SUBMISSION FROM EMPLOYEE OWNERSHIP ASSOCIATION

The Economic Case for Employee Ownership

"*Employee ownership is proven to work. Employee owned businesses are characterised by high productivity, greater levels of innovation and higher resilience to economic turbulence. Over the last 15 years through to today, shares in employee owned businesses have considerably outperformed those in the FTSE All-Share Index*".

This quotation, taken from the foreword from the Employee Ownership Association's (EOA) How to Get Started publication and provided by Hugh Facey MBE, Chairman of Gripple and Board member of the EOA, demonstrates the strength of advocacy for employee ownership.

Why Employee Ownership?

Currently representing approximately 4% of GDP annually, or £30bn, the economic case for more employee ownership in the UK economy is profound:

- Productivity increases 4.5% year on year in EO businesses while the UK economy as a whole is flat. (reference: Capital Strategies 2014)
- EO businesses grew sales by 11.1% in the recession, compared to non-employee owned businesses which only grew by 0.6%. (reference: Cass Business School 2014)
- The EO sector contributes £30bn GDP to the UK economy annually. (reference EOA 2012)
- Operating profits of the top 50 EO businesses increased 25.5%. (reference Capital Strategies 2014)
- 80% of employee owners are happy to recommend their organisation as a place to work. (reference Edinburgh Napier University 2012)
- Employee numbers increased by 3.3% year on year in EO businesses. (reference Capital Strategies 2014)
- The number of EO businesses is growing at an annual rate of just under 10%. (reference EOA 2012)

Business owners and founders normally consider employee ownership as part of succession planning, when developing a growth strategy, at start-up, or, in the wider UK, when a public service is moving away from public sector and alternative models of service delivery and under consideration.

Increasingly this form of business structure is considered for succession planning, and indeed the EOA reports that approximately 80% of moves to employee ownership are due to this, when other forms of succession such as a trade sale, management buyout or closure are not preferred.

The Models

Employee ownership is very straightforward and whilst there are only a small number of models, making it very simple to implement, it is incredibly flexible and can be developed to suit the specific circumstances of any business.

In asking the question ‘how does employee ownership work?’, owners and their advisers need to firstly establish what their aims are for implementing employee ownership before they determine which model is most appropriate for them.

Direct (individual) share ownership; each employee becomes a shareholder, personally holding a specified number of shares. The potential benefits of direct individual share ownership are clear as every shareholder may receive a regular profit share through dividends, have voting rights and the possibility of selling their shares at a profit if they grow in value.

Indirect ownership; shares are held on behalf of employees as a whole in a trust, which must manage the shares in the best interests of the employees, in accordance with the terms of the trust deed and the law. Often viewed as a simpler model to operate, indirect ownership is often chosen by businesses intending that trust ownership will benefit employees over the long term through the trust influencing the company’s direction, as opposed to individuals profiting from dividends or a growth in share value. A trust’s holding of a particular percentage of a company will often be accompanied by an arrangement that the same percentage of the company’s annual profits will be passed by the company directly to employees. If the trust owns more than 50% of the company’s shares, it may be possible for bonuses to a certain value to be paid income tax free.

Hybrid ownership; this combines ownership of a strategic block of shares in a trust with individual share ownership.

Case Studies

Page\Park is an architectural firm based in Glasgow that made the transition to employee ownership in December 2013. Since then, the business has recruited 12 new employee-owners, increasing its staff to a total of 54, to meet the growth in demand for their services – a positive commercial upturn which owners attribute in part to their transition to employee ownership.

As they had already developed a business model that shared responsibility across all levels of the office structure, the team at Page\Park held the view that employee ownership secured the future of the business well beyond the involvement of the present owners and perfectly fitted their existing culture of transparency and cooperation.

By sharing responsibility alongside sharing benefits, Page\Park has seen ever-increasing levels of staff engagement and a renewed impetus to drive success within the business. Now Page\Park are seeing more and more architectural firms expressing their interest in how employee-ownership has driven their success within their sector.

Brian Park, of Page\Park, said:

“The transition to employee ownership presented no real challenges. Instead there was an atmosphere of interest and excitement from all involved. A tagline of “All change, no change” emphasised to staff and employees that, on a day-to-day basis, the business would run in the same way that it had always done. Page\Park very simply and smoothly transitioned to a different legal entity (a limited company with all shares owned by an Employee Benefit Trust). The official day of transition was celebrated with an event attended by clients, consultants and employees and there was a great atmosphere.

“It may all sound too good to be true, but it has been painless and indeed energising to have made this change… I’m now even more convinced that making the move to employee ownership was the right thing to do.”

Gripple - The successful launch in 1988 of a wire joining and tensioning device called a Gripple not only gave the company producing it its name, but also provided the impetus for employee ownership. The award-winning Sheffield company has since developed over 6,500 products for agricultural fencing, trellising and anchoring and more recently, hanger systems for installing mechanical and electrical services, seismic bracing and geo-synthetic turf mat anchors. Its overseas operations include facilities in New Delhi, Obernai near Strasbourg and Aurora near Chicago.

It was back in 1992, having sold one company, giving 10% of the proceeds to its staff, Gripple’s founder and Chair, Hugh Facey MBE, wanted to ensure that the workforce of his new firm also enjoyed some of the financial benefits by encouraging them to take a stake in the business. Rather than give them equity, he invited employees to purchase non-voting shares. Around 58% of the initial 20-strong workforce bought shares. Now, 100% of the employees, who number 460, own equity in the business.

To ensure employee share ownership remains high, since 2004 new employees have been required to buy £1,000 worth of shares within one year of joining the firm. The firm offers loans at the prevailing Bank of England rate to enable employees to purchase equity. The share price is generated by profits. Shares that in 1994 cost £1 are now worth more than £21. A third of all post-tax profits are paid as dividends. An internal market operates for the buying and selling of Gripple shares, meaning equity remains in the business when an employee leaves or wants to sell some of their shareholding.

Historically, a share committee, consisting of the company chair, a second director and the company secretary, oversee the internal share dealings. The company has set aside a pool of money to buy and sell shares and intends to purchase all unwanted shares, though there is no guarantee. If shares are available, employees can purchase them.

In 2014, the share dealing process was transferred into an employee owned company called GLIDE, an acronym of Growth Led Innovation Driven Employee Company Limited. GLIDE is run by a board of representatives elected by their fellow working colleagues. Each member in GLIDE has one vote, irrespective of how many shares an individual may have bought. GLIDE now has 7 main associate companies: Gripple Ltd, Gripple Sarl, Gripple Inc, Gripple India, Loadhog Ltd, PMS Diecasting and Go-Tools.

Innovation is at the heart of the culture at Gripple and employee ownership is seen as the best way of encouraging creativity. There is a flat management structure and no formal job descriptions. All employees are expected to work as a team and there are regular communication meetings, including daily shift meetings and team briefings.

Hugh Facey plans to apportion a percentage of his shares into a foundation to ensure the continuity of the business and other businesses that it is currently spawning. The formation of GLIDE means that the business can never be sold. To survive it needs to grow organically and through innovation. Minimum targets to achieve are: annual growth of 10% and new products that are less than 4 years old, to contribute 25% of annual turnover.

The EOA

The Employee Ownership Association (EOA) represents organisations which are employee owned or transitioning to employee ownership across the UK.

Most businesses that are moving into employee ownership or want to maximise the success of their employee owned business are Members of the EOA. Membership levels have increased significantly in recent years and by the end of 2015 will have reached 300 members.

The EOA is a not for profit and politically independent organisation that works in close partnership with its members to champion, promote and provide insight into the business case for employee ownership. Members benefit from unique learning, networking and trading opportunities across the network of diverse companies of all sizes and sectors. The past twelve months have seen the successful introduction of Regional Networks that led by the members holding meetings with their premises periodically throughout the year – an excellent opportunity to learn and to share the experiences of others.

The widely endorsed ambition is for 10% of UK GDP to be delivered by employee owned businesses by 2020. The EOA is uniquely influential, on behalf of members, with policy makers, the media, Government and a range of other audiences. Our independent campaigning has won us the support of all three main political parties and we have played a key role over the years in shaping the tax and legal environment for employee owned businesses. Most recently our successful campaigning has led to the announcement from HM Treasury of £75m in tax relief to support the growth of employee owned companies.

As the EOA Annual Conference approaches on 23rd/24th November, there has never been a better time to join the growing membership of the EOA as businesses across a wide range of sectors, sizes and geography realise the benefits and opportunities that employee ownership can bring. This year's conference is proving to be the most in demand yet, with an unprecedented 500+ attendees expected.

Conclusion

Employee Ownership is an established business model that works around the world and is increasingly being adopted in the UK. It has been shown to boost profitability, productivity, job security and employee wellbeing. It is making a vital contribution to economic growth in challenging economic times. Employee owned businesses are at the forefront of innovation not only in the private sector but also in public services too. Employee ownership can be implemented easily and can be readily tailored to the circumstances of an individual organisation. It is a model that works across a whole range of sectors and at any stage in the life of a business from start up to mature businesses seeking a viable succession route. Direct, indirect and hybrid models of employee ownership can be seen in a range of highly successful exemplar organisations across the UK.