

John Lewis Partnership

A guide to employee ownership



About the John Lewis Partnership

The John Lewis Partnership has a visionary and successful way of doing business, putting the happiness of Partners at the centre of everything it does. It's the embodiment of an ideal, the outcome of nearly a century of endeavour to create a different sort of company, owned by Partners dedicated to serving customers with flair and fairness.

All 69,000 permanent employees are Partners who own John Lewis department stores, Waitrose supermarkets, an online and catalogue business, johnlewis.com, and a direct services company, Greenbee.com, with a turnover of nearly £7bn last year. Partners share in the benefits and profit of a business that puts them first.

When the founder, John Spedan Lewis, set up the Partnership, he was careful to create a governance system, set out in the company's Constitution, that would be both commercial, allowing the business to move quickly to stay ahead in a competitive industry, and democratic, giving every Partner a voice in the business they co-own. His combination of commercial acumen and corporate conscience has helped to make the company succeed.

John Lewis Partnership shares are held in Trust. The beneficiaries of that Trust are the employees of the company, the Partners. They share the profit and have oversight of management decisions through a number of democratic bodies.



Employee Ownership in the UK

John Lewis Partnership is the largest employee-owned company in the UK, but there are many more businesses that are substantially or wholly owned by the people who work for them. These companies are represented by the Employee Ownership Association which promotes the interests of the sector to government and other stakeholders.

Employee-owned businesses (EOBs) take a variety of forms and operate in almost every sector of the economy: from retail to manufacturing, architecture to home care, engineering to advertising. They are united by an ethos that puts people first, involving the workforce in key decision-making and realising the potential and commitment of their employees.

The employee-owned sector is estimated to have a value of £25bn, representing 2% of the UK economy and it is growing. According to research carried out by the Employee Ownership Association, employee-owned companies consistently outperform the FTSE All-Share, with a 9.9% boost to share values.¹

There are several models of co-ownership. Some adopt direct employee ownership: using one or more tax advantaged share plans, employees become registered individual shareholders of a majority of the shares in their company. This enables employees to build up a valuable shareholding in the company, and can provide a direct link between company performance and individual gain.

Many companies have adopted the John Lewis model, where the company is held collectively – usually in Trust – with employees as beneficiaries. As the company is trust-owned, it would be very difficult to sell to a third party. This creates a stable, long-term structure.

Other businesses use a hybrid ownership structure with some shares held in Trust, and some shares distributed directly to employees.

Co-operative organisations are another form of mutual ownership. Co-operatives are run for the benefit of their members, who may include customers as well as employees, and are run in line with co-operative principles.

Social enterprises are a form of co-ownership operating mainly in the not-for-profit sector. In a social enterprise, the organisation exists to serve the community and they are often set up to tackle a social or environmental need.

¹ Martin Conyan and Richard Freeman, Shared Modes of Compensation and Company Performance, National Bureau of Economic Research, Working Paper 8448

Achieving Employee Ownership

'People who are co-owners of an enterprise are inextricably linked in its success or failure'

Richard Reeves, CoCo Companies: Work, Happiness and Employee Ownership

Employee Ownership as a solution for business succession

Succession is a key issue facing business owners who often see no easy way of realising the true value of their business while safeguarding jobs and creating the conditions for future growth.

Selling the tangible assets may realise only a fraction of the going concern value and company owners are often reluctant to leave loyal employees in an uncertain situation. A trade sale opens up intimate business details to competitors. A management buy-out can put undue and distracting pressure on the organisation's key people, and often results in a trade sale further down the line.

The option to sell to the employees is not one that most owners think about but it is a way to preserve what is unique and special about the business, and to ensure that the company can be run by people who share the values and vision of the outgoing owner. An employee buy-out can also be a tax-efficient route for transfer, maximising the value of the business and safeguarding jobs. A sale to employees means a transfer to a group of people who have a vested interest in consolidating and expanding the business they have helped build up.

The buy-out process

Vendors can achieve market value for their company by pursuing this route. The employee buy-out can be achieved without employees having to overburden themselves with debt, and in some cases can be carried out with no financial outlay from employees.

The first step would be to gain an independent valuation of the business based on past performance and future prospects. Often the vendors will have a good idea of an acceptable price and how they would be prepared to receive payment, either immediately or in planned stages. Selling the company doesn't have to mean a total exit from the business. It can involve a gradual transition or the owner might retain a stake and a management role in the new ownership structure.

The second stage would be to examine the funding structure and identify sources of finance. Sufficient capital will be required to buy out the owners, to service debt and to enable the business to function on a day-to-day basis. There are organisations that support companies in this such as Baxi Partnership Ltd. Baxi Partnership Ltd has access to its own unique fund, in addition to partnering with other organisations interested in successful co-ownership.

Step three involves working with professional advisers to ensure all necessary structures are in place, the legalities are in order, an appropriate communication strategy has been adopted and the company is in the best position to derive the maximum benefit from its co-owned structure.

Experience from a number of employee buy-outs shows that the more employees can be involved in this process and shaping the future of their company, the more successful it is likely to be.

Employee Ownership in action

Parfett's

Parfett's is a cash and carry business with operations at six locations across England. Alan Parfett started the company with his wife and eldest son Steve in 1980. Alan retired in 1989 and Steve Parfett took on the role of Managing Director. As Steve's own retirement approached, the issue of business succession was considered. With no immediate prospect of the business being handed over to a third generation, the Parfett family took the decision in 2008 to transfer into employee ownership.



Steve Parfett
MD, Parfett's

'We looked at all options, including a management buy-out, selling to overseas investors or selling to the competition,' says Steve Parfett. 'However, we did not want to see the company broken up and renamed. Having worked with John Lewis in my younger days, I spoke to them and began to appreciate there was a vibrant employee ownership sector, which sounded the ideal route to take.'

Steve says that the family felt it was more important to sustain the successful organisation built up over 28 years rather than to get 'top dollar' for the business: 'We're happy to do this to see the name of the business going forward and retaining independence.'

Parfett's two-stage process includes a phased handover to ensure continuity. The family has sold a majority shareholding to the employees, demonstrating its commitment to employee ownership. The target is that Parfett's will be completely employee-owned within seven to ten years.

School Trends

School Trends supplies school uniforms from its base in Sheffield and currently employs 150 people.

By 2003, School Trends had reached a point where its owner needed to consider an exit strategy. The company had always encouraged a highly participative work culture, so the traditional business transfer routes felt, in the words of Peter Beeby, Managing Director, like 'selling your mates'.

'We were already operating on co-owned lines, philosophically and spiritually, so formalising this through employee ownership fitted our ways of working'. The main reason for formalising was 'to protect what we already had', adds Beeby.

Beeby established an employee share ownership trust in late 2004, funded through a contribution of company cash, a bank loan and a deferred consideration on the part of the existing shareholders (that is, they agreed to be paid off over a period of five years). Three quarters of the shares of the company were transferred into the trust and the remaining quarter continued to be owned individually by employees.

The company's constitution requires all new employees to buy a minimum stake representing 5% of their starting salary, redeemable on leaving employment. Employees can buy shares and they are also distributed annually through School Trends' profit-sharing scheme.

Employee Ownership in action

Woollard & Henry



Fred Bowden
MD, Woollard & Henry

Woollard & Henry was established more than 135 years ago as one of the main suppliers of Dandy Rolls – used to make watermarks on paper – to paper mills throughout the UK.

The decline in the paper industry was compounded for Woollard & Henry when ill health and retirement led the owners to sell. Business performance and the industry environment did not make the company an attractive proposition, and Woollard & Henry faced closure. Through Tullis Russell, the employee-owned paper mill, Woollard & Henry made contact with Baxi Partnership Ltd and the eventual outcome was the move into employee ownership.

The company borrowed the money to buy out the incumbent owners, enabling the employees to become owners without incurring personal debt. An Employee Benefits Trust was established to hold a percentage of shares to ensure the company's long-term independence and stability. A Share Incentive Plan was implemented to enable the distribution of shares to employees in a tax-efficient way.

The next stage was to ensure that the company was fit to face the future. With the previous owners gone, the company had to identify a new management team and examine its structure and strategy. The company invested in developing new products, and gained internationally-recognised accreditations. Over the last few years, the company has grown by more than 40% providing job satisfaction and increased financial reward for its employees.

Fred Bowden, Managing Director of Woollard & Henry, comments, 'While we have retained the tradition and innovation the company was founded upon, this is now a very different organisation. We are now established in several new areas due to the flexibility of our skilled workforce. The employees are all involved in the running of the company – and are now all reaping the financial benefits.'

G3 BXP Ltd



Marie Jarvie
Financial Director,
G3 BXP Ltd

G3 was started when a group of oil and gas engineering consultants became increasingly disillusioned working for large multinational corporations.

Using a mix of external funding and salary sacrifice, G3 became reality in 2007 when three colleagues left their jobs and started the company. The group grew to 13 founding shareholders, and there are now 25 employees in the organisation.

'The company is successful because we can all get on with our jobs,' says Financial Director Marie Jarvie. 'We make our own decisions unfettered by remote head offices or external shareholders. Our customers like our ownership structure; it might be different to others in our industry but it's attractive to customers that they are speaking directly to an owner in the business.'

Managing Director Mike Goodman adds, 'Employee ownership has enabled us to create the kind of company we want. We might work globally, but we have a strong sense of working for the same team.'

Frequently Asked Questions

How do managers manage if employees own the company?

Employee-owned companies which are part of the Employee Ownership Association all have highly professional management structures, and managers with job descriptions that any plc would recognise. The only difference is that managers are more accountable to their colleagues – and co-owners – than they would be in a company owned by shareholders. Managing in a employee-owned enterprise requires an inclusive and engaging approach to leadership – and most managers who join employee-owned companies find it hugely rewarding.

‘Co-owned firms appear adept at managing innovation and change, are underpinned by very high levels of productive employee engagement and have an excellent track record in delivering broader social, environmental and community benefit.’

Do employee-owned businesses survive?

Employee-owned companies have an excellent record of sustainability – partly at least because their employee co-owners are so committed to making sure the business does well. In particular, employee buy-outs have a much better survival record than management-only buy-outs (MBOs). A high proportion of MBOs fail, usually under pressure from the venture capital that will have funded the management takeover.

All Party Parliamentary Group on Employee Ownership 2008

Can employee-owned companies be really competitive?

Most employee-owned businesses are run under clear management structures by professional managements, but their co-owners in the workforce are also involved in the business. The result is highly competitive: staff have a clear incentive to help make their company succeed. Employee engagement and retention is better and, as employees share in the rewards of a successful business, they are motivated to contribute more.

Do you still need managers when a business is owned by its employees?

Strong professional management is critical in business and no less so in employee-owned organisations. Employee ownership is not management by committee, nor is it a brake on taking decisive action. Employee-owned businesses tend to be more successful precisely because everyone benefits from that success.

Why are trusts often part of employee ownership?

Trusts are an efficient vehicle for buying and ‘warehousing’ the shares being purchased. Shares that are permanently held in trust cannot be bought and sold, so they do not need to be financed again. The stability that this brings is an extra guarantee that ownership is secure.

What is the typical employee-owned company’s attitude to profit?

Profit is very important. Unlike other businesses, dividends don’t go to outside shareholders, and employees – as co-owners – tend to have much more say in how profits are allocated and invested.

Is an employee buy-out more complicated than another type of sale?

It needn’t be, and can often be simpler than a management buy-out or trade sale, as well as less antagonistic and quicker to make happen. A factor is whether the advisers helping with an employee buy-out are experienced in the process. Baxi Partnership Ltd can help companies decide on structure and process, which makes the tasks for the advisers more straightforward and cost effective.

John Lewis Partnership

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John Lewis Partnership is the UK's largest employee owned business. The Partnership's 69,000 Partners own the leading UK retail businesses – Waitrose, John Lewis and Greenbee. Our founder's vision of a successful business powered by its people and its principles defines our unique company today. The benefits and profit created by our success are shared by all our Partners.

www.johnlewispartnership.co.uk

Employee Ownership Association

The Employee Ownership Association is the voice of co-owned business in the UK and represents a sector of the economy now worth around £25bn in combined annual turnover.

A network of over 70 companies wholly or substantially owned by the people who work for them, the Association's role is to serve its member companies and promote employee ownership. Governed by its members, the EOA has a proud record of influencing government and has the support of all the main parties. The Association is a dynamic source of new thinking and guidance on employee ownership, via its annual conference, policy papers and other publications.

www.employeeownership.co.uk

Baxi Partnership Ltd

Philip Baxendale established Baxi Partnership Ltd (BPL) in 2001 with the express purpose of building strong companies in employee ownership.

Baxi Partnership Ltd works closely with companies looking to enter employee ownership, supporting them in identifying sources of funding, finding the best structure and processes which meet their needs. They work with companies throughout the business transfer process, ensuring the companies derive the most benefit from their ownership structure. Baxi Partnership Ltd also works with companies already in employee ownership, helping these companies become stronger, successful companies creating value for their employees.

www.baxipartnership.co.uk



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