THE VOICE OF EMPLOYEE
OWNED BUSINESS

Patrick Burns

Good Business
The employee ownership experience

www.jol.org.uk

About the author

Patrick Burns has been the executive director of JOL since March 2004. He co-authored the recent JOL report 'Shared Company – how employee ownership works'. Before joining JOL, he was director of advocacy with The Work Foundation.

Acknowledgements

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Publisher

Research for this report was carried out under the auspices of Job Ownership Research, which has charitable status and exists to promote awareness of employee ownership. Job Ownership Research is an associated company of JOL.

JOL is the association of employee owned and trust owned businesses. Founded in 1979 as Job Ownership Limited, its member companies include the John Lewis Partnership, other long-established jointly owned companies such as Scott Bader and Swann-Morton, consultancies such as Mott MacDonald and Cyril Sweett, and a range of employee owned businesses of all sizes from a wide variety of sectors. Wholly independent and not-for-profit, JOL is funded and governed by its member companies.

Co-operativesUK is the national member-owned and led organisation that promotes the interests of co-operatives of all kinds, works to increase awareness and understanding of co-operative values and principles, and supports the development and growth of new and existing co-operatives. It is a focal point for the sector, a forum for innovation and best practice, and a strategic voice for the co-operative movement.

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1. Introduction

This report is about how employee owned businesses view the experience of employee ownership. It explains what they see as the upside and the downside; how they think customers react to their ownership status; the biggest problems they face, and the help and support they think would help them most to tackle those problems.

The report is based on a survey of employee owned companies – some of them worker co-operatives, plus other types of employee owned businesses, some trust owned, some only partly employee owned.

The report was conceived by JOL and Co-operatives UK as a way of building up the sector's knowledge about itself – of probing the advantages and disadvantages of employee ownership in a way that would help JOL and others assist companies in the sector and those considering becoming employee owned. JOL's survey was designed to be part of the 'Employee Engagement' conference organised by Co-operatives UK and held in Birmingham in December 2005. Initial findings of the survey were presented at that event.

What happens in the employee owned business sector is becoming increasingly important to the economy as a whole. The sector is growing, contains a number of major household names, and JOL estimates that its combined turnover now tops £20-25 billion a year.

The growth of this dynamic business sector is partly a tribute to the policies of successive Governments who have created share ownership schemes that deliberately favour employee stakeholding. Architect of recent popular schemes, the Chancellor of the Exchequer, Rt Hon Gordon Brown MP, launched JOL's report 'Shared Company – how employee ownership works' in October 2005, praising it as a "landmark" report, along with JOL's "truly remarkable work in promoting employee ownership."

The other reason the sector is growing is because the employee ownership model clearly works. The UK's two favourite retail outlets – as measured by both Verdict Research and the Consumers' Association – are both employee owned. Staff of the John Lewis Partnership – JOL's largest member company – are co-owners of high street giants John Lewis and Waitrose. Admired UK-based international corporations such as Arup Group and PA Consulting Group are also employee owned, as are highly successful businesses like SUMA.

Added to this customer-pleasing performance, the sector is growing because more company owners hoping to sell their businesses are considering employee buy-outs as an exit option. Faced with a choice of selling to competitors or to venture capital who may close or transfer the business, company owners are more inclined to make use of tax advantageous share and trust schemes that make employee buy-outs a way to keep ownership within the business. They sometimes also choose combined management and employee buy-outs.

Introduction

About the survey

The survey of employee owned firms was carried out in autumn 2005. Questionnaires were sent to more than 400 employee owned businesses and responses were received from 96, a response rate of a little under 25%. The survey sample was not scientifically structured and should not be seen as random sample of this business sector. However, JOL believes the range of enterprises who responded does provide a robust and reliable picture of experience and views in the sector.

JOL drafted the survey questionnaire and wrote this report, working with Co-operatives UK in the conduct and processing of the results. A majority of companies surveyed were worker co-operatives and members of Co-operatives UK; other companies were members of JOL and a mix of wholly employee owned private limited companies, trust owned businesses such as Scott Bader, and co-owned companies where employees own a significant and sizeable but not controlling stake. Co-operatives UK also conducted initial analysis of the survey results and contributed to the survey design.

Although 'Good Business' is about the employee owned business sector, not all the enterprises who took part in our survey are employee owned in the strict sense. A very small number are either owned by trusts or have substantial but not controlling employee stakes. However, even those who are trust owned – such as the John Lewis Partnership – would consider themselves employee owned for practical purposes.

Occasionally we have also used the term 'co-owned' businesses, or 'co-ownership', as a broader term to signify all types of shared ownership in this sector. Although the report uses the term 'company,' worker co-ops mostly have a different legal status.

As a further guide to what ownership terms refer to, the report uses these definitions:

- *Employee owned businesses*: companies wholly or majority owned by their employees, including management (either directly and/or indirectly via employee trusts). This definition is used to include worker co-operatives, see below, but also other kinds of employee owned business.

- *Co-owned businesses*: a slightly wider definition of employee ownership to include companies where employees, including management, have a large or significant, but minority stake in the company.

- *Worker co-operatives*: A worker co-operative is a democratic member-benefit organisation where the members are the employees of the business. In common with other co-operatives, control is normally exercised on a one member, one vote basis. The governing body is elected by and from the membership, but there are a variety of management structures according to the size of the business.

- *Trust owned businesses*: this term encompasses businesses in which a company's shares are owned in an employee trust and/or a charitable trust, in order to provide permanence to an ownership structure.

2. Executive Summary

- Employee owned enterprises believe that the advantages of employee ownership easily outweigh any disadvantages.

- Employee owned enterprises surveyed see a wide range of advantages to being employee owned and a clear majority tend to experience these pluses. In contrast, companies perceive relatively few disadvantages and even the most common minuses are experienced by a minority of co-owned businesses.

- Greater employee commitment to the company's success is regarded as the biggest 'win' of being a co-owned or employee-owned business, slightly ahead of other prominent advantages such as better employee relations and the more responsible attitude adopted by the company.

- Decision making seems to be the main but limited downside of being co-owned or employee owned – with a tendency either to make decisions more slowly or to avoid unpopular ones. But convictions about this are far less strongly held and rate much lower than views about the upside.

- Our survey endorses Verdict Research's recent finding that co-owned John Lewis and Waitrose are the UK's favourite shops, finding that customers appear to like employee ownership. Nearly three quarters of firms surveyed think being co-owned makes them more attractive to customers.

- 76% of respondents stated that customers like co-owned or employee owned companies most because they see them as more ethical than other businesses, and therefore more likely to behave responsibly and in a trustworthy manner.

- Like most businesses, co-owned or employee owned companies consider that there are many obstacles they have to tackle. Top of these is a perceived lack of Government support and a shortage of similar companies with which to benchmark. Expert advisers with experience of employee ownership, and understanding banks, also appear to be too thin on the ground for co-owned companies' liking.

- Most popular potential problem solvers for co-owned or employee owned companies would be more customer and public awareness of employee ownership, followed by more contact with other employee owned businesses. Companies surveyed also prioritise availability of specialised training and development as a useful solution to the problems they face.

- When it comes to finding sources of relevant advice, employee owned companies reflect standard practice by relying most on accountants, together with a mix of their own membership bodies, local co-operative and social enterprise bodies and Government services such as Business Link.

3. Advantages of employee ownership

Employee ownership brings a lot of advantages, according to employee owned businesses themselves. A large range of pluses were cited by companies replying to the survey, and many of the advantages were mentioned frequently – in other words there's general agreement on the main advantages, and there appear to be a lot of them.

Interpreting the data in Figure 1 and 2

The next two Figures below illustrate two levels of response to our question about the advantages of employee ownership:

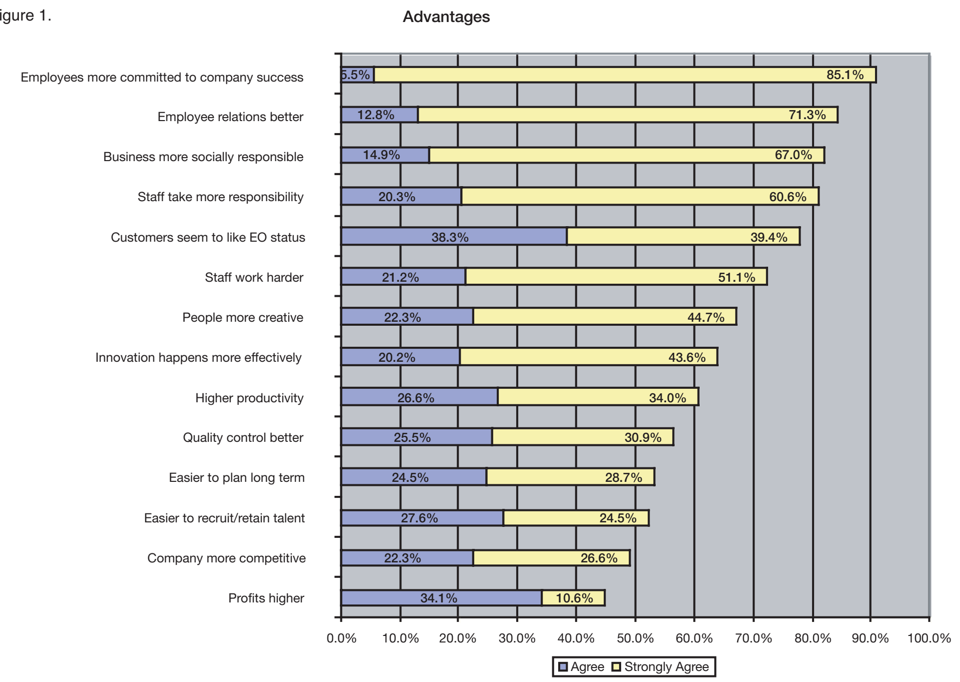
- *Those who simply agreed with the proposition in the question [eg 'Employee ownership makes employees more committed to company success'] are the blue part of each bar in the Figure below*
- *Those who strongly agreed with the proposition are the yellow part of each bar in the Figure below*

To get an accurate picture of the total proportion agreeing with each proposition, simply look at the combined length of each bar in the Figure below and the combined total of percentages in the blue and yellow sections of the bar.

- Top rated advantage was the extra **staff commitment** the businesses felt they gained from employee ownership – 90.6% felt this was an advantage with the vast majority strongly agreeing.
- Some way behind, but still cited by 84.1%, companies think better **employee relations** are a benefit of co-ownership and again the great majority of those strongly agree with the proposition.
- Some 81.9% said companies acting more **socially responsibly** was an advantage.
- Most of the advantages relate directly to how employees react to being co-owners – with 80.9% saying staff are prepared to take on more **responsibility**, 72.3% saying employees tend to **work harder**, and 67% believing people in co-owned companies are more **creative**.
- Even the fact that 65.8% think **innovation** happens more effectively suggests greater employee commitment is a critical factor, as does the 60.6% who consider higher **productivity** is an outcome of employee ownership.
- Some 77.7% of companies believe **customers** like their employee ownership status, but it's noticeable that fewer feel this strongly than for some other questions, while 56.4% think co-ownership improves the control of product and service **quality**.
- The benefits go on – 53.2% think co-ownership makes it easier to **plan** long-term while 48.9% think it makes the business more competitive and 52.1% say **recruiting** and **retaining** talented staff is easier. Just 44.1% report the ownership status results in higher **profits**.

Advantages of employee ownership

Figure 1.



4. Disadvantages

What's immediately striking about the survey results here is that far fewer companies chose to report disadvantages than reported advantages. On top of that, fewer disadvantages appear to be experienced than advantages. And finally, even where disadvantages were cited, respondents don't appear to feel strongly about them – in all cases most only 'agreed' rather than 'strongly agreed' with each proposition.

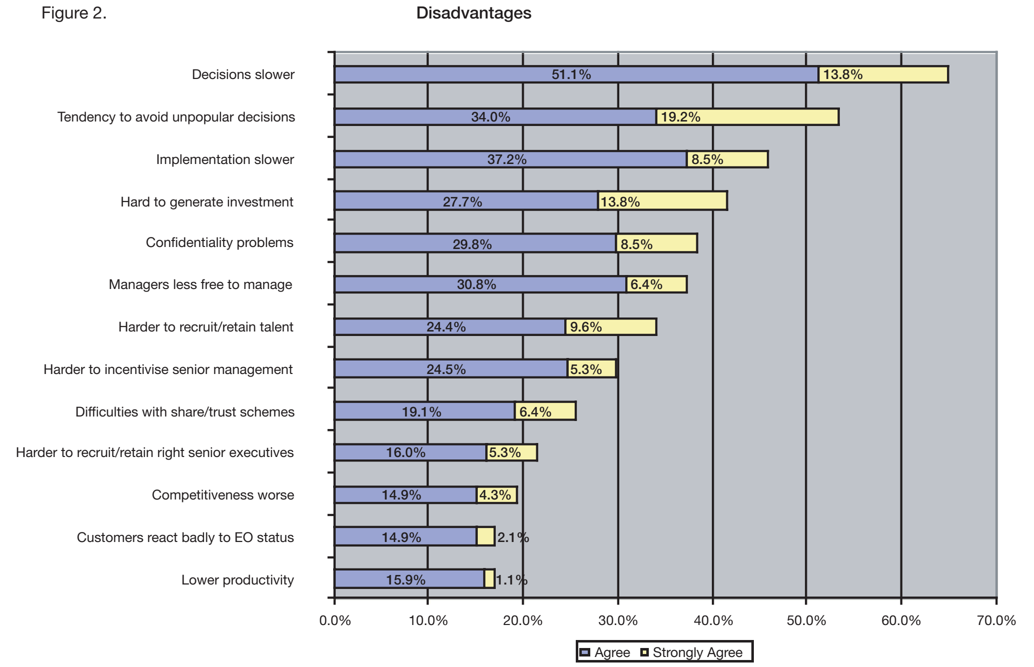
- The disadvantage mentioned most often – decisions happening more **slowly** – was mentioned by 64.9% of respondents though only 13.8% felt strongly that this was a downside.

- Two related disadvantages with the next most frequent mentions were a tendency to avoid **unpopular** decisions, and **implementation** happening more slowly – cited by 53.2% and 45.7% respectively, though again most were not expressing 'strong' agreement with this proposition.

- Close to four in ten companies experience some difficulty generating **investment** [41.5%], maintaining **confidentiality** [38.3%] or freeing **managers** to manage [37.2%]. Still on the managerial theme, 29.8% say it's hard to **incentivise** senior management [though only 5.3% feel strongly that this is a problem], while 21.3% report difficulty retaining or recruiting top **executives**.

- **Shares** or **trust** schemes produce disadvantages for 25.5% of respondents and 19.2% think co-ownership can lower **competitiveness**, though only 4.3% strongly agree this is the case.

Figure 2.



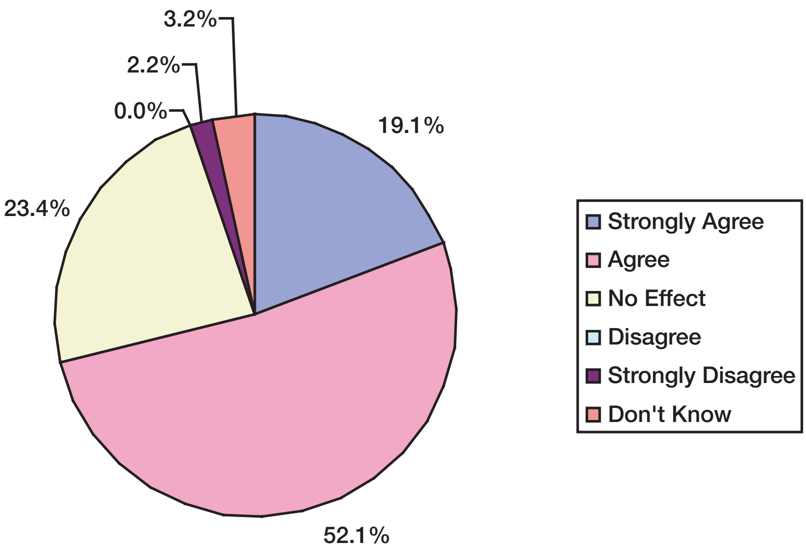
5. What do customers think of employee ownership?

According to employee owned businesses themselves, their ownership status is a big attraction to customers and clients.

- Nearly three quarters of companies surveyed agreed or strongly agreed that co-ownership made the business **more attractive** to its consumers – 52.1% agreeing and 19.1% strongly agreeing.

- Just under one in four [23.4%] reckoned their co-owned status had no impact either way on customers. Only 2.2% disagreed that being employee owned made the company more attractive to its consumers.

Figure 3. Being employee owned makes the business more attractive to customers



The plus points for customers

Not all customers know the company they're dealing with is employee owned. The John Lewis Partnership's policy of putting a reminder of the firm's co-owned status beside main customer tills is more overt than some. In all 17% – or around one in seven of the firms we surveyed – said their customers aren't aware they're co-owned.

Once the ownership status is understood by customers, it's clear that a collection of factors are all influential in conveying a positive image. Most employee owned businesses have a strong commitment to social welfare, sustainability and support for the community. So how do customers and clients perceive the behaviour of employee owned companies?

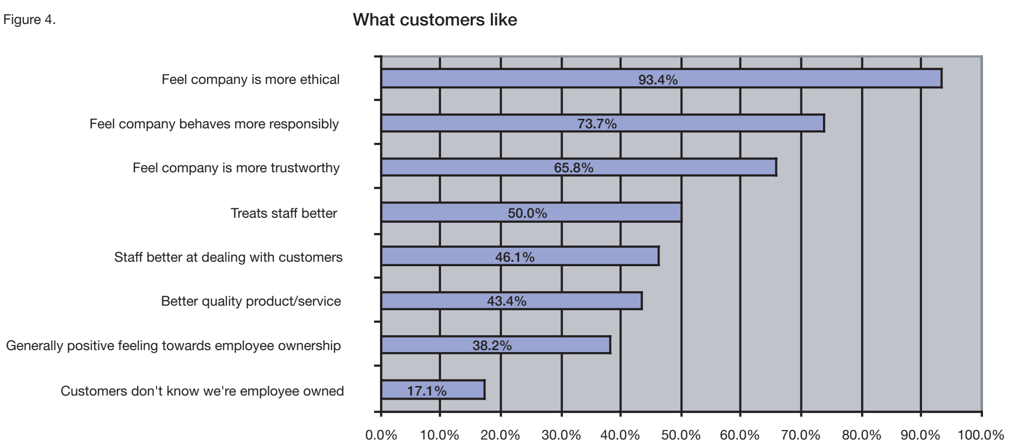
- According to a large majority of the businesses surveyed, customers think a co-owned company will be more **ethical** [93.4%], behave more **responsibly** [73.7%] and be more **trustworthy** [65.8%].

What do customers think of employee ownership?

- Significant proportions also think it will tend to treat staff better than the norm [50%] and that in turn staff will be better at dealing with customers [46.1%].

- Employee ownership seems to benefit product and service quality – 43.4% of surveyed businesses report that their clients see this as a plus of co-ownership. Interestingly 38.2% simply think customers have a generally favourable view of employee ownership.

Figure 4.



6. Barriers and problems

As well as discovering what employee owned companies see as the pluses and minuses of being co-owned, we also wanted to know what they consider the main barriers they have to tackle. In this section we summarise what those barriers are. In the following section we go on to analyse what the companies think would help most to get round those hurdles.

The charts below break companies' replies down into the different kinds of barriers we asked about:

- organisational
- financial, fiscal/tax
- 'other'

Like most businesses, employee owned or not, the companies we surveyed say they confront a wide spread of problems.

- Top of the problems listed are a perceived lack of Government support and a shortage of similar companies with whom they can benchmark – some 47.4% or nearly half those surveyed mentioned both these factors.

- Exactly the same proportion – 36.8% – cited a lack of understanding from banks, accessing finance for investment, and a shortage of expert advisers with experience of employee ownership as typical problems.

- Around one in three companies surveyed find it hard to get enough information or advice on making employee ownership work [32.9%], and almost the same proportion [30.3%] think it's difficult to find managers with the right skills to work in a co-owned business.

- Government and banks aren't the only ones who don't appear to understand employee ownership. More than one in four respondents [27.6%] think customers' lack of understanding of co-ownership is a problem they have to overcome. However, it's worth noting that companies seem to succeed in getting over the customer awareness problem – judging by the proportion who reported [see above] that once they do 'get' employee ownership, customers see it as a plus.

- A quarter of companies [25%] think they're paying too much for tax and legal expertise, but it's unlikely that this makes the co-owned business sector unique, and the proportion might even be lower than for the economy as a whole.

- Specific to this sector, however, is what appears to be a slight difficulty in finding the right board members. Some 22.4% say it's hard to persuade employee representatives to stand for board positions [though this is not an option in many employee owned businesses] and perhaps more significantly just under one in ten [9.2%] report problems recruiting directors who will be committed to employee ownership.

Barriers and problems

Figure 5.

Organisational barriers and problems

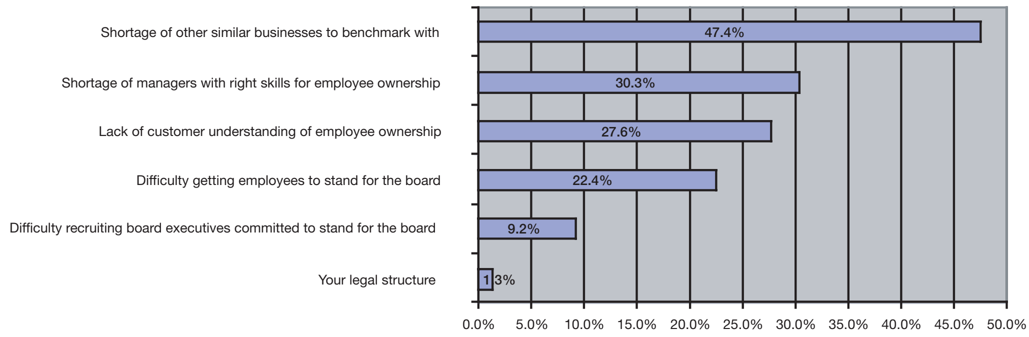


Figure 6.

Financial barriers and problems

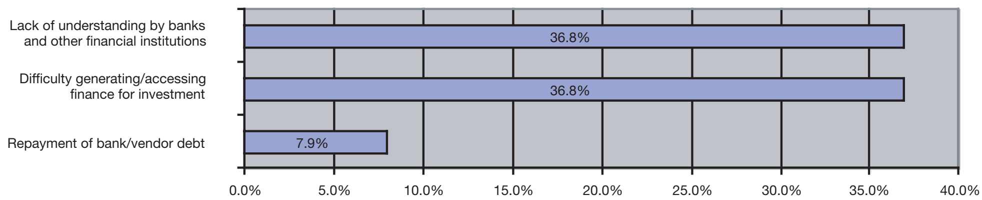


Figure 7.

Fiscal barriers and tax problems

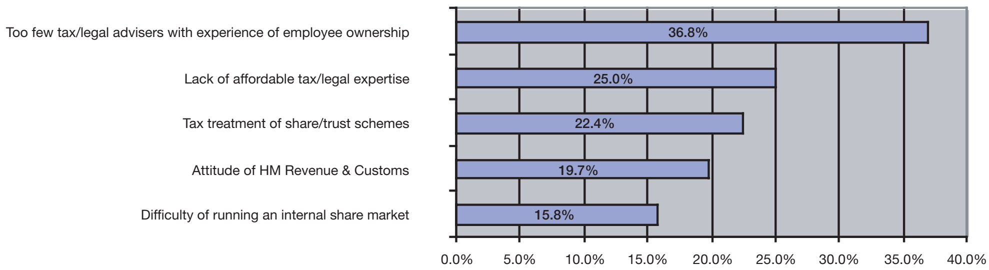
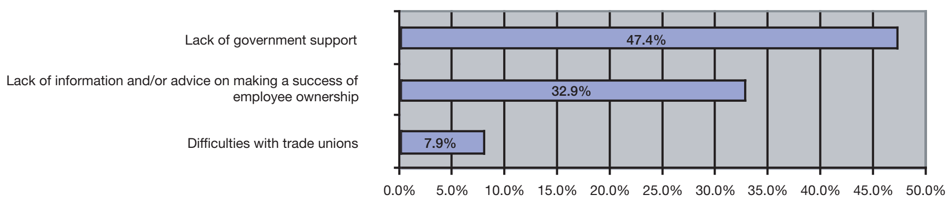


Figure 8.

Other barriers and problems



7. What changes would help?

Like any successful business, co-owned companies are used to sorting out problems for themselves whenever possible. The vitality and growth in the sector suggests they're good at doing that. However, as the section above shows, plenty of the sector's problems are beyond their ability to resolve on their own. So what would help employee owned firms get over their 'external' problems?

Our survey suggests that more understanding in the right places, and more skills for the right staff amount to a large part of the answer, though there's other help that would make a difference as well.

- Almost on a par as top problem solvers – rating 47.4% and 46.1% of respondents respectively – are customers and the public being more aware of employee ownership, and more contact with other co-owned companies. Judging by this survey, employee owned business seems to be the economy's invisible sector – despite being worth what JOL estimates is combined annual turnover of at least £25 billion annually, and growing. The message from the survey seems to be that this invisibility holds the sector back, in the sense that customers find employee ownership highly attractive once they know about it.

- Understanding and awareness also feature in companies' agreement that they would be helped by more understanding from banks [34.2%], and more sympathetic treatment from HM Revenue & Customs [32.9%].

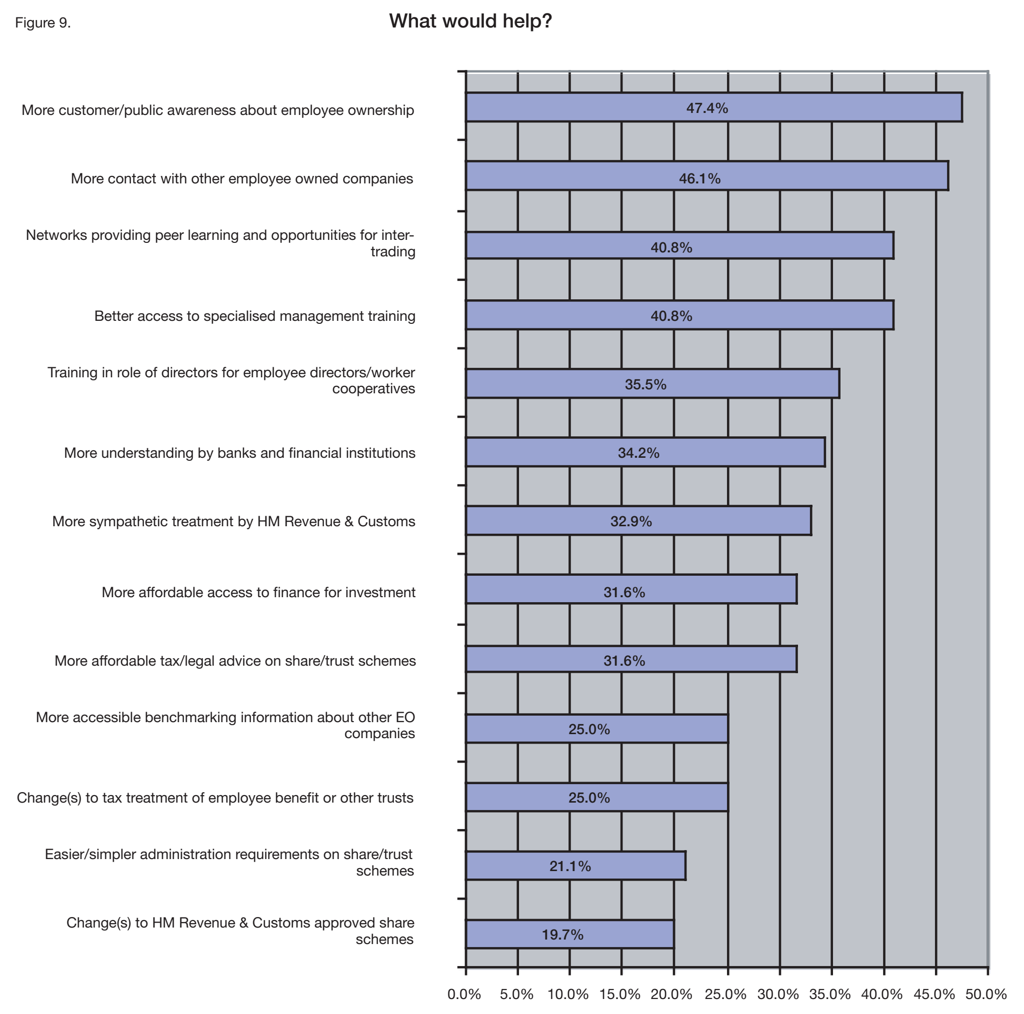
- That Government Department figures [implicitly] in two other concerns revealed by the survey – one in five [19.7%] believe changes to HMR&C approved **share schemes** would assist them significantly, while even more [25%] want changes in the tax treatment of the employee benefit **trusts** [EBTs] that underpin many co-ownership structures.

- In three respects, survey respondents think learning and development can help them – 40.8% want better access to specialised **management** training, reflecting the difference between managing in a co-owned company and in other kinds of enterprise; the same proportion would like participation in networks where they'd get access to **peer learning**; and more than one in three [35.5%] cite the value of specialist training for the employees who take on roles as **employee directors**.

- Affordability – of **finance** for investment and of **tax and legal** help – are other, probably predictable, factors that would ease co-owned businesses problems, cited by 31.6% in both cases.

What changes would help?

Figure 9.



8. Sources of advice

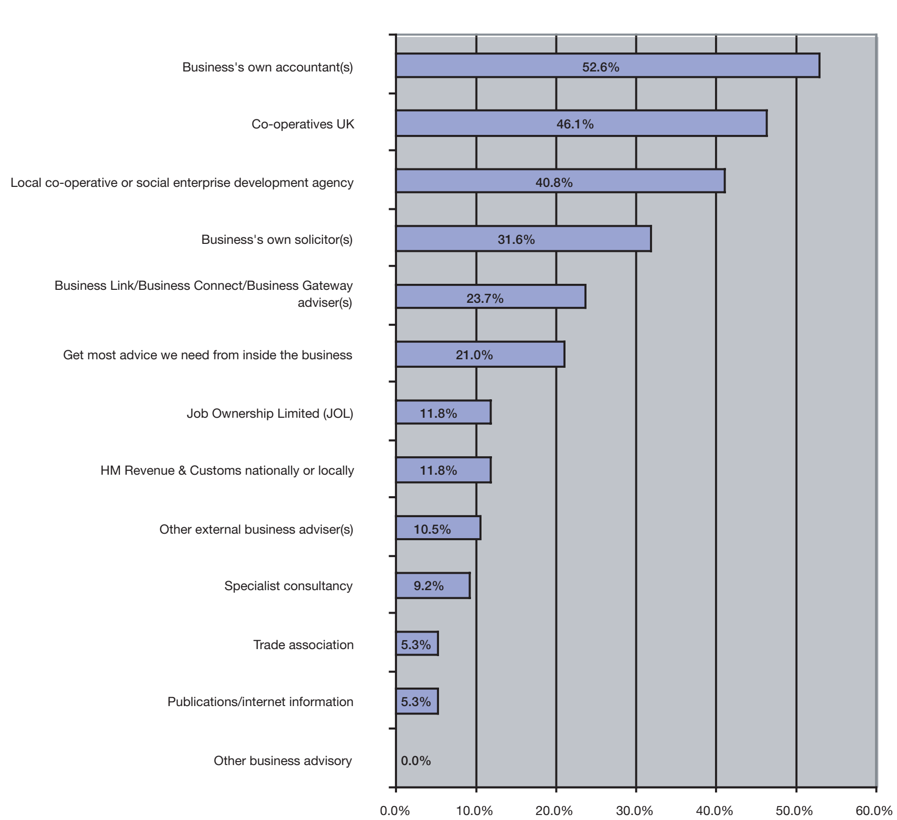
We asked respondents where they most often seek advice about the employee ownership aspects of the business.

- Only one in five [21%] say they get most of the advice they need from inside the business – suggesting that the nature of employee ownership means companies do need to look for help and advice from multiple sources.

- More than half [52.6%], the largest proportion, rely on the company's own accountant. With a majority of firms in this survey in the small to medium sized enterprise [SME] sector, this mirrors findings from research on the corporate sector in general which routinely shows that SMEs rely on their accountant for specialist business advice. Some 46.1% would rely on Co-operatives UK for advice – reflecting the fact that a majority of businesses surveyed are worker co-ops, as opposed to other forms of employee owned business. For the same reason a relatively large proportion [40.8%] would turn to a local co-operative or social enterprise development agency.

- Other valued sources of advice on employee ownership are the company' own solicitor, mentioned by 31.6% of those surveyed; the Government's own local business advisory bodies [23.7%] such as Business Link. HM Revenue & Customs and JOL itself are each used by 11.8% of respondents, while slightly smaller numbers would also seek help from other external advisers or specialist consultancies.

Figure 10.



Appendix: Employee owned businesses in their own words

JOL asked survey respondents to state their views on the main questions. We've printed a selection of their replies below.

Single most important benefit of employee ownership?

The survey data analysed above showed that the advantages of co-ownership far outweigh the disadvantages in the view of co-owned companies themselves. The large number of advantages cited below reflects the much greater number of companies who chose to volunteer statements about the benefits of co-ownership.

- *"Ability to **plan** long term – capital intensive business which requires long term thinking"*
- *"The level of commitment from employees impacts on main areas of quality and service, our company's main selling points"*
- *"Employees more **committed** and more informed about their business"*
- *"The vast majority of employees are **aligned** behind the overall aims of the business…All employees become better self-managing and self-responsible workers and people as a result"*
- *"People work together to the **same** end. Employees are committed to ensuring the customer receives the best service/product at the best price, rather than being profit driven"*
- *"We're in charge of what we do, and we can be **happy**, if tired, because we know if things go wrong we can change it, and if they go right we made it!"*
- *"If the company goes under everyone is responsible, so it's in everyone's interest to work **together** for the good of the business"*
- *"**Autonomy**: generates commitment, collective purpose is strengthened and is able to reach above financial considerations"*
- *"Employees feel part of the organisation and know they are **valued**"*
- *"Sense of ownership and control, based around shared vision and values leading to strong commitment and excellence in all that we do"*
- *"Working in an ethical business with **support** from colleagues"*
- *"Staff take more responsibility – all staff have a sense that the business is 'theirs'. They care more than just with ordinary 9-5 job"*
- *"Easier to recruit and retain staff because they feel ownership of business"*
- *"People pull together – not much room for **passengers**"*

Appendix: Employee owned businesses in their own words

- *"The fact that the employees own the business means there is more* ***motivation*** *to succeed, to pay your wages"*
- *"Ability to trust* ***and*** *rely on colleagues – makes difficult times easier"*
- *"People feel differently about their* ***employer*** *when their employer is themselves"*
- *"Because we all own the business there is less '****them and us****'"*
- *"Employees are more committed to success – this makes us more resilient and* ***creative*** *in the face of business challenges"*
- *"Employee commitment means that* ***change*** *and innovation can be discussed instantaneously and tweaked as necessary"*
- *"****Flexibility*** *of staff to cover for illness and provide cover to get work done"*
- *"Undoubtedly staff take their responsibilities more seriously and more* ***commercially*** *responsible as shareholders"*
- *"These knowledgeable shareholders will take a* ***longer term*** *view on ROI than the city"*
- *"Improved human relations, better business, better communities, better lives"*

Single most important disadvantage of employee ownership?

In keeping with the overall findings of the survey, far fewer companies offered comments on the disadvantages of co-ownership compared with the advantages. In addition, a significant number commented that they hadn't yet discovered any disadvantages.

- *"Ability to* ***reward*** *senior people with competitive packages can be problematic. Employees react as employees and not shareholders in that situation"*
- *"With low staff turnover new employees with new* ***innovative*** *ideas don't always come through quickly enough"*
- *"****Expectations*** *from staff that do not marry with the demands of the day-to-day running of the business"*
- *"No one has the* ***authority*** *to make a decision [whether right or wrong] and people just get on with it – discussions about everything"*
- *"Things take* ***longer*** *as decision making and responsibility are shared"*
- *"The* ***time*** *it takes to discuss and reach business decisions while taking into account the needs and sensitivities of fellow workers"*

Appendix: Employee owned businesses in their own words

- *"No **external** viewpoint within the board as with non-executive directors of plc's"*
- *"Difficult to deal with staff relations if they have **grievances** with each other"*
- *"**Personnel** problems do not always seem to be dealt with appropriately – difficult to engage all members positively in any personnel decision"*
- *"**Changes** are difficult to implement"*
- *"Finding staff who are willing to commit to the extra **responsibility**"*
- *"Difficulty attracting **capital**"*
- *"**Complicated** share/trust system takes time to manage and is difficult for staff to understand"*
- *"**Administration** and cost of communicating share schemes to staff"*
- *"A **cultural** one – people start to take their ownership for granted"*
- *"Increased corporate **governance** and its cost"*
- *"Some prospective **clients** may have issues re the sustainability of management teams and commercial logic"*
- *"In a complex **multinational** organisation this structure presents an unusual challenge"*
- *"Lack of **confidentiality** – can have some undesirable knock-on effects"*

Which single change would you most like to see and why?

- *"More affordable access to **finance**"*
- *"Although we are very much an employee focused company the more governmental family friendly policies [although a good thing] are increasing employment **costs,** training etc"*
- *"People management, democratic governance and organisational **training** for democratic management"*
- *"A much **simpler** way of share ownership, done much more cheaply. Perhaps a system that can be transferred from one organisation to another"*
- *"Affordable **finance** – who doesn't want that!"*
- *"More **training** in role of directors"*

- *"More **networking** and **inter-trading**"*
- *"More customer/public **awareness** about employee ownership"*
- *"More affordable access to **finance** to facilitate development and innovation"*

Which single change would you like to see to existing HM Revenue & Customs share or trust schemes?

- *"Less **costly,** easier to understand and implement"*
- *"Raise the threshold for **corporation tax** to encourage small enterprise"*
- *"Tax relief when money is paid into an employee benefit **trust**"*
- *"The company is taxed on profits and then employees are taxed on any profits distributed – double taxation. Corporation tax **exemption** could also encourage more common ownership organisations to retain profits within the organisation"*
- *"Changes to **SIP** legislation to enable employees to take remuneration tax efficiently as shares"*
- *"Enable recognition to employees of their contribution to capital growth without the need to 'rest' shares in individuals in order to retain **CGT** taper relief"*
- *"The value of the employee benefit **trust** to be retained on the balance sheet as an asset"*
- *"Expand tax free **loans** which allow the company to lend to employees for own company share purchase"*
- *"A simplification of the rules relating to share incentive plan **trusts**"*
- *"Tax advantages for approved **profit sharing** schemes"*
- *"Lack of knowledge and a suspicion that **trusts** are somehow a way of ripping HMR&C off"*

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