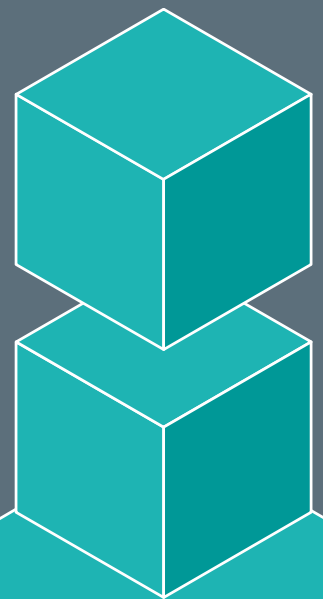


The Economic Benefit

of Employee Ownership
in Wales

Executive Summary



» 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.

