

Written evidence submitted by the Employee Ownership Association (EOA) (PEG0209)

Introduction

The Employee Ownership Association (EOA) is the leading authority and membership body representing and supporting the employee owned (EO) sector's 200,000 employee owners and 470+ businesses, that contribute more than £30bn annually to UK GDP.

Evidence demonstrates that employee ownership delivers better governance and oversight, greater productivity driven by engaged employees and, through the successful succession of businesses by exiting owners, has a highly positive effect on local economies, helping to root firms in their locality for the long term.

Employee ownership offers better income equality and resilience for individuals, businesses and the communities in which they are based, which is why a focus on increasing the number of businesses with an employee ownership stake is an essential part of any reset of the economy.

Better governance and oversight - a fairer deal for employees

Currently the economy supports activity that extracts too much and shares too little value, with exceptional salaries and bonuses paid to the few while 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.

This shared endeavour and responsibility results in shared reward, which adds to the sense of fairness and well-being at work – this has a positive impact on the health and well-being of employees, as well as supporting with the recruitment and retention of talent.

Better productivity - powered by engaged employees

Employee ownership hardwires the inherent enthusiasm, purpose, and commitment of employees throughout a firm by providing a meaningful ownership stake.

Having a stake and a say encourages employees to work smarter and deepen their contribution to their organisations as they think and act as owners.

This is evidenced as bringing 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 makes employee owned businesses more vigorous performers: more efficient and productive, and as seen during Covid-19, leaves them well placed to adapt, survive and pivot.

Productivity grew by 6.9% in the Top 50 employee owned businesses during 2019 compared to - 0.1% growth in the rest of the economy.

Successful succession – driving long termism and 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 these businesses can commit themselves with confidence to long-term strategies and are better able to withstand economic headwinds.

Employee ownership as part of building back better and levelling up

The economic and social impact of the Covid-19 crisis has revealed key issues:

- A lack of preparedness has impacted the *resilience* of both businesses and the individuals in their employ, which in turn impacts the local and regional communities in which they live.
- *Income inequality* means, for some, there has been limited means to affect their own personal financial resilience during the crisis, which in turn impacts on the businesses that depend on their disposable income.
- SMEs have been and will continue to be heavily impacted by the crisis. As the UK builds back, there must be more support for these businesses to not only survive but to sustain themselves and the *local economies* they serve to be better prepared for the future.
- Many employees came together during the crisis to help the business in which they work to survive. They did what the business needed, not what they wanted to do. How do we harness this for the future when there is no longer a crisis? This culture of common purpose is integral to employee owned business – not just in a crisis but every day.

Through a focus on increasing employee ownership you can deliver an economy that is more:

- **Equitable** – an economy which delivers a fair economic return for all, thereby reducing levels of inequality for all, including those ‘key workers’ recognised in the heat of the pandemic.
- **Resilient** – an economy which exhibits more diversity and plurality of ownership, will be more resilient in the future, avoiding the over-reliance on any one structure of ownership.
- **Sustainable** – an economy that has a workforce fit for the future that can unite behind a common purpose to help businesses to easily flex and adapt not only when facing a crisis but day in day out.

The EOA welcomes the opportunity to contribute to this BEIS Committee inquiry and provide ideas that will give the UK the best opportunity to improve the economic resilience of individuals, of businesses and regional economies as well as tackle the unsustainable income inequality that is a drain on the UK economy and threatens future economic resilience.

The EOA and its 450+ members offer their insights, ideas and experience to the BEIS Committee and look forward to the opportunity of presenting more evidence to Committee members.

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Responses to Questions

1. **What core/guiding principles should the Government adopt/prioritise in its recovery package, and why?**

- **Reduce income and wealth inequalities** – influence, support and intervene to increase financial resilience and economic wellbeing (at a personal, business/firm, and regional level). If more employees owned a stake in the businesses in which they work, they would benefit from higher returns and less reliance on the state. (https://www.ownershipeconomy.org/wp-content/uploads/2017/05/employee_ownership_and_economic_wellbeing_2017.pdf)
- **Have a greater SME focus** – supporting > 60% of private sector jobs, this lifeblood of the economy requires more support – both to sustain themselves and to innovate and grow. Supporting more SMEs to share a stake with employees will improve the resilience of the SME sector. (https://www.cass.city.ac.uk/_data/assets/pdf_file/0011/358193/employee-ownership-report-2014.pdf)
- **Local and place-level devolution** – empower more local decision making via existing structures and partnership to deliver local-level solutions, with greater buy-in and support. Localised support for the growth of EO in Scotland has delivered a 10 x return on investment (<http://theownershipeffect.co.uk/>)

2. **How can the Government borrow and/or invest to help the UK deliver on these principles?**

- **Invest in supporting SME's to recover** –Government has a unique opportunity to assist the UK SME sector to both recover and grow, whilst at the same time, encouraging business structures and ownership that are more equitable and resilient. Therefore the Government should be reaching into the economy to draw down ideas about how to best deliver this including;
 - Building on the principles of the government's successful *Future Fund* initiative, take a small equity stake in SME businesses to help them recover and grow (<https://employeeownership.co.uk/wp-content/uploads/A-PARTNERSHIP-FUND-FOR-JOBS-June-2020.pdf>)
 - Building on initiatives and ideas of organisations in the UK and the US, develop a UK-specific model for government to swap the debt incurred by SMEs through the successful *Bounce Back Loans* to an employee ownership stake, thereby helping to rebalance future rewards and encourage more investment as businesses improve their balance sheet positions.
 - The Green Investment Bank was a successful initiative which should be replicated with a wider brief to invest in sustainable, innovative and new models of business with a focus on equality of benefit for stakeholders and of looking to the future rather than the past. Climate change and Ecological issues must also be high on this agenda. Such a bank would need seed Government funding but with the right structure would appeal to the huge amount of money pension funds have available and to private investors.

3. **What measures and support will businesses need to rebuild consumer confidence and stimulate growth that is sustainable, both economically and environmentally?**

- **Locally provided business support** – support structures that enable access at a local level (LEP, local authority, Mayoral) to information, awareness and support about different ownership structures at the point of start-up, scale up and succession that enable sustainable growth for the benefit of place.
- **Managing SME business succession** – support specific for the ‘baby-boomer’ SME and family owned businesses which educates and informs on options for sustaining local employment and retaining economic impact in the region.
- **Purpose and Trust** – provide information and support about how different ownership and governance can underpin purpose and the role of business – as a stimulator of economic wealth and prosperity and an enabler of a more sustainable environment – as a means of developing trust (with employees, customers, suppliers and communities).

4. Whether the government should give a higher priority to environmental goals in future support?

- The environmental challenge is a global challenge, owned by everyone and should not be viewed by business as an ‘add-on’ or additional responsibility. It is essential that every business, regardless of size can contribute positively to overcoming the challenge. Government should support businesses to understand and consider their purpose and help enable them to put in place organisational and ownership structures that better support delivery of their purpose. Businesses that are wholly or partially EO have employees that are engaged, involved, and united behind a common purpose, who behave more responsibly and believe in delivering value for the many, not the few. These businesses should be encouraged and supported, as routes to delivering the UK’s commitment to overcome the global environmental challenges. (<https://www.thebritishacademy.ac.uk/programmes/future-of-the-corporation/research/>)

5. Whether the Government should prioritise certain sectors within its recovery package, and if so, what criteria should it use when making such decisions? What conditions, if any, should it attach to future support?

- Sectors that are key to the economy, either because of their size (and hence economic impact) or their role (and hence public reliance) and that are vulnerable during the recovery, should be positively discriminated in favour of, for example, the care sector is highly vulnerable to both the health and economic impact of the pandemic, the impact on supply of a hard Brexit and the propensity to be a low-waged part of the economy. However, there are examples of EOBs in the care sector that break the mould; paying higher salaries, with lower levels of staff turnover and better social impacts for service users. The Government therefore should be looking across the economy as vulnerable sectors (care, retail, hospitality etc) and considering best practice from parts of the economy that continue to sustain or even thrive due to their ownership structures. (<http://theownershippeffect.co.uk/>)

6. How can the Government best retain key skills and reskill and upskill the UK workforce to support the recovery and sustainable growth?

- Businesses that can demonstrate a long-term strategy, invest in their people, and have high levels of employee engagement will retain skills and talent ahead of other businesses. In businesses where there is an EO stake, all the above is present, alongside the sharing of reward more equitably and the opportunity to be heard. Both are especially important to young people and the next generation of workers. Hence, a route to improve levels of retention will be for

the government to support, encourage and incentivise more diversity of business structures and wider ownership.

- Providing incentives for businesses that invest in people and skills development, in a similar way to the tax incentives achieved through R&D investment would be a positive message to businesses of the value the government places on people and skills.
7. **Is the Industrial Strategy still a relevant and appropriate vehicle through which to deliver post pandemic growth?**
- While the industrial strategy has delivered many benefits, Covid-19 has revealed weaknesses in regional economies – a lack of individual and business resilience that unless addressed will impact the ability of regional economies to provide good work that fairly rewards, that drives productivity and that roots jobs resiliently for the longer term.
 - There is a route to addressing this through the Industrial strategy with a reset that takes the focus off sector deals and refreshes the five foundations to reflect the grand challenges revealed by the pandemic - income inequality and business preparedness and resilience.
 - A modern industrial strategy should prioritise:
 - **Economic resilience and income equality.** An absence of these two priorities could lead to an overreliance on some of the short-termism and reward disparity that exists in certain business structures that pursue short term profit or extreme growth as their main priorities to satisfy shareholders. Whilst these business models with short interests linked to investment have their place, e.g. tech start-ups with a need for large cash injections, they are not the business structures that will deliver the long term, sustainable and more equitable economy which the pandemic has revealed is so lacking in the UK.
 - **Inclusive growth** – where through growing the variety of business ownership there is a focus on growth that more widely benefits people and place, as much as profit and shareholders.
8. **How should regional and local government in England, (including the role of powerhouses, LEPs and growth hubs, mayoralities, and councils) be reformed and better equipped to deliver growth locally?**
- Regional bodies offer many advantages to a centralised approach to economic recovery, not least the local knowledge, insights and connections that exist. To this extent such regional bodies must however ensure that they are learning from other regions and sharing best practice amongst their peers. This therefore requires regions to be transparent and engaged with other places in the UK.
 - An important feature therefore to support such regional bodies in England is to ensure that any centralised support facilities enable such sharing and where it is relevant to support England-wide working with LEPs/Growth Hubs to educate.
 - To this effect, the Employee Ownership Association could work at a national or regional level, to share best practice on how to support SMES in their area with more effective succession planning.

- The EOA and its partner, Cooperatives UK, has bid for support through the Comprehensive Spending Review for a programme of work to unleash the power of regional bodies see https://www.uk.coop/sites/default/files/uploads/attachments/eoacooperativesuk_-_submission_to_csr_final_0.pdf

9. What opportunities does this provide to reset the economy to drive forward progress on broader Government priorities, including (but not limited to) Net Zero, the UK outside of the EU and the ‘levelling up’ agenda? What should the Government do to ensure that delivering on these priorities does not exacerbate the vulnerability of businesses, consumers and communities/workers that have been impacted by COVID-19?

- The opportunity to reset the economy and drive forward progress will be achieved if national and regional priorities are aligned around global or national challenges e.g. Net Zero and the UK outside the EU, but where local partnership can take the lead on regional challenges e.g. levelling up. Recognising and respecting the power of collaboration at a regional/sub-regional level by the Government will require greater devolution of powers and resources. This will unleash more trust and confidence in Government from the regions to enable it to then take the lead on national/global issues.
- Job retention and unemployment will be two major issues for the foreseeable future as the economy slowly recovers from Covid19. Therefore, the Government should be promoting businesses that are proven to deliver greater resilience and long termism.
- The productivity challenge will remain throughout this recovery and therefore the governments should be promoting businesses that are proven to deliver higher levels of engagement with employees that drives greater productivity, trust and agility within businesses.

10. What lessons should the Government learn from the pandemic about actions required to improve the UK’s resilience to future external shocks (including – but not limited to – health, financial, domestic and global supply chains and climate crises)?

- The pandemic has revealed the unpreparedness of many households and businesses in terms of their financial resilience. For businesses this means having a healthy balance sheet that can sustain a downturn, whilst also supporting employees with fair wages.
- This weakness is exacerbated when one considers that 60% of private sector employment is in the SME sector, arguably the sector with the least financial resilience, often servicing low down in the supply chain.
- Therefore, with specific reference to SME and mid-sized businesses, the government should encourage more business ownership structures that prioritise more long termism, wider wealth distribution amongst employees and more transparent structures of governance – which lead to greater scrutiny and better decision making for the long term health and resilience of the business.

11. What opportunities exist for the UK economy post Brexit and the pandemic for export growth?

NO RESPONSE

12. What role might Government play as a shareholder or investor in businesses post-pandemic and how this should be governed, actioned, and held to account?

- There will be a need in the post-pandemic recovery for many businesses to continue to be financially supported as they are challenged with low levels of demand. The Government is to be applauded in having introduced the *Bounce Back Loans*, *CBILS*, *Large CBILS* and the *Future Fund*, all of which will have provided some of the 'gap' funding needed to support these businesses through the depth of the crisis.
- As these same businesses move into recovery however, with a reduction in economic activity, many will face difficulty in repayment of their debt to the Government, which will also stifle their ability to lend further to invest and grow. Therefore, the Government must look outside its usual field of view to even more innovative ideas that can help to support businesses during this period of vulnerability.
- The employee ownership model is a proven way to engage employees, drive higher levels of productivity, create wider financial rewards, and sustain more resilient businesses. Therefore, the government should consider the long term returns of swapping the debt of thousands of the UK's SMEs into equity – but instead of this being Government equity, to enable this to be employee equity. This approach would therefore not only support many of the regions and places that are likely to be hardest hit by the pandemic but will directly inject employee ownership benefits into thousands of UK businesses.

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