Liberal Vision for the Economy

5.1 Rebalancing the economy by geography and sector and between long-term and short-term has become a prominent issue in political dialogue. We also see a need to rebalance the economy so that there is greater diversity of organisational and ownership form. Currently the economy has become overly dependent on just one type of ownership – the shareholder economy - with adverse consequences for wealth and income distribution, economic stability, economic growth and the distribution of economic and political power.

5.2 A liberal economy is where communities or groups of people are free to come together to meet their needs. Communities of consumers to meet their retail needs, savers and borrowers to meet their financial needs, mutual insurers to meet insurance needs, residents to meet their local public service needs, parents to meet their childcare needs, older people to meet their social care needs, communities of workers to meet their employment and income needs, and also partnerships with capital to meet business or public service needs.

5.3 Income and wealth inequality has grown over the past few decades and taxation policies have been unable to counter this. Policies to enable workers to have more of an opportunity to benefit from the profits generated within a company would help to counter this.

5.4 In a liberal economy we should not be prescriptive about which form is appropriate. A liberal economy welcomes the consumer-owned Co-op competing against the employee-owned Waitrose competing with the shareholder-owned Tesco competing with Asda and its significant employee share scheme generating substantial benefits for its employee shareholders. In a liberal economy significant employee ownership may be more prevalent in some sectors, such as professional services or those relying on significant customer service contact, than in others, such as a large very capital-intensive steelworks.

5.5 There is likely to be the development of various hybrid structures to meet the needs of the business and the community – some of which may require new legislation. Employee-owned companies may work in partnership with private equity to supply business needs. Ex-offenders, probation officers and local residents may work together to reduce re-offending. A major challenge will be the creation of a tax structure to provide appropriate support for different types of organisation. For instance, we shall have to define exactly where tax incentives and benefits become unfair competition. We also have to consider how to balance the interest of participants, employees, managers, and the wide community, sometimes through local authorities and other mechanisms eg. in the National Health Service.

5.6 All employees will have a right to be consulted and to have an influence on the decisions which affect the place where they work as ‘citizens at work’.

### Issues to consider

4. *Do you agree with this vision of a liberal economy?*

5. *Given the varied benefits of different types of MEESO, do you agree that we should not be prescriptive about forms of ownership and organisation?*
6. *If we are not prescriptive about forms of ownership or organisation what, if any, targets or preferences should we have for MEESOs?*

## **MEESOs and their Impact on Performance and Ownership Rewards**

6.1 There is strong evidence for a positive relationship between company performance and employee ownership and employee share ownership – particularly where this goes alongside good employee participation.<sup>1</sup> The EOA's Employee Ownership Index of companies with more than 10% employee share ownership has outperformed the FTSE All Shares Index by an average of 11% pa since 1992.

6.2 There is also evidence that the rewards of ownership are more evenly spread in employee-owned firms. In early 2011 Tesco announced that their new chief executive would receive a £1.1 million base salary, bringing his basic salary to a similar level to Sainsbury's and the John Lewis Partnership's chief executives (£920,000 and £950,000 respectively for 2010/11). But once you add bonuses, benefits and share options to their base salaries, then a huge disparity develops.

6.3 Further to his £920,000 salary in 2010/2011, Sainsbury's Justin King took home an estimated £2.28m, so a total of £3.2m. The chief executive of Tesco, exercising a 250% of salary short-term bonus, and a 275% of salary long-term bonus, should make £6.9 million this year. By contrast, the chief executive of the John Lewis Partnership benefited from the company standard bonus of 18% of salary, taking home an extra £142,000. Recent research by Cass Business School has shown that employee-owned businesses have been more resilient to the economic downturn than non-employee-owned businesses, with their employment continuing to grow.<sup>2</sup>

6.4 Even in non-employee-owned businesses where there are good employee share schemes, there is evidence of improved performance and employees gaining a significant benefit from the success of the business. Employees of Sports Direct recently received on average a £44,000 bonus over two years from their share scheme because of the soaring share price, and Asda employees who saved £250 per month in their share scheme over 3 years received a payout of £16,000. There is, therefore, significant potential for workers to benefit with significant asset accumulation and to help foster a savings habit. Employee share ownership, even if it is a relatively small share of the total share capital of a company, can be very beneficial to worker and company.

6.5 Mutual financial institutions also offer significant benefits. Evidence from the Association of British Credit Unions asserts that credit unions, for example, offer higher rates on deposits than most banks, and lower interest rates on loans to low and middle income earners than, for example, the payday loan companies. At a time when there is considerable concern about the mis-selling of insurance and other financial services products, proponents of financial mutuals argue that consumers generally feel that this is less likely to occur when the organisation is mutually-owned compared to being owned by a third party.

---

<sup>1</sup> A 2010 review of evidence by Matrix for the Employee Ownership Association 'EOA'

<sup>2</sup> 'Model Growth: do employee-owned businesses deliver sustainable performance?', Lampel, Bhalla, Jha, January 2010.

6.6 In the absence of external shareholders to satisfy, there is evidence that mutuals and employee-owned companies are better able to pursue a long-term purpose, rather than simply maximising dividend payouts and share price.

6.7 There can be disadvantages of such structures. More limited access to external risk capital can make rapid expansion more difficult and a lack of participation by members can lead to weaker governance of management than a more traditional shareholder model – though governance can also be weak there. One long-standing concern is that if an employee's wealth and pension are tied up in a company, they risk losing not only their job but also much of their wealth and pension provision should the company fail. Nonetheless, we were impressed by the arguments that some organisations gave in evidence-giving sessions regarding the diversification of wealth arising from employee share ownership, particularly towards the end of their working life, and the range of pension protection mechanisms that apply both in this country and others.

6.8 Given the benefits noted above, the case for the encouragement of MEESOs, particularly in the private sector where there has not been any significant recent growth, would seem to be relatively clear: they maintain high levels of trust; the rewards of ownership are more evenly spread, meaning a reduction in overcompensation for those at the top; they lessen employee stress and thus improve worker performance/output; and they reduce the inequality inherent in many private sector firms. It is quite clear that these benefits are not only internal, but are likely also to have an important effect on the performance of the economy as a whole.

### **Issues to consider**

7. *Do you agree that these are the benefits of MEESOs, or are there other advantages or disadvantages?*
8. *What aspect of MEESOs and their impact on performance do you consider to be most important when encouraging:*
  - a. *New businesses to take one of these forms?*
  - b. *Existing businesses to convert to MEESOs?*
  - c. *MEESOs to remain so?*

# Barriers to MEESOs, Employee Participation and Workplace Democracy

7.1 There are several barriers to a greater role for mutuals, employee-owned businesses, and employee share ownership including:

- Difficulty with access to risk capital because the inability to sell equity shares creates obstacles to establishing new mutuals and growing existing ones.
- Legislation and regulation that is often focused primarily on conventional shareholder companies. For example, financial mutuals consider that financial services regulation takes inadequate account of their particular position.
- Lack of understanding and awareness amongst policy makers, professional advisers and business owners of these alternative corporate forms.

7.2 In addition there are several technical issues concerning the tax treatment of employee benefit trusts, the barriers to private equity-owned firms having employee share schemes, the limited nature and lack of flexibility of HMRC-approved share schemes and the current legislation concerning co-operatives, which could be tidied up to help boost this sector.

7.3 There is no great enthusiasm amongst employers or unions to promote greater employee participation in the workplace. Employers see it as a curtailment of their ownership rights whilst unions have traditionally seen it as a threat to their role as the main representative of workers to management and ownership. The idea that employees have rights to participate because they are employees rather than through their union membership is indeed a threat to traditional union mind-sets, and this tension has been a major contributor to why the Labour Party has consistently failed to come to terms with workplace participation and industrial democracy. Partly as a result of these tensions, measures such as the Information and Consultation Regulations 2004 have seen limited take-up.

## Issues to consider

9. *To what extent would MEESOs be helped simply by a greater willingness to treat them as a viable business model – whether through advice on setting up a MEESO or enabling them to obtain capital?*
10. *How far can the above barriers to entry be addressed using non-legislative solutions? Of these solutions, which would you consider to have the greatest impact?*
11. *Do you agree that the barriers listed are the primary ones faced by current and potential MEESOs? Do these barriers differ considerably between the two?*

## Government's Role in Promoting MEESOs

8.1 There are significant difficulties with the simple idea of encouraging an increase in MEESOs in the current economy. Barriers to entry are significant and pose diverse threats to the efforts of even the most enthusiastic business owners who may wish to explore these options. As such, we see it is as likely that government will need to lead the way in helping companies to overcome these barriers. There are a variety of ways this could occur:

- **Encouragement and promotion of alternative forms of ownership.** The working group is of the view that currently there is insufficient diversity in ownership forms in the UK economy. There has been a view, consistently expressed by those giving evidence, that much could be achieved by coherent, consistent publicly-voiced support coming from policy makers. Much could be achieved by working with the sector to ensure that business schools, professional advisers etc are more aware of the potential of the sector. The importance of this sector could be shown by the establishment of a Mutuels/Employee ownership Minister, most likely in the Department of Business, Innovation and Skills (BIS), who would be responsible for championing the sector and critically reviewing all legislation and regulation to ensure that the needs of the sector are adequately taken into account.
- **Correcting for market failure/legislative bias.** A number of legislative, tax and regulatory barriers have been drawn to our attention which government should seek to remove. In addition, government might seek to more actively work with the sector to develop mechanisms to overcome barriers such as access to capital – by facilitating the establishment of an employee ownership bank, for example. Linked to this is the question of whether such a bank should be mutually owned or not.
- **Government might go further and seek to incentivise a more substantial role for the sector in the economy.** This could include measures such as a “right to request” for employees to request an employee share scheme, probably with a corresponding duty to respond reasonably, which would be defined by legislation or regulation. Another option is that at a time that a business or a significant part of a business changes hands they have a right to bid for the business, or part of it, with associated time periods allowed in Insolvency Law etc to facilitate this. Further incentivisation might include fiscal incentives to employee or co-operative ownership such as a lower corporation tax or national insurance rate for employee-owned companies, or a reduced capital gains tax rate for business owners selling their business or a significant part of it to their employees.
- **Legislation and regulation.** The government could encourage the sector further through legislative measures preventing further demutualisation of building societies; financial mutuals etc; extensive use of asset locks to prevent employee-owned and mutuals from transferring assets to non-mutuals; favouring such organisational forms in public procurement (perhaps along with other not-for-profit enterprises, and to the extent allowed by European procurement law); or introducing ownership diversity as a consideration in competition policy. Regulation and certification of businesses that meet certain statutory standards

could also provide relevant firms with extended support, perhaps in the form of a regulatory body or Chartered Institute.

- **Savings and pensions.** Evidence from the United States shows that Employee Share Ownership Plan participants have three times the total retirement assets as comparable employees in non-ESOP companies and have diversified holdings at least as large. This suggests strongly that growth in employee share ownership, particularly when accompanied by greater participation, can have a major effect on overall savings and on income in later life. Given the UK's low savings ratio, there could be considerable gains both for government and for individuals in promoting and incentivising employee share ownership.

### Issues to consider

12. *How can firms best be persuaded or incentivised to become MEESOs?*
13. *How can we secure a substantial transformational change in the importance of this sector in the economy?*
14. *Should government simply seek to create a level playing field between different forms eg ensuring financial sector regulation takes account of the particularities of the financial mutual sector or ensuring similar tax treatment? Or should the government seek to tilt the playing field to create greater diversity eg preferential tax treatment for co-operatives or employee-owned businesses, or a lower capital gains tax rate for business owners selling their business to employees?*
15. *In public service outsourcing to MEESOs should government give a permanent advantage when bidding against purely private sector companies or just when the first contract is let?*
16. *Should there be constraints placed upon some changes of form eg legislative restrictions on further demutualisation or extensive asset locks on public service outsourcing, or should diversity of ownership be a consideration in competition policy?*
17. *Should the opportunity provided by state holdings in banks be used to boost the prevalence of the mutuals sector in financial services by converting them to mutuals?*
18. *Are there any mechanisms which government could adopt to link a savings culture directly to employee ownership and share ownership?*
19. *What scope is there for developing further tax incentives for companies to establish all employee share schemes?*
20. *Would you consider a 'right to request' a useful tool in encouraging existing firms to consider becoming a MEESO? Would there need to be an equivalent 'obligation to respond' in order for this to operate successfully?*



# Government's Role in Promoting Employee Participation and Workplace Democracy

9.1 Similar considerations arise in relation to the government's role in boosting employee participation. The government could seek to act as a champion of employee participation with information and awareness-raising campaigns. The government could then go further by establishing reporting standards of practices of employee involvement and encouraging the Financial Reporting Council to help to enforce this. The FRC could, for example, amend the UK Corporate Governance Code so that listed companies are required to establish a policy concerning employee participation. Alternatively, a lower corporation tax rate or employers' national insurance rate could be offered to organisations which adopted certain standards of workplace democracy.

9.2 However, if it is felt that employee participation is a basic right as a citizen (the stance previously taken by the party in Federal Green Paper 16, *Citizens at Work*) then legislation should be considered.

9.3 Previous party policy did not advocate setting out a specific form of participation, such as the German supervisory board structure or works councils. Instead it proposed a more principles-based approach with an Industrial Participation Agency or a strengthened Advisory, Conciliation and Arbitration Service (ACAS) as the body which approved participation arrangements and acted as a promotional body for employee engagement.

9.4 An alternative approach would be one similar to the 'European Company' legislation which implements three standard models of employee participation. Workers can either be represented at board level alongside employers, in a separate works council of employee-only representatives, or by a third option negotiated by common consent of employees and management. If legislation is to be adopted should it be for all firms or just organisations over a certain size, eg 250 employees?

9.5 Another issue is how to present and encourage the principles of workplace democracy to the public and voluntary sectors. Privatisation in the public sector has increased the extent to which employees can have a say through structures established for the private sector. In the continuing public sector, Liberal Democrats have no doubt that hearing the voices of employees and giving them more power to influence and advise is important and useful. The underlying question, however, is how to balance the interests of the wider public, expressed and managed through democratic elections, with the interests and contribution of employees.

9.6 In the voluntary sector, the legal definitions of charity since 1601 have precluded both employees and recipients from having a direct say in the management of their organisations – the concept of government by trusteeship is a key defining factor of the sector, not only in the UK. This has led to uncomfortable compromises in membership organisations such as the National Trust or the RSPB in relation to the status of members who are also beneficiaries and electors. The restrictions on employees are even greater.

Although these structures have served well over time, there is a valid challenge about the potential role of employees and the human recipients of charitable help in defining and managing services for current and potential recipients

**Issues to consider**

21. *Is legislation (as in Europe) the best way to encourage participation in and proliferation of workplace democracy, or would you consider there to be other driving factors, such as exhortation? If the former, should there be prescription of form eg worker representation on the board, creation of a supervisory board, a works council, or a principles-based approach?*
22. *Should rights for employee participation extend to the voluntary sector and the public sector? Should it only extend to organisations above a certain size?*
23. *What are the issues over which employees should have a say?*
  - a. *The remuneration policies of the company/organisation (including at board level)*
  - b. *The terms and conditions of employment of the company*
  - c. *The strategic direction of the company/organisation*
  - d. *Provisions for dealing with employee suggestions and concerns*
  - e. *Other issues?*
24. *Are there any ways in which participation can be linked more directly to employee share ownership eg through different classes of share or making it easier for employees to exercise their shareholder voting rights collectively?*

## How can we achieve a Sustainable Change in the Importance of this Sector?

10.1 A recurrent fear amongst contributors to this working group is that interest in a variety of mutuals, co-operatives, and alternative ownership arrangements has historically been a cyclical issue in which successive governments have sporadically been interested, but then transferred their interest to another project. It is our feeling that if we are to set out to change the fundamentals of how MEEOs and their markets operate – whether for their internal or external benefits, and whether via regulation, awareness, or incentivisation – we must reassure them that these changes, and most particularly this support, are here to stay.

10.2 Similarly it would be wrong to argue for the increased involvement of individuals in the economic and democratic structures of industry if we are not then to maintain a change in attitude and level of support.

10.3 It is difficult at the best of times to work conductively without a coherent framework, so to operate without the reassurance of support would likely result in newer and more transformed businesses falling at the first hurdle. In short – any changes that cannot be followed through and continually supported into the future may be discounted by the group as unsustainable and thus unworkable with regards to wholesale change.

10.4 Whilst this approach is relatively simple when it comes to changes in statute or regulation, it presents difficulties when considering ongoing support from any source, particularly given political and budget-setting differences between parties. For this reason, we anticipate that any recommended support will be grounded heavily in the sector as it exists today – that by co-operation between MEEOs, a more productive and supportive network of interests can be formed.

### Issues to consider

25. *What would you consider to be the primary merit and weakness of establishing a government sub-department to co-ordinate MEEOs? Which current department would you consider a department such as this to fall under?*
26. *Given the additional criteria of sustainability, would you strengthen, weaken, or maintain your suggestion for government involvement in supporting MEEOs?*
27. *What model of involvement from the existing community would you suggest for support, eg a cross-sector forum, a Chartered Institute, a governing body?*

## Appendix: Terms of Reference

Liberal Democrats have always believed in empowering individuals, enabling them to take part in the decisions which affect their lives. We see democratic participation and cooperation, both in the public and private sectors, as important parts of a strong and sustainable economy and we believe employee participation in the workplace is essential for dispersing economic power, promoting enterprise, increasing job satisfaction and improving service to customers. This participation can range from employees making more decisions about their particular role to adopting full Employee Share Ownership Plans (ESOPs).

The Mutualisation, Employee Ownership and Employee Participation Working Group has the task of setting out the broad principles for the party's commitment to increase employee ownership and participation in the workplace, as well as addressing specific policy issues. The group is considering policies that lie against the backdrop of the current deregulatory environment as well as the need to foster a sustainable economy.

Specific topics the group will need to address include:

- The type of model or models of employee ownership and participation that are best suited to the UK economy
- The best ways to manage the process of mutualisation or remutualisation
- How mutuals can help deliver public services, including care services and the post office in particular
- The role of mutualisation across different industries in the private sector
- How increased employee participation can best lead to improved business models, including aspects of corporate governance
- The role of unions within mutual organisations
- Recognising that most businesses will not become mutuals, consider how to improve employee participation in decision-making in businesses generally
- The appropriate response for Government and the extent that legislation can or should be used to achieve these policy outcomes

This Consultation Paper is designed to stimulate debate about the barriers to Mutualisation, Employee Ownership and Employee Participation and suggestions for distinctly Liberal Democrat policy in this area. The Working Group has identified key questions it would like to discuss but we also welcome thoughts and suggestions on any other important issues not covered in this paper.