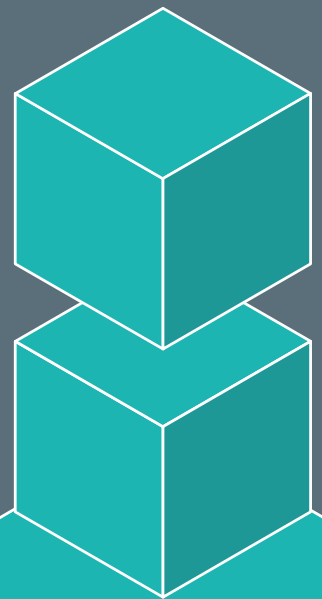


# The Economic Benefit

of Employee Ownership  
in Wales





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## » Executive Summary

### Introduction

Wavehill have been commissioned by Cwmpas to help ascertain the benefits of employee ownership (EO) in Wales by engaging with businesses that have successfully transitioned to an EO model. This follows the Welsh Government's commitment to doubling the number of EO businesses (EOBs) in Wales, as set out in the Programme for Government. Moreover, it follows the support provided by Cwmpas to help more businesses to make that transition.

Our research sought to understand the benefits for businesses, employees and society, including by identifying any economic impacts that can be attributed to EO, as well as exploring impacts on productivity, resilience, and employee engagement. The evidence in this report is largely based on interviews with 16 of the 40 EOBs that were operating in Wales at the time of commissioning the research, where we conducted detailed interviews with 16 directors and nine employee representatives.

### Key findings

The EO sector in Wales is very diverse in terms of both its geographical distribution and its sectoral composition, although it is particularly prevalent within the South East and within knowledge economy sectors. EOBs are generally established businesses that have been formed for at least 10 years, and are typically driven by a need to plan for succession with owners considering ways of exiting the business and retiring. The businesses involved in this study were almost evenly split between those operating an indirect ownership model (i.e. with shares held on behalf of employees through a trust) and those with at least some form of direct ownership (where employees held shares outright or through a hybrid model).

The evidence from this research is generally consistent with other research conducted in the UK on the benefits of EO, and faces similar challenges in determining causality. Generally, Welsh EOBs already had a progressive ethos with good transparency and some input from employees, although the latter was typically unstructured and could be fairly limited. The main changes were often in relation to applying more structure to facilitate greater employee engagement, which often had the effect of reinforcing or enhancing pre-existing practices. In other words, while many EOBs already had progressive practices with employees engaged in decision making at an informal level, the difference made by EO has been to formalise employee engagement by creating structures and mechanisms for employees to provide their input. In some instances, for example, employees were given more of a say through having greater representation on the board or through creating a wider process of decision making within the businesses. Even where that was not the case, EOBs reported that employees were at least more aware of the decisions and the strategic direction of the business and would often have a role in providing oversight. Thus, whilst varied, the weight of evidence does suggest that EO leads to higher employee engagement, as well as providing employees with a greater voice to influence the direction of their business — indeed, almost all EOBs believed this to be the case.



It was widely reported that this has led to a shift in the business culture, leading to greater unity, where people are working closer together towards a common goal. There is a greater understanding of what those goals are and the strategy for achieving them, as well as a greater sense of ownership over the goals. The higher levels of employee engagement, alongside the financial rewards, have then filtered through to greater well-being, job satisfaction, loyalty, and motivation to contribute to organisational success, which, in many cases, is believed to have filtered through to higher levels of productivity.

Our research further demonstrates a positive impact on recruitment and retention, largely because of the benefits described above. It has been important in some instances in giving EOBs a point of difference to their competitors and, thereby, helping them to attract the best candidates. This finding suggests that the model is particularly impactful for industries that traditionally experience high rates of staff turnover, alongside industries that have to compete for high-skilled candidates (such as those operating in the knowledge economy).

Despite reporting those benefits, EOBs were reluctant to report any impact on their growth as a result of transitioning to an EO model. This perhaps partly reflects the nature of the sectors in which they operate, where increased productivity within the knowledge economy does not necessarily equate to hard economic returns in the same way that it would for a manufacturing firm, for example. This perhaps reflects that productivity and growth in turnover are not the best indicators to use in measuring impacts related to EO.

There is much more evidence with which to demonstrate the impact on business resilience and its role in safeguarding economic activity within communities. By improving employees' well-being and job satisfaction, the EO model helps to strengthen the foundation on which every successful business is built. Additionally, whilst we do not find a clear causal link with individual businesses' economic performance, the evidence does demonstrate a link with supporting sustainable, locally embedded growth by providing a potential solution to the ownership succession challenge. In summary, our research confirms much of the existing research on this subject. It demonstrates that EO provides an important corporate governance model which can empower employees and create a better environment in which to work. In doing so, it has an important role in strengthening the resilience of businesses and communities throughout Wales, and brings benefits to employees working in those organisations. There is less evidence of an economic value that can be directly attributed to EO (e.g. through growth in turnover), although the larger research exercise recently commissioned by the EOA should provide some further insights. The findings from our research certainly present a compelling case to continue the investment in and encourage greater uptake of EO models.



## Recommendations

On the basis of these findings, we make the following recommendations:

- Recommendation 1: The evidence from this study suggests a range of benefits provided by EO for employees, businesses and communities. Furthermore, EOBs highlighted the importance of free advice and support to help with their transition (in some cases they only transitioned because of the availability of this support). Accordingly, a strong case can be made for continuing to promote and invest in EO as an alternative governance model.
- Recommendation 2: Equally, the evidence suggests that the key benefits of EO are more concerned with helping to address the business succession challenge, safeguarding economic activity in local communities, and as a response to the retention challenges in specific sectors, rather than generating economic impact. Thus, any future investment should be considered in that context.
- Recommendation 3: Some EOBs highlighted the need for continued support post-transition. Moreover, the evidence suggests that some had not fully appreciated or adopted the opportunities provided by EO, with limited changes to how the businesses were run and the involvement of staff. Accordingly, a case can be made for providing post-transition support as an extension of Cwmpas' current offer.
- Recommendation 4: Some EOBs had experienced much more satisfactory legal and financial support than had others, with reports that only a small number of providers understand the EO requirements and context. Given the current rate of transitions, the broader support infrastructure will likely need to be developed to meet the demand.



# Section 01

## Introduction

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- 1.1 Research objectives
- 1.2 Research method and report structure

# 01



# » 01 Introduction

## 1.1: Research objectives

Employee ownership (EO) has become increasingly prominent within public discourse in Wales and throughout the UK over the past decade or more. Cwmpas (formerly the Wales Co-operative Centre) has played a key role in driving that agenda through its delivery of the Social Business Wales (Growth) project, which includes a strand of support for businesses interested in EO<sup>1</sup>. This is in direct alignment with Welsh Government policy, where the current Programme for Government states that the Welsh Government will “Provide greater support for worker buyouts and seek to double the number of employee-owned businesses.”<sup>2</sup> This is because of the perceived benefits to businesses, their employees, and the economy at large.

Despite those perceived benefits, there is a scarcity of research on this subject in Wales, throughout the UK and internationally. Against this backdrop, Wavehill have been commissioned by Cwmpas to help ascertain the benefits of EO in Wales by engaging with businesses that have successfully transitioned to an EO model.

A Stage 1 Research Framework Report was produced in February 2023, which outlined the method, scope, and detailed questions to explore with businesses. The report was based on a detailed scoping exercise alongside a comprehensive desk review of the policy context in Wales as well as existing research on the benefits of EO. The following themes were identified as areas to explore based on the specification given for this research alongside the scoping consultation:

- What are the benefits of EO for businesses, employees, and society/the economy at large?
- How does EO affect business productivity, growth and resilience, if at all?
- What is the impact on staff with regard to increasing engagement, financial rewards/incentives, well-being, loyalty, and commitment to the business?
- Which elements of EO are responsible for any such positive outcomes? How do outcomes vary according to the specific EO model implemented, the motivations to transition to an EO business (EOB), and the structures implemented to increase employee voice?

<sup>1</sup> Social Business Wales is funded by the Welsh Government and the European Regional Development Fund as part of the Business Wales service.

<sup>2</sup> Welsh Government, Programme for Government, 17 June 2021.



## 1.2: Research method and report structure

The first stage of the research took place from late 2022 to February 2023, consisting of a detailed desk review and five scoping interviews with the team at Cwmpas, the Employee Ownership Association (EOA), Ownership at Work, and others. This informed our research by providing the plan and context for the study. As part of this, we set out the context in which EOBs in Wales operate, and outlined what the existing research (combined with key stakeholder views) says about the benefits of EO and the different factors that should be considered. This has been summarised in Chapter 2, which provides the context for this research.

Following the aforementioned research activity, we developed two interview discussion guides — one to obtain the views of directors and the other to obtain the employee perspectives within EOBs in Wales. A mixed-method approach was utilised, capturing quantitative and qualitative data to test whether the potential benefits highlighted in the Stage 1 research were experienced by EOBs in Wales. They also included questions with which to understand more about the profile of the EOBs in order to inform analysis of any correlations between different types of EOBs and the outcomes generated. There were several sections to the questionnaires:

- **Section 1** captured basic information on the businesses
- **Section 2** sought to understand business practices and ethos prior to the transition
- **Section 3** explored the process of transitioning to EO
- **Section 4** asked about directors' and employees' experience of EO and the changes implemented
- **Section 5** represented the most important part of the survey, examining the perceived benefits of EO
- **Section 6** asked directors for their business growth data and any attribution that could be made to their EO model.

Cwmpas shared a list of 46 EOBs with Wavehill in February 2023 — most (27) had received support from Cwmpas under the SBW programme, whilst the others were known to them. Contact details were supplied where available, including a named individual (for 29 EOBs), email address (34 EOBs), and telephone number (34 EOBs). Eleven had no contact details. Cwmpas then proceeded to email each business (where possible) to introduce the research and request their participation. The contacts were then split between four Wavehill researchers who followed up from mid-February to mid-March in an attempt to secure their engagement. This resulted in obtaining feedback from 16 businesses, which involved 25 interviews with 16 directors and nine employee representatives. The 16 EOB responses represent a 35 per cent response rate (from the 46 contacts available at the time).<sup>3</sup>

<sup>3</sup> This is a constantly evolving picture. We understand that the current size of the EOB sector stands at more than 50, with Cwmpas reporting that many businesses have become employee-owned since we started this study.



The director and employee data were then combined for each EOB as part of our analysis so that we could compare the responses. The analysis informing this report provided a 'top line' of responses, a comparison of director and employee responses, and a comparison of baseline and post-transition data to identify changes (i.e. the outcomes).

The survey findings are presented in Chapter 3 and Chapter 4. Chapter 3 considers the profile of EOBs in Wales. It provides further context to the research by examining the types of models used, businesses' motivations and their experience of transitioning, the sectors operated within, the size of businesses, etc. Chapter 4 provides the key findings on the benefits of EO. We examine what interviewees said about the benefits to their business, employees and the wider community. Furthermore, we consider any lessons that can be drawn with regard to relationships between outcomes and the profile and structures of EOBs.

The analysis of survey findings is supplemented by a series of case studies (see Appendix 1) which provide rich insights into the journey of selected EOBs. EOBs were selected for case studies based on the following criteria:

- Their agreement when asked in the survey, alongside suggestions from Cwmpas
- Securing a mix of different types of EOBs (location, sector, size, type of EO model, length of time operating as an EOB)
- Selecting EOBs that had a good story to tell.

It is important to note that there are significant limitations within the approach, principally the challenge of determining causality. There is a question mark in this research and, we would argue, other research conducted in this area in relation to determining cause and effect. Researchers can compare the performance of EOBs with that of the general population or a control group; however, identifying a suitable control group that manages to control for the range of factors affecting performance is a very difficult task. For instance, EOBs are likely to be more inherently 'switched on' and progressive (and thereby more growth-oriented) than organisations with conventional models of corporate governance. This makes it difficult to attribute differences and benefits to the EO model. The findings on business growth presented in this report rely on self-attribution, which does not provide the same level of scientific rigour.

Furthermore, growth trajectories will likely have been affected by the external shocks experienced in recent years, primarily Brexit, COVID-19, the war in Ukraine, and the associated inflationary effects, which adds further complexity to the process of disaggregating any growth attributable to EO from EOBs' 'organic' growth trajectory.

We note that a larger research exercise has recently been commissioned by the EOA, and delivered by Ownership at Work, which also seeks to identify the benefits of EO throughout the UK. This will include a control group which should provide a more rigorous assessment of economic impacts that can be attributed to the EO model. Such an exercise would not have been possible within the constraints of this study. That being said, this research provides the most comprehensive study undertaken of the EO sector in Wales, as well as indicative findings on the benefits of employee ownership.



# Section 02

## Existing research on the benefits of employee ownership

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- 2.1 Background
- 2.2 Existing research on the benefits of EO

# 02

## 2.1: Background

Whilst there is no universally accepted definition of EO, Krusi and Blasi (1997) highlight four main dimensions: the proportion of company shares owned by employees, the proportion of employees owning shares, the distribution of ownership amongst employees, and the nature and extent of rights associated with ownership. A firm might be 100 per cent owned by its employees but most of the ownership is held by a small group of senior employees. Cwmpas, in line with the EOA, defines EO as firms in which 25 per cent or more of the ownership of the company is broadly held by all or most employees (or on their behalf by a trust).

Although some firms in the UK have been employee-owned for many years, EO started to become more prevalent in the mid-1980s and only picked up in the 2000s, with the pace escalating from around 2010<sup>4</sup>. Questions in relation to economic growth, productivity, and rising levels of in-work poverty following the 2008 global financial crisis were the catalyst for a focus on alternative models of corporate governance.

In 2012 the Nuttall Review<sup>5</sup> was launched by the UK Coalition Government. This review noted that whilst there was political momentum gaining in favour of EO as a sustainable form of corporate governance, there was a lack of awareness of its benefits. All 28 recommendations of the Nuttall Review were acted upon to some extent by the UK Government<sup>6</sup>, most notably the legal concept of an employee ownership trust (EOT) structure that was introduced by the Finance Act (2014), which, among other things, provided tax advantages when transitioning to EO, particularly:

- An income tax (IT) exemption of £3,600 per tax year on certain bonus payments issued to all employees. National Insurance contributions do not fall within this exemption.
- A full capital gains tax (CGT) exemption when a majority of shares in a company are sold to the EOT. No CGT liabilities arise through the sale of shares for the owners.
- A relief from inheritance tax on certain transfers into and from the EOT.

Whilst the CGT exemption had the direct impact of incentivising owners, the indirect impact on the advisory service was perhaps of even greater significance:

A similar trend with regard to the transition to EO can be seen in Wales, as we reveal in Figure 2.1 below. This shows that conversions to EO models only took off from 2010, where only 10 EOBs were operating at the time, increasing to 40 by the time of starting this research in September 2022. Such is the pace of growth that we understand that the number had reached 56 EOBs at the time of writing this report (May 2023), i.e. just eight months on.

<sup>4</sup> White Rose Employee Ownership Centre, 'Employee Ownership In Britain Today', February 2015.

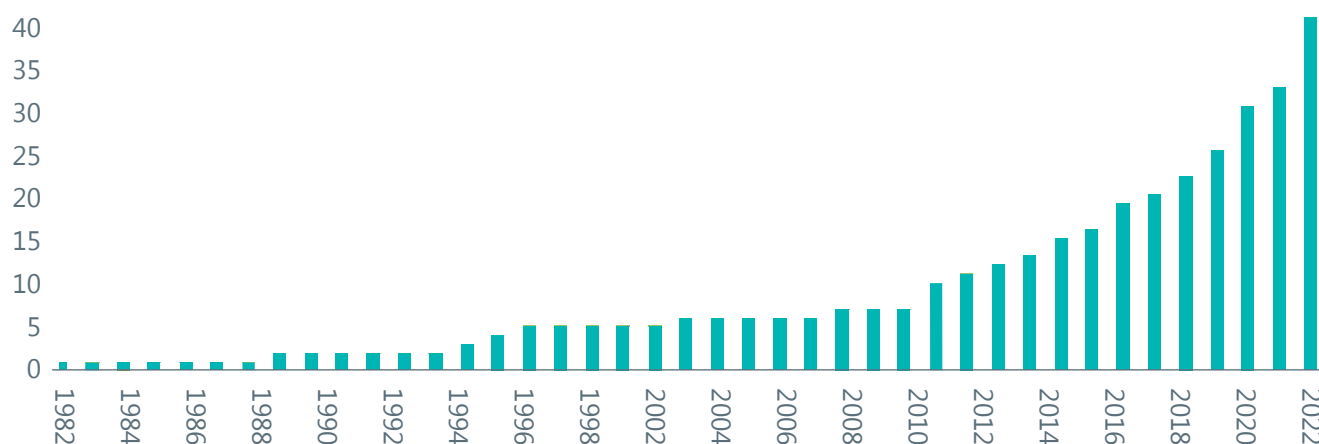
<sup>5</sup> Sharing Success: The Nuttall Review of Employee Ownership (July 2012).

<sup>6</sup> Celebrating the 10th anniversary of the Nuttall Review (July 2022).



*“The tax relief has forced it on the table where there is almost a duty on professionals to raise it with clients and say there is a tax relief here that you should know about.”*  
(Source: Scoping interview)

**Figure 2.1: Transition to EO in Wales, by year**



Source: Data shared by Cwmpas

The trend towards EO in Wales is closely aligned with the policy objectives outlined by the Welsh Government. It aligns with the Economic Action Plan ‘Prosperity for All’, which aims to achieve inclusive growth, i.e. “a fairer distribution of the benefits of economic growth”, building an economy around high-quality employment and a fairer way of conducting business. It sits within the context of the Well-being of Future Generations Act (2015) (WBFGA), which is underpinned by the principle of achieving sustainable development by setting out a framework and goals for improving the social, economic, environmental and cultural well-being of Wales, including supporting people and businesses to drive prosperity as well as promoting fair work. The report of the Fair Work Commission defines fair work as “where workers are fairly rewarded, heard and represented, secure and able to progress in a healthy, inclusive environment where rights are respected”, and includes characteristics such as employee voice and collective representation. This clearly aligns with the concept of EO.

Cwmpas published a White Paper on EO in 2020, setting out the context within the Welsh economy. This report highlighted the key barriers for businesses in Wales to transition to EO models as well as the potential “succession time bomb” within the Welsh economy. Following the recommendation in the report that the Welsh Government commit to doubling the size of the sector, the new Programme for Government included an explicit commitment to doing so. In October 2021, the Welsh Senedd passed a proposal with cross-party support to introduce legislation promoting worker buyouts and EO in Wales, providing a legal framework, financial support, and advice.



The Welsh socioeconomic context, with high levels of foreign direct investment (FDI) posing risks in relation to wealth extraction, further demonstrates the value of EO. Indeed, this in part has driven a focus on supporting the ‘foundational economy’ as an opportunity to support quality employment in local communities and keep goods, services and profit within Wales whilst simultaneously selling outside of Wales. Equally, the scoping consultation highlighted that while the focus on EO initially centred on addressing issues such as the “succession time bomb”, and as a solution to the issues caused by FDI, it has now moved on to focus on addressing other issues including sector-specific challenges such as recruitment and retention within social care.

## 2.2: Existing research on the benefits of EO

Before setting out to obtain feedback from Welsh EOBs regarding their perceived benefits of EO, we first conducted a detailed desk review to understand the existing research on the subject. The main findings from our review are shown here.

The report from the Ownership Effect Inquiry chaired by Baroness Bowles in 2018 suggested that the economic dividend to EO pays off at three levels: the economy, the business and the individual. At the level of the economy, it may improve productivity and embed longer-term decision making, thereby supporting economic resilience and promoting innovation, although there is a lack of robust evidence with which to demonstrate those impacts. There is more evidence with which to demonstrate a link with supporting sustainable, locally embedded growth by providing a potential solution to the ownership succession challenge.

At the business and individual levels, the Inquiry suggests that more democratic forms of corporate governance enhance employee engagement and improve workplace culture, which, in turn, may improve employee loyalty and, thereby, staff retention.

Other research, such as the Nuttall Review (2012), has focused on similar themes in relation to greater employee engagement and commitment, improved business performance, and innovation, whilst also identifying benefits regarding increased economic resilience, enhanced employee well-being, and reduced absenteeism.

The EOA Impact Report (2020)<sup>7</sup> proposes a similar business case for EO, demonstrating evidence which shows that EO, when combined with meaningful employee participation, can bring tangible economic benefits to companies. Indeed, the Employee Ownership Index<sup>8</sup> has outperformed the FTSE All-Share by an average of 10 per cent since 1992. Across these reports, however, the causal link between the benefits of EO and its economic impact is underdeveloped. Indeed, the UK Government’s All-Party Parliamentary Group on EO (2008) noted that one of the key barriers for the sector was a shortage of data on its size and performance<sup>9</sup>. This was confirmed during the scoping consultation, where it was highlighted that the scientific research, in particular, is lacking: *“lots of [the evidence base] is anecdotal at the moment.”*

<sup>7</sup> Employee Ownership Association’s Impact Report (2020).

<sup>8</sup> The Employee Ownership Index compiled by Field Fisher Waterhouse LLP tracks the share price performance of listed companies that are at least 10 per cent owned by employees. Source: Compiled quarterly by the Equity Incentives team at law firm Field Fisher Waterhouse.

<sup>9</sup> Share Value: How employee ownership is changing the face of business, APPG on Employee Ownership (2008).



The most significant analysis of employee engagement in the UK recently has been the MacLeod Review, which found: “Employee ownership was a profound and distinctive enabler of high engagement” (MacLeod and Clarke, 2009). The Review concluded that the benefits of employee engagement extend to both the employer and the employee, and identified a positive correlation between employee engagement and business performance, customer service, innovation, reduced sickness absence, reduced staff turnover, and fewer accidents.

On the other hand, whilst emphasising the correlation, studies also recognise that there has not been a definitive study which has unequivocally established causation between employee engagement and higher employee participation, performance or productivity (MacLeod and Clarke, 2009; Matrix Evidence, 2010). The drivers behind successful engagement approaches were summarised as strong leadership, which gives employees a line of sight between their job and the vision and aims of the organisation; engaging managers who ensure that employees feel that they are valued, as well as equipped and supported to undertake their job; employees feeling that they are able to voice their ideas and be listened to, as well as a commitment to arriving at joint solutions; and belief among employees that the organisation lives its values, resulting in trust and a sense of integrity. EO is certainly likely to create favourable conditions for the type of ethos described above, although not all EOBs espouse it. A key finding from the review was that positive employee outcomes are more associated with the nature of EO, including different types of models (e.g. direct or indirect), rather than EO in itself.

Studies cited in the Nuttall Review (2012) suggest that productivity gains may only arise under certain conditions. There is a general acceptance that employee share ownership should be combined with employee engagement for productivity benefits to occur (Lampel et al., 2010; Matrix Evidence, 2010). Furthermore, studies have shown that productivity benefits can depend on the company size and be higher for smaller companies.

Perhaps the main attempt at identifying the economic benefit of EO in the UK to date was made by Lampel et al. (2010) with their report entitled ‘Model Growth: Do Employee Owned Businesses Deliver Sustainable Performance?’. Even then, the scale of the research was fairly small, with the report based on a survey of 41 EOBs and 22 non-EOBs in the UK<sup>10</sup>. Whilst the research suggested that EOBs create jobs more quickly and are more resilient, there is again a challenge in determining causality regarding this, i.e. whether EOBs perform better because of their EO status or whether better-performing businesses are more likely to engage with EO models. The research did suggest, however, that the profitability of EOBs correlates with giving employees greater autonomy in decision making, which may suggest that a causal link can be made between EO and profitability. In addition, the research found that the EO model confers particular advantages in knowledge and skill-intensive sectors with average wage costs of more than £40,000 per employee, and that EOBs are better employers by rewarding employees with higher wages.

<sup>10</sup> It also utilised secondary data on the commercial performance of 49 EOBs and 204 non-EOBs in the UK.





The explanation for the impact on economic resilience offered by Lampel et al. is that while non-EOBs tend to swing between excessive risk taking and excessive risk aversion, EOBs maintain a more consistent approach towards risk. They are not prone to taking on too much risk during economic upswings, but, surprisingly, are more positive about expanding ahead of demand when economic conditions are poor. In other words, they conclude that EOBs take a long-term view, rather than feeling that they must only move in line with current economic conditions.

Additionally, the report suggested that having a longstanding reliance on internal growth could be an advantage during economic downturns, as these companies are more adept at using internal resources to pursue growth and are less dependent on external capital sources. For these reasons, EO is also thought to provide greater economic performance stability as well as strong alignment with the WBFGA with regard to creating a more resilient Wales.

Other studies have derived similar conclusions. For instance, a detailed report on worker buyouts in Italy suggests that converted businesses are on average more resilient over the long term, compared with other businesses, particularly during difficult economic conditions<sup>11</sup>. Furthermore, recent research commissioned by Co-operative Development Scotland and Scotland for Employee Ownership demonstrated that EOBs' approach to fair work created financial and social resilience despite the COVID-19 pandemic. The research concluded that, by focusing on people, job security, health, equality, and well-being, EOBs were able to maintain or increase turnover and improve staff retention at a time when many businesses experienced the opposite.

Business succession forms another part of the increased economic resilience equation. The EO model provides a structure with which to deal with succession issues by allowing employees to acquire controlling ownership from existing shareholders. The EOT model allows this acquisition to take place without employees having to use their own funds. Thus, it helps to prevent business dissolvments where traditional trade sales or management buyout routes are not available.

There are studies that suggest that EO can drive innovation in a company, although the evidence is partial and requires further development. Burns (2006) found that 44 per cent of respondents to their survey strongly agreed with the proposition that EO makes employees more committed to company success and that innovation happens more effectively. Similarly, Lampel et al. (2010) identified that EOBs perceive their ability to attract and retain talented employees and harness their innovation as strong advantages of the EO model, whilst MacLeod and Clarke (2009) propose that there is a strong relationship between employee engagement and innovation. Research conducted by Lampel et al. (2012) also found that through having a longer-term focus, EOBs attached higher importance to "pioneering innovations" and "innovative ideas from staff." On the other hand, Burns (2006) points to a significant disadvantage identified by one company surveyed: low staff turnover (another benefit associated with EO) could create circumstances in which new ideas are slow to materialise, as fresh thinking and perspectives are seldom added to a company's labour force.

Researchers point out that, in general, it is difficult to verify the influence of ownership on product and process innovation by means of statistical methods. However, qualitative evidence indicates that employees in EOBs feel more empowered to adopt changes to their tasks, roles and routines, which could positively influence innovation.

<sup>10</sup> Marcelo Vieta, Sara Depedri, and Antonella Carrano, 'The Italian Road to Recuperating Enterprises and the Legge Marcora Framework: Italy's Worker Buyouts in Times of Crisis', March 2017.

<sup>11</sup> Marcelo Vieta, Sara Depedri, and Antonella Carrano, 'The Italian Road to Recuperating Enterprises and the Legge Marcora Framework: Italy's Worker Buyouts in Times of Crisis', March 2017.



A study of the John Lewis Partnership shows a correlation between EO, open information flows, high wages — all factors that are positively associated with high productivity and innovation — as well as reduced staff absenteeism and voluntary staff turnover.

In summary, the evidence on the economic benefits of EO is inconclusive. Indeed, the EOA's Ownership Effect Inquiry concluded with the following:

*“Research shows that economic performance is the result of a variety of factors that are often difficult to identify and measure. Therefore, even though we find a positive relationship (i.e. correlations), we have incomplete understanding of the causal pathways by which EO leads to better economic performance of the firm.”*

There is more evidence with which to demonstrate a causal link with employee engagement, which, in turn, can potentially be linked to higher productivity and improved economic performance. However, there is a lack of robust evidence with which to demonstrate those causal pathways. Additionally, the relationship between EO and employee engagement is heavily influenced by firm-level variables such as quality of leadership, communications, governance structures, and profit-sharing principles.

The stakeholders taking part in our scoping consultation suggested the following as potential outcomes from EO:

- Change in turnover and profit shared — *“not just shared between one or two, but more widely.”*
- Employee motivation — employee benefits such as salary/bonuses, job security, and a sense of agency in decision making, leading to a rise in morale and discretionary effort, which, in turn, results in increased motivation and the business *“pulling in the same direction, leading to productivity.”*
- Providing a marketing edge through having a USP that makes businesses stand out amongst competitors — *“lots of businesses, particularly consumer-facing ones, think it makes them more attractive to consumers and [attracts] new talent. It's a positive story, makes them stand out; for example, I spoke to a company who makes scientific instruments for pharma. There were loads of businesses like them and a shortage of people who can do [labour market supply]. They were struggling to hire, but now they stand out because of their EO status and [find] it much easier to recruit.”*
- Greater strategic scrutiny and chain of accountability — how many employees think about the business and challenge their practices, e.g. around the environment, serving their communities, etc.
- Linked to the above, a change in the direction of the business with movement towards the triple bottom line (TBL), i.e. the concept of focusing as much on social and environmental concerns as they do on profits — *“if we assume that local people are employed, giving them a greater say within the business will have a positive impact on the direction of the business, i.e. employing local workers, use of local contractors [...] remaining in the community during difficult economic periods. To what extent are they more grounded in their community?”*
- Better form of sustainability and resilience through successful business succession, implementing a 'defensive' transition (e.g. safeguarding against FDI-related pull-outs), and through higher levels of commitment and engagement during difficult economic conditions.

Based on this research, we developed a theoretic illustration of the causal links between EO and the benefits described above, which can be found in Appendix 2.



# Section 03

## The EO sector in Wales

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- 3.1 Profile
- 3.2 Motivations
- 3.3 Transition process
- 3.4 EO practices and experience

# 03

## » 03 The EO sector in Wales

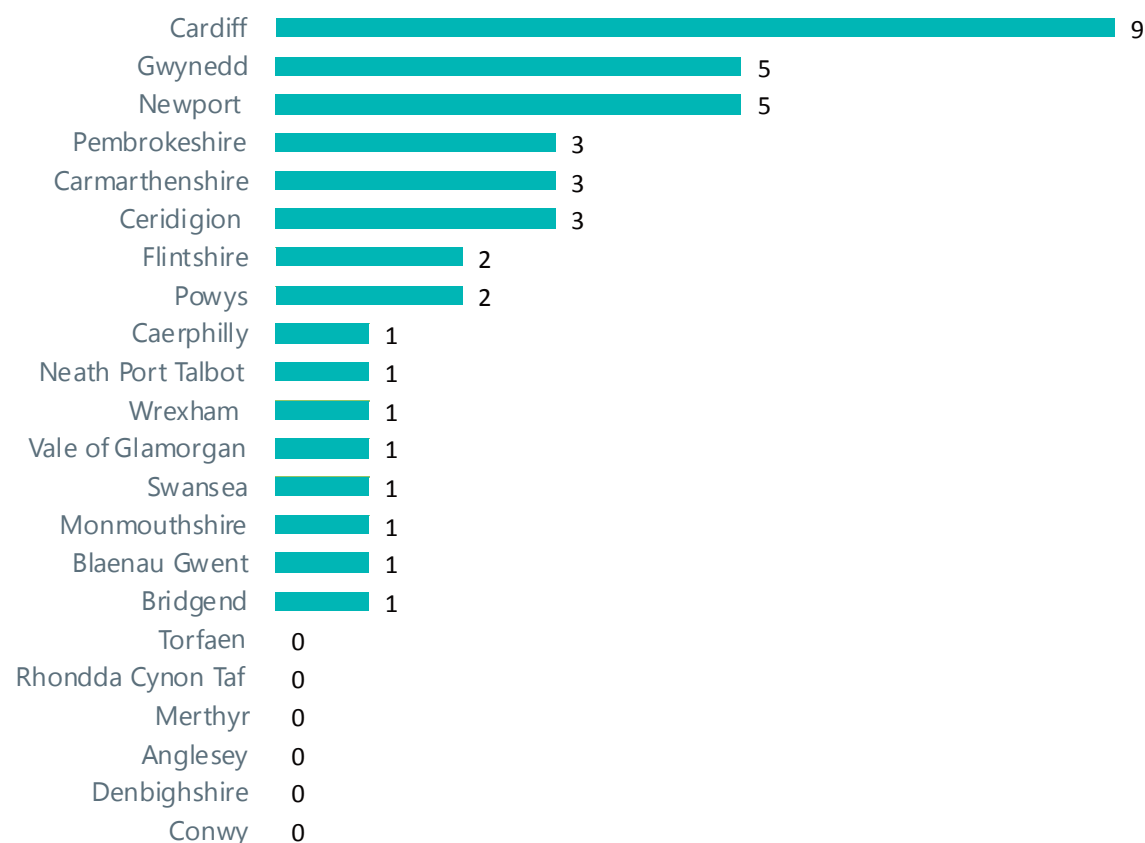
In this chapter we provide a detailed outline of the EO sector in Wales, examining where they are based, the sectors in which they operate, their motivations behind and experience of the transition process, as well as the specific models utilised, and changes made to how they operate.

### 3.1: Profile

#### 3.1.1: Geographical and sectoral distribution

The EO sector in Wales is very diverse in terms of both its geographical distribution and its sectoral composition. As we can see in Figure 3.1 below (based on the 40 contacts shared by Cwmpas at the beginning of this research), there are EOBs in every part of Wales (North, South, East and West), including in 16 of the 22 local authorities. There is a particular concentration of activity in the South East, with nine EOBs (23 per cent) in Cardiff and a further five (13 per cent) in Newport, which is higher than the geographical distribution of the overall business stock (11 per cent in Cardiff and four per cent in Newport)<sup>12</sup>. However, there are also above-average concentrations of EO activity in other parts of the country, including in North and South West Wales, e.g. in Gwynedd (accounting for 13 per cent of EOBs vs. five per cent of all businesses), Ceredigion (eight per cent vs. four per cent) and Pembrokeshire (eight per cent vs. five per cent).

**Figure 3.1: Geographical distribution of EO businesses in Wales**



Source: Data shared by Cwmpas

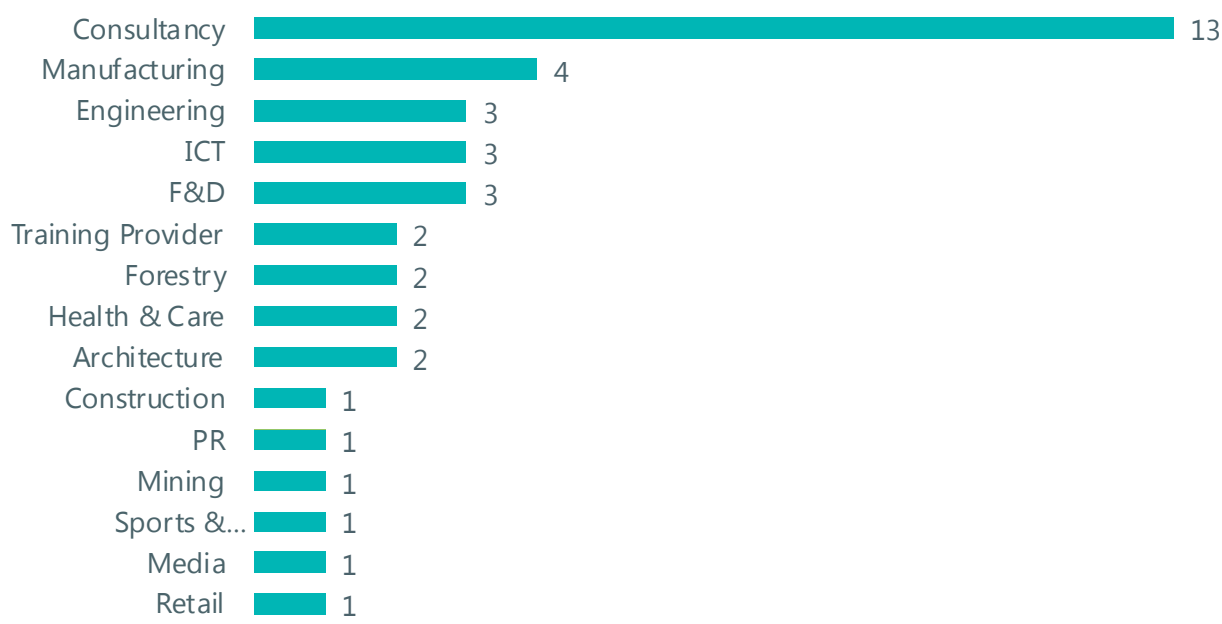
<sup>12</sup> Source: ONS, Inter-Departmental Business Register.



At a regional level, around half (48 per cent; 19/40) of EOBs are located in the South East, 20 per cent (8/40) each are located in South West and North Wales, while the remaining 13 per cent (5/40) are located in Mid Wales.

The South Wales Valleys have very little EO activity (none in Rhondda Cynon Taf, Merthyr, and Torfaen, and only one each in Blaenau Gwent and Caerphilly), despite the high level of social business activity in some of those areas<sup>13</sup>. This is likely linked to the sectoral profile of EOBs, which are particularly prevalent in the knowledge economy. For instance, Figure 3.2 shows that 13 of the 40 (33 per cent) can be categorised as consultants (comprising research, business, financial and environmental consultancy), whilst several others operate in sectors such as ICT, architecture, training and PR. That being said, there is substantial sectoral diversity spanning manufacturing, construction, retail, health and care, and more.

**Figure 3.2: Sectoral composition of EO businesses in Wales**



Source: Data shared by Cwmpas

EOBs are generally established businesses. Indeed, all 16 of the businesses that we surveyed had been established for at least 10 years, and most (10; 63 per cent) had been established for more than 20 years. In comparison, only 52 per cent of the wider social business sector contains organisations that have been established for more than 10 years (and only 24 per cent for more than 20 years)<sup>14</sup>. Moreover, there is a significant difference with the general business stock in Wales (i.e. including all businesses, not merely social businesses), with ONS data showing that 67 per cent of Welsh businesses have been established for less than five years<sup>15</sup>. This demonstrates how EOBs are not 'typical' in their profile, which makes simple comparisons with non-EOBs (i.e. without using propensity score matching) problematic.

<sup>13</sup> Social Business Wales, 'Mapping the Social Business Sector in Wales / 2020 Census', June 2021.

<sup>14</sup> Ibid.

<sup>15</sup> This is based on analysis showing the count of VAT- and/or PAYE-based enterprises in Wales by age of business.



Some of the EOBs that we surveyed had been operating for several decades but had only relatively recently become employee-owned. For instance, Melin Tregwynt was established more than 100 years ago but did not become employee-owned until 2019. Only one of the 16 businesses to which we spoke started as an EOB, while 14 of the 16 had been in existence for at least a decade before transitioning to EO.

### 3.1.2: Business culture

We asked EOBs several questions to understand the level of employee voice and industrial democracy within the workplace before transitioning to EO. We found:

- Most (11/14) directors felt that their businesses were transparent and communicated key strategic information with all employees (e.g. regularly sharing financial data) prior to the transition at least to some extent (although only 5/14 reported 'To a great extent'), and employee representatives generally agreed.
- Most directors (10/14) felt that employees already had input in key strategic decisions before the transition to some extent, although only three reported 'To a great extent', and we note that employee representatives expressed a different view, with most (5/9) reporting that they had no input.

Some of the reported mechanisms for obtaining employee input consisted of strategic management team (SMT) meetings, board meetings, team meetings, company away days, and team-building exercises, and through line managers (including through annual appraisals).

Employee engagement appears to have mostly been informal and unstructured, even in the more positive examples in which both the director and the employee representative agreed that there was employee engagement; for example: *"If someone took the initiative to get involved or raise an interest they would be encouraged to do so, but there was no formal mechanism."*

Equally, the extent of strategic involvement appears to have been fairly limited in many instances in terms of both the types of decisions in which employees were involved and the number of employees involved in those decisions. For instance, with regard to the former, one respondent stated that, *"ultimately, it was the founder that drove where the business went, how it went, whether he bought something else [acquisitions],"* and others noted that staff would be involved in operational decision making, rather than being involved at the strategic level. Four of the 10 directors reporting pre-transition employee engagement indicated that only a minority of those employees were involved in the strategic decision-making process. Reflecting on the lack of structure and scale of involvement, one commented: *"It equates to very limited engagement. I don't think that the company had a strategy for engagement before the changeover."*

We also note that in most instances, employees were informed of the possibility of becoming EO long after directors had first considered it. Indeed, by comparing responses from the two cohorts in the survey, we can see that in six of the eight cases for which we have data from both, employees were typically notified of the possibility around a year or more after directors had first considered it (e.g. see Cwmni Da case study). This again suggests that employees were not heavily involved in the strategic decision-making process. Equally, this delay may have been motivated by a desire not to create uncertainty within the workforce until the current owners had fully investigated EO and decided that it was a realistic option.



In summary, the findings are fairly mixed. While they suggest that the scale of employee engagement was fairly limited and informal for the most part, others already had a culture of democracy within the workplace before transitioning to EO. The vast majority were at least transparent in sharing key information with employees and providing some means of engagement, which likely means that these businesses, as a cohort, had a more 'progressive' attitude towards employee engagement than businesses typically would.

### 3.1.3: EO model

There are broadly three different types of EO models:

- Indirect employee ownership — under this model, shares are held collectively on behalf of employees, normally through an EOT. This means that the employees do not directly own shares in their employer company; instead, they are beneficiaries of the trust which owns the controlling shareholding. Since October 2014 it has been possible for tax-free (NIC still applies) bonuses of up to £3,600 per person per annum to be paid.
- Direct employee ownership — under this model, employees become registered individual shareholders in their company. This typically takes place in conjunction with a statutory tax-advantaged share plan over shares in the ultimate parent company. The choice of share plan used depends on several factors. Employees might purchase shares or be gifted shares under a share incentive plan (SIP), potentially tax-free. Employees might be awarded tax-advantaged share options which might be tied to time vesting (encouraging retention) and/or performance metrics (rewarding business growth — often needed to ensure ongoing commercial success and to help fund the EOT payouts in future).
- Hybrid model — this method is a combination of trust ownership and employee direct share ownership. Typically, the retiring vendors sell their share interests to the EOT when it is first established and then over time some of these interests are transferred to employees. The hybrid model suits businesses in which the emerging new managers desire a real ownership stake in the business but there is a desire by the original founders to preserve independent control of the business. Often some form of performance-contingent direct share ownership is required to help support the attainment of future financial performance.

Most EOBs appear to operate the more recently developed ownership models, with only four of the 15 responding to the survey question (only 23 per cent) reporting that they had direct employee ownership, which is the most traditionally associated with worker buyouts. Just under half (7/15) have an indirect employee ownership structure, while the other four operate a hybrid model.

Five of the eight that had some form of direct ownership (i.e. outright or through the hybrid model) cited that they had an SIP and/or tax-advantaged share option (three each reported this), including through establishing an enterprise management incentive (EMI) scheme. This was typically tied to time vesting and/or performance metrics, e.g. tied to profit or after a three-year period in employment.

There was some variance in share ownership, although all but two of the EOBs (11/13) reported that a majority of their shares were directly held by employees, including five businesses reporting that all shares were directly held by employees.



## 3.2: Motivations

Businesses' motivations for becoming employee-owned were much more pragmatic in nature than altruistic. Specifically, 12 of the 14 responses revealed that their motivations were at least partly driven by a need to plan for succession with owners considering ways of exiting the business and retiring. As one respondent described it: "It was less about EO and was more about ownership transition." Equally, the motivation was often a combination of both pragmatic and altruistic considerations, where owners were anxious to ensure that the investment in people and the locality would not be lost through any sale, particularly to venture capitalists.

Reflecting how these two desires combined, one respondent commented: "We have invested significantly in the area and the people, but want to retire. EO offers a route to satisfying both." Four respondents described how the EO option reflected the values and ethos of their business, while two believed that it would help to improve business performance.

There were three examples in the responses in which the motivation to transition to EO appears to have been completely pragmatic in nature. In one case, four individuals who had been operating as sole traders (who had collaborated closely in the past) wanted to form a joint entity because it "would look more substantial than a sole trader," and they felt that it would "add more weight" in bidding for work. Another reported that they had experienced a failed traditional management buyout and that this was the last remaining option for the business to survive, whilst a third respondent noted that it came about after a strategic review to identify the best way of realising the capital in the business.

In summary, the majority of transitions have primarily been concerned with business succession and mostly for practical reasons, although a desire to reward employees or safeguard their and local communities' interests was often an important driver, too.

## 3.3: Transition process

The length of time from first considering EO as an option to the point of transaction (which we can describe as the transition period) varied considerably, with just under half (7/15) reporting that it took a year or less, while several respondents (4/15) reported that it took more than three years. In two cases, more than 10 years had elapsed before the sale was completed.

Directors generally believed that their businesses had been adequately prepared, explaining how they had "*brought the team with us on that journey from a very early stage.*" Others pointed out that "*not a lot has changed,*" or at least not initially, which made the process smoother and easier with regard to taking employees with them.

Employee representatives were even more positive, with most stating that the business had been very effective in explaining the concept to them and how it would affect their employment, despite not being familiar with the concept beforehand. They made similar comments on the smooth nature of the transition: "*It was minimal impact to the business [...]. It was very smooth [...]. They did a really good job.*"





Seven of the nine employee representatives reported that their business had been adequately prepared for the transition 'to a great extent'. All employee representatives indicated that they were pleased about the opportunity, and that they wanted an ownership stake and a role in strategic decision making, and felt that they had the appropriate skillset with which to make those decisions (although there was much less 'strong' agreement on the latter). This suggests that the model was an appropriate fit for those businesses. That being said, there were some examples in which employees found the transition to be difficult, with one commenting: *"It's just the shock of becoming a business owner [...]. Some staff didn't really understand what was going on. That could have been handled better. I found it hard going from a person following orders to being in charge and giving orders."*

Directors highlighted the importance of the support that they received (particularly from Cwmpas), which *"helped enormously in clarifying the process and bringing [employees] along."* Asked directly, most (10/14) confirmed that they had received support from Cwmpas, whilst seven also cited support received from other organisations (e.g. legal support or financial support to undertake a valuation). Cwmpas generally provided advice and guidance by, for example, explaining the role of the board and trust, as well as options for the type of structure that could be implemented, and helped with ensuring that the key information was shared with employees (including by presenting to employees directly or providing guidance to directors).

Four respondents suggested that they would not have been able to transition without this support; for example: *"If there wasn't the option of free advice, the owners would not have wanted to engage."* Respondents explained that it was a complex and time-consuming process, thereby necessitating the support; for example, *"It's a four-year process. We were knackered after the beginning of the process."* They highlighted legal issues which could be complicated and require detailed work, as well as challenges with the transaction, such as land and property issues or prolonged payments to former directors who still had an influence over the direction of the business, and more.

It was reported in two instances that the support had not been effective, thereby causing issues during the transition; for example: *"We don't feel that the solicitors chosen were geared up to offer this kind of advice, and this has created some problems, most especially the fact that our new memorandum and articles of association have yet to be finalised."* This comment perhaps reflects a need to develop the support infrastructure in Wales to ensure that there are appropriate providers in place that can help businesses through the process.

Despite these issues, both the directors and the employees were generally satisfied with the transition process, with the latter even more so<sup>16</sup>. Together, these data suggest that, despite the complexities and time requirements, businesses were able to transition quite successfully.

<sup>15</sup> Six directors reported that they were 'Very satisfied', six were 'Satisfied', and two selected the neutral 'Neither satisfied nor dissatisfied' option. All eight employee representatives selected 'Very satisfied' (5) or 'Satisfied' (3).

<sup>16</sup> Six directors reported that they were 'Very satisfied', six were 'Satisfied', and two selected the neutral 'Neither satisfied nor dissatisfied' option. All eight employee representatives selected 'Very satisfied' (5) or 'Satisfied' (3).



### 3.4: EO practices and experience

It was apparent from the comments that, for the most part, businesses were not fully operating as an EOB (i.e. with any meaningful change to their operational practices) overnight once the transaction had gone through; rather, it was an ongoing process. Indeed, nine of the 15 responses revealed how there was a period after the transaction, which could be six months or as long as one or two years, in which they were embedding the processes and testing the best way of implementing the model:

*"In the first two meetings we had in the first six months, the [EO] Council wasn't really sure what its purpose was. By the third council meeting, everybody had learned something about where we could really add value and how best to represent our colleagues and in what areas."*

*"There was a lot of technicalities that were unknown, e.g. share prices [...] that hadn't been figured out. It was a bit of a learning curve, but it was accepted that it was part of the natural process."*

Two respondents highlighted how, even after embedding new processes, there was continued evolution of the model, with adjustments continuously being made (the Itec Training Solutions case study provides a good example of this).

There were three comments suggesting a more immediate realisation of the EO model in how they worked. Generally, however, it would take a period of time, post-sale, for directors and employee representatives to feel that they were truly operating as EOBs. One respondent described how it was *"a shame that support can't be accessed/subsidised post-transition"* to help with the ongoing development work.

Almost every EOB taking part in our consultation was able to point to some changes made to their operating practices following the transition to EO, not least establishing an EOT or other type of employee voice group, which represented the main change. Indeed, this was cited by seven of the 13 EOBs that provided feedback on this. Three EOBs had gone a step further by including an employee representative on their board or SMT, thereby being more heavily involved in the strategic decision-making process. Others reported that they had introduced more structured meetings to obtain employee input, incorporated regular (annual or biannual) 'away days' to disseminate information and capture employee feedback, and established other communication channels (e.g. newsletters) again for input and dissemination — three respondents each cited these new practices.

The transition to EO certainly appears to have coincided with a greater focus on transparency and communication with employees. Changes were obviously also made to the businesses' share structure (as mandated by the transition), with a move from being held by a small number of individuals (in many cases) towards a majority being held by an EOT or directly by a larger group of employees. Some highlighted that this affected the decision-making process, with some matters requiring shareholder majority consent (e.g. should there be a sale), and would be put to vote. Others highlighted how the transition had led to a greater share in profits and tax-free bonuses.



As already highlighted, the EO setup has continuously evolved within EOBs, e.g. as a result of new members joining the share scheme and other (often retiring) members departing. One respondent highlighted how they had changed who could access shares, opening them up to all employees who had completed their probation period, whereas previously they were limited to the associate director level. Another indicated that they had introduced an 'opt-out' mechanism for those individuals who did not want to hold shares, although *"very few people have decided to go down this route."*

Every director and employee representative involved in our consultation reported that they have been satisfied with their experience of EO to date, and the majority were 'very satisfied'. Elaborating on this, nine of the interviewees cited the sense of staff empowerment and increased awareness among employees regarding what it takes to run a business successfully. They highlighted the benefit to each party, with staff appreciating the sense that their employer valued their input, as well as the spirit that it created within their businesses of collaboration and everyone pulling together to achieve the same aims. Three interviewees cited the greater stability and job security that came with EO. We will explore the outcomes in much greater depth in the next chapter.

When asked about the worst elements of EO, the main response (from eight interviewees and six businesses) was that there were none, which further demonstrates the positivity of EOBs' experience with the model. Others were able to cite some challenges, however. For instance, five interviewees (from four EOBs) cited some difficulties with fully engaging staff; for example: *"It's not a business nirvana and answer to everything. The worst is trying to encourage the employees [...] that they can be strategic."*

Others cited the slow and time-consuming transition process, the increase in bureaucracy that came with EO, and the lack of information on navigating through the challenges — three each cited these barriers; the latter further demonstrates the value of having a post-transition support offer. With regard to increased bureaucracy, respondents cited legal complications and the additional administrative requirements associated with the HMRC.

The response was mixed when prompted about specific challenges (difficulties in obtaining favourable financing, as well as regulatory and policy challenges, e.g. government-approved share plans, issues with tax treatment, and the approach of HMRC). Of the 13 responses, seven reported that they had not experienced these challenges, whilst the other six had. Three EOBs cited financial and tax issues as a result of the transition, two cited legal challenges, whilst another suggested that there ought to be more clarity surrounding additional bonuses.



# Section 04

## Benefits of employee ownership

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- 4.1 Employee engagement
- 4.2 Benefits for employees
- 4.3 Benefits for the business
- 4.4 Benefits for the wider community

## » 04 Benefits of employee ownership

This chapter provides the key findings from our consultation regarding the benefits of EO.

### 4.1: Employee engagement

Both directors and employee representatives clearly believed that there has been an increase in employee engagement as a result of the transition to EO, stemming from the changes made to business practices (as described in the previous chapter), such as establishing the EOT and incorporating employee representatives onto the board and SMT. Indeed, there is a clear increase in the proportion reporting that a) the business is transparent and communicates key strategic information with all employees, and b) employees have input in key strategic decisions (e.g. regarding expansion, investment in capital, etc.), as shown in Table 4.1 below. A comparison of before and after data shows that six of the 15 EOBs reported a higher level of employee input in key strategic decisions following the transition, whilst eight reported that it was the same (one suggested a lower level of involvement). Similarly, a higher level of transparency was reported by eight EOBs (the remaining seven reported a similar level, as they were already starting from a high base).

**Table 4.1: Difference between proportion reporting transparency and employee input in key strategic decisions before and after the transition to EO**

	Transparency				Input in key strategic decisions			
	Directors		Employees		Directors		Employees	
	Before	Now	Before	Now	Before	Now	Before	Now
To a great extent	36%	79%	33%	78%	21%	47%	0%	0%
To some extent	43%	21%	44%	22%	50%	53%	44%	89%
Not at all	21%	0%	22%	0%	29%	0%	56%	11%

Source: Survey with directors (n=15) and employee representatives (n=9)



There appears to be a pattern in the data in which businesses that became employee-owned for more 'altruistic' reasons were more likely to report that their level of transparency and employee engagement in strategic decisions had stayed the same, whereas the businesses motivated by more pragmatic reasons were more likely to report an increase. This is because the business owners who were primarily motivated by factors such as empowering employees were starting from a higher base and were already transparent and involved employees in the decision-making process. These findings suggest that even where owners engage with the EO concept for more pragmatic reasons (typically tied with succession planning and likely motivated by the tax incentives), they do proceed to empower employees through higher levels of engagement as a result of the transition.

The data further reveal a positive relationship between the direct employee ownership model and higher levels of transparency (by a slim margin) and higher levels of employee engagement in the strategic decision-making process (by a much more substantial margin). Indeed, all three EOBs implementing a direct ownership model reported higher levels of employee input in strategic decisions post-support, compared with only two of six implementing the indirect model and one of four implementing the hybrid model. This is perhaps unsurprising, given that employees with direct share ownership are afforded rights, leading to more of a say on strategic decisions.<sup>17</sup>

There was a very similar upswing in the perceived transparency reported by directors and employee representatives, which adds weight to the evidence that businesses are providing more information to the wider company as a result of the EO model. Most EOBs (8/15) reported that this greater transparency occurred because of the increase in formalised communication routes that were established as a result of the transition, whilst three noted that the transition had led to a greater demand for transparency and communications from employees. For instance, one commented: *"There was a degree of secrecy before that no longer exists, and it's driven by the structure of the board,"* whilst another stated:

*"There is a better flow of information and more routes for communication outside of existing line management structures. I also think that with more understanding of ownership, staff come forward more to engage and be communicated with."*

Others noted how they share financial data and other key information pertaining to the strategic direction of the business periodically through structured meetings and away days, which was sparked by the transition to EO. One described how the process is now *"clearer and structured,"* whereas *"before it was vague and unstructured."* A minority (4/15) reported that there has not been much change, as they were already very transparent; for example: *"We still share the same performance data every month. We've always been a transparent business."* This is consistent with previous report findings revealing that the businesses prone to becoming EO are already more 'progressive' with regard to industrial democracy. That being said, there is strong evidence with which to demonstrate that EO has increased the level of transparency within most businesses.

<sup>17</sup> These findings should be treated with caution due to the low sample size when broken down into sub-cohorts. They are indicative findings only.



Directors were more likely to state that employees were involved in key strategic decisions than were the employee representatives themselves. Indeed, just under half of directors (7/15) believed that employees were involved in key strategic decisions 'to a great extent', while the employee representatives generally believed that they only had input 'to some extent'. This may suggest that directors were prone to overstating the influence of employees under the new model. That being said, there was a clear shift in opinion amongst both cohorts. Most employee representatives (5/9) felt that they had no input before the transition, whereas all but one (8/9) reported that they now have some input following the transition. This is again typically an effect of the formal structures introduced as a result of EO as well as the increased rights held by employees in many instances and the responsibility that the board of directors has to the EOT (in indirect/hybrid models) to inform them of progress and performance. Indeed, six of the EOBs explained that their new model had brought with it a new mechanism for employee oversight and a requirement for their approval in key strategic decisions. This gave a platform through which to facilitate broader input in business strategy, with key strategic decisions being more actively presented to employees, as well as providing a platform for employees to share feedback and their own ideas. Equally, these respondents indicated that the ultimate responsibility for strategic decisions remained with the board:

*"There's a more formal place to be listened to, but I think it's important to remember that, despite being EO now, our business is not a democracy: myself and my business partner built this business from the ground up into a multimillion-pound, successful business. Employees have to continue trusting us to make those decisions."*

*"The trust, acting on behalf of the staff, has oversight and must approve all key strategic decisions, and can make recommendations on these as it sees fit. However, the board of directors still remains the place where strategic considerations are made. The options or proposals then have to go through the EOT for approval."*

The respondent proceeded to state that the EOT had a role in making decisions on the appointment of any senior staff, as well as the approval of any substantial investment, and would have the final say on any key management and operational decisions that affected staff. Four EOBs described how they had gone a step further, with employees being given a greater role in setting the business strategy, or strategic decisions being directly made by shareholders (involving employees). For instance, two explained that employees had a role in developing their business plan and the strategic priority areas, whilst another stated:

*"We allowed the minority of shareholders to nominate a representative director to sit on the board (one of the most significant changes). Employees' voice was finally heard. It's brought them close to decision making."*

On the other hand, four reported that whilst they had an 'open-door policy', i.e. where employees could share their ideas, it was not actively encouraged, and one described: "We consort with the senior management team, but we wouldn't go down all the chain." Across these responses, four of the 14 EOBs responding to this line of enquiry suggested that the changes to their decision-making process and the rights afforded to employees were limited:

*"The operational strategic day-to-day running of the business remains exactly the same as it was before."*



*"The trust is solely for the trustees and there as a financial vehicle. It can be used as a remunerative device or other stuff, but not for the business."*

*"[Employees] don't have any additional rights to what they had previously other than the Employee Forum. The only tangible additional rights would be if we sold the company."*

These comments perhaps demonstrate the need for training (pre- or post-transition) so that the transition does lead to meaningful employee engagement. That being said, all but one director (13/14) agreed with the statement 'EO has given our employees a greater voice to influence the direction the business is headed in' at least 'to some extent'<sup>18</sup>, whilst all but one employee representative (8/9) agreed with the statement 'to a greater extent'.<sup>19</sup>

While these findings demonstrate that the level of employee engagement in the decision-making process is highly variable, the weight of evidence suggests that EO does lead to higher employee engagement at least to some extent and often on a more significant scale. Some EOBs highlighted a shift in the culture and mindset of employees, showing greater initiative regarding thinking about ideas for the business, rather than expecting that all would occur on a top-down basis (e.g. see Itec Training Solutions case study).

Reflecting on the new or enhanced mechanisms introduced to better engage employees in the decision-making process, eight out of 10 EOBs responding to this question reported that it was a direct result of adopting the EO model; for example: *"If you didn't have an EOT, you wouldn't have those structures in place;"* whilst others explained that making these changes was not perceived to be a priority previously. Equally, some suggested that they already had mechanisms in place but that they had been enhanced because of their new ownership model.

Several EOBs were able to provide specific examples in which the greater influence enjoyed by employees resulted in tangible changes for the business. These typically concerned changes made to working practices, conditions, and employee benefits such as holiday entitlement (reported by two EOBs, e.g. longer entitlements for longer-serving staff, implementing a buyback scheme, etc.); others had decided to introduce a nine-day working fortnight; introduce a 'rejuvenate' 30-minute window each day to *"move away from the laptop (e.g. to exercise or read);"* and stagger the payments of the annual bonus (see Sphere Solutions case study). Several also highlighted changes to the values and vision of their business alongside specific changes to policies (e.g. environmental, equity, diversity and inclusion). For instance, Itec Training Solutions (see case study) cited changes to their reward and recognition schemes, whilst the EOT had also led a review of their sustainability objectives and interdepartmental communications.

Finally, the survey data further suggest that the EO has had some impact on increasing employees' interest in having an ownership stake in their business, as well as their confidence in being able to make strategic decisions. Whilst all employees reported that they were interested and confident 'to some extent' before the transition, eight of the nine reported that they valued having ownership 'to a great extent' (compared with only four reporting the same pre-transition), while five cited confidence in making strategic decisions 'to a great extent' (compared with only three reporting the same pre-transition).

<sup>18</sup> Seven cited 'To a great extent' and six cited 'To some extent'.

<sup>19</sup> The other respondent selected 'To some extent'.





## 4.2 Benefits for employees

When asked an open question on the benefits for employees, the two key themes discussed at length in the last section were frequently cited, with 11 highlighting the greater influence that employees now enjoy through having a stake in the business and a voice in the decision-making process. One articulated their *"culture of unity"* with *"people working together for a common goal,"* whilst others cited *"the ability, to some extent, to steer their own ship."* Additionally, five cited how the change had led to employees becoming more familiar with the business strategy, ethos and values (which is a result of the greater transparency) and, equally, how it provided an opportunity for employees to ensure that the business reflected their own values, thereby creating a better culture in which to work, where everyone worked towards the same goals. Put together, every EOB touched on those themes in their comments.

When asked directly, all directors believed that EO has improved the workplace culture at least to some extent<sup>20</sup>, whilst a similarly positive response was received from employee representatives, too<sup>21</sup>. It is again important to note that the impact here, in many instances, will have been modest because businesses were generally 'progressive' in their nature at the outset; for example: *"Workplace culture was pretty good before EOT, so while it has been positive, this hasn't been a step change, I would say,"* and another stated: *"Workplace culture is strong and good. Whether that's down to EO, it's a really difficult one to answer."* Others, on the other hand, highlighted how *"people now collaborate more and there is a shared effort for a common goal to benefit everyone."*

Asked a further question on any impact on the ethos espoused by the business, the majority of both directors (11/14) and employee representatives (8/9) again reported a positive change, with six EOBs reporting stronger collaboration (e.g. *"the culture has become much more dynamic and engaging"*) and greater clarity surrounding their values. Equally, for seven EOBs it had simply reinforced an already strong ethos/culture.

Alongside the changes to employee engagement and the business culture, the financial benefits were by far the second most commonly cited theme, with 10 of the 14 respondents answering the question alluding to this. They highlighted the introduction of tax-free bonuses, whilst some cited receiving dividends and a profit share. We asked about the proportion of profits distributed to employees now and before the transition. Of the seven that were able to provide figures for the two data points, all showed an increase which was often substantial. Indeed, it had increased from none of the profits to all profits shared with employees in two instances, with large increases in most other cases, too. Furthermore, a minority of directors (5/14) reported that EO had led to better-paid jobs within the business at least to some extent.

Several respondents explained that the changes had fed through to greater job security and job satisfaction or work-life balance (four each cited those benefits), with the latter often emanating from the introduction of new perks and improved working conditions. The quote below is a good example of how the changes made to the business culture had a positive effect on safeguarding employees' interests and providing security:

*"Our profitability was impacted by the pandemic. We didn't furlough or cut anyone's pay due to EO. We wanted to protect the team. EO gave us that mentality where we were prepared to sacrifice profitability for the people and collective spirit."*

<sup>20</sup> Six selected 'To a great extent' and eight selected 'To some extent'.

<sup>21</sup> Four each selected 'To a great extent' and 'To some extent', while one selected 'Not at all'.



Indeed, when asked directly, 12 of the 14 directors reported that EO had led to greater job security at least to some extent, with most (8/14) reporting that the impact had occurred 'to a great extent', while a similar response was received from employee representatives. With regard to job satisfaction, when asked directly, all but one director (13/14) indicated that EO had a positive effect, while most employee representatives (6/9) agreed whilst also stating that it had improved their work-life balance. A similar response was provided when asked about employees' well-being at work, with 13/14 directors and 5/9 employee representatives reporting a positive impact.<sup>23</sup>

### 4.3 Benefits for the business

Two main themes stand out with regard to the benefits for businesses when an open question was asked on this. Firstly, most EOBs (8/15) felt that EO can be at least partly attributable to improvements in their business performance, with numerous reasons provided. Several referred to productivity gains, as *"people are less wasteful"*, *"maximise the output by working together"*, and are prepared to go the "extra mile" to provide a good service for customers. Employees ultimately benefit because the profit made by the business has implications for the level of tax-free bonus received (for EOBs operating that model — see Sphere Solutions case study). Others highlighted how those improvements were linked to having a higher-skilled and more stable workforce through making a greater investment in employees and creating better conditions for retaining senior staff (e.g. by having clearer routes for progression and increased responsibility) and attracting better-quality candidates. One also suggested that the business was more attractive for customers who could demonstrate their investment in the business as evidence of their community benefits. Four respondents highlighted how this improved performance had led to growth.

The second theme is that of the increased resilience and long-term legacy resulting from EO, with 7/15 EOBs citing this as one of the main benefits. This was the main motivation at the outset and appears to have been realised. Respondents described how the transition provided greater stability for their business and acted as a safeguard for their legacy, ensuring that the local community would continue to benefit and that their values were *"enshrined as a result of employee input."* As one respondent put it:

*"It has secured the long-term future of the business. Also, as individuals we want to continue living in the community and want to ensure that there is a tangible economic legacy."*

We explore each of these themes and subthemes in the remainder of this section.

<sup>22</sup> Six employee representatives selected 'To a great extent', while three selected 'To some extent'.

<sup>23</sup> The remaining responses to both of these questions were that there had been no change.



#### 4.3.1: Increased commitment, loyalty and productivity

Several specific questions were asked to understand the relationship between the EO model and any effects on the commitment and loyalty of employees and how this translates to increased productivity. Feedback from directors and employee representatives reveals a strong perception that the support has led to a greater sense of loyalty to the organisation (reported by 13/14 directors and 6/9 employees), motivation to contribute to organisational success (reported by 12/14 directors and 8/9 employees), and commitment to the organisation's goals and values (reported by 12/14 directors and 6/9 employees). It is interesting that the commitment to organisational success received the most positive response from employees, which is likely to be an effect of the greater sense of ownership but also the added financial incentive (in many cases) to achieve organisational success. Most employees (7/9) also reported that it had a positive effect on how they rated their employer.

There is some, albeit less, evidence that the new ownership structure has also led to less absenteeism and presenteeism in the workplace, with a minority of directors (5/14) reporting this to be the case.

The greater commitment, loyalty, and general satisfaction of the workforce appear to have led to greater productivity within the businesses, too, or at least this was the perception of the EOBs taking part in our consultation. Most employee representatives (6/9) reported that EO had a positive impact on their productivity, whilst all but one director (14/15) similarly reported that it had made their business more productive at least to some extent, including one third (5/15) reporting a more significant impact on productivity. Numerous reasons were given for these apparent productivity gains. According to one EOB: *"We can measure that in terms of profitability (we delivered more with the same or less even). People are working smarter and managing more projects, or a combination of the two."* Several respondents (4/11 open comments) highlighted the greater motivation, commitment and empowerment (as discussed previously), whilst others cited self-interest as a result of profit sharing (two responses), better practices (two responses), and greater collaboration and recruitment (one each).

There was a more mixed response with regard to impacts on innovation undertaken by the business, with half of directors responding to the question (7/14) suggesting that it had helped them to become more innovative, while the remaining half reported no change. Explaining the reasons for the increase in innovation, comments typically referred to having a broader base (i.e. more people) offering ideas and employees feeling emboldened to offer ideas (three highlighted this), while one each spoke about the greater diversity, bringing about new ideas and approaches, and the shift towards longer-term thinking coupled with the space created to test new approaches.

#### 4.3.2: Attractiveness, recruitment and retention

Most EOBs believed that their EO status has enabled their business to stand out from competitors, with five of 15 directors reporting this 'to a great extent' and a further six reporting it 'to some extent'. This is because most EOBs (13/16) publicise their EO status as part of their marketing strategy at least to some extent, with many (5) reporting that it is particularly prevalent within their online presence, whilst others explained that it is emphasised during the tendering process / client engagement (three responses) or as part of the recruitment process (two responses).



Accordingly, the vast majority of EOBs (13/15) believed that EO has enabled them to better recruit and retain staff, including 6/15 directors reporting a more significant impact (i.e. 'To a great extent'). The Sphere Solutions case study presents a good example of this, where it was stated that their EO status had helped them to attract top talent and boost recruitment efforts. It is further noted in the case study that EO has led to greater loyalty and retention within the business despite operating in an industry which traditionally experiences high rates of staff turnover. This has relevance to several other sectors, such as the healthcare sector, and demonstrates how EO is particularly beneficial for certain sectors in which the characteristics described above (such as staff empowerment and retention) are sorely lacking. Alongside this example, several other comments in the survey demonstrate the impacts on recruitment and retention:

*"We've been able to pick up some high-calibre graduates, both architecture- and technology-wise. When they go to interview, compared to other practices, some of them like the feel of the practice [...] been able to attract and get organic expansion with a high calibre of people."*

*"Our low staff turnover and high levels of well-being and employee satisfaction testify to this [improved workplace culture as a result of the EO model]."*

### 4.3.3: Improved governance

All directors believed that the EO model has improved the governance of their business, including 9/14 reporting that it had done so 'to a great extent', whilst most employee representatives (5/8) reported the same. Respondents typically cited the enhanced scrutiny and accountability alongside the ability to establish working groups to review specific issues; on the latter, for example, one stated: *"Asking a group of individuals to get their heads together and find out better ways of doing stuff, both in quality and efficiencies."* Others highlighted that it had led to more frequent communications, involving a larger pool of people, and that managing the business had become more value-driven.

### 4.3.4: Business growth and resilience

We asked for EOBs' turnover and employee data for the last five years to help assess whether business growth can be attributed to EO. Unfortunately, much of the data is incomplete (with many respondents being reluctant to divulge the information), whilst the year of transition for all but two respondents for which we do have data was either before or at the beginning of that five-year period or at the end, thus making it difficult to identify any impact from trend analysis.

#### Increase in turnover

The data show that six of the eight businesses providing figures for the last five years had experienced growth (from 2018 to 2022), including three who had more than doubled their turnover. However, there are insufficient data with which to assess whether any of this increase can be attributed to EO or whether it is a continuation of a pre-existing trend.



There are examples in which EOBs believed that at least some of their turnover can be linked to their EO status, as highlighted previously. Indeed, when asked directly, two EOBs suggested that a direct link could be made, with one suggesting that three quarters of their growth in the last year is linked. Reasons given include having a clearer strategy regarding the direction of the business, a more engaged workforce with a better understanding of how to achieve their growth ambitions and keep costs down, and better retention of customers. Whilst noting the difficulty in quantifying the impact, the second business tentatively estimated that around 11 to 20 per cent of their turnover can be linked to their EO status (the reasons for this are set out in the case study for The Urbanists). Equally, other comments throughout the survey suggest some impact on growth, as demonstrated by the comments below:

*“People are more mindful of the business performance and spend; therefore, the business works better.”*

*“One of the reasons we weren’t growing prior to 2017 was that our chief executive at the time failed to recognise the contribution of employees within the business. In the end, he decided to sell out and leave, and since we transitioned to EO we have seen 21 per cent growth per year.”*

We also note that EOBs cited benefits with regard to the increased attractiveness of their business (including for customers where their EO status is marketed), whilst the vast majority reported higher productivity and most cited improved business performance as the main outcome — all of which can be associated with growth. However, most directors (12/14), when asked, reported that they do not believe that their latest turnover would be any different if they had not adopted the EO model. Thus, the evidence on any direct links between EO and increased economic performance is mixed. Whilst EOBs believed that there are benefits which can indirectly be linked with improved economic performance, their views on such benefits are not firm enough (or they do not perceive the benefits to be significant enough) to make a direct link with improved economic performance.

### **Increase in employment**

The data on employment again suggest a marginal impact. Ten EOBs provided data for their level of employment over the last five years, which show that eight had witnessed an increase, one a decrease, whilst the other had remained the same. Some of the increases were substantial. For instance, one business had recorded almost a fourfold increase (from 12 to 45), whilst three others had at least doubled their employment. However, a mixed response was received when asked whether the number that they employ would be different if they had not become an EOB. Fourteen EOBs responded to this question, with five stating that they would be employing fewer if they had not transitioned (i.e. attributing a positive employment effect from EO), while two felt that they would be employing more, with half of respondents (seven) reporting no change. Asked to quantify this, those respondents reporting a difference suggested modest impacts on their employment, ranging from EO accounting for 2.5 per cent to 15 per cent of their latest employment figure. In total (taking into account those reporting a negative and zero impact), the data suggest that the 14 EOBs have 6.4 more employees (combined) because of EO. If this were representative of the wider EOB population at the time (i.e. all 40), it would suggest that the transitions to EO had created 18 jobs.<sup>24</sup>

<sup>24</sup> Please note that this represents gross impact, as it does not take into account discount factors such as displacement and leakage, nor does it account for the multiplier effect. Additionally, we do not know how representative this sample is of the wider EOB population.



## Increased resilience

Whilst there is little direct evidence of EO leading to growth, the evidence regarding resilience and sustaining business operations within their localities is much more substantial. Indeed, this was the primary motivator for many EOBs, as previously shown in this report. Additionally, the increased resilience and long-term legacy constitute one of the two main benefits cited by EOBs when asked openly. The Itec Training Solutions case study provides a good example of this, with the business highlighting the *“enormous benefits [...] about keeping wealth in the communities”* as the main impact from EO.

The vast majority of respondents (11/14) reported that EO had affected their business succession planning when asked directly about this. As one respondent described it:

*“That’s a massive benefit — it’s secured it long-term really. Traditionally, you sell to a corporate and they keep it forever or you sell it to a [name of sector practitioner], which keep it for 20 years and then sell it on. With this model it should be like this forever hopefully.”*

This is likely linked to businesses adopting a longer-term outlook, which is thought to be associated with EO (see research literature review in Section 2.2). Indeed, our research found that almost all directors (13/15) and employee representatives (8/9) believed that EO has led to a longer-term outlook within their business. This affects the decision-making process (e.g. making decisions on the basis of what is best for the company in the long term, rather than trying to achieve immediate success) and how the business is perceived by employees, as well as embedding long-term sustainability into the ownership structure:

*“The EOT mechanism allows continued refreshing of new directors and ownership changes (while maintaining >50 per cent majority), [thus] providing more long-term sustainability and allowing junior and senior staff to think about the longer-term prospects.”*

With regard to business resilience more generally (e.g. in terms of weathering difficult economic conditions), most EOBs felt that there was an impact here, too. Indeed, 12/15 suggested that they had experienced this benefit at least ‘to some extent’, while 6/8 employee representatives reported the same. This was typically a result of the factors previously noted, such as the culture created within the businesses and the increased motivation, collaboration and loyalty. Others noted how they had become less focused on immediate profits, e.g. by drawing on reserves to manage any down periods where other shareholders may have instead wanted to pay themselves dividends. The following quote provides a good example that runs across these themes:

*“Lots of other practices lost people during COVID-19 because they could get more safe jobs etc. But we’ve kept those people. Financially, we’re a bit cautious, so we save it (instead of splurging it and withdrawing it as a profit).”*



## 4.4: Benefits for the wider community

A small section of our survey explored the wider impacts from EO on local communities with regard to economic, social and environmental benefits. For instance, some stakeholders had suggested that EOBs were more likely to focus on the triple bottom line and that by giving local employees more of a say in decision making, this would result in more decisions being made for the benefit of the local community (be it through the choice of supplier or placing more emphasis on corporate philanthropy).

We asked respondents an open question on the EO benefits for the communities in which they reside. The most common response (seven responses) concerned the benefits for the local economy. Indeed, the last section clearly demonstrates how EO can bring wider economic benefits through retaining economic activity within the communities in which EOBs reside. It supports business succession and, in many cases, seeks to prevent businesses from being acquired by larger firms (including venture capitalists) as well as the threat of taking operations out of that locality. Many saw EO as a way of sustaining the independence of their organisation. Alongside (and linked to) this, respondents highlighted the increased job security, taking on more local people, and more investment in local suppliers.

The other main response was a greater focus on supporting local initiatives and making charitable donations. For instance, two EOBs had signed up to the '1% pledge' and given staff a say in where the money is spent, whilst others highlighted how they had decided to support local charities or community groups; for example, one had committed to working 'pro bono' for a local charity, whilst another was supporting through supplying equipment (such as laptops). However, it is not clear in the comments as to how EO is responsible for those community impacts. We tested this as a direct follow-up question in the survey, which found that only a minority (4/14) of directors felt that there had been an increased focus on or investment in their local community since becoming an EOB.

Finally, most EOBs (7/13) believed that the increase in employee voice has had an impact on the business' environmental practices. They noted a greater impetus for acting on such concerns as a result of the increased staff involvement. EOBs highlighted how they had signed the Net Zero Pledge or become COP-registered businesses; developed a carbon reduction plan or sustainability policy; and improved processes regarding recycling, introduced electric car or cycle-to-work schemes, and established an eco-champion role. The Itec Training Solutions case study is a good example of this.



# Section 05

## Conclusions

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- 5.1 Main findings
- 5.2 Recommendations

# 05



## » 05 Conclusions

### 5.1 Main findings

The evidence from this research is generally consistent with other research conducted in the UK on the benefits of EO, and faces similar challenges in determining causality. Generally, Welsh EOBs already had a progressive ethos with good transparency and some input from employees, although the latter was typically unstructured and could be fairly limited. Accordingly, any impacts from EO on developing a different type of business culture are often constrained by the fact that many were already starting from a fairly high base. That being said, we do find that most EOBs in Wales have become more transparent in the type of information shared with employees, and many indicated that employees have a greater role in the strategic decision-making process. This latter point is highly variable, with many emphasising that the ultimate responsibility for big, commercial decisions lies with the board (and that had not changed). In other instances, however, employees were given more of a say through having greater representation on the board or through creating a wider process of decision making within the businesses. Even where that was not the case, EOBs reported that employees were at least more aware of the decisions and the strategic direction of the business and would often have a role in providing oversight. Thus, whilst varied, the weight of evidence does suggest that EO leads to higher employee engagement and provides employees with a greater voice to influence the direction of their business — indeed, almost all EOBs believed this to be the case.

The main changes were often in relation to applying more structure to facilitate greater employee engagement, which often had the effect of reinforcing or enhancing pre-existing practices. In other words, while many EOBs already had progressive practices with employees engaged in decision making at an informal level, the difference made by EO has been to formalise employee engagement by creating structures and mechanisms for employees to provide their input. There have also been financial benefits associated with EO (primarily through tax-free bonuses or a greater share of profits).

It was widely reported that this had led to a shift in the business culture, leading to greater unity, where people are working closer together towards a common goal. There is a greater understanding of what those goals are and the strategy for achieving them, as well as a greater sense of ownership over the goals. The higher levels of employee engagement, alongside the financial rewards, have then filtered through to greater well-being, job satisfaction, loyalty, and motivation to contribute to organisational success, which, in many cases, is believed to have filtered through to higher levels of productivity.

Our research further demonstrates a positive impact on recruitment and retention, largely because of the benefits described above. It has been important in some instances in giving EOBs a point of difference to their competitors and, thereby, helping them to attract the best candidates. This finding suggests that the model is particularly impactful for industries that traditionally experience high rates of staff turnover, alongside industries that have to compete for high-skilled candidates (such as those operating in the knowledge economy).



Despite reporting those benefits, EOBs were reluctant to report any impact on their growth as a result of transitioning to an EO model. This perhaps partly reflects the nature of the sectors in which they operate, where increased productivity within the knowledge economy does not necessarily equate to hard economic returns in the same way that it would for a manufacturing firm, for example. This perhaps reflects that productivity and growth in turnover are not the best indicators to use in measuring impacts related to EO.

There is much more evidence with which to demonstrate the impact on business resilience and its role in safeguarding economic activity within communities. By improving employees' well-being and job satisfaction, the EO model helps to strengthen the foundation on which every successful business is built. Additionally, whilst we do not find a clear causal link with individual businesses' economic performance, the evidence does demonstrate a link with supporting sustainable, locally embedded growth by providing a potential solution to the ownership succession challenge. In summary, our research confirms much of the existing research on this subject. It demonstrates that EO provides an important corporate governance model which can empower employees and create a better environment in which to work. In doing so, it has an important role in strengthening the resilience of businesses and communities throughout Wales, and brings benefits to employees working in those organisations. There is less evidence of an economic value that can be directly attributed to EO (e.g. through growth in turnover), although the larger research exercise recently commissioned by the EOA should provide some further insights. The findings from our research certainly present a compelling case to continue the investment in and encourage greater uptake of EO models.

## 5.2: Recommendations

On the basis of these findings, we make the following recommendations:

- **Recommendation 1:** The evidence from this study suggests a range of benefits provided by EO for employees, businesses and communities. Furthermore, EOBs highlighted the importance of free advice and support to help with their transition (in some cases they only transitioned because of the availability of this support). Accordingly, a strong case can be made for continuing to promote and invest in EO as an alternative governance model.
- **Recommendation 2:** Equally, the evidence suggests that the key benefits of EO are more concerned with helping to address the business succession challenge, safeguarding economic activity in local communities, and as a response to the retention challenges in specific sectors, rather than generating economic impact. Thus, any future investment should be considered in that context.
- **Recommendation 3:** Some EOBs highlighted the need for continued support post-transition. The evidence also suggests that some had not fully appreciated or adopted the opportunities provided by EO, with limited changes to how the businesses were run and the involvement of staff. Accordingly, a case can be made for providing post-transition support as an extension of Cwmpas' current offer.
- **Recommendation 4:** Some EOBs had experienced much more satisfactory legal and financial support than had others, with reports that only a small number of providers understand the EO requirements and context. Given the current rate of transitions, the broader support infrastructure will likely need to be developed to meet the demand.



# Appendix 1: Case studies

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Case study 1: Itec Training Solutions

Case study 2: Sphere Solutions

Case study 3: The Urbanists

Case study 4: Aber Instruments

Case study 5: Cwmni Da

## Case study 1: Itec Training Solutions

### Background

Based in Cardiff, with 17 dedicated training facilities throughout Wales and England. Itec describe themselves as a “leading provider of work-based learning programmes” that have been operating for the past 40 years, including the last four as an employee-owned business. The business currently employs 180 individuals.

Itec specialises in providing first-class services within the skills, education and employability sectors, holding Welsh Government contracts to deliver Apprenticeships and Jobs Growth Wales Plus and diversity training as well as a Department for Work and Pensions contract (as a provider of Serco) to deliver Restart. They also hold Education and Skills Funding Agency contracts to deliver Apprenticeships in England and commercial training to individuals and employers throughout the UK.

Itec became 100 per cent employee-owned in 2019, having planned for it over the previous year, as part of a succession plan to preserve its status as a leading independent provider within its sectors and give a bigger role to its most important asset — its people. Itec’s vision from the outset was to *“build on our values and create a way to bring our employee voice into decision making. Our people know the clients and communities we work with, so having the wisdom and experience of our people involved in decision making would lead to better overall performance and improved outcomes for the people we serve.”*

Asked about their business practices and ethos prior to the transition, both the director and employee representatives agreed that employees did have input in key strategic decisions to some extent: “Prior to the transition, we always did things like employee engagement, employee consultation, and everything along those sorts of lines.” Employees were able to provide their input through three main mechanisms: one-to-one reviews with line managers, team meetings and standardisation meetings to inform best practice and share ideas, and employee staff surveys. Both the director and the employee representative agreed that the business was transparent and communicated key strategic information with all employees at least to some extent, including through monthly newsletters. This illustrates that Itec was already operating with a progressive ethos of valuing employee input, and recognised the importance of sharing key information with them prior to becoming employee-owned.

### Experience of employee ownership

Employees were made aware of the possibility of a move towards employee ownership soon after it was first considered. Preparation for the transition was considered to have been delivered effectively, with the employee representative reporting that the business did well in explaining the concept to them and how it would affect their employment:

*“We had an all-staff conference which was an opportunity for Q&A and was followed by a written guide outlining what it was about, the reasons, what it meant.”*



Whilst staff were not given formal training in employee ownership, both interviewees felt that they had been adequately prepared and both were very satisfied with the transition process, albeit highlighting that there had been some challenges:

*"We've done all the due diligence. It's a complex and very expensive legal transaction that was all completed on time and to our satisfaction."*

Equally, whilst perceived to have been successful, they recognised the evolutionary nature of progressing towards employee ownership. Changes were made and mechanisms were introduced instantly as part of that process, including the distribution of profits to staff members; however, the effort to shift the culture and ethos was described as something that continues to evolve: *"it worked straight away from a logistical point of view, but when it comes to culture etc., it's an ongoing process."* This remains true four years into their journey, where they are now planning to engage a consultant to provide training for aspiring leaders and board members of the different set of skills needed as a director in the guardianship of an employee-owned trust, as opposed to a director working for a shareholder: *"it's a journey and it's constantly evolving."*

### Changes to ownership

Itec operate a hybrid employee ownership model which incorporates a bonus scheme of a certain value agreed by the trustees every year. Previously, all shares were privately owned by two individuals. Changes to business practices include the importance of employee voice. Itec's vision of employee ownership was that it should not be seen as an addition to the organisation, but rather an integral part of the business structure, putting employee voice in decision making. An Employee Forum was created, comprising 12 members with representatives drawn from each part of the business. Itec value and seek their contributions and, therefore, the Forum is engaged in all aspects of the organisation, bringing employee voice to business matters. The Forum challenge, contribute, ask questions, and suggest improvements with regard to a wide variety of business issues. The Forum's contribution has included:

- Shaping reward and recognition schemes with HR partners.
- Supporting the achievement of Investors in People Gold Standard accreditation.
- Directly influencing Itec's community and sustainability commitments (including environmental pledges and responsibilities).
- Introducing an employee well-being newsletter.
- Holding consultation events with employees to inform ideas and continuous improvement of processes.

Noting the difference made to employee voice within the business, one of the interviewees commented:

*"Whilst we've always consulted with staff and conducted staff surveys and listened to their feedback, there's now a formal arrangement where employee trust representatives meet regularly, feed into the business."*



They proceeded to explain that there is a *“more formal place to be listened to”*, and suggested that there were signs of evolution within the business culture: *“[Employees] stopped talking about ‘what more can the company do for us’ and started to talk about ‘what more or what could we do better to benefit everybody.’”* The employee representative also indicated that they were now more interested in having an ownership stake and felt more confident about making strategic decisions, although there were mixed views on whether employees are now more involved in the significant, strategic decisions. Nevertheless, both the director and employee representatives reported that they have been very satisfied with their EO experience to date, noting the reassurance of *“preserving the future and the sustainability of this business”* whilst also commenting that the staff satisfaction surveys would frequently obtain very positive feedback.

### Benefits for employees

Reflecting on the main benefits for employees, interviewees referred to the greater involvement in the business as well as the higher pay that they were able to obtain:

*“A significant difference every year since we became an EOT, as every single eligible employee has had at least six per cent of their gross salary as share of the profits. At Christmas time we were able to make everybody a £500 tax-free cost-of-living support, which we wouldn’t have been able to do if we weren’t an employee-owned business.”*

Beyond that, there were mixed views on any relationship between adopting the EO model and giving employees a greater voice to influence the strategic direction of the business. There was more consensus in that it had led to an improvement in the business culture with regard to developing *“a culture of accountability to your colleagues and community”*. This likely explains some of the benefits highlighted by employees with regard to job satisfaction and their well-being and work–life balance, all of which were said to have improved following the adoption of the EO model.

### Benefits for the business

According to interviewees, the EO model has provided greater clarity to the organisation with a possible risk of acquisition removed, thereby securing the long-term independent future of the organisation and providing greater stability.

One interviewee highlighted how the increased input from employees had led to an increase in standards within the business, with two specific examples provided: firstly, where they upgraded their accreditation from having silver status to having gold status as an Investors in People organisation; secondly, employees led the work in relation to setting up a new eco-champion who was accountable for achieving their sustainability and carbon reduction plan.

There was more agreement between interviewees that EO has improved the governance of the business, albeit again noting that *“it’s a journey”* but that steps are being taken to upskill their senior team to understand the responsibilities of being a director. This has been part of the change that came with the transition in ownership and may not have taken place without it. Moreover, it was noted that there is *“greater scrutiny, accountability, more structure in the governance than previously.”*



EO had a positive effect on how employees perceive their employer, their commitment towards the organisation's goals and values, and the sense of loyalty and their motivation to contribute to organisational success. Accordingly, they also reported an improvement in productivity. One of the interviewees also felt that they were better able to recruit and retain staff because *"it does make you stand out from other businesses in the network."*

The business had a stable period of income generation during its first two years of being employee-owned, increasing by 18.3 per cent in Year 3. Itec continues to see many benefits from the change that they have made, including involving employees in the decision-making process, providing employee owners with a single, unified voice, supplying colleagues with financial benefits, and increasing transparency across the business:

*"The enormous benefits are about keeping wealth in the communities that have created that wealth. A significant benefit for me as a shareholder is the sustainability of the business long after I'm no longer working in it and the opportunities it provides for the team that have helped us build that business."*





## Case study 2: Sphere Solutions

### Background

Founded in Cardiff in 2005, Sphere Solutions are a specialist construction recruitment company with six offices situated in Wales and the South West of England. They offer a comprehensive recruitment service to their clients, handling every aspect of the process (from sourcing and selecting candidates to vetting and matching them to suitable live vacancies).

The company prides itself on its experienced team and is an important supplier in Wales, having successfully recruited for major projects such as the 2012 Olympic Park development, the St David's redevelopment in Cardiff City Centre (£600m), and the University of Swansea campus (£200m+), among others.

Initial consideration of becoming an employee-owned business occurred in the last quarter of 2021, with Sphere Solutions officially transitioning in February 2022. The primary driver of becoming employee-owned was business succession planning with the aim of future-proofing the business to protect itself, and employees, in a scenario in which shareholders would want to exit the business, something which did come to fruition. Secondly, there was the desire to find a business model that would embody the collective values and behaviour already practised by the business, whilst marking significant and meaningful recognition of its wider team's contributions.

During our assessment of Sphere Solutions, we found clear evidence of their commitment to progressive employment practices. This was evident from our conversations with company representatives, as well as our review of the website. A section on the company website demonstrates its ambition of generating social value through reinvesting in local communities. Its 'Building Better Futures' initiative is aimed at providing genuine opportunities to people from disadvantaged backgrounds. To achieve this, the company have developed partnerships with charitable organisations such as The Wallich, the BOSS Project, and the School of Hard Knocks to collaborate with ex-offenders and homeless individuals, providing them with opportunities to enter the construction industry. Furthermore, there is a commitment to making the construction industry more diverse and more inclusive at all skill levels, recognising a shortage of young people and women within the sector.

When discussing their business practices and ethos prior to the transition, both the director and the employee representative agreed that the company was transparent and communicated key strategic information such as financial data. However, the extent to which employees had input in strategic decision making was limited. Whilst the company operated an open-door policy in which employees were encouraged to discuss ideas with the senior management team, and were also involved in operational board meetings, these mechanisms were informal.

### Experience of EO

In line with the transparent approach of the business, employees were made aware of the possibility of employee ownership almost immediately. The employee representative felt that the business was effective in its communication, and felt well informed throughout the transition period.





Knowledge within employees was slowly built through drip-feeding information. This was also partly due to the directors building their own full understanding of EO so that they could provide informed answers to employees' questions.

During the transition phase, Sphere Solutions received support from Cwmpas, which came in to deliver talks and answer questions regarding the change, as well as providing guidance on how to structure the delivery of certain pieces of information to staff. This support continued post-transition, where Sphere Solutions were put in contact with other similar businesses experienced in EO through events held in South Wales.

Ultimately, the support received through Cwmpas was regarded as being significant, with employees and directors being aligned in their high levels of satisfaction with the transition process due to its smoothness with minimal impact on/disruption to business operations.

### **Changes to ownership**

Sphere Solutions operates an indirect employee ownership model in which shares are held on behalf of employees through an EOT. Three quarters of ownership shares are now held by employees, with roughly 96 per cent of employees owning shares. Within this model of shared ownership, employees do not receive dividends and are unable to cash out shares; however, they are entitled to gain financially through tax-free bonuses.

Early signs of the business' evolution through employee ownership are evident through the implementation of employee council meetings. These meetings occur quarterly and act as a formal mechanism for employee voice. Whilst it is recognised that the council is unable to impact day-to-day business operations, it can be used as platform through which to put forward ideas in key areas such as social value, charity, and well-being.

As the company is still in its infancy when it comes to employee ownership, it is important to recognise the ongoing process of truly becoming an EOB — the company are still adapting in terms of structure. This is echoed through the employee's perspective, with the council meetings being used to strengthen the knowledge and learning of employee ownership.

### **Benefits for employees**

When discussing the primary benefits for employees as a result of employee ownership, interviewees highlighted a stronger sense of involvement in the business, the ability to influence change, and the financial benefits.

Generally, employee rights have remained largely unchanged, which is a testament to the strong, progressive ethos practised by the company pre-transition.

The implementation of an employee council has contributed to the augmentation of employee voice. Careful consideration is exercised during these meetings to discuss how employee views could be best represented and in which areas improvements could be made. Early evidence of the council using its voice to influence is demonstrated by the introduction of a holiday buyback scheme, enabling staff to buy and sell holiday time. Furthermore, consensus within the council highlighted a desire for annual bonus payments to be staggered, meaning that staff would no longer have to wait until the financial year for one lump sum and would instead receive it in three separate payments.



The tax-free bonus is viewed as a key benefit of employee ownership by both the director and the employee representative.

With a move towards longer-term thinking, Sphere Solutions can offer greater job security to their staff, which has resulted in employee satisfaction maintaining its pre-existing high levels and had a positive impact on employee well-being and perceptions of their employer.

### **Benefits for the business**

Reflections on the benefits that employee ownership has brought to the business were mixed, with the sense that the company is too early in its journey for benefits to have transpired. The workplace culture has witnessed change, albeit not entirely transformational, with a sense of increased productivity due to employees feeling more engaged and working towards a common shared goal. This can also be attributed to a desire to make the business more profitable, which has implications for achieving the tax-free bonus at the end of the year.

Additionally, transitioning to an employee-owned business model has opened up new opportunities to integrate it into the company's marketing and recruitment strategy. This is expected to help attract top talent and boost recruitment efforts in the future. Moreover, it has improved retention rates, as the business has become more inward-looking. According to interviewees, the number of employees within the business would likely be around five per cent lower without employee ownership, equivalent to 1.85 employees within the business. This figure is expected to increase as the business becomes more established as an EOB. This correlates with a reported increase in the sense of loyalty towards the company and its continued success from its employees, an important factor within the recruitment industry (which traditionally experiences high rates of staff turnover).

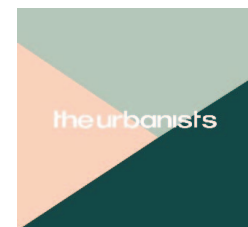
There is a hope that the transition to employee ownership will further enrich Sphere Solutions' role in delivering social change and wider community benefits, especially with the growing influence of employee voice and its ability to direct change.



## Case study 3: The Urbanists

### Background

The Urbanists are a consultancy specialising in urban design, landscape architecture, and planning, with offices located in Cardiff and, more recently, Bristol.



With over 18 years of experience in the industry, The Urbanists have demonstrated their ability to tackle various issues such as housing, education, town centre regeneration, and climate change. They have worked on significant projects throughout Wales and the UK (including Velindre National Cancer Care Centre, Atlantic Wharf, Cardiff Arena, and 71/72 Kingsway).

The Urbanists' website presents a clear commitment towards improving learning and health environments, revitalising communities and places, mitigating climate change, and minimising negative outcomes for well-being and the environment, thereby demonstrating their role in delivering public good. The company's social credentials are best exemplified by being selected as part of Wales Online's '[50 creative businesses making an impact in Wales](#)' and '[businesses making a positive social impact in Wales](#)'.

The company are committed to creating social value and engaging with the community through various initiatives such as guest lectures at Cardiff University, investing professional time in community projects, and sponsoring the highly acclaimed Women in Property Regional Student Awards. Furthermore, they are passionate about investing in young people by mentoring school children, fundraising for schools, and operating a programme of summer work experience for undergraduates and intern placements.

The Urbanists officially became employee-owned in 2019, having explored and decided against a traditional management buyout from the exiting partner. Succession planning was the key driver, alongside the personal motivation of the current managing director to secure the company's long-term future.

Consultations with The Urbanists' director and employee representative revealed that the company was lacking a formal mechanism for employees to express their views before their transition, thereby acting as a barrier for involvement at a strategic level. Traditionally, strategic decisions were made in management team meetings which were previously unstructured. General operational meetings on a weekly basis were designed to generate an understanding of universal priorities for the company; however, there was recognition that more could be done.

### Experience of EO

The Urbanists experienced some challenges during the transition period towards becoming an employee-owned business, which they first considered in early 2018. The prolonged ownership transition means that the business was inadequately prepared for the transition to employee ownership. Secondly, they experienced challenges in terms of securing professional advice and input, noting that much of the tax and legal advice provided by third party agencies was unversed in matters concerned with EO. Thirdly and finally, COVID-19 provided a further barrier in distracting from the process of implementing new structures. Thus, although The Urbanists officially became employee-owned at the beginning of 2019, they did not consider themselves to be truly operating as an EOB until 2022.



Whilst staff did not receive formal training to become more involved in the management of the business, knowledge was gradually built over a long period of time, slowly getting to grips with the complexity of the new business structure and the wider implications that it would have for the business. Staff were reported to be excited by the prospect of transitioning.

Despite the challenges experienced during the transition period, there was consensus between both representatives that they were personally satisfied with the outcome, noting the learning curve and journey required in becoming employee-owned.

### **Changes to ownership**

The Urbanists operate a hybrid EO model in which 85 per cent of ownership shares are held by employees. There has been no change to the distribution of ownership amongst employees since transitioning to an EO model.

Changes to employee rights as a result of the new business model are fairly limited; however, they now have articles of association. Both representatives felt that employees have become increasingly more involved in the strategic decision-making process since their transition. Whilst monthly meetings between senior management are still the primary vehicle for decision making, employee input has been amplified through several mechanisms. These include biannual away days, twice-yearly professional development plans, quarterly forum meetings (which are fed back to the management team), and input in the strategic business plan. Thus, the input from employees in the strategic decision-making process has become embedded through the introduction of several new practices and structures.

Whilst The Urbanists have demonstrated a clear willingness to increase employee input through the creation of new mechanisms, both representatives acknowledged the challenge of encouraging wider staff to fully engage with these structures and think more strategically.

Another transformation for the business post-transition is a significant increase in transparency, with staff now being highly attuned to the strategic priorities of the business. Information is now shared more clearly and structured, with high-level information such as profits and finances being regularly shared with employees. The progress made in this area was highlighted by a company representative as one of the best elements of their EO experience to date.

### **Benefits for employees**

Discussing the benefits for employees since the transition, both interviewees considered the greater opportunity to influence the future direction of the business to be key. There is a general tone amongst staff to help communities and take steps towards decarbonisation, something which can now be acted upon through the various structures in place. Additionally, employees are also entitled to receive financial benefits in the form of a tax-free bonus.



Employees have also benefitted from the business' shift towards longer-term thinking, which has offered them greater job security. An example of this is during the pandemic, where no member of staff was furloughed or received a pay reduction. The decision was made to prioritise and protect the team, with one representative highlighting this as an example of EO's effect on their business culture, where they were prepared to sacrifice profitability for the benefit of the collective. Both interviewees felt that this is evidence of the wider sense of togetherness created by the EO model. Staff are also increasingly involved in marketing, events, and social initiatives.

### **Benefits for business**

When assessing the benefits of employee ownership for the business, it was reported that there is a greater sense of productivity across the team. This appears to have been realised, with turnover increasing 40 per cent since becoming employee-owned. It has been roughly estimated that the latest financial turnover would be 17 per cent lower if the business model had remained the same.

EO has also provided long-term stability and security to The Urbanists. Due to overriding employee control, the business is no longer at risk of evolving beyond its control in the scenario of a takeover, and can maintain its service, culture and identity.

Additionally, citing how EO has been integrated within the company's wider marketing and recruitment strategy, the business is said to have become more attractive to prospective candidates. This ability to stand out from competitors is also advantageous in winning work and has been utilised during the tendering process, as it gives clients a degree of confidence that the business is relatively stable and not susceptible to drastic change. Moreover, The Urbanists have benefitted from improved retention rates within the business, having doubled their headcount since making the transition. According to the director representative, it is likely that the employee count would be 10 per cent lower, the equivalent of two employees, had they not transitioned. Both representatives broadly agreed that the company culture had improved, whilst also recognising its previous strength and close alignment with the ethos of EO. In this case, the transition appears to have enriched the pre-existing culture, enabling it to be scaled up as the business grew.





## Case study 4: Aber Instruments

### Background

Aber Instruments was established in 1988 by two academics from Aberystwyth University, namely Professor Douglas Kell and Dr. Robert Todd, when they filed their first patents for using radio frequency (RF) impedance methods for measuring live biomass. By 1989 their first online biomass monitor was market-ready and within the next three years they had developed the first online yeast-monitoring systems for the brewing industry collaboratively with Bass and begun supplying a range of major breweries with the 316b Monitor.

The company grew significantly over the following decade, and in 2011 launched its third generation of biomass monitors. During that year it also became an employee-owned company. The business has continued to expand in both the biotech and brewing sectors, and has made significant inroads into the US market. 2018 witnessed an expansion in Aber's facilities in Aberystwyth, marking 30 years since its birth as a new innovative spinout from the university. The company clearly espouses a philosophy which sits comfortably with its ownership structure. The strategic vision of the business is entwined with this structure, and there is an almost symbiotic relationship between the two. As noted on Aber's website:

*"Employee ownership brings a different perspective to our business and our culture. It's always been part of who we are. Since the early days of ABER our founders committed to providing opportunities in the region of West Wales where we were founded and wanted to ensure that we are able to pass our legacy on to future generations of employees. Being employee-owned has a significant impact on who we are, how we think, and the way we progress."*

The original directors wanted to ensure that they retained not only the proprietary knowledge and skills, but also the values that had been built up in the business. This included the relationship between the company, the university, and the community of Aberystwyth. They wanted to protect those values and did not want the business to be sold to any prospective investor. They therefore started to explore other options. As noted by one representative: "Even if this wasn't a family business, there was a feeling of family in the business, and they wanted that retained."

### Experience of employee ownership

Aber were one of the early movers in Wales, becoming one of the first in the country to transition back in 2011. However, the values of employee engagement and involving everyone in decision making were evident right from the beginning, and discussions about transferring over began in earnest at the beginning of the new millennium.

However, it was not always an easy path, and when the original directors left, there was an initial void in the strategic focus:

*"Our experience of the transfer was relatively positive, although there was only a limited amount of support available at the time, and we could have done with perhaps a little more clarity on the strategic reasoning behind the decision to become an employee-owned business. But on the whole, it has worked well."*



Employee ownership and the philosophy of employee input have evidently been critical to the strategic direction of the business, and, according to the director and employee engaged, engagement with staff has been “off the scale.”

One key example of this has been Aber’s new corporate strategy, which has taken nine months to develop and been the product of collaborative and ongoing work between the executive board and the staff. The overarching structure was scoped out by the board, but the whole company then contributed to its full development.

The value of the company and a culture of transparency and empowerment was already in place, but over the last decade that culture has become more embedded and a “little bit more defined and sharper”. However, the company feels that more could still be done, and has secured knowledge transfer support to review how employee ownership is impacting on the business. They feel that they are in a good position but still need better processes (but that these processes are continually improving).

### **Changes to ownership**

The company is making stringent efforts to ensure that employee ownership is not just about the financial interest, but rather embraces all aspects of the business. There is an employee council which was established five years ago, with representatives being voted upon by the employees. Representatives serve three-year terms and are allowed to sit for two terms only, and representation is staggered.

The company is controlled by an EOT that holds the majority (55 per cent) of shares in Aber Instruments Ltd. The EOT is a static entity that always holds the controlling interest in order to ensure that the employees own the company and that the criteria for EO are always met. The trustee of the EOT is a corporate trustee called Aber Instruments Trustees Limited. This company is run by up to three directors, one of whom represents the employees and carries the casting vote.

Aber Instruments Trustees Limited is also the corporate trustee for the employee benefit trust (EBT) and the share incentive plan. These entities allow for the buying and selling of shares between employees and these two trusts. This allows employees to invest directly in their company, i.e. Aber Instruments Limited.

The EBT is viewed as an intermediate payment arrangement per accounting legislation FRS102. Within the standard it states that these arrangements result in the sponsoring entity (Aber Instruments Limited) having de facto control.

### **Benefits for employees**

Part of the reasoning behind moving to an employee-owned structure was to ensure that the benefits enjoyed, and profits generated were felt by everyone in the company. This was not a family firm, but the culture and approach had such values at their heart.



The most immediate and obvious benefit to employees since the transfer has been the financial reward. The business is profitable and in a strong market position; as such, Aber is in a position in which that ownership has an immediate positive impact on people's livelihoods.

However, the company feels that the benefits are much wider, including a strong sense of well-being within the workplace. That well-being is generated by two key factors: a stronger sense of motivation and purpose (being a genuine member of the company), and a culture within Aber that focuses on staff welfare.

This is reflected in the various initiatives now being rolled out within the company, including monthly social events and a cycle-to-work scheme.

### Benefits for the business

Being an employee-owned business has brought a range of benefits:

*"Undoubtedly, customers get a better service. We'll go the extra mile to get the right result for customers, and we have a reputation for this. We are dealing with large biotech companies, and they want reassurances that we are around for the long term. Our company approach means that we are able to recruit the right people with the right aptitude and motivation, and able to retain those people for the long term."*

As a result of the transfer, Aber staff have a longer-term perspective on their work, and see things on a more holistic basis. This then has a knock-on impact on the way in which staff work with clients and are more motivated, committed and willing to go the *"extra mile."*

According to the managing director, it is not the fact that Aber is employee-owned that provides them with a strong competitive edge; rather, it is the *"quality and dedication of staff that we've been able to retain and recruit through employee ownership."*

It was emphasised that Aber is methodical in its recruitment, and being an EOB has helped to ensure that they have staff with the right approach and commitment. This ethos predated the transfer, but the change in ownership reinforced that approach. The benefits to the business are perhaps best summarised by the company's own website information on the matter:

*"As employee owners we share responsibility, we are more transparent, more open-minded, and more accountable and this provides us with huge benefits:*

- *It encourages every one of us to think differently and to be more entrepreneurial.*
- *It promotes innovation and collaboration.*
- *It raises our standards in terms of the way we treat our customers and the way we treat each other.*
- *It enables us to drive continual improvement.*
- *It has a positive impact in terms of our commitments to social and environmental responsibility.*
- *It makes us more open and embracing towards diversity and inclusion.*
- *It endows us with the strength and flexibility to be able to cope with the challenges of growth and expansion.*
- *It helps all of us to achieve better work life balance.*
- *It delivers better business performance."*







## Case study 5: Cwmni Da

### Background

Cwmni Da was established in Caernarfon in 1996 when three smaller separate independent television companies merged, partly in response to changing commissioning policies in the media sector. Together, their collective strengths brought a holistic impact and allowed Cwmni Da to become one of Wales' foremost television companies.

The company originally had two sites, namely one in Caernarfon and the other in nearby Felinheli, before moving to a new £2m media hub at the former Goleuad Printworks on Doc Fictoria (Caernarfon) in 2013.

Cwmni Da is well known for its rich and diverse content, with particular strengths in factual, arts, drama, children's and entertainment programmes. Furthermore, it has forayed into new media platforms and succeeded in widening its reach to new commissioning bodies, both in the UK and across the world.

The idea for employee ownership emerged at about the same time that the company moved to its new premises. The directors who had established Cwmni Da began considering future exit strategies, and the idea of employee ownership was one option floated. Initial discussions were held with a Cwmpas official, but the issue was not pursued in any great depth at that point. A few years later, Dylan Huws bought out the other directors, and for a while ran the business 'single-handedly'. However, he again began thinking about the EO model and reengaged with the Cwmpas official. As Dylan noted:

*"His support proved invaluable, and he was always there to provide advice and guidance. I rate him and the support he provided very highly!"*

At the same time, and with help from Cwmpas, Dylan proceeded to talk to other businesses that had opted to go down the EO route, which provided further practical guidance.

### Experience of employee ownership

The transfer to EO saw the establishment of an employee ownership trust, created as a mechanism with which to transfer ownership from Dylan to the employees. The trust was tasked with looking after the interests of employees and deciding on staff remuneration and profit investment. The company is now owned by the employee ownership trust. Ownership can be transferred if the trust sells its shares to another party, but this can only be done if a 60 per cent majority of employees agree.

Now retired from Cwmni Da, Dylan offered some relevant insight into the process. Dylan was pleased with the development, noting that they were able to achieve a mutually beneficial outcome for the staff and owner, and one that also provided a wider economic and social benefit to the community of Caernarfon.



However, one area in which perhaps he would do things differently in the future was the timing of engagement with staff:

*"In retrospect, I could have engaged with staff a lot earlier; they were, to a certain extent, given a fait accompli, which was a bit of a culture shock. However, everyone was generally positive, albeit slightly hesitant, and it did elicit a lot of questions in the early days."*

The employee representative to whom we spoke made similar comments, noting that they were informed shortly before the sale of ownership took place and were not involved in the process, although there was a positive response to it:

*"We really didn't have much choice in the matter, but in reality it was the best option for us. Wales Coop, as it was at the time, came in and gave us an overview of what a cooperative and employee-owned business are, how they operate, what the benefits are, etc."*

*"Most, if not all, of us felt it was a good, positive step, both for us as employees and for the company moving forward. We could have been open to being bought by a larger media company with links to the local area and no common values. As it happened, a lot of positive things have happened as a result, and we have remained a strong and important part of the local economy."*

Engaging with the right solicitors proved to be critical to the whole process. Cwmni Da employed a company based in Wales which had the commensurate knowledge and appreciation with which to work effectively with both the company and Cwmpas. According to Dylan, the practice employed also had a profound appreciation for tax matters and a track record of working with HMRC, and the combination of knowledge and expertise was extremely beneficial to the whole process.

Furthermore, they had a Welsh-speaking member of staff who had a strong appreciation for the issues, who helped enormously during the engagement with employees (all of whom were first language Welsh or proficient second language Welsh speakers).

Four solicitor practices were interviewed, and the company employed were "head and shoulders above the other practices." Whilst Cwmni Da felt that they were fortunate in securing their services, Dylan also feels that if the move towards employee ownership in businesses in Wales continues, there will need to be sufficient capacity within the legal sector to cope with the demand.

### **Benefits of employee ownership**

Dylan emphasised that the change to an employee-owned business, whilst radical in some senses, has had little impact on the company's creative output:

*"In reality the business needs to get on with its core business, and as [name of Cwmpas official] emphasises, 'all change, no change'. We also need to remind people sometimes that EO is a continuing process, not a one-off event."*



According to Dylan, as the company has proceeded, the change in ownership has begun to embed itself in the day-to-day practices of how the business operates. Staff are now kept in the loop much more, and their HR manager provides a detailed induction for new staff.

However, as a TV and film production company, most staff play a part in the output of the business, which was always the case. They always had input in the company's direction and productivity. Cwmni Da has always had a strong social focus, and social events are a mainstay of the business culture. Moreover, it is a happy and rewarding work environment, and becoming an employee-owned business is perhaps a logical progression for a business that has always placed great emphasis on the talent and output of its staff.

What may be different now for some is their awareness of the financial implications of the productions on which they are working, and the impact that it will have on the business as well as their own end-of-year bonus. Obviously, a profit reward at the end of every financial year has helped, both in affirming the validity of being employee-owned and in giving employees a genuine financial bonus for being part of the business:

*"Another important dimension for me is that I now feel even more protective of the company, its reputation, and long-term future. Working hard is not just about the end-of-year bonus — it's about being part of the business, acutely aware of my responsibilities to my colleagues and the community where we work."*

The trustee board includes two external representatives with professional backgrounds, i.e. a solicitor and an accountant, as well as an employee representative, with meetings being held biannually. Culturally, much more information is now shared with employees regarding the business, including quarterly reports on budgets and performance, and, of course, likely profit. Cwmni Da is also in the process of setting up a staff council which will give further strength and articulation to the employees' perspective in the operation of the business.

Interviewees reported that their new ownership model has generated much positive publicity for Cwmni Da, both within the community of Caernarfon and in the sector more widely. Cwmni Da's main output continues to be through S4C, but the decision was made some years ago to widen the company's reach. They now provide content to a number of commissioning bodies. Their new employee ownership status was said to have given an additional string to the company's marketing bow.

Reflecting Dylan's comments on the process, the employee representative noted:

*"Day to day I don't see that the company has changed that much — it was always a happy place to work — but I might put in that little bit more effort now to project the company's future!"*



# Appendix 2

# Outcomes

# framework

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## Appendix 2: Outcomes framework

A detailed illustration of the outcomes framework is shown overleaf in the form of a logic model, which seeks to capture all of the potential benefits generated from EO that were identified in the previous section. The framework examines the logic flow between the outputs and outcomes, i.e. how the transition to EO generates initial outputs that then lead to further outcomes and impacts. This allows us to test the causal links between the various outputs and outcomes — green arrows denote that there are strong causal links between outputs and outcomes, whilst the orange arrows indicate a lack of evidence of causality.

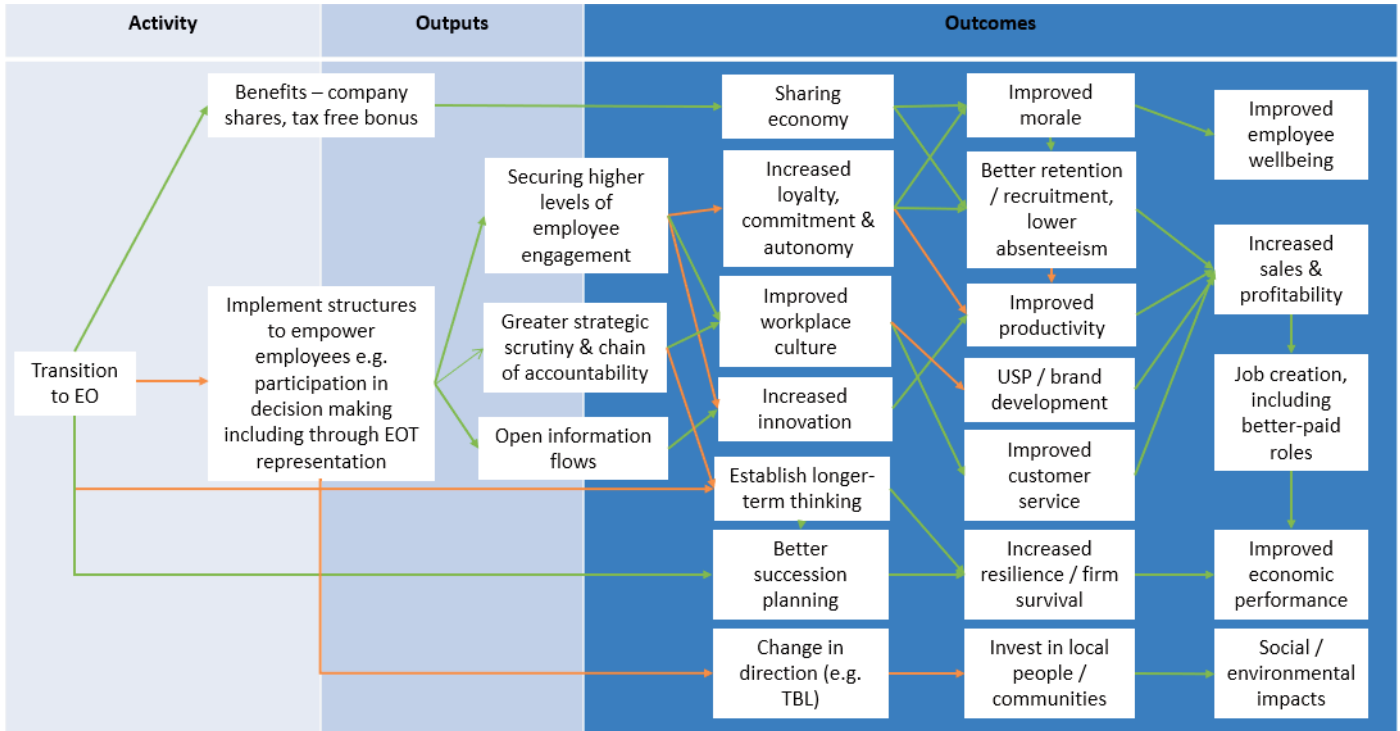
The transition to EO does provide financial incentives to businesses and employees in many instances, leading to greater sharing of the economic value and, we can assume, improved morale and well-being. We can also assume that these improvements will lead to better retention, recruitment, and lower absenteeism, which should have an impact on increasing productivity (although there is a lack of evidence regarding this). There is a clear causal link between the transition to EO leading to more secure succession, thus increasing the resilience and survival rate of businesses, and the benefits to the economy which that entails. There is less firm evidence within other aspects of the logic model, however.

In many cases, the transition to EO is combined with implementing new structures that seek to empower employees, e.g. by creating mechanisms such as representation in EOTs to give employees some influence over decision making. However, the causality here is not always clear; in other words, EOBs may have already incorporated mechanisms to empower employee engagement pre-transition. Having such mechanisms in place leads to higher levels of employee engagement and, we can speculate, creates a more loyal, committed and motivated workforce. What is more, we can speculate that this, alongside the increase in information flows, leads to greater innovation and taken together, improves productivity. However, there is much less robust evidence with which to support causality in these instances.

The final part of the logic model describes how implementing the new employee engagement practices should lead to greater strategic scrutiny and a greater chain of accountability, and could lead to longer-term thinking as well as changes in the company ethos, e.g. commitments towards the triple bottom line, leading to greater place-based building and social/environmental impacts. However, there does not appear to be a significant body of evidence with which to support this.



Figure A1: Logic model for the benefits of EO





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