Overview

1. The John Lewis Partnership welcomes the opportunity to submit written evidence to the Economy, Energy and Tourism Committee’s inquiry into innovation and productivity in social enterprises and employee owned businesses.

2. The Partnership is the largest employee-owned business in the UK. All 88,700 permanent staff are Partners who own 46 John Lewis shops across the UK, 346 Waitrose supermarkets, an online and catalogue business, waitrose.com, johnlewis.com, a production unit, a farm and a financial services arm. The business has annual gross sales of over £10bn. In Scotland the Partnership operates 3 John Lewis shops, 7 Waitrose supermarkets and a contact centre.

3. John Spedan Lewis, son of our Founder, John Lewis, was inspired by the desire to innovate and improve the capitalist system. In 1914 he had the opportunity to put his principles into practice when his father gave him control of Peter Jones, a small shop trading on Sloane Square in London. The young Spedan promised his staff that when the shop became profitable they would share in these profits, the first step in his long-term plan to turn his employees into Partners. He fulfilled this promise just 5 years later when every member of staff received the equivalent of 5 weeks of extra pay. Ten years later, he created a trust to take over the assets of the company and run it as a Partnership thus creating our modern co-owned business in 1929. Spedan created a second irrevocable trust in 1950 when complete ownership was transferred to Partners working in the business.

4. John Spedan Lewis was no philanthropist; the Trust was a mechanism to sell his business to his employees because he saw the strength of aligning the interests of employees and shareholders. Spedan Lewis was just as concerned with running a successful, innovative company as he was with ensuring the happiness of the employees and equitable sharing of the benefits of success. This is clearly expressed in the Partnership’s Constitution where the first Principle sets out the ‘Ultimate Purpose’ of the Partnership as “the happiness of all its members, through worthwhile and satisfying employment in a successful business”.

5. Not many companies have a written Constitution. Ours does, for two reasons. The first is historical as the John Lewis Partnership exists today because of the extraordinary vision and ideals of our Founder. He signed away his personal ownership rights in a growing retail company to allow future generations of employees to take forward his ‘experiment in industrial democracy’. Not unreasonably, he wanted to leave some clear guidelines for his successors, so that the values which had motivated him would not be eroded with the passage of time. The second reason looks forward. Spedan Lewis was committed to establishing ‘a better form of business’ and the challenge for Partners of today is to prove that a business which is not driven
by the demands of outside shareholders and which sets high standards of behaviour can flourish in the competitive conditions of the third millennium. Indeed, we aim to demonstrate that adhering to these Principles and Rules enables us over the long term to outperform companies with conventional ownership structures. This is achieved simply by taking the right decisions for the long term.

Purpose and Sharing Power, Profit and Knowledge

6. We have three principles of motivation. The first is our Purpose, set out in Principle one and as already mentioned states that the Partnership’s ultimate purpose is the “happiness of all its members, through the worthwhile and satisfying employment in a successful business”. This establishes a balance of ‘rights and responsibilities’ which places on all Partners the obligation to work for the improvement of our business, in the knowledge that we share the rewards of success.

7. The second is about Power. Power in the Partnership is shared between three governing authorities; the Partnership Council, the Partnership Board and the Chairman. This provides a check and balance to ensure the Constitution is upheld and that the needs of the business are kept in balance with the needs of Partners. What all this boils down to is that our 88,700 Partners don’t merely have the satisfaction of working for a good business; they have the enjoyment of owning it. That is the essential difference of the Partnership. Last year this essential difference translated into £156.2m profit being shared with Partners in the form of an annual bonus of 11% of pay. Perhaps not surprisingly first-hand experience shows Partners feel a strong sense of ownership in the month of March each year when we announce the annual bonus.

8. All shares in the John Lewis Partnership are held in Trust for the benefit of all employees. Shares are not traded and profit is returned to our shareholders - our Partners - who each receive the same percentage of salary in the form of an annual bonus each March. Around half our pre-tax profit goes to this annual bonus each year, with the remainder reinvested in the future growth of the business. This collective reward for collective effort gives us a relentless focus on continuous improvement; a powerful competitive advantage especially in a retail market that is one of the most contested in the world.

9. The third is about Profit. Our Constitution states that the Partnership aims to make ‘sufficient profit from its trading operations to sustain its continued development, to distribute a share of those profits each year to its members, and to enable it to undertake other activities consistent with its ultimate purpose’. This means our focus is on generating “sufficient” profit and not profit at all costs. Our ownership structure enables us to take decisions for the long term. Decisions which can be counterintuitive and avoid the sort of short-term culture often seen in shareholder owned businesses where returns are demanded at all costs.
10. Our Partners have a say in how the business is run and our model relies on a commitment from each Partner to share Knowledge and power, as well as in the rewards of success. We have democratic channels embedded at all levels of the business – from Partner Voice representatives in each John Lewis and Waitrose branch, to elected Divisional Councils for John Lewis and Waitrose and a Partnership Council which, as one of our three governing authorities, has an important role in influencing Partnership policy and how our profits are spent. It has the power to discuss, to ask questions, and to make recommendations on any subject. The Partnership’s Chairman appears before the Council twice a year to answer questions on the running of the business and the Partnership Council is responsible for holding the Chairman to account. Ultimately they have the power to remove him from office.

**Inspiring Engagement and Innovation**

11. Shared ownership gives Partners a social and emotional connection to the Partnership which drives discretionary effort, cross functional working and innovative approaches to problem solving. It means Partners are engaged and motivated to deliver more for our customers and more for the business. Survey data shows this is a common theme amongst employee owned businesses; more than 80% of employee-owners strongly agreed with the proposition that employee ownership makes employees ‘more committed to company success’.  

12. Giving Partners a say in how our business is run helps ensure the long term sustainability of the Partnership. In 2014 the Partnership conducted a review of our pension scheme, one of the most important benefits for Partners and our greatest investment. We needed to ensure it was sustainable for the years ahead but rather than management taking decisions we ran a lengthy internal consultation into how to split the proportion of benefits between pension and bonus and create a fair system for both long serving and new Partners. Throughout the Pension Benefit Review our democratic bodies enabled Partners to shape the proposal which was voted through unanimously by our elected Partnership Council in February 2015. This year we will use a similar process to review our broader benefits package, to ensure we have an engaging offer that is relevant to Partners in today’s world.

13. Our experience is that increasing engagement drives discretionary effort, the difference between the minimum required and how much we could actually put into work. Discretionary effort does not increase costs; it flows straight to the bottom line, so not surprisingly it’s better to invest in increasing discretionary effort than in expanding resources (via retraining, recruitment etc). We have seen that when an employee believes that their own and the organisation's goals are aligned, engagement soars and they take ownership at work (provided the employee also

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believes the employer cares about them). The evidence that financial incentives are key to motivating people is limited and clearly no longer enough: today’s employee is sensitive to employer self-interest and needs to feel mutually engaged. That calls for shared goals and values, an enlightened leadership culture, positive emotional connections with colleagues and work, and replacing learned helplessness with a sense of ownership. When these conditions are in place, discretionary effort soars and transforms business performance.

14. Our John Lewis business runs a scheme called Roof Raisers, aimed at motivating and mobilising innovation and exceptional effort from Partners. Such employee motivation and recognition schemes are not unique but the point of difference in our business the focus on stimulating innovation by ensuring every Partner in every part of the business understands the individual and collective role they can play in inspiring others and driving commercial success.

15. Similarly in 2014, to coincide with the business’ 150 year anniversary, John Lewis launched JLAB, a technology incubator offering five start ups 12 weeks of mentoring, a possible £100,000 prize and contract with John Lewis. The aim of JLAB is to recognise and grow the new ideas that support omni-channel commerce across in-store, mobile and online devices. The success of the scheme stems from a passion and energy within the business to look at new ways of doing things and the encouragement to be inventive that is built into the DNA of our business and which we can trace back to the ambitions of our founder.

Creating Value in Communities and our Supply Chain

16. Our Partners’ sense of ownership inspires a greater connection to the locations where we trade, which in turn drives initiative and engagement in our community partnerships. Across Scotland our local Waitrose Community Matters Scheme provides £1000 a month for each Waitrose store (£500 for each convenience store) to divide between three local good causes. We have helped over 900 good causes and donated £320,000 in Scotland since the Community Matters scheme began in 2009. Our Waitrose branch in Helensburgh nominated Alzheimer Scotland as its local charity and beyond donating £700, Partners were inspired to do more to help local customers and the community, organising dementia awareness training for all 180 local Partners. They are now better able to identify signs of dementia and assist and communicate with customers.

17. Waitrose Milngavie is our first Waitrose branch to have a dedicated Community Room, a space which can be used for free by any local group for meetings and which has enabled our Partners to form closer links with the local community.

18. Our own research shows the benefits to the wider local economy when the Partnership opens a new shop. John Lewis and Waitrose shops are often seen as part of a wider revitalisation of shopping areas. In Liverpool 75% of businesses reported that the opening of John Lewis contributed to the city becoming a more attractive place to
spend time. The Partnership Bonus also contributes to local economies; our research shows that 20-25% of Bonus pay is spent at shops within the same local authority area.

19. By taking a long term view of supplier relationships we help our suppliers to grow and create value. As owners of the business we have an incentive to ensure we are meeting the needs of customers by offering high-quality products and provenance information. In 2015 four small-scale Scottish Waitrose suppliers had their products introduced across the UK. Mo’s Cookie Dough and Dean’s of Huntley are two such suppliers whose products are now stocked in 247 and 130 Waitrose branches across the UK respectively, following their popularity in Scotland.

20. We work to promote the benefits of employee ownership to our suppliers. Waitrose has worked with Scottish farmed Atlantic salmon retailer, Aquascot, since 1993. The company was established in 1987 and in 2000 was sold to a large multi-national. By 2003 it was clear the new owners had different objectives for the business so the former owners and employees sought to convert the business to employee ownership. Waitrose provided guidance and later this year Aquascot will convert to full employee ownership.

21. In October 2015 we ran an ‘Inspire EO’ conference in Edinburgh aimed at raising awareness and understanding of employee ownership in Scotland. We invited our Scottish suppliers and small and medium sized business from range of sectors to learn more about employee ownership. To date we know of ten businesses who attended our conference who are now exploring conversion to employee ownership.

Productivity and Continuous Improvement

22. Employee-ownership can be an advantage in tackling the linked challenges of improving productivity and creating sustainable economic growth. Our ownership structure has helped us remain resilient in the face of challenging economic conditions, a resilience that is mirrored across the employee-owned sector. From 2005 to 2008 non-employee-owned businesses experienced higher average sales growth per annum (12%) than employee-owned businesses (10%), however the average sales growth of employee-owned businesses during the 2008-2009 recessionary period was 11%, significantly surpassing the 0.6% growth of non-employee-owned businesses.

23. Evidence shows that productivity increased 4.5% year-on-year in the fifty largest employee-owned businesses in 2013/14. The positive impact of employee ownership

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2 New Economics Foundation, Our social and economic contribution, [http://www.johnlewispartnership.co.uk/content/dam/cws/pdfs/our%20responsibilities/our%20communities/Local%20investment/executive_summary_our_social_and_economic_contribution.pdf](http://www.johnlewispartnership.co.uk/content/dam/cws/pdfs/our%20responsibilities/our%20communities/Local%20investment/executive_summary_our_social_and_economic_contribution.pdf)

3 New Economics Foundation, Our social and economic contribution, [http://www.johnlewispartnership.co.uk/content/dam/cws/pdfs/our%20responsibilities/our%20communities/Local%20investment/executive_summary_our_social_and_economic_contribution.pdf](http://www.johnlewispartnership.co.uk/content/dam/cws/pdfs/our%20responsibilities/our%20communities/Local%20investment/executive_summary_our_social_and_economic_contribution.pdf)
on productivity may be greatest among small and medium-sized companies. Employee owned businesses with fewer than 75 employees do significantly better than non-employee owned businesses of the same size measured by both profit before tax and profit before tax per employee.5

24. The employee ownership model confers particular advantages in knowledge and skill-intensive sectors. Employee-owned businesses with average wage costs of more than £40,000 per employee have significantly higher profit per employee than non-employee owned businesses with a similar wage cost structure.5

25. That is not to say that employee ownership is a simple solution to the complexity of the productivity challenge, far from it, but a sense of ownership can be an advantage in driving productivity and in shaping the way it is addressed. At the John Lewis Partnership, improving productivity is a key focus in this challenging time for retail. Our co-ownership model shapes the way we are looking at this challenge. It helps us put Partners, not ‘output’, at the heart of issue, and to look at productivity in the wider context of pay, performance and progression.

26. A key factor holding back productivity and performance in retail is a lack of progression opportunities for workers in modestly paid jobs, who dominate employment in the sector. Given the labour intensity of the sector, along with advances in technology, there is much to gain in focusing on creating good jobs and progression pathways that support employees to use and develop their talents. Employee-owned businesses have been shown to be better at job creation, at job retention, and at job development. At the most basic level, our experience is that employee ownership helps decrease absenteeism; at JLP our absence rate is 3.4% compared to the UK average for retail of 7.8%.7

27. Whilst not a panacea, the experience of the John Lewis Partnership is that employee ownership is integral to the long term sustainability, growth and success of our business.

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4 “Our Mutual Friends: Making the Case for Public Service Mutuals”