EMPLOYEE OWNERSHIP IMPACT REPORT

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Contents

A Fantastic Opportunity

Employee ownership is now being embraced as the most prominent alternative to conventional forms of business ownership.

This is partly a reaction to our economic context. The UK economy remains in transition. Growth is slow. Austerity is the new norm. It will be with us for a decade or more as an antidote to the poisonous effects of some of the mistakes of the past. Stagflation is an on-going risk.

This context has called into question the short termism of conventional forms of business ownership and the consequences of that on the economy and communities.

But the emerging popularity of employee ownership is also a response to the growing evidence of its benefits. Employee ownership is the model in which a business is owned by its workforce. It is a growing economic force in the UK. This is primarily a commercial private sector activity although most of the businesses that are currently being spun out of the public sector are adopting employee ownership too.

Employee ownership makes huge economic sense. Employee owned business tend to have higher productivity, greater levels of innovation, better resilience to economic turbulence and more engaged, fulfilled workers who are less stressed than colleagues in conventionally owned organisations.

Economic competitiveness and high performance are a central part of the DNA of employee owned companies. Financially, over the last 15 years, investments in shares in employee owned businesses have considerably outperformed those in conventionally owned businesses.

This Impact Report discusses what a fantastic opportunity employee ownership is for the UK economy

and for society. It shines a light on its potential and our vision for its future.

Thank you to everyone involved in this Report, in particular to Niamh Bryan of Domoliver Ltd for pulling it together and to Childbase (www.childbasepartnership.com) for their kind sponsorship of this report.

I hope that you enjoy and value reading it.

Iain Hasdell

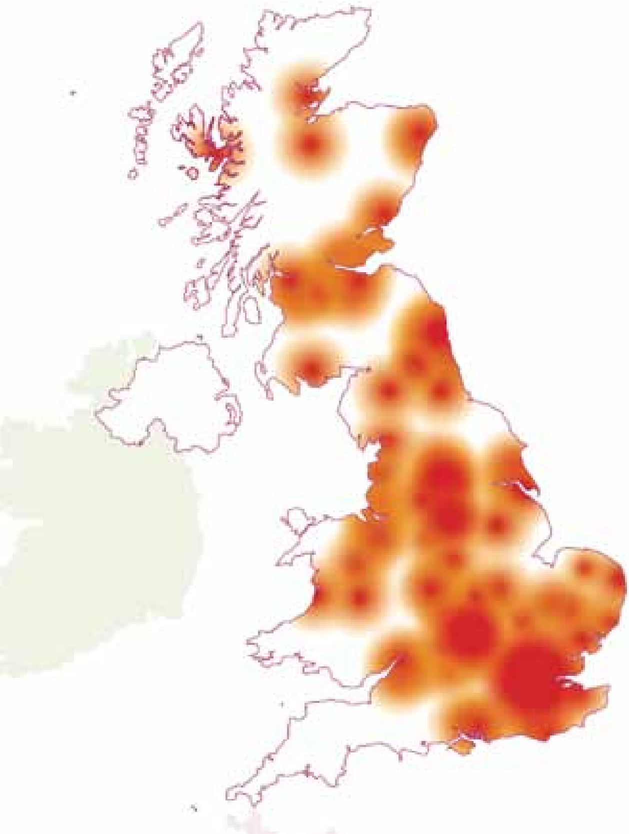
Chief Executive, Employee Ownership Association.

Overview of the EOA

Founded in 1979[1], the Employee Ownership Association (EOA) is a not for profit members' organisation representing employee owned companies across the UK.

Recognised by policy makers as the voice of employee owned business in the UK, the EOA is wholly independent and apolitical.

Our mission is to support our members and the wider employee owned sector by encouraging more businesses into employee ownership, ensuring the suitability of existing employee owned models and establishing fair and equitable conditions for employee owners in the UK, with the goal of growing employee ownership to £100bn (or 10% of GDP) by December 2020.



Membership is drawn from all business sectors across the UK.

Our Members

The vast majority of members are employee owned businesses or businesses working towards employee ownership. Our "supporter" members are organisations that provide advice and support to employee owned businesses.

Our success is due to our relationship with our members. As well as sponsoring important research and offering peer support to one another, EOA members encourage new entrants to the employee ownership community, and hold a body of expertise that government policy makers can draw upon. It is the breadth of experience and enthusiasm for employee ownership amongst EOA members that has helped to drive employee ownership so high up the political agenda in the last twelve months.

The EOA is run by a small professional team who are supported by a non-executive board, drawn from across our membership. We are further supported by a number of eminent public figures who act as honorary Vice Presidents of the Association.

[1] *EOA was originally called Job Ownership Ltd.*

Introduction

The focus on employee ownership has been unprecedented in the last 12 months and the Employee Ownership Association (EOA) has played a pivotal role in this resurgence of interest.

For the first time, increasing employee ownership is part of mainstream government policy and is supported across the political spectrum. This gives us a tremendous opportunity to transform the way that employee ownership is perceived and adopted in the United Kingdom.

We are hugely excited by this opportunity and in this Impact Report we set out the business case for employee ownership, the task ahead of us and our vision for change.

Employee Ownership - what is it and why do it?

Employee ownership is not new. It is a proven model of business ownership that is used across the globe.

There is clear evidence to demonstrate that job security, job satisfaction, and productivity are significantly higher in employee owned businesses compared to traditional companies. Furthermore, employee owned businesses have been shown to be flexible and resilient in times of economic crisis.

But despite this evidence, there is a general lack of understanding about what employee ownership is.

Employee owned businesses tend to have significant or total employee ownership – either through direct employee share holdings or shares held in trust on behalf of and for the benefit of employees.

Direct employee ownership

Using one or more tax advantaged and other share plans, employees become individual owners of major shares in their company.

Indirect employee ownership

Shares are held collectively on behalf of employees, normally through an employee benefit trust.

Combined direct and indirect ownership

A combination of individual and collective share ownership.

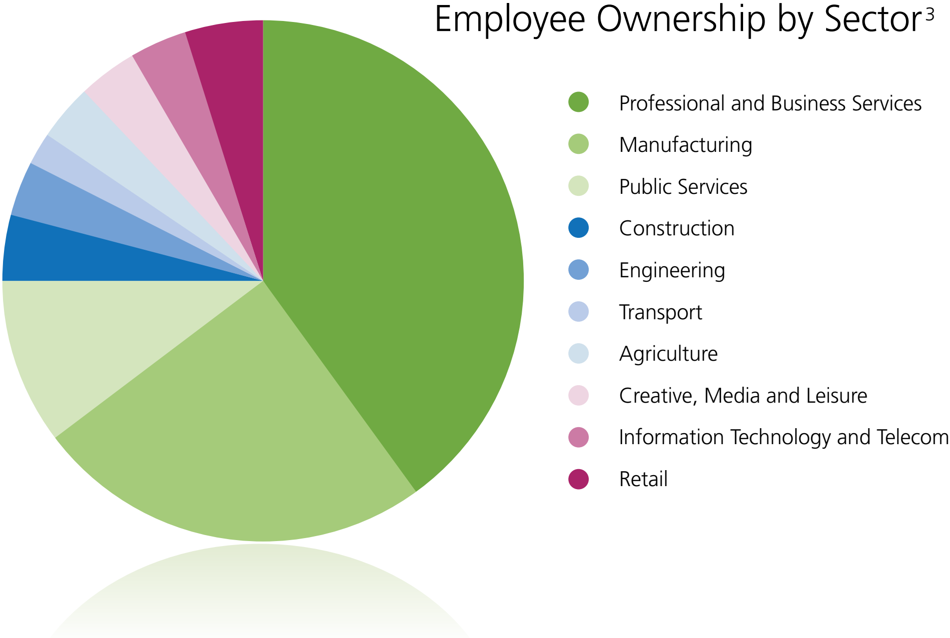
There are many different models of employee ownership in the private sector and as spin outs from the public sector. There is no set rule as to what percentage of the business has to be owned by employees if it is to be classified as employee owned. EOA members have, or are working towards, significant or total employee ownership. More importantly, their workforces are actively engaged in the management and development of their businesses.

Employee ownership is evidenced across all business areas and below we have assessed the number of employee owned business by sector, noting that employee ownership is most dominant in professional and business services and manufacturing.

"Employee ownership means a significant and meaningful stake in a business for all its employees. If this is achieved then a company has employee ownership: it has employee owners." [2]

2 *Graeme Nuttall, Sharing Success: The Nuttall Review of Employee Ownership (Crown Copyright July 2012).*

Employee Ownership by Sector[3]



There is sometimes confusion about the differences between employee owned businesses, co-operatives, mutual societies and social enterprises and it is useful to understand the distinctions and overlaps between these differing organisational models.

Although there are some exceptions, employee owned businesses tend not to be social enterprises (i.e. organisations that are committed to social objectives and to re-investing profits they make into their social mission). The majority are profitable commercial businesses.

Equally, they are not usually co-operatives or mutual organisations (i.e. organisations owned by customers and/or members and bound by operating principals). The term Public Service Mutual describes employee owned businesses that have emerged from the public sector and continue to provide public services.

3 This breakdown is indicative of the sectoral bias of UK employee owned companies, based on an assessment of EOA membership, and informed by trend data from Co-operatives UK (in their report "The UK co-operative economy 2012 – alternatives to austerity") and Field Fisher Waterhouse LLP (who compile and manage the UK Employee Ownership Index - an index of the share prices of selected UK public companies quoted on the London Stock Exchange and AIM).

The Business Case for Employee Ownership

When people think about the benefits of employee ownership, they tend to think in terms of the impact on organisational performance and individual wellbeing.

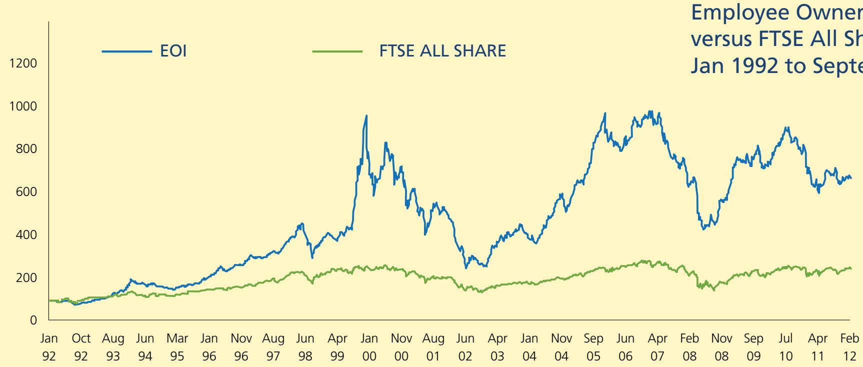
However, when we use the term "business case" we are looking at something that is more complex and far reaching, impacting on businesses, employees, society and the economy.

It is for this reason that employee ownership has received unprecedented attention in recent years. Not only are politicians looking at the role that employee ownership will play in our future economy, but there is a growing interest in the societal impact of a more equitable business model.

Impact on the Economy

There is clear and unambiguous evidence to show that employee ownership, particularly when combined with meaningful employee participation, brings tangible economic benefits for companies. But these gains are not just important to individual businesses, they have a direct impact on the UK's economic recovery.

Employee Ownership Index versus FTSE All Share from Jan 1992 to September 2012



The Employee Ownership Index (EOI), compiled quarterly by the Equity Incentives team at law firm Field Fisher Waterhouse (FFW), compares the share price performance of companies that are more than 10% owned by employees or employee trusts[4] with the performance of FTSE All Share companies. Since 1992, the EOI has outperformed the FTSE All Share by an average of 10% annually. In 2012 the FTSE announced that it will work with FFW to develop an Employee Share Ownership index as a fully-fledged benchmark.

"A new FTSE Employee Share Ownership Index will highlight some of the key benefits of encouraging employees to take an active interest in the future success of the companies in which they work. This new FTSE index will help raise awareness of how significant employee equity ownership can be advantageous for both companies and employees." [5]

One of the consistent findings emerging from research into the advantages of employee ownership is that of greater resilience than non-employee owned businesses during the economic downturn. Publicly traded companies are driven by a need to increase share value in the short term and are therefore more concerned with efficiency and cost, whereas employee owned business are more willing to innovate and tackle the risks associated with a longer term focus. It is this commitment to internal growth that is more effective in terms of long term performance.

4 The EOI is a capital only index which tracks broad based employee ownership, rather than executive–only ownership. There is a good spread of sectors, with a concentration in support services, financial services, IT and media. There are currently around 20 companies in the EOI index but there have been as many as 44.

5 Xavier Rolet, Chief Executive Officer, London Stock Exchange Group PLC Press Release re Nuttall Review (BIS, July 2012) http://news.bis.gov.uk/Press-Releases/Government-shows-support-for-employee-ownership-67c59.aspx

So could increased employee ownership transform our economy and lift us out of recession? In its 2012 report the Ownership Commission[6] highlighted the importance of responsible ownership, and a plurality of ownership models. Their argument is that the unique domination of the PLC in the UK has not proved healthy for our economy.

> *"Excessive profit-chasing, failures of accountability, low levels of employee engagement have damaged many British businesses, and undermine their capacity to deliver value to customers and high quality jobs to their employees."* [7]

The Ownership Commission advocates that Government should incentivise employee ownership, increasing awareness and addressing the current tax inefficiency. It recognises that employee ownership is an important model of ownership and one which will have an increasing role to play in our economic recovery.

HM Treasury is also examining the role of employee ownership in supporting economic growth and reviewing the options to remove barriers (including tax barriers) to its wider take up.

Economic recovery will be achieved through a combination of different strategies but a more diverse ownership model for UK businesses is one of the strategies being explored by Government. Raising awareness of employee ownership models and the direct correlation between employee ownership and improved productivity and profitability is at the heart of that strategy.

Longer term Impact

Increasing the number of employee owned businesses may well be a significant factor in the short term economic recovery. We only have to look at the phenomenal success of the John Lewis Partnership, the performance and growth of Gripple Ltd (trading in seven countries) or Clansman Dynamics, a global leader in robotic handling equipment, to understand the potential impact of fostering more employee ownership. Yet the longer term message is even more exciting, because the greatest potential of the employee ownership option lies not just in its ability to sow the seeds of economic recovery, but in its resilience to the cycle of boom and bust.

> *"The UK employee-owned sector has grown at a rate of 1.1%, compared to 0.7% for the economy at large. This equates to a growth rate for employee owned firms which is over 50% higher than the economy at large."* [8]

6 *Plurality, Stewardship and Engagement: The Report of the Ownership Commission (Mutuo March 2012)*

7 *Mike Thompson, Chief Executive, Childbase in his foreword to William Davies, All of Our Business; Why Britain needs more private sector employee ownership (EOA Research Report Jan 2012)*

8 *Press release (Co-operatives UK 4th July 2012)*

Clearly employee ownership will not single-handedly rescue the economy, but if our growth targets for employee owned companies are achieved, these changes will have a profound effect, accelerating our economic success, and positioning the UK as a centre for innovation with an engaged and dynamic workforce.

Business Succession

One of the challenges of the economic downturn has been ensuring the survival of small and medium sized businesses.

Overcoming or avoiding succession failure is one of the key motivators for setting up employee owned businesses in the private sector and many EOA members have transferred into employee ownership for this reason. Employee buy-outs have an excellent record of sustainability compared with management buy-outs. Apart from anything else, employee buy-out means continuity for customers and suppliers and puts control in the hands of people who know the business best, and who will be most committed to making it succeed.

Sharing the Risk

One of the reasons that employee owned businesses deliver consistently strong performance is their high levels of employee engagement. This is not an automatic consequence of a financial stake in the business, but a reflection of a different workforce dynamic. The "master/servant" relationship is replaced by a more co-operative model of working, where employees use their front line experience and customer knowledge to influence product development and business strategy. It is this collaborative working, combined with a financial investment in the business, that drives performance.

> *"The key condition under which employee ownership is recognised to succeed best is when it allows employee owners to exercise their voice internally. It is this combination of share ownership and employee engagement that drives higher performance."* [9]

This model not only acts as an enabler of innovative thinking but, by its very nature, it transforms the way employees participate in the business. They create environments in which people are able to develop and progress, and in which they permanently focus on exceeding customer expectations.

More importantly the relationship means far greater levels of flexibility. Case studies have shown that in difficult times, staff in employee owned businesses are more willing to take reduced hours or a temporary reduction in pay to ensure that the business survives because ultimately the employees share the risk of failure as well as the profits of success.

[9] *Graeme Nuttall, Sharing Success: The Nuttall Review of Employee Ownership (Crown Copyright July 2012)*

Job Security

In the US in the height of the recession in 2010, 12.1% of all working adults in the private sector reported being laid off in the previous year, compared to just 2.6% of employee owners[10]. Analysis of data going back to 2002 by the National Center for Employee Ownership (NCEO) indicates that this is a consistent pattern.

The evidence goes further, demonstrating that not only are employee owners less likely to be laid off, but that employee ownership creates more jobs than other forms of ownership. Alex Brill, a fellow at the American Enterprise Institute, has analysed employee stock options in the US and found that members of employee owned S Corporations increased employment by 60% over the past decade, versus flat employment in the economy as a whole.[11]

"In the USA in 2010 the layoff rate for employees in employee owned businesses was 2.6%, compared to 12.1% in businesses with other forms of ownership (which translates to a saving of $6.8bn per year in unemployment costs if they had laid off staff at the same rate)." [12]

Employee Engagement and Wellbeing

There is a growing body of evidence that links employee ownership to greater levels of employee health and wellbeing. These impact directly on the bottom line with lower costs of recruitment, greater retention of key skills, reduced absence and greater levels of innovation.

"…research found that employees in employee owned businesses report high levels of satisfaction in relation to those factors thought to influence levels of wellbeing at work. This includes areas such as communication, decision-making, job satisfaction, control and how change is managed. The results indicate that the way employee owned businesses organise and manage work does have a positive impact on employee wellbeing." [13]

The Engage for Success Taskforce published their report in October 2012, setting out the evidence for the effectiveness of employee engagement in raising performance and productivity across the UK economy. The report highlighted the link between higher employee engagement and innovative work behavior and that lower employee engagement leads to higher staff turnover and unplanned absence.

10 General Social Survey (national US survey data on social trends) – as cited by Corey Rosen of National Centre for Employee Ownership (USA) speaking at the EOA National Conference (Nov 2012)

11 Alex Brill, An Analysis of the Benefits S ESOPs Provide the U.S. Economy and Workforce (Employee-Owned S Corporations of America July 2012)

12 Corey Rosen of National Centre for Employee Ownership (USA) speaking at the EOA National Conference (Nov 2012)

13 Professor Ronald McQuaid et al, Edinburgh Napier University, Fit for Work: Health and Wellbeing of Employees in Employee Owned Business (EOA Research Report Nov 2012)

Innovation

One of the impacts of a more engaged workforce is greater innovation. However, innovation does not just happen. Corey Rosen of the National Center for Employee Ownership was one of the keynote speakers at our 2012 Annual Conference. He reminded us that innovation has to be structured and employees need to have meaningful and regular opportunities to share their ideas about how to make the company or its products and services better.

Innovation requires a working culture with flexibility and freedom, and this is one of the reasons why it flourishes in employee owned businesses. For example, the Arup Group has an innovation fund. Employees who have good ideas about the development of products and services are given the money and time to develop these ideas during working hours.

Employee ownership has also provided an effective way of increasing innovation by spinning out parts of the public sector into the private sector, whilst protecting the public service ethos of a workforce. Many of the early pioneers of public service mutuals have achieved increased productivity and much better service and social outcomes since becoming independent employee led businesses[14].

Community Impact

Employee ownership in the private sector offers a superb mechanism for spreading business ownership. A move to employee ownership in any part of the business life cycle can protect what makes the company special and anchor the long term business, and by doing so, retain the associated jobs, skills and wealth in local communities.

Co-owned businesses commonly have strong ties with their local areas and maintain close links with suppliers locally and sub-regionally. They also work with local entrepreneurs and the education sector, constantly innovating and developing new products and new ways of working. It is not surprising therefore that our members are recognised in so many national, international and regional business awards.[15]

> *"Creating businesses whose employees have significant ownership and involvement, offers a great opportunity to spread business ownership from the few to the many, increasing productivity and innovation and developing the potential of workforces in areas of high deprivation where entrepreneurs are needed."* [16]

Similarly the success of Sunderland Home Care Associates, a public service mutual, has led to a number of employee-owned franchisees across the north of England, under the Care and Share Associates umbrella (CASA).

14 *Our Mutual Friends: Making the Case for Public Service Mutuals. A Mutuals Taskforce Briefing Paper (Dec 2012)*

15 *In April 2012 a number of employee owned businesses won the Queen's Awards for Enterprise (http://bit.ly/Jznsf8)*

16 *Response of the Equality and Human Rights Commission to the Government consultation: Implementing employee owner status (2012)*

Sheffield based precision engineering company Gripple Ltd has set up an innovation centre, Incub, to help entrepreneurs or inventors who have exceptional ideas, but lack the funding or the expertise to bring a product to market. Their aim is to create long term sustainable businesses which will provide employment in South Yorkshire.

If a product has potential, Incub will fund the development of the idea within their Ideas and Innovation facility. This means funding the development costs, paying the inventor a salary during the development and providing training and support to enable the idea to be quickly brought to market.

Societal Impact

Research into the benefits of employee ownership tends to focus on the benefits for businesses and individual employees. The benefits for society have not been analysed in the same way. Nevertheless it is easy to see the societal advantages that flow from a wider and more equitable distribution of profit, the improved engagement and wellbeing of employees and an increase in jobs and job security within communities. Moreover, employees that participate in the decision making processes within businesses learn valuable lessons about the consequences of business decisions and these lessons can lead to greater individual responsibility for change and commitment to the democratic processes that underpin our society.

Trust and PR Value

In the last decade, more and more consumers have disconnected from big businesses and turned towards products and services that reflect their personal beliefs. Businesses have recognised this and corporate social responsibility now forms a key part of most businesses' marketing strategy.

However consumers' trust has been fundamentally shaken by the recent banking crisis and they are far more adept at seeing through marketing statements and differentiating espoused values from core values. Evidence shows that consumers believe in the values of employee owned business. The success of the John Lewis Partnership is an example of this: consumers have a high degree of trust in the Partnership's products and services because they perceive the business model to be fair and equitable.

"……employee ownership models offer an alternative conception of an enterprise that fits closely with contemporary social and economic needs, the choice between an economic philosophy based on rapid profit and exit, and one based on gradual growth and voice, is becoming stacked evermore in favour of the latter..." [17]

[17] *William Davies, All of Our Business; Why Britain needs more private sector employee ownership (EOA Research Report Jan 2012)*

International overview

Employee owned businesses trade across the globe and the resurgent interest in employee ownership that we have seen in the UK is reflected in a number of other countries.

One of the difficulties in presenting a global picture is that each territory defines employee ownership and collects data in a different way and so comparing take up and impact is problematic.

> *"The wide use of employee ownership to restructure state-owned enterprises (SOEs) is an important development in China's economic reform since the 1990s."* [18]

Not all countries have started from the same baseline. For example employee ownership was introduced into China and Russia as a step to privatise state or collective owned enterprises.

That said, however employee ownership is defined the global trend consistently shows that employee owned businesses out perform their competitors and have proven to be more resilient over the global economic crisis.

For example in the United States, employee ownership is an established business model with approximately 11,500 companies with significant employee ownership, covering almost 14 million participants and controlling several hundred billion in assets. CH2MHill, WL Gore & Associates, McCarthy Building Company and Publix Supermarkets are among the better known examples.

One of the reasons that the US has such a dynamic and successful employee owned sector is the tax incentives. When these were introduced there was an immediate increase in the number of Employee Share Option Plans (ESOPs) created. A 2008 research study suggests the overall impact of this was increased tax dollars for the Federal Treasury, estimated at $8bn.

> *Corporate contributions to ESOPs average about 8% of pay per year which means that the value which a typical employee accumulates from company contributions to an ownership plan amounts to approximately twice their annual pay in stock value over 10 years. Employee owners tend to retire with 2.5 times the retirement assets of those working in non-employee owned businesses.* [19]

Canadian ESOPs vary more in design and structure as they are based on provincial law. The most definitive study on employee ownership in Canada, by the Toronto Stock Exchange, compared ESOP versus non-ESOP public companies and showed that in ESOP companies: the five-year profit growth was 123% higher; net profit margins were 95% higher; productivity measured by revenue per employee was 24% higher; return on average total equity was 92.3% higher, and; return on capital was 65.5% higher.

18 *Employee Ownership Chinese Style by Guang Zhang and John Logue (Ohio Employee Ownership Center, prior to 2009) http://cog.kent.edu/lib/Logue&Zhangesopchina.htm*

19 *'S Corp ESOP Legislation Benefits and Costs: Public Policy and Tax Analysis' University of Pennsylvania ScholarlyCommons; http://repository.upenn.edu/cgi/viewcontent.cgi?article=1003&context=od_working_papers.*

Figures from the EU economic survey of employee ownership in European Countries shows that in 2011 there were 9.9 million employee owners across Europe, holding 232 billion Euros in their companies' shares (compared to 9.5 million holding only 197 billion Euros one year before). Of these 9.9 million employee owners, the greatest number is based in France (4 million). The UK has the second largest share (2.6 million).

One of the largest employee owned businesses in Europe is the Mondragon Cooperative Corporation. Currently it is the seventh largest Spanish company and the leading business group in the Basque Country, where 60% of workers are employed by a co-operative. At the end of 2011 it was providing employment for 83,869 people.

"We simply believe that we have developed a way of making companies more human and participatory. It is an approach that, furthermore, fits in well with the latest and most advanced management models, which tend to place more value on workers themselves as the principal asset and source of competitive advantage of modern companies".
MONDRAGON Corporation

HUMANITY AT WORK
MONDRAGON
Finance
Industry
Distribution
Knowledge

This exemplifies the trend we have seen in the UK, where employee ownership has increased by 10% in the last 12 months, reinforcing the evidence that employee owned businesses have fared well during the economic downturn.

Employee ownership in private companies in South Africa is relatively new. There are currently an estimated 500 employee ownership plans in South Africa. There are no tax incentives for these plans, but under the country's Black Economic Empowerment Program (BEE), companies get improved access to government contracting opportunities based on the degree to which they share ownership with black workers from the local community. There are a variety of ways to do that, but an employee ownership plan is one of the most favoured, with improved scoring for contracts awarded to plans with broad coverage and more ownership.

In Australia, the former Liberal/ National Party coalition governments had a scheme to increase employee ownership, with a target to increase the amount of employees involved in ESOPs by 175% by 2009. However the benefits were largely at the upper income end and in 2009 the current Government changed tack and moves to increase employee ownership faltered. Australia recently re-launched their employee ownership association to campaign on behalf of employee owners.

Why is there not more Employee Ownership in the UK?

Given the business case that we have outlined, you would expect employee ownership to be a very popular business model in the UK.

It certainly plays a far more important role in other competitive economies. However, despite a 10% increase in the number of employee owned business in 2012, it is still a relatively unknown concept in the UK.

This is partly due to the dominance of the PLC in the UK economy, but primarily down to the presence of a number of fundamental barriers to the growth of this sector. These barriers fall into three distinct categories:

1 A lack of awareness of employee ownership.

The concept of employee ownership is not widely known and is insufficiently understood. The productivity and competitiveness of employee owned businesses are often undervalued. Opportunities to adopt employee ownership at key points in the business life-cycle are lost when employers, employees and advisers are unaware of its relevance and benefits.

2 A lack of resources, including finance, to support employee ownership.

When considering employee ownership most businesses look to their professional advisers, drawn from legal, tax and accounting professions. Because these intermediaries lack a developed understanding of employee ownership they often perceive that the legal complexities and financial barriers outweigh the benefits, and advise clients accordingly.

There is also a lack of understanding of employee ownership in financial institutions and the investment community which means that products are not being developed for this market. In particular, it is difficult to secure funding for employee buy outs and once established, employee owned businesses sometimes find it difficult to secure growth capital.

3 The complexity of employee ownership.

There are some legal, tax and regulatory challenges for employee ownership. Some are unintentional consequences of regulations that place unnecessary burdens on employee owned businesses, particularly with regard to the issuing and trade in shares.

The perception of these obstacles as fundamental barriers, when combined with a lack of readily available professional advice, means that employee ownership is simply not presented as an option at key stages in the business life-cycle (i.e. start up, expansion and growth, succession and business rescue). To address this, simplification of the employee ownership model is needed.

EOA members have experienced all of these barriers and based on their evidence we have broken these obstacles down further to give a sense of the relative importance of each barrier. We have used this analysis to help us focus on the critical barriers to the growth of employee ownership and to drive our strategy.

Barriers to greater take up of Employee Ownership

Lack of awareness of employee ownership / Lack of data or evidence to support the business case

Absence of an asset class of funding for employee ownership

Competence of intermediaries

Lack of tax incentives

Complexity of employee ownership models

None of these barriers are insurmountable, but change will not happen if each barrier is tackled in isolation. Therefore we are calling on Government, financial institutions, businesses and intermediaries to work collaboratively and to invest in addressing these barriers.

What needs to be done to address the barriers to Employee Ownership?

The Nuttall Review of Employee Ownership made a number of recommendations, all of which have been fully or partially accepted by Government. The EOA is playing a leading role in realising these recommendations through the Government's new Implementation Group, chaired by BIS Minister Jo Swinson MP.

We believe that by taking a small number of straightforward actions, we can drive forward a significant growth in employee ownership.

1 Lack of awareness of employee ownership models

By far the biggest barrier is a lack of awareness of employee ownership by business owners and their advisers. Not only do we need to raise awareness, but we need to ensure that there is a consistent message about what employee ownership means and the business case for change.

2 Lack of tax incentives

The UK taxation system constrains the growth of employee ownership. A more modern, enlightened taxation framework, similar to the one in the US, is needed. The re-introduction, for employee benefit trusts, of profit related pay reliefs; raising the upper limit for entrepreneur's relief to incentivise owners to transfer their ownership to employees; and/or broadening the availability of entrepreneur's relief to owners of less than 5% of shares in the business they work in, are amongst the required next steps. Government support for employee ownership will not be taken seriously until it significantly reforms the tax treatment of employee ownership.

3 Competence of intermediaries

We believe this barrier could be easily overcome with the creation of a 'one stop shop' for advice, support, coaching and mentoring for those trying to achieve employee ownership deals, similar to the Mutuals Information and Advisory Services. In the longer term, we call on the further and higher education sector and professional bodies to ensure that employee ownership is adequately covered in post-graduate business, legal and accounting qualifications and through continuous professional development requirements.

4 Complexity of employee ownership models

We believe that there would be value in simplifying the legal, tax and regulatory aspects of setting up and operating employee ownership. However this should not be at the expense of choice, as the company model needs to reflect the objectives and circumstances of the diverse range of employee owned businesses in the UK.

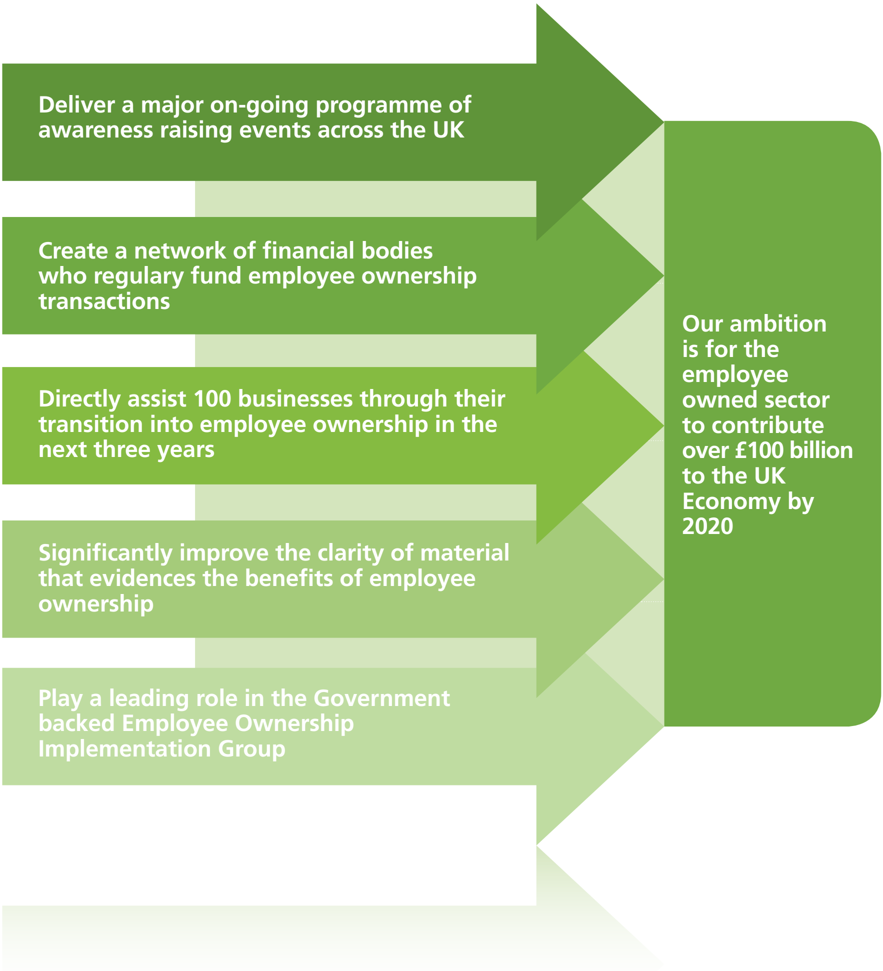
5 Absence of an asset class of funding for employee ownership

The reluctance of banks and other financiers to take risk and lend at an affordable rate has played an important part in stifling growth in the employee ownership sector. By working together Government, financial institutions and other providers of finance could create a more sophisticated funding market for employee ownership transactions.

EOA Delivery Plan

In summary, the actions outlined in this report amount to a business strategy that consistently promotes and simplifies employee ownership, guides people to high quality affordable advice and eases the lack of finance for employee ownership deals.

The EOA has set itself some challenging targets as our contribution to delivering this strategy. Working with our members and a range of other partners, we will:



The New Landscape

The business case for employee ownership is very persuasive. There has been widespread recognition of the social cost of failing to address the inequality of economic ownership in the UK, with a growing demand for a greater diversification of ownership of wealth and business.

If we are to achieve the targets that we have outlined in this Impact Report we need to harness the groundswell of interest and secure investment in a brighter future.

Greater stability and increased confidence in the UK economy - Increasing employee ownership is one of the steps that will break the unique stranglehold of the PLC on the UK economy, improving consumer confidence and the buoyancy of UK businesses in a global market. It will also help to manage the growing risk of an over dominant PLC model which has proved damaging to business, consumers and society.

Higher employee engagement leading to a £25bn increase in GDP - Higher levels of employee engagement is one of the defining characteristics of employee owned businesses, resulting in greater profitability, stability and innovation. This was something that the Employee Engagement Taskforce considered[20]. They suggest that improving engagement in the workplace could yield an increase in GDP of £25.8 billion per year.

An increase in jobs and a decrease in welfare spending - When employees have a greater say in business decisions, that business will have a higher stake in its community, prioritising internal growth and stability over quick profits. Research confirms that employee owners also have a far greater sense of job security than other workers[22]. This not only benefits the local economy but the wider supply chain. In the US, members of employee owned S Corporations increased employment by 60% over the past decade, versus flat employment in the economy as a whole[23]. The National Centre for Employee Ownership in the US calculates that in 2010, the implied federal savings from the lower layoff rates for employee owners was $37.4 billion.

Factor these yields into the bigger picture and increased employee ownership will not only significantly add to UK GDP, but the growth in employment opportunities and reduced job losses will start to have a significant impact on our welfare budget.

"Our co-owner survey has engagement and satisfaction levels that the NHS would die for." [21]

[20] *Bruce Rayton, University of Bath School of Management; Employee Engagement Task Force: Nailing the evidence. (Engage for Success Taskforce, Nov 2012) http://cdn1.engageforsuccess.org/wp-content/uploads/2012/09/The-Evidence.pdf*

[21] *Mary O'Shea Central Surrey Health (Nov 2012)*

[22] *Professor Ronald McQuaid et al, Edinburgh Napier University, Fit for Work: Health and Wellbeing of Employees in Employee Owned Business (EOA Research Report Nov 2012)*

[23] *Alex Brill, An Analysis of the Benefits S ESOPs Provide the U.S. Economy and Workforce (Employee-Owned S Corporations of America July 2012)*

Health and wellbeing improvements reduce stress on NHS budgets - Employee owners have high levels of job and life satisfaction, tend to be healthier and suffer from less stress. The philosophy of employee ownership also encourages a greater sense of self determination. This not only has a positive impact on family life but has a direct financial implication with reduced absence and a reduced need for health services, which will start to have a positive impact on NHS budgets.

UK as a centre for innovation – Because of their focus on internal growth, employee owned businesses invest heavily in developing the potential of their workforce and fostering innovation. Not only does this innovation show huge financial rewards but helps to reposition the UK as a centre of innovation with a dynamic and skilled workforce.

Improving participation in local and national democracy – One of the benefits of employee participation in running a business and taking responsibility for the consequences of business decisions is the learning which is taken back into local communities as greater individual responsibility for change and commitment to the democratic processes that underpin our society.

> *"In transitioning to an employee owned company, now 100%, we've thrived. Turnover is growing 10% every year and gross profit is steady at 20%. Despite this our salaries are increasing at around 10% per year and prices are down, products improved and quality up."* [24]

We can see that the combined impact of increasing employee ownership in the UK will lead to greater economic stability and an economic model that attracts far greater levels of confidence from consumers, trade partners and investors. We will see stronger and more dynamic communities, higher levels of employment, and unprecedented levels of innovation, positioning the UK centre stage in a global competitive market.

24 *Jeff Davies, Aber Instruments Ltd (Nov 2012)*

Next Steps

The EOA has set an ambitious growth target for employee ownership. Employee ownership is currently worth over £30 billion or almost 3% of UK GDP. More importantly, employee owned businesses have been better at surviving the economic downturn, with a 10% increase in UK employee ownership in the year to 2012.

Whilst this is a significant percentage, we believe that a further increase in employee ownership will have a profound and positive effect on our economy. Our ambition is to see employee ownership continue to grow, reaching £100bn (or 10% of GDP) by December 2020.

This is a pivotal time for employee ownership, with huge opportunities to harness the interest and enthusiasm and to drive forward growth.

In this Impact Report we have outlined the business case for employee ownership, identified the barriers and proposed solutions to those barriers. We have set a clear target and outlined our vision for change.

There are a number of initiatives underway and it is critical that we do not lose the momentum that has built up over 2012 or risk the dilution of effort through fragmented leadership. We are already in the vanguard for change with the EOA represented on a number of key Government and industry taskforces and playing a significant role in the implementation of the Nuttall recommendations.

The evidence is clear, not only are employee owned business more sustainable, showing faster growth and contributing more to employment, they are good for the health and wellbeing of the workforce and have a positive impact on society. This is great news for our economy and for the UK as a whole and we look forward to working across all political parties, and with business leaders and policy makers to co-ordinate and lead this change agenda.

Employee owned businesses outperform more traditionally structured firms in times of recession.

Over the past 12 months there has been a 10% increase in the number of companies converting to employee ownership.

The growth rate of employee owned businesses is 50% higher than the UK economy in 2012.

Employee owned businesses represent 3% of GPD in the UK.

Employee-owners have higher levels of job satisfaction, feel a greater sense of achievement, fulfilment and job security and are more likely to recommend their workplace than employees in non-employee owned businesses.

Employee owned organisations have extremely high staff satisfaction and reduced absenteeism.

Jobs in US companies with private employee stock ownership plans grew by 60% over the past decade, while jobs in the private economy as a whole remained relatively flat.

Employee ownership in the private sector is estimated to be worth around £30billion to the UK economy.

Employee representation at board level of between 30%-60% has a significant impact on performance.

Employee owned companies have outperformed FTSE All-Share companies by an average of 10% each year since the Employee Ownership Index began in 1992.

Employee Ownership Association,
CAN Mezzanine, 32-36 Loman Street,
London, SE1 0EH
Telephone: +44 (0)20 7922 7737

Employee Ownership Association,
The Old West Gun Works, Savile Street East,
Sheffield, S4 7UQ
Telephone: +44 (0)114 2288 601

Email: info@employeeownership.co.uk
Twitter: @EmployeeOwned

Employee Ownership Association

The voice of co-owned business