



Exploring the potential of the Employee Ownership business model

A deep dive into the economic, people, societal and environmental benefits

A WPI Economics report on research findings under the Employee Ownership (EO) Knowledge Programme, drawing on additional insights from DJS Research

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Executive summary

“Giving all workers a greater stake in the company they work for is a powerful way of aligning the interests of employees with that of the business. A worker who has a financial and personal stake in a company will take more responsibility for its success. The evidence shows that this is reflected in the economic strength of such companies: lower absenteeism, a happier workforce and [...] less staff turnover, higher profitability. These companies also tend to be more resilient in tough economic times.” **Nuttall Review, 2012**

A business is employee owned (EO) when employees hold a ‘significant and meaningful’ⁱ stake via both a financial share in the business and influence within it. To qualify as an EO business (EOB) requires at least a quarter or more of the ownership to be held by or on behalf of the employees and for there to be channels in place for them to exercise influence on the running of the firm.ⁱⁱ The 2012 Nuttall Reviewⁱⁱⁱ quoted above found EOBs supported better business performance, stronger economic resilience, and greater employee engagement and commitment, which in turn drives innovation, enhanced employee wellbeing and reduced absenteeism. The Ownership Dividend report, published in 2018, drew similar conclusions: *‘EO offers a meaningful response to our many fundamental economic challenges, and does so by starting with a focus on the value and experience of the individual at work. It builds outwards ... [to]... the creation of dynamic, successful firms that, together, drive a robust – and genuinely inclusive – national economy.’*^{iv}

It is a business model that is gathering pace in its adoption. The annual growth in the number of EOBs was 16% during 2011-2022, compared with 2.2% growth in the total number of active companies in the UK over the same period. Following the introduction of Employee Ownership Trusts (EOTs) in the Finance Act 2014, there has been a surge in EOTs with annual growth of 67% during 2014-2022. While EOBs have expanded rapidly, the model currently represents less than 0.1% of the total number of firms in the economy. Beneath this headline number though, EOBs are making an outsized contribution.

Our research findings indicate that EOBs currently contribute **£12-£15 billion in direct gross value added (GVA)**, with a total GVA contribution of **£32-£41 billion** (direct, indirect and induced), from around 1,650 businesses. EOBs employ around 0.7% of the total employees in the UK, directly contributing around 0.8% to national output (in terms of GVA), and overall (through direct and indirect channels) drive around 1.7% to 2.1% of economic activity. Our analysis shows that the EOB model is delivering growth and investment in good jobs. It has the potential to contribute an additional **£22-£27 billion in direct GVA**, with a total **additional GVA contribution of £61-£74 billion** (direct, indirect and induced) to the economy by 2030 from current levels, if the stellar growth in the number of businesses continues.

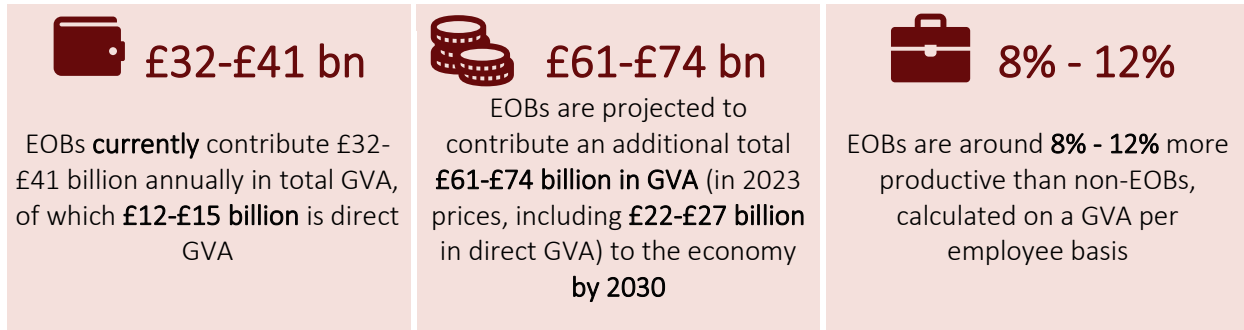
Our survey indicates that compared with non-EOBs, **EOBs are:**

- **>50%** more likely to be expanding their workforce.
- **>70%** less likely to have a high turnover of employees.
- **>25%** more likely to see their profits increase.
- **>50%** more likely to have increased investment in research and development (R&D).
- **>33%** more likely to be planning to increase investment in their business next year.

These benefits go beyond the businesses themselves. From an employee wellbeing perspective, data from our survey indicates that those working in EOBs not only benefit from greater influence within their businesses, but also greater supported access to private healthcare, to mental health resources, increased flexible working (including remote), to a wider set of employee benefits, enhanced access to critical business information and stronger employee voice. This maps through to higher job satisfaction, with 83% of those surveyed reporting increased employee engagement and motivation since adopting an EO model and 73% reporting increased job satisfaction since adopting an EO model (just 3% reported a decrease).

Those last two benefits are important ones: the combination of greater influence within their businesses and access to critical information on business performance – including new business, revenue, senior decision-making, investments, and overheads – means that employees are also gaining additional skills and confidence through higher levels of participation, and that the businesses themselves are building knowledge resilience into their organisation.

Crucially, this business model - and the people benefits it brings - is helping to drive higher productivity in the economy: our analysis estimates that **EOBs are around 8% - 12% more productive than non-EOBs**, calculated on a GVA per employee basis (the range in the productivity estimates reflects our rigorous process in estimating the number of employees in EOBs, which is not gathered by any national agency). This suggests the EO model is to be taken seriously, not least given the UK's sluggish productivity growth in recent years and the importance of productivity in driving economic growth and improving living standards.



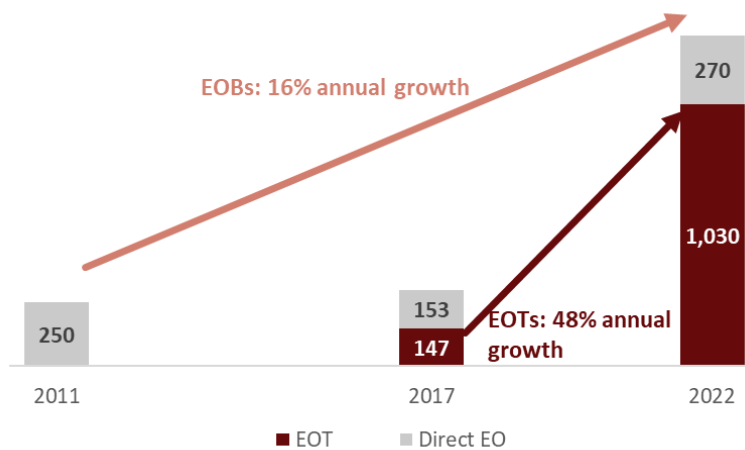
From a societal perspective, our survey and analysis found evidence of EOBs having higher minimum annual wages than non-EOBs, by around £2,900. The survey also indicates EOBs are more than twice as likely than non-EOBs to have fair wage-related accreditations in place (37% v. 15%); EOBs are considerably more likely to make charitable donations than non-EOBs (86% v. 55%); and are also more than 75% more likely to have a Net Zero or carbon management strategy in place (54% v. 30%), indicating an enhanced commitment to tackling emissions.

Overall, WPI Economics' modelling and analysis indicates that EOBs are playing an increasingly important role in driving economic growth and productivity, supporting the development of a resilient and motivated workforce, and in providing many wider benefits to local communities and society. The analysis provides an evidence base for policymakers and business leaders to draw on when considering ways to drive sustainable growth, employment and productivity, and is a platform from which to build better understanding of the important contributions of EOBs.

Chapter one – context:

Over the last decade, the number of EOBs has grown dramatically. There were around 250 EOBs operating in the UK in 2011, compared to closer to 1,650 today. From 2011-2022, the annual growth of EOBs was 16%, compared to close to 2% growth in the total number of active companies in the UK during the same period.

Figure 1: Number of employee owned businesses in the UK



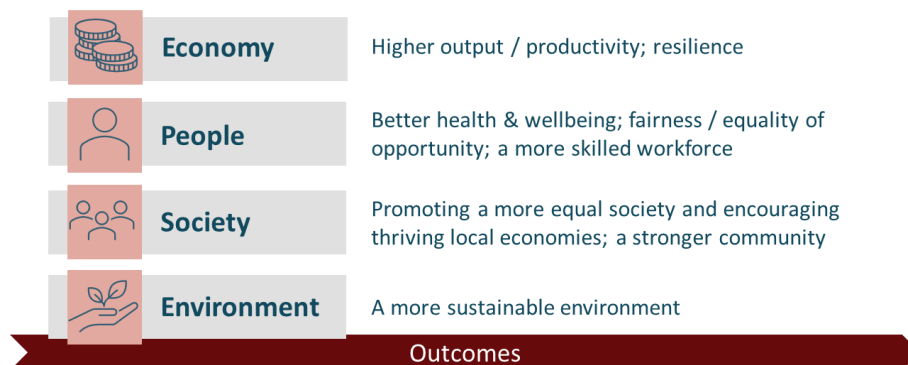
Sources: various years' statistics publicized by Employee Ownership Association (EOA); Department for Business, Innovation & Skills^v

This growth has been driven by a surge in Employee Ownership Trusts (EOTs), following the introduction of this model in the Finance Act 2014. EOBs have been attracting considerable attention in discussions about growth and productivity given the association with stronger financial performance, employee productivity and wellbeing, and a positive impact on the wider society and environment. This potential was explored in the

Nuttall Review (2012) and cemented in The Ownership Dividend (2018),^{vi} with both seeing the model as a way to align the interests of a business and its employees.

However, despite rapid growth and an existing understanding of their benefits to the economy, employees and wider society, EOBs remain an under-recognised segment. This report was commissioned as part of the EO Knowledge Programme to explore **if and how** EOBs today are driving positive impacts in the economy, workforce, wider society, and environment, and how this affects growth and productivity. A full theory of change is included in Annex One. The report is intended to contribute to discussions on the future expansion of the EOB model and the range of benefits it can bring to the UK economy.

Figure 2: Benefits delivered by EOBs



Drawing on new economic modelling, YouGov survey data, insights from in-depth interviews and existing literature, this report delves into:

- the data behind what may make EOBs successful;
- if and how they deliver the host of benefits the model is associated with; and
- how the outcomes and impacts can be quantified.

Methodology overview:

The analysis principally draws on a survey of 152 employee owned businesses (which comprised approximately 9% of the total number of EOBs in the UK and aimed to broadly reflect the composition of the total EOB population in terms of size, sector, geography and type of employee ownership) and a representative sample of 285 non-employee owned businesses (non-EOBs). The survey sought to capture information on financial performance and economic impacts; employee impacts; and social, community and environmental impacts. The design of the survey was supported by CBI Economics (detail on the survey design can be found in Annex Two). Building and drawing on the survey data, we have undertaken econometric modelling, GVA modelling, and wider analysis (detail on the analytical methods is also described in Annex Two). The analysis is strengthened by including insights from 65 interviews with senior decision makers and 27 with employee owners, captured by DJS Research, conducted between June and August 2023.

Chapter two – EOBs and the economy

Key findings:







- The total GVA footprint of EOBs today is around **£32-£41 billion** (1.7%-2.1% of the overall economy), of which **£12-£15 billion** is direct GVA.
- The total employment contribution of EOBs to the economy is around 541,300 jobs.
- The additional economic contribution (direct, indirect and induced GVA) could be **£61-£74 billion by 2030, including £22-£27 billion in direct GVA**
- Our analysis estimates that **EOBs are around 8% - 12% more productive than non-EOBs.**
- EOBs also have strong staff retention, fewer redundancies and were less likely to be planning to reduce investment in the year ahead than non-EOBs.

Current picture:

EOBs have expanded rapidly yet currently represent less than 0.1% of the total number of firms in the UK economy. Beneath this headline number, EOBs are making a disproportionate contribution, both in terms of the number of employees (0.7% of the overall economy) and to national output in direct GVA terms (0.8%).

Figure 3: Economic impact of EOBs

Headline results

	Number of EOBs	c. 1,650 (<0.1% of overall economy)
	Employee numbers	200,000-240,000 (around 0.7% of overall economy)
	Combined annual turnover	£39-£46 billion
	Annual direct Gross Value Added (GVA)	£12-£15 billion (around 0.8% of overall economy)
	Annual total GVA (direct + indirect+ induced)	£32-£41 billion (1.7%-2.1% of overall economy)
	Direct GVA per employee	£ 58,600 - £60,800

Our modelling (see Annex Two for methodology) estimates that overall, EOBs had a combined turnover of about £39-£46 billion over the past year. We estimate that this translates to **£12-£15 billion** of direct GVA.

When factoring in the knock-on ('indirect' and 'induced') impacts of

EOBs – for example, the activity they support through supply chains and the spending of their employees – their total GVA footprint is around **£32-£41 billion** (1.7%-2.1% of the overall economy). The prevalence of EOBs across sectors differs from the economy-wide average. Currently, the top five sectors for EOBs are professional services (37%), information and communication (15%), wholesale and retail trade (14%), manufacturing (9%) and construction (7%). With the significant contribution of the John Lewis Partnership, about 42% of employees are in the wholesale and retail trade sector, followed by professional services (26%).

Figure 4: Share of companies by industry among EOBs

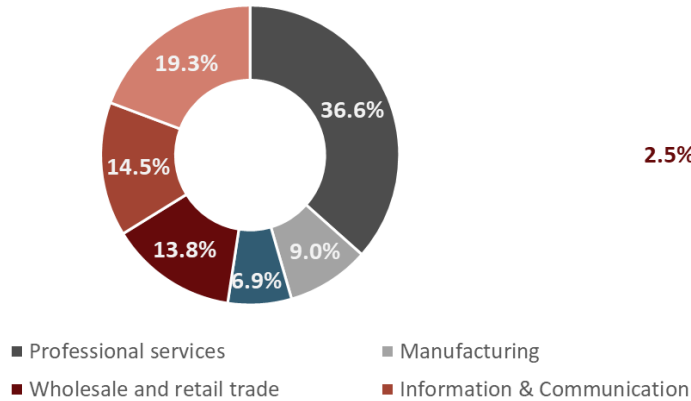


Figure 5: Share of employees by industry among EOBs

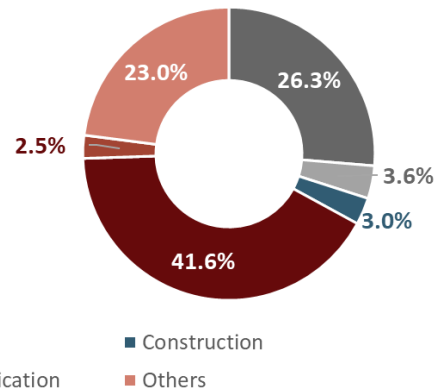
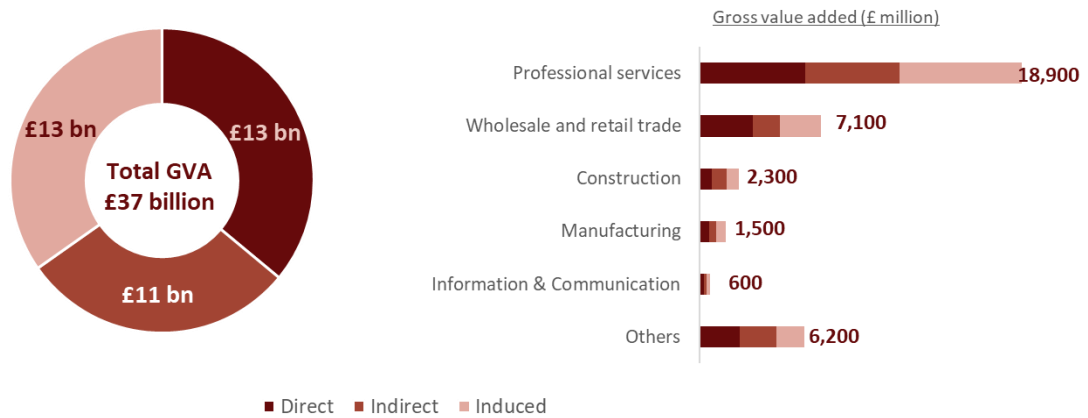


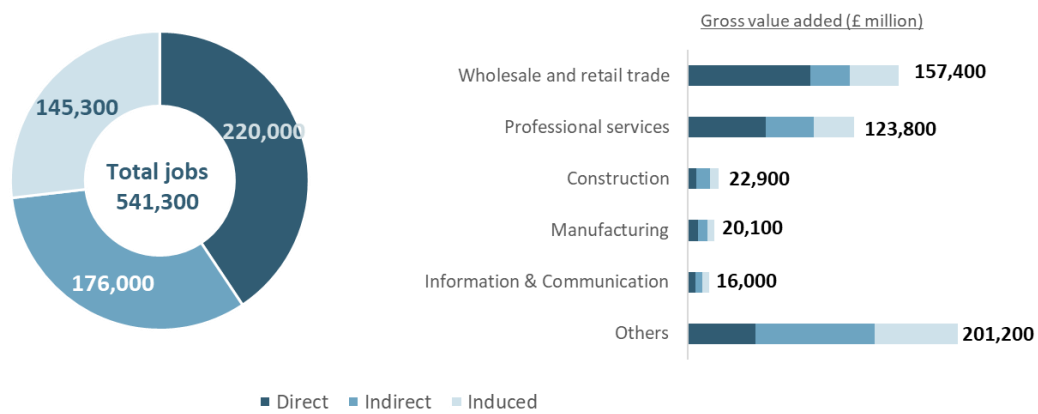
Figure 6: GVA contributions of EOBs



Note: numbers may not add up due to rounding; Professional services sector includes professional, scientific & technical activities & administrative and support service activities. Figures presented in the graph represent the central scenario results.

However, given the diverse nature of different industries, the economic contribution of each sector is not directly proportional to the number of people employed. While our median estimate of the total annual economic contribution of EOBs is around £37 billion, the professional services sector, a traditionally high value-added industry that includes professional, scientific, and technical activities, and administrative and support services activities, contributes around £18.9 billion annually, followed by the wholesale and retail sector at £7 billion, and the construction sector at £2.3 billion. Meanwhile, in the ‘other industry’ category, the financial services and education sectors were more prominent when compared with other sectors.

Figure 7: Employment contributions of EOBs



Note: numbers may not add up due to rounding; Professional services sector includes professional, scientific & technical activities & administrative and support service activities. Figures presented in the graph represent the central scenario results.

Turning to job creation by EOBs (direct impact), their suppliers (indirect impact) and the spending of their employees (induced impact), the total employment contribution of EOBs to the economy is around 541,300 jobs. The wholesale and retail trade sector is the largest contributor here with 157,400 jobs, of which John Lewis Partnership accounts for around half, followed by professional services with around 123,800 jobs and construction with 22,900 jobs. In the ‘other industry’ category, the financial services and human health and social work sectors were the two largest employers.

Looking to the future, if growth in the numbers of EOBs were to continue at the rate seen over the last decade, EOBs would contribute an additional **£23-£27 billion in direct GVA by 2030** from current levels. The total additional economic contribution (direct + indirect + induced GVA) could be **£61-£74 billion by 2030 in 2023 prices** (see Annex Two for methodology).

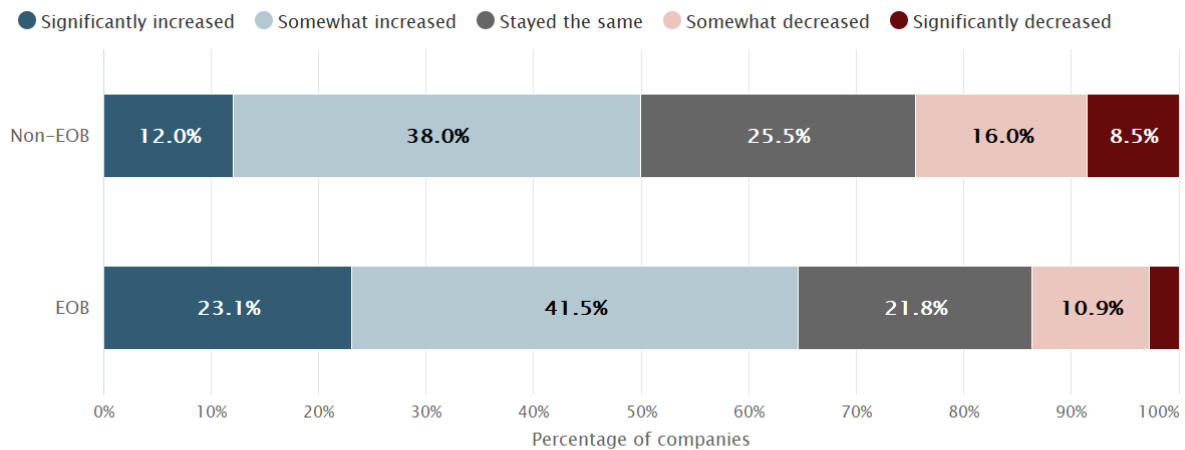
EOB performance

One aspect we sought to explore through the survey data was the impact of the EO model on recent performance. We found that, on average, EOBs have been performing better than non-EOBs. Indeed, 65% of EOBs saw their gross operating profits grow over the last five years compared to 50% of non-EOBs. The greater profitability of EOBs is also consistent across all firm sizes.¹ EOBs were also less likely to see their profits decline over the last five years (14% vs 25% for non-EOBs), which given the challenges faced in the economy over that period, including the pandemic, implies considerable resilience in the EOB model.

There is an argument that some of this resilience could reflect that already higher-performing companies may be more likely to adopt the EO model. However, the survey also found that a majority of EOBs reported profits increasing since becoming EO, lending weight to the argument that the model itself is playing an important role in driving company performance.

¹ Firm sizes are defined as follows: Large firms have more than 250 employees, medium-sized firms have 50-249 employees and small firms have less than 50 employees.

Figure 8: Gross operating profits in the last five years



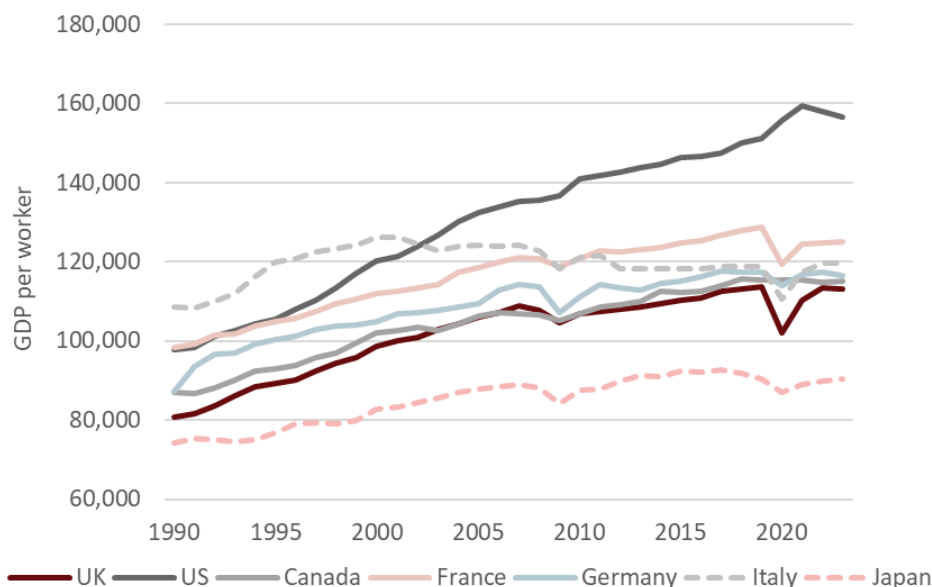
Source: EO Knowledge Programme Survey

EOB productivity impacts

The seemingly stronger performance of EOBs relative to non-EOBs raises the question of whether EOBs are also more productive. Labour productivity, often simply referred to as productivity, refers to the economic value generated for a given amount of labour input. A standard measure of productivity is output per hour worked or output per job. Productivity is often measured at a national level, but can also be measured for individual sectors, or for individual firms.

Figure 9: Labour productivity in G7 countries

In 2022 international dollars, converted using Purchasing Power Parities



Source: Conference Board

Sluggish productivity growth has plagued the UK since the 2008 global financial crisis. Although most advanced economies have seen slow productivity growth, the UK's economy has particularly underperformed its peers, as evidenced by its slow recovery compared to other G7 nations. Data from the Conference Board^{vii} shows that the GDP produced by each British worker is below their

counterparts in other advanced economies such as the US, Germany, France and Italy. Using 2022 international prices, the UK's annual GDP per worker in 2023 is 28% lower than the US and 9.5% lower than France. This is a trend that continues: the latest ONS data shows that output per job in Q1 2023 was 1% lower than the same quarter a year earlier, the weakest annual growth since Q3 2009, excluding the coronavirus pandemic^{viii}.

Raising productivity is seen as one of the keys to driving economic growth and improving living standards. One of the key areas of interest for this research is whether there is a discernible productivity impact of adopting an EOB model. To explore this, we use the output per job definition of productivity, which we calculate as the total direct GVA generated by UK EOBs, i.e. the volume of goods and services produced by EOBs, divided by the total number of employees in the sector during the same year.

Building on the survey findings and using different plausible assumptions for the numbers of EO firms in the economy and their distribution, we found that **EOBs generally have around 8% to 12% higher labour productivity (in terms of direct GVA generated per person employed) than non-EOBs**. This provides evidence to suggest that the survey findings set out in later chapters, showing higher employee engagement, more resources for employee training, investment in wellbeing and higher job satisfaction in EOBs, translate into higher labour productivity and real economic benefits. The positive non-economic impacts of EOBs are explored in more detail in later chapters.

Table 1: Direct gross value added per employee between EOBs and non-EOBs

All industries	Direct GVA/employment (£)			Additional productivity of EOBs
	EOBs	Non-EOBs	Difference	
Higher case scenario	60,800	54,200	6,600	12%
Lower case scenario	58,600	54,200	4,400	8%

Explainer – the methodology used to derive our productivity estimates

We estimate the EO productivity additionality by looking at the difference in the GVA generated per person employed in an EOB and a non-EOB. The GVA per employment ratio, as a measure of labour productivity, for EOBs is derived directly from the direct GVA and total employment estimates generated through our GVA analysis (above), while for non-EOBs, we first derive the national figure using the 'Approximate GVA' data and employment data from the ONS Workforce Jobs dataset. The ratio of GVA to employment for non-EOBs is derived by subtracting our estimated EOB figures from the national data. Additionality is the difference between the ratios for EOBs and non-EOBs (see Annex Two for a more detailed methodology).

The productivity estimate is driven partly from the estimates for the numbers of employees working in EOBs in the UK. Data on the numbers of EOBs is not gathered by any national agency. We have undertaken a rigorous process to estimate those numbers and from that create a verifiable estimate of numbers of employees. The range in the productivity estimates reflects this process. By assuming a range of plausible estimates for the numbers of employees in EOBs, this impacts the turnover per employee ratio, and hence the direct GVA per employee ratio in each sector, and therefore results in a range of productivity figures. Both our higher and lower-case estimates show the significant added value by EOBs in our economy.

As one of the businesses DJS Research spoke to said:

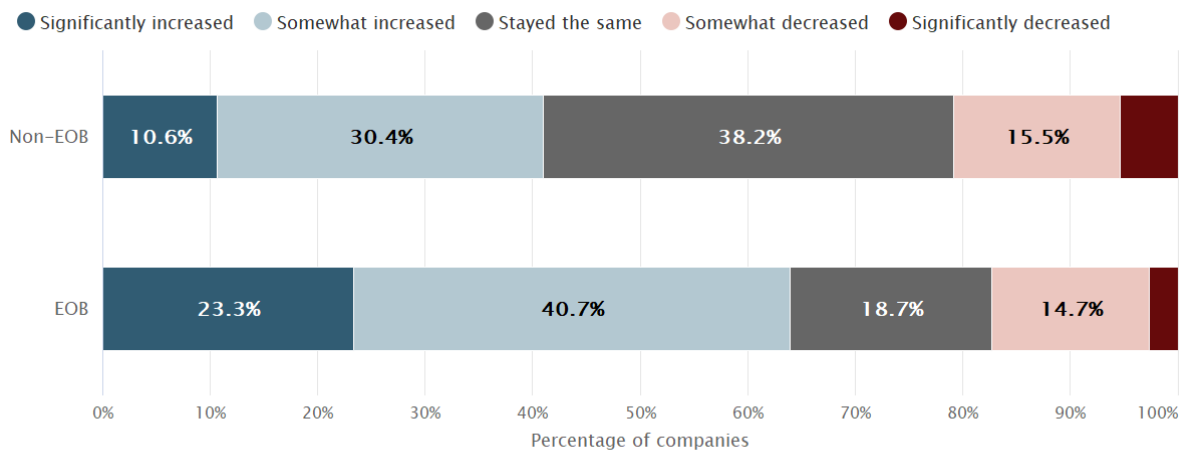
“The business has grown and evolved consistently, and this is because of the constant focus on what’s new and what’s next. EO allows everyone to put forward their ideas and the direct ownership model means that they are seeing the financial benefit of the business growing. Productivity is higher because of EO. The business has been able to be resilient in trying times, and employees have come together to overcome these challenges and they realise that part of the business is theirs to defend.”

Decision-maker², manufacturing sector

EOB recruitment and retention

Alongside productivity benefits, we also observed EOBs playing a significant role in supporting employment. The survey indicates that 64% of EOBs saw their employee headcount increase in the last five years, compared to 41% of non-EOBs, with a majority of all types of EOBs reporting increased headcount since becoming an EOB. The EOBs headcount picture is more positive than for non-EOBs across all firm sizes, indicating that it is not being driven solely by small businesses expanding, and instead reflects a trend of expansion across the EOB.

Figure 10: Headcount in the last five years



Source: EO Knowledge Programme Survey

Combined with a greater degree of staff retention - only 7% of EOBs have an annual staff turnover rate of 20%+ compared to 25% of non-EOBs - a picture emerges of employee number growth and longer retention, especially in small and medium-sized businesses where the difference in retention rates between EOBs and non-EOBs is largest. Better retention, likely in part reflecting greater employee satisfaction, benefits companies through lower costs of recruitment, training and upskilling of new employees. Improved retention also helps to support employment in the communities in which EOBs are situated.

Employees in EOBs are also less likely to be made redundant, helping to provide greater income security to staff: at EOBs, just 4% of the workforce was made redundant in the last three years compared to 20% at non-EOBs. This gap is mostly driven by small businesses, where 4% of employees at EOBs were made redundant in the last three years compared to 33% at non-EOBs. Medium and

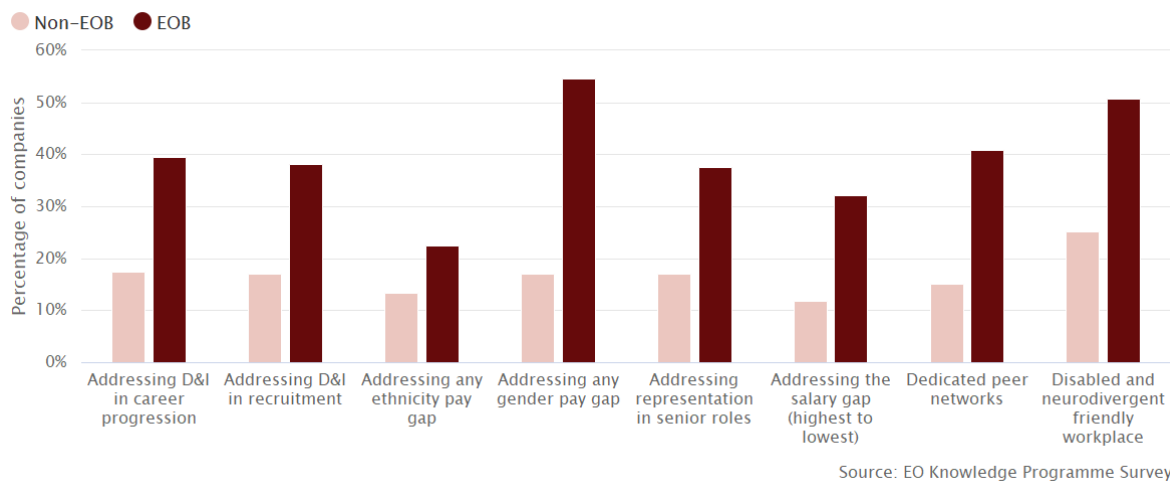
² Although all employees have a role in decision-making in EOBs, decision-maker here refers to a person who has specific authority in the business in relation to the area under discussion or to EOB-related matters.

large EOBs also have lower redundancy rates than non-EOBs over the last three years, but the differences are smaller.

This is an important consideration given research^{ix} suggests that being made redundant can have a detrimental effect on the mental health and emotional wellbeing of those who become unemployed, particularly for those with fewer financial resources. The impact goes beyond those who are made redundant, as remaining employees can suffer from lower morale and higher levels of anger and stress^x. One US study found that after a corporate redundancy round, 74% of the remaining employees said their own productivity had decreased^{xi}. This adds another perspective to the raised productivity of EOBs.

The survey data also points to more diverse hiring and an enhanced focus on addressing diversity pay gaps across all business sizes. The benefits of this will not only flow to individuals, but also into the businesses^{xii} and society more widely.^{xiii} At a whole economy level, EOBs are supporting a more diverse, inclusive, representative workforce.

Figure 11: Diversity and inclusion (D&I) policies



One of the EOBs interviewed by DJS Research noted that this is then reinforced within the business through active staff engagement, including via equality and diversity-focused groups:

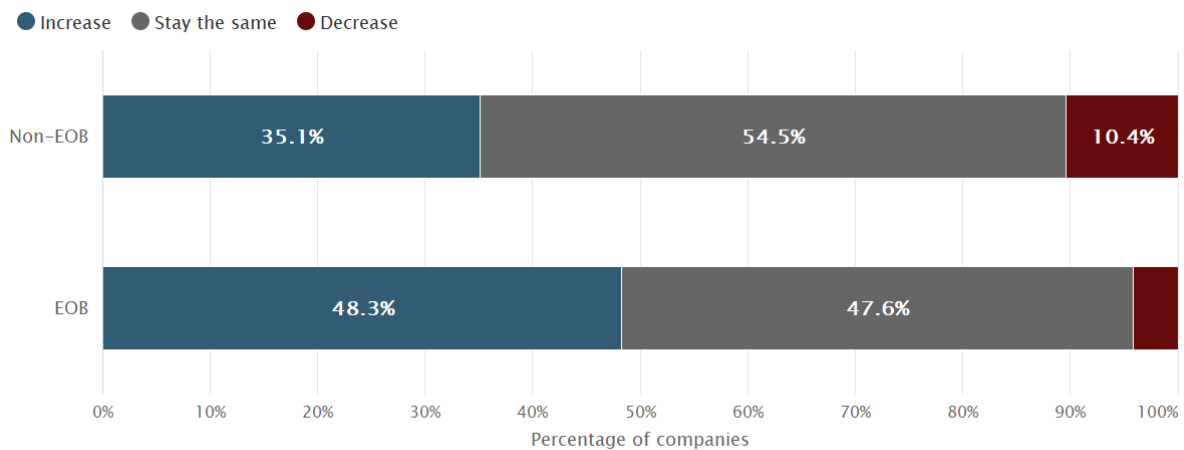
“Ensuring employees are actively engaged in the business, opening up channels for them to take as active a role as they choose... in working groups such as sustainability, B Corp Status, our EDI group (which is very active), and the social side... Almost everyone in the business has a secondary role in one or other of these groups. I think that's trying to embed the thinking that this is their business, so they need to be involved.”

Decision-maker, wholesale and retail sector

Investment

One of the hypotheses this research set out to test was whether EOBs are more optimistic about their financial future and more likely to be committed to investing in future growth. The data showed that of the 152 EOBs surveyed, almost half (48%) envisaged increasing investment next year, with only 4% likely to decrease future investment, compared to 10% of non-EOBs. Small and medium EOBs were more likely than their non-EOB counterparts to expect increased investment in the following year – which in turn will help to support the local economies they are situated in – but large EOBs (33%) were less optimistic about future investment than large non-EOBs (40%).

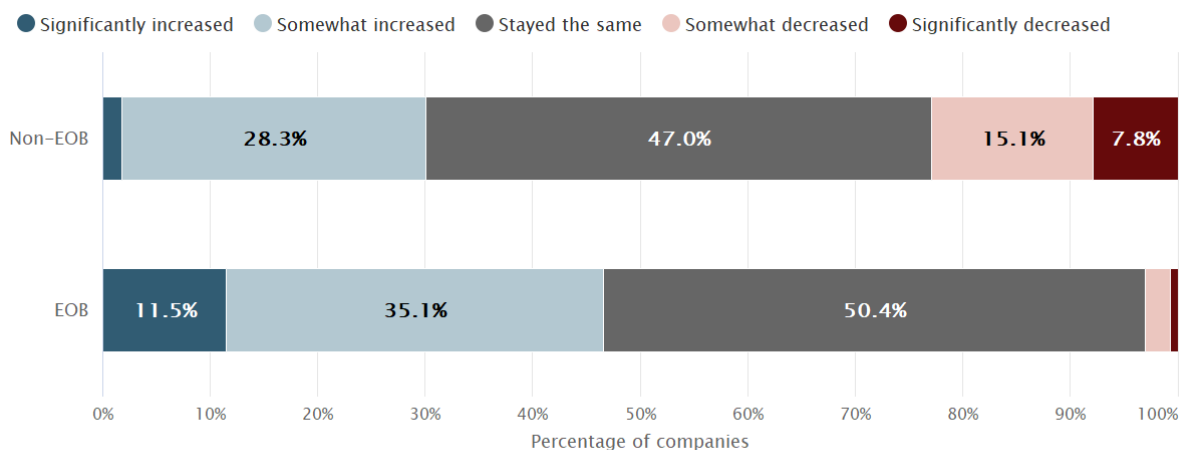
Figure 12: Expected level of investment next year



Source: EO Knowledge Programme Survey

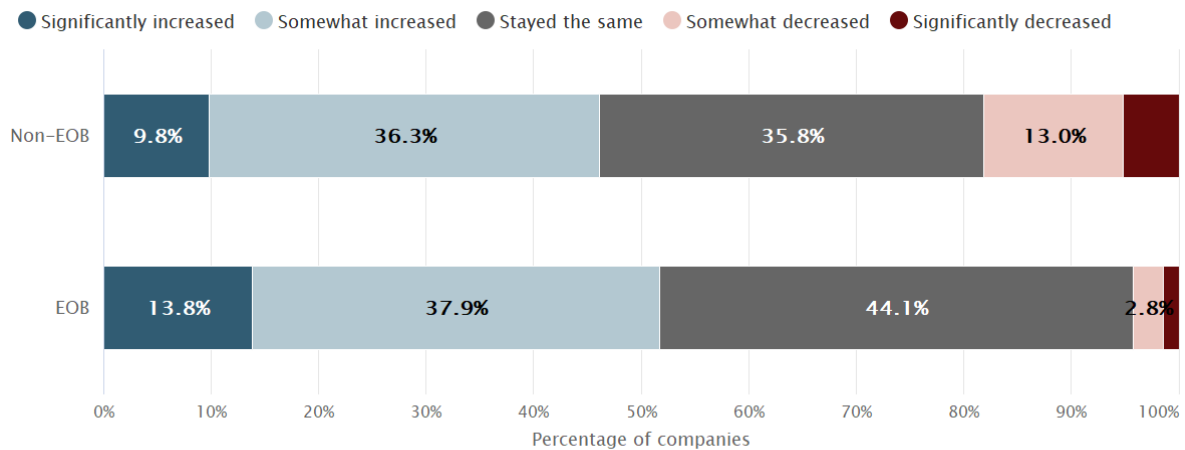
Possibly because EOBs have proved resilient in turbulent times, only 3% of EOBs surveyed saw a decrease in R&D expenditure over the last five years compared to 23% of non-EOBs, which was consistent across firm size. In addition, only 4% of EOBs surveyed saw capital expenditure decrease in the last five years, compared to 18% of non-EOBs. A total of 43% of EOBs saw R&D expenditure increase since transitioning to EO.

Figure 13: R&D expenditure in the last five years



Source: EO Knowledge Programme Survey

Figure 14: Capital expenditure in the last five years



Source: EO Knowledge Programme Survey

“I think people feel more invested in the business... doing the best they can, but now perhaps actively seeking out new opportunities, new jobs, new clients, new ways of doing things. Even sparking a bit more innovation. All these things seem quite subtle, but perhaps that is because we were well-aligned with the EO approach and ways of doing things, but it still has definitely made a difference.”

Decision-maker, professional services sector

There is a strong, well-established link between investment in R&D and productivity,^{xiv} so the apparent greater tendency to invest among EOBs may be one of the reasons our analysis finds EOBs to be more productive than non-EOBs. Taken together, the GVA analysis, employment figures, performance data, productivity benefits and investment intentions indicate that the future growth of the EOB model could bring with it significant wider economic benefits. The next section explores in more detail the impact of the model on employee motivation, wellbeing, and job satisfaction, demonstrating the link with EOB performance.

Chapter three – EOBs and people-centred benefits

Key findings:

- Our analysis indicates **dividends/bonuses** are more than twice as large in EOBs than non-EOBs.
- EOBs are more likely than non-EOBs to provide support across all surveyed **cost of living support** policies – regardless of the size of the business.
- EOBs tend to have a higher minimum annual wage than non-EOBs, by around **£2,900**.
- Within 78% of EOBs surveyed, employees can influence strategic decisions monthly, compared to 59% of non-EOBs.
- 83% of those surveyed reported increased employee engagement and motivation since adopting an EO model and **73% reported increased job satisfaction** since adopting an EO model.

EOBs and good work

As the Taylor Review noted: *“The best way to achieve better work is not national regulation but responsible corporate governance, good management and strong employment relations within the organisation, which is why it is important that companies are seen to take good work seriously and are open about their practices and that all workers are able to be engaged and heard.”^{xv}*

The EOB model is designed to seek to ensure that employee benefits are significant and broad, spanning the areas of corporate governance, management and employee relations identified in the Taylor Review, and more:

Figure 15: An overview of the broader benefits of the model



Sharing profit: employee financial reward and support

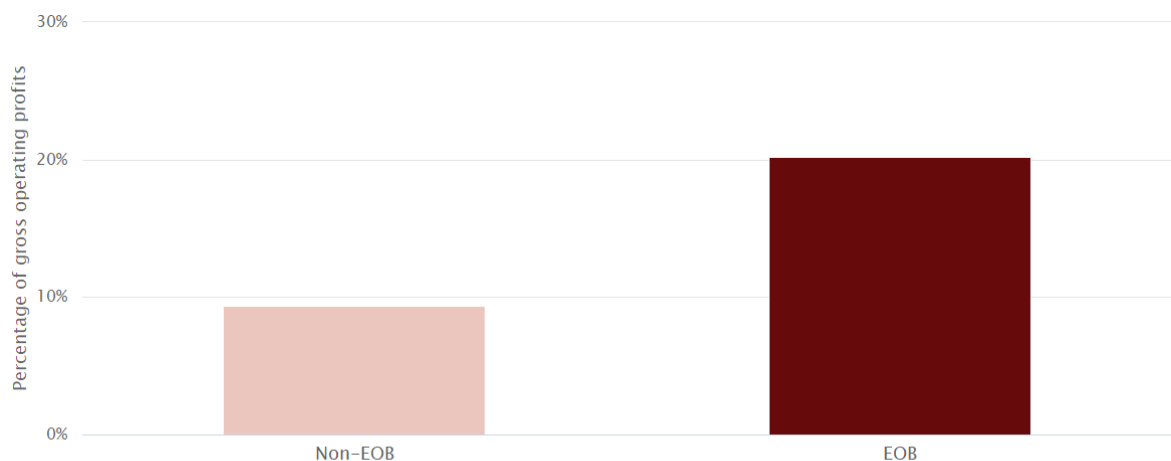
Profit share (or bonus) is often highlighted as a clear, tangible benefit of employee ownership: the in-depth interviews conducted by DJS Research noted that those that have been able to share profits, have done so generously, often with real impact on the engagement and effort of employees.

“As owners, our incomes are pretty much based on our performance. And I think at that point once [employees] realise that and register that there is a bonus and incentives, the performance and engagement from staff has increased massively. At the end of the day, we’re technically almost working for ourselves and if you take pride in your own work then I think being employee owned is really beneficial.”

Employee representative, manufacturing sector

Our survey results support this assessment, with dividends/bonuses more than twice as large in EOBs than non-EOBs.

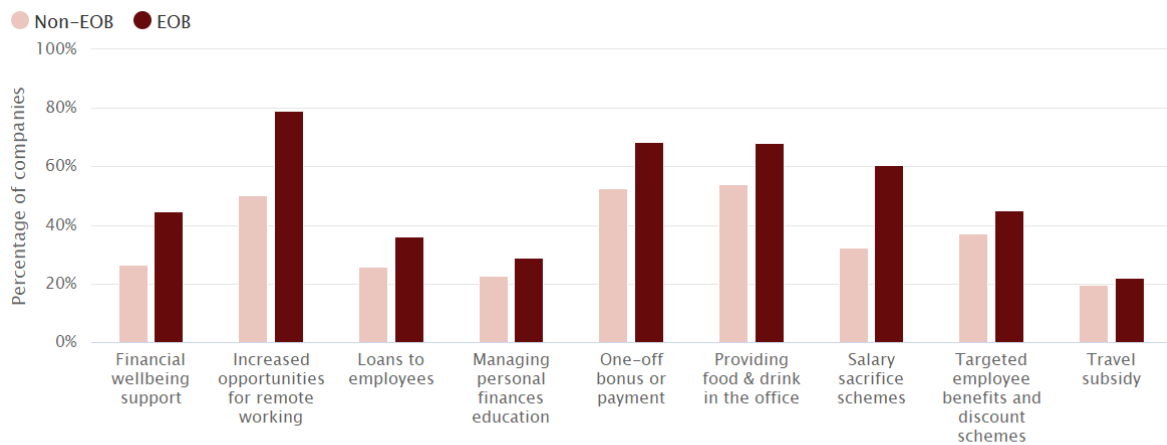
Figure 16: Average employee dividends/bonuses as a % of gross operating profits



Source: EO Knowledge Programme Survey

However, the financial advantages to employees of working in an EOB are not limited to just bonuses. The survey finds that EOBs are more likely than non-EOBs to provide support across all surveyed cost of living support policies – regardless of the size of the business with large (statistically significant) differences in terms of financial wellbeing support, increased opportunities for remote working, one-off bonus payments and salary sacrifice schemes.

Figure 17: Cost of living support policies

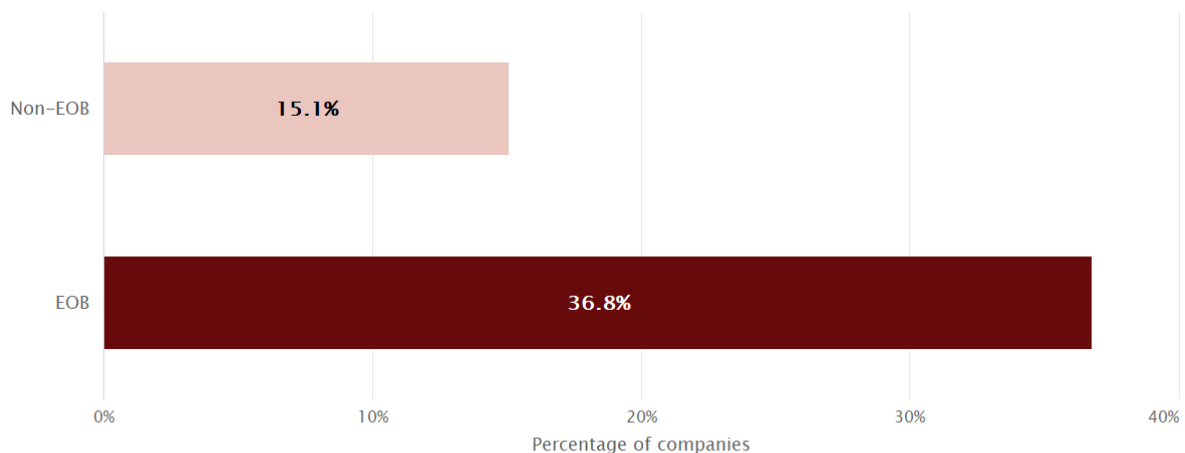


Source: EO Knowledge Programme Survey

These findings are particularly important in the current challenging cost of living context and highlight the financial resilience that EOBs can provide employees and the economy when times are hard.

Moreover, our survey and analysis found evidence of EOBs having higher minimum wages than non-EOBs. Respondents were asked for the current salary/annual wage of the company's lowest paid employees. Based on the responses, our econometric modelling suggests that, after controlling for firm size, EOBs tend to have a higher minimum annual wage than non-EOBs, by around £2,900. Empirical evidence from the UK and US labour markets suggests that minimum wage increases reduce wage inequality by raising the wages of low-paid workers relative to those of high-paid workers^{xvi}. Studies also show that while the introduction of a minimum wage has the most significant impact on the wages of the lowest-paid workers, the positive effects extend to the lowest 30th percentile of workers when ranked by wage level^{xvii}. EOBs (37%) are also more likely to hold accreditation for “fair pay and reward”, e.g. Living Wage Employer, than non-EOBs (15%):

Figure 18: Accreditation for fair pay and reward



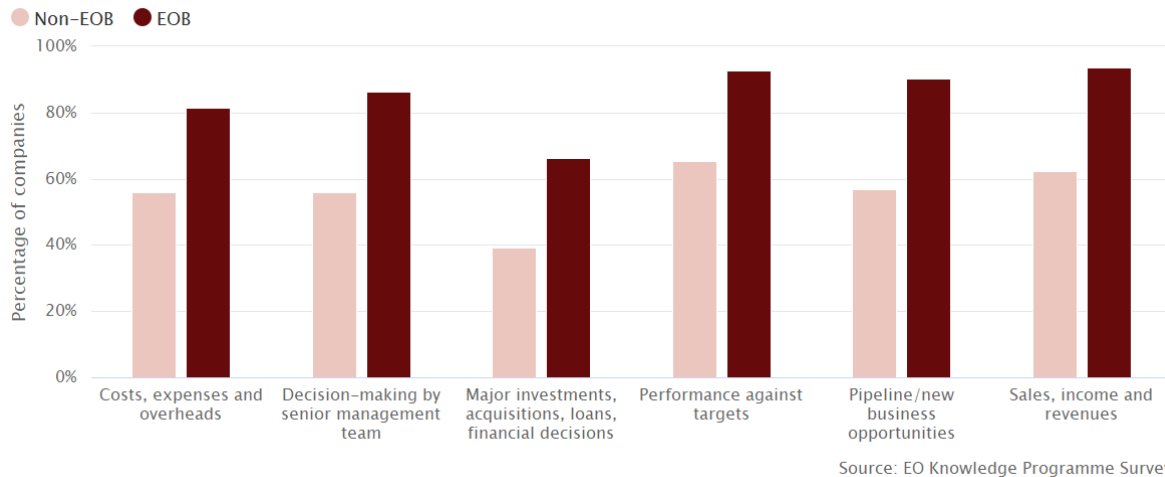
Source: EO Knowledge Programme Survey

Sharing information: supporting financial literacy

Openness and engagement on business information are a critical part of the picture in understanding why the EO business model appears to bring added benefits. The survey data indicates that employees in EOBs are much more likely to have business information shared with them than those in

non-EOBs, across every category surveyed (costs, decision-making by the senior team, investments, performance, new business and sales) and across all business sizes – helping to boost business acumen and skills development among staff.

Figure 19: Critical business information that employees are regularly informed about



Sharing information was also the most widely identified impactful EOB practice mentioned in the in-depth interviews conducted by DJS Research. Done correctly, sharing information more widely can improve engagement and motivation and help to make employees feel and act like owners, and when extended to a two-way dialogue it can also help to improve decision-making and strategy.

There is a widespread consensus that transparent communications about company finances and performance can be highly impactful in helping employees to think and act like owners (and understand the link between performance and reward). Interviews conducted by DJS Research also tended to endorse this view:

“It’s been motivating for the team, changing people’s mindsets to be a bit more business minded. Everyone is more focused on the finances. The extra responsibility has been a motivational factor.”

Decision-maker, professional services sector

“This is what makes people feel like owners. There’s nothing hidden. People know that information’s being shared with them, and they understand how the business operates and the direction it is going in.”

Decision-maker, professional services sector

Sharing influence: making a strategic difference

Previous research has found that a degree of control or autonomy at work is positively associated with job satisfaction.^{xviii} Harnessing the employee voice – and its contribution to the business – was also identified in DJS Research’s interviews as being at the heart of making employee ownership effective. Done correctly, the key benefits of employee voice practices include increased employee engagement, job satisfaction and motivation, as staff recognise that they have an influence and are helping to inform the future direction and strategy of the business. Taken together, control and voice support the ability of EOBs to create not just jobs, but good work. This theory is supported by the

survey findings, which explored the range of mechanisms in place to facilitate influence and engagement and found that for 78% of EOBs surveyed, employees can influence strategic decisions at least monthly, compared to 59% of non-EOBs. Further, 83% of those surveyed reported increased employee engagement and motivation since adopting an EO model and 73% reported increased job satisfaction since adopting an EO model (just 3% reported a decrease).

Decision-making and innovation can also benefit from gathering views and ideas from around the business:

“I keep going back to this but it's being empowered as employees to be a bigger part of the business. In other businesses you might feel a little low on the pecking order and someone else gives you tasks and decides where the business will go in the future, but with EO you get the chance to influence some of that stuff.”

Employee owner, professional services sector

Prioritising flexibility for the workforce

Flexibility came through strongly as a priority of many of the EOBs surveyed and interviewed for this report. Although not all types of jobs allow for a flexible working pattern (which includes working part-time, compressed hours, remote working, or job sharing), previously published research shows the potential benefits of flexible working arrangements, which include:

- A higher level of job satisfaction and commitment, with employees more likely to increase discretionary effort compared to those who do not work flexibly.
- A greater likelihood of engagement, yielding significant advantages for employers: potentially generating 43% more revenue and improving performance by 20%, when compared with disengaged employees.
- Reduced absence rates, as flexible working arrangements allow employees to manage disability and long-term health conditions, and caring responsibilities, as well as supporting their mental health and stress.^{xix}

The survey responses indicate that EOBs are almost twice as likely to offer flexible working (86% v. 47%) and remote/hybrid working (84% v. 47%) than non-EOBs. As one decision-maker interviewed said on flexible working:

“We're looking very much at the moment around family friendly policies, such as increasing female representation, flexible working, hybrid location. [...] Graduates come in more frequently, those more senior that live nearby maybe come in once or twice a week, and those who live further away will come in less frequently.”

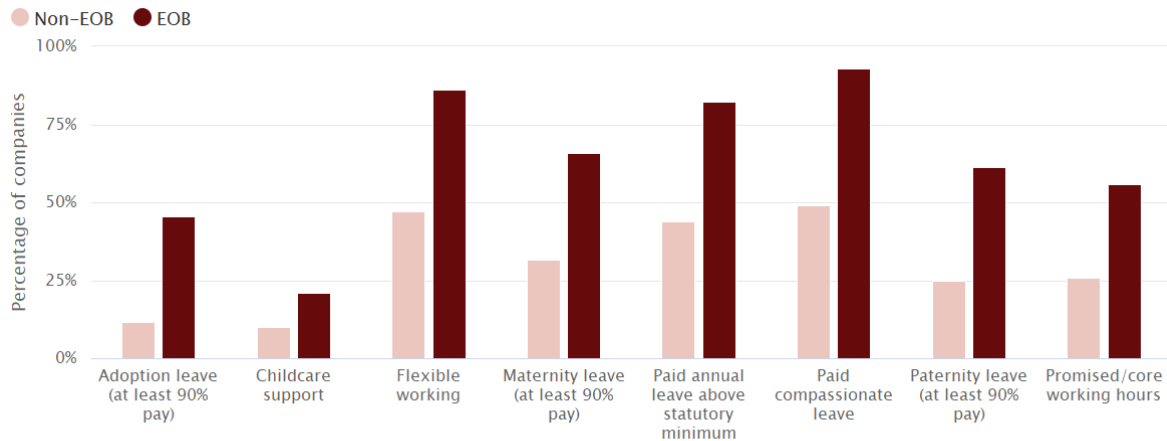
Decision-maker, professional services sector

As businesses transition to EO, they often consult employees to understand which employment benefits they value most. Examples of other benefits commonly mentioned in the interviews conducted by DJS Research included:

- Enhanced sick leave and holiday allowance.
- Employee assistance programmes.
- Death in service.
- Time off in lieu.
- Enhanced maternity pay.

The survey found that EOBs are more likely to have paid adoption leave, childcare support, paid parental leave (maternity and paternity), and paid compassionate leave in place than non-EOBs and that this was a consistent benefit of EOBs across business sizes. These types of policies all help to support labour market participation – and local economies – particularly important at a time of elevated labour market inactivity.

Figure 20: Employee benefits



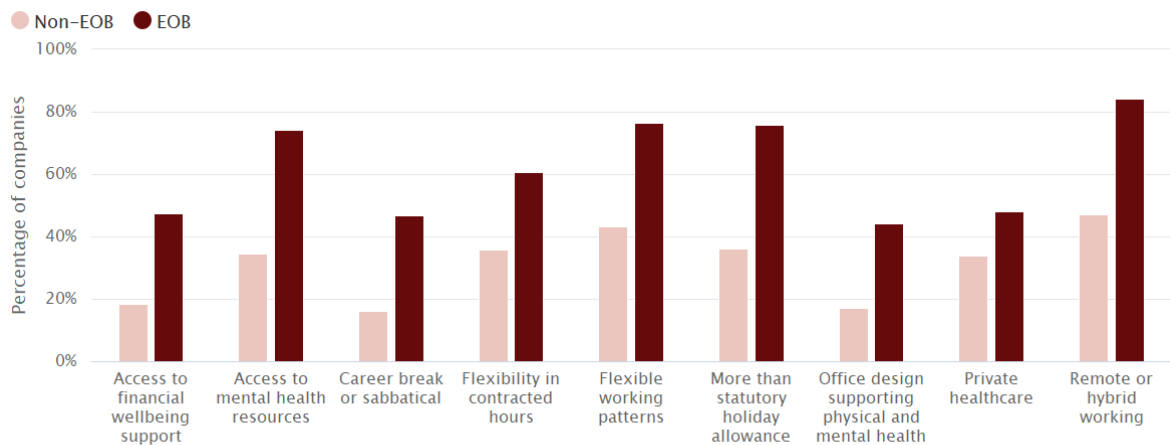
Source: EO Knowledge Programme Survey

Health and wellbeing focused benefits

Beyond core benefits, many EOBs also offer a range of enhanced benefits focused on health and wellbeing. This has the potential to be an important contribution that could flow from the expansion of the model, given that there were an estimated 914,000 cases of work-related stress, depression, or anxiety in Great Britain in 2021/22.^{xx} Another estimate shows that the total costs of workplace self-reported injuries and ill health in 2019/20 was £18.8 billion, of which around 60% was due to ill health (£11.2 billion).^{xxi}

The survey results showed that amongst our sample, 48% of EOBs offer supported access to private healthcare compared to 34% of non-EOBs and more than twice as many EOBs (74%) provide access to mental health resources compared to non-EOBs (34%). Deeper analysis of the survey data suggests that the greater provision of private healthcare in EOBs is larger in small and medium businesses, whereas in large firms the difference between EOBs and non-EOBs is negligible (although the sample sizes are small).

The EOBs in our survey sample are also significantly more likely than non-EOBs to provide flexibility in the way people work. EOBs are more likely to allow employees to work remotely (84% vs 47%) and to offer flexibility in contracted hours (61% vs 36%). They are also almost three times as likely to allow employees to take a career break or sabbatical (47% vs 16%).

Figure 21: Health and wellbeing policies

Source: EO Knowledge Programme Survey

As one interviewed EOB expanded:

“The work we’ve done on mental health training has been great. We have people trained in mental health who give feedback about what might be emerging so we know what we can do to help further.”

Decision-maker, wholesale and retail sector

While the absolute number offering exercise classes and additional breaks is more limited (albeit higher than in non-EOBs, even if not statistically significant), this has the potential to make a material difference to employees. For example, research shows physical activity is effective in reducing mild to moderate symptoms of depression and anxiety^{xxii}. Meanwhile, taking breaks at work has been shown to reduce or prevent stress, lower exhaustion, and lead to an increase in wellbeing and productivity. The EOBs surveyed and interviewed for this report identified the clear choices being made to tailor benefits to employee needs. As one decision-maker noted when interviewed:

“I think getting the right package for people in consultation with the employees is very important. Let employees be a part of the conversation on benefits to assess what they really want and need. Everyone gets the same no matter how long you’ve been with the company. So, everyone gets the same holidays, the same pension, the same healthcare. So we’re very equitable with all our benefits and bonuses, but our salaries are in line with market rates.”

Decision-maker, professional services sector

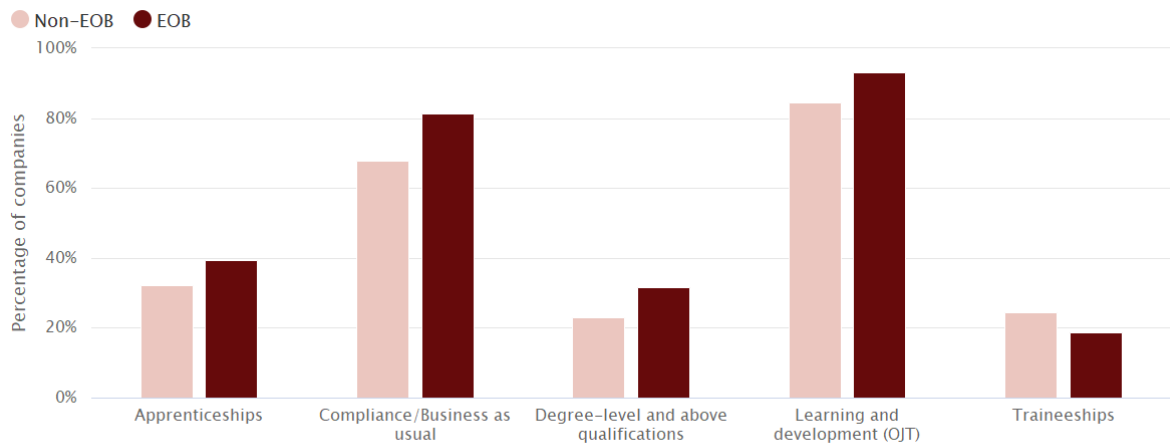
Taken together, the enhanced combination of benefits may help to explain why staff turnover is much lower in EOBs than in non-EOBs, and why job satisfaction is often higher after the transition to an EOB model, which could be a factor driving some of the productivity benefit that we estimate EOBs to have.

Greater investment in skills

In the survey, managers in EOBs report having spent more time supporting employee skills and lifelong learning since their company became an EOB: 93% of EOBs invested in learning and development training (on-the-job training) in the last 12 months compared to 85% of non-EOBs (although this varies

by business size, with a negligible difference for medium-sized firms - which may also be supporting the enhanced levels of productivity in EOBs.

Figure 22: Employee training invested in during the last 12 months



Source: EO Knowledge Programme Survey

Our analysis shows that EOBs spend an average of £38,000, or 12%, more on training per company, compared with non-EOBs. There is a well-established link between investment in training and people's earnings and productivity. A government study found that as people are upskilled, their lifetime earning potential also increases^{xxiii}. A 2015 study^{xxiv} found that a 10-percentage point increase in the share of trained workers is associated with 1.7% to 3.2% higher productivity, and the average wage per worker increases by 1.0% to 1.7% in response to the same increase in training. Based on this, and assuming that the additional spending on training is directly proportional to the increase in the number of employees trained, this implies that the more generous investment in employee training by EOBs could be associated with around 1.7% to 3.2% higher labour productivity and 1.2% to 1.7% higher average wages per worker (see Annex Two for methodology).

EO firms' greater investment in skills comes in the context of a decline in training across the wider economy: the proportion of employees who report having received work-related training in the past three months has fallen from 29% in 2002 to 24% in 2020, and has fallen the most for workers aged under 25.^{xxv} The proportion of employers who report that they are providing training is lower than a decade ago, and so is the amount of money spent on training by employers.

Impact on job satisfaction

Creating good work is at the heart of the EO model. Through active corporate governance, information sharing, employee engagement, improved benefits, flexibility and skills development opportunities, EOBs are creating an environment that supports resiliency, retention and reward. The benefits to the employee are also visible in the survey results: 83% of those surveyed reported increased employee engagement and motivation since adopting an EO model and 73% reported increased job satisfaction since adopting an EO model.

Chapter four – EOBs, the environment and wider societal impact

Key findings:

- EOBs are more likely to have a Net Zero or **carbon management strategy** in place (54%) than non-EOBs (30%).
- EOBs are more than twice as likely to offer **volunteering days** as non-EOBs (43% v. 15%).
- EOBs are also more likely to make **charitable donations** than non-EOBs (86% v. 55%).

Environmental sustainability

Insights from the in-depth interviews that informed this report indicated that in many EOBs, employee ownership aligns closely with - and helps to drive and reinforce – ethical business practice. As part of this, making the switch to being employee owned appears to strengthen the commitment to sustainability. This was reinforced in the survey results on sustainability and community detailed in this chapter. As well as doing the right thing, decision-makers also recognise that an ethical stance can be good business and a factor in attracting and retaining staff. As one noted:

“Sustainability and eco-consciousness. Non-commercially, we want to do some good, and therefore employee ownership just makes sense. We consider the supply chain of everything we buy to try and assure that everything is as sustainable as possible.”

Decision-maker, professional services sector

The decision to adopt a proactive approach to sustainability appears in part driven by the model itself, as the strengthened employee voice means that employees’ preferences for their companies to do more, and sooner, on sustainability are more likely to be heeded. Deloitte recently found that *“50% of Gen Zs and 46% of millennials say they and their colleagues are pressuring businesses to take action on climate change, which marks a slight increase from last year.”*^{xxvi}

A commitment to acting on climate change was echoed in the survey results: EOBs, regardless of their size, are more likely to have a Net Zero or carbon management strategy in place (54%) than non-EOBs (30%). An organisation's carbon reduction strategy is often linked to the development of sustainability policies, public pledges and commitments to take action to reduce emissions. For example, an empirical study of EU companies found a positive relationship between corporate sustainability initiatives and carbon performance.^{xxvii}

EOBs are also more likely to have “environmental sustainability” accreditation (35%) than non-EOBs (16%). Sustainability certification bodies, such as Planet Mark, B Corp, and ISO Standards, offer a third-party assessment and roadmap for measuring and mitigating a company’s social and environmental footprint. The Planet Mark, for example, requires its holders to measure and reduce their annual carbon emissions associated with their operations by at least 2.5% every year.^{xxviii} On average, Planet Mark certified businesses reduce their absolute carbon emissions by 12% per year.

Many of the EO companies interviewed recognised the importance of strengthening their commitment to sustainability, seeing it as an ethical stance to be a good business.

“Our offices are set up to be carbon zero. In terms of community, we aspire to become a B-Corp. So again, we're trying to demonstrate our understanding of that ESG agenda and aligning ourselves very much to those values of that area.”

Decision-maker, professional services sector

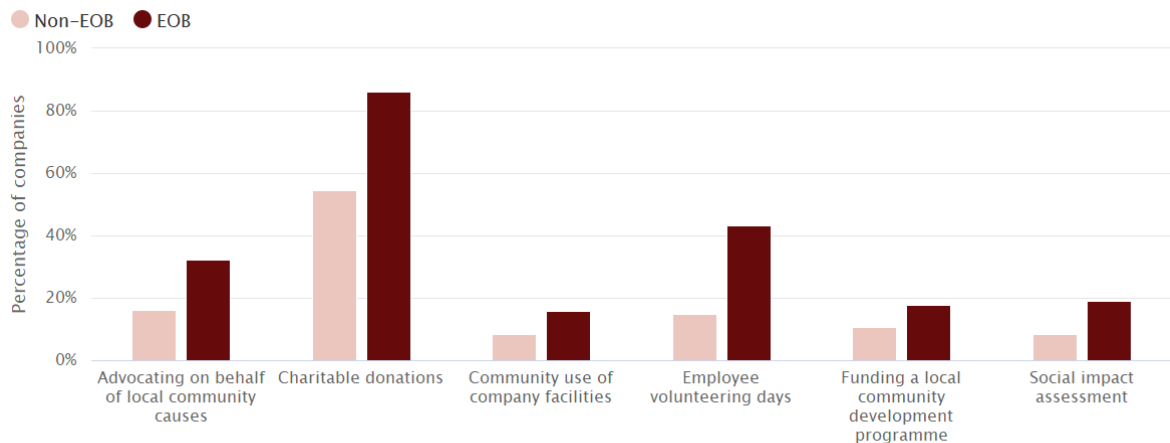
“We've always set out to be a responsible business, so we looked to become a B Corp. Employee ownership and B Corp status go hand in hand and EO drove us to this ... employees have been able to shape the company they want to work for.”

Decision-maker, professional services sector

Community

Our survey indicates that EOBs (across all business sizes) are more likely than non-EOBs to provide community support across all surveyed aspects, with particularly large (statistically significant) differences in terms of advocating on behalf of local community causes, making charitable donations, having employee volunteering days, and having a social impact assessment.

Figure 23: Community support



Source: EO Knowledge Programme Survey

EOBs are more than twice as likely to offer volunteering days as non-EOBs (43% v. 15%). There is an associated social value of this outsized volunteering contribution: research shows that having volunteered in the last 12 months is associated with the equivalent of a six-percentage point³ increase in life satisfaction for the volunteer, as well as being positively and significantly associated with:

- mixing with people from diverse backgrounds;
- trust and neighbourhood cohesion; and
- social capital (number and quality of friendships).^{xxix}

We used econometric modelling to explore the relationship between the number of volunteering days offered by the company to employees per year, which includes volunteering either undertaken on company time or paid for by the company, between EOBs and non-EOBs. We have also taken into account the effect of the number of employees in the company to increase the robustness of our findings. Our modelling suggests that on average EOBs provide three to four more days of

³ The research finds an increase in life satisfaction of 0.057 on a 0–10 scale.

volunteering per year than non-EOBs, controlling for differences in firm size. Although the model has limitations (e.g. lack of information on other attributable factors besides company size), it is still informative.

On the assumption that employees will fully engage in as much volunteering work as a company is willing to provide, it is estimated that EOBs will generate an additional £79 to £110 million of economic value (assuming EOBs employs 200,000 to 240,000 employees)^{xxx}.

EOBs are also considerably more likely to make charitable donations than non-EOBs (86% v. 55%). Donations can support charities and volunteers, while benefitting wider society. In the UK, for example, the average multiplier (in terms of wider benefit stemming from the initial donation) for reporting charities is estimated to be around five times. Contributors to this multiplier include improved employability of service users and reduced healthcare costs.^{xxxi} As charities are large employers in their own right, donations can also contribute to higher employment, while cash giving can increase spending by those being supported.

We used econometric modelling to examine the relationship between employee ownership and charitable donations. Our analysis found that EOBs gave an average of £68,580 more per year than non-EOBs, after controlling for company size, supporting the survey findings that EOBs tend to be more philanthropic than non-EOBs.⁴ Considering the impact of the charitable donations multiplier above, and the size of the EOB sector in the UK (around 1,650 companies), we can estimate that the EOB sector's higher charitable giving could be generating around £500 million more value in the economy.⁵

⁴ As might be expected, this average additional donation from EOBs is driven up by the larger companies.

⁵ Although our model can identify that EOBs generally donate more than non-EOBs, it is important to note that there may be other factors (e.g. sector, age of company) that affect the amount of giving that are not captured by the survey. Therefore, the above is only an estimate of the additional impact of EOBs over non-EOBs in terms of donations.

Chapter five – exploring EOB characteristics

The preceding chapters demonstrate that employee owned businesses provide positive impacts to the economy, their employees and wider society. Our overall finding is that these impacts are consistent irrespective of the size of the business or the type of employee ownership model that is implemented, e.g. all EOBs were likely to see employee headcount expand since adopting the EO model. However, there are some areas where the survey results show that some models of employee ownership can have differing impacts (although these differences are not necessarily statistically significant). This chapter explores those differences in more depth.⁶

Employee Ownership Trusts

“The government... is committed to supporting employee owned companies across the wider economy and encouraging companies to transition to employee ownership. This commitment to employee ownership supports the government’s wider agenda to grow the economy.”^{xxxii}

The quote above, taken from the Government’s 2023 consultation on Employee Ownership Trusts (EOT), underlines the importance of the EOT model for growth. The EOT was introduced in the UK under the 2014 Finance Act as a new mechanism by which owners could sell their businesses to their colleagues.

Under an EOT, a trust holds shares on behalf of all the employees in the business – in many cases, businesses are 100% owned by the EOT. Employees do not have an individual direct shareholding in the company, but are designated beneficiaries of the EOT, effectively owning the business indirectly. This is in contrast to a direct employee ownership arrangement, where employees are registered individual shareholders. It is also possible for EOBs to opt for a hybrid arrangement – a combination of direct employee share ownership, and indirect share ownership via the trust.

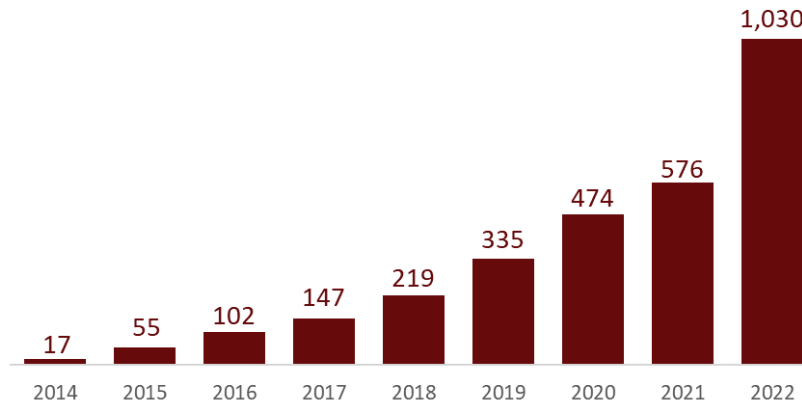
If the EOT holds more than 50% of the shares, two important tax reliefs are unlocked. The first relief is to incentivise owners to sell their businesses to their colleagues by making the transfer of their shares Capital Gains tax-free. The second relief allows EOT owned companies to pay an income tax-free bonus of up to £3,600 per year to their employees. The way the tax-free bonus is distributed is tightly controlled and must be allocated to employees objectively, with all colleagues receiving something.

An owner could gift their shares to an EOT, but this is extremely rare. In almost all cases owners sell their shares to the trust creating a debt in the trust. The EOT is then reliant on the company to repay the loan by making payments, via the trust, to the previous owners. If the company has excess cash at the point the shares are sold the selling shareholders can receive an immediate payment, with future payments being paid out of future post-tax profits until the debt is paid.

When the EOT concept was created in 2014 it was not well publicised and take up was low. However, since then, as the mechanism has become better known and the number of EOT transactions taking place has increased significantly. It is now the major factor driving up the growth of EOBs and, for that reason, the EO Knowledge Programme set out to try to understand in depth the impact of the EOT model.

⁶ Unless otherwise noted the differences highlighted between types of EOB presented are statistically significant. However, it should be noted that by sub-dividing the EOB sample, there are smaller sample sizes and correspondingly wider confidence intervals for the findings in this chapter.

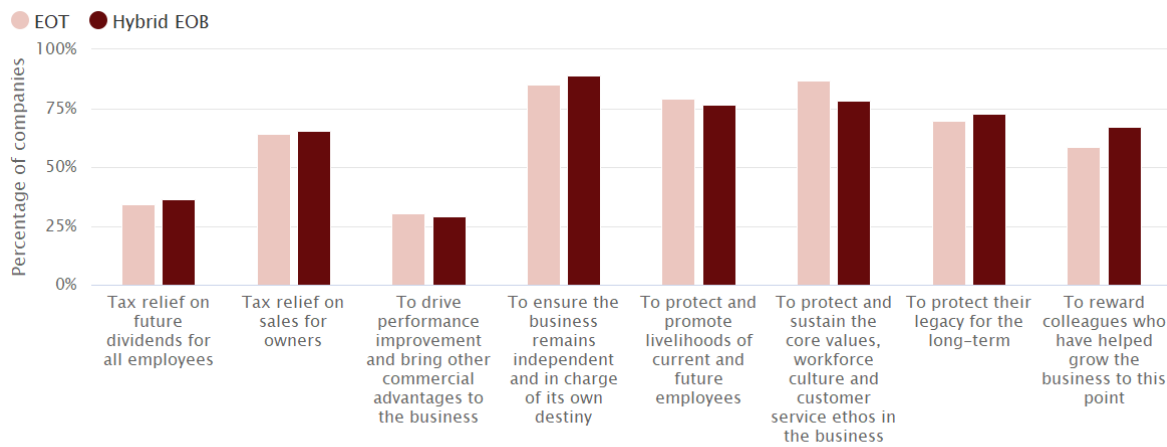
Figure 24: Number of Employee Ownership Trusts (EOTs) in the UK



The EOT model

Using the survey data, we explored how the EOT model has been operating in practice. One area our survey explored was the reasons for introducing an EOT: the three most popular were to ensure the business remains independent; to protect and promote the livelihoods of current and future employees; and to protect and sustain the core values, culture and ethos of the business. The full range of responses is shown in the chart below:

Figure 25: Reasons the previous owner introduced an EOT

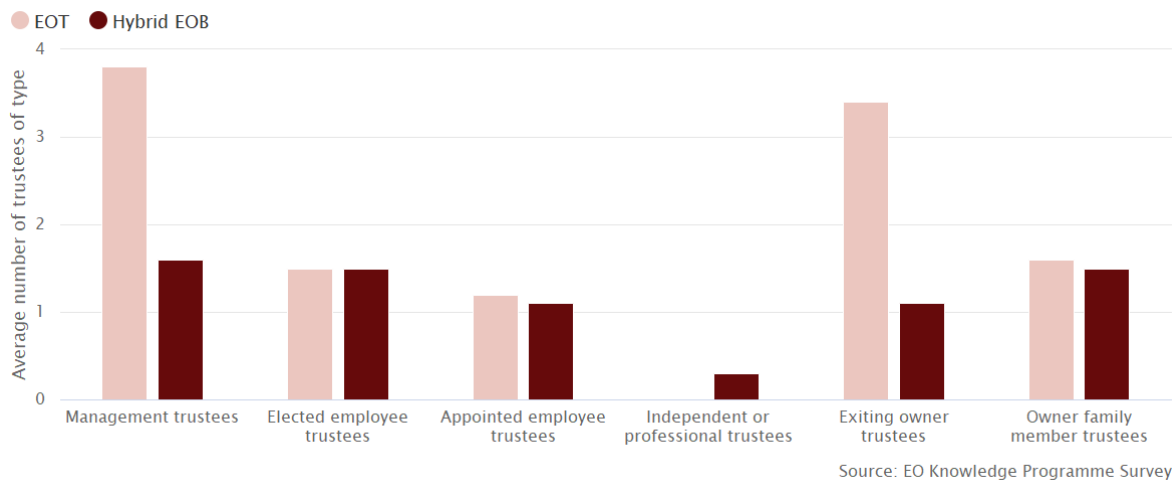


Source: EO Knowledge Programme Survey

The survey also provided us with data on the organisational development of EOTs. In just over half of EOTs (52%), the previous owners sold 100% of the firm’s shares as part of the initial transaction, and in a further 42% of EOTs over half of the shares were sold. However, there is some variation by firm size: 29% of large-sized EOTs received 100% of the firm’s shares at initial transaction compared to 54% at medium-sized EOTs and 57% at small-sized EOTs. Since that initial transaction, the proportion of shares held by the trust has stayed the same for a large majority of our survey sample.

The survey also examined the types of trustees that are found in EOTs. On average the most common type of trustees (on the board) at EOTs were professional management trustees (3.8) followed by exiting owners (3.4) employee trustees both elected (1.5) and appointed (1.2).

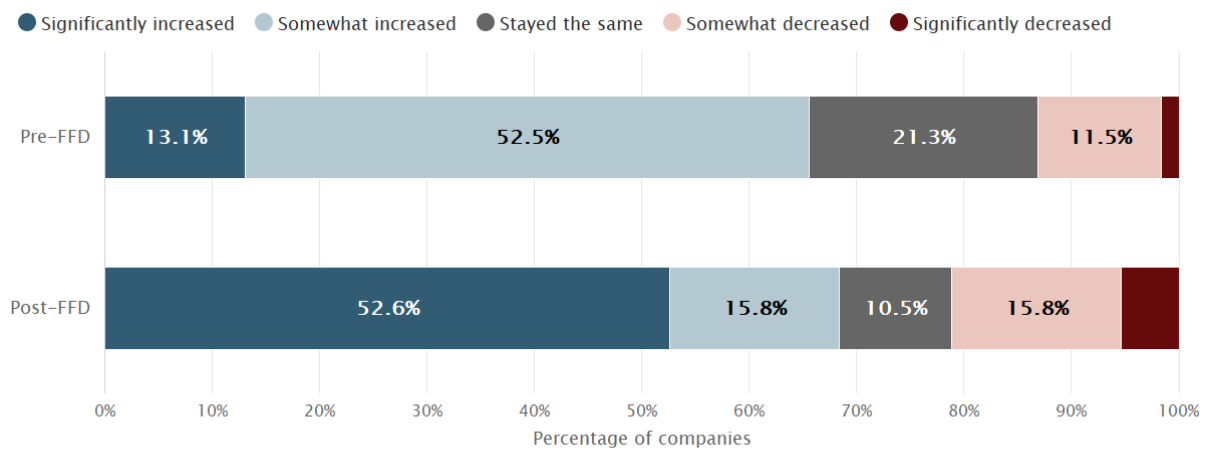
Figure 26: Types of trustees on EOT boards⁷



‘Financial freedom day’

For EOTs, depending on the price agreed by the EOT with the vendors, the selling shareholders may be paid over multiple years (referred to as deferred consideration / vendor loan repayments). The vendor debt is a liability for the trust. It does not appear on the company’s balance sheet, however the company will pay (service) the EOT’s debt out of the profits its earned (distributable reserves), until the original owner(s) has been fully paid or the debt is written off. This point is sometimes known as ‘financial freedom day’ (FFD). Once the vendor debt has been paid off, future profit can be used to increase profit share to the employees, subject to working capital requirements.

Figure 27: Gross operating profit in the last five years (pre- and post-financial freedom day)



The survey explored with EOTs when this day has occurred in their businesses – for those that had a deferral period, the average time was after 6.8 years. We then explored whether there was a visible differential in the impacts reported for those who were post ‘financial freedom day’. The data indicates that EOTs that are post-FFD were more likely than those pre-FFD to have significantly

⁷ Given the sector anecdotally has seen a marked rise in the numbers of independent trustee appointments in line with the growth of EOTs, the low number of 'independent or professional trustees' reported in the survey is puzzling and suggests that perhaps confusion was created by including the separate category of ‘professional management trustees’.

increased their profits in the last five years. Post-FFD EOTs also appear to be able to be slightly more generous in the percentage of profits they pay to employees as bonuses (25% vs 15%), although the difference is not large and is not statistically significant.

Impact of the EOT model

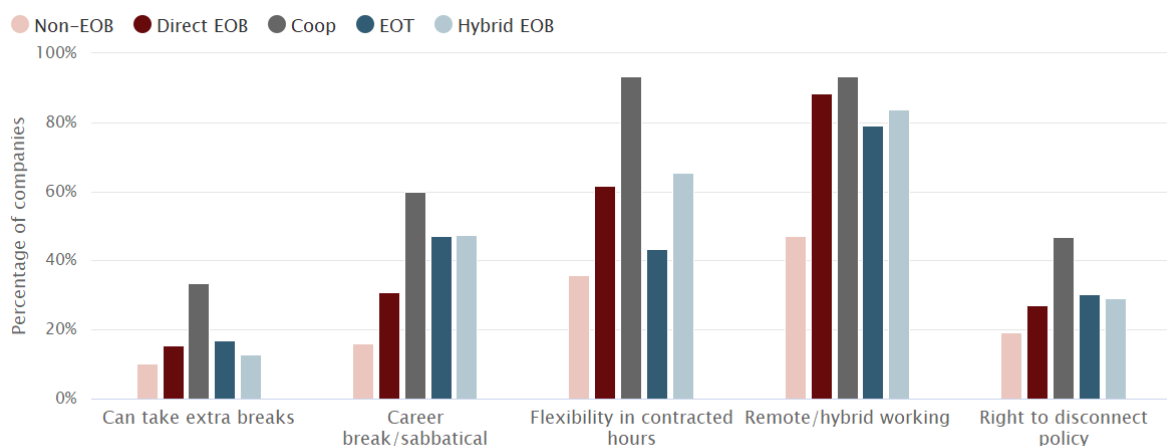
Consistent with the EOB sector overall, the survey results show strong financial outcomes for EOTs. In the last five years, a majority of EOTs have increased their gross operating profit (65%) and turnover (73%). Furthermore, since adopting an employee ownership model, EOTs are more likely to have increased than decreased their investment in R&D, their capital expenditure and expanded their employee headcount.

EOTs also appear more financially resilient in turbulent times than other ownership models. They are the least likely model to have increased their level of debt over the last five years (13% vs 36% for coops and 31% for directly owned EOBs). Looking at impacts that benefit employees and wider society, EOTs perform very similarly to the broader employee ownership sector and outperform non-EOBs consistently in providing employee benefits, cost of living support and allowing employees a voice in organisational decision-making. There are also a few areas in which EOTs do more than other employee ownership models (although the differences with other EOB types is not statistically significant). EOTs are the most likely to offer paid annual leave above the statutory minimum (81%) and to provide access to private health care (51%). They are also the most likely to hold accreditations for: environmental sustainability (38%), employee welfare (23%), employee diversity and inclusion (15%) and health and safety (32%).

Worker cooperatives

Worker cooperatives (coops) as an employee ownership model tend to place more emphasis than other ownership types on encouraging democratic employee participation in managing the business. Coops are more likely than all other ownership types to enable employees to influence strategic organisational decision making via all-employee votes (92% vs 47% at EOTs and 35% at directly owned models).

Figure 28: Policies that are more likely to be implemented by cooperatives



Source: EO Knowledge Programme Survey

Perhaps as a result of this, the area in which coops differentiate themselves from other employee ownership models is in the greater range of policies that they provide in support of employee health and wellbeing. They are the only EOB type to be more likely than non-EOBs to allow employees to take extra breaks (33% vs 10%) and have a right to disconnect policy in place (47% vs 19%). Coops are also

the most likely ownership model to enable employees to take a career break or sabbatical (60%), to provide for flexibility in contracted hours (93%), to have a ‘right to disconnect’ policy in place (47%), and to have implemented remote or hybrid working (93%).

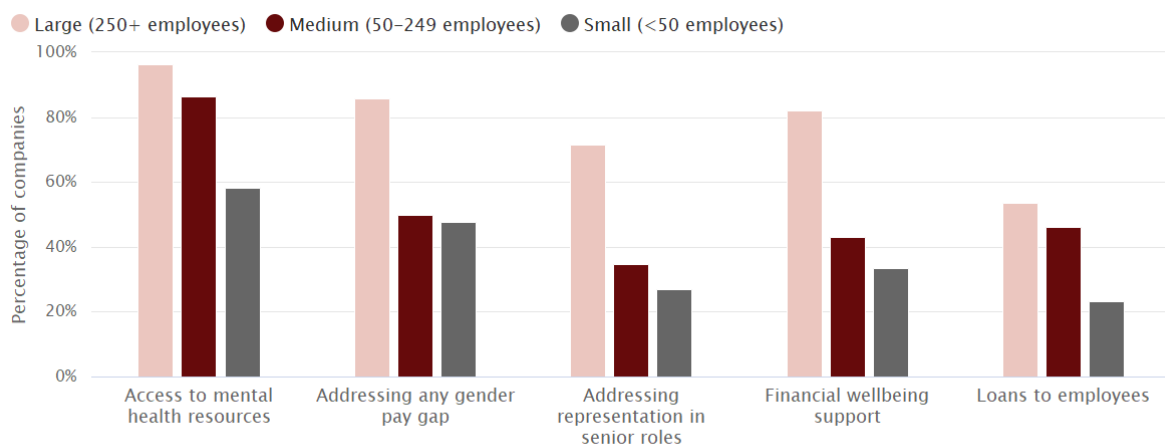
Since adopting the employee ownership model, Coops are the most likely to have increased their focus on environmental sustainability issues and giving back to their local community. They are also the most likely to have 50%+ of their suppliers be small and medium sized businesses or voluntary, community and social enterprises.

Firm size

For the vast majority of the impacts that were measured in the survey, there are no discernible differences between EOBs based on firm size. Although we observed some differences between large and small EOBs, which are explored in the following paragraphs, for all the policies detailed both large and small EOBs outperform their non-EOB counterparts. Looking at fiscal impacts, in the last five years all EOBs – large, medium and small – were more likely to have increased than decreased their gross operating profits, capital and R&D expenditure, turnover and employee headcount; and across most policies that support employees, EOBs – regardless of firm size – outperform non-EOBs.

Most likely due to the additional resources available to them, large-sized EOBs (250+ employees) are more likely than small-sized EOBs (<50 employees) to provide access to mental health resources, to offer financial wellbeing support, and to provide loans to employees. They are also more likely to have implemented policies addressing the gender pay gap and that are intended to address representation in senior roles. As might be expected, social and environmental policies, e.g. having a Net Zero strategy in place or having completed a social impact assessment, are also more common in larger EOBs.

Figure 29: The impact of firm size on EOB impacts



Source: EO Knowledge Programme Survey

There are some areas where small and medium EOBs go further than larger ones. They are more optimistic about investment increasing in the next year compared to large EOBs. A greater proportion of small EOBs allow flexible working policies, such as flexibility in contracted hours or allowing remote/hybrid working, and small EOBs are also more likely to have a right to disconnect policy in place. Small EOBs are also less likely to have a high staff turnover rate in the last three years than large EOBs, and have a lower rate of redundancy compared to small-sized non-EOBs.

As noted at the outset of this chapter, the benefits of employee owned businesses are generally consistent irrespective of the size of the business or the type of employee ownership model. However, diving into the differences where they exist offers an opportunity for discussion of how to best boost these benefits across all business sizes and model types as the growth of EOBs continues.

Conclusions:

Employee owned businesses have surged in number over the last 10 years. While currently representing only 0.1% of the total number of firms in the UK, they nonetheless make a significant and disproportionate contribution to the economy. Our modelling shows that EOBs currently contribute **£12-15 billion in direct GVA** and **£32-£41 billion in total GVA** (direct, indirect and induced), from around 1,650 businesses. EOBs also make an outsized contribution on employment (0.7% of total employees) and to national output in GVA terms (0.8%). Our estimates show that if growth continues at the current rate, the EOB model has the potential to contribute an additional **£22-£27 billion in direct GVA** and **£61-£74 billion in total GVA** (direct, indirect and induced) to the economy by 2030 from current levels.

Our research has also found that EOBs are more productive: **around 8% - 12% more productive than non-EOBs**. The survey commissioned as part of this research also indicates that these firms are more likely to be expanding their workforce; less likely to have a high turnover of employees; more than a third more likely to see their profits increase; twice as likely to have increased investment in R&D and more likely to be planning to increase investment next year, compared to non-EOBs. This paints a picture of a model that is thriving and, beyond direct economic benefits, supporting the development of a resilient and motivated workforce. EOBs surveyed were investing in enhanced benefits, health and wellbeing, skills training and in creating cultures that serve the employee as well as the business, resulting in enhanced job satisfaction as well as strong economic performance.

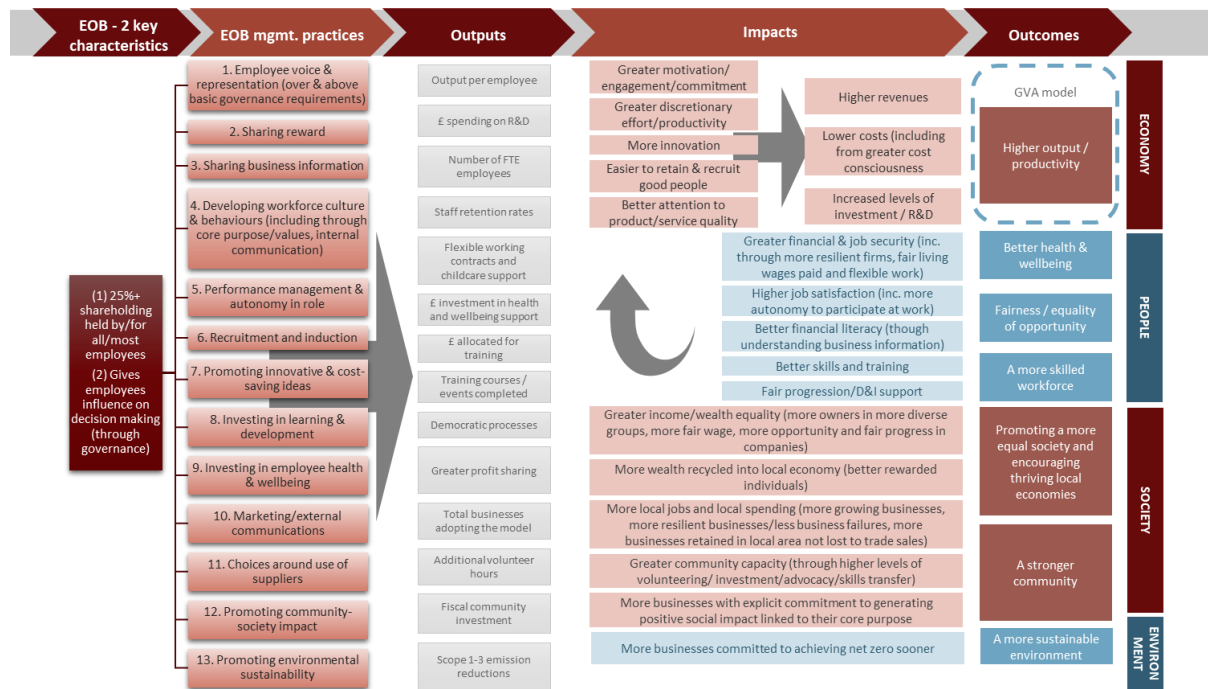
Our research has found that EOBs do more than other business types to support a fairer economy, local communities and increased sustainability. Our report has highlighted the increased minimum wages, profit sharing, focus on diversity, flexibility, skills investment and accreditations displayed by the EOBs surveyed: together, they paint a picture of a model that is empowering people to be owners and encouraging those new owners to thrive in good work.

This report is intended to support a continued discussion about if and how to best unlock further growth in the model and to give policymakers and business owners a source of insights to draw on in those conversations. Future research could include a deeper dive into the finances of employee owned businesses via Companies House and other business databases, so that the findings from the survey work and analysis in this report can be further assessed and evaluated. The report also highlights the need for more whole-economy data on the contribution of EOBs to the economy, in terms of GVA but also more broadly. While our analysis has used analytical methods to estimate these contributions, a more comprehensive future outcome would be for information on EOBs to be gathered systematically through whole-economy wide business surveys, including those feeding into national statistics. The partners in the EO Knowledge Programme are open to discussion on how to further develop the analysis to date.

Acknowledgements: This report has been strengthened by the support of the EO Knowledge Programme's academic advisers, who shaped the research design and quality assured its outputs. Our thanks go to: Dr Juliette Summers, Senior Lecturer in Sustainable & Responsible Business, University of Stirling; Dr Ruth Yeoman, Fellow of the Centre for Mutual and Co-owned Business, Kellogg College, University of Oxford; Dr Aneesh Banerjee, Reader in Management, Bayes Business School at City, University of London; Professor Richard Hazenberg, Director of the Institute for Social Innovation and Impact, University of Northampton; and, Professor Robert Blackburn, Director of the Brett Centre for Entrepreneurship, University of Liverpool Management School.

Annex one – Theory of change

Figure A1: The full theory of change



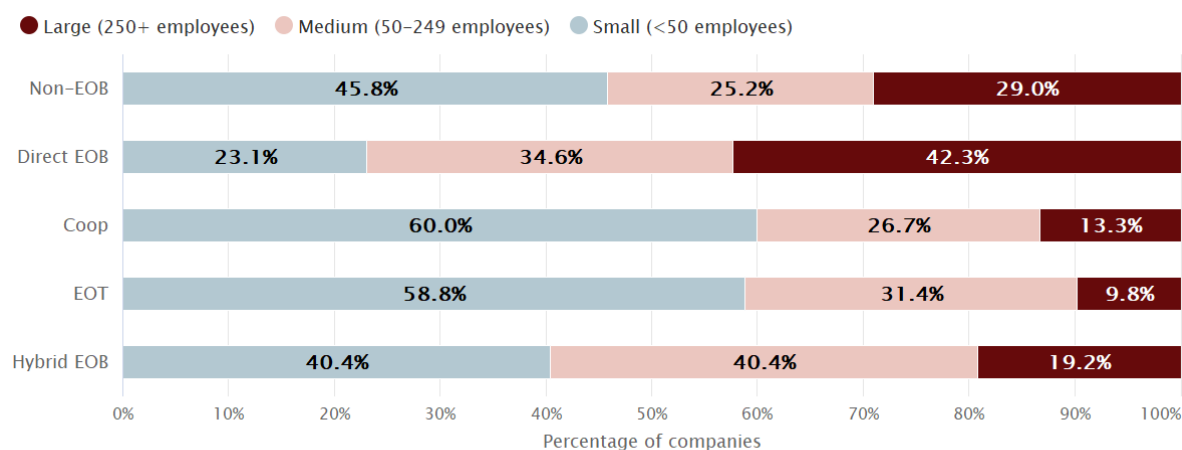
The above theory of change was based on insights drawn from previous research and EO Knowledge Programme partners.

Annex two – analytical approach

Survey

The survey was undertaken on behalf of the EO Knowledge Programme by YouGov with support from CBI Economics and reached a sample of 152 employee owned businesses (EOBs) and 303 other firms, of which 285 identified themselves as non-EOBs.⁸ The sample of 152 EOBs consisted of 15 cooperatives, 26 direct EOBs, 53 Employee Ownership Trusts (EOTs) and 58 hybrid EOBs.⁹

Figure A2: Ownership type by firm size



Overall, EOBs were less likely to be large businesses (more than 250 employees) compared to non-EOBs. However, as seen above, direct EOBs were more likely to be large businesses than cooperatives and EOTs in the survey sample. Regulatory requirements also mean EOTs are not typically appropriate for firms with less than roughly eight employees. Given that the significant growth in EOB numbers has been driven by new EOTs, in order to make sure the sample was representative of the EOB sector, micro-businesses with less than eight employees were excluded from the EOB and non-EOB samples.

The survey was designed to elicit whether ownership type is a factor in a firm's financial outcomes and its broader social, community and environmental impacts in the following areas:

- Commercial & financial performance,
- Economic contribution & productivity,
- Providing fair & equitable opportunities,
- Investing in skills & progression,
- Supporting health & wellbeing,
- Supporting and investing in the local community and wider society,
- Decarbonisation and environmental outcomes.

To inform the research and support the extrapolation of findings to the whole sector, a census exercise was undertaken which combined and cleaned various existing informal datasets on UK EOBs. Alongside this, machine learning experts glass.ai were commissioned to undertake a trawl of publicly

⁸ The sample of EOBs was sourced by OAW/EOA and support was provided by CBI Economics to ensure that it is representative of the wider EOB 'sector'. The non-EOBs were sourced from YouGov's online panel, which contains over 20,00 senior business leaders working for firms of all sizes, across all sectors and regions of the UK.

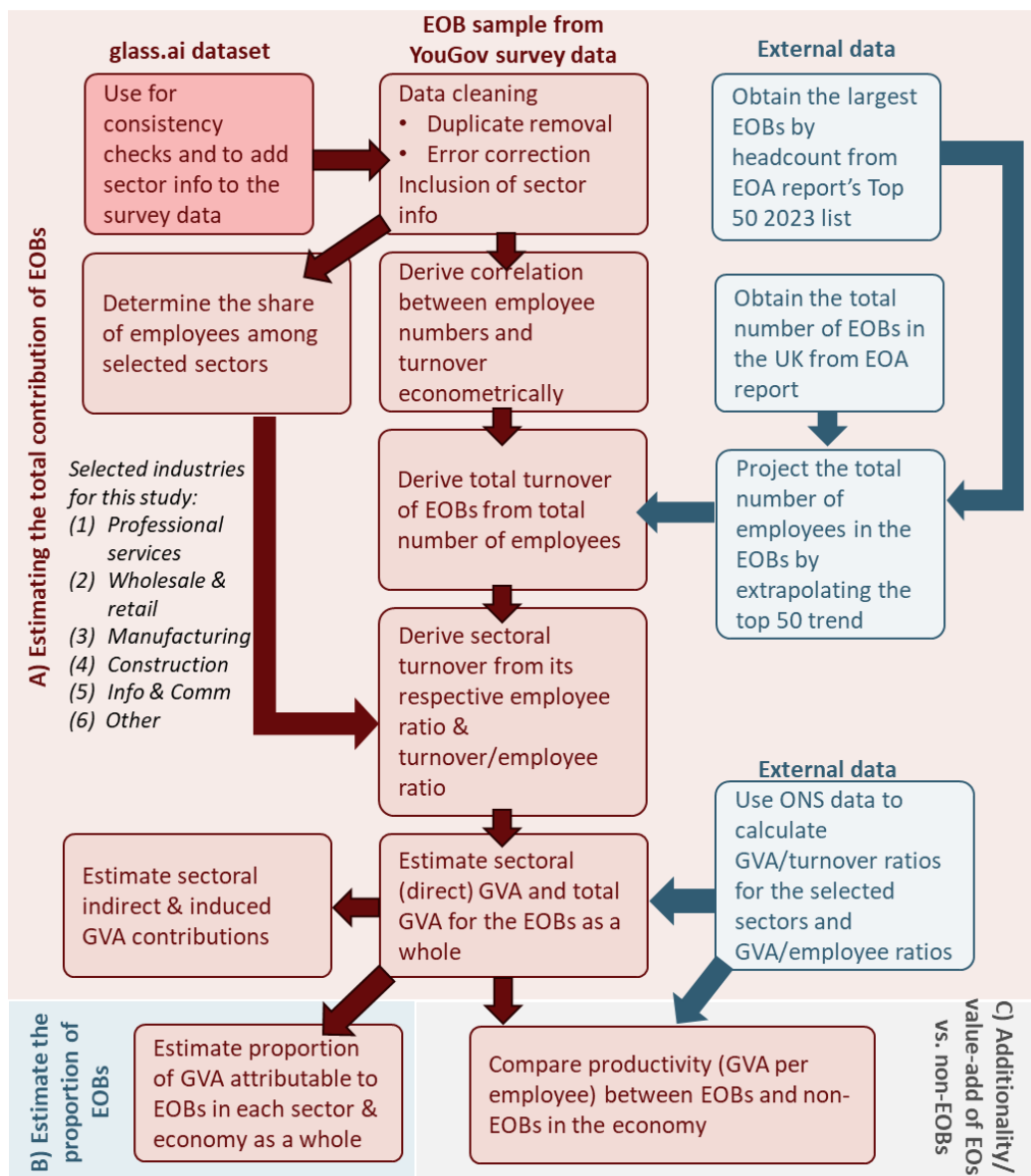
⁹ Hybrid EOBs are firms where there is an Employee Ownership Trust in place but there remains some proportion of shareholding that is held either directly by employees or by other shareholders.

available online data, results of which were then manually verified. This exercise revealed a total of at least 1,650 EOBs as of October 2023. The true population is likely to be higher, but this data is not formally recorded nationally in any standardised way. Support for this exercise, and the YouGov survey design, was provided by CBI Economics. The EOB sector will continue to refine this approach. Findings reported in this report are statistically significant at the 95% level (unless otherwise stated).

GVA modelling and productivity estimates

This methodology section outlines the methods used to assess the economic contribution of the EO sector in the UK. The model focuses on estimating the GVA contributed by the five largest industries in the EOBs, namely (1) professional services, (2) wholesale and retail trade, (3) manufacturing, (4) construction, and (5) information and communication industries, as well as the ‘other’ industries.

Figure A3: GVA economic modelling flowchart



A) Estimating the total contribution of EOBs

The results are derived from the YouGov survey data, which surveyed a combination of employee owned businesses (EOBs) and non-EOBs between 14th March and 30th June 2023, asking them a series of questions, including their number of employees and the most recent annual turnover data available.

a. *Projecting the total number of employees in the sector*

The survey data for the EOBs were subject to a series of our consistency checks to remove duplicate entries and correct typing errors, and then mapped to the five major sectors listed above.

The number of employees employed in the EO 'sector' is projected by using the trend pattern of the top 50 EOBs (by employee size) from the latest Employee Ownership Association (EOA) report, and then extrapolating the trend to the 1,650th company. This gives a range of 200,000 to 240,000 employees, comparable to existing EOA reports.

b. *Projection of the annual turnover*

Using an econometric regression model to estimate the relationship between the number of employees in an EOB and its annual turnover, it is then possible to project the total annual turnover of EOBs. The survey is also useful for deriving the percentage of employees and the turnover per employee ratios by sector. To enhance the robustness of the sectoral model, we first identified and subsequently excluded outliers from the dataset, prior to estimating the turnover distribution. Furthermore, we conducted a comprehensive sensitivity analysis for each of our assumptions to assess their potential impact on our headline results.

c. *Sectoral Gross Value Added (GVA)*

Sectoral GVA data are derived from their turnover data. The technique involved using ONS national data to calculate the GVA-to-turnover ratios for the above sectors. We primarily used the 2021 Annual Business Survey dataset, which provides total sectoral turnover and approximate GVA (aGVA) in the same dataset, which can be used as a proxy for GVA (ONS, 2014)^{xxxiii}. However, the dataset has limitations in that it excludes the public sector, most of the agricultural sector and the financial services industry. Therefore, other datasets, including the sectoral GVA data in the national accounts and the count and turnover of VAT and/or PAYE based enterprises dataset, were used. GVA data for the five main industries and 'other' are derived, and when summed the data gives the total direct GVA contribution of the whole EO 'sector'.

d. *Indirect and induced benefit*

The input-output model is used to estimate the indirect and induced effects of the gross value added and the employment generated by EOBs.

- Indirect impact: includes other industries that supply goods and services to EOBs.
- Induced impact: refers to other industries affected by the spending of EOB's employees.

To derive the indirect and induced output multipliers, Type I and Type II Leontief Inverse matrices are employed to generate the indirect and induced GVA per unit of output multipliers. Employment generation follows a similar methodology, using the data from the ONS Workforce Job dataset. The indirect and induced benefits are calculated by using these multipliers from the direct benefits derived earlier.

It should be noted that the standard derivation uses full-time equivalent (FTE) employment figures. However, due to data limitations resulting from the fact that the survey did not differentiate full-time and part-time employees, we apply the employment multipliers to our estimates of non-full-time equivalent jobs. There is therefore a possibility that we may over- or underestimate employment.

Another data limitation is the lack of an equivalent input-output model specifically for the EO 'sector' due to its small size. Therefore, there is no differentiation between the multipliers used for an EOB and a non-EOB, which probably should not be the case if the two sectors are shown to have different productivity and economic performance. Similar issues arise when we use the same GVA/turnover ratios for both EOBs and non-EOBs. It is hoped that as the EO 'sector' grows in size, more reliable data will become available to complement the GVA modelling.

B) Estimating the proportions of EOBs

With the GVA contribution derived for each main sector, it is possible to estimate its share in each sector at a national level and to derive the proportion of non-EOBs in the corresponding sector. Comparison can also be made at an aggregated industry level.

C) Additionality / value-added of EOBs against non-EOBs

It is worth studying the value added of a company becoming an EOB compared to a non-EOB. We try to measure this value added or 'additionality' by looking at the difference in the GVA generated per person employed in an EOB and a non-EOB. The GVA per employment ratio, as a measure of labour productivity, for EOBs is derived directly from our model, while for non-EOBs, we first derive the national figure using the aGVA data and employment data from the ONS Workforce Jobs dataset. The ratio of GVA to employment for non-EOBs is derived by subtracting our estimated EOB figures from the national data. Additionality is the difference between the ratios for EOBs and non-EOBs.

D) Projection to 2030

The additional potential economic contribution of the EO 'sector' by 2030 is derived by assuming that the number of EOBs continues to grow at a compound average growth rate (CAGR) similar to that between 2011 and 2022, i.e. 16.2%. Assuming that the number of employees grows at the same annual rate, then by 2030, the additional number of employees can reach a range of 371,000-445,000. Using the central scenario of employee productivity at £59,800, this can result in £23-£27 billion in 2023 prices being added to the economy by 2030 compared to current levels. This methodology assumes that the GVA/employee ratio does not change in real terms over the years.

Wider modelling

The wider modelling uses the econometric regression modelling to attempt to quantify the impact of EOBs on minimum wage payments, investment in staff training, charitable donations, number of volunteering days, Net Zero or carbon management strategies and sustainability accreditation, and attempts to explore the wider economic or social values where applicable.

1. Minimum wage by EOBs against non-EOBs

When looking at high profit sharing among EOBs, it would be important to understand the gap between the pay of the highest and lowest earners in a company and how this compares with non-EOBs. However, it would be difficult for companies to disclose this information. Instead, the survey asked for the current minimum salary/annual wage of the company's lowest paid employees. Assuming that this would also be a proxy for the pay gap between top and bottom earners (if EOBs are found to have higher pay for the lowest paid, then this could imply that the top and bottom pay

gap is lower than its peers on the basis that both EOBs and non-EOBs have similar pay for the top earners), then our regression results shed some light on the greater income/wealth equality in the business world.

Our econometric regression model of minimum salary or annual wage paid by a company on its business structure (EOB or non-EOB), shows that, after controlling for firm size, EOBs tend to have a higher minimum annual wage than non-EOBs, by around £2,900 (statistically significant). This suggests that EOBs are more likely to have a more equal pay distribution, as the lowest paid employees tend to earn more than their counterparts in non-EOBs.

Although our model can identify that EOBs generally pay more for their lowest paid workers than non-EOBs, it is important to note that there may be other factors (e.g. age of company) that affect the amount of minimum pay that are not captured by the survey. The available choice of independent variables is limited by the limited number of organization- or industry-specific questions raised in the survey. For example, while data such as company size and geographical location are collected, companies are not asked about their industry sector or years of operation. In terms of ownership structure, although companies identified themselves as an EOB or a non-EOB, further questions such as whether they were privately owned, publicly traded or a multinational conglomerate are not identified. Therefore, the explanatory power of the wider regression modelling is low.

2. Investment on training by EOBs against non-EOBs

After removing an outlier with extremely high spending on staff training, our analysis shows that EOBs spend an average of £38,000, or 12% more on training per company, compared with non-EOBs. A 2015 study^{xxxiv} found that a 10-percentage point increase in the share of trained workers is associated with 1.7% to 3.2% higher productivity. The average wage per worker increases by 1.0% to 1.7% in response to the same increase in training. Based on this, and assuming that the additional spending on training is directly proportional to the increase in the number of employees trained, and that the research findings are applicable to our regression results, this implies that the more generous investment in employee training by EOBs alone can be driving around 1.7% to 3.2% higher in labour productivity and 1.2% to 1.7% higher in average wage per worker if the employee is working in an EOB rather than a non-EOB.

3. Charitable donations

In our study, we conducted an econometric regression analysis to examine the relationship between the amount of donations and two distinct groups of companies – EOBs and non-EOBs (as a categorical variable), while trying to isolate the effect of company size (number of employees).

Our analysis produced some interesting results. It suggests that, after controlling for company size, the EOBs donated an average of £68,580 more per year to charities than non-EOBs. This figure is statistically significant. This supports the survey findings that EOBs tend to be more philanthropic than non-EOBs.

Considering the impact of the UK's charitable donations multiplier (i.e. five) and the size of the EOB sector in the UK (with 1,650 companies), we can estimate that the EOB sector's outsized giving has generated around £500 million more for the economy.

4. Volunteering days

We extended our regression modelling to explore the relationship between the number of volunteering days offered by the company to employees per year, which includes volunteering either undertaken on company time or paid for by the company, between EOBs and non-EOBs, while also

taking into account the effect of the number of employees in the company to increase the robustness of our findings.

Our model suggests that, on average, EOBs provide three to four more volunteering days per year than non-EOBs, controlling for companies of comparable size. Although the model has some of the same limitations as the previous model in terms of lack of information on other attributable factors besides company size, it is still useful to develop a quantitative model and generate useful results in this regard.

If we assume that the employees will fully engage in volunteering work as much as a company is willing to provide, it is estimated that the pro-community policy adopted by EOBs will generate an additional £79 million to £110 million of economic value, by assuming a size of 200,000 to 240,000 employees in the EO 'sector', 8 hours spent on each of the additional 3.5 volunteering days and an average hourly rate of £16.37, which is the median hourly earnings of a full-time employee in 2022^{xxxv}, by using the replacement cost approach suggested by the ONS^{xxxvi}.

5. Net Zero or carbon management strategy

Using logistic regression to look at the likelihood of a company having a Net Zero or carbon management strategy in place, we found that EOBs were more likely to have such plans, after accounting for differences in firm size, with an odd ratio of 2.63. From the regression, it can be interpreted one additional company among non-EOBs having such carbon strategies would be associated with 2.63 times greater likelihood of companies in the EO 'sector' having a Net Zero or carbon management strategy.

6. Sustainability accreditation

Using similar logistic regression to look at the likelihood of a company having a sustainability accreditation in place, we found that EOBs are more likely to have such accreditations, after accounting for differences in firm size, with an odd ratio of 2.98. Similarly to the above, it can be interpreted from the regression that for one additional company among non-EOBs having such accreditation would be associated with a 2.98 times greater likelihood of the number of companies in the EO 'sector' having an accreditation. However, the associated carbon emission reduction implied from this result is not straightforward and requires further research.

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