THE OWNERSHIP DIVIDEND

THE ECONOMIC CASE FOR EMPLOYEE OWNERSHIP

WHAT IF...

we told you there's a business model that...

...cultivates long-term thinking?

"Part of our responsibility is to continue to grow, innovate, evolve and invest. And we do so because we are custodians of the business, we hope, for two, three, four generations down."

GRIPPLE

...stimulates collaborative behaviours?

"Our model is that we are collegiate in our thinking – so when we make decisions, we get real buy-in and ideas are easier to implement."

MOTT MACDONALD

...enhances productivity?

"A surge of ambition swept across the firm when staff realised they don't have to just do what the founders' mission was – they can run with it now ... when that happens, you get a 'whoosh' effect."

ABER INSTRUMENTS

...is inherently transparent?

"We are an open-book company and every couple of months everyone knows all the numbers – exactly what's going on. Anyone can ask to see anything at any time."

THE USEFUL SIMPLE TRUST

...strengthens growth and performance?

"We announced we were employee owned in December 2015 ... for the first six months of 2017, we're up 33% on the same period last year... we've taken on 20% more staff. We're heading for our best year."

NOVOGRAF

...gives staff a voice in corporate governance?

"Our employee council and staff suggestion box gives everybody a voice up to the board and an opportunity to suggest better ways of doing things."

TATEHINDLE

...keeps jobs within local regions?

"If we can make it in Sheffield, let's make it in Sheffield. If we can make it in Yorkshire, let's make it in Yorkshire. If we can make it in England, let's make it in England."

SWANN MORTON

...improves strategic scrutiny?

"We were going to do employee ownership for many reasons, but increased oversight of management decisions was certainly one of the positive things we felt could help us to move on in terms of management development."

PB DESIGN

...promotes employee wellbeing?

"We tend to focus on individuals: the positive relationships that they have with each other – but also externally, with clients. That's how we measure ourselves."

MAKE ARCHITECTS

...strongly appeals to millennials?

"We've noted in terms of recruitment that a lot of millennials are quite keen to work for an employee-owned business – it's something that makes this business different to one down the road."

CAMBRIDGE WEIGHT PLAN

...provides a ready made succession solution?

"I wanted to maintain the culture of the business, I wanted to maintain the jobs within the business. These [issues] were all important things and I wanted to avoid a trade sale and management buyout."

EAGLE PLANT

...helps departing founders preserve their legacies?

"Our founder decided to step back, but wanted to retain the skills and give something back to the people who had built the business with him – so he gifted 61% of his shares to the employees."

CLASSIC MOTOR CARS

...AND YET, *not enough people know about it?*

"Employee ownership was a discovery for us, because it's not well-known enough as a proper, realistic, honest transition vehicle for business owners to exit."

UNION INDUSTRIES

All quotes taken from hearings of The Ownership Effect Inquiry

CONTENTS

FOREWORD

BARONESS BOWLES OF BERKHAMSTED

CHAIR OF THE OWNERSHIP EFFECT INQUIRY

JUNE 2018

Standout business sectors are typically well-known and widely celebrated. This evidence report is about a leading UK sector that does not receive such attention … yet. Although its growth is rapid and its performance remarkable, this sector's profile is low, and its potential contribution to the economy under-exploited.

The Ownership Dividend reports on the UK's employee ownership sector: firms in which employees own a substantial stake, and have a meaningful voice, in the business.

Larger than aerospace or agriculture by economic contribution, the employee owned sector accounts for well over £30 billion in annual turnover. While the sector's best-known examples are leading high-street brand the John Lewis Partnership – together with global firms Arup, PA Consulting, Riverford Organic Farmers, and Mott MacDonald – there are now hundreds of businesses in every part of the economy that are employee owned.

This report's name, *The Ownership Dividend*, highlights the positive contribution that employee ownership already makes to the individual, business and the economy. But more importantly, it also signals the greater contribution it could make, if it were better known and understood – by policymakers, financial institutions, business leaders, professional bodies, business schools and the media.

The report highlights the results of the business-led Ownership Effect Inquiry. Based on an extensive research exercise involving a global literature review, evidence from more than 100 firms via nationwide oral hearings and an online survey, the Inquiry has been overseen by more than 20 of Britain's leading business organisations, including: the Institute of Directors (IOD); Institute of Chartered Accountants in England and Wales (ICAEW); Association of Chartered Certified Accountants (ACCA); Institute of Chartered Accountants of Scotland (ICAS); ICSA: The Governance Institute; Institute for Family Business (IFB); Federation of Small Businesses (FSB); Chartered Management Institute (CMI); and Chartered Institute of Personnel and Development (CIPD). We are especially grateful to each of them for their commitment and investment to receive, understand and challenge the evidence presented (a full list of panel member organisations and contributors to the Inquiry starts on page 32).

The report could hardly be more topical or relevant at a time when:

- UK productivity continues to underperform
- The government is concerned about standards of corporate governance, low worker influence and engagement, and defaulting public service conglomerates
- Regional government and business leaders are concerned about business succession, resilience and economic growth

This report evidences a thriving and fertile employee ownership sector that offers positive responses to these challenges. That is not to say employee ownership is the 'ideal' business model, or that its impact is automatically and universally transformative. Employee ownership will be right for some firms, but not others – and although its benefits can be dramatic, they must be worked for.

I am proud to have chaired an Inquiry that has produced the most comprehensive, robust and compelling evidence about employee ownership in the UK to date.

Thanks are owed to Inquiry sponsors the eaga Trust and the John Lewis Partnership, to the Employee Ownership Association for its support and coordination, and to Cass and Alliance Manchester Business Schools for the rigour and acumen they brought to the analysis of the evidence.

The aim of all partners in the Inquiry is simple: to enable UK business and the wider economy to benefit from employee ownership by making it better known, better understood, and better supported.

We very much hope that you and your organisation will join us in this endeavour.

EXECUTIVE SUMMARY

The UK is facing a critical moment as it strives to secure a stable and prosperous future for itself in the world. As such, we must seize – and run with – every promising opportunity to boost our economic strength.

To that end, The Ownership Effect Inquiry – an independent panel of senior business leaders and industry experts – has spent more than a year gathering and examining evidence from around the country on the potential benefits that can flow from workers owning a stake in the companies for which they work.

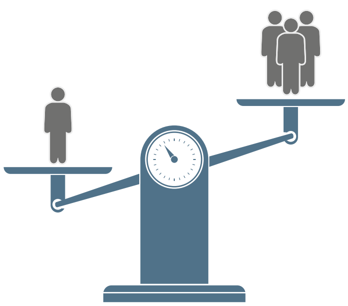
The panel's conclusion is clear: there is a significant dividend to be obtained by growing employee ownership in our economy.

THE CHALLENGES WE FACE

Our economy is imbalanced in multiple ways. Stark contrasts persist in the economic strengths of different regions: between urban and rural settings, and around access to skills and the ownership of capital. This has led many individuals to perceive and experience inequality in prospects and incomes.

For most UK citizens, the perception of inequality is compounded by the growing gap between senior salaries and the lowest-paid incomes, and publicity around corporate self-interest and poor behaviours, from lack of transparency to the avoidance of tax. New generations are joining the workforce with expectations that employers are struggling to meet. This only adds to a growing sense of public resentment, driven by generational disparities in the ownership of assets and access to good-quality work.

New technologies – particularly emerging forms of automation – continue to have significant impacts on the future of work. While they are creating opportunities to work in novel and exciting ways, they are also driving uncertainties around job security and the intrinsic value of certain types of work.



"10% of the wealthiest people in the UK own almost 70% of its financial wealth"

IPPR COMMISSION FOR ECONOMIC JUSTICE REPORT 'CAPITAL GAINS'

At the same time, a great many people are simply unhappy in the workplace. Engagement levels are dropping and morale is low right across the economy. Yet most of us spend the bulk of our waking hours in that very workplace. It is where we look to feel valued, to receive recognition and to derive respect, and it is linked to our individual identity.

Small wonder, then, that UK productivity has stalled and our economy is lagging behind those of our global competitors. If we don't turn our fortunes around, pay will remain stagnant and jobs will continue to be lost. For many of us, these issues all add up to an economy that feels as though it has stopped working in the best interests of the individual. Every challenge creates, or exacerbates, division right at a time when the country is crying out for cohesion and common purpose.

If these problems remain unaddressed, we risk the economy falling into a dangerous, downward spiral. If we are to emerge from the next ten years in a stronger economic position, we must have more effective collaboration and cooperation within our places of work, and across our wider society.

THE OWNERSHIP DIVIDEND

Over the past 12 months, the panel has found clear evidence that employee ownership can deliver outcomes that are significantly beneficial and, together, constitute a dividend that carries convincing answers to some of our most fundamental challenges.

The ownership dividend pays off at three levels: for individual workers, for businesses, and – most critically – for the wider economy.

1. INDIVIDUALS

The performance of every organisation is built upon a foundation of individual endeavour – often, individuals collaborating effectively to drive success. That is the cornerstone upon which the whole edifice of our economy rests. As such, individual motivation and common purpose are vital.
By aligning the interests of owners, managers and workers, employee owned businesses (EOBs) unite people behind a shared goal and ensure that employees can:

- Enjoy higher engagement, motivation and wellbeing
- Top up their salaries by sharing in the capital value they create
- Work within transparent governance regimes that lock in benefits for the long-term

All of these gains cement employees' sense of fairness and happiness at work.

2. BUSINESSES

While speaking to more than 100 EOBs, the panel gathered evidence that demonstrated an irrefutable consistency of outcomes: businesses reporting increased performance and unlocking exceptional levels of discretionary effort as a direct consequence of employees becoming owners. The evidence shows EOBs:

- Typically achieve greater levels of productivity and efficiency than non-EOBs
- Have stronger workforce retention/find it easier to recruit
- Encourage employees at every level to drive innovation
- Approach decision-making and planning based on long-term stewardship of value, which enables resilience (data shows that EOBs are more sustainable during economic downturns)

Furthermore, employee ownership (EO) succession plans typically leave highly satisfied owners and secure, thriving firms in their wake.

3. WIDER ECONOMY

EO directly supports four out of the five foundational priorities in the government's policy paper *Industrial Strategy: People, Places, Business, Environment and Ideas.* Stable, growing businesses are the lifeblood of a thriving economy, and the Inquiry evidence suggests that the EO model is becoming increasingly recognised as a key contributor to regional economies via a broad range of sectors.

The panel heard compelling evidence that EO has ever more important, positive impacts on local and regional economies: the values, outlooks and approaches of EOBs ensure that they are more likely to create and retain jobs that are rooted to local areas, and less likely to relocate or create offshore jobs. As a result, EOBs directly drive economic resilience at a regional level. Capital distributed to staff in the form of dividends is often spent or invested locally, and the majority of EOBs make explicit commitments to contribute directly to their local communities.

A COMPELLING SOLUTION

While EO is not a panacea, it provides a clear and attractive dividend with particular relevance to succession and growth planning for SMEs and family businesses.

EO offers a meaningful response to our many fundamental economic challenges, and does so by starting with a focus on the value and experience of the individual at work. It builds outwards from that nucleus to shepherd the creation of dynamic, successful firms that, together, drive a robust – and genuinely inclusive – national economy.

CORE RECOMMENDATIONS

Read the full recommendations of The Ownership Effect Inquiry in chapter 3 of this report, on pages 24 to 29

Although EO is found in a diverse range of business sizes and sectors, a faster adoption rate continues to be thwarted by addressable barriers.

Lack of awareness, understanding and capability are critical drawbacks – as is a lack of action to capitalise upon EO's many benefits. Together, those shortfalls are holding back the sector's acceleration and growth.

With those issues in mind, the panel has made a series of recommendations that will enable stakeholders to more effectively harness – and make the most of – the opportunities that EO offers.

1

INVEST IN OWNERSHIP CAPACITY-BUILDING

Westminster should follow precedents set in Scotland and Wales and invest directly in boosting the creation of new EOBs. Independent evaluation shows that Scotland has seen a tenfold return on investment for every £1 devoted to on-the-ground support.

2

TRAILBLAZING REGIONAL PILOT PROJECTS FOCUSED ON RESILIENCE AND SUCCESSION

Regional groups and devolved authorities should work with the EO sector to set up pilot schemes focused on driving economic resilience through awareness-raising – particularly among exiting business owners. These projects should also provide hands-on support and attract inward investment to back locally based firms that are looking to transition to EO.

3

A NATIONAL STRATEGY FOR BUSINESS OWNERSHIP

In addition to investing in capacity, the government should collaborate with the wider sector to design a dedicated national strategy to establish the best possible business climate in which to foster the growth of EO and mutual firms. Led by a specific minister, this strategy would include a UK-wide data project to benchmark and track the growing value of the ownership dividend, and to devise further improvements to the tax regime.

WHY THE EMPLOYEE OWNERSHIP DIVIDEND MATTERS NOW

As a structural arrangement, employee ownership (EO) hardwires the inherent enthusiasm, purpose and commitment of staff members throughout the entire fabric of a firm by providing a meaningful ownership stake. Yet far from being purely structural, it is a transformative route that challenges conventional wisdom about the relationships between owners and employees; EO encourages employees to work smarter and deepen their contribution to their organisations as they think and act like owners.

By securing higher employee engagement, EO brings workers together in a joint effort to innovate to both improve the efficiency of businesses and to find solutions for difficulties that a company may be experiencing. This dynamic makes employee-owned businesses (EOBs) become more vigorous performers: more efficient and productive, better able to withstand economic headwinds and able to commit themselves with confidence to long-term strategies.

What's more, employee owners typically enjoy greater access to the rewards of success, through participation in ownership trusts or share schemes, and through the sharing of dividends, bonuses or other forms of profits distribution.

On an intrinsic level, then, EOBs are more likely to be open and transparent. Employees are able not only to scrutinise company finances, but to interrogate – and, through representation, help to shape – strategic decisions to a much finer degree than their counterparts in firms that operate under more traditional ownership arrangements.

And there is frequently a health bonus. Evidence shows that the extra empowerment can give EOB staff significant wellbeing benefits – their tangible role in decision-making and strong networks of interpersonal trust bringing greater job satisfaction and emotional rewards.

THE RESILIENCE CHALLENGE

WHY MORE EO IS BETTER FOR THE ECONOMY

OUR PRODUCTIVITY PUZZLE The UK's productivity problem has become such a material concern for policy-makers and business leaders that a campaign group has emerged to help resolve it. That group – **Be the Business** – notes that 75% of UK businesses are wasting around two hours per person every week due to inefficient management practices.

Be the Business is steered by the Productivity Leadership Group (PLG), a specialist advisory board led by Sir Charlie Mayfield – chair of prominent EOB the John Lewis Partnership. PLG's report *How Good is Your Business Really?* points out that, among the G7 countries, the UK has gone from having the fastest-growing productivity in the years before the recession to having the second slowest-growing in the years since. Based upon its analysis, PLG argues that productivity ought to be in better shape in firms of all sizes, and across all sectors.

"Much of Britain's productivity problem rests within businesses," the report stresses, "and only business has the knowledge and ability to tackle it." The opportunity at stake, adds the report, is significant: if less-productive firms improved their performance to match that of the companies that are currently ranked 10% above them, the gains would lead to a national productivity boost of around 10%.

Two of the most fundamental messages that Be the Business is attempting to convey to business leaders are:

- involving staff in decision-making processes significantly increases productivity
- aligning staff with meaningful values fuels stronger employee motivation.

EO directly answers both points, and is therefore in a prime position to contribute to the UK's productivity record – especially if the sector is enabled to grow.

PUTTING DOWN ROOTS In addition to the requirement to boost productivity, successful firms must also foster a core of resilience. That asset will help them not just withstand future economic shocks, but to evolve the bold innovations, products and services they are working on behind the scenes. According to Be the Business's research, high-ambition SMEs – those with the confidence to set big goals supported by long-term plans – are 14% more likely to experience turnover growth than enterprises that live in the short term. The group also notes that up to 70% of the UK's long-term economic growth is driven by innovation, and that innovative SMEs are best equipped to survive industry changes.

However, across the board, UK firms' ability to think in the long term – already an endemic weakness in our economy – is being severely hampered by the anxious waiting game over understanding the eventual impact of Brexit.

75% of UK businesses are wasting around two hours per person every week as a result of inefficient management practices

Having shareholders who work in the business – without the plans for a quick exit – makes EOBs much more likely to put long-term thinking and planning at the heart of organisations. As such, firms have the agility and flexibility to adjust their strategies in the face of economic uncertainty.

The Ownership Effect Inquiry has also shown that EO has a highly positive effect on local economies, helping to root firms in their geographical areas for the long term. Typically, a conventional trade sale will result in a local business ecosystem losing a company – or at least some jobs. By contrast, an EO transition tends to keep that firm and talent in the area, contributing to the local community and economy.

"EO is in a prime position to contribute to the UK's productivity record"

LINE OF SUCCESSION The UK economy is notoriously bad at ownership succession – the challenge of one generation of owners handing on the firm to new ownership. Take the £519 billion family businesses segment, for example. **The Institute for Family Business (IFB)** expects such firms to be transferred to new generations or sold on at a rate of 85,000 businesses a year for the foreseeable future. »

» However, it warns, survey findings suggest "that inadequate succession planning may pose challenges to many such plans. This is important because it can result in suboptimal sale or transfer of family businesses, which could, ultimately, have a negative impact on the size and health of the family business sector." Further research from insurer Legal & General has found that only 42% of the UK's family-run firms have planned succession – with 57% saying that they would have to cease trading within a year in the event of their owners suffering a serious illness or dying. This threat of firms melting away presents serious concerns for the UK's growth prospects. Just as a business requires a talent pipeline to survive, the wider economy needs firms to rise in stature. That process serves to benefit employees and the regions in which they are based.

A case study from The Ownership Effect Inquiry's evidence illustrates how EO anchors long-term plans to safeguard organisations' futures. As the managing director of EOB **Novograf** explained: "We realised we needed to start thinking about succession, and/or exit planning. We looked at the traditional routes [such as] management buyout. But in our opinion that was kind of kicking the can down the road, because in four, five, ten years [those potential new owners] were going to want to do the same thing and plan an exit."

57% of family-run firms would have to cease trading within a year in the event of their owners suffering a serious illness or dying

A participant for EOB **Swann-Morton** – a blade manufacturer – told the Inquiry that the firm has a strong commitment to keeping jobs and manufacturing within its Sheffield locale as far as possible. As such, it has protected itself for the longer term through a combination of acquisition and making products it would otherwise have had to import. As the participant emphatically put it: "If you can make it in Sheffield, let's make it in Sheffield. If we can make it in Yorkshire, let's make it in Yorkshire. If we can make it in England, let's make it in England."

EO's key role in spurring productivity gains emerges vividly from the example of Leeds-based door manufacturer **Union Industries**. Since adopting the EO model in 2015, the firm has enjoyed two record sales years in a row. The firm's £7.4m turnover for the 2016/17 financial year was up 27% on its previous year's performance, with growing uptake from blue-chip clients and an increased demand for its Lifetime Warranty scheme seeing the business expand.

RESHAPING CULTURES

WHY MORE EO IS BETTER FOR BUSINESS

The government believes poor corporate governance is compounding the UK's economic challenges – to the extent that ministers have unveiled two reform packages. In its Corporate Governance Reform White Paper it aims to improve transparency within listed firms by forcing them to reveal pay ratios between bosses and workers, and by developing a stronger employee voice presence within boardrooms.

Those measures have been widely viewed as reactions to high-profile corporate failures, such as the BHS and Carillion collapses. Mindful of how sound governance and transparency go hand-in-hand, evidence to the Inquiry has highlighted numerous examples where EO has helped to stimulate those qualities – and the relationship between them.

CLEARER COMMUNICATION In the case of **Useful Simple Trust** – a London-based architecture, design and engineering company run as an employee benefit trust (EBT) – the founding directors chose EO because they reasoned it would prevent the type of fragmentation that often blights professional-service firms as they diversify. The firm's journey since then has demonstrated that EO nurtures high behavioural standards, underpinned by transparency and strong, open communication.

A Useful Simple Trust participant told the Inquiry: "As we've grown and put more structure in place – having more formal boards, more formal lines of reporting and that sort of thing – the employee ownership has actually secured the culture. It is recognised that there are benefits in everyone knowing what's going on and being involved in the decision-making process throughout. So, as we've grown and got more professional … [we] had to put a structure in, it has actually kept us in line; kept our culture strong."

The participant added: "We are an open-book company, and every couple of months everyone knows all the numbers – exactly what's going on. Anyone can ask to see anything at any time … people have this sense of [it being their] own company: 'It's my piece of work, it's my project I'm working on and it's my company – so the decisions I make on a daily basis affect things.' And they can see that link all the way through."

STRATEGIC SCRUTINY In the case of consultancy **3BM** – a mutual formed via a local government spinoff – the report explains how its EO model provides staff with a much more detailed oversight of the firm's strategic direction. 3BM is governed by a trust board and a management board, which each used to have just one employee representative. That has gone up to two – a presence enhanced further by a special employee committee, which meets every six weeks to double-check strategic decisions.

A senior figure told the Inquiry that management has grown to trust employees: "If we're not sure at a trust board whether that's the right thing to do, we will consult with all partners. It's their business, they have a voice and we have to listen to that. That's a scary concept in a non-employee owned world, but in a world where you trust each other and ask questions, you get some very sensible answers back … 104 people are far cleverer than five, six or seven."

"104 people are far cleverer than five, six or seven"

3BM

CHAIN OF ACCOUNTABILITY One managing director from a mainly non-EOB background told the Inquiry how EO enforces accountability at his company, coating and papers firm **Tullis Russell**. "In a plc," he explained, "the shareholders aren't employees, so you are not actually accountable. The employees aren't holding the executives to account, it's the shareholders, and at the annual general meeting they may hold them to account.

"[At Tullis Russell] we also have an annual general meeting. [However,] we have a 'question time' session, where every one of the employees sits in front of the board and asks them any question they want for a whole afternoon. They have to answer the questions truthfully, and it is recorded and videoed, and put on the internet. So [staff] can go back and see exactly how the questions were answered … [The management] get really tough questions – right down to 'How much are you being paid?' – and have to answer them."

ENHANCED ENGAGEMENT The experience at Tullis Russell chimes with that of Scottish manufacturer **Mike Stoane Lighting**, which adopted EO in 2014 to safeguard an exiting founder's legacy. A representative from the firm told the Inquiry that employees now feel more involved in and engaged with the business, as a result of its emphasis on accountability. "I do think that people feel they own the business," she said, "and a large number … feel very strongly that we should be accountable to them and are very interested in the structure [and future] of the business."

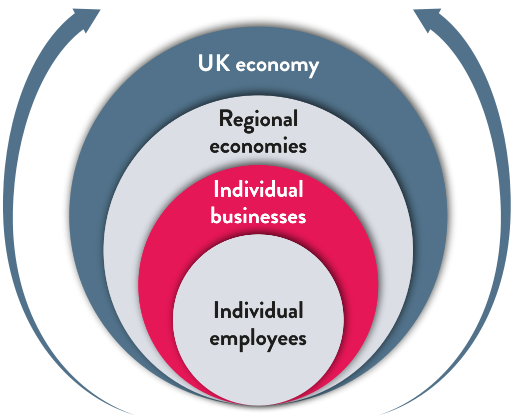
Tellingly, the representative added: "If [work] comes from people's own hearts … then that's way more powerful than anything you can instruct people to do. Especially as some of the things that they've said they expect from each other are things that as a leader … you probably wouldn't feel you could ask people to do – but people's peers can ask them to do. It's quite incredible."

STAKING A CLAIM

WHY MORE EO IS BETTER FOR THE INDIVIDUAL

"The unequal ownership of capital in the economy is a powerful driver of inequality," stresses the Commission on Economic Justice's powerful report *Capital Gains: Broadening Company Ownership in the UK Economy.* "With the share of national income going to capital having increased in recent decades – and likely to rise further – new models of company ownership are needed to reduce inequality and ensure the benefits of growing national wealth are widely shared."

While the Commission's report acknowledges that the conventional company structure has in some respects been highly successful, it points out that the model is hindered by "clear limitations" – typified by "a narrow focus on private, investor ownership". With that in mind, "it can be argued that [the model] contributes to wider economic and social injustices in the contemporary UK political economy". Conversely, the report notes: "Businesses ... that broadly distribute ownership and participation rights ... can often be more productive, resilient and equitable."



"Businesses owned in ways that broadly distribute ownership and participation rights can be often be more productive, resilient and equitable"

COMMISSION ON ECONOMIC JUSTICE

A host of examples in evidence to The Ownership Effect Inquiry highlights how those very participation rights are enabling EOBs to combat the injustices that so often stem from the conventional model.

SHARING ECONOMY The Inquiry found the enhanced engagement that stems from EO – combined with heightened accountability – can shrink what is often a gap between workers and managers. This is most likely to happen when EOBs go out of their way to encourage all employees to see themselves – at any level of the business – as joint stakeholders in the same mission.

The Inquiry heard that Scottish firm **Woollard & Henry** – a manufacturing and engineering company in which employees own 100% of the equity – gives staff members shares following six months of employment. Workers can then purchase further shares through an incentive scheme. In terms of standard wages, the firm's open and transparent approach to discussing its own performance and potential helps staff gauge what they should be earning.

A senior representative from the company explained: "Every week we will try and have a meeting with … all employees. We will shut down and we'll talk about cash; we'll talk about opportunities coming in; we'll talk about problems [and] sales … so we do spend a lot of time trying to get people engaged. People understand a lot more about the company and [where] we're trying to drive it."

PAY VISIBILITY In the **Woollard & Henry** representative's view, that system provides a number of crucial advantages. "For example, most companies will have wage negotiations. We'll actually set out targets at the beginning of the year so people know what we are trying to drive to. I've not really had a wage negotiation in the 15 years that I've been here, because people know [that] if the company is doing well, we will pay. But if the company is not doing so well, they understand the business well enough to say, 'You know – we're not pushing for pay increases.'"

Again, that marks a decisive change from more conventional business models, in which individual employees are left to fight their own corners on pay, and will often not know what their colleagues are earning by comparison.

LASTING LOYALTY The Inquiry's study of EO research cites a survey showing that staff are less likely to leave jobs in situations where they expect to receive financial benefits from participating in their firm's shares. Similarly, retention rates rise in companies where the management is highly committed to EO principles, and where the most senior figures maintain extensive communications with employees.

For example, salmon and trout supplier **Aquascot**, based in Alness, Scotland, told the Inquiry that it has garnered high retention rates through its indirect EO model, in which 100% of the equity resides in a trust. A representative noted that the firm's focus upon its employees

had strengthened its commitment from them in return: "There is a sense that because we are committed to the partners, the partners in turn are committed to the business."

AGE OF AUTONOMY So, what does all this mean for the future of work – and how employees should view their roles within the workplace? In essence, by nurturing a stakeholder ethos among employees and putting them much closer to the decision-making process, EO gives staff more control over their jobs. Employee owners tend to have greater discretion over how they carry out tasks, along with more freedom to innovate and the responsibility to fix problems without referring things up the line. As the managing director of integrated software solutions firm **Symology** told the Inquiry: 'We devolve a lot of responsibility down to individuals … It's not departmental heads or senior managers making most of the decisions; it's the person doing the task … Obviously, there's governance in place and [staff] can raise things up the chain. But if every single decision has to keep going up three or four tiers, you are wasting time. By giving [employees] responsibility I think that makes it interesting for them because they tend to have an ownership of that task."

> *"There is a sense that because we are commited to the partners, the partners are committed to the business"*
>
> **AQUASCOT**

EO: BACKGROUND, BENEFITS ... AND BARRIERS

HOW DID WE GET HERE?

A BRIEF HISTORY OF EO

EO has a fascinating evolutionary history – one that reveals the efforts of business leaders, professional advisers, academics and policymakers over the decades to establish a business model that can yield other benefits besides generating revenue, profits and shareholder returns.

To celebrate that history, this timeline highlights some of the key figures, organisations and policy initiatives that have helped employee ownership become the vibrant force it is today.

1929

John Spedan Lewis creates the pivotal first trust settlement for the John Lewis Partnership, encompassing the John Lewis department stores. Under this, and a further settlement in 1950, the John Lewis Partnership becomes 100% employee owned by its partners.

1956

US political economist Louis Kelso invents the concept of the employee stock ownership plan (ESOP), helping the staff of Palo Alto media chain Peninsula Newspapers to purchase the firm from its co-owners as part of a succession plan.

1976

UK government passes the Industrial Common Ownership Act to stimulate the growth of worker co-ownership. At this time, there were around 30 such co-owned businesses in Britain.

1977

Global engineering consultancy Arup, founded by leading philosopher and engineer Ove Arup, becomes 100% employee owned as the founding partners move their shares into a trust to protect the future and culture of the business.

1979

With the help of the John Lewis Partnership and global chemical company Scott Bader, journalist Robert Oakeshott launches EO advocacy group Job Ownership Ltd: the first incarnation of the Employee Ownership Association (EOA).

1982

Biggest UK road-haulage operator the National Freight Consortium (NFC) – a state entity – transfers to EO in a management-led employee buyout for £53.5m. Employees take an 82.5% stake, with the remainder going to Barclays.

1989

NFC floats on London Stock Exchange, proving that EO does not prevent subsequent changes to a company's ownership structure. The stock market flotation follows sharp growth in the firm's operating profits – from 64.5% in 1987 to 90.4% in 1988.

1999

The eaga Trust is established by northeast entrepreneur John Clough to promote employee wellbeing, engagement and ownership in the workplace. The trust owns 100% of eaga ltd, a successful energy company which later partially floats in 2007 to become eaga plc, with the trust retaining 37% ownership.

2000

Finance Act 2000 introduces the Enterprise Management Incentive to provide workers with a tax-advantaged share option, and the Share Incentive Plan to encourage them to buy shares in their own firms.

Oakeshott publishes landmark EO book *Jobs and Fairness: The Logic and Experience of Employee Ownership*.

2001

Business scholar Andrew Pendleton publishes major EO research text *Employee Ownership, Participation and Governance: a Study of ESOPs in the UK.*

2007

EOA initiates the first All-Party Parliamentary Group on employee ownership, which produces its *Share Value* report the following year.

2011

eaga plc is purchased and the eaga Trust financial proceeds are invested for the benefit of more than 7,000 beneficiaries, all ex-employees of eaga ltd or eaga plc. Today, the eaga Trust's principal aim is to help its beneficiaries into or in employment and, where possible, within employee owned environments.

2011

UK Mutuals Taskforce launched in February as an independent body to scrutinise and promote government work designed to encourage the emergence of employee owned public-service mutuals. In December, the Cabinet Office unveils the £10m Mutuals Support Programme, providing advice and guidance to fledgling mutuals.

2012

The Ownership Commission, chaired by Will Hutton, established to examine corporate ownership in the UK, calls for greater plurality in corporate ownership, better stewardship of companies and greater engagement of employees.

2012

Department of Business, Innovation and Skills publishes *Sharing Success: the Nuttall Review of Employee Ownership* – a comprehensive overview of EO in the UK by lawyer and adviser Graeme Nuttall.

2013

EOA launches the first Employee Ownership Day, a UK-wide celebration of employee ownership, as part of a national awareness-raising campaign.

2014

January: Cass Business School Professors Joseph Lampel and Ajay Bhalla publish new research into the resilience of employee owned businesses.

May: The Finance Act 2014 launches the Employee Ownership Trust (EOT) model. Under the model, owners who sell their shares in a firm to a new-style EOT, as part of an EO conversion, are exempt from capital gains tax.

2017

After a period of sustained growth in the sector, and together with the eaga Trust and the John Lewis Partnership, the EOA launches The Ownership Effect Inquiry to evidence the economic and social effects of employee ownership. During the course of the Inquiry, a panel of more than 20 leading independent business organisations receives oral and written evidence from more than 100 EOBs and advisers across seven hearings in five UK locations.

2018

The EOA and its research partners publish *The Ownership Dividend*, drawing upon the findings of the Inquiry.

WHAT DID THE INQUIRY DISCOVER?

EO BENEFITS THAT EMERGED FROM THE INQUIRY

The positive impacts of EO are many and various, and the advantages of the model stretch to individuals, businesses, regions and the wider UK economy. However, EO is no holy grail – the model is not appropriate for every business, and some of its manifold benefits are found separately in other models. EO also does not insulate a business from challenging market conditions, or avoid the need to innovate and stay competitive. Yet the more than 100 case studies fielded by the Inquiry reveal profound qualitative evidence strongly supporting the case for greater uptake of EO in the UK. It found that EO triggered fundamental enhancements to companies' productivity, resilience and decision-making. But the advantages reach well beyond the confines of the businesses themselves, creating a virtuous circle for local, regional and national economies as more firms adopt the model.

At the outset, it was vital for the Inquiry to settle upon a definition of EO that would guide its work. As such, it looked to the 2012 *Nuttall Review,* which states that, for EO to be meaningful, "the employees' stake must underpin organisational structures that promote employee engagement in the company". Those structures take three main forms:

DIRECT EO

Staff become shareholders, each holding a set number of shares and using one or more tax-advantaged share plans.

Inquiry participants using this model: 8%

INDIRECT EO

Shares are held collectively on workers' behalf via an employee trust.

Participants using this model: 28%

HYBRID MODEL

Combination of direct and indirect share ownership.

Participants using this model: 64%

1

GROWTH AND DIVERSITY

EO is a flexible model that suits companies of all sizes. The Inquiry panel found that EO has secured a broad base of appeal across the private sector, with the Finance Act 2014 proving to be a significant driver. Research from the White Rose Centre for Employee Ownership reports that 60% of growth in EO has happened since 2010, and more than half of that since 2014. Of the EOBs that provided oral evidence to the Inquiry through representatives, 38% transitioned to EO in either 2015 or later years. Among those firms, the Inquiry identified interesting variations of business size: one employs more than 1,000 staff; three employ between 250 and 1,000, five between 100 and 250, and 14 fewer than 100. Those figures suggest not only that the EO model is flexible enough to suit companies of any size, but that the Finance Act has sparked interest in EO at different levels of the business community.

The employee owned sector is growing in both size and impact. Contributing approximately 4% of UK GDP annually – equivalent to combined income well over £30 billion – the employee owned sector is growing by about 10% a year.

According to consulting firm RM2, EOBs on the upper tier of the EO sector are seeing growth in both personnel and revenue terms. In 2017, the UK's top 50 EOBs recorded year-on-year staff growth 2% higher than that at like-for-like non-EOBs, reaching 176,000 employees. The same year, EOBs also achieved year-on-year sales growth 3% higher than that of non-EOBs, totalling £22.7 billion.

2

PERFORMANCE AND PRODUCTIVITY

EO is a powerful employee motivator. The evidence from the Inquiry panel is clear that EO is highly likely to encourage staff to:

- show greater motivation
- act on their own initiative
- work collectively to improve the fortunes of the firm as a whole

The Inquiry noted that the transition to employee ownership is associated with rapid improvement in productivity, often driven by employees taking initiative, and implementing changes in work practices that reduce waste and improve efficiency.

A representative explained that this phase of "working the extra mile … quickly put us back where we should have been". Since then, Aber has experienced a two-year period in which revenues grew by 30%. As the representative noted, a surge of ambition swept across the firm when staff realised "they don't have to just do what the founders' mission was – they can run with it now … when that happens, you get a 'whoosh' effect."

A representative from **Cambridge Weight Plan** was one of many giving evidence who felt that culturally there was a big difference in the organisation since becoming employee owned. This change occurred because employees gained a vested interest: "People are more interested in the bottom line, what profits are we making, what is that going to mean for us in terms of employee voice, how can we get involved in deciding what happens to employee stakeholders profits and how we spend those?

"Since becoming employee owned, UK sales have gone up by 17%, export has gone up by 22% and our total sales profit has increased by 25% – a lot of that has been driven by the fact that we are all working towards a common goal."

> ***"Since becoming employee owned, UK sales have gone up by 17%, export by 22%, and our total sales profit has increased by 25%"***
>
> **CAMBRIDGE WEIGHT PLAN**

Those points emerged clearly from evidence provided by **Aber Instruments,** a supplier of advanced systems for use in the brewing and biotech sectors, with several major corporate clients including SABMiller, Novartis and GlaxoSmithKline. Although the firm transitioned to EO in 2008, opting for the hybrid route, staff began to take their ownership more seriously in 2015, when the original founders departed. Amid that renewed sense of purpose, staff devised a host of initiatives to improve the bottom line, and made a pact during a spell of difficult trading in which they all took a 10% pay cut while maintaining output.

3

STANDARDS OF CORPORATE GOVERNANCE

EO distributes and strengthens operational oversight. The traditional shareholding model that underpins non-EOBs is routinely criticised for imposing distance between shareholders and managers and leaders. Even large shareholders can find that their influence on firms' operations is limited, while their smaller counterparts are often marginalised altogether. The frustration that stems from that structural muting of investors' voices is increasingly sparking incidents of 'shareholder activism', in which backers join forces to lobby management over common concerns – for example, excessive pay awards to senior figures.

"I wanted to maintain the culture of the business, I wanted to maintain the jobs within the business"

EAGLE PLANT FOUNDER

Conversely, evidence to the Inquiry shows EO spreads operational oversight throughout a community of co-owning, shareholding employees, putting each member of staff at the heart of governance. In the case of the 100% employee-owned **City Health Care Partnership CIC**, governance is channelled through a staff-run co-owner forum, which regularly meets with directors. A representative told the Inquiry: "At the co-owner forum, the finance director … gives all the financial figures; [employee representatives] can ask the chief executive any questions. The co-owner forum must also take on board feedback from the employee survey. The survey results go to the forum, as do action plans that are developed by the staff. The directors will be held to account if [those plans] are not implemented."

Mike Stoane Lighting moved to employee ownership in 2014, when the founder exited the business. Its employees' new sense of ownership has fostered greater engagement. A representative told the Inquiry: "I do think that people feel they own the business and a large number … feel very strongly that we should be accountable to them and are very interested in the structure of the business, [and] in the future of the business." The Inquiry found that this increase in transparency and accountability boosted employees' levels of involvement both in their own work and the overall direction of the company.

4

EMPLOYEE OWNERSHIP AS A ROUTE TO BUSINESS SUCCESSION

EO is a powerful, sustainable alternative to trade sales. Industry research shows too many UK SMEs and family businesses inadequately plan for the challenge of ownership succession, with the result that many of them end up damaged or weakened by the process. The best-known option – trade sale – was frequently cited in the Inquiry as a path that firms were unwilling to take, because the outcomes are often unsatisfactory. Several former family business owners told the Inquiry they had rejected a trade sale because too often it can lead to the breakup of the business, the relocation of its jobs or, in the worst-case scenario, a complete shutdown. While owners were aware that a trade sale can be a financially lucrative option in the short term, its appeal diminishes when they factor in their concerns about:

- the future of the employees
- the legacy of the business
- their commitment to the workforce in their firms' local communities

A senior figure at technology transformation company **Agilysis** told the Inquiry that in the run-up to the firm's EO transition, the co-founders "had been looking at different succession options for a while, and really none of them quite suited what they were looking for". But with the advent of the *Nuttall Review* and the Finance Act 2014, the founders saw "really attractive" opportunities. Its HR director said: "I would say they were interested in rewarding and creating some value for the employees who had helped build the business to that point."

The founder of **Toucan Computing** added that his firm's EO conversion stemmed from efforts to find means of "permanently tying the staff in". While employees had received bonuses for many of the firm's 20 non-EOB years, they stressed: "I wanted to tie them in better. I looked at all sorts of models, and they were all far too complicated or had downsides." But when they found out about EO through the EOA, things "started to fit into place".

Construction, engineering and utility service provider **Eagle Plant** became employee-owned after the founder chose the option as part of a business succession plan. The founder pointed to several criteria as playing a crucial role in the transition decision: "I wanted to maintain the culture of the business, I wanted to maintain the jobs within the business. These [issues] were all important things and I wanted to avoid a trade sale and management buyout … I didn't like the idea of that because I felt a lot of management buyouts … start off very well, [then] people start thinking, 'let's cash in the chips, let's get rich quick', and so forth."

5

IMPACT ON COMMUNITIES AND REGIONS

EO roots jobs regionally, which helps local communities. One characteristic of EOBs that shone through the evidence presented to the Inquiry is that they regard community engagement and supporting those communities as part of their identities. The example that follows was typical of a range of 'pro-local' examples in oral and written evidence.

A representative for steel fittings distributor **Shawston** told the Inquiry that the firm's Manchester heritage "is crucially important". As well as employing apprentices from the area under the Apprenticeship Levy, the company uses Manchester Metropolitan University as a training ground to groom internally spotted talent for future leadership roles. Its recruiters also keep an eye on promising individuals who are studying at local universities, not just in Manchester, but in Sheffield, Liverpool and Leeds, too. As such, the representative noted, "you're looking in your local community a lot more, and with a bit more intent than you would have done without being employee owned."

Sheffield manufacturer **Gripple** told the Inquiry that innovating and taking risks is part of its responsibility to employees, and to the local community. A representative reported that EO makes risk-taking easier because the company is shielded from the threat of takeover, allowing it to focus on making long-term ventures that generate growth and jobs – benefiting the community as well as future employees. "I think we have an overriding responsibility to try and create and sustain a business for the long term," said one witness who spoke on behalf of the company. "We realise that part of our responsibility is to continue to grow and continue to innovate and change and evolve and invest, and we do so because we are custodians of the business, we hope for two, three, four generations down…".

Long-term planning among EOBs fosters resilience and sustainability. The Inquiry found that EO fosters a long-term view among employees. Under EO, staff were more willing to sacrifice short-term benefits for the long-term health and sustainability of the company.

Being employee owned shielded IT firm **Symology** from pressures to deliver short-term profitability. Instead, the firm allocated resources towards research and development – developing cutting-edge asset management systems. The long-term orientation in turn has ensured deep client relationships.

For **Mott MacDonald**, EO and engagement with the community are inseparable. EO also allows the company to resist takeover attempts and avoid asset stripping, to instead focus on sustainability, organic growth and the long-term benefits for the company and its employees: "I think that we are driven by innovation, by having great people … great business with clients, good clients, great client relationships. We have all of that and it delivers us [good] financial performance."

THE CHALLENGES

BARRIERS TO THE GROWTH OF EO

While the Inquiry heard many positive examples of EO, it remains less well-known than other business models, and other significant hurdles to its adoption persist. The Inquiry disclosed limiting factors in three key areas:

1. AWARENESS AND UNDERSTANDING

Professional advisors' awareness and understanding of EO is weak. A representative from advisory firm **RSM** stressed: "The level of knowledge of employee owned trusts (EOTs) is still low among the professional advisory community at large. Sadly, that's the challenge for this entire sector – to get that [EO] option considered alongside trade sale and sale to private equity [as a viable alternative]."

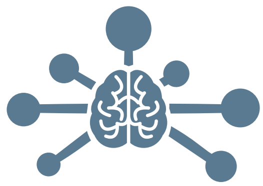
Much of the evidence presented to the Inquiry confirmed that awareness among advisors was a clear stumbling block, including a representative from **Wrigleys Solicitors**. Their representative said: "The problem is that advisors don't put it [EOTs] on the table most of the time. We find if we go and do presentations to accountants they say, 'Oh, that's very interesting, we hadn't thought of that one or we didn't know of that one'."

Directly connected to that knowledge gap, there is currently a limited number of high-quality advisors on EO – and this is magnifying owners' challenges as they strive to finalise critical decisions about their firms' futures. As one participant said: "It is a monumental step … and it is one [situation] where you really do need to have good advice. It is simply accessing that advice and having sufficient good advisors out there. That, I think, is one of the current problems. We will all agree that the advisors we had … were excellent, but actually we're not talking about dozens and dozens out there."

Businesses' awareness of EO is lacking. Businesses' awareness of EO remains suboptimal. The Inquiry found that some companies had only stumbled across EO when other options they examined failed to meet their needs. A representative from **Eden Nuclear and Environment** told the Inquiry: "I think there is an imbalance in the information that you get. I happened to be aware of the possibilities and pursued them… but if I was sitting there as a director of an SME, every week at least we get a letter from accountants saying, 'Do you want to realise the value of your company?' I know I never get anything about EO – other than nice emails from the EOA. So, for the ordinary manager in the street… there is just an imbalance in the sort of information that you are exposed to."

Financiers' lack of EO awareness limits access to finance. The Inquiry found that banks and other financiers' lack of awareness and understanding of EO often made them unwilling to invest in EOBs. At best, access to finance was inconsistent, with some companies testifying that their local bank was aware of the model and willing to lend to their company, and others reporting the opposite.

A representative from engagement consultancy **Traverse** told the Inquiry: "When we went to more typical and traditional financers we never got beyond questions about the ownership. We would almost immediately be asked what our ownership structure was. We'd explain that we are employee owned. They wouldn't know what that was, so we would explain what the structure was and the phone would go down."



"The level of knowledge of employee owned trusts is still low among the professional advisory community"

RSM

Pett Franklin LLP told the Inquiry that the education of financiers is critical to the advancement of EO: "If there is going to be a game-changer that helps take EOT companies into the mainstream, providers of finance are going to have to be willing to do cash-flow lending.

"Banks traditionally in this country come from a basis whereby they lend to SMEs on security and charges on assets, and what we're talking about here is something radically different. It's lending to help facilitate the sale price, and that means … you're going to provide part of the funding for the vendors to get their money earlier out of the whole process."

2. ORGANISATIONAL READINESS

Leadership capacity for EO transition is lacking. Another issue that emerged from the evidence was the need to better understand and develop the leadership skills necessary to manage firms through the transition phase and beyond. In most cases, the Inquiry learned, while respondents navigated transition, they relied upon advice from a variety of sources – eg, the EOA, other owners who had taken similar steps, or employees who had prior experience of working in EOBs. Others learned through trial and error.

A key factor here is that managing staff who co-own the business with you is very different from the 'top-down' management of people the organisation treats as subordinates. Managing employee shareholders and leading a co-owned business takes some different skills and behaviours – a challenge that new EOBs need to tackle early.

A representative of one company raised concerns to the Inquiry over these shortfalls in the leadership arena. They said that it was vital for owners to have access to "people who are experts in transition, or in change of organisational structure", who can help leaders find their way through the underlying challenges. Those individuals could also transfer their experience and expertise to business owners. The respondent said: "Supported by access to other businesses that have been through this, the combination of that will be quite dynamic in helping organisations prepare [for] and embrace the changes that they're going to face."

3. EDUCATIONAL AWARENESS

Awareness of EO in the business education sector is rare. Evidence to the Inquiry has revealed the almost total absence of EO from MBAs and other curriculum content in business schools, and a parallel gap in the development programmes offered to, for instance, company directors, accountants, lawyers and personnel specialists by their professional bodies. For a sector worth more than agriculture and aerospace, this gap is remarkable.

The result is that a host of decision-makers throughout the economy have little or no awareness of – judging by this Inquiry – a growing and thriving sector and business model. Business owners lack awareness of a highly viable succession option. Accountants and lawyers can fail to include EO as an option for clients to consider. Business leaders looking to lift employee engagement will usually have no knowledge of the business model that appears most likely to transform it.

This educational blind-spot causes collateral damage in terms of next-generation recruitment – millennial job-seekers are extremely unlikely to know about EO, even though research suggests it fits their view of work better than some other employment options.

A respondent to the Inquiry from **3BM** who provided thoughts on this issue pointed out: "We took part in a study that the eaga Trust and others did looking at millennials. Our millennials in our business were very clear what they wanted. They wanted a voice, they wanted to be listened to, they want to be trained and developed. They're wanting the things that EO and a governance structure [offers] – that listens and responds."

A representative from Cambridge Weight Plan added: "We've noted now in terms of recruitment that a lot of millennials are quite keen on working for an employee owned business, that's something that we've picked up in terms of what makes this business different to one down the road."

A FRAMEWORK FOR CHANGE

The identification of these hurdles by the Inquiry offers a clear framework for EO's advancement. By tackling the obstacles step-by-step, advisors, financiers and government can provide a sound footing for the growth of EO. Growing EO is a smart goal, as its benefits are clear: higher productivity, better corporate governance, enhanced employee engagement, and fortified regional economies.

OUR RECOMMENDATIONS

CAPACITY BUILDING

The Inquiry panel wants to see a rapid scaling-up of the powerful, positive effects that EO can have upon individuals, businesses and the wider UK economy. To achieve that, there must be a catalyst that will spark growth in the number of EOBs. Government agencies must work closely not just with the EO sector, but with professional bodies and business educators too, to address current gaps in awareness, understanding and specialist capability. Those agencies must also connect firms that are interested in EO with the expertise, support and/or finance they require to enable employee buyouts.

RECOMMENDATIONS

1

The UK government should invest directly in boosting the creation of new EO firms through a high-profile, capacity-building initiative that echoes the proven, successful ventures deployed in Scotland and Wales. An independent evaluation for Co-operative Development Scotland, an economic development agency that promotes employee ownership, cited a tenfold return on investment (ROI) in gross value added (GVA) for every pound invested in on-the-ground support. The model is seen by the Scottish government as a means to root businesses in their communities, drive productivity and share wealth more widely. The evidence shows that Holyrood's perception is accurate – the review, by Ekosgen, revealed a raft of benefits beyond the tenfold ROI in GVA (see graphic, right).

2

The government should put additional funding into its Mutuals Support Programme 2, a scheme to support public service mutuals. This will build upon the success of the initiative to fund advice for teams that want to step out of statutory services to form new, EO-based mutual enterprises, to keep pace with demand.

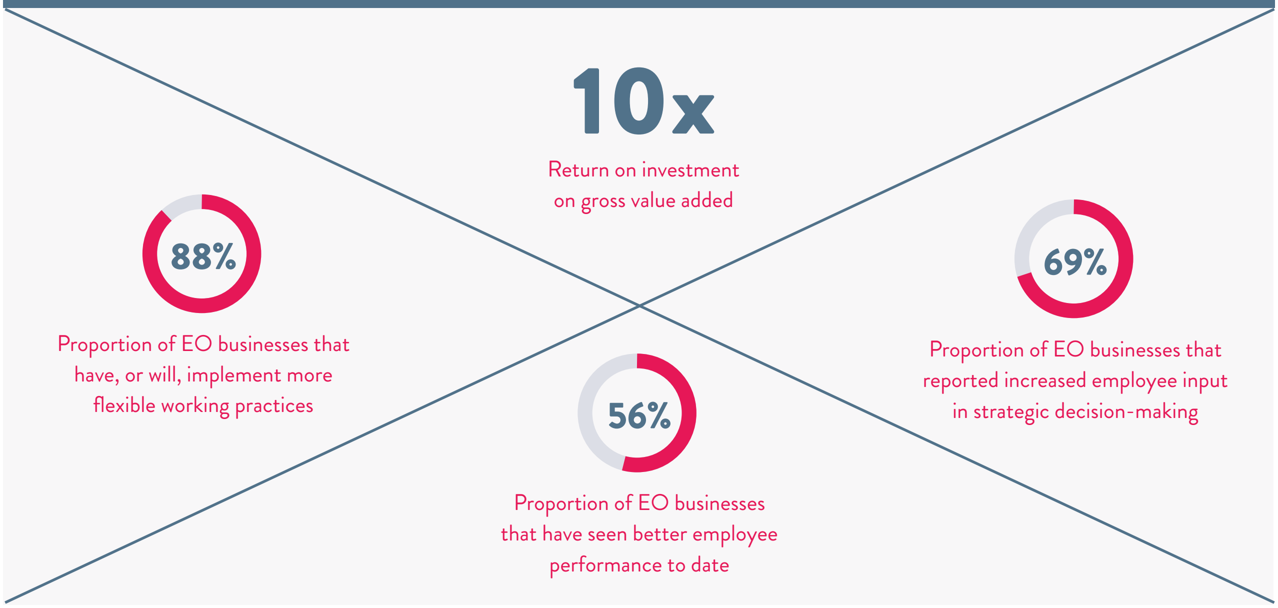
3

National trade, management and business bodies should either continue to, or commence, work with the EOA to develop a range of EO training packages, CPD schemes, events and other relevant guidance. Those resources will enable the members of those bodies to benefit from the ownership dividend by supporting or implementing EO transitions.

4

Leading business schools and higher education providers should work with the EOA to create appropriate EO modules and teaching materials for inclusion on business school courses and other management education programmes.

PROOF OF GROWTH – HOW EO HAS BOOSTED SCOTLAND'S BUSINESSES



RESILIENCE AND SUCCESSION

The panel believes that enabling further growth of EOBs will contribute significantly towards government efforts to grow and support the resilience of regional economies, thereby answering a major priority of the industrial strategy.

A deciding factor in the growth of local and regional EOBs over the next decade will be leaders of SMEs and family-owned businesses planning for succession. The UK's record on business succession is relatively poor, with workers, owners and local economies often left at risk because of poorly planned and managed ownership transfers.

More should be done to promote employee buyouts as viable alternatives that typically leave secure and thriving businesses in their wake and, with them, highly satisfied exiting owners.

The panel discovered poor levels of EO familiarity and understanding among financial institutions nationally, regionally and locally. Opening up easier access to affordable finance will provide regions with a form of inward investment that will be a critical asset to both employee buyouts and the growth of existing EOBs.

RECOMMENDATIONS

1

Regional enterprise bodies and combined authorities should work with the EO sector to create trailblazing pilots focused upon resilience and succession. These multi-year schemes should focus upon driving economic resilience through a blend of awareness-raising (particularly among exiting business owners), hands-on support and attracting inward investment to support local EOBs. Local enterprise partnerships, growth hubs and other business organisations should help to establish peer-to-peer networks that will support business leaders in their efforts to move towards the EO model.

2

Financial institutions at national, regional and local levels should work with the sector to raise levels of EO understanding and explore new mechanisms to drive investment into local and regional economies, including:

- The British Business Bank (or another official lender) should provide partial loan guarantees for EOT transactions involving smaller SMEs. This would match an equivalent service offered by the US Small Business Administration.
- Institutions should create regional investment funds focused on EO firms that contribute to local economies, including local authority pension funds and other sources of third-party capital.
- The Bank of England should host a symposium for our leading financial institutions on the scope for investment and lending within the EO sector.
- The Investment Association should raise awareness and understanding among its members of EO as a hybrid business model of employee and investor ownership.

NEW NATIONAL STRATEGY FOR BUSINESS OWNERSHIP

For the ownership dividend to pay out in full, the UK requires a joined-up, government-backed vision to raise the profile of EO and other ownership models. The panel found that, while EOBs are growing, awareness and appreciation of the model is low in the very range of sectors, institutions and professions for which its relevance and value are high.

Business owners who are considering succession are rarely aware of an EO sale option. In parallel, the sector's profile is low within financial services, business education, Westminster and Whitehall. Compounding that low profile is a startling absence of any national statistics on the sector's size, distribution and impact.

Removing tax obstacles to EO growth has a powerful, signalling effect upon business owners and their advisers. The panel applauded measures that the government has already introduced – but felt strongly that additional tax changes to drive further EO growth are justified.

RECOMMENDATIONS

1

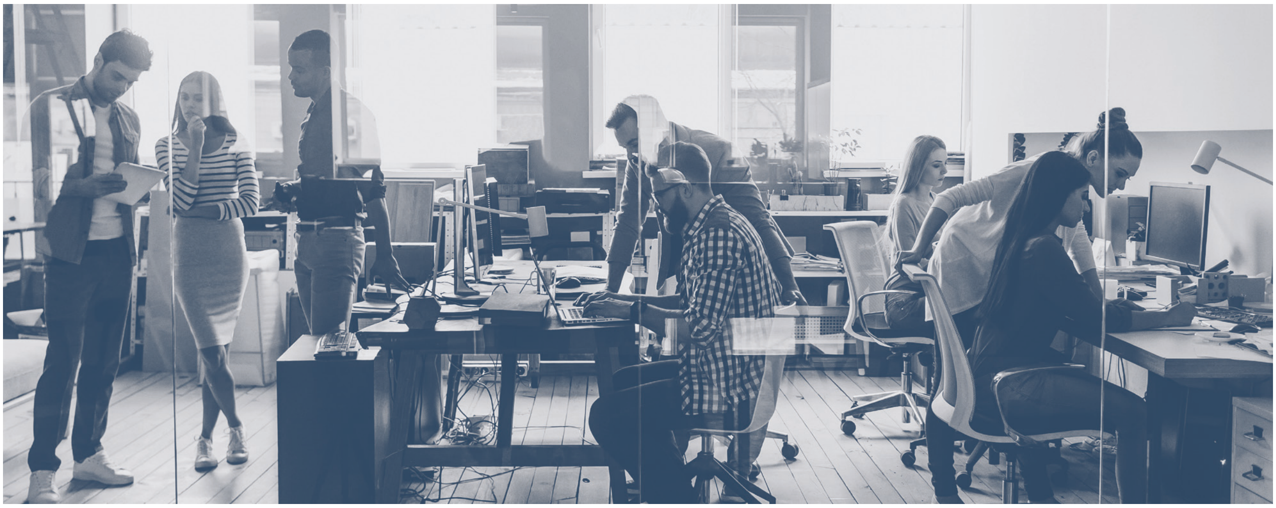
The government should work with EO and mutuals sector bodies to create a new national strategy for business ownership. To succeed, that strategy must include a number of critical elements, delivered in two main tranches:

STRONG NATIONAL LEADERSHIP

- The government should reinstate a minister with clear responsibility for EO and other mutually owned business models, supported by a dedicated Whitehall team.
- Nationally active accountancy, legal and professional bodies should promote the relevance of EO to business owners – particularly at local and regional level.

UK-WIDE DATA PROJECT TO BENCHMARK AND TRACK THE GROWING VALUE OF THE OWNERSHIP DIVIDEND

- The EOA and other sector bodies should work with the Office for National Statistics, HMRC and the Department for Business, Energy and Industrial Strategy to ensure that the size, distribution and key characteristics of the EO sector are regularly surveyed and reported on, as part of routine data collection.
- The strategy should include a clear assessment of gaps in current datasets, and commission further research to cement the evidence base that backs up the value of the ownership dividend, building on the data gathering carried out for this report.
- The EOA should publish a library of relevant EO case studies and a practical guide that professional bodies and business institutions can use to familiarise and advise members about when, and where, EO may be appropriate.



2

The government should continue to create the strongest possible business environment to foster and promote the growth of EOBs. This should be achieved through the tax regime, via measures to:

- Increase, and/or index-link, the current £3,600 per tax year limit on tax-free qualifying bonuses – and consider eliminating National Insurance contributions on those bonuses to incentivise EOT transactions.
- Ensure that employee buyout costs are deductible for corporation tax purposes in the same way as for other tax-advantaged share schemes.
- Ensure that any contributions from a company to an EOT – eg, to repay a loan – are tax-deductible, as the contributions are exclusively for the purposes of the firm's trade, and therefore benefit employees. This would make lending to an EOT no less tax-efficient than lending directly to the company (the route taken by private equity investors, who benefit from tax-deductible interest on their loans to their investee firms – thereby enjoying an unfair fiscal advantage over EOTs).
- Introduce a finite period of seven years during which the original vendor's capital gains tax relief can be clawed back by HMRC. That will end a current disincentive, whereby the subsequent sale of a business leaves employee owners repaying tax relief that the original owners were spared.
- Ensure that vendor loans are eligible for business property relief upon the sale of a business, so that any original owner whose loan is still supporting an EO transition doesn't lose an important inheritance tax exemption.
- Abolish stamp duty on company sales to EOTs, thereby removing a disincentive to ownership transfers in the sector.
- In cases where a close company lends money to its EOT rather than contributes (ie, gifts) it, as it may do if there are external investors wanting to limit shareholder dilution, that company currently suffers an adverse tax charge. That is because such loans to a significant shareholder (ie, the EOT) are taxed at 32.5%, as if they are dividend distributions. This anti-avoidance penalty should be removed from genuine loans by a company to its EOT. That measure would make it easier to establish EOTs in firms where there are external investors.

"Removing tax obstacles to EO growth has a powerful, signalling effect upon business owners and their advisers"

ACTION PLAN

Together, key forces in the EO debate have what it takes to support and drive *The Ownership Dividend*'s recommendations. Here, we present an action-plan checklist for each relevant stakeholder group.

WHAT THE GOVERNMENT CAN DO…

1. Invest directly in boosting the creation of new EOBs through a high-profile, capacity-building initiative.

2. Work with the wider EO sector to create a new national strategy for business ownership.

3. Commit additional funding to the Mutuals Support Programme 2.

4. Encourage local enterprise partnerships, growth hubs and other business organisations with regional presence to work with combined authorities, to create trailblazing pilots focused on resilience and succession.

5. Reinstate a dedicated minister with clear responsibility for EO and mutually owned business models, supported by a dedicated Whitehall team.

6. Ensure that the size, distribution and key characteristics of EO firms are regularly surveyed and reported on, as part of existing data-collection efforts.

7. Continue to create the strongest possible business environment to promote the growth of EO firms through the tax regime.

WHAT INDUSTRY BODIES AND EDUCATION PROVIDERS CAN DO…

(This applies to business membership groups and business schools – as well as institutes for chartered and qualified professionals across the accountancy, legal, management, personnel and development sectors)

1. Develop training packages, CPD programmes, events, promotions and other forms of guidance to ensure their members understand the relevance of – and can benefit from – the ownership dividend, by supporting or implementing EO transitions.

2. Create appropriate EO modules and teaching materials for inclusion in business school curricula and other management education courses.

WHAT FINANCIAL INSTITUTIONS CAN DO…

1. Work with the sector to raise levels of EO understanding within the financial industry and explore new mechanisms to drive investment into local and regional economies.

2. **The British Business Bank (or other official lender):** Provide partial loan guarantees for EO trust transactions involving smaller SMEs.

3. **The Bank of England:** Host a symposium for leading financial institutions on the scope for EO sector investment and lending.

4. **The Investment Association:** Raise awareness and understanding among members of EO's role as part of a hybrid business model of employee and investor ownership.

WHAT THE EOA CAN DO…

1. Engage with all these groups to help design, create and implement activity that drives awareness and understanding of EO and boosts the creation of additional EOBs.

2. Work with other sector bodies to take the first steps towards a joined-up national strategy for business ownership.

3. Follow up with senior figures in both government and opposition parties to develop greater awareness of the national economic impact and opportunity that the ownership dividend provides.

4. Publish policy papers on the scope for government to introduce a measure of EO into public utilities and services.

5. Host a business-led summit with ministers, mayors and local authority leaders to raise awareness of EO's potential advantages for regional economies and ownership succession.

6. Publish a library of relevant case studies and a practical guide that professional bodies and business institutions can use to familiarise members with EO, and advise them on scenarios in which it may be appropriate.

7. Explore the value of creating a special brand or kitemark – comparable to the Investors in People badge, for example – that EOBs can display to generate recognition of, and interest in, EO.

8. Work with government and other partners to develop an online, one-stop advice point for any business considering EO – including a practical, self-assessment diagnostic tool to enable owners to determine the relevance of EO to their firms.

9. Work with the Bank of England to help identify potential lenders and match them with companies seeking third-party capital for EOT transactions.

APPENDICES & ACKNOWLEDGEMENTS

ABOUT THE INQUIRY

In 2017, The Ownership Effect Inquiry set out to reveal new evidence on the performance of EOBs, following a sustained period of growth in their number over the previous five years.

At a time when there was a significant focus on UK productivity, corporate behaviour and Brexit, the Inquiry sought to identify evidence of EO's effects as an economic and social enabler.

The Inquiry was sponsored by social investor the eaga Trust, together with the UK's largest employee-owned business the John Lewis Partnership. It was managed by the Employee Ownership Association, supported by the academic rigour of Cass and Alliance Manchester Business Schools and was chaired by Baroness Bowles of Berkhamsted.

This report, *The Ownership Dividend*, is the Inquiry's evidence report.

PANEL

More than 40 representatives from more than 20 leading UK industry bodies comprised an independent, business-led panel of experts from the private sector, finance, law, accounting and management.

They heard and challenged evidence presented by more than 100 businesses at the hearings and, subsequently, via an online survey. Following that, they provided input firstly to the academic analysis of the evidence by Cass and Alliance Manchester Business Schools and, secondly, to the Inquiry recommendations.

HEARINGS AND ONLINE SURVEY

Chaired by Baroness Bowles of Berkhamsted, seven oral-evidence hearings took place across the UK, including sessions in Birmingham, London, Manchester, Scotland and Wales.

An online survey was provided to allow EOBs, non-EOBs and advisers to provide additional input to the Inquiry's evidence base.

Further data was gathered from a small number of EOBs who shared details of their employees' responses to specific questions on the impact of EO, as contained within those firms' staff-engagement surveys.

THE OWNERSHIP EFFECT STEERING GROUP

Delivery of the Inquiry has been guided throughout by the Chair and the Partners

THE CHAIR

Formerly a chartered patent attorney, Baroness Bowles of Berkhamsted joined the House of Lords in 2015 as a Liberal Democrat life peer after serving in the European Parliament as MEP for the South East of England from 2005-2014, including chairing the Committee on Economic and Monetary Affairs from 2009-2014.

Outside the Lords, Baroness Bowles holds a number of non-executive directorships, including with the London Stock Exchange Plc and Prime Collateralised Securities. She sits on the regulatory advisory group of the London Stock Exchange Group, the advisory group of the Centre for Progressive Capitalism and the advisory board of the Financial Services Negotiation Forum. She is also a member of the Systemic Risk Council.

THE PARTNERS

THE EAGA TRUST

The eaga Trust was set up in 1999 for the purpose of promoting employee well-being, engagement and ownership in the workplace, in the belief that when employees feel like partners in their business, they deliver better day-to-day results – and that, in turn, those results produce a profitable, sustainable and fulfilling business to the benefit of all. After being purchased in 2011, the eaga Trust's principal aim is to help its 7,000 beneficiaries into or in employment and, where possible, within employee owned environments.

JOHN LEWIS PARTNERSHIP

The John Lewis Partnership operates 50 John Lewis department stores and 353 Waitrose supermarkets across the UK. The business has annual gross sales of more than £11 billion. It is the UK's largest example of an EOB, with all 85,500 staff recognised as partners in the business.

CASS BUSINESS SCHOOL – PROFESSOR AJAY BHALLA AND DR ANEESH BANERJEE

Professor Bhalla and Dr Banerjee lead thought-leadership initiatives on employee ownership at Cass Business School. Part of City, University of London, Sir John Cass Business School is among the global elite of academic institutions in its field, complete with the gold standard of 'triple-crown' accreditation.

ALLIANCE MANCHESTER BUSINESS SCHOOL – PROFESSOR JOSEPH LAMPEL

Professor Lampel holds the Eddie Davies Chair in Enterprise in Innovation Management at Alliance Manchester Business School. He has led several EO research studies over the past ten years. His work in collaboration with Professor Bhalla at Cass is widely recognised for the impact it has made in furthering understanding of the employee ownership model.

EMPLOYEE OWNERSHIP ASSOCIATION (EOA)

The EOA is the leading voice for EO in the UK, with a mission to grow the model throughout the country. Working in close partnership with its 330+ members, it is dedicated to championing and promoting the business case for EO, and to providing insights into its benefits.

Members have access to unique learning, networking and trading opportunities across the EOA's network of diverse firms of all sizes and sectors – whether they are exploring employee ownership for the first time, or developing and growing as an EOB.

The EOA is a not-for-profit and politically independent organisation.

DATA SOURCES

GLOBAL LITERATURE REVIEW

The Ownership Effect Inquiry: What Does the Evidence Tell Us? (June 2017): compiled by Cass Business School, City, University of London (Professor Bhalla and Dr Banerjee) and Alliance Manchester Business School, University of Manchester (Professor Lampel) to review the existing global research and literature on EO, together with the policy environment, key enablers and major obstacles. The report references more than 70 sources of information.

FINAL EVIDENCE

The Ownership Effect Inquiry: Final Evidence Report (January 2018): the most comprehensive piece of evidence on EO in the UK, based upon oral and written evidence from more than 100 EOBs and professional advisers, supported by evidence from the above literature review.

Both reports can be found online: www.theownershipeffect.co.uk

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We are grateful to these leading independent UK business organisations for their role as panellists at the oral hearings, and for their guidance in the development of the final report and recommendations:

Association of Chartered Certified Accountants (ACCA)
Birmingham Law Society
British Chambers of Commerce
Chartered Management Institute (CMI)
Chartered Institute of Personnel and Development (CIPD)
LEP Network
Federation of Small Businesses (FSB)
Grant Thornton
Greater Birmingham Chambers of Commerce
Greater Manchester Chamber of Commerce
Hunter Centre for Entrepreneurship
Institute of Chartered Accountants in England and Wales (ICAEW)
Institute of Chartered Accountants of Scotland (ICAS)
ICSA: The Governance Institute
Institute for Family Business (IFB)
Institute of Directors (IOD)
Kingston University Business School
Law Society Scotland
Legal & General Investment Management
Re:markable
Santander
ScaleUp Institute
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Alfa Travel
Aquascot
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Arup
Barnard & Westwood
Baxendale
Bennetts Associates
Black Light
BPR Architects
Cambridge Weight Plan
Camlab
Castlefield
Childbase Partnership
City Health Care Partnership
Classic Motor Cars
Community Dental Services
Computer Application Services
Co-operatives UK
CSH Surrey
Cubiks
Cullinan Studio
David Narro Associates
Donald Insall Associates
E A Gibson Shipbrokers
Eden Nuclear and Environment
Employee Owners Group
Flowstore Systems
Golder Associates
Gripple
Hayes Davidson
InSync Technology
John Lewis Partnership
Leading Lives
Make
Mike Stoane Lighting
MJP Architects
Mooncup
Mott MacDonald
Network ROI
Novograf
PB Design & Developments
Pollitt & Partners
Prospects
Quintessa
Remploy
Rinova
Rowlinson Knitwear
Saxton Bampfylde
School Trends
Scott & Fyfe
Scott Bader
Shawston International
Skye Instruments
Steer Davies Gleave
Stephens Scown
Stride Treglown
Swann-Morton
Symology
TateHindle
Team Medical Devices
The Gateway Dental Practice
The Homebuilding Centre
The Useful Simple Trust
Tibbalds Planning & Urban Design
Toucan Computing
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The RM2 Partnership
TLT Solicitors
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Wales Co-operative Centre
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THE FINDINGS OF

THE OWNERSHIP EFFECT

EVIDENCING EMPLOYEE OWNERSHIP
AS AN ECONOMIC AND SOCIAL ENABLER

SPONSORS AND SUPPORTERS

theeaga Trust
employment, engagement, ownership

John Lewis Partnership

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