

# Evidence briefing: Assessing the local economic impact of plural and local ownership policies

## 1. Summary

Plural ownership policies aim to support businesses with alternative legal and organisational structures – such as cooperatives, social enterprises, and municipal enterprises. Local ownership policies aim to support locally-owned businesses.

This briefing provides a framework to help policymakers think through some of the local economic impacts of plural and local ownership and the available policy options for supporting both. It draws on evaluation evidence on plural ownership, [business advice](#) and [access to finance](#), and on other economic theory and evidence.

### Key messages

#### **Assessing local economic impacts**

##### ***Employment***

- Direct employment effects come from jobs at supported businesses. Understanding the type of businesses targeted (start-ups or existing businesses), baseline employment levels, and the aim of support (start-up, growth or survival) will help identify what data to use in calculating direct employment effects.
- Only rough estimates are possible. These should not be adjusted because support is

for plurally- and locally-owned businesses unless there is local evidence to justify such adjustments.

- Employment at supported business may come at the cost of employment in non-supported local businesses. Such ‘displacement’ is more likely in non-tradeable sectors. As plurally- and locally-owned businesses tend to be in non-tradeable sectors, displacement is likely to be high.
- Additional local jobs can be created through supply chains or if those newly employed in the area spend income locally. Use an employment multiplier to estimate total employment effects. Understanding supply chains, spending patterns, and travel-to-work patterns to help assess the potential scale of multiplier effects.
- Are additional jobs in supported businesses and displaced jobs at other businesses likely to be filled by local residents? The higher the proportion of jobs filled by local residents, the greater the potential impact on the local economy. Wages are likely to affect this – workers will generally travel further for higher wages.
- Plurally-owned businesses may recruit differently – for example, prioritising disadvantaged groups. In these cases, it may be appropriate to slightly increase estimates of local residents employed.
- Employment in plurally-owned businesses may be more stable in response to economic shocks.
- Impacts on employment should be compared to total employment. Large numbers of plurally- and locally-owned businesses would need to be affected for a modest increase in the local employment rate.

### **Wages**

- Effects on local wages are unlikely unless the change in employment is large relative to the local labour market.
- Plurally-owned business may set wages higher than market rates (for some or all employees).
- Plurally- and locally-owned business tend to be smaller and wages tend to be lower in small businesses.

### **Productivity**

- The drivers of productivity are varied so effects will depend on the focus of support.
- Plurally- and locally-owned business tend to be smaller and productivity tends to be lower in small businesses – although this varies by sector.
- The evidence is inconclusive on whether plural ownership raises or lowers productivity. There is no evidence for local ownership.
- Unless additional local evidence is available, assume that policies to support plural and local ownership will not change productivity.
- Some support – especially grants and other subsidies – may lead businesses to continue to operate when they would otherwise cease trading, leading to an inefficient allocation of resources.

### **Profits**

- If profits are distributed to owners, the local economy will benefit if owners live – and spend – locally.

- Plurally-owned businesses may also use profits to benefit the local community in other ways, such as donating to community projects. The local economic benefits will depend on how money is spent.

### **Other income effects**

- The local economy could also benefit if supported businesses use locally-owned capital assets such as buildings, machinery, data, patents or brands.
- Calculating such effects requires data on capital shares for different assets, which is unlikely to be available. If calculations are possible, there is no evidence to justify adjustments because support is for plurally- or locally-owned businesses.

### **Prices**

- Most prices are determined by the market. Plurally-owned businesses may sometimes charge non-market prices. But in most cases, assume support will have no effect on local prices.

### **Impact of interventions to support plural and local ownership**

- The main policy levers are business advice and improving access to finance. Other policies include innovation, skills development, property, and local procurement.
- The evidence on the effectiveness of business advice and access to finance is mixed. For key outcomes (employment, productivity, etc.) only around a third to half of supported businesses will see positive effects – so it is important to be realistic about the potential effects on the local economy.
- A lack of evidence means we do not know if effectiveness of interventions varies across different ownership models.

### **Assessing wider benefits**

- Some plurally-owned businesses – especially social enterprises – are set-up to provide wider benefits.
- Plural and local ownership may also have other wider benefits, such as contributing to civil society and improving pride in place. In most cases, these are likely to be small and difficult to measure.

### **Assessing policy costs**

- The main policy cost is the provision of support services for plurally- and locally-owned businesses. Costs will depend on the policy chosen, meaning they are highly variable.
- If plural and local ownership is supported through local procurement, this may lead to higher contract costs.

### **Monitoring and evaluation**

- Use monitoring and evaluation to assess the impact of policies to support plural and local ownership. This will help improve future decision-making.

## 2. Background

### 2.1 Introduction

Plural ownership policies aim to support businesses with alternative legal and organisational structures – such as cooperatives, social enterprises, and municipal enterprises. Local ownership policies aim to support locally-owned businesses.

Both policies aim to increase the extent to which profits benefit local residents. Local ownership policies aim to achieve this directly, with profits going to local business owners. For plural ownership, local residents can also benefit as owners if profits are distributed to owners, or if profits are used to benefit the local area in other ways.

There may also be other impacts if plurally- or locally-owned businesses behave differently to businesses with conventional ownership structures. For example, if they are more likely to build local supply chains or to offer employment and training opportunities to local residents.

### 2.2 Plural ownership

Plurally-owned businesses include a variety of different types of organisations including co-operatives, social enterprises, and municipal enterprises.

**Co-operatives** are owned and controlled by their members and exist for their benefit. Members can be customers, workers, suppliers, or the wider community. Co-operatives UK estimates there are 7,600 co-operatives in the UK, with 14.3 million members and employing just under 250,000 people.<sup>1</sup>

Co-operatives can be established at any geographic level. Some of the best-known are national organisations (Co-op Group, Nationwide, BUPA), accounting for a large proportion of total employment in the sector. Many cooperatives serve specific local areas providing services such as housing, business premises, energy, financial services, community facilities, shops, or pubs.

A **social enterprise** is a business which primarily supports a social or environmental mission. For example, a commonly-used definition in the UK categorises a business as a social enterprise if it is independent of government control, earns more than half of its income through trading, has a clear social or environmental mission, and re-invests or donates at least half of its profits or surpluses towards its mission.<sup>2</sup> Social enterprises can be companies limited by guarantee or by shares, community interest companies, registered charities, or co-operatives. Social Enterprise UK estimates there are 131,000 social enterprises in the UK, employing around 2.3 million people.<sup>3</sup>

Social enterprises can be established at any geographic level. In 2023, 10 percent of social enterprises operated at the neighbourhood level, 12 percent at the local authority level, and 7 percent at the combined authority level.<sup>4</sup> Many social enterprises have missions that relate to their local area.

A **municipal enterprise** is a business that is set up, owned, and run by local government. The Local Authorities (Goods and Services) Act 1970, Local Government (Miscellaneous Provisions) Act 1976, and Local Government Act 2003 provide the legislation for this type of organisation. There is no comprehensive data on the number or employment of municipal enterprises.

As they are owned by local authorities, the focus of most municipal enterprises is local.

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1 Co-operatives UK (2023). [Co-operative and mutual economy 2023](#).

2 <https://www.ncvo.org.uk/help-and-guidance/setting-up/understanding-social-enterprise/>

3 Social Enterprise Knowledge Centre, on behalf of Social Enterprise UK (2023). [Mission Critical. State of Social Enterprises 2023](#).

4 Social Enterprise Knowledge Centre, on behalf of Social Enterprise UK (2023). [Mission Critical. State of Social Enterprises 2023](#).

## 2.3 Local ownership

Any business that is majority owned by one or more local resident could be considered locally owned.

Whilst no data exists on the location of ownership, it is reasonable to assume that smaller businesses are more likely to be locally owned than larger businesses. As a result, local ownership policies often support small businesses – either as a direct policy aim or because locally-owned businesses tend to be smaller. Given this, and in the absence of data on local ownership, data on small businesses can be useful in understanding the likely impact of local ownership policies.

The vast majority (99.9 percent) of private sector businesses are small or medium-sized enterprises (SMEs) with fewer than 250 employees.<sup>5</sup> Within this, almost 5.3 million businesses have fewer than 10 employees, including 4.1 million with no employees. Whilst SMEs account for most UK businesses, they account for a much smaller proportion of employment and turnover. SMEs provide 61 percent of total employment and 53 percent of turnover, whilst micro businesses account for 32 percent and 21 percent, respectively.

Figure 1: Private sector businesses in the UK by number of employees, 2023

	<b>Businesses (thousands)</b>	<b>Employment (thousands)</b>	<b>Turnover (£bn)</b>	<b>Businesses (%)</b>	<b>Employment (%)</b>	<b>Turnover (%)</b>
All businesses	5,555	27,524	4,480	100.0	100.0	100.0
SMEs (0-249 employees)	5,547	16,715	2,355	99.9	60.7	52.6
Micro (0-9 employees)	5,287	8,773	923	95.2	31.9	20.6
• With no employees	4,110	4,485	331	74.0	16.3	7.4
• With 1-9 employees	1,177	4,288	592	21.2	15.6	13.2
Small (10-49 employees)	223	4,346	670	4.0	15.8	14.9
Medium (50-249 employees)	37	3,596	763	0.7	13.1	17.0
Large (250+ employees)	8	10,809	2,124	0.1	39.3	47.4

Source: DBT (2023). [Business Population Estimates 2023](#)

There is some variation across the UK. Employment in businesses with between one and 49 employees was most common in Wales and Northern Ireland, where it accounts for 39 percent of employment, and least common in London, where it accounts for 26 percent of employment. The regions with the highest proportion of employment in large businesses (with over 250 employees) were London (48 percent of employment), East of England (45 percent), and East Midlands (43 percent).<sup>6</sup>

5 The UK government's definition of SMEs covers encompasses micro (fewer than 10 employees and an annual turnover under €2 million), small (fewer than 50 employees and an annual turnover under €10 million) and medium-sized (fewer than 250 employees and an annual turnover under €50 million).

6 DBT (2023). [Business Population Estimates 2023](#).

## 2.4 Why support plural and local ownership?

A primary rationale for supporting plural and local ownership is that **profits** are more likely to go to local residents.

- Members decide how co-operative profits are distributed or reinvested for the benefit of members. The extent to which the distribution of profits to members benefits the local economy will depend on whether they live or spend in the local area.<sup>7</sup>
- Social enterprises are expected to re-invest or donate at least half of their profits or surpluses towards their mission. The extent to which the local area benefits will depend on the mission, and the proportion of profits that are re-invested. For example, if the mission is to provide employment opportunities for local residents and all profits are re-invested, there will be a larger impact than if the mission is to reduce landfill, and only 50 percent of profits are re-invested.
- Municipal enterprises are owned by local authorities, so any profits will tend to be re-invested into the local area, either through the municipal enterprise or via the funding of other public services (ignoring any interaction with other sources of local authority revenue).
- For businesses, decisions about how to use any profits generated will be made by the business owner but the proportion spent locally is likely to be higher for locally-owned businesses.

Another potential rationale for supporting plural and local ownership is that these businesses may behave differently to other businesses – for example, they may be more likely than other businesses to build local supply chains or offer employment and training opportunities to local residents.

## 2.5 Interventions to support plural and local ownership

Common ways to support plural and local ownership include:

- Providing business advice.
- Improving access to finance.
- Providing other support, such as subsidised workspace, staff training, funding for R&D, etc.
- Giving preferential treatment, for example, through local procurement policies.

Support could assist start-up, growth, or survival. Plurally- and locally-owned businesses could be supported through common or specialist programmes. Considerations include the programme objectives, the extent to which issues are common to both groups, and the scale of support required (with a strong case for combining support where numbers are small). As discussed above, the fact that small businesses are more likely to be locally owned means that mainstream support to SMEs may be a way of encouraging local ownership.

## 3. Assessing local economic impacts

### 3.1 Introduction

This section considers the potential local economic impacts of supporting plural and local ownership.

This section is structured by outcome – covering employment, wages, productivity, profits, other income effects, and prices. Where relevant we use available data on small businesses, independent

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<sup>7</sup> Co-operative societies are allowed to distribute some of their profits to members, but they must not conduct their business “*with the object of making profits mainly for the payment of interest, dividends or bonuses on money invested or deposited with, or lent to, the society or any other person.*” (Source: <https://www.uk.coop/resources/community-shares-handbook/1-share-capital/11-community-shares>)

of ownership structure, to help assess possible impacts. This assumes that most policies to support plural or local ownership will tend to be targeted at smaller businesses and that size is a major determinant of outcomes independent of ownership. We highlight situations in which these assumptions may not hold – either because support is targeted at larger businesses (for example, a municipal enterprise) or because there is evidence that plural or local ownership affects behaviour in ways that matter for economic outcomes (for example, if plurally-owned businesses are more likely to maintain employment in economic downturns).

We then consider evidence on the effectiveness of interventions, drawing on our resources on [business advice](#), and [access to finance](#).

## 3.2 Employment

### Direct effects on employment at supported businesses

The direct effect on employment comes from jobs at supported businesses. The impact may differ depending on whether support is targeted at start-ups or existing businesses.

Most start-ups employ no or few employees initially. Research finds that on average only 2 percent of start-ups that have an initial turnover of under £500,000 and survive to their third year grow their turnover to over £1 million.<sup>8,9</sup> Based on the average revenue per employee of £190,000 in 2021, this suggests only around 2 percent of start-ups will grow to five or more employees within three years.<sup>10,11</sup>

Many start-ups do not survive. Around 95 percent of new businesses survive for one year, but only 75 percent survive for three years and 40 percent for five years.<sup>12</sup> Estimates of employment arising from start-ups should account for these failure rates (with the proportion used depending on the time period).

Employment within most businesses is relatively small. Across the business base as a whole (including large firms with more than 250 employees), the average number of employees is 10, with the equivalent figure for those employing less than 50 employees being four.<sup>13</sup> Only a small proportion of existing businesses grow employment in a given year. In 2022, 26 percent of SMEs with employees reported increased employment over the last 12 months, whilst 19 percent reported decreased employment.<sup>14</sup> The proportions vary by employment size, with 23 percent of micro-businesses (0 to 9 employees) reporting an increase, compared to 39 percent of small businesses (10 to 49 employees) and 52 percent of medium-sized businesses (50 to 249 employees). Only 11 percent of SMEs with no employees expected to employ someone within the next 12 months.

As well as only a small proportion of businesses growing, few businesses grow at a rapid rate. The OECD defines a ‘high growth enterprise’ as one that grows by 20 percent per year for three years, whilst the European Commission uses 10 percent per year for three years.<sup>15</sup>

To use these figures to assess likely policy impacts start by understanding what type of businesses are targeted – start-ups or existing businesses? If existing businesses, do they have employees and, if so, how many? Is support aimed at growth or at sustaining existing employment? Understanding

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8 Enterprise Research Centre (2019). [UK Local Growth Dashboard](#).

9 Whilst rates varied across geographies, this was within a narrow band (1.1 to 4.6 percent).

10 Calculation based on data from UK Business: Activity, Size and Location 2021 published by ONS following a user request (AH1019). Please contact What Works Growth if you would more information on this data or on how to request similar data.

11 An alternative approach for converting turnover into employment is to use the ‘labour share’. This is discussed in our [local procurement briefing](#).

12 ONS (2023). [Business demography, UK: 2022](#).

13 ONS (2022). [Company turnover and average employee numbers 2021](#). User request AH1019.

14 DBT (2023). [Small business survey 2022](#).

15 OECD (2016). [Entrepreneurship at a glance 2016](#).



the type of businesses being targeted will help determine which of the issues and statistics discussed earlier are most applicable. Given the complexities and lack of data, consider calculations to be rough estimates, not precise predictions.

***Do these calculations need to be adjusted because support is for plurally- and locally-owned businesses?*** There is no national data that would justify such adjustments. Avoid calls to adjust calculations unless there is strong local evidence that plurally- or locally-owned businesses are systematically different from the business base as a whole (for example, are more or less likely to survive, or have different growth rates). Where support is for larger businesses, including municipal enterprises, the direct employment effects are best calculated on a case-by-case basis.

### Key messages

Direct employment effects come from jobs at supported businesses. Understanding the type of businesses targeted (start-ups or existing businesses), baseline employment levels, and the aim of support (start-up, growth or survival) will help identify what data to use in calculating direct employment effects.

Only rough estimates are possible. These should not be adjusted because support is for plurally- and locally-owned businesses unless there is local evidence to justify such adjustments.

### Displacement and crowding-out

Increases in employment in supported businesses may result in displacement. Displacement occurs when higher employment at a business results in lower employment at other businesses, for example, because customers have switched from an existing business to a new business. For assessing local impacts, the key consideration is whether employment at supported businesses is due to displacement from other local businesses. This is more likely for less unique goods and services, for goods and services sold primarily in local markets, or when competitors are based in the same area. For these reasons, non-tradeable sectors – such as retail and hospitality – are much more susceptible to local displacement than tradeable sectors.<sup>16</sup>

Targeting support at businesses in tradeable sectors, especially those serving international markets, will minimise displacement. Where support is also offered to non-tradeable businesses, unless there is evidence that the supported organisation is filling an unmet need, adjust employment estimates downwards when moving from direct jobs to local jobs to account for displacement. The scale of displacement will depend in part on the geography considered, with displacement more likely the larger the geography.

Scottish Enterprise recommend using the location of the business's competitors and the state of the market to calculate the likely scale of displacement.<sup>17</sup> For example, if all competitors are judged to be based in the same area, then the displacement would be put at 100 percent assuming the market is broadly stable. This figure can then be adjusted if the market is experiencing growth or decline. If the market is growing strongly for instance, an adjustment of 0.5 could be made to account for this, reducing the displacement percentage to 50 percent. Be careful when making these kind of adjustments for market growth to also consider the question of deadweight – the amount of employment growth that would have occurred in the absence of any policy support. While displacement may be smaller in growing markets, deadweight will tend to be larger.

<sup>16</sup> For more information on non-tradeable and tradeable sectors, see <https://whatworksgrowth.org/insights/understanding-tradable-non-tradable-sectors/>

<sup>17</sup> Scottish Enterprise (2014). [Scottish Enterprise Impact Appraisal and Evaluation Guidance](#).



***Do calculations need to be adjusted because support is for plurally- and locally-owned businesses?*** As both plurally- and locally-owned businesses are more likely to be in non-tradeable sectors than tradeable sectors, displacement may be a bigger issue than if support was for other businesses. For example, in 2023, the largest numbers of co-operatives were in the social clubs and trade unions (2,484 co-operatives), housing (788), retail (771) and sports and recreation (568) sectors, whilst the largest sectors by turnover were retail (£28.5 billion), agriculture (£8.5 billion), sports and recreation (£0.8 billion), housing (£0.6 billion) and education (£0.6 billion).<sup>18</sup> With the exception of agriculture, most of these would be considered non-tradeable.

Turning to local ownership, we again need to rely on figures for SMEs. Fifty-one percent of employment in education is in businesses with no employees (with this including personal tutors, music teachers, and driving instructors). Other sectors with high proportions of employment in businesses with no employees include other services activities (which includes a wide range of activities including hairdressing, dry cleaners, funeral services, and dog grooming) with 44 percent, arts, recreation, and entertainment (34 percent) and construction (32 percent). The sectors with the largest proportion of employment in businesses with one to 49 employees are agriculture, forestry and fishing (51 percent of employment), accommodation and food services (46 percent), other service activities, construction and real estate activities (each 44 percent). Again, with the exception of agriculture, most of these activities would be considered non-tradeable.<sup>19</sup>

One scenario where plural ownership might cause displacement is the establishment or growth of a municipal enterprise. As municipal enterprises are owned by the public sector, this would be considered ‘crowding out’ (of the private by the public sector). This would not be the case if the municipal enterprise meets a need currently not met by the private sector.

### Key messages

Employment at supported business may come at the cost of employment in non-supported local businesses. Such ‘displacement’ is more likely in non-tradeable sectors. As plurally- and locally-owned businesses tend to be in non-tradeable sectors, displacement is likely to be high.

### Estimating the total impact on jobs – the ‘multiplier’

When a policy results in net additional jobs in an area – that is, additional jobs at supported businesses exceed displacement – this can have wider impacts on local employment. One mechanism for this is through supply chains. For example, if expanded employment means more purchases from a local supplier, this will increase revenues and may lead to the supplier increasing employment.

Additional local jobs can also be created if those newly employed in the area spend some of their income locally. For example, increased local employment is likely to increase demand for goods and services on the local high street, creating more retail and hospitality jobs. Local jobs created in this way will tend to be in ‘non-tradeable’ sectors, which means they need to be done locally, either because they require face-to-face interaction (as with health care, education, and hospitality) or because local production overcomes substantial ‘transaction costs’ related to distance (like in local food delivery and perishable goods).

The same mechanism operates where support sustains employment, as this prevents wider negative impacts on supply chains and local spend from job losses.

<sup>18</sup> Co-operatives UK (2023). [Co-operative and mutual economy 2023](#).

<sup>19</sup> DBT (2023). [Business Population Estimates 2023](#).

An employment ‘multiplier’ can be used to calculate the total number of jobs created when a policy results in net additional jobs in an area. There are several ways to estimate the multiplier. Evidence reviewed for the What Works Growth [local multipliers toolkit](#) suggests that the multiplier for private sector jobs is around 1.3. This means that, on average, for each net additional private sector job created (i.e. direct employment net of displacement) 1.3 additional private sector jobs will be created indirectly, with 0.4 jobs created through the supply chain and 0.9 from increased demand from income spent locally.

The Office for National Statistics (ONS) uses a different method, known as input-output analysis, to estimate the multiplier for different sectors. The ONS figures suggest that each net additional job creates 0.7 private sector jobs in the supply chain (but provides no estimate for the jobs created through increased incomes).

The 0.7 to 1.3 figures are averages. The employment multiplier could be larger or smaller than this, depending on:

- The extent to which businesses use local suppliers: the more they use them, the more jobs should be created in the local supply chain.
- Where new employees will work, live, and spend their income. This will affect the extent to which increased demand for goods and services occurs within the local area.

Understanding supply chains, travel-to-work patterns, and spending patterns will help with assessment of the extent to which support will feed through into employment. This is discussed in more detail in our [public sector relocations briefing](#).

***Do these calculations need to be adjusted because support is for plurally- and locally-owned businesses?*** There is no evidence that suggests these businesses are more likely to build local supply chains, or that spending patterns of employees varies across different ownership structures. It is possible, as discussed in the next section, that plurally- or locally-owned businesses might be more likely to employ local residents.

## Key messages

Additional local jobs can be created through supply chains or if those newly employed in the area spend income locally. Use an employment multiplier to estimate total employment effects. Understanding supply chains, spending patterns, and travel-to-work patterns to help assess the potential scale of multiplier effects.

## Who benefits?

Consider whether additional jobs at supported businesses and displaced jobs at other firms are likely to be filled by local residents. The higher or more specialised the skills required, the greater the likelihood that roles will be filled by those living outside the area. If jobs are filled by local residents, they are more likely to spend their wages locally, increasing the benefit to the local area.

Comparing the skills requirements of jobs affected to the skills of local residents, and analysing existing commuting patterns will help calculate the spatial distribution of employment effects. Training programmes could potentially help ensure that local people benefit from jobs created.

***Do these calculations need to be adjusted because support is for plurally- and locally-owned businesses?*** Plurally-owned businesses may approach recruitment or retention in a different way to private businesses. They might be more likely to employ local residents or to offer employment

or training opportunities to people disadvantaged within the labour market, for example, because of health issues, disability, caring responsibilities, lack of previous work experience, or a criminal record. Our rapid evidence review did not find any evaluation evidence that considered whether plurally-owned businesses employ more local residents or disadvantaged workers. However, 27 percent of social enterprises surveyed in 2023 gave their main mission as creating employment opportunities, with more than 10 percent employing people with learning, sensory or physical disabilities or that have been long-term unemployed.<sup>20</sup> Where efforts are focused on supporting plural ownership, especially social enterprises, this may justify small upward adjustments of the number of roles that will be secured by local residents relative to similar calculations for privately-owned businesses.

There is no evidence to suggest that locally-owned businesses are more likely to employ local or disadvantaged residents.

If plurally- or locally-owned businesses set pay differently to other businesses then this may affect employment patterns because workers tend to be willing to travel further for higher wages (and vice-versa). See Section 3.3 for further discussion of wages.

### Key messages

Are additional jobs in supported businesses and displaced jobs at other businesses likely to be filled by local residents? The higher the proportion of jobs filled by local residents, the greater the potential impact on the local economy. Wages are likely to affect this – workers will generally travel further for higher wages.

Plurally-owned businesses may recruit differently – for example, prioritising disadvantaged groups. In these cases, it may be appropriate to slightly increase estimates of local residents employed.

## Other considerations

### *Employment stability*

Employment within plurally- and locally-owned businesses might be more stable in response to economic shocks. For example, they might be less likely to reduce headcount during a recession. This is likely to vary across organisations though – worker-owned cooperatives with a mission that includes local employment may be more likely to prioritise employment stability than customer-owned cooperatives. In all cases, the ability to do this will depend on the organisation's financial position.

Our rapid evidence review on plurally-owned businesses includes one study that looks at this topic, finding that an increase in the national unemployment rate leads to much smaller declines in employment in worker-owned cooperatives than in privately-owned businesses. Similar findings were found in a review of the literature on employee participation (the right to participate in decision-making) and ownership (the right to participate in net returns).<sup>21</sup> The review also looked at employee retention but found limited evidence and mixed results. There is no evidence considering whether employment stability in locally-owned businesses (or small businesses) differs from businesses as a whole.

20 Social Enterprise Knowledge Centre, on behalf of Social Enterprise UK (2023). [Mission Critical. State of Social Enterprises 2023](#).

21 Jones (2018). 'The economics of Participation and Employee Ownership (PEO): an assessment', *Journal of Participation and Employee Ownership*, vol. 1, issue 1.

## Key messages

Employment in plurally-owned businesses may be more stable in response to economic shocks.

### **Relative impact on employment**

Impacts on employment should be compared to total employment in the area. The working age population of the median sized English local authority is 83,600 (North Hertfordshire), which means plural and local ownership policies would need to create 836 net additional jobs to increase the employment rate by one percentage point (or sustain the same number of net additional jobs to prevent the employment rate falling by one percentage point).<sup>22</sup> The equivalent figures for the largest (Birmingham) and smallest (Rutland) local authorities are 7,398 and 197 net additional jobs. Given that the average number of employees in businesses with less than 50 employees is four, and the potential for displacement, large numbers of plurally- or locally-owned businesses would need to be supported to achieve a modest percentage change in local employment.

## Key messages

Impacts on employment should be compared to total employment. Large numbers of plurally- and locally-owned businesses would need to be affected for a modest increase in the local employment rate.

## 3.3 Wages

Unless the change in employment is large relative to the overall size of the local labour market it is unlikely that there will be effects on local wages, as these reflect overall labour supply and demand in the area. In most cases, the change in jobs is likely to be small relative to the overall labour market, so it is reasonable to assume that there will be no effect on local wages. One potential exception is if the jobs are in specialised labour markets, when wages for those specialist skills may increase. However, as this only affects a small part of the labour market, the overall impact is still likely to be limited.

**Do these calculations need to be adjusted because support is for plurally- and locally-owned businesses?** None of the studies in our rapid evidence review look at whether wage levels in plurally-owned enterprises were systematically different to those in other businesses. Outside the evaluation literature, there is also a lack of data and analysis on this topic. For social enterprises, their mission will play a role. Returning to the example given earlier, wages may be more of a consideration in a social enterprise with a mission to improve local employment opportunities than one with a mission to reduce landfill.

Some worker co-operatives may choose to pay all workers the same or to have flatter wage structures (with a smaller ratio between highest and lowest wage earners). In these scenarios, some workers' wages will be higher than in other similar businesses, whilst some will be lower. The impact of this on the local economy will depend on where workers live and spend. For example, if lower wage employees live locally, whilst higher wage workers in-commute, a shift to paying all workers the same or having flatter wage structure could benefit the local economy – assuming this has no effect on overall business performance – both because local residents get higher wages and lower wage

22 ONS (2022). [Estimates of the population for the UK, England, Wales, Scotland and Northern Ireland.](#)

workers are more likely to spend any increase in wages.<sup>23</sup> However, if all workers live in local area, the wage falls for higher wage workers will result in them spending less. A review of the literature on employee participation and ownership (cited earlier) found that, within businesses, higher paid workers tend to benefit more from wage incentive schemes, increasing inequality.<sup>24</sup>

As municipal enterprises are owned by local authorities, it is reasonable to assume that their approach to wages may be similar to the local authority. In 2019, the modelled average public sector earnings premium was 7 percent.<sup>25</sup> This is the difference between average earnings of public sector and private sector employees after controlling for worker, job, and business characteristics. However, there are variations across industries, occupations, and employer size. For example, high-skilled employees in knowledge-intensive services have higher earnings in the private than the public sector.

Given this diversity and lack of evidence, assessments of the effects on wages should assume that there will be no additional benefit from businesses being plurally owned unless there is specific local evidence to do so (for example, expansion of a plurally-owned business that has a track record of paying higher wages).

As outlined earlier, some plural and most local ownership policies often support small businesses – either as a direct policy aim or because supported plurally- and locally-owned businesses tend to be smaller. Wages in smaller businesses tend to be lower than in larger firms – sometimes referred to as the ‘firm-size premium’. The basic economic intuition for the firm-size premium is that larger businesses are more productive because they are better managed, more capital intensive, and have employees that are more likely to specialise in tasks, and that higher productivity feeds through into higher wages. The extent to which the firm-size premium is likely to be an issue will depend on the type of businesses targeted through plural and local ownership policies. For example, wages are likely to be higher in medium-sized businesses (50 to 249 employees) than in micro-businesses (with less than 10 employees) – so getting larger SMEs to grow may have more of a positive effect on wages than supporting the smallest firms.

One area of particular concern is self-employment. Analysis of 2016 data from the Family Resources Survey finds the modal income category – the level of earnings which is most common – is roughly £240 per week for the self-employed, compared to around £400 for employees.<sup>26</sup> Understanding the types of plurally- and locally-owned business being supported will allow estimates of effects on wages to be made.

### Key messages

Effects on local wages are unlikely unless the change in employment is large relative to the local labour market.

Plurally-owned business may set wages higher than market rates (for some or all employees).

Plurally- and locally-owned business tend to be smaller and wages tend to be lower in small businesses.

23 Higher earners may choose to save or invest any increase in wages, but as lower earners have less resources available to them, they are more likely to increase their consumption.

24 Jones (2018). ‘The economics of Participation and Employee Ownership (PEO): an assessment’, *Journal of Participation and Employee Ownership*, vol. 1, issue 1.

25 ONS (2020). [Public and private sector earnings: 2019](#).

26 ONS (2018). [Trends in self-employment in the UK](#).

### 3.4 Productivity

The focus so far has been on the effects on local labour markets. Support to businesses may also aim to increase productivity by increasing the amount of capital per worker (human, physical or intangible capital) or through organisational change and innovation to improve the efficiency with which all inputs are used. Examples of policies include upskilling workers, providing finance to purchase new, more efficient machinery or technology, improving the capabilities of managers and workers, improving how work is organised, or supporting innovation to develop new products or processes.

Likely effects are hard to quantify and will depend on the focus of support so discussing them in detail is beyond the scope of this briefing.

**Assuming calculations could be made, would they need to be adjusted because support is for plurally- and locally-owned businesses?** As with employment and wages, the fact that these businesses tend to be smaller will have implications because, on average, larger businesses are more productive than smaller ones.<sup>27</sup> There are many reasons for this including higher rates of investment in tangible (such as machinery) and intangible (such as brands and intellectual property) assets, innovation and staff training, better access to finance and skilled workers, and better management and leadership skills, and being more likely to export.<sup>28</sup> Large businesses benefit from economies of scale and economies of scope, especially within capital-intensive sectors such as manufacturing. There is a weaker relationship between size and productivity in other sectors, for example, with little difference in productivity between large and small firms in the professional, scientific, and technical services sector.<sup>29</sup>

Few studies exist that try to isolate the effect of ownership on productivity. Our rapid evidence review on plural ownership identified two studies looking at the effect, with one finding higher productivity in plurally-owned businesses than in other businesses, and one finding lower productivity. In contrast, a review of the literature finds employee participation and ownership generally has a positive effect on business performance.<sup>30</sup> This same review finds some limited evidence that businesses with employee participation do not underinvest (as commonly assumed).

In the absence of further evidence, and unless a programme of support is expected to lead to a large increase in plural and local ownership, it is reasonable to assume that business productivity will not change.

There is a risk that by providing support, some businesses that would not have otherwise survived will continue to operate, using resources (such as capital and labour) that could otherwise be redeployed to more economically advantageous activities. This is particularly likely to be the case when the support provided is monetary – grants or other subsidies (like subsidised accommodation). There is no evidence to suggest the likelihood of this happening varies by ownership.

#### Key messages

The drivers of productivity are varied so effects will depend on the focus of support.

Plurally- and locally-owned business tend to be smaller and productivity tends to be lower in

27 For example, see ONS (2022). [Firm-level labour productivity measures from the Annual Business Survey, UK: 1998 to 2019](#), and Bernick S., Davies, R. and Valero, A. (2017). [Industry in Britain – An Atlas](#). Centre for Economic Performance Special Paper No. 34.

28 For example, see ONS (2021). [Management practices in Great Britain: 2016 to 2020](#) and BEIS (2022). [UK Innovation Survey 2021: Report covering the survey period 2018 to 2020](#).

29 ONS (2022). [Firm-level labour productivity measures from the Annual Business Survey, UK: 1998 to 2019](#).

30 Jones (2018). 'The economics of Participation and Employee Ownership (PEO): an assessment', *Journal of Participation and Employee Ownership*, vol. 1, issue 1.



small businesses – although this varies by sector.

The evidence is inconclusive on whether plural ownership raises or lowers productivity. There is no evidence for local ownership.

Unless additional local evidence is available, assume that policies to support plural and local ownership will not change productivity.

Some support – especially grants and other subsidies – may lead businesses to continue to operate when they would otherwise cease trading, leading to an inefficient allocation of resources.

### 3.5 Profits

Business profits are revenues (turnover) minus costs. They are an important component of gross value added (GVA), and a key generator of individual wealth.

Businesses can choose how to use profits. Given there is no evidence that considers whether the returns on reinvesting profits into the business (for example, to purchase new machinery) varies across ownership structures, the focus of this section is on the distribution of profits to owners.

At the time of publication, the most recent net rate of return, a measure of profitability for private non-financial corporations, was 9.6 percent overall, 7.8 percent in manufacturing, and 15.2 percent in services.<sup>31,32</sup> If information on capital is available – which is unlikely – these rates could be used to estimate profits at supported firms. As with employment, any local effects would need to account for any fall in profits at firms suffering from displacement.

***Assuming calculations could be made, would they need to be adjusted because support is for plurally- and locally-owned businesses?*** As with employment, wages and productivity, the fact that these businesses tend to be smaller could have implications if profit rates differ by business size. In contrast to those outcomes, less is known about the effects of size on profits. Recent data shows 79 percent of micro-businesses (with between one and nine employees), 81 percent of small businesses (10 to 49 employees) and 83 percent of medium businesses (50 to 249 employees) made a profit in the last financial year.<sup>33</sup> These are not large differences in the percentage of business making profits and we could find no additional evidence on how profit margins vary with size. We found no evidence that directly considered the role of ownership on profits.

What about the geographical distribution of profits? For both plurally- and locally-owned businesses, if profits are distributed to owners (or, in the case of co-operatives, members) then the local economy benefits as long as owners live locally. This is implied for local ownership, but may be less certain for plural ownership. The benefits will be greater if all or most of the owners live locally. As the amounts distributed to each individual become larger, the less likely it is that they will be spent locally as they are more likely to be taxed (or taxed at a higher rate), more likely to be saved or invested, and it becomes less likely that any additional goods and services purchased are produced locally.

Plurally-owned businesses may choose to use profits to benefit the community in some other way (for example, a social enterprise with a mission to support homeless people using profits to fund a health

31 ONS (2023). [Profitability of UK companies: April to June 2023](#).

32 The net rate of return is a calculation of profits as a percentage of the capital used in production. Net refers to the rate of return after having accounted for the current value of capital consumed (the decline in the current value of fixed assets due to depreciation and other factors) and capital stocks.

33 DBT (2023). [Small business survey 2022](#).



project, or a municipal enterprise running local bus services being able to reduce fares).<sup>34</sup> The local area will benefit from any projects plurally-owned businesses fund through profits, but the economic benefits of these will vary depending on the type of project funded. For example, funding a project to help a disadvantaged group to gain work experience is more likely to have economic benefits than a project to improve a green space.

An alternative option is that plurally-owned businesses may choose to accept a lower level of profits to enable them to pay higher wages. In this latter case, focus on the considerations set out in Section 3.3.

### Key messages

If profits are distributed to owners, the local economy will benefit if owners live – and spend – locally.

Plurally-owned businesses may also use profits to benefit the local community in other ways, such as donating to community projects. The local economic benefits will depend on how money is spent.

## 3.6 Other income effects

Support to businesses could also impact the local economy through the ‘capital share’ – the proportion of the additional revenues that go to owners of capital assets such as buildings, machinery, data, patents or brands. For example, if a business expands and rents additional office space, some of the additional revenue will go to the owner of the building. Data on the capital share can be used to calculate the potential scale of these impacts. Again, geography matters and the extent to which these increased returns remain in the local area depends on whether owners of capital assets are based locally.

***Do these calculations need to be adjusted because support is for plural and local ownership?*** There is no evidence that the impact on other income varies across ownership structures, or any obvious economic logic about why it should. This means no adjustment is needed to account for the fact that supported businesses are plurally or locally owned.

### Key messages

The local economy could also benefit if supported businesses use locally-owned capital assets such as buildings, machinery, data, patents or brands.

Calculating such effects requires data on capital shares for different assets, which is unlikely to be available. If calculations are possible, there is no evidence to justify adjustments because support is for plurally- or locally-owned businesses.

<sup>34</sup> Co-operative societies are allowed to distribute some of their profits to members, but they must not conduct their business “*with the object of making profits mainly for the payment of interest, dividends or bonuses on money invested or deposited with, or lent to, the society or any other person.*” (Source: <https://www.uk.coop/resources/community-shares-handbook/1-share-capital/11-community-shares>)

### 3.7 Prices

Prices for most goods and services are determined by the balance between demand and supply in the market. Business support services will rarely change prices, unless they lead to a large shift in either demand or supply. As such, the starting assumption should be that support will not affect prices in most cases and price effects would not usually be considered when assessing the likely impact of support to businesses.

Plural ownership could make a difference here if supported businesses provide non-tradeable services to the local community – such as housing, childcare, retail or hospitality.

Plurally-owned businesses may also choose to offer goods and services at lower prices than privately-owned businesses. This is the motivation behind many consumer-owned cooperatives and municipal enterprises. However, not all plurally-owned businesses will charge lower prices.

As with other outcomes, there could be local effects because supported businesses tend to be smaller and this could affect prices. In the absence of further evidence, and unless a programme of support is expected to lead to a large increase in plural and local ownership, it is reasonable to assume that prices will not change.

#### Key messages

Most prices are determined by the market. Plurally-owned businesses may sometimes charge non-market prices. But in most cases, assume support will have no effect on local prices.

### 3.8 Impact of interventions to support plural and local ownership

The main policy levers available to local policymakers seeking to support plural and local ownership are to provide business advice and to improve access to finance. What Works Growth published evidence reviews on both in 2016.<sup>35</sup> These provide important insights into ‘what works’ but only cover the evidence published before this date. The evidence is focused on privately-owned businesses regardless of ownership but is likely to apply to plurally- and locally-owned businesses that operate in a commercial manner.

The evidence on [business advice](#) is mixed.

- Around half of studies (eight of 17) that looked at the impact of business advice on **employment** find no effect. Around a third find a positive effect, with the remaining studies finding mixed effects.
- Four studies look at earnings or income (which we can use as proxy for **wages**), with two findings no effect, and the other two finding mixed effects. Three of the studies in this category focused on start-up support for unemployed or low-income people so these findings are unlikely to be more widely applicable.
- Just under half of studies (four of nine) that looked at the impact on **productivity** find no effect. Three studies found a positive effect, with two finding mixed effects.
- Only one of five studies that looked at the impact on **profits** finds a positive effect.
- No studies looked at the impact on **other income effects** or **prices**.

Underpinning many of these findings, interventions only had an impact on sales and turnover in

<sup>35</sup> What Works Growth have also published [toolkits](#) on different aspects of business advice.

around half of cases. Similarly, a recent [evaluation](#) undertaken by What Works Growth of the Growth Vouchers Programme, which provided subsidised business advice to over 15,000 SMEs, finds the programme increased turnover by 8.2 percent but only in the short-term and potentially at the expense of non-supported businesses, and had no effect on employment.

The evidence on [access to finance](#) is also mixed.

- Just over half of studies (six of 11) that looked at impact of access to finance on **employment** at firm-level find a positive effect, whilst two of the three studies that looked at the impact on wider employment find positive effects.
- Half of studies (four of eight) that looked at impact on **wages** and income find a positive effect.
- Only two studies looked at **productivity**, with both finding no effect.
- Half of studies (two of four) that looked at impact on **profits** find a positive effect.

Other findings of interest include that of the four studies that looked at the impact of access to finance on start-ups, only one finds a positive effect, and of the five studies that looked at the effects on survival, only two find a positive effect.

Be realistic about the scope of interventions to impact on supported businesses or the local economy. The evidence suggests interventions are only likely to have an effect on around a third to half of supported businesses, but setting clear objectives and improved targeting may help increase the likelihood of having an effect on supported firms. Recognise that there may also be displacement.

***Do these calculations need to be adjusted because support is for plural and local ownership?*** There is no evidence that compares the effectiveness of interventions across different ownership structures.

Plurally- and locally-owned businesses can also be assisted in other ways including support for [innovation](#), skills development, or provision of property and other facilities. They could also be prioritised in [local procurement policies](#).

### Key messages

The main policy levers are business advice and improving access to finance. Other policies include innovation, skills development, property, and local procurement.

The evidence on the effectiveness of business advice and access to finance is mixed. For key outcomes (employment, productivity, etc.) only around a third to half of supported businesses will see positive effects – so it is important to be realistic about the potential effects on the local economy.

A lack of evidence means we do not know if effectiveness of interventions varies across different ownership models.

## 4. Assessing wider benefits

Some plurally-owned businesses are set-up to provide wider benefits. Social enterprises trade primarily to support a social or environmental mission and re-invest or donate at least half of their profits or surpluses towards their mission. A survey by Social Enterprise UK found that the most common missions were providing support to a particular community (37 percent), improving mental

health and wellbeing (35 percent), and supporting vulnerable people (31 percent).<sup>36</sup> An estimated £1 billion was reinvested by social enterprises into their missions in 2023, including £270 million by social enterprises based in the most deprived communities (defined using the Index of Multiple Deprivation).

Plural and local ownership may also have other wider benefits. For example, employers play a key role in careers provision, including providing work experience, so increasing plural and local ownership could potentially increase (and broaden) the options available. Similarly, local businesses often sponsor local events and groups. There is strong evidence that events can increase people's sense of belonging, ownership, empowerment, and pride in an area. More generally, increasing employment and shared wealth has the potential to create more social cohesion, a sense of belonging, and feeling more connected to and proud of their community and area. However, in most cases, these benefits are likely to be small and difficult to measure.

### Key messages

Some plurally-owned businesses – especially social enterprises – are set-up to provide wider benefits.

Plural and local ownership may also have other wider benefits, such as contributing to civil society and improving pride in place. In most cases, these are likely to be small and difficult to measure.

## 5. Assessing policy costs

Consider the potential costs for policymakers.

The main cost will be the provision of support for plurally- and locally-owned businesses. As set out earlier, there are diverse policy options – business advice, access to finance, provision of property and facilities, skills development, etc. – so potential costs are highly variable. Support should reflect the needs of plurally- and locally-owned businesses. For example, providing (subsidised) workspace should only be pursued if a lack of suitable premises is a key challenge being faced by the target businesses.

An alternative option would be to support plural and local ownership through local procurement. This also has potential costs, with our [rapid evidence review on procurement](#) finding evidence that giving some bidders preferential treatment is likely to lead to higher contract costs.

### Key messages

The main policy cost is the provision of support services for plurally- and locally-owned businesses. Costs will depend on the policy chosen, meaning they are highly variable.

If plural and local ownership is supported through local procurement, this may lead to higher contract costs.

<sup>36</sup> Social Enterprise Knowledge Centre, on behalf of Social Enterprise UK (2023). [Mission Critical. State of Social Enterprises 2023](#).

## 6. Monitoring and evaluation.

This briefing provides a framework to help policymakers assess the benefits and costs of policies to support plural and local ownership. Collecting monitoring data and, where possible, undertaking evaluation of interventions of the impact of the policy will help assess impacts and increase the data and evidence available to inform future decisions.

### Key messages

Use monitoring and evaluation to assess the impact of policies to support plural and local ownership. This will help improve future decision-making.

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