



The Contribution of Direct Employee Share Ownership to Social Mobility and Levelling-Up

David Craddock is a recognised authority in the UK and worldwide on employee share schemes and cash profit-sharing schemes and is the author of *Tolley's Guide to Employee Share Schemes*. In this article, David describes and analyses the contribution that direct employee share ownership can make towards personal social mobility for individuals with the consequential benefits for the levelling-up agenda.

The Levelling-Up Agenda of the British Government

Levelling-up represented a fundamental element within the Conservative Party Manifesto for the 12th December, 2019 General Election. As a social concept, it is widely understood by political commentators to be credited for the success of the Conservative Party in winning seats in previously held Labour areas in Northern England and in previously recognised Liberal Democrat strongholds in Southwest England. The commitment to regional levelling-up was presented to the British electorate as affordable in the context of a financial dividend that it contended could be secured through Brexit.

The British Government published its policy through the White Paper dated 2nd February, 2022 as a “moral, social, and economic programme for the whole of government” and is designed to explain how the programme “will spread opportunity more evenly across the UK”. The intention is to execute the programme as a means of reducing imbalances across the UK by levelling-up areas of deprivation and decline – urban, rural, and coastal – without any corresponding detriment through levelling-down the more prosperous parts of the country, notably Southeast England. The implication, therefore, is that the levelling-up policy is predicated on increasing the GDP of the country as a whole through economic growth.

The White Paper: “The Missions to Level-Up the UK”

The Mission Statements (MS) to which employee share schemes can contribute are:

MS No.1: By 2030, pay, employment, and productivity will have risen in every area of the UK, with each containing a globally competitive city, with the gap between the top performing and other areas closing; **MS No.6:** By 2030, the number of people successfully completing high-quality skills training will have significantly increased in every area of the UK; **MS No.7:** By 2030, the gap in Healthy Life Expectancy (HLE) between local areas where it is highest and lowest will have narrowed, and by 2035 HLE will



rise by 5 years; **MS No.8:** By 2030, well-being will have improved in every area of the UK, with the gap between the top performing and other areas closing; and **MS No.9:** By 2030, pride in place, such as people's satisfaction with their town centres and engagement in local culture and community, will have risen in every area of the UK, with the gap between the top performing and other areas closing.

Recent Usage of the Term Levelling-Up in Public Affairs

Tony Blair, Prime Minister from 1997 to 2007, in the run-up to the 1997 General Election, stated on 24th April, 1997 that it was his intention to engage in the process of levelling-up in the context of his preference for low taxes in support of upward social mobility. **Theresa May**, Prime Minister from 2016 to 2019, in an education debate in the House of Commons in 1997 described conservatism as levelling-up and socialism as levelling-down. Additionally at various times during her time as Prime Minister she referred to **The British Dream**, a clear attempt to imitate the concept of **The American Dream** in the UK. **Boris Johnson**, Prime Minister from 2019 to 2022, pledged through the Conservative Party Manifesto in 2019 to “use this investment prudently and strategically to level up every part of the United Kingdom, while strengthening the ties that bind it together”. **Justine Greening**, Member of Parliament for Putney from 2005 to 2019, and Education Secretary from 2016 to 2018, while in office and since departing the House of Commons, has consistently linked levelling-up to social mobility, stating that she pledged her focus to “making sure we have levelled up Britain where everyone can

achieve their potential wherever they start, wherever they're born”.

Reasons for the Need for Levelling-Up in the UK

Reason 1: The deindustrialisation of the previously recognised powerhouses of the Industrial Revolution, identified in the movement away from primary and secondary industry to tertiary sector services industries. **Reason 2:** The globalisation of world markets that, without an effective tariff protection policy, have exposed staple British industries to low-cost overseas competition, and contributed to undermining wages through the loosening of the labour market. **Reason 3:** The centralisation of business decision-making around the activities of the City of London at the expense of developing equally competitive centres in the regions, compounded by the absence of a consistent form of regional government. **Reason 4:** The secularisation of British society arising from the decline of faith as a basis for developing community, inspiring inner belief systems in people of the younger generations and encouraging traditional family life. **Reason 5:** The decline and decay

of local infrastructure – transport, notably rail, and otherwise – through a failure by successive governments to encourage sufficient private investment into the regions except on a selective basis through the freeports.

Lessons for the UK from the American Dream

The concept of **The American Dream** derives from **The Declaration of Independence** of 1776:

“We hold these truths to be self-evident, that all men are created equal, that they are endowed by their Creator with certain unalienable rights, that among these are Life, Liberty and the pursuit of Happiness.”

The idea is that upward social mobility is achieved through hard work in a society that embraces free enterprise and believes in equal opportunity based on rights given by God (not government, so they cannot be taken away) to “life, liberty and the pursuit of happiness”.

The key principle for **The American Dream** is that the rights cannot be taken away because they are given by God, with all the inner





attributes to activate them in your life for success, so with that assurance all things are possible. The term **The American Dream** was first referred to by the historian, **James Truslow Adams**, in 1931 in his book, **Epic of America** as “a land in which life should be better and richer and fuller for everyone, with opportunity for each according to ability or achievement”. So, can there be **The British Dream** that assists upward social mobility?

America is avowedly not an imperialist power as to be so would run contrary to the principle of independence and self-determination on which the USA was founded. Rather, America is a protector power in its foreign policy and was intended in the organisation of its society by The

Founding Fathers to be an example for other nations, including the UK, to emulate and follow.

Employee Share Ownership as Part of The British Dream

Yes, there is **The British Dream** to which direct employee share ownership has contributed and continues to contribute in personal wealth creation and social mobility. But recognise that on the historical context, there are distinct differences between the UK and the USA. **Firstly**, in America, the role of government is not to give the rights, which are already given by God, but to protect the rights and the values that support them to make America attractive for people with aspiration. There is, therefore, a faith-based element. **Secondly**,

American society historically built upwards from the immigrant entrants who were seeking that equal opportunity to aspire and achieve whereas British society historically built downwards from the feudal landlords favoured by the monarch. **Thirdly**, the historical context for the Americans has always been sharing, primarily land sharing in different forms as through immigration the land claim became exhausted, but the immigrants kept arriving. As the immigration continued, the frontier moved further west, so rather than fight over land, sharing arrangements were introduced. It is, therefore, no coincidence that employee share ownership took root earlier in America than in Britain and, yes, contributed to the social mobility of American citizens.



Linking Social Mobility to Direct Employee Share Ownership

The key principle is that working together and sharing rewards through direct employee share ownership and profit-sharing is central to both **The American Dream** and **The British Dream!** Creating the leverage through shared working benefits assists the upward social mobility for all employees with the company's treatment of its employees acting as the powerhouse for change both in the workplace and in society as a whole.

Connecting Social Mobility to Levelling-Up

The book, *Jonathan Livingston Seagull: A Story*, is a narrative written by the American author, **Richard Bach**, first published in 1970, portraying Jonathan, a seagull aspiring to a better and higher life that is different from the lives led by the seagulls in the community where he lives in which the seagulls seem preoccupied with fighting each other for scraps of food – a drab life indeed. Jonathan develops a passion for flight and drives himself through a combination of: (1) observation of mentor seagulls who he meets on his life journey, (2) trial and error and (3) self-education, to a more satisfying life that he discovers through the perfection of knowledge.

Jonathan demonstrates a determination in his quest for improvement which comes through his passionate desire to learn and his preparedness to take risk. Jonathan becomes aware that he has found something very special and in all humility he resolves to find other seagulls who aspire just as he did. He does, indeed, find other seagulls with a similar spirit and teaches them, thereby achieving his mission of spreading his love of flight. His first student, Fletcher Lynd Seagull, becomes a teacher, just as Jonathan is,



allowing them both to teach others and develop societies of seagulls in which aspiration to achievement is encouraged and life satisfaction is taught to have a strong spiritual dimension in rising above conformity, boredom, and limitation. Jonathan is the exemplary seagull, described as “pretty well a one-in-a-million bird”.

What do we learn from this narrative about Jonathan? We learn that personal individual social mobility leads to the communal levelling-up of society with the one intricately connected to the other. **Firstly**, Jonathan takes

personal responsibility for his own future: Jonathan follows his heart with an innate inner belief and seeks out his opportunity to aspire, achieve and develop success in his chosen profession of flying. **Secondly**, Jonathan pursues a combination of education and self-education: Jonathan builds increasing levels of self-confidence as he benefits from the guidance of teachers which he combines with self-education. **Thirdly**, Jonathan chooses to contribute to the society from which he came: Jonathan’s natural instinct, arising from his own success in social mobility, is to help others likewise and contribute to the society from which he came, his home community.

The Direct Employee Share Ownership Incentive

The case for direct employee share ownership relies on two key principles. **Principle 1**: The employee will be more inclined to contribute to the growth of the company if he or she has a stake in





the growth that he or she is being incentivised to create. **Principle 2:** The business owner can distribute some of his or her shares to other people, thereby enabling the creation of higher levels of value creation overall. For example, would the business owner prefer to have 100% of a business valued at say £100,000 or 75% of a business valued at £1,000,000? The answer is self-evident.

The Business Owner with the Jonathan Mindset

The business owner takes personal responsibility to first develop his own skills and based on the acquisition of those skills develops a company. The key to his success is that he expands and then extends. The business owner engages in a process of education and self-education to support the development that enables him to aspire. Again, he is expanding and extending. The business owner who is wise and shrewd knows that the enlightened approach that benefits both himself and others is to apply the principles that support the case for direct employee share ownership and share part of his shareholding with others alongside his knowledge and understanding as he mentors others. More expansion

and extension through direct employee share ownership.

Maximising the Success of Employee Share Schemes for the Company

Employee share schemes, when properly implemented and communicated in a company that encourages direct employee financial participation, develop an incentive entrepreneurial culture that is conducive to both personal and corporate value creation based on productivity that is achieved before the reward is dispensed. Employee share schemes create a victory mentality (as opposed to a victim mentality) as employees receive a more substantial and fairer reward from their involvement with the company as a return for their achievement. Employee share schemes deliver more substantial funds to employees earlier in their career, thereby contributing to house purchase, family development and domestic harmony. Employee share schemes contribute to community cohesion as employees learn a mindset of personal responsibility to the wider community of their company and beyond, a responsibility learned through personal stewardship over their own direct share interest

in the employing company. Employee share schemes develop a sense of co-partnership in the company that encourages the enquiring mind that is conducive to learning and self-education and personal development.

The empirical evidence indicates that employee share schemes always operate best when implemented alongside their compatible sister policies which can be summarised as follows: (1) cash profit-sharing, (2) education, training and development, qualifications, and credits, (3) accountable performance management, (4) employee coaching, (5) fair pay systems based on objective criteria, (6) devolved decision-making through responsible delegation, (7) employee deliberative and consultative bodies in the form of works committees and councils, (8) corporate sharing of information through regular employee communication meetings, (9) company health checks and the provision of health and other insurances, (10) quality circles and suggestion boxes to tap into jobholder ideas and respect the employee as the custodian of the job, (11) quality management schemes: quality assurance and

quality control, (12) voting powers attached to the employee shares where voting rights, albeit minority rights, are regarded as integral to the commodity of the direct employee share ownership.

Contributing to the Wider Society

Successive governments in the UK have used the corporation tax deduction as the tax bait to attract companies and their advisors to embrace employee share schemes. Beyond tax, though, there is a commercial imperative in employee share ownership. The point is that involvement in employee share schemes, when encouraged to be introduced responsibly alongside the sister policies, with suitable incentives and education introduced by government to do so, encourages responsible citizens who have the capacity to make a wider contribution to the community. Suppose, for example, a policy, say through a form of corporation tax deduction, to encourage companies to become involved in the wider community. This approach is thoroughly consistent with **Section 172 Companies Act 2006** under which there is compatibility with the directors' duty to promote the success of the company. The duty to promote the success of the company includes the impact of the company's operations on the community and the environment. A director of a company must act in the way he considers, in good faith, would be most likely to promote the success of the company for the benefit of its members as a whole and, in doing so, have regard (amongst other matters) to: (1) the likely consequences of any decision in the long-term, (2) the interests of the company's employees, (3) the need to foster the company's business relationships with

suppliers, customers and others, (4) the impact of the company's operations on the community and the environment, (5) the desirability of the company maintaining a reputation for high standards of business conduct and (6) the need to act fairly as between the members of the company.

The idea of a company that embraces direct employee share ownership acting as a company that is interested in the wider community is based on the following: **Premise 1:** the employees identify through their direct share interest with the company. **Premise 2:** the company identifies with the community. **Therefore,** the employees identify with the community through accepting local civic responsibilities, contributing to self-help and local community groups, participating in health and other local cooperatives, and engaging with local environmental groups – but all this from a standpoint of learning responsibility through stewardship of their own direct share interest in the company.

The implementation of this idea operates through the following principles. **Firstly,** the employees are identified with the company through the operation of their direct employee share ownership and the compatible sister policies. **Secondly,** the company is identified with the community through a purposeful decision of the Board of Directors to apply **Section 172 Companies Act 2006** in a meaningful way that respects the duty to have regard to the impact of the company's operations on the community and the environment.

A Word about Social Enterprises

The **Social Enterprise** idea in the UK is something different in kind but has merit and is worth a mention. The British Government defines a **Social Enterprise** as:

“a business with primarily social objectives whose surpluses are principally reinvested for that purpose in the business or in the community, rather than being driven by the need to maximize profit for shareholders and owners”.

This type of organization is community-owned such that its





assets belong to the community and cannot be sold off for private financial gain. It is led by local people who represent stakeholders in different elements of the local community, and it exists for the reinvestment of its profits into local community projects and activities. Although social enterprises do not facilitate employee share ownership, they represent an example of an organizational type that in any given community can work alongside companies that embrace direct employee share ownership.

Supporting the Levelling-Up Mission Statements

The characteristics of direct employee share ownership that intrinsically support corporate economic growth, personal wealth creation, social mobility and the levelling-up agenda are:

Redistributive: Direct employee share ownership is openly redistributive and fosters fairness in business. The market approach of employee share schemes facilitates redistribution as a reward for hard work, effort and endeavour and introduces the ethic of fairness into the business. As a redistributive mechanism, it is self-funding and more effective than the traditional redistribution methods that are based on

social security and government hand-outs that over-burden government, stifle enterprise and undermine incentive.

Productive: Direct employee share ownership enhances the productivity of businesses. The employees will be more inclined to produce value for the company if they know that they have the potential to share in the developing value of the business, whether through income return in the form of dividends or, more especially, through capital return at any exit event or through an employee share trust acting as a market for the shares.

Incentive: Direct employee share ownership motivates through a meaningful and tangible incentive. On the basis of strong and credible evidence researched by multiple institutes and universities over the last 40 years in the UK and in the US, the employee involvement in a share interest either through direct ownership of the shares or an option that gives the potential for real ownership of shares establishes a motivational intent in the minds of the employees to incentivise and solder employee interest to the company.

Individualist: Direct employee share ownership generates an individual reward for the employee. The capacity to deliver actual

financial reward to each individual employee scheme participant appeals to the enlightened self-interest of the employee and encourages an entrepreneurial mindset within employees while still operating as employees. All the research demonstrates that the potential for individual reward identifies the employees with the business, with the direct ownership of shares giving the sense of ownership of the company.

Teamwork: Direct employee share ownership welds together the team under the common incentive. The subtle beauty of employee share ownership is that at the same time it is both individualist and team-orientated for the reason that it delivers the individual reward through the team, working together as a united team, working with a common sense of purpose towards a defined aim and developing value under the common totem of the developing share value that they can celebrate together.

Educative: Direct employee share ownership encourages and supports a training and learning culture. The ability of direct employee share ownership to encourage the spirit of discovery and growth within the workforce and assisting in personal development through on-site training and learning is a powerful element in innovation and, also, in being able to handle the change that is inevitable in a developing and evolving business that is seeking to achieve ambitious growth targets.

International: Direct employee share ownership operates effectively across national borders. The direct employee share ownership programme can act as a unifying force across a global multinational



corporate group that operates in countries with diverse cultures, establishing the common purpose around the developing share value as the totem that unites everyone who has a share interest in the company.

Voluntary: Direct employee share ownership works best when involvement is voluntary rather than compulsory. The desire to introduce the direct employee share ownership programme should stem from a genuine belief in the expected benefits to flow to the company although often it will be the bait of the tax relief that first alerts the company and its advisers to the opportunity. South Africa is a case in which courtesy of the black empowerment legislation employee share schemes are in a sense compulsory and many companies tend to resent the requirement to introduce with the associated costs.

The Summary Position

Encouraging the Rewards and the Instincts Towards Social Mobility: Direct employee share ownership, operating both as a means for delivering employee reward, based on the capital development of the company, and as a motivational policy that impacts on the mindset that the employee develops towards the business, encourages



the instincts and the rewards – the personal wealth creation – that lead towards social mobility.

Using the Bait Initiatives from the British Government for Levelling-Up: Once established as a means of facilitating social mobility, the natural consequence is to contribute towards the

levelling-up process which can be encouraged through government-led incentives, including the tax system through the corporation tax deduction.

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David Craddock welcomes an opportunity to discuss your Employee Share Schemes Initiative with you. Please feel free to contact David at:

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