

# Delivering a sharing economy; EOA proposal for a National Strategy for Employee Ownership

## Why the UK needs more employee ownership

Evidence tells us that increasing the current level of employee ownership in the UK will deliver greater economic impact for individuals, businesses and regional economies.

This evidence is accompanied by the need to spread ownership in the economy to prepare for the inevitable impact of greater automation and artificial intelligence on the jobs of significant parts of the workforce. To realise these benefits, the UK must develop a national, bipartisan strategy with related policy interventions to increase the current levels of employee ownership that can complement the priorities of any future Government.

Since the publication of the Ownership Dividend in 2018, which revealed the significant dividend to be achieved by more employee ownership in the economy, the Employee Ownership Association (EOA) has campaigned for greater political interest, endorsement and support from all political parties

## Better governance and oversight

More employee ownership is fundamental to better governance and corporate oversight of UK business. Currently the economy supports activity that extracts too much and shares too little value, with exceptional salaries and bonuses paid to the few while a large proportion of the many struggle to achieve a living wage.

In contrast employee ownership uses its ownership and governance structures, alongside a culture of engagement and empowerment, to enable employee owners to have a voice and a stake in the wealth they create.

## Better productivity driven by engaged employees

As a structural arrangement, employee ownership (EO) hardwires the inherent enthusiasm, purpose and commitment of all employees throughout 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 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.

## Successful succession driving regional resilience

Evidence shows 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.

Additionally, because employee owned businesses are independent and are not bound by the short termism of external shareholders, they also tend to plan and invest for the longer term growing more resilient businesses.

## **A National Strategy for Employee Ownership**

### ***Increasing ownership and wealth***

To **reduce levels of income and wealth inequality** by the introduction of more incentives and models which will increase the voluntary adoption of employee ownership amongst UK businesses of all sizes, public or private, spreading more ownership and sharing the financial rewards of labour more equally amongst all UK workers and employees.

### ***Supporting successful succession***

To **increase the economic resilience** of UK regions by investing in regional-level capacity and awareness building of employee ownership and the Employee Ownership Trust (EOT) as a succession solution for SME and family owned businesses, rooting jobs, strengthening local supply chains and protecting regional GDP.

### ***Preparing for 21<sup>st</sup> century work***

We must **increase the levels of economic democracy** through employee involvement in corporate governance, leading to more transparency and higher levels of trust in UK business through the development of new codes of practice and relevant resources/tools, based on the practices of successful employee owned businesses. The changing nature of work and the relationship people have with work through ownership prepares the UK for the future. As automation grows, increasing the individual's stake and say in businesses is essential for society.

It is proposed that a new National Strategy for Employee Ownership would be accompanied by the reinstatement of a Minister with responsibility for EO who will deliver the joined up, visible advocacy and required focus and alignment across relevant Government departments (BEIS, MHCLG, HMT, HMRC, DCMS).

With this appointment, should come a regular survey of the size, distribution and key characteristics of the EO sector as part of existing data collection efforts by the Office for National Statistics, HMRC and BEIS. As of today, no such survey takes place and therefore reports of the sector's size and impact are prone to error.

### **Increasing ownership and wealth**

Employee ownership can redress the growing level of income and wealth inequality as employees benefit from a stake in the business in which they work and subsequently from distribution of financial rewards via dividends and/or bonus. Specifically, businesses that are EOT controlled, are currently able to distribute up to £3600 per annum tax free to each qualifying employee, delivering an annual, tax efficient reward to every worker in addition to salary and other earnings. This successful government intervention has seen the employee ownership sector grow by 60% since it was introduced in 2014.

A new National Strategy should therefore include:

- Continued support for **favourable tax treatment** of the Employee Ownership Trust (EOT) alongside other all-employee share schemes such as Share Incentive Plan (SIP) and Save as Your Earn (SAYE) including an annual review of the level of tax-free bonus payment

threshold. EOA and other interested industry partners is able to support Government in providing recommendations of such tax treatments now and on an ongoing basis.

- A comprehensive review of the opportunities for evolution of the EOT. Since its introduction in 2014 much has been learnt about the model and how to widen its appeal to more types and sizes of businesses and consider its potential to further address income and wealth inequality.

### **Supporting successful succession**

The UK economy is notoriously bad at ownership succession – the challenge of one generation of owners handing on the firm to new ownership. The Institute for Family Business (IFB) expects family businesses to be transferred to new generations or sold on at a rate of 85,000 businesses a year for the foreseeable future. However, research from insurer Legal & General 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.

Evidence shows 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.

A new National Strategy for Employee Ownership should therefore include:

- Direct investment 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. Here businesses engaged to look at succession, with employee ownership as an option. 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.

### **Preparing for 21<sup>st</sup> century work**

Whilst the adoption of models of corporate governance which involve and include employees in EOBs is done on a voluntary basis, in the majority of cases where there is an EOT, this results in highly successful inclusion of employees in strategic decision making. This is most often delivered by representation on the Trust that owns the shares and/or the main Board and almost always includes the creation of a form of advisory Employee Council.

There are therefore significant role models and examples of best practice in the EO sector which could help to inform and develop an innovative new 'economic democracy framework' and a culture of shared ownership across all businesses, and especially privately owned businesses that adopt at least 10% employee ownership.

Such an approach could include consideration of elements such as; governance standards, reward transparency, equitable shareholding, employee voice, social responsibility, information and consultation rights, shareholder powers, working environment and conditions, health and wellbeing, role of managers and the treatment of profit.

A new National Strategy for Employee Ownership should therefore include:

- Development of a definition of 'employee shareholder rights' for the employees who acquire an ownership stake as shareholders through an EOT, or equivalent legislation, or in any circumstance where employees own a minimum of 10% of the equity of a business.

- Development of an advisory code of practice and related tools for corporate governance: not compulsory but widely promoted and accepted as good practice and possibly accredited via an IIP-style scheme which becomes highly sought after.

The EOA wishes to work with policy makers to support the development of a new National Strategy for Employee Ownership, bringing the voice and experience of its 400 members to the table to offer real-world experiences that would help inform the detail, with the opportunity to test and trial ideas amongst this innovative and forward thinking community of leading businesses.