Ownership Associates UK
let's make it happen

OWNERSHIP MATTERS

April 2023

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John Lewis to sell out?

There were reverberations around the employee ownership community at the news that the leadership of John Lewis are considering selling some of their equity to external investors. Indeed, the story was that unthinkable that it consumed much of the business press and comment.

John Lewis has always been the icon for employee ownership in the UK. Founded in 1860 as a drapers shop in Oxford Street, London by John Lewis, the company is the third largest private unquoted company in Britain. The founders' son, John Speden Lewis began distributing the company's profits to employees in 1929, moving the company to full employee ownership in 1950. The shares were transferred to a trust, to be held for the benefit of the employees. The purpose of the trust is to ensure the company is run for the happiness of the partners.

As with many retail businesses, it's been a rocky time for the Partnership. The company grew rapidly from 2000 to 2015, increasing from 151 to 379 stores. The announcement of the annual bonus was always a huge event for the John Lewis partners, often receiving bonuses equivalent to up to 8 weeks' pay as part of the profit share policy. There have been no bonuses paid out in the past two years to employees.

The decline of footfall in our high streets, competition from online sellers, the financial crash and of course, the impact of the pandemic resulting in retail stores having to close for several months have taken their toll on traditional retailers. The company's board is now looking to raise a reported £2bn to return the company to some form of equilibrium.

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Andy Street

Any changes to the current shareholding would require approval from the chair, the board and the partnership council – the representative body with elected members from across the John Lewis workforce. Interestingly, some of the more vocal critics of the plan are former employees of the company. Ex Managing Director, Andy Street, said any dilution of the employee ownership would be a “tragedy”. Former employee and now retail analyst, Neil Saunders, was more critical of the JLP leadership team, saying that if the John Lewis Partnership wants to get back on track it must create a senior team that has a deep understanding of retail. His view is that current management, while well intentioned, has a weak grasp and has made poor judgment calls. Employees have been fiercely critical of the proposals. The Times reported that 85% of the company’s partners had no confidence in the company’s leadership, with calls for resignations.

The retail sector has also been critical of the proposal. Julian Richer, founder and managing director of employee-owned Richer Sounds, condemns the company’s expansion plans when online sales were hitting retail hard. Retail expert, Mary Portas said John Lewis had “let go of its soul” and John Hawksworth, former chief economist at accounting firm PwC, said moving away from mutual ownership would be “terribly short-sighted”. Nils Pratley, financial journalist with The Times said that to raise the required cash would likely mean selling a stake around 25%. This would give an external party significant influence in the organisation. Guy Singh-Watson of Riverford Organic, employee-owned since 2018, warns that “External investors will change the culture of the organisation. Everything will become short term and dictated by reporting to an avaricious shareholder”.

What does this mean for the employee ownership sector? Probably not much. John Lewis is an outlier. The sheer size and scale of the Partnership is way beyond the next largest company. Turnover for 2022 was reported as £4.9 bn and staff numbers were 70600. The second largest is Arup with a turnover of £1.9bn and 17,208 employees. By far, employee-owned businesses tend to be smaller, entrepreneurial businesses. It’s likely there will be some negative publicity should the John Lewis plan go ahead. The current growth in the sector is likely to continue to accelerate as the success stories of some of the more recent transitions grab headlines. It has been proven that employee ownership works. What John Lewis does next sits with the leadership and the Employee Council. Let’s hope they make the right decisions that retains John Lewis Partnership as resounding proof that there is a fairer and better way to do business.

OAUK News

They say there is no such thing as bad publicity and the John Lewis Partnership (JLP) plan to explore external investment is certainly attracting attention. The reaction has been encouraging; that JLP's employee ownership is something to be protected. The story does throw up some interesting points. Firstly, the importance of good leadership who "get it". I'm not qualified to assess the competence or otherwise of the newish leadership team at the Partnership. However, much of the criticism from within the retail sector has been that the strategy isn't working and additional funding will not fix that. The urge is for JLP to remain true to their founding principles; maintain their independence and refocus on their core purpose and their customers.

Secondly, the story does highlight the challenges for employee-owned firms when they seek out additional funding. Traditional investors want to maximise their return; that's why they provide the cash. They will have a target exit date by which point they want to have maximised dividends and greatly increased share value. The pressure is on the board of directors to focus on short term profitability, sometimes to the detriment of the long term health of the company.

This does bring to the fore the need for a funding vehicle that particularly understands the employee-owned model. Lawyer **Ann Tyler** has been involved in employee ownership for 40 years. She is calling for legislative changes that will allow co-owned organisations to issue investment capital that does not demutualise them or alter their core business purpose. Ann calls for an urgent and radical review of the options available in the UK to provide sustainable long term financial investment for employee-owned businesses.

And this will probably require political support to make happen. The Scottish Government is well-placed to make a brave move here; establish a vehicle to provide accessible patient capital that understands the EOT and supports the business ethos as well as its growth plans. This could be a game changer that would be followed internationally.

And on the international front, it's great to see that Canada finally got its EOT legislation through their parliament. There was some disappointment that there were no tax incentives included in the bill. However, I'd advise patience. The above photo was taken in the House of Commons in 2009 when, as Policy Director of the Employee Ownership Association, I was advocating for tax exemptions for business owners selling their company to employees and also Corporation Tax exemptions for companies with majority employee ownership. I had just returned buzzing from the NCEO conference in the US, where some states offer both tax exemptions to encourage more employee ownership to strengthen local economies. The discounts in Corporation Tax freed up company profits to reinvest in the business, create more jobs, reward the staff. The EOT was introduced in 2014, thanks largely to the sterling work by Graeme Nuttall OBE who I believe has also been advising the Canadians. Importantly, by that time we had some great case studies of companies who had made the move- with no tax incentives. Thanks are due to phenomenal success stories like Parfetts, Childbase, Gripple, Clansman Dynamics and Woollard & Henry and many others for proving that employee ownership works. So, my Canadian friends, keep pushing and your legislators will wake up to the proven benefits of more employee ownership in the economy.

Yours in partnership

- Carole
01786 611066

Employee ownership in construction

The number of businesses in the construction sector who are considering or actually in the process of moving to employee ownership is soaring. **BE-ST** (Built Environment-Smarter Transformation) in partnership with **Co-operative Development Scotland** organised an event showcasing some of Scotland's firms who had moved to employee ownership. You can read a summary of the event **here**. The event was well-attended by business owners considering their succession options.

BE-ST provides a magnificent facility, demonstrating how techniques and proper sourcing can help for a more sustainable environment and effective buildings. Formerly the Construction Scotland Innovation Centre, their mission is to accelerate the built environment's transition to zero carbon emissions. "Accelerate to Zero" is the road map to ensure any problems posed by building or retrofitting to zero carbon standards have ready-made solutions in place.

It was interesting to hear the different experiences from each of the presenting companies. Brian Gallacher of **Pacific Building** believes employee ownership strengthens the business and allowed the company to weather the storm of the recent pandemic. Pacific Building opted for a 100% trust model and has seen an uplift in productivity. Customer feedback has been very positive.

Narro Associates has grown to 95 employees under employee ownership and is the largest structural and engineering consultancy in Scotland. 80% of the shareholding is in the trust with 20% of shares being available for direct investment by employees. Managing Director Ben Adams told the audience that Narro works on more than 700 projects each year from multi million pound commercial, retail, civil and housing developments as well as smaller domestic projects. Ben said that employee ownership was an ideal fit for the company; it recognises that it was the people that built the business, the employees know and understand the clients and the team were determined to invest in the long term success of the practice.

Hector Munro, MD of **Grossart Associates**, gave a very honest reflection of the company's

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employee ownership journey. The engineering consultancy became employee-owned in 2019 with 100% of the shares transferring to the employee ownership trust. The transaction was part funded by external lending from Barclays. Hector told how the move to employee ownership necessitated a complete change to the financial management within the company; there is much more transparency and a tight control on cash. Communication with the team is regular and open. Before attending the event, Hector had canvassed employees for their views and they reported that they felt more valued and informed and liked that rewards were shared out more equitably.

Following the presentations there was an opportunity to ask questions. The event convinced some attendees to explore employee ownership more closely, with several looking to start the process this year. All agreed it had been a very worthwhile session.

BE—ST
Built
Environment
—
Smarter
Transformation

Pam hits the road from CAS

Flowers and chocolates are standard fare when it comes to retirement. Pam's cake was a bonus, beautifully baked by her replacement, Carolyn Steven, new Finance and Administration Manager at **CAS**. But Pam's smile is that little bit broader due to the redemption value of her Employee Benefit Trust (EBT) shares in the business.

In the early years of Employee Ownership (EO), participation in the scheme was a moot point; reshaping the business took time and every penny was reinvested, so there were no dividends. However, with a healthy portfolio of annually recuring licence and support revenues to show for their hard work, Team CAS isn't just *taking ownership* of the business, the material benefits are starting to show.

Pam reports mixed emotions – sad to be leaving a job and a team she loves but keen to see more of her elderly mum and fast-growing granddaughters. But it won't be all work in retirement ... Pam and husband Niall love the outdoors and are, quite frankly, ridiculously active cycling and on the water. Pam did not disclose out with the company the exact value of her capital gain but she says it will cover her half of the brand new camper van she and Niall have ordered to enjoy in retirement.

Edinburgh-based Computer Application Services Ltd (CAS) has long supported niche applications including noise monitoring on Army training ranges and air crew safety training for the RAF. However, in recent years in particular, it is the expansion of use of Workpro case management software that has given the business a persona of its own. In fact, most new customers refer to the business by the product name, Workpro.

HR professionals use Workpro to manage trickier cases. Customers in Finance and Insurance manage FCA-regulated complaints via Workpro. And a wide range of Ombudsman organisations across the UK and overseas deal with heavy case load relying on Workpro as their core "production" system.

Recently appointed Employee Director, Sander Bowie, presented Pam's cheque at a lunch with several CAStodians, the term used to refer to CAS employee-owners. CEO Ken Naismith commented; *"If anyone deserves to see a return on effort, it's Pam. As part of the original EO team of 15, now 30 strong, employee-owners like Pam stuck with the business during the hard miles and can now reap some of the well-earned rewards. As the remaining and growing team starts a new leg on our journey, we hope that things run as smoothly as the fancy new campervan!"*

Pam's parting words; *"Thanks again for everything and what a wonderful company and team to work with."*

Team CAS wishes Pam and Niall well as they hit the road!

Canada gets its EOT!

After long and hard lobbying by Canada's employee ownership sector, the Budget 2023 has proposed new rules to make it easier to implement employee ownership trusts (EOT) to acquire and hold the shares in a business.

However, the legislation did not include incentives for employers or employees to participate in EOTs, which both the Canadian Employee Ownership Coalition (CEOC) and the Canadian Federation of Independent Business (CFIB) had recommended.

Jon Shell, managing director and partner with Social Capital Partners in Toronto and a member of the CEOC steering committee, said employee ownership is one of the most powerful tools to build middle-class wealth. However, he said we shouldn't expect the budget to drive significant uptake.

"Without the types of incentives we've seen be so successful in the U.S. and the U.K., this new trust will be marginal in Canada. And with so many baby boomers retiring over the next 10 years this would be a massive missed opportunity," said Shell, whose comments reflect his own views rather than the coalition's.

Owners "are making a major sacrifice" selling to an EOT, he said: they get paid out over time, as opposed to in a lump sum, and may forgo the opportunity to evaluate multiple bids.

Other than the tax incentives, the Canadian style EOT is very like the UK model. To be considered an EOT the trust must have only two purposes. First, it would hold shares of qualifying businesses for the benefit of the employee beneficiaries of the trust. Second, it would make distributions to employee beneficiaries, where reasonable, under a distribution formula that could only consider an employee's length of service, remuneration, and hours worked. Otherwise, all beneficiaries must generally be treated in a similar manner.

As in the UK, the Canadian EOT would be required to hold a controlling interest in the shares of one or more qualifying businesses. All or substantially all of an EOT's assets must be shares of qualifying businesses. A qualifying business would need to meet certain conditions, including that all or substantially all of the fair market value of its assets are attributable to assets used in an active business carried on in Canada. An EOT would not be permitted to allocate shares of qualifying businesses to individual beneficiaries.

One key difference with the UK is that Canadian legislation insists that the trust is based in Canada. UK legislation allows for offshore trusts to be used for EOTs.

The Canadian legislation takes effect on 1st January 2024.

Shore Celebrate Third Anniversary of Employee Ownership

Medical device experts **Shore Group** celebrated their 3rd birthday – which also happened to fall on St Patrick's Day leading to a very green themed event! The company's social team organised a fun-filled evening of activities around Edinburgh with the aim of earning the most (chocolate) coins to add to their pots of gold. After a lot of great craic and friendly competition, and fitting the Patrick's Day shenanigans, the green/Connacht team was victorious!

The three year anniversary triggered the election for the company's EOT. Will Davies has been elected as Shore's EO Employee Trustee Director for a second term. Will says, *"I am very honoured as the last three years have been a pleasure and a very interesting learning experience, particularly as Shore continues to go from strength to strength".*

Will Davies

ESPL sponsor Shetland Folk Festival

The **ESPL** team believe that activities and events outside of work are an important part of a good work-life balance. The company specialises in pharmaceutical regulatory affairs and operates globally from its headquarters in Shetland. ESPL actively supports not only its team members, but also the events themselves, and is pleased to be a regular sponsor of the annual Shetland Folk Festival, supporting concerts that benefit the local community, young children and people with special needs. The Festival brings together musicians for a series of concerts, gathering artists from the most far flung areas of Shetland and beyond. Concerts are organised throughout the isles, consisting of some of the best International, British and Shetland music. After a few years hiatus because of the pandemic, this year's event takes place in late April, and the team are looking forward to attending, or even participating.

Shetland Folk Festival

ESPL REGULATORY CONSULTING

Kilmac kit out school sports teams

SPORTY youngsters at Perth's **Inch View Primary School** have been kitted out by Tayside civil engineering firm **Kilmac**.

Campus support assistant Rosie Bryden welcomed a four-figure donation for shirts and equipment as the Glenearn Road school reports a surge in demand for extra-curricular activities in the wake of the pandemic.

"This is a marvellous gesture by Kilmac," said Rosie.

"After the challenges of the pandemic and the introduction of new risk assessments, our talented staff are eager to develop skills outside the classroom.

"We have had an unprecedented number of children trying out for both our football and netball teams. They really look the part now.

"We are keen to build a sustainable bank of sporting essentials and grow teams in a variety of sports.

"Kilmac have generously provided us with strips, match day hoodies, footballs and netballs. The kit will be used by football and netball teams for years to come."

Perth-based Kilmac director Athole McDonald said: "Our business has deep roots across Tayside and whenever possible we try to support good causes within the local communities of our staff.

"Kilmac was involved in the construction of Inch View Primary 12 years ago and it's great to see youngsters enjoying sport again after the trials and tribulations of the pandemic."

Kilmac would like to wish all the sports teams the best of luck for the year ahead.

Dunedin Advisory mark 3 years of EO


Michelle Anderson

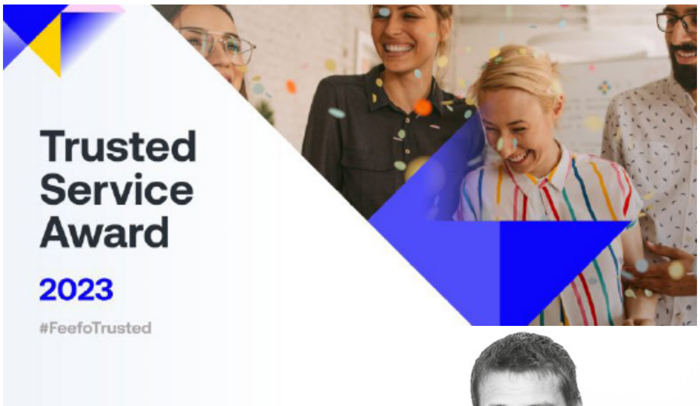
Following a team ballot Michelle Anderson has been re-elected as employee representative on the **Dunedin Advisory** Trustee board. The company has had a busy year having been successful in winning government contract work with the Accountant in Bankruptcy (following a rigorous tender process) and coming first place on Fife Business Gateway (Specialist business advisor panel in Business Development and Finance). All of the team have chosen to mainly work from home with some hybrid working however the company has retained office space in Dundee, Glasgow and Glenrothes. EOT bonuses have been paid out to all staff in the last financial year (£34k paid in pay increases and EOT bonus). The company recruited a new apprentice in January and plan to grow the team as the work continues to increase moving forward.

dunedin | advisory

Trusted Service Award for 20/20 Project Management

Project Management specialists, **20/20** have added another award to their collection with the Feefo Trusted Service Award 2023. These annual awards shine a light on businesses that demonstrate outstanding service to their customers. Only brands that met the rigorous criteria of excellence achieved Trusted Service recognition for 2023. Just those brands whose customers highly rated their experience made the grade. Feefo's Trusted Service Awards are recognised symbols of quality, which help customers click with confidence.

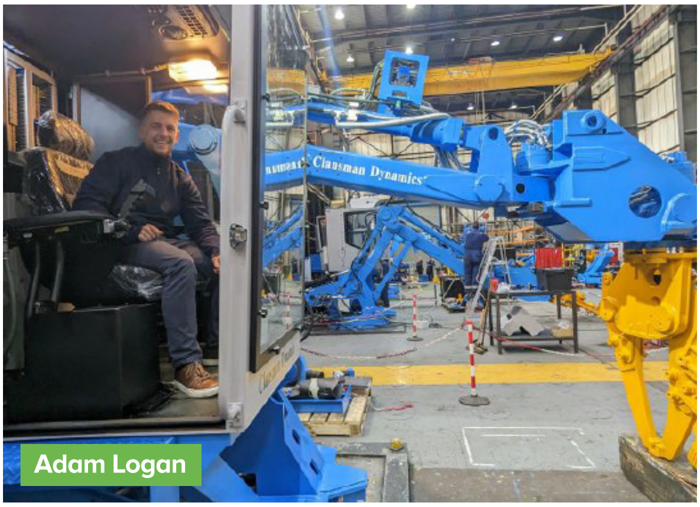
Managing Director Tom Vincent was delighted to hear of the award. He said "I am so proud of this award. Only a handful of companies were selected and it's recognition for all the hard work every employee gives within the company."




Tom Vincent

New hire for Clansman Dynamics

New employee at **Clansman**, Adam Logan got his first experience of driving one of the company's manipulators this week. The company manufactures manipulators from its East Kilbride base and exports across the globe. He can be seen here at the controls of a C620 manipulator, just before it begins its journey to Chile. Once he completes his training Adam will be managing projects and designing equipment just like this.



Adam Logan

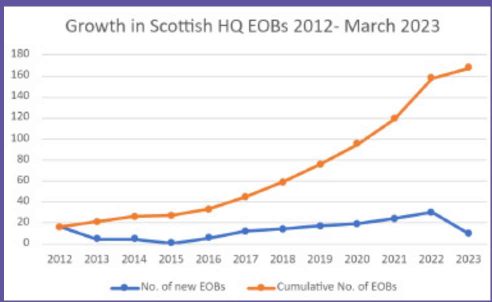
Steemies celebrate one year anniversary

Happy Anniversary to **Esteem Training**! Exactly one year since the talented, committed Steemies team transitioned to become employee owners. The company is known for its leadership, management and business improvement training to the construction industry and in 2017 started delivering Modern Apprenticeships.

In 2020 the company introduced a 4 day week resulting in everyone feeling less stressed and more productive with more time for family, charity work and personal development. It was an initiative that went down well with employees, customers and partners.

Operations Director, Martina Hofner, said the first birthday party was a great day with lots of laughs.

Employee Ownership in Scotland



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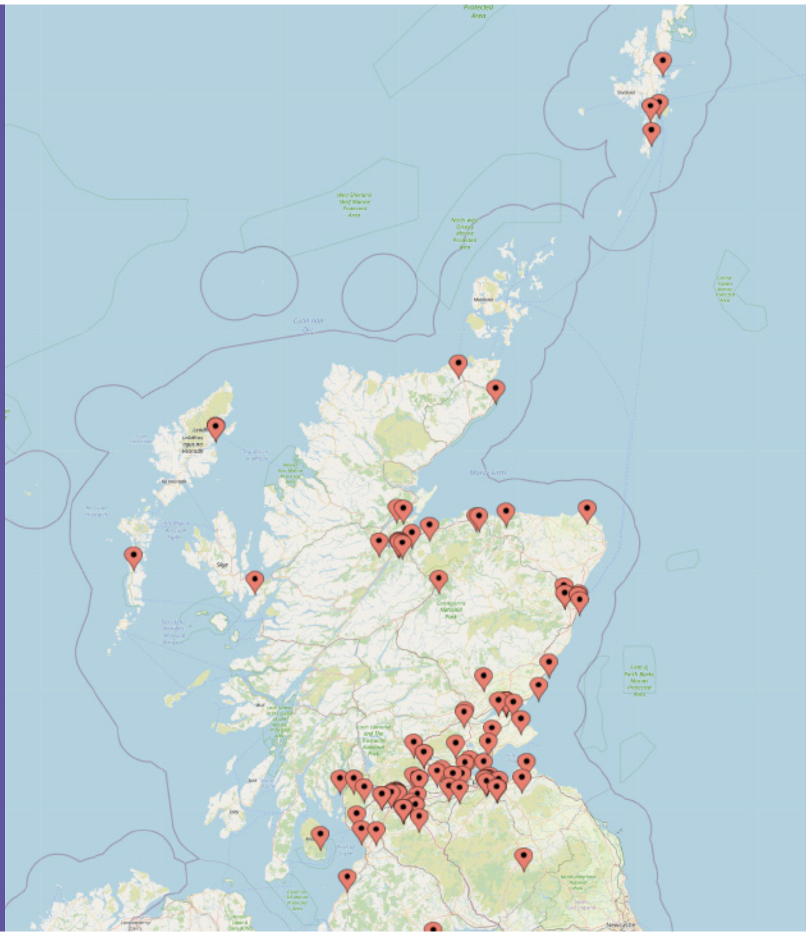

Trustee Training - 25th May 2023

This two hour session aims to equip Trustees to fulfil what is a pivotal role within the employee-owned company. The session is in two parts and is delivered over Zoom. You can join for both parts, or if you have already attended Part 1 or a previous session, you're very welcome to join only for Part 2.

Part 1: Information giving – legal duties of trustee, responsibilities, the Trust deed, the Trustee role. **9.30am – 10.30**

Part 2: Case Study – group work on a trustee dilemma in an employee-owned company. All groups work on same case study, come together to report on discussions. Everyone says this is tremendously useful. **10.30 - 11.30**

To register your interest email **carole@ownershipassociates.co.uk**