

# Technocratic to Democratic:

Bringing Together Democratic Business & Policy

## Building democratic culture, skills, and partnerships in policy-led regions

Research Report | September 2021

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# Who are we?

**We're not a think tank.** We're a democratic business that is focused on encouraging strategic leadership in our sector and creating a new platform to build strategic partnerships between those in the democratic business community and those working to support the sector in research, policy making, and local government. Producing reports is not a core function of our organisation, but we see the value in developing an 'intelligence function' within this sector, and a new evidence base to influence wider policy and strategic agendas, especially those relating to the role of policy and local government in supporting democratic business.

Over the last half-decade we've been aware of a lack of strategic leadership and tensions between key stakeholders in democratic business and policy, which are currently undermining sector-wide ambitions. The report explicitly frames these challenges from the perspective of those working in and advising democratic businesses, with the aim of transforming how we work together towards a more democratic economy.

**This report has a relatively simple purpose – to create a new evidence base** that shares the direct experiences of democratic business members and advisors who have been working within institutional strategies over the last half-decade. The ambition is for the report to encourage new strategic partnerships and to review how key stakeholders contribute to the broader movement for a democratic economy.

The report features a wide range of experiences of working with institutions and policy initiatives and as such does not represent the experience of a single institution or think tank. The report also does not make the assumption that local institutions are entirely unaware of these tensions or challenges, either. We are actively working with a range of councils who are making progress on many of these issues, as are other partners in the sector, but know that this progress risks being isolated and limited to certain regions. So we hope this report not only benefits those who are experiencing challenges with their transition from policy aims to practical action, but also those in the early stages of adopting new policies to support the democratic business sector.

In terms of structure, the report is presented in seven sections – Institutional Strategies, Policy Formulation and Development, Cultural Awareness & Building a Democratic Business Pipeline, Democratic Business Development, the Role of Funding, Recommendations, and Survey Results.

To make the report as accessible and usable as possible, we're sharing our research in short 'statements', which make single points and retain the sense of many contributions from across the sector.

## **Acknowledgements**

Many thanks to the democratic business practitioners whose collective effort and experience have contributed to this report. All contributions are anonymous by decision of interviewees.

# Introduction

**Over the next two years Stir to Action's *Technocratic to Democratic: Bringing Together Democratic Business & Policy* project will build strategic partnerships**

between those in the democratic business community and those working to support the sector in research, policy making, and local government.

Building on recent policy interest in the role of democratic business, this report moves beyond the focus on policy change to address both the immediate deficit in cultural awareness and the business development gap in policy-led regions.

As part of this project, we interviewed democratic business members and advisors working within 'institutional strategies', such as Community Wealth Building and the Co-operative Council Innovation Network, exploring their past and recent experience and recommendations for the future.

In future reports we plan to interview those working in local government, foundations, grant giving bodies and organisations involved in research and policy development about how they understand their role in supporting democratic business and how to work more effectively with the wider sector.

**There are a range of phrases and terms in the report that may be unfamiliar to the reader. See below for a summary of the definitions based on our use within the report.**

### **Apex body**

This term refers to umbrella organisations, often but not limited to membership bodies.

### **Democratic business**

This term refers to businesses that are owned and governed democratically. Within this definition we include co-operatives, community benefit societies, and employee ownership trusts. Within the purposes of this report, we are focusing on co-operatives and community benefit societies.

### **Local government**

This term refers to the range of institutions that have governmental roles, such as local authorities, combined authorities, and city councils.

### **Policy-led regions**

This term refers to where interest and support for democratic business has been initiated by local institutions and policy bodies, not the local community or business networks.

### **Pipeline**

This term is used to describe progress toward a long-term goal that involves a series of particular stages. Within our definition, we propose Stage 1: Awareness, Stage 2: Interest, Stage 3: Decision, Stage 4: Action, Stage 5: Aftercare. For more details on this democratic business development pipeline model, see [here](#).

If there are any other phrases you are unsure of, please email our team on [events@stirtoaction.com](mailto:events@stirtoaction.com).

# Who we talked to

**Through our work at Stir to Action – our quarterly publication, public events, online courses, and festival – we’ve engaged thousands of people who work across democratic businesses, foundations, think tanks, and local government.**

More specifically within our role as a democratic business we’ve been active across the business movement at national and regional conferences, sector-specific events, active members of apex bodies and democratic funding platforms, and business partners on various support programmes. From this experience we’ve built strong relationships with other practitioners from all over the UK.

For this report we spoke to a wide range of those working in the democratic business sector, including: democratic businesses working within economic policy initiatives, democratic businesses working with local government, senior staff in apex bodies, Co-operative Development Bodies, and members of the Co-operative Party.

This following report is a qualitative study based on both formal and informal interviews about the direct experiences of members of the democratic business community, followed by a participation survey.

All interviewees were offered a fee for their participation in this report.

**Over the last half-decade, political support and policy interest has opened up new opportunities for democratic business to become part of how we address local and regional economic challenges in UK communities.** Often using a congested range of ‘policy brands’ and economic concepts, from ‘inclusive ownership’ to the ‘foundational economy’, recent partnerships between think tanks and local government have used progressive policy as a potential means to encourage and favour the creation and scaling up of democratic business.

While this political support has increased the profile of democratic business models, there has often been a lack of clarity on how local government can effectively work with the democratic business community to move from policy aims to practical action. As expected, whenever there’s a range of stakeholders working within any given economic policy initiative, there are always opportunities for different priorities and approaches to cause miscommunication, tension, and uneven relationships. Over this period we’ve been aware of these tensions between key stakeholders in democratic business and policy, which are unnecessarily undermining sector-wide ambitions.

This section of the report shares the experiences and perspectives of the democratic business community working within institutional strategies over the last few years.

**a.** There is a lack of strategic leadership in terms of how the democratic business community interacts with economic policy initiatives and local government, which limits the sector’s influence over these approaches. Currently, it is individuals or businesses that respond to policy recommendations or opportunities with local government, rather than a sector-wide approach.

**b.** Even where Community Wealth Building initiatives or co-operative council status have been formally adopted, broader institutional support can be inconsistent. Despite sympathetic councillors and policy teams, the political support or skills to ensure meaningful partnerships are rarely present in the economic or business teams of these respective councils.

**c.** Despite the supposed advantages of new policy frameworks over the last few years, the majority of democratic business practitioners are still developing contracts through individual relationships with council officers, with almost no businesses generating contracts directly through a particular policy change.

# Section one



Policy-led regions have a tendency to offer business support programmes and grant funding before investing into cultural awareness, which only attracts a low number and limited composition of the local community. This has a particular impact in terms of addressing inequality in such authorities, preventing wider diversity in the sector.



**d.** The low baseline of knowledge about democratic business models within local government undermines their capacity to be effective partners. While it is unreasonable to expect council officers and policy teams to understand all of the legal distinctions between democratic business models, it's important to understand the differences between a 'social' business and one that is democratically owned and accountable to its members or wider community.

**e.** There is a routine misconception that democratic businesses are part of VCSE (the Voluntary, Community and Social Enterprise sector) and subsequently perceived as 'quasi-charities', focused mostly on culture and values. Conversely, when councils do treat democratic businesses like 'businesses', there is often no recognition they can add value through community empowerment or meet suppressed demand.

**f.** There is a general lack of understanding of how the pre-start process is more extensive and expensive for democratic businesses because of the unique demands of 'organisational development', which involves group or community formation, developing experience of collective decision making, and building an understanding of democratic business models and culture.

**g.** Community readiness – the democratic business skills and capacities to respond to new policy initiatives – is overestimated in many regions and fails to recognise the levels of investment needed in democratic business culture, skills, and infrastructure. This largely accounts for the slow progress in many policy-led regions.

**h.** Local government currently consider efforts to support democratic business as supplementary to existing business support programmes. Instead, democratic business support and options need to be integrated into existing business support infrastructure, which could also involve retraining local advisors and legal services.

**i.** Policy-led regions have a tendency to offer business support programmes and grant funding before investing into cultural awareness, which only attracts a low number and limited composition of the local community. This has a particular impact in terms of addressing inequality in such authorities, preventing wider diversity in the sector.

**j.** Many in the democratic business sector are deterred from offering their services through institutional procurement frameworks as the time involved in signing up as a provider is perceived to be excessive and is considered to be more speculative when compared with other ‘provider pools’.

**k.** After a decade of austerity, there is understandably more competition and dependency on philanthropic grants, but the desire for local government to lead the funding process – even when broadly benefiting the sector – is undermining relationships with local organisations and other providers.

**l.** In broader discussion of new economic policy initiatives, there is a strong institutional narrative about the achievements of councils but a muted assessment of the role of community power. This focus on institutional power could be one of the reasons for a lack of community initiative within policy-led regions.

**m.** The institutional focus on business and employment can underplay the distinctive cultural and social role of democratic businesses, which can significantly contribute to personal, group, and community development. There’s an opportunity to reframe democratic business as a response to a range of crises, from mental health to domestic violence.

**The main opportunity for most of the democratic business community to influence reports and strategy is as research subjects, participating in brief and irregular interviews with think tanks and academics.** More often, though, many only become aware of research reports after publication, including staff from the sector's apex bodies. In both cases, there is no consultation over the research questions and agendas, which fails to ensure there is a close relationship between research, policy recommendations, and what will practically benefit the democratic business sector in both the short and long term.

The ambitious 'register' of policy initiatives can also set targets that are unrealistic and feel remote from the current challenges of building the democratic economy in policy-led regions, especially where there is no acknowledgement of the sector's recent decline – especially in terms of the number of business advisors, the lack of cultural awareness, and the relatively small size of the sector itself.

Current approaches to 'theory of change' also seem to suggest that the economic development process is primarily initiated through policy ideas and local government, with the democratic business sector presented as beneficiaries and end-users of policy. This approach needs to be open to challenge, especially when so much experimentation and innovation is found in workplaces and communities.

This section of the report explores the different perspectives on the current approach to research and policy development.

- a.** Policy aims and ambitions for the democratic economy are perceived as largely speculative, where they lack a development strategy or adequate funding to achieve them. Where there has been initial optimism within democratic businesses to engage with these new approaches, there's been general disappointment about the lack of opportunities to work with local government.
- b.** The presentation of report recommendations by policy initiatives to local government without identifying the resources or capacity to deliver them is a recurring pattern in commissioned research and consultancy.
- c.** The current research consultancy model – which benefits think tanks and academics – neglects how action research and participatory research could lead to more sector-led recommendations for advancing the democratic economy in policy-led regions.

**d.** There is an important role for external consultancy in developing economic initiatives, but there is a lack of effort to build partnerships beyond established providers and work more regularly with local agencies that have place-based development experience.

**e.** Co-operative Development Bodies and other providers often create business plans for their own capacity to influence policy through conferences, research, and roundtables, but the general pay rates in the sector are so low that they do not often have the budget to do so. Despite misinterpretations – such as a lack of interest – this is the main reason for the current low engagement from the sector.

**f.** Where policy ambitions have been centred around simple statistical ambitions (i.e. doubling the size of the co-op economy), this can lead to a neglect of important details and contingent factors such as the types and sizes of businesses, current capacity of the sector (i.e. advisors and sector-specific knowledge), the costs of pipeline development, and their future viability.

**g.** CEOs and senior staff in democratic business apex bodies have access to policy-level development, but this is largely not the case for members of the wider sector who are interested in being involved and, in particular, new entrants to the democratic business movement who should be influential in shaping future policy.

**h.** There is a lack of clarity for individuals who participate in research and consultation on exactly how their contributions are translated into policy suggestions and the potential impact of such reports. This has created disillusionment and reduced engagement within the sector.

**i.** While there is a new pressure to consider business experience in policy formulation, it could go further by working with the democratic business community to form the initial research agenda, so it's relevant to both short-term and long-term support for the sector.

**j.** Economic and business innovation is coming from local communities, not policy makers, and we need to challenge the current theory of change that suggests that 'models' start with policy makers.

## Section three



Cultural development activities to support democratic business should be delivered in partnership with local ‘community anchors’ – frontline charities and community organisations – that offer ‘in-reach’ into particular target groups (e.g. Afro-Caribbean communities) or industries (e.g. social care). This is an obvious place for established providers to redirect resources to local organisations.



# Cultural awareness & building a democratic business pipeline

**Technocratic approaches to stimulate the democratic business sector are currently focused on policy development, using institutional power to create more friendly and favourable policy environments and transform public sector behaviour (such as procurement).** Despite these efforts in policy-led regions, there still remains limited cultural interest from the public in using democratic business models in the UK, and it has not significantly changed in the last half-decade. There is a general consensus that we are far behind the ambitions of the whole sector, but not necessarily that the deficit in cultural awareness and interest is part of this slow progress.

This section of the report explores the neglected role of building cultural awareness, a focus on the ‘pre-technical’ stages of business development, and the need for long-term investments in building a democratic business pipeline.

**a.** It’s attractive for local government to initially focus on their own policy development and delay investing in engagement and business functions. Within policy-regions, though, there should be investment in all these functions from the start of the process, or it will invariably lead to a shortage of local individuals and groups in a position to exploit new policy changes.

**b.** There is a consistent funding gap in building cultural awareness of democratic business models, which is at a historic low point in most UK communities. This either leads to passive development – engaging low numbers of local individuals and groups that are also limited to institutional and entrepreneurial communities – or business support providers partially (and insufficiently) delivering at their own cost.

**c.** With such low cultural awareness in the UK, it is a mistake to over-value the role of technical support within the current environment, where resources are disproportionately focused on the latter stages of business creation and raising finance. Where there are business support programmes available, there is a consistently low volume of applications, and therefore, a low number of new business registrations.

**e.** The pressure on short-term outcomes from business support programmes, such as a target number of new business registrations, ignores the long phase required to build a local business pipeline. This is the most neglected phase of the business cycle.

**f.** Even where the role of culture (i.e. ‘cultural lifeworlds’) is briefly recognised in recent think tank reports – exploring the success of democratic business movements in regions like Mondragon and Emilia-Romagna – they go on to focus exclusively on structural reform. To understand these historical movements in terms of legislative change is a narrow interpretation of their success.

**g.** Cultural development activities to support democratic business should be delivered in partnership with local ‘community anchors’ – frontline charities and community organisations – that offer ‘in-reach’ into particular target groups (e.g. Afro-Caribbean communities) or industries (e.g. social care). This is an obvious place for established providers to redirect resources to local organisations.

**h.** Reframing democratic business through different cultural and social experience is one way for its appeal to be expanded beyond entrepreneurial networks and business culture. In other parts of the world, democratic businesses are perceived as social organisations for responding to a range of social issues including youth unemployment, domestic abuse, and mental health conditions.

**i.** In terms of accessibility, addressing ‘language justice’ – the right to communicate in the language in which they feel most comfortable – can transform access to new economic policy initiatives and business support programmes. Recently this has been developed through Stir to Action’s and Preston City Council’s recent partnerships with local translators (in Urdu and Gujarati).

**There is a broad consensus that there is a ‘business development gap’ within policy initiatives, which is partly based on the lack of democratic business development experience in local government, but particularly a lack of understanding of how and when to strategically invest in the full business cycle.** The initial optimism of adopting new policy frameworks can often ignore the immaturity of the local democratic economy, create unrealistic expectations of the local VCSE sector, and build ineffective partnerships with local providers, especially where they are not invited to be involved in the design of business support programmes.

This section of the report focuses on how to treat democratic business in broader economic strategies, why local government should involve the sector at the early-stages of development, and how business support should be positioned within a much wider strategy.

- a.** Democratic business can be unintelligible to local government because they have both a business function and community function. They are often misperceived as ‘quasi-charities’, which has a negative impact on how they are treated and contracted by local councils.
- b.** The current VCSE sector unsurprisingly does not understand the needs of democratic business development and so they should rather be connected to regional and national providers to build their skills and capacities to create a local development function.
- c.** Democratic businesses are invited to be involved at the ‘implementation’ stage of development, and this often results in poor planning and funding strategies that are irreversible. Many advisors subsidise the delivery of poorly planned local government projects, in order to retain their commitment to deliver the outcomes of the work and community benefit.
- d.** Democratic businesses are constantly asked to change their framing and strategy to meet new policy expectations. These ‘policy brands’ and economic concepts can be confusing and disconnect local communities from potential support and resources. Where they are successful, it is often because the democratic businesses have gone to considerable effort to explain how the potential outcomes are relevant to the respective council’s policy framework.

**e.** When business programmes are designed by local government, there is a lack of knowledge about how costly it is to build a ‘pipeline’ of potential applicants, especially in immature – policy-led – regions. This is regularly delivered in an unpaid capacity by providers.

**f.** Business support programmes in the sector are underfunded, with advice and support work awarded on a short-term basis, which also underestimates the extent of support needed by those without business experience or a low knowledge of democratic business models. This needs to be reviewed in terms of its impact on recruiting new advisors into the sector – for it be considered a potential career – as it is exacerbating existing problems with renewing the supply of democratic business advisors in the UK.

**g.** Political pressures in local government can lead to unrealistic expectations around the pace of democratic business creation. This can impact negatively on those in the local community, as they are expected to contribute towards achieving unreasonable targets.

**h.** Within local government’s and funder’s output-focused culture, providers are expected to predict the outputs and outcomes in advance, but development work is patient and unpredictable, especially in policy-led regions. There needs to be more trust within partnerships between local government and business providers.

## Section five



Local government holds power over local communities through managing how financial resources enter the sector. There is a clear role for ‘disintermediating’ how funding supports the sector by creating more independent bodies and collaborative networks, such as Kindred LCR in the Liverpool City Region and the national worker co-operative network Solid Fund.



## The role of funding

**Funding for democratic business primarily enters the sector through institutions – such as local government, universities, and apex bodies. But how and ‘who’ releases funding to support democratic business has important implications for the wider business movement.** It impacts where funding is allocated in the business development pipeline, eligibility, grant terms, and decisions on business viability. At this point, the influence of institutions can make decisions about the use of funding that does not reflect the practical needs of the wider sector, but their own policy objectives and development assumptions.

The use of funding in the sector needs to be more closely aligned with self-initiative, market opportunities, and those with direct experience of democratic business. It also needs to be flexible, based on a commitment to delivering pre-agreed activities, but not restricted to outcomes (which are often not even met).

This section of the report explores the role of funding to support participation in policy development and the potential for ‘disintermediating’ funding.

- a.** Without resources – either fees or covering loss of earnings – most of the democratic business community has been unable to have an active role in policy-level debates. Though some progressive research bodies have started to budget for participation, no interviewees have ever received financial support.
- b.** Local government holds power over local communities through managing how financial resources enter the sector. There is a clear role for ‘disintermediating’ how funding supports the sector by creating more independent bodies and collaborative networks, such as Kindred LCR in the Liverpool City Region and the national worker co-operative network Solid Fund.
- c.** There’s a disconnection between funding terms and the pace of democratic business development. If funders are committed to working with individuals and groups in areas of deprivation, it needs to reassess how it allocates funding in terms of the length of the grant, reporting, and what is realistically involved in supporting them through the whole process, rather than small interventions.

- d.** There is a high level of eligibility for business support in the sector, which does not reflect the local business pipeline in most policy-led regions. It also assumes that individuals and groups can resource their own time during an extensive pre-start process. Funding is mostly unavailable at this point of development and reduces the potential number of new businesses.
- e.** Where funders support ‘system change’, i.e. both research/policy initiatives and local economic action, it’s questionable how valuable the research is in terms of local practice. Foundation and grant givers need to close the gap between these approaches within their own portfolios and encourage more strategic partnerships.
- f.** When institutions receive funding to support democratic business they have a tendency to recruit internal staff as a priority over other use of the resources, and where they do, to recruit from within, rather than through local networks. This reduces accountability to the wider community.
- g.** With the exception of staff within apex bodies, no interviewees have direct relationships with funders. There is a general feeling that these intermediaries do not always represent the wider sector.
- h.** While there are opportunities for business conversion – especially with businesses in or approaching their succession stage – most foundations’ support is restricted to target beneficiaries, such as community groups who are interested in taking on a new asset or a retiring business. There needs to be a consideration of how investing in key stakeholders in the local economy – such as family business owners – could make a difficult process for communities far more effective.

**Based on the interviews in this report, we are making a set of recommendations below that could support strategic partnerships in the wider sector.**

- 1.** More investment into building strategic partnerships between the democratic business community and those supporting the sector in research, policy making, and local government, through sector-wide events, residential retreats, publications, and guides.
- 2.** Local government, policy initiatives, and funding bodies should recognise that the democratic business community can offer value across all stages of development, and work with them as a key partner in research, business development strategies, and funding for the sector.
- 3.** Provide policy teams, officers, and economic development teams with training opportunities to understand democratic business development and become more effective partners, much like Community Wealth Building approaches recommend retraining procurement officers to understand and deliver new policy frameworks.
- 4.** The pre-start support should be seen as an important part of the full business cycle and microgrants should be available to resource individuals and groups to invest in their organisational development at a point where many are deterred from using democratic business models. This is an opportunity to address the underrepresentation of capital-light and low-capacity communities in the democratic business support pipeline and the pool of organisations applying for grants.
- 5.** Create new entry-points for individuals and groups that have low exposure to democratic business models by going beyond institutional and entrepreneurial networks, and invest in ‘community anchors’ in VCSE, the frontline charities and community groups that have pre-existing relationships with different target communities. There is an opportunity for charities to work in partnership with established providers to create a development function alongside their other activities and social services, like the Centre for Family Life in New York.

- 6.** Invest in practitioner research programmes to produce more sector-led research, training the democratic business community – both members and advisors – in research methodologies, to complement the research of think tanks and local government.
- 7.** Use business support programmes to respond to infrastructural challenges, especially the small and declining base of democratic business advisors in the UK. New training initiatives – such as Barefoot Practitioners – can be invested in to train new advisors during programme delivery, reducing reliance on existing capacity and providing the opportunity to onboard new advisors.
- 8.** Existing business support programmes should be updated to include democratic models and advice to reduce gaps in knowledge and attract higher levels of new interest. This should also involve exploring how to invest in building awareness in legal services, which have a significant impact on early business decisions.
- 9.** Foundations, grant givers, and other financial institutions should test the impact of delegating the assessment and decision making for grant allocation to pre-start businesses (unincorporated) and new start businesses (up to two years) through a member-led funding platform. The role of participatory funding platforms could have an important impact on funding under-resourced parts of the democratic business movement.
- 10.** Recognise the slow pace of cultural development around democratic business and consider the role for both formal and informal education in local communities. For example, the ‘study circle’ model offers a low-cost, peer-led form of education that can support individuals and groups to become more economically active while building democratic culture, skills, and knowledge through a ‘longer and lighter’ (i.e. non-intensive) approach.

# Survey results

**We asked all interviewees for the report about their interest in participating in research and policy development and the general role of democratic business in the future.**

**Q.** Would you attend more policy conferences and roundtables if there was funding/a fee for your participation?

**A.** 90% – Yes

**Q.** Would you like to see more ‘business experience’ represented on steering committees, boards, and advisory panels?

**A.** 100% – Yes

**Q.** Would you like to engage philanthropic foundations about how to fund the sector?

**A.** 100% – Yes

**Q.** If funding was available, would you support or lead research into how to support, grow, and invest in democratic business development?

**A.** 100% – Yes



## **Contact us**

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