Business ownership – a new dawn for employee ownership?

OMB Tax voice

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Deb Oxley, Chief Executive, EOA responds to the question

Employee ownership has been a popular business model amongst many founders and business owners for decades. It has had high street presence in the John Lewis Partnership for over 100 years, and the sector's membership body, the Employee Ownership Association (EOA) reports a 10% increase in the number of organisations of every size and sector adopting the model as its membership of more than 320 businesses continues to grow. The sector continues to contribute £30bn (some 4%) GDP annually to the UK economy.

So why has employee ownership become such a hot topic of conversation recently?

From politicians to accountants, bankers to business leaders, the last few months have seen almost every broadsheet, trade publication and online news site cover employee ownership as it enters a new dawn of popularity.

Employee ownership has often been regarded as a different way to run a business.

Unlike other business models where ownership is most usually restricted to a few founding owners or directors, or where ownership is in the hands of external shareholders, employee owned organisations share some, or all of the ownership of the business amongst all of their current employees. But it is not the ownership structure alone that is different. Exceptionally high levels of employee engagement and the representation of the employee owners' voice in the strategic direction of the business are normally key features too.

Contrary to what some think, the move to employee ownership is very rarely undertaken for benevolent reasons alone. The owners of businesses that adopt employee ownership typically do so for business and financial reasons. Almost all of these businesses operate for profit, many of them in highly competitive markets, and every one of them is intent on ensuring their long term, profitable, sustainability.

These owners are attracted to employee ownership for compelling reasons.

It is employee owned businesses, through their shared ownership structures, that are demonstrably more effective at engaging employees, driving growth, innovating and responding to customers – and doing this with the long term health of the business, its suppliers and its customers in mind. Without the pressure of external shareholders seeking a short-term financial return, and with the internal support of employees who share the same ambitions as the leaders and managers, employee owned businesses can plan for the long term and are therefore considered by those who adopt the model as not only a different way to run a business, but a better way too.

The evidence that support this view is clear.

The last three years of the annual index of the UK Top 50 Employee Owned businesses demonstrates the success of the sector with 10.2% increase in combined sales, compared to a 7.7% average UK GDP over the same period. An equivalent growth in employee numbers of this group reveal that the number of employees have grown by 15% over the same period against a 5.8% growth in the UK as a whole.

But why in 2016, did employee ownership become even more popular?

The reason that employee ownership is now finding renewed favour with government, the media, the professional services sector and business owners is clear.

The model offers a proven, effective and practical solution to some of the UK's biggest economic challenges; specifically, as the UK faces life outside the EU, in how it responds to the challenge of the public for a fairer society and better corporate behaviour, and in how the government can achieve its vision of a 'country for everyone'.

Let's take business succession as a first topic

As the UK's 5.5 million SMEs and family businesses consider their own succession plans, at a time of future economic uncertainty, employee ownership offers an attractive, and achievable, option for many.

The traditional trade sale or management buy out is not what every business owner aspires to. For many owners, the desire to see their business and brand thrive beyond their own involvement is far stronger than the desire for a quick exit or maximising their pay off. And for others, the ambition to recognise and reward the employees who have supported them in building the business is often strongest of all. And for many, who want to plan their succession over a number of years, the prospect of being invited to immediately leave the company by a new owner following a trade sale is not attractive at all.

Often combined with some retained family or founding owner shareholding, the employees can take some ownership of the business via a trust structure such as the Employee Ownership Trust (EOT), via one of the small number of tax advantaged share schemes, or through a hybrid of each. And in each case there are options for how to fund the transition, from deferred vendor finance, to loan finance or specialist forms of short term equity finance.

Corporate governance is another significant driver of the current interest in employee ownership.

Because of their ownership structure, employee owned businesses are better at engaging employees in the running of the business. Most that operate Trust ownership models have employees as trustees, some have employee directors on their boards, and all have transparent and effective mechanisms to hold directors to account.

This is in direct contrast to the behaviours of some of the UK’s leading businesses, where their structures of ownership have allowed their owners, directors and some senior managers to display behaviours that have undermined the general public’s trust and respect in big business.

The employee ownership model, therefore, is highly attractive to many founders and their customers, who consider integrity, trust and honesty vital to securing and maintaining long term commercial relationshipsb.

Finally, the UK is challenged with a puzzle over how to improve its productivity.

There is clear evidence that links better employee engagement and more effective leadership to higher levels of output and productivity.

Exceptional employee engagement is implicit in employee owned businesses as a mechanism to bring ownership to life. Because of this combination of ownership and engagement, many businesses report their best trading years ever following their move to employee ownership, often citing the heightened levels of responsibility that employees feel for ‘their’ business as a key driver of them taking ownership for driving down costs or improving sales.

Furthermore, employee ownership structures bring about a greater degree of transparency as managers and leaders recognise the opportunity to share financial information, future plans and performance data with the wider owners as a route to enlisting their support in managing performance.

The current economic climate and the continued, rising, popularity of employee ownership is a key opportunity for all professional advisers. Specifically, accountants and specialist tax advisers can ensure that their own clients are fully aware of the opportunity that employee ownership offers – and especially as they might consider their own succession plans or growth plans.