How to become an employee owned mutual

An action checklist for the public sector

The Baxi Partnership strives to be a beacon for mutual and employee ownership. We have a unique ten year track record in offering funding and specialist support to help grow strong, successful employee-led organisations.

Our first-hand experience in supporting organisations in both the public and private sectors has shown time and again that giving employees a significant stake in the enterprise they work for, and real participation in how that enterprise is run, produces superior performance and productivity.

Our employees have worked with and for the best performing employee owned organisations in the UK. We have supported over 30 transitions, offer a full range of training and development to transform your employee-led culture, and are mentors to the Government's public sector mutuals programme.

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Recognised by policy makers as the voice of employee owned business, the Employee Ownership Association is a network of over a hundred companies which speaks for a sector of the economy worth over £30 billion annually. With no political ties and governed by its member companies, the Association exists to represent its members and promote employee ownership.

The Association's members include the John Lewis Partnership, alongside public service providers such as Central Surrey Health, Sunderland Home Care Associates, Circle, City Health Care Partnership, Highland Home Carers, Stewartry and A4e.

The Association offers a range of expert services to help public sector organisations become employee owned mutuals.

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Field Fisher Waterhouse

Field Fisher Waterhouse is more than just a full-service law firm. Our ability to embrace change and navigate the exciting developments in the public sector makes us different. As structural change and new ways of working become key drivers in public sector reform, we are well placed to advise you. We have experience in transformational projects involving employee ownership, social enterprise and mutual structures, including the ground-breaking transition of the healthcare provider arm of NHS Hull into City Health Care Partnership CIC, the creation of Central Surrey Health Limited and other recent projects. Working with us means working with lawyers who have unrivalled expertise in this field and who genuinely understand and empathise with your issues.

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Founded in 1989 as a not-for-profit company, OPM achieved full employee-ownership in 2006. OPM works to achieve improved social results. Its members care about people and public services, work within a strong ethical framework and have wide experience across central government, health, local services and the voluntary and community sector. With deep knowledge of new models for public services and a long track record of supporting organisations and commissioners to achieve change and improvement, OPM is working with public services on how to approach transitions and build successful mutuals, support the development of enterprising leadership and evaluate the impact achieved.

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Foreword

The Coalition Government has embarked on an ambitious programme to introduce employee ownership into the provision of a wide range of public services. In doing so Ministers are building on the success of the growing number of employee owned companies in the private sector in winning high levels of employee commitment and innovation, delivering exceptional levels of customer service, and exhibiting high standards of corporate governance.

Employee ownership offers the public sector immense opportunities to modernise, motivate staff and improve services relied on by millions of citizens. But it is not a panacea – a change of ownership will not by itself change anything about the way services are delivered. That depends on ensuring the new co-owners – the employees – have a meaningful stake in the business, real involvement in how it works, and a 'voice' through which to make their stakeholder status count.

Despite the 'fair wind' from Government, the process of forming so-called employee mutuals will often be challenging. These fledgling enterprises will need to create a new business, with viable products and services, harness some new skills, introduce new forms of governance and a structure for embedding the staff ownership stake and making involvement real.

This guide has been designed to help those employee mutuals succeed. Its authors – the Employee Ownership Association, OPM, Baxi Partnership, and Field Fisher Waterhouse LLP – have unparalleled expertise in helping public and private sector organisations move to employee ownership.

The good news for emerging employee mutuals is that in their new guise they will be far from alone. As enterprises with significant employee ownership they will be joining a part of the UK economy worth at least £30 billion annually.

That means they have a wealth of experience and expertise to draw on through the Employee Ownership Association, of which the John Lewis Partnership is proud to be a founder member.

No publication can tell the whole story of how to create an employee owned mutual but this guide provides a superb first step on the road.

Charlie Mayfield
Chairman
John Lewis Partnership

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Introduction

This guide is for staff and managers in public sector organisations who are considering taking over ownership of the services they provide.

The benefits of employee ownership have led to cross-party political commitment to increasing the role of employee-led mutuals and co-operatives in providing public services. Public sector workers are being given a 'right to provide', meaning they will have the option to set up new organisations outside of the public sector and take on full responsibility for the services they deliver, and the Government is supporting a number of 'mutual pathfinders' in different sectors.

But the idea of moving to an employee owned company raises many practical questions which must be answered before the transition goes ahead. This guide is about helping you through that process.

About this guide

This guide provides a high level 'roadmap' for the journey from public to employee ownership. It assumes that readers are attracted to the idea of employee ownership in principle, but want to get a sense of 'what next'.

It does not attempt to provide all of the answers, but indicates which are the crucial questions, and in which order to ask them. It also provides signposts throughout to other published sources of advice and guidance.

The guide is a joint publication, drawing on practical experience, expertise and research from the Employee Ownership Association, the Office for Public Management (OPM), Field Fisher Waterhouse LLP and the Baxi Partnership. There's more about each organisation at the front of this guide.

Employee ownership has demonstrated its versatility across a wide range of sectors and businesses, and is a fundamentally flexible option. The question usually is which model is best suited.

It is not the answer in every case, however, and indeed the first stage of any transition should be to assess whether employee ownership is the right option in light of the particular conditions facing the service in question.

Employee ownership is only one form of mutual ownership. Another model is the consumer-owned form taken by, for instance, the Co-operative Group or Nationwide building society.

There are also service user mutuals, such as Southwark Circle. However the focus of this guide is on mutuals where employees have a significant ownership stake.

There are specific legal requirements, rules and regulations which apply in different public sectors – the NHS versus local government, say.

The principles and questions outlined in this guide apply irrespective of sector, but you should always check out the specific requirements that are relevant to your particular field.

Why employee ownership?

There are several compelling reasons to opt for an employee owned business. Research repeatedly shows that firms with employee ownership and active staff involvement can outperform more conventional forms of business with outside shareholders, and be better places to work.

Giving employees a serious ownership stake in the business tends to make people feel more committed, more likely to 'go the extra mile'. Staff are more likely to contribute ideas, take responsibility, solve problems and cope with change when they part own the company.

Because all or most of the shareholders are in the company and know it inside out, employee owned firms tend to be much more open and honest about the business, which in turn breeds mutual trust.

Because it's their business, employee co-owners tend to treat customers with greater care and effort than the average elsewhere. And for the same reason employee owned firms can also expect lower absenteeism and staff turnover.

But employees having a genuine ownership stake does not, usually, mean that the business is co-run. In most employee owned companies managers have the power to make decisions as quickly and effectively as the business requires.

The difference from more traditional companies is that management is accountable to the internal shareholders: the employees. That accountability can take all kinds of forms, from trustee boards, to employee directors, to a consultative body.

The John Lewis Partnership, a member of the Employee Ownership Association, is frequently cited as an example of employee ownership. The John Lewis Partnership is far from an isolated example. The 'co-owned' sector of which it is part is worth at least £30 billion annually, larger than the agricultural sector.

So becoming an employee or co-owned company means joining a thriving and growing part of the UK economy.

The journey to employee ownership

The sheer range and number of issues can be bewildering, and so to make the journey to employee ownership more easily navigable, this guide is in six sections which relate to the six most important stages to consider for a successful transfer of ownership. A **glossary** at the end provides definitions of key terms. Each section has a box referring to relevant sources of further information.

Stage 1	**Options appraisal**
Stage 2	**Building a viable business**
Stage 3	**Planning, leadership and engagement**
Stage 4	**Legal and technical considerations**
Stage 5	**Ownership and governance**
Stage 6	**Securing a strong mutual future**

Whilst these six stages are roughly sequential, it's important to remember that the journey to employee ownership is not a linear one. There are common issues which recur throughout, and which must be revisited more than once, such as leadership, governance and staff engagement. It's more helpful to think of pieces in a jigsaw puzzle: both each part and the whole picture require sustained attention.

Stage 1: Options appraisal

Before going any further, the vital first step is for you and your colleagues to be absolutely certain why you want to take over ownership. Once you have a clear sense of this, you'll be able to choose your next steps with much more confidence.

For example, do you think that with greater freedom and flexibility you will be able to provide a better quality of service? Are you primarily motivated by the opportunity to secure greater financial reward for your skills and experience? Or are you looking to preserve a necessary service that may otherwise be cut?

Of course it might be a mix of all of these reasons and more, but it's crucial to get a sense of which are the most important reasons.

You will then need to conduct a strategic options appraisal, to determine:

- Is employee ownership definitely the best option? Are other options worth considering, e.g. a management buy-out, outsourcing, a joint venture with a voluntary or independent sector provider, sharing services with another organisation? Are the status quo, or discontinuation of the service the only feasible choices?
- What criteria should be used to judge the best option? How will you assess likely costs and benefits?
- If some form of employee ownership is likely to be appropriate, are there other groups of people who also need to have an ownership stake e.g. investors, service users? Should the company be co-owned, rather than owned entirely by employees?
- Who are the most important stakeholders to engage, and what's the best strategy for engaging with them?
- Who will ultimately make the decision in principle about whether or not this venture can proceed, and what's the decision-making process?

As a guide, research suggests that, whilst not impossible, mutuals (of all types) are harder to set up where there is:

- A very high level of turnover of staff or service users (thus making it difficult to build up the kind of longer-term relationships necessary for successful mutual ownership).
- The pressure for very rapid growth of the service in question, which could weaken the ability of the new organisation to 'bed in' once established (in the current climate many services will, of course, be facing the opposite pressure, of cuts and contraction, which is why it's so important to be confident of the viability of the new business, as addressed in the next section).
- An extremely competitive, well-established market for this service, dominated by a small number of large independent providers.

Because of the need for the transition process to be tailored to the specific circumstances facing a particular service, it's almost impossible to say how long a transfer of ownership will take.

However in the public sector it will be virtually impossible to complete a transfer successfully in a timescale of less than six months. In many cases much longer will be needed, for example to ensure proper engagement of staff, awareness-raising for and negotiation with decision-makers, and proper options appraisal.

The options appraisal stage will typically end with an agreement in principle from senior managers and/or elected members (where relevant) that they are willing for more time, effort and resource to be invested in detailed business planning.

Where to find out more

- For a robust approach to options appraisal, see chapter five of HM Treasury's The Green Book (available for download at **www.hm-treasury.gov.uk/data_greenbook_guidance.htm**)
- For the different models of shared ownership and how to choose between them: section 2.3 of New models of public service ownership, published by OPM. Available for download from OPM's website: **www.opm.co.uk**
- For more detail on which services may be better placed for mutual models see the Innovation Unit's The Engagement Ethic (downloadable at **www.innovationunit.org/engagementethic**)

Stage 2: Building a viable business

In thinking about a transfer of ownership it can be easy to forget that, on a very basic level, the new organisation will have to function as a successful business. It's no surprise, then, that making the business case is a crucial part of securing the buy-in of key decision makers.

Broadly speaking there are three key elements to making a strong business case:

1. Taking stock

2. Planning for the future

3. Securing the necessary finances

The key questions under each of these are described opposite.

1. Taking stock: where are we now?

- ☐ What are your service(s)'s strengths, weaknesses, opportunities and threats?
- ☐ What's your service's Unique Selling Point (USP): i.e. what commercial niche or gap will this new organisation fit into?
- ☐ Are there key events or other milestones that need to be met (e.g. linked to the end of a financial year or a particular funding stream coming to a close)?
- ☐ What are your service(s)'s key contracts, assets and liabilities?
- ☐ What skills do you have at your disposal (including key business skills), and are there any gaps?

2. What does the future look like for this business?

- ☐ What is the likelihood of existing (e.g. statutory) funding streams continuing? What volume of workflow will this 'core funding' be able to support?
- ☐ What demand is there likely to be from additional customers, and how will you attract them?
- ☐ Who will the competitors be for the provision of this service, and what are their strengths and weaknesses relative to yours?
- ☐ What will it cost to provide these services in the future, and does that allow you to provide them at a competitive price?
- ☐ Will VAT and other forms of tax be chargeable, and if so how will this affect the cost of the services provided?
- ☐ Will the organisation continue to provide all of the services, or only some of them, and if the latter then which ones?

3. **How will we secure the finance we need?**

- ☐ Does the business need to be bought by the new owners, with the public sector organisation requiring a sale price, in order to reflect its capital value? If so how will this be financed?
- ☐ Will the new service be wholly financed by a contract with the current statutory owner? If so are there cashflow issues that need to be overcome to provide sufficient start-up capital? Will a payment by results contract be in place, and if so how will you meet core costs in the meantime?
- ☐ Are there options open to negotiation with the organisation handing over ownership e.g. regarding leasing rather than purchase of key assets, deferred payment arrangements?
- ☐ Is it possible to secure finance from external sources e.g. banks, investors, through joint ventures or specialist funds (such as the Baxi Partnership)? If so what security is needed and potentially available to cover such finance?
- ☐ What kind of specialist support services will be required by the leadership team to carry through the full transition process (potentially including around financial, legal or governance issues; setting up internal structures such as employee share schemes; or simply starting to create a genuinely employee-led internal culture)? What will be the additional costs attached to that support?
- ☐ If, having assessed the potential of each of the above, there is still likely to be a funding gap, are there any solutions open to the business by virtue of it being employee owned, e.g. deferring salaries, using money from voluntary redundancy, looking to specialist or community-based funders?

This stage will usually end with the business case being presented to key decision makers, and agreement given for full transition planning to go ahead.

Where to find out more

- ☐ For a guide to the 'five key components' of a good business case, see Public Sector Business Cases using the Five Case Model: a Toolkit (published by HMT and available for download at **www.hm-treasury.gov.uk/data_greenbook_business.htm**)
- ☐ For examples of how businesses have secured the necessary capital to become employee-owned, see the Employee Ownership Association's From colleagues to owners (downloadable here: **www.employeeownership.co.uk/publications/from-colleagues-to-owners**).
- ☐ The Baxi Partnership has its own investment fund to support organisations looking for transition capital, provides expert advice on raising additional external capital, and has a track record of joint ventures to carry organisations through transition and support them in the first few years of employee ownership. For case studies and more information go to: **www.baxipartnership.co.uk**

Stage 3: Planning, leadership and engagement

Planning, leadership and engagement with staff and other key stakeholders are, even more than the other stages, truly cross-cutting, and are vital underpinnings throughout the whole process. The following are some of the key success factors for a well-led, inclusive and effective transfer of ownership:

- ☐ Deciding whether a smaller working group is necessary to lead the detailed work required as part of e.g. options appraisal. If such a group is set up it should include good representation from employees and a clear rationale for membership.
- ☐ From the very outset: understanding the appetite and different motivations for different members of staff, and providing the information and advice about the implications of a transfer in order for each member of staff to think about the viability for them personally.
- ☐ In particular, not all staff may wish to transfer across to a new organisation, and/or there may need to be reduction in capacity to reflect changing levels of demand. Wherever possible decisions about appropriate levels of staffing should be resolved by the organisation that currently owns the service, rather than expecting the new mutual to deal with these issues. This is explored further in the next section.
- ☐ Starting by raising awareness of the key principles of employee ownership, perhaps selecting a basic model as a framework for discussion, but not getting bogged down in detailed discussions about different ownership structures too early on.
- ☐ Deciding whether or not an independent facilitator is needed to give the process of staff engagement the necessary independence and credibility (e.g. so it doesn't feel like it's being too driven from the top down).
- ☐ Being clear about who is leading the process of transition, and who is acting as its champion at different levels (e.g. among staff, among key decision makers).
- ☐ Deciding whether or not you will ballot staff, giving them a formal opportunity to vote on whether or not they want the change (which may require setting a reasonable level of majority backing, in addition to a thorough awareness-raising process, ahead of the result).
- ☐ Assessing the readiness of the leaders or leadership team to undertake the transition, including the availability of the right mix of business and other skills, and the fitness-for-purpose of governance and management arrangements.
- ☐ Leaders of the process taking the time to articulate a compelling vision for the transition, whilst allowing for different and divergent views to be heard, and accepting that some level of anxiety and uncertainty is an inevitable aspect of changing ownership.
- ☐ Leaders need to maintain a clear, visible and reassuring presence (especially in larger organisations) during the whole course of the transition.
- ☐ Trade unions can, if brought into the process early enough, be a key partner in ensuring a successful transition, and it's vital that due attention is given to explaining the rationale for the change and demonstrating the inclusivity of the staff engagement processes.

In planning the transition, you may wish to consider, in consultation with commissioners, whether the option of setting up a 'shadow organisation' is appropriate. This entails having a period – lasting anywhere from six months to a number of years – where the new organisation remains within statutory ownership, but takes on its own independent governance and many financial arrangements, and is performance managed as if it were employee owned. This can have the benefit of giving a chance for the new owners to build capacity and establish a track record.

Where to find out more

- ☐ For examples of how public services that have already gone down the mutuals route have tackled staff engagement, and the key leadership qualities required, see the case studies in OPM's Shared ownership in practice. Available for download from OPM's website: **www.opm.co.uk**
- ☐ The EOA-Baxi Partnership publication Making Employee Ownership Work benchmarks employee engagement and the employee ownership culture at 25 of the most well-established employee owned companies in the UK. Available for download from either **www.employeeownership.co.uk** or **www.baxipartnership.co.uk**
- ☐ The Baxi Partnership offer a free Employee Ownership Culture Survey which benchmarks how well or under developed the employee owned culture is within organisations going through transition, and provides analysis on how to strengthen that culture. For more information, go to: **www.baxipartnership.co.uk**

Stage 4: Legal and technical considerations

There are various legal dimensions to the transfer to employee ownership. Arrangements and processes will need to be documented legally to ensure that they are enforceable.

It will therefore be important to secure the support of legal advisors who are expert in employee ownership specifically and, ideally, with public sector expertise. As an overall guide, there are five main elements to a robust legal transfer of ownership:

1. Choosing a legal vehicle and ownership structure that is fit-for-purpose

The new organisation will almost always need a separate legal entity to give the benefit of limited liability and the ability to e.g. enter into contracts and hire staff.

You will also need to decide whether the new organisation has a specific social or community purpose 'locked in', – e.g. if you wish to set up a form of employee led social enterprise – and if so, whether this is in the form of a community interest company or a charity.

A crucial consideration at this stage is whether you wish to have the freedom for the new owners to receive financial benefits as a result of their ownership stake. This may mean a social enterprise is not a viable option.

Other considerations that help to determine which legal vehicle is appropriate include whether you actually need more than one legal entity, for example an employee benefit trust to own shares, on behalf of employees, in the new organisation, and whether, for example NHS or other contracting requirements mean the new organisation has to satisfy certain criteria as to who owns and manages it. The treatment of the employer in some pension schemes can vary depending on the legal structure used.

2. Exercising due diligence to enable informed decisions

A due diligence exercise – essentially a process of 'opening the books' and investigating the 'health' of the business – allows assets, risks and liabilities to be assessed and appropriate action to be taken.

This might lead to risks being mitigated, assets being dispensed with or contracts being terminated. It is a valuable exercise. It avoids the new organisation being 'set up to fail' by being lumbered with excessive liabilities and risks or significant gaps in e.g. infrastructure or financing. It also gives assurance that the new organisation has in place from day one the necessary assets and infrastructure to enable you to run your business and deliver your objectives.

As well as looking at existing contracts and physical assets, this should also involve looking at existing human resources, and assessing whether any restructuring of the workforce might be necessary prior to transfer. Major changes to staffing levels should not be left to the new organisation to undertake.

3. Transferring staff

As noted in the preceding section, engaging with staff in an open and transparent way is one of the most critical factors for success. A key concern of staff will be whether their existing terms and conditions will be maintained in accordance with TUPE regulations, and any changes to working conditions or arrangements which might result from the transfer.

You will need to provide information to and consult with staff representatives (where applicable these will be the trade union representatives) on changes which may be imposed by the transfer under the provisions of TUPE.

An important part of this process is determining the approach which will be taken in relation to the maintenance of pension rights and in relation to pension scheme provision in the future. There are different options for doing this, and these vary across pension schemes, including joining the scheme itself, such as gaining 'admitted body status' in the Local Government scheme, or setting up a new scheme that is broadly comparable.

Whatever the specifics of the staff transfer, the key thing is to be as clear, honest and upfront as possible about the feasibility of different options, to allow staff to understand and express their views on the transfer process, so that as far as possible they engage in a positive manner with and support the transition.

4. Documenting the transfer

Once you are clear on what is transferring and that this provides the necessary property and infrastructure to meet contractual requirements and constitute a viable business, the transfer should be formalised through a binding legal transfer agreement so that the new organisation has legal title to the assets and can enforce any rights that it has negotiated with its predecessor owner. Additional legal documents may be needed to deal with the transfer or leasing of real property and new contracts may need to be substituted for existing key contracts.

5. Contracts and procurement

In many cases the services that will need to be commissioned from the new organisation, as 'Part B' services (e.g. health, education, cultural services), fall outside of the full EU procurement rules, but the organisation making the transfer and commissioning the services will still need to comply with EU Treaty principles of openness and transparency and non-discrimination. They will also need to have due regard for its own and central government's guidelines for fair and open procurement, and the need to achieve value for money.

In order for you to establish key procurement requirements, and to establish any room for flexibility, it's vital to open up a dialogue with key commissioners at the earliest possible opportunity, and include them in the process of developing a business case.

Where to find out more

- ☐ For more detail about key aspects of the process, for example due diligence and HR issues, see Challenges for public bodies facing mergers and abolitions and Mutualisation of Public Sector Services, both published by Field Fisher Waterhouse LLP.

- ☐ The EOA-Baxi Partnership publication Making Employee Ownership Work benchmarks governance arrangements at 25 of the most well-established employee owned companies in the UK. Available for download from either **www.employeeownership.co.uk** or **www.baxipartnership.co.uk**

Stage 5: Ownership and governance

The two key elements of ownership and governance must be addressed together to ensure they are mutually compatible and supportive. Principles of good governance are, over time and in practice, what allow employee ownership to become real, and conversely if these are not in place then perfectly good ownership structures can be undermined.

1. Key questions of ownership

Because employee ownership is such a flexible business option, the question is invariably which specific model of ownership is fit-for-purpose in the circumstances.

In deciding upon the best model, the key questions are likely to include:

- ☐ How will ownership be distributed across employees and other stakeholders, if employees are not the only owners?
- ☐ Will a share in ownership attract financial, voting and/or other benefits?
- ☐ Will anyone have special rights and responsibilities, e.g. the right to appoint a director or to veto certain board decisions?
- ☐ Will any social purpose be locked into the ownership structure?
- ☐ Will there be a separation between executive and ownership functions in the new organisation?
- ☐ Will ownership be held directly, by employees themselves, or indirectly, for example in an employee benefit trust, or via a combination of the two?

In thinking about the last question in particular it's important to have a view to the longer-term sustainability, and ensure that the new organisation is 'future-proofed', particularly to ensure that employee ownership is firmly embedded over time.

One good way of achieving this is to have indirect ownership, through an employee benefit trust, because such an arrangement helps prevent one generation of employees from undermining the core basis of continuing employee ownership.

2. Getting governance right

Good governance means many things, but the principles of transparency and accountability are central. These are achieved through a mix of formal and informal means: powers, processes but behaviours and ways of working too.

In many cases it's appropriate to distinguish between the body responsible for the strategic and day-to-day management of the new service, and a partnership council or trust board responsible for giving voice, oversight and influence to owners.

If this is the case you will need to consider carefully which powers and responsibilities you are going to assign to each body in the new organisation's governing documents. These should also include a clear statement of the organisation's core purpose, and mechanisms for ensuring that this is reflected in the work it does.

Formal powers for the ownership council/trust board can be vital to ensure that, over time, the rights of owners are not eroded (for example following a change in leadership).

Such powers might include the ability to hire and fire the chief executive/managing director and/or other board members, or to vote on changes to the organisation's governing documents.

For services that are provided for the benefit of a whole community or a specific set of service users (i.e. for social and/or public good) it may be a good idea to give other key stakeholders, e.g. a service user representative, a local politician or a leader from a key partner body, a governance role.

Where to find out more

- ☐ See The Good Governance Standard for Public Services, produced by The Independent Commission on Good Governance in Public Services (published by CIPFA and OPM). Available for download at **www.cipfa.org.uk/pt/download/governance_standard.pdf**
- ☐ The Financial Reporting Council's UK Corporate Governance Code provides a standard of good practice which new organisations may wish to adhere to irrespective of whether the Code is a statutory requirement for them. Available for download at: **http://www.frc.org.uk/CORPORATE/ukcgcode.cfm**
- ☐ For further guidance on employee ownership structure and governance arrangements contact Baxi Partnership, Field Fisher Waterhouse or OPM via the contact details at the front of this guide.

Stage 6: Securing a strong mutual future

Formal transfer of staff, assets and liabilities is the true beginning of the journey to employee ownership, rather than the end. There are a number of key 'ingredients for success' over the medium- and longer-term, including having a strategy for continuous development and business improvement, paying due attention to skills and capacity building, and looking to review, embed and mature ownership over time.

1. Continuous business improvement

Continuous improvement is the only way for a business to survive effectively in a competitive marketplace. There must be a willingness to adapt the new organisation's business model to reflect changing circumstances, and gather evidence about performance to demonstrate value for money and social return on investment. Ongoing evaluation of performance and impact on outcomes for service users and communities is a particularly important part of winning public sector contracts.

Building strategic partnerships is often a key aspect of an organisation's development plan: such partnerships can help to minimise costs, by sharing core services and overheads, and also open up new potential markets.

Even organisations that begin life with a secure contract for a certain number of years need to plan actively for the time when that contract expires or is re-let, possibly with different conditions attached. With that in mind it is crucial for the new owners to look for additional sources of revenue on an ongoing basis.

2. Skills and capacity building

The transition to becoming an employee owned business brings with it the requirement for new skills. Whilst the professional skills that you and colleagues have will continue to be indispensable, it's important to consider how to build the capacity of the new owners to play a part in the ownership of a business.

This does not necessarily mean that every single member of staff in the new organisation needs to aspire to be the next Sir Richard Branson: apart from in very small organisations there will continue to be a split between directors, managers, and those responsible for frontline service delivery.

Taking over ownership introduces brand new expectations, however. On the one hand there are 'harder' skills which need to be developed at all levels, for example more of an emphasis on bidding for contracts or conducting effective marketing campaigns.

In order for staff at all levels to exercise effective oversight of the leadership of the business it helps to raise awareness about how to interpret core business information, for example the company's annual report. Leaders of the new organisation will need to fulfil their part of the bargain by ensuring that information is accessible and readily available.

Employee owned organisations also need to build an effective culture of ownership. This can be achieved through a range of means. These include ensuring that shared ownership is a core part of the business's external brand and profile, is reflected in the behaviours of leaders and managers at all levels, and is integrated into key processes such as appraisal and performance management.

3. Embedding and maturing ownership

Over time new staff and leaders will come on board who will not have been part of the original journey. It will be important to raise awareness amongst the new members about what it means to take an ownership stake in your new organisation, for example through ensuring that recruitment and induction processes reflect not just the skills required to undertake core roles, but the broader expectations of ownership.

Growing an employee owned organisation, whilst vital for continuing success, also brings its own challenges. Ownership and governance structures may need to flex over time as the number of owners expands, whilst maintaining core aims and principles.

Processes for regular engagement of all employees in shaping the strategy for the new business help to give a sense of common endeavour, and sharing success stories – for example where people have developed new ideas for improvements to services – are also important ingredients for success over time.

Where to find out more

- ☐ Chapter four of OPM's Shared ownership in practice report looks directly at the success factors for the post-transition period, drawing on evidence from case studies of public services that have already transferred ownership. Available for download from OPM's website: **www.opm.co.uk**
- ☐ The Baxi Partnership offer a free Employee Ownership Culture Survey which benchmarks how well or under developed the employee owned culture is within organisations after they have gone through transition, and provides analysis on how to strengthen that culture. For more information, go to: **www.baxipartnership.co.uk**

Glossary

Admitted body status – in the local government sector, a status given to new organisations which continue to be part of the Local Government Pension Scheme, meaning that they enter into a formal agreement to pay into the fund, on demand, appropriate contributions for the employees who have transferred.

Community interest company (or CIC) – is a limited company, formed under the Companies Act 2006 that has special additional features to provide a purpose-built legal framework, including asset-locks, for social enterprises that adopt the limited company form. CICs are for use by people who want to conduct a business or other activity for community benefit, and not purely for private advantage.

Co-operative – an organization owned by its members and which subscribes to the long-established seven principles of co-operation. Members - such as consumers, staff, others in the community or a combination - have an equal say in what the co-operative does.

Co-owned – a company is 'co-owned' for the purpose of this guide if there is more than one group of owners including employees who have a 'significant stake' in the business, but less than 50%.

Employee benefit trust (or EBT) – a trust established for the benefit of the employees of the company in question. An EBT is frequently used as the mechanism for indirect ownership of an organisation on behalf of its employees.

Employee ownership – definitions published by the Employee Ownership Association suggest that for an organisation to be classified as 'employee owned', employees must have ownership of more than 50 per cent of the organisation, though EOA acknowledges the value too of 'co-owned' companies where employees have a minority but still significant stake.

Industrial and Provident Society (or IPS) – an organisation conducting a business, either as a co-operative or for the benefit of the community. Special reasons may need to be demonstrated as to why an organisation should be registered as an IPS rather than a company. Many housing associations are Industrial and Provident Societies.

Mutual – strictly speaking, a mutual is an organisation where the primary purpose is to generate benefits for members (often in return for a membership fee of some kind). However the term 'mutual' has come to be a widely-used umbrella term for organisations of many different kinds including employee owned organisations.

Social enterprise – a social enterprise may or may not be employee owned; either way it is a business with primarily social objectives, whose surpluses are principally reinvested for that purpose in the business or the community, rather than being driven by the need to maximise profit for shareholders and/or owners.

TUPE – stands for Transfer of Undertakings (Protection of Employment) Regulations, which guarantee employees' terms and conditions during a transfer of ownership.

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