

## **The beautiful and wonderful story**

### **How the Employee Owned Business sector in the UK succeeded to grow from £15-20 billion to over £30 billion in a few years**

This paper explores how the Employee Owned Business sector in the UK was depicted. From £15-20 billion turnover and 2% of GDP in April 2005, to over £30 billion and 3% of GDP in March 2013. Same sentences from one report to another. Just with higher numbers. Will you share the conclusion about this story: Pure invention?

#### **March 2013: Over £30 billion – 3% of GDP**

"Employee ownership is currently worth over £30 billion or almost 3% of UK GDP... Employee owned businesses represent 3% of GDP in the UK." (Source: Employee Ownership Impact Report, Employee Ownership Association, March 2013)

#### **December 2012: Over £30 billion**

The Employee Ownership Association is "the voice of co-owned business", "a sector of the economy worth over £30 billion annually" (Source: Employee Ownership Association website, December 2012)

#### **November 2012: £30 billion – 2% of GDP**

"The UK employee owned sector is estimated to be worth £30 billion annually, which is 2% of GDP and growing." (Source: Fit for work? Health and Wellbeing of Employees in Employee Owned Business, Final Report to Employee Ownership Association, Sponsored by John Lewis Partnership 2012, Professor Ronald McQuaid, Dr Emma Hollywood, Sue Bond, Dr Jesus Canduela, Alec Richard and Gemma Blackledge, Employee Ownership Association, November 2012).

#### **November 2012: £25 billion**

"The UK employee owned sector is estimated to be worth £25 billion annually, which is 2% of GDP and growing. The Employee Owned Business (EOB) sector covers a wide range of business types, sizes and sectors in the UK economy. It includes household names such as the John Lewis Partnership as well as Swann-Morton and Arup. Several high profile examples of successful EOB models have given momentum to the growth of EOBs." (Source: Health and Wellbeing of Employees in Employee Owned Businesses, Final Report to Employee Ownership Association, By Professor Ronald McQuaid, Dr Emma Hollywood, Sue Bond, Dr Jesus Canduela, Alec Richard and Gemma Blackledge, Employment Research Institute, Edinburgh Napier University, November 2012)

#### **March 2010: £25 billion**

"The employee-owned sector is estimated to have a value of £25 billion, representing 2 per cent of the UK economy – and it is growing". (Source: The employee ownership effect: a review of the evidence, Matrix Evidence, Employee Ownership Association, March 2010).

#### **January 2010: £25 billion**

"The employee-owned sector – where companies are wholly or substantially owned by their staff – is estimated to be worth £25 billion annually, equivalent to 2% of UK GDP." (Model Growth: Do employee-owned businesses deliver sustainable performance? Research by Cass Business School, sponsored by The John Lewis Partnership, Employee Ownership Association, January 2010)

#### **May 2008: £20-25 billion**

"The All Party Group on employee ownership was formed in June 2007 in response to growing interest in the role of a sector in which businesses substantially or majority owned by their own employees have achieved combined turnover of at least £20-25 billion annually..."

Defining the co-owned sector

'Employee ownership' and 'co-owned / ownership' are terms that are sometime used interchangeably, whilst they do in fact have distinct meanings. The EOA define the two terms as follows:

- Employee owned businesses: companies where employees own a controlling stake in the business, i.e. more than 50%. An employee owned company may involve employees owning shares, but may instead or as well involve ownership via one or more trusts – for example, no employees own ordinary voting shares in the UK's largest employee owned company: the John Lewis Partnership.
- 'Co-ownership' and 'co-owned company': a wider definition which includes employee owned companies (as above) but also companies where employees own a substantial but minority stake in

the business, say more than 25%. Here again, the employee ownership element may be based on direct share ownership by staff, or indirect ownership via more or more trusts, or a combination of both shares and trust[s].

In this report we refer throughout to 'co-owned businesses' or the 'co-owned sector' unless we are specifically referring to evidence about employee owned businesses more narrowly defined. This partly reflects the fact that the bulk of the evidence base spans both definitions, hence our preference for the broader definition.

What of the scale of the current co-owned sector?

Unfortunately there is no official data about the size of the sector, but the EOA estimates that the 'co-owned' sector has a combined annual turnover of £20-25 billion."

"The APPG note that other public agencies have also identified the need to respond to the gap. Co-operative Development Scotland (CDS), which since 2006 has been tasked with growing the co-operative, mutual and employee owned sector in Scotland, recently commissioned new research by Heriot Watt University to understand the scale of the sector in Scotland – which generated the following headline figures: 550-600 individual co-operative and co-owned enterprises with an annual turnover of £4 billion and gross assets of £25 billion."

(Source: Share Value, How employee ownership is changing the face of business, The All Party Parliamentary Group on Employee Ownership, May 2008)

### **February 2007: £20-25 billion**

"Right now CoCo enterprises make up a vibrant if modest part of the economy: The Employee Ownership Association estimates that co-owned firms account for at least £20- £25 billion turnover annually – or two per cent of the UK economy. (Gross Domestic Product for 2005 was £1,253 billion. (Office for National Statistics, 2006)" (Source: CoCo Companies, Work, Happiness and Employee Ownership, Richard Reeves, Employee Ownership Association, February 2007).

### **July 2006: £20-25 billion**

"The report is based on a survey of employee owned companies, - some of them worker co-operatives, plus other types of employee owned businesses, some trust owned, some only partly employee owned...The sector is growing, contains a number of major household names, and JOL estimates that its combined turnover now tops £ 20-25 billion a year." (Source: Good business: the employee ownership experience, Patrick Burns, Executive Director of the Employee Ownership Association, July 2006)

### **October 2005: £20-25 billion**

"To avoid confusion, we use these terms in the following ways:

- *Employee ownership; employee owned businesses*: Companies wholly or majority owned by their employees, including management (either directly and/or indirectly via employee trusts). In this report, the term employee owned businesses excludes worker co-operatives purely to differentiate – see the definition of co-ops below. We also explain more about employee trusts – an important feature of employee ownership structures – below.
- *Co-owned companies; co-ownership*: A slightly wider definition of employee ownership to include companies where employees, including management, have a large or significant, but minority, stake in the company.

... Along with John Lewis Partnership and a host of co-operatives there is now a growing number of co-owned companies – some wholly owned by management and employees, some majority owned, some with a large minority stake. Companies within the broader JOL network alone (which does not include co-operatives) now have annual turnover totaling around £15 billion, and with the many companies outside the network, the co-owned sector must now comfortably exceed turnover of £20-25 billion. So the sector is sizeable." (Source: Shared company: How employee ownership works, Robert Postlethwaite, Jonathan Michie, Patrick Burns, Graeme Nuttall, Job Ownership Limited (now Employee Ownership Association), October 2005)

### **April 2005: £15-20 billion**

"1. What are employee owned businesses? There is no one model of employee owned business and no single way that such businesses may structure and describe themselves. The legal models adopted by businesses transferring to employee ownership include company limited by shares, industrial and provident society (IPS), company limited by guarantee and trust based ownership models including by an employee benefit trust.

Some such businesses will call themselves a co-operative, others not. Some may refer to themselves as a trust (i.e employee benefit trust), and some may not advertise their ownership structure at all. This sometimes makes it difficult to map and understand the sector and its breadth and diversity... There is no official data on the scale of the employee owned business sector. However, cautious estimates suggest its turnover is in the £15-20 billion turnover range when all co-owned companies are included. The evidence available to Co-operatives UK, JOL and other specialist bodies in this field is that the sector is growing and that there is a significant rise in owner interest in employee buy-outs. (Source: Employee ownership as a solution to business succession, Job Ownership Limited (now Employee Ownership Association), April 2005)

### **Conclusion**

This is all pure invention.

From one report to another since April 2005, experts were just repeating the same sentences, but adding higher numbers, these being just invented.

In addition, the initial £15 billion was an estimate turnover based on the observation of some member companies of the Employee Ownership Association. The single John Lewis Partnership was for £6 billion in this turnover in 2005.

This leads to an estimate 2% of the British GDP due to the "employee-owned business" sector.

Again, this is a wrong evaluation. The comparison between turnovers and GDP is wrong. The GDP doesn't aggregate turnovers but well value added.

Look for instance at John Lewis Partnership: Gross sales were £8,2 billion in 2010/11, while VAT and cost of sales were £5,7 billion. Therefore, the right number to be compared with GDP is not the full £8,2 billion but well  $£8,2 - £5,7 = £2,5$  billion.

So the right estimation of the "employee-owned business" sector in the British GDP is about 0,6% in place of 2% (or 3%, - pure invention again in March 2013).