EMPLOYEE-OWNED BUSINESS RESILIENCE & RECOVERY

Ref: CDS20-EOBR

Report to Scottish Enterprise, Cooperative Development Scotland and Scotland for Employee Ownership

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EXECUTIVE SUMMARY

The report provides insights into how the pandemic is impacting Employee-Owned Businesses (EOBs) in Scotland. It indicates that EOB resilience is both financial and social, suggesting important lessons for building back a better and more inclusive economy.

The research was carried out by the University of St Andrews on behalf of Co-operative Development Scotland (part of Scottish Enterprise) and Scotland for Employee Ownership, the industry leadership group. The survey took place between January and February 2021 and covered 133 EOBs and worker cooperatives operating in Scotland.

Financial impact & response:
The EOB sector continues to be dominated by SMEs across a range of sectors. For the majority of EOBs (86%) employee ownership has not been a barrier to accessing Government-backed finance during the pandemic. While 23.5% of EOBs experienced turnover growth during the pandemic, just under half (47%) have experienced a reduction in turnover. This compares favourably to emerging evidence of the experience of turnover change for non-EOB SMEs during the pandemic. The Federation of Small Businesses' Q4 2020 survey, for instance, found that 67% of SMEs in Scotland reported a reduction in gross profit and only 15.9% reported growth.

Financial and social resilience:
Embedded and established employee ownership appears to be beneficial for adapting to pandemic circumstances and facilitates growth when presented with emerging opportunities. Firms experiencing growth during the pandemic were more mature EOBs and carried a lower debt burden to their exiting owners going into the crisis. On the other hand, firms who experienced a reduction in turnover during the pandemic were younger EOBs and entered the crisis with heavier debt burdens, were more likely to engage in austerity actions, attribute lower importance to pursing business growth and report lower need for job related training. These EOBs place somewhat lower importance on employee protection, lower importance on democracy and communication as an organisational objective, and lower importance on further developing democratic skills. EOBs with shorter tenure and greater debt burdens going into the pandemic therefore have less financial and social resilience.

While firms with more than 75% employee ownership also took austerity options, at the same time they were more likely to take actions to enhance democracy and participation and to protect employees than firms with lower levels of employee ownership – indicating an association between level of employee ownership and democracy enhancing activity during the pandemic. Consequently, their resilience appears to be both financial and focussed on democracy, equality and participation.

Despite the potential for 'democratic scarring' in firms experiencing reduced turnover, it is important to note that, overall,

- 75% of EOBs cite workplace equality as a key organisational objective during COVID.
- 68% of EOBs say that employee voice is a key organisational objective during COVID.

EOB resilience is consequently both financial and social with a significant focus on people, job security, health, equality and wellbeing alongside financial resilience. There are therefore lessons to be learnt from the sector concerning a socially balanced, inclusive way of being economically and socially viable and resilient.

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1. INTRODUCTION & OBJECTIVES

Given the speed with which the COVID-19 pandemic has engulfed global and national economies, research is needed into how employee-owned businesses (EOBs) are being impacted by, and are responding to, the crisis. Researchers from the University of St Andrews, supported by Cooperative Development Scotland (part of Scottish Enterprise) and Scotland for Employee Ownership, assembled and examined new survey data on how EOBs operating in Scotland have been impacted by and are reacting to the COVID-19 situation.

Context

While there is UK evidence that employee-owned firms had greater financial resilience during the 2008 financial crisis (Lampel at al. 2010) – in part because they were more debt-averse – we do not know if this will be the case for the current crisis. COVID-19 has precipitated rapid employment loss UK-wide according to the fortnightly *Business Impact of Covid-19 Survey* undertaken by ONS[1]. During March 2020 a third of UK businesses said they were reducing their staffing levels (BICS1). In Scotland, between 20th April and 3rd May, nearly 60% of businesses had seen financial turnover decrease and only 16% of Scottish businesses had not sought any form of government assistance (BICS4). However, the ONS does not differentiate between EOBs and non-EOBs and, significantly, in the last recession hiring of new recruits by EOBs was four times the rate of non-EOBs (Lampel et al. 2012).

Yet, the COVID-19 challenge is bigger than the 2008 financial crash. It has precipitated economic, health and social crises. In this novel context it might be significant that EOBs had better social and health sustainability under normal circumstances (McQuaid et al. 2012, Erdal 2014). There are also positive health effects of increased control at work (Marmot et al. 1984, Karasek 1979) but we don't know how this might translate into health and social resilience under COVID-19 circumstances.

Project Objectives

- To provide insights into how the Covid-19 crisis is impacting EOBs to produce 'lessons learned' now for both the EO sector and other sectors about resilience and potential 'bounce back'.
- To consider what types of EOB are particularly at risk or particularly resilient.
- To explore EOB financial resilience, workforce resilience and access to resources.
- To update the 2018 Census (Census 2018) of employee-owned businesses (EOBs) and worker co-operatives operating in Scotland.

New data collected

The survey incorporated a number of census questions for consistency with the 2018 census of EOBs operating in Scotland. In order to provide insight into the impact of COVID and EOBs' responses to the pandemic, new data was collected in key areas,

- length of employee ownership in each company
- forms of decision-making before and during COVID

[1] Renamed the *Business Insights and Conditions Survey* (BICS) in December 2020.

- use of retained earnings
- access to finance
- key objectives and challenges faced by EOBs during COVID
- supplemented with actions taken in response to the pandemic
- training and business support needs
- use and role of soft skills in responses to the pandemic
- a qualitative commentary from EOBs

Note

This research was jointly funded by Co-operative Development Scotland (part of Scottish Enterprise) and Scotland for Employee Ownership, the industry leadership group. The survey took place between January 2021 and February 2021 and 77 firms responded (58% response rate).

Dr Juliette Summers and Dr Boyka Bratanova would like to thank all the firms who participated, and also express our appreciation to Co-operative Development Scotland staff, and in particular Jaye Martin, for their support.

2. RESPONSES

Once repeated survey entries were removed[2], the total number of responses to the survey is 77 (giving a 58% response rate), of which 61 completed 100% of the survey (see Table 1), the remaining 16 survey responses were incomplete.

Overall, 23 firms were uncontactable, no longer operating, declined to participate, or were not employee owned (Table 2). Table 1 outlines the development of the database for the survey.

Table 1

	Count
Companies contacted directly by St Andrews University	133
Companies contacted directly by CDS	+8
Bounce backs/undeliverable	-3
EOBs no longer trading	-3
Not employee owned	-8
Additional EOBs identified through web search	+6
Total	**133**
Responses	77 (58%)
Completed survey response	61
Partial survey response	16
Total	**77**

Table 2

Survey database development	**Count**
CDS Database	141
Uncontactable (no available address)	-8
Bounce backs/undeliverable	-3
EOBs no longer trading	-3
Not employee owned	-8
Additional EOBs identified through web search	+6
Revised database total	**133**

Efforts to increase the response rate included:

- Personalising all emails, including the two follow-ups from St Andrews and additional follow-up from CDS
- Embedding the survey link in the email
- Detailed web searches for relevant and current email addresses – including identifying EOT Trustees as email recipients. This resulted in 61 new email contacts

[2] Seven EOBs completed the survey twice.

- Responding promptly to queries received from EOBs
- Separate, personalised emails to SfEO board members from Cooperative Development Scotland
- Following up non-responders with tailored emails, with each round of emails personalised and constructed differently to acknowledge the follow-up stage
- Personalised email reminders to non-responders from CDS at stage three follow-up

However we became aware that other surveys of Scottish EOBs were circulating around the same time (Employee Ownership Association, Coops UK, and Ownership Associates) which led to some confusion among EOBs concerning which survey they had completed, and also survey fatigue among the population.

We undertook a detailed web search to identify a further six eligible firms – resulting in five additional survey responses. The tally of complete surveys was therefore 46% of all qualifying firms contacted and 79% of all participating companies.

Turning to the census questions, 62 EOBs completed the question ‘Number of UK employees’, 61 answered ‘Percentage of current EOB employees that are based in Scotland’, and 61 responded to the question, ‘Turnover range for 12 months to 31 Jan 2021’.

3. RESULTS

3.1 A picture of the sector

3.1.1 Geographical distribution

Figure 1. Geographical distribution of EOBs

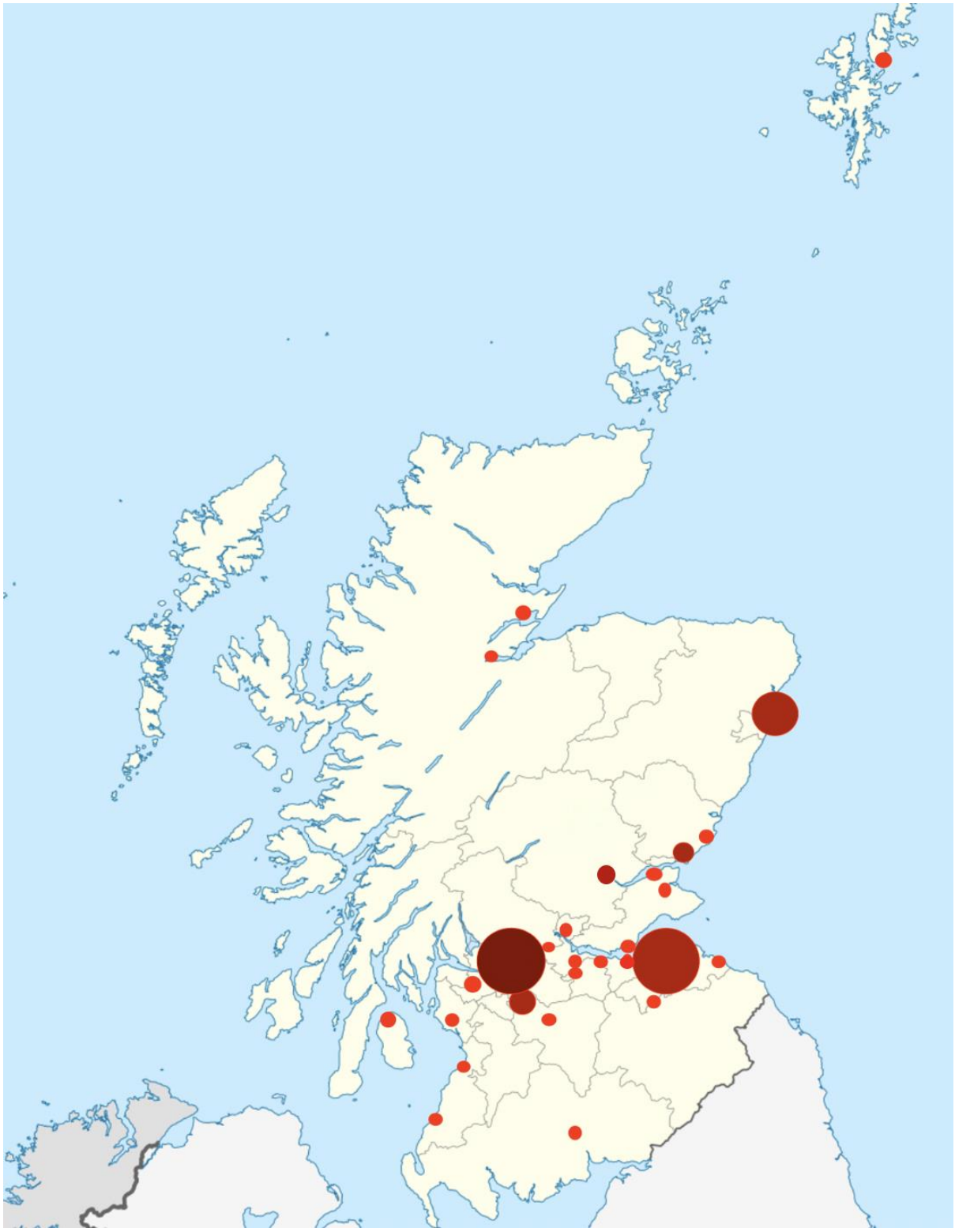


Figure 1 demonstrates that the two largest concentrations of EOBs are in or near the cities of Glasgow (19) and Edinburgh (18). A further four respondents are based in or near Aberdeen, three in both East Kilbride and Perth and two in Dundee. As the geographical distribution map shows, the survey results include rural, remote, urban and island areas – and most Scottish regions are represented in the results with the exception of Scottish Borders and Na h-Eileanan Siar (the Western Isles).

3.1.2 Industry distribution

As Table 3 below represents, EOBs are present across a range of sectors. Although design, professional and consultancy dominate (47 EOBs, or 61%), manufacturing, construction and agri-food are still significant, comprising over a quarter of EOBs (21 EOBs, or 27%). Retail, care and hospitality is a smaller sector of 9 EOBs, or 11.6% of respondents.

Table 3: Industry distribution

Sector	**Count**
Design, architecture + engineering	16
Manufacturing	10
IT consultancy & services	7
Construction	7
Consultancy	7
Professional	7
Wholesale + retail	5
Agri-food	4
Environmental services	4
Education + training	3
Hospitality	2
Care	2
Oil + gas	1
Horticulture	2
TOTAL	**77**

From the diffuse geographical and industry distributions of the responding EOBs, plus the 58% response rate of all qualifying firms contacted, we are confident that the data represented in this report validly represents EO businesses in Scotland.

3.1.3 Employment

The EOB sector continues to be dominated by SMEs (while acknowledging that there are large and micro firms too) which is replicated in our survey:

- The majority of EOBs (55%) employ between 10 and 49 members
- 21% of EOBs are micro firms with fewer than 10 employees
- 11% have a workforce of between 50 and 99 employees, and
- 11% employ over 100 workers.

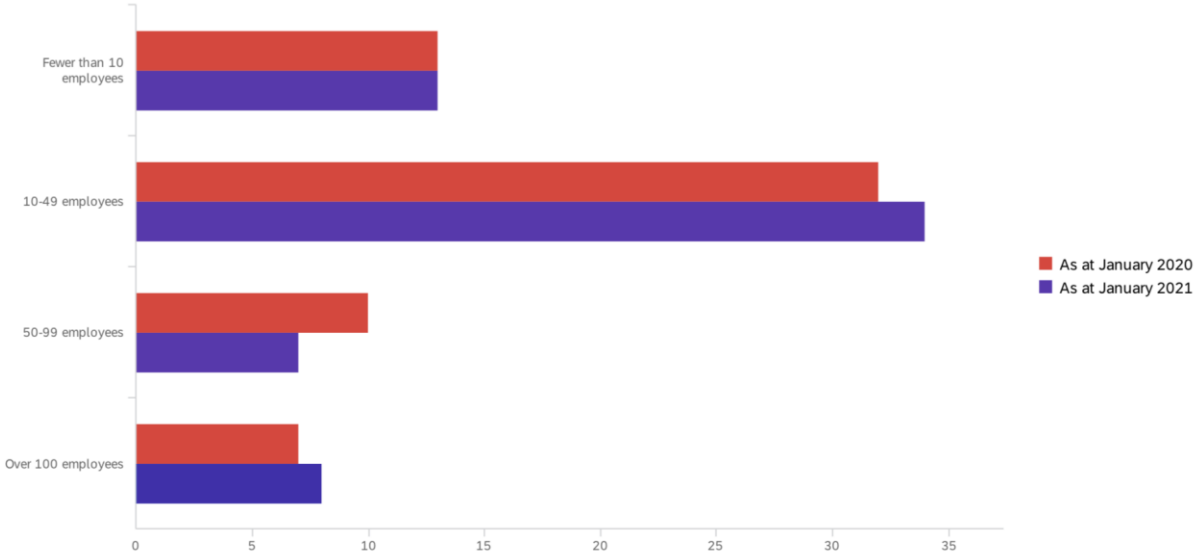
Turning to a consideration of workforce changes during the course of the pandemic (Tables 4 and 5), the micro-EOBs, those with fewer than 10 employees, have remained stable in terms of employee numbers, experiencing no change in labour force size. However this is not the case for SMEs and larger EOBs.

- Both EOBs in the 10-49 employee count range and those with over 100 employees have seen a small growth in workforce numbers (3% and 1.6% respectively) during the pandemic.
- EOBs with between 50 and 99 employees saw a 5% reduction in workforce numbers in the year leading up to January 2021.

Table 4. Number of UK Employees

	Jan 2020	Jan 2021
Fewer than 10	20.9%	20.9%
10-49	51.6%	54.8%
50-99	16.1%	11.3%
Over 100	11.3%	12.9%

Figure 2. Number of UK Employees



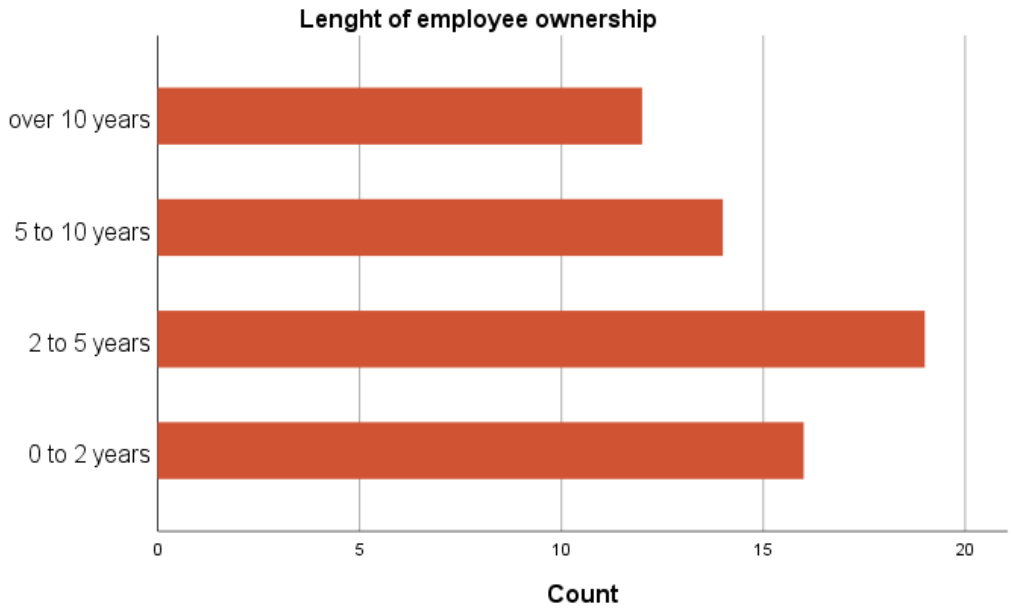
In terms of changes to workforce numbers, EOBs appear to compare favourably to non-EOB SMEs.

- 28% [of UK SMEs] have expectations of reducing headcount in the aftermath of the pandemic (Albonico et al. 2020[3]).
- "22.3% of small businesses reported cuts to their workforce in Q4. Cuts were most prevalent in London and Scotland[1]" (FSB Q4 2020[4])
- "Close to a quarter (23%) of small firms have decreased the number of people they employ over the last quarter". (FSB Jan 2021[5])

3.1.4 Age profile

The age distribution of EOBs (Figure 3) suggests a recent period of growth coinciding with the introduction of the Finance Act (2014) and the EOT form. While there is a range from the well-established (150 years) to the very new EOBs, the majority of EOBs are less than 5 years into their employee ownership journey.

Figure 3. Length of employee ownership



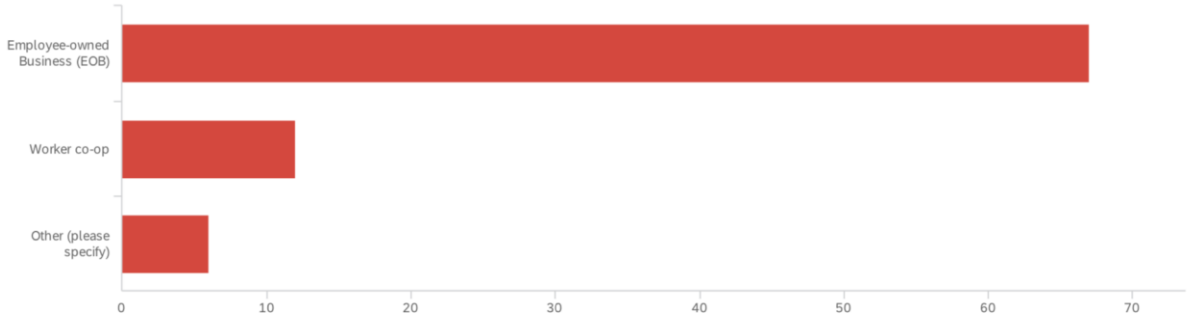
[3] Albonico M., Mladenov Z. & Sharma R. (2020) *How the COVID-19 crisis is affecting UK small and medium-size enterprises*. McKinsey & Co. June 2020
[4] *FSB Voice of Small Business Index, Quarter 4, 2020*. Federation of Small Businesses.
[5] Federation of Small Businesses (FSB), Jan 2021, *Scottish business mental health crisis revealed in survey*

3.1.5 Level and Form of Employee Ownership

Ownership form

The majority of survey respondents self-identify as EOBs (79%) and a minority as worker cooperatives (14%). (see Figure 4).

Figure 4. How would you describe your ownership structure?



Seven percent identified as another ownership form, including 'partly employee owned', 'limited liability partnership', '10% employee owned through an EBT' and 'SIP'.

Ownership level

The majority of firms in the survey are majority employee owned using either an EOT or an EBT form (Figure 5).

Indirect ownership

- 53% have no EOT and 44.7% have a majority EOT (50% ownership and above)
- 86.6% have no EBT and 9.3% have a majority EBT

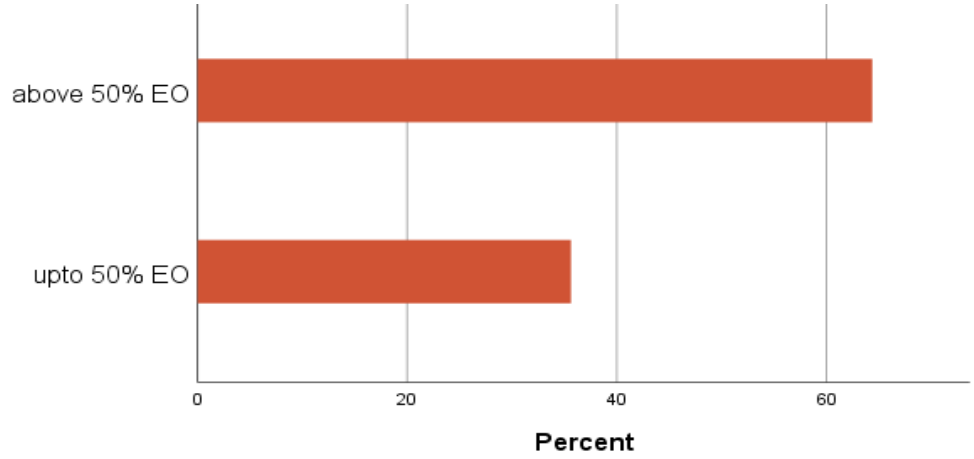
In total, 54% are majority owned via a trust.

Direct ownership

- 77.3% have no direct ownership by directors or senior staff (e.g. through an EMI) and 8.3% have 50% or more ownership in this form
- 84.7% have no direct all-employee ownership of shares
- 3.1% are entirely (100%) owned by direct all-employee ownership of shares

When we put indirect and direct employee ownership together, 64.4% are employee owned at 51% or more (Figure 5).

Figure 5: Percentage of minority and majority employee owned



Non-employee owners are also a feature of a minority of EOBs:

Exiting owners

- Exiting owners were present as owners in 14.4% of EOBs and in only one firm did the exiting owner(s) hold more than 50% of the shares
- Where exiting owners still held a proportion of shares, this largely sat in the 20%-30% ownership range.

External investors

- 94.8% of EOBs had no ownership in the hands of external investors – and only one EOB had over 50% owned externally
- One firm each had 14%, 15%, 20% and 31% owned by external investors.

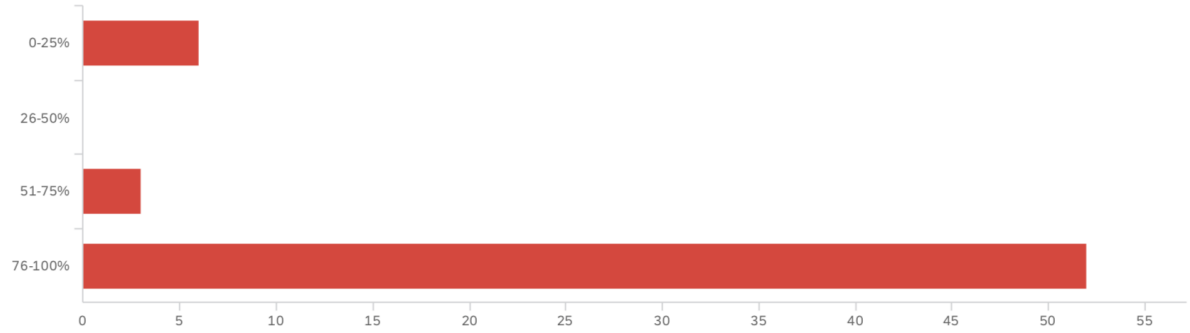
Others: While five EOBs responded that some or all of the firm was owned by 'others' they did not specify who or what this ownership comprised of.

3.2 Update on 2018 census data

Employment

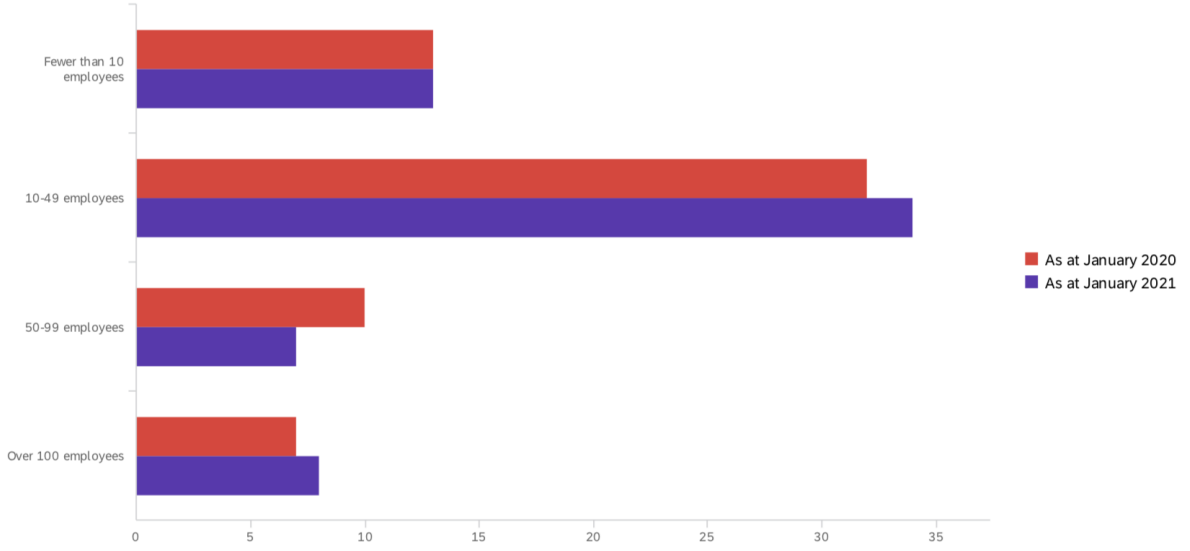
Overall, 90% of EOBs had all or a majority of their workforce located in Scotland (Figure 6) which indicates that EOBs are a valuable employment sector in Scotland and, importantly for inclusive economic growth, are significant for retaining wealth created in local economies.

Figure 6. Percentage of current EOB employees that are based in Scotland



In terms of the impact of COVID on employment numbers, a small, estimated, contraction is observable (Figure 7). However, this estimate is based on a small number of EOBs and the changes in workforce sizes are slight[6]. Taken as a whole, however, employment in the EOB sector is being sustained.

Figure 7. Number of UK employees

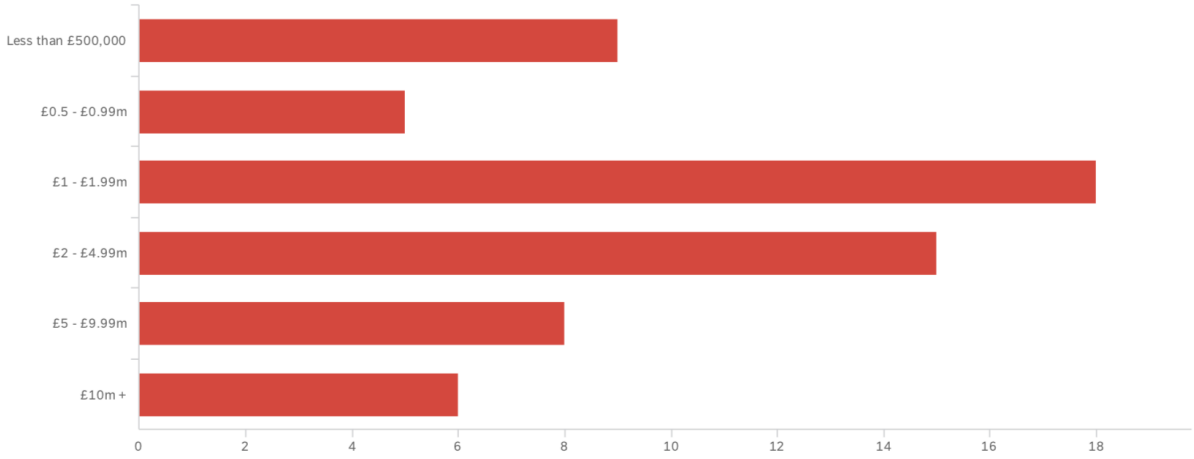


[6] It might be that the fluctuation in the middle two groups have come from some of those with 50-99 employees before 2020 having slipped into the category below and are now 10-49 employees. This is the most likely explanation, which would suggest an overall slight reduction of employees. We can't be sure what has happened based on the census data alone however.

Turnover[7]

In common with the 2018 census findings, EOBs continue to demonstrate a varied distribution of turnover with 54% of EOBs having turnover in the £1m-£4.9m range, and 15% in the under £500k category (Figure 8).

Figure 8. Turnover range for 12 months to 31 January 2021



While acknowledging that the 2021 data considers UK turnover an estimated comparison with the 2018 data is possible given that 90% of EOBs are majority based in Scotland (Figure 6). The comparison indicates that, although the distribution is still varied, there have been some changes (Table 5).

Table 5. Turnover bands comparison 2018-2020[8]

	Less than £500k	£0.5-0.99	£1-1.99	£2-4.99	£5-9.99	£10m+
12 months to 31 Dec 2018	26	10	14	25	15	10
12 months to 31 Jan 2021[9]	15	8	30	25	13	10

Although the shape of distribution remains similar, there are fewer EOBs in the less than £500k band (15% in 2020 compared to 26% in 2018). Another significant change is in the £1-£1.99 band with an increase from 14% in 2018 to 30% in 2020. Again indicating the significance of the EOB sector for Scotland's local economies.

[7] The 2021 survey collected data on EOB turnover for the 12 months to 32 January 2021. Unlike the 2018 census, it did not collect data on percentage of turnover generated in Scotland, so comparison is not possible.

[88] Caveat – different sample sizes in the two surveys. 2018 = 102 EOBs and 2021= 61 EOBs. The 2021 survey did not supplement data with analysis of the FAME database.

[9] The count has been rounded to the nearest whole number for comparison with 2018

3.3 EOB Resilience

3.3.1 EOB financial resilience to COVID-19

EOBs felt that the objective to avoid debt during the pandemic was very or extremely important (63.5%). With only one EOB with no retained earnings between Jan 2020 and Jan 2021, how the remaining 99% of responding EOBs allocated their retained earnings is significant in order to understand their financial resilience.

Cash reserves

Cash reserves have been cited as a critical resilience resource (Cowling et al. 2020[10]), especially among SMEs (Brown 2020[11]). While it is concerning that 58% of the EOBs had no cash reserves by the end of January 2020, i.e. going into the pandemic, the EOB sector is not so different to non-EOB SMEs which "have very limited spare financial resources and only modest precautionary savings" (Brown 2020:2)".

Debt repayments

Nearly 23% of EOBs were carrying some form of exiting owner debt repayment as the pandemic struck, with 9% of EOBs allocating between 10 and 36% of retained earnings to exiting owner buy-out and 9% allocating over 40% of their retained earnings to exiting owner debt repayment. However, 86.5% of EOBs had no ownership in the hands of exiting owners and in only one firm did the exiting owner(s) hold more than 50% of the shares. Where exiting owners still held a proportion of shares, this largely sat in the 20%-30% ownership range.

A small number of EOBs (11%) were carrying other loan repayments in January 2021.

Dividends and bonuses

Very few EOBs (12.5%) had allocated retained earnings to share dividends in the year leading up to the pandemic – with just 4.4% allocating over 40% of retained earnings to dividends.

Employee bonus payments were, however, more popular than share dividends – with 27% of EOBs paying some level of employee owner bonus:

- 11.3% of EOBs used less than 10% of retained earnings as employee owner bonus
- 9% used between 10% and 30% of retained earnings as employee owner bonus
- 6.8% used between 31% and 50% of retained earnings as employee owner bonus

[10] Cowling, M., Brown, R. and Rocha, A. (2020) "Did you remember to save some of that cash for a rainy Covid-19 day? The crisis and SMEs*", International Small Business Journal*: Researching Entrepreneurship 2020, Vol. 38(7) 593–604

[11] Brown, R. (2020). The impact of Covid-19 on Scottish small and medium-sized enterprises (SMEs): prognosis and policy prescription. *Fraser of Allander Economic Commentary*, *44*(2)

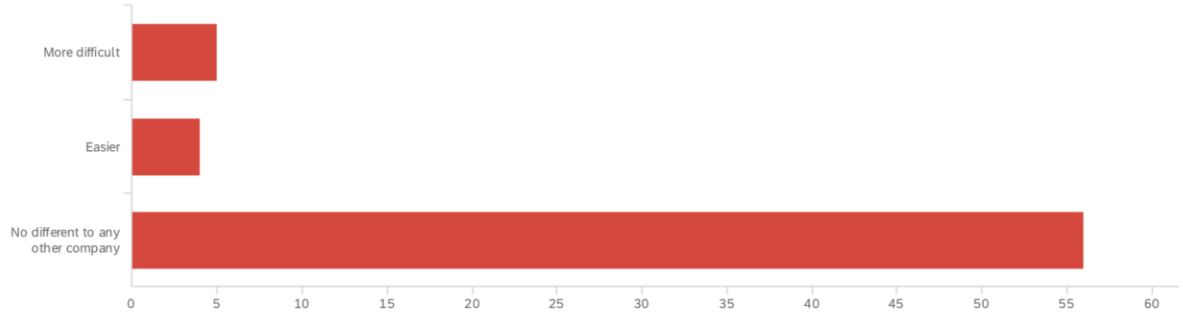
Re-investment in the EOB

Perhaps unsurprisingly giving the results reported above, just 8% of EOBs allocated any retained earnings as re-investment. However, of these, 3 EOBs invested over 50% of retained earnings back into their company and a further two invested 32% and 36% of earnings.

Access to finance

30.5% of EOBs stated that financial support was currently essential or important (matched by a similar proportion (32%) citing financial support as not needed at the moment). However, the majority of EOBs (86%) had not found employee ownership to be a barrier to accessing Government-backed finance during the pandemic (Figure 9). Nearly 60% indicated that financing during the pandemic had not been a challenge (and overall 81.3% had found financing to be a minor or not at all a challenge).

Figure 9. Has your employee-owned status made accessing Government loans or grants:



However, it is important to acknowledge those who did experience difficulties (7.7% n5). Of these five firms – four had not maintained any cash reserves in the past year. Their comments included,

> Lenders do not like the EOB ownership in terms of perceived risk for lending... they always question this.
>
> We very often encounter obstacles in that funders including the Govt do not understand our business model or status as a co-operative. We seem to often fall through the cracks of eligibility
>
> As an EOB we have no Directors with deep pockets to act as guarantors. Therefore we must keep larger cash reserves. Government considers cash reserves when assessing need for support. More cash = less support (or at least we had to provide a detailed argument)
>
> EOB status has made external finance almost impossible to obtain. The (conventional) Trust Ownership structure kills almost all options, and the complexity of the structural agreements inter-company (trading/trust) and the exiting seller is proving utterly unattractive to lenders. We have found asset finance almost impossible to obtain without a full fiscal audit, with near total rejection once the structure is explained. Efforts to find anyone willing to offer a CBILS have met with total rejection from all but our current bank.

Turnover

The impact of the pandemic has been felt in terms of turnover by many EOBs (Figure 10), with nearly half (47%) experiencing a reduction in turnover. Yet, 23.5% had experienced turnover growth (especially in the provision of food, feed and leisure goods) and 29.5% had not had their turnover affected by the pandemic. This compares favourably to emerging evidence on the experience of turnover change for non-EOB SMEs during the pandemic.

- "80 percent of SMEs say their revenues are declining" (Albonico et al. June 2020[12]) 6% increase in revenue and 14% no change.
- "Nearly 60% [of firms in the Highlands & Islands] report decreased sales and profit margins" (SCDI 2021[13])
- "More than half (56.2%) of small business reported falling revenue levels during Q3 [2020]." (FSB 2020[14])
- "Scotland also had the highest proportion of small businesses reporting a decline in gross profits (67.0%) [Q4 2020] and the lowest proportion reporting an increase (15.9%)." (FSB 2020[15])
- "Over two-fifths of businesses have seen sales decrease in the past 12 months" (Hopley 2021[16])
- "5% experienced an increase in turnover compared with normal expectations for this time of year, down from 7% in the previous wave" (BICs Jan 28th 2021)[17].

If we compare these results to ONS aggregate data (June 1 2020 – January 10 2021), we can see a similar pattern to changes in turnover for both our EOBs and organisations across the UK more widely, excepting turnover growth where our figure (23.5%) sits above the ONS average taken over the period.

[12] Albonico M., Mladenov Z. & Sharma R. (2020) *How the COVID-19 crisis is affecting UK small and medium-size enterprises*. McKinsey & Co. June 2020

[13] Scottish Council for Development and Industry (SCDI) (2021). *State of the Nation SCDI's Economic Data Briefing*. January 2021

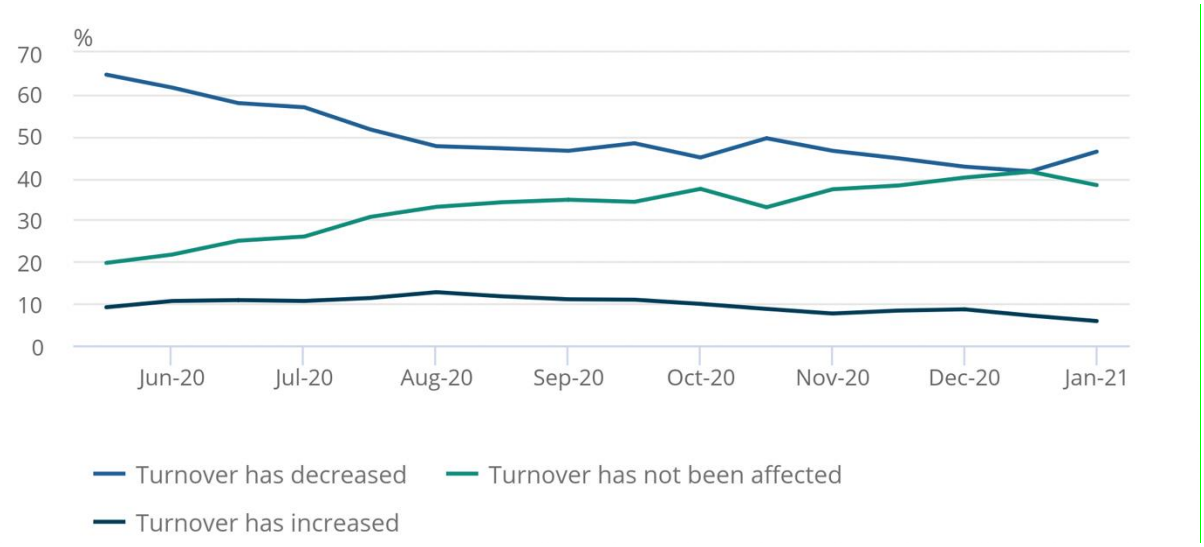
[14] *FSB Voice of Small Business Index, Quarter 3, 2020*. Federation of Small Businesses

[15] *FSB Voice of Small Business Index, Quarter 4, 2020*. Federation of Small Businesses

[16] Hopley L. (2021). *The impact of the COVID-19 pandemic on UK SMES and their response* . Enterprise Research Centre (ERC)[16] Insight Paper February 2021

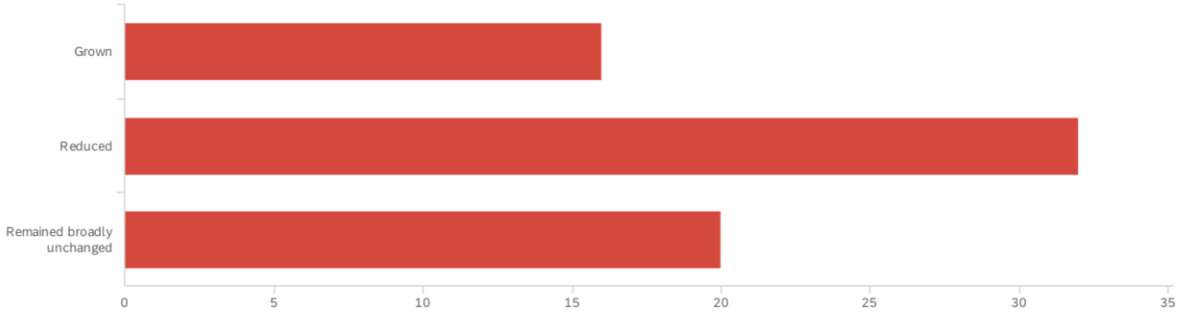
[17] This is not a direct comparison. Our survey – administered Jan-Feb 2021) asked for change ion turnover over the last year, the BICs survey asks for change in turnover in the last fortnight (Jan 2021) compared to normal expectations for that time of year.

Figure 10a: Impact on turnover UK-wide 1 June 2020 – 10 January 2021



Source: Office for National Statistics – Business Impact of Coronavirus (COVID-19) Survey

Figure 10b. During the pandemic has your EOB turnover:



Interestingly, only two of the IT sector EOBs had seen turnover growth. In considering this, it is likely to be of interest that 44.6% of EOBs have not found a lack of digital infrastructure to be a challenge facing their organisation (and a further 32.3% found it only a minor challenge), and 67.7% not being challenged by lack of staff digital literacy skills (with no EOB finding this a major challenge, 9% a moderate challenge and 90% finding it either not a challenge or a minor one). It would seem that EOBs are well resourced in IT skills.

Investment in EOBs

A picture of stagnant or contracting turnover is mirrored by a scaling back or cancellation of planned investment (Figure 11). Overall, 66.7% of EOBs have either cancelled or reduced planned investment due to the pandemic. EOBs are consistent with non-EOBs here.

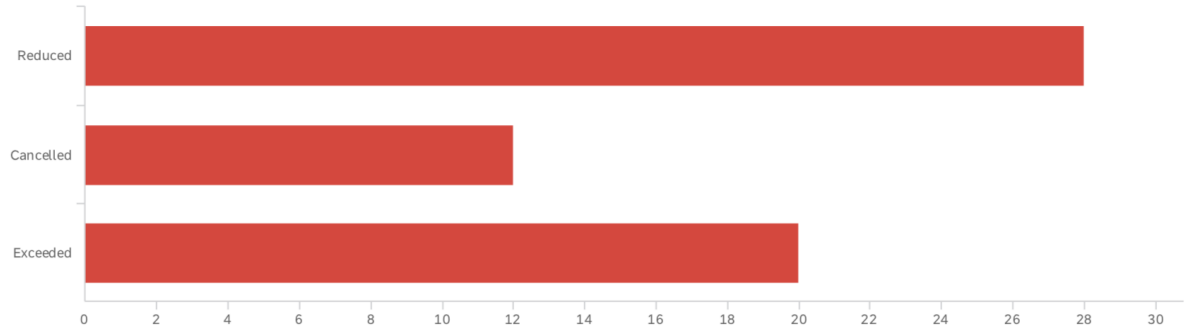
- "most SMEs have embarked on efforts to reduce costs in the past year." (Hopley 2021[18])

[18] Hopley L. (2021). *The impact of the COVID-19 pandemic on UK SMES and their response* . Enterprise Research Centre (ERC)[18] Insight Paper February 2021

- "for small- and medium-sized businesses the most frequently cited priority in the past year was cost reduction (77 percent of businesses with up to 49 employees and 71 percent of those with between 50 and 249 employees)." (ibid)

However, a third of EOBs have exceeded their investment targets during the pandemic, more than half of which have little or no debt, and more than half of which also pay little or no employee owner bonus.

Figure 11. Due to the pandemic, has planned investment in the EOB been:



Employee retention

Despite some significant financial challenges, 72% of EOBs have found retaining employees has not been an organisational challenge. Coupled with those who found retention a minor challenge, 90.6% of EOBs have had minor issues, or none at all, with retaining employees – no doubt the Government's job retention scheme plays a significant role here, a supposition supported by 43.9% of EOBs having furloughed staff.

3.3.2 EOB workforce resilience to COVID-19

Survey results indicate a picture of EOBs as firms with a concern for employee support and wellbeing during the pandemic (Figure 12).

Management challenges

Securing employee commitment has been an extremely or very important objective for 89% of EOBs during the pandemic. Connected with this, 44% state that their organisational need for people management support is currently essential or important.

Management challenges have also included the need to redesign workspaces - a moderate or major challenge for 30% of EOBs, and over half of EOBs (53.8%) have found staff childcare needs (brought about by the closure of schools) a challenge.

Challenges in maintaining democracy & participation

While 68% of EOBs cited a focus on employee voice as an extremely or very important organisational objective during COVID, and 31% had increased communication with staff,

35% did find that maintaining employee voice during the pandemic was a moderate or major challenge. This reflects EOBs stated need for people management support (see above).

75% of EOBs cited workplace equality as an extremely or very important organisational objective during COVID and a majority of EOBs (83.5%) had found involving employee owners not to have been an organisational challenge (56.9%) or a minor challenge (24.6%) during COVID. This is despite working from home having been facilitated by 48.2% of EOBs.

Concern for employee welfare and wellbeing

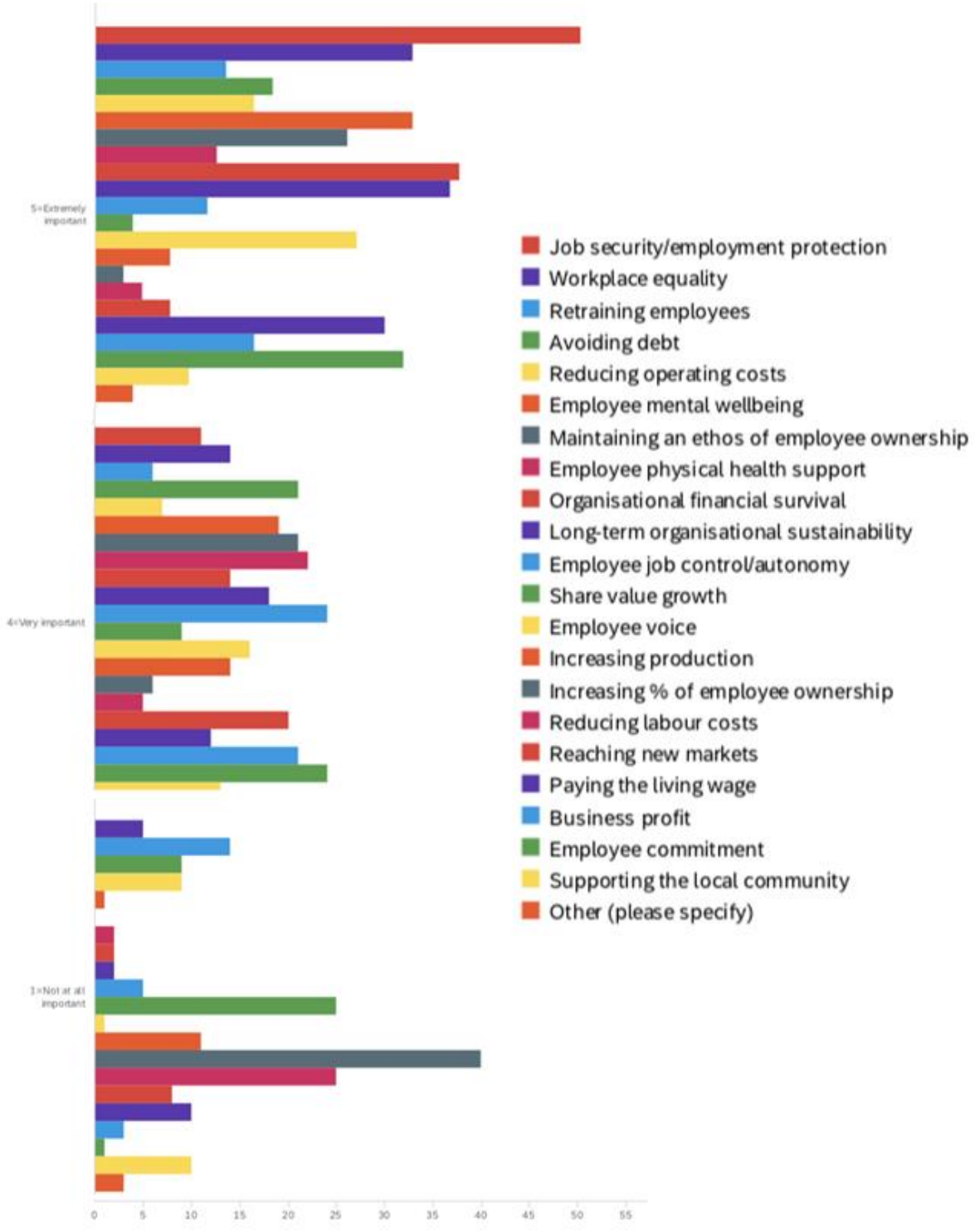
During COVID, 83% of EOBs have had a concern for employee mental wellbeing as an extremely or very important organisational objective, with 59% saying that mental health support is currently an essential or important organisational need. While the physical health impact of COVID on employees is also important, with 56% saying concern for employee physical health has been an extremely or very important organisational objective, concern for mental health impacts are clearly more significant for EOBs.

Considering the need people management support is important to EOBs, and coupled with their focus on concern for mental health and equality, a picture emerges of firms with a focus on employee support and wellbeing during the pandemic.

Concern for employee financial stability

Job protection has been a key organisational objective for EOBs during COVID, with 97% citing this as extremely or very important. In a similar vein, the organisational objective of concern for long term organisational sustainability is extremely or very important to 88% of EOBs. This far exceeds a concern for share value growth, which is extremely or very important to 21.5% and not at all important for 42.5% of EOBs during the pandemic. The opposite of a concern for employee financial wellbeing would be achieving resilience through reducing labour costs – and this was important (extremely or very) to only 16% of EOBs – and of no, or slight, importance to 61%. The picture of EOBs having a particular concern for employee financial stability is completed by 67% of EOBs having 'paying the living wage' as an extremely or very important organisational objective.

Figure 12. How important have the following organisational objectives been during COVID?

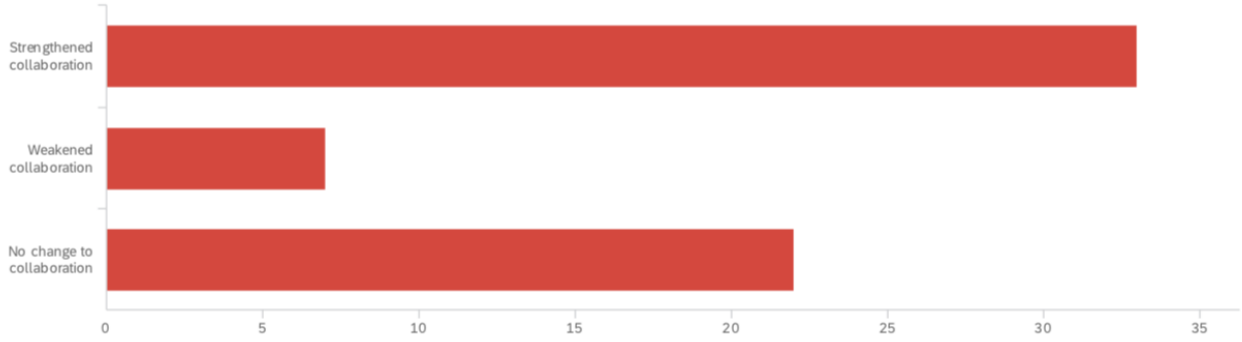


3.3.2 EOB access to resources during COVID-19

Workforce resources

Relationships among workers and approach to the EOB have been important resilience resources during the pandemic. 54% of EOBs reported increased collaboration among staff due to the pandemic (with 11% reporting that the pandemic has resulted in weakened collaboration among employees – see Figure 13) and 41% of EOBs have relied on staff flexibility during COVID, and 90% consider employee flexibility skills as extremely or very important in their responses to COVID. During COVID, 75% of EOBs say that the objective of maintaining an EO ethos during the pandemic has been extremely or very important, and 30% have drawn on employee ownership as a resilience resource and encouraged employees to 'act as owners'.

Figure 13. Have there been changes in the extent of collaboration among staff due to the pandemic?



Skills resources

In terms of the importance of skills in EOBs' response to covid (combining the extremely and very important categories) both hard and soft economic democracy skills (Summers & Chillas 2019) are citied (Figure 14),

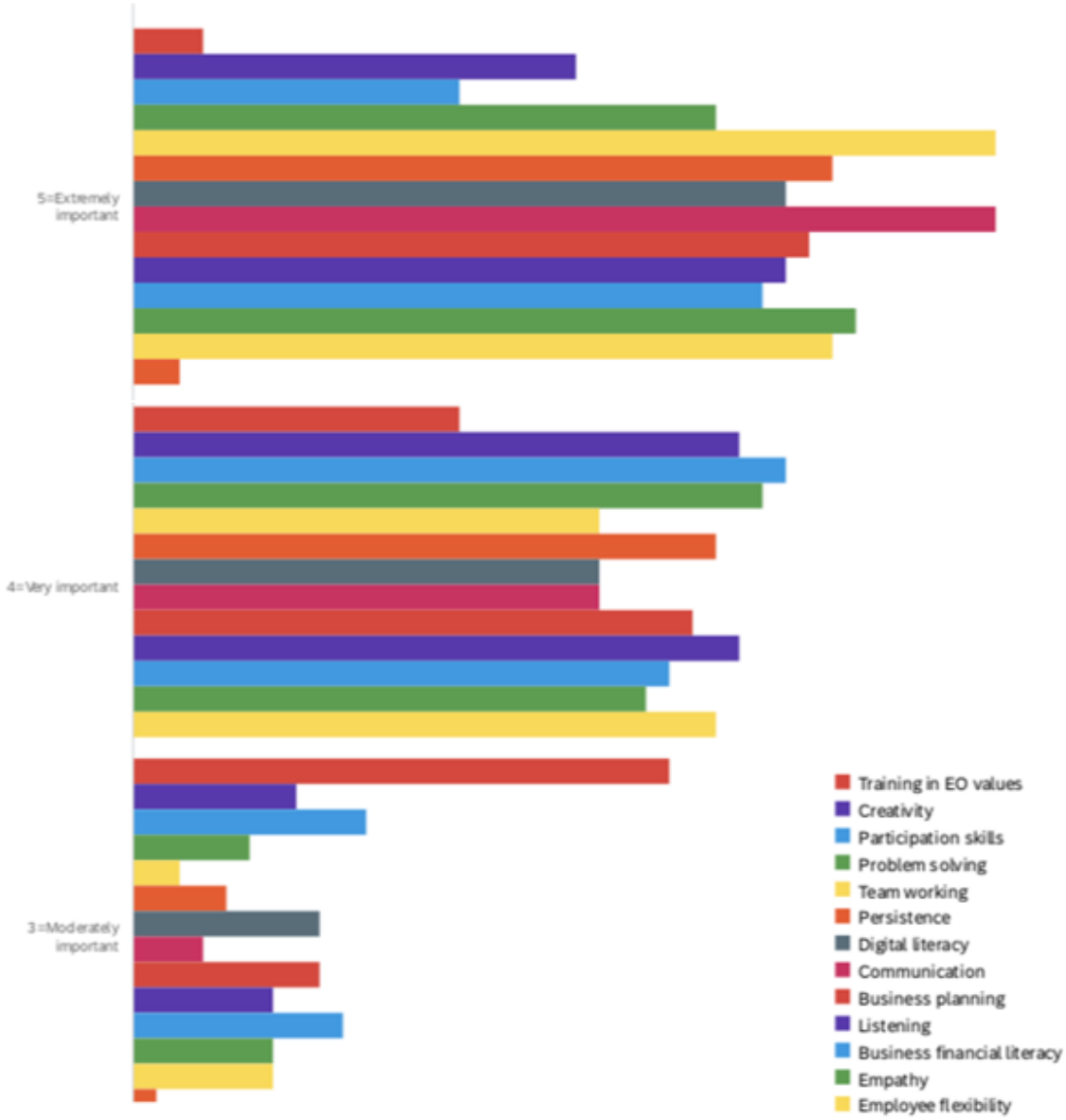
Soft EO skills

- teamworking 93% (61% considering teamworking as extremely important)
- communication 93%
- persistence 90%
- listening 89%
- empathy 87%
- problem solving by 87%
- creativity by 75%
- participation skills 69%

Hard EO skills

- busines planning skills by 87%
- financial literacy 82%
- digital literacy 77%

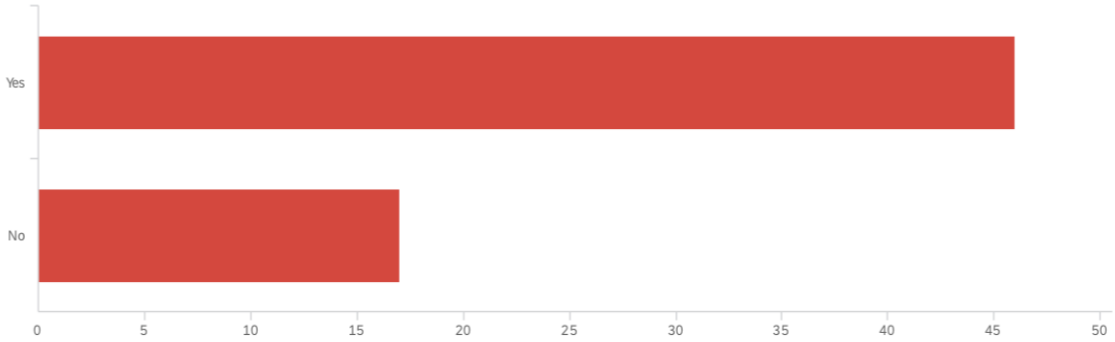
Figure 14. How important have the following skills been in your company's ability to respond effectively to the pandemic?



The top 'extremely important' skills in EOBs' ability to respond to the pandemic are all soft skills: jointly teamworking and communication (61% each) followed by empathy (51%). In a similar vein, the top 'very important' skills are also soft skills: participation skills (46%) and problem solving (45%), followed by creativity and also listening (43% each).

In addition, 72% of EOBs had invested in staff training during the pandemic (Figure 15). Of these, the majority (79.5%) had not experienced any problems in accessing relevant training.

Figure 15. Has your organisation invested in staff training or retraining during COVID?

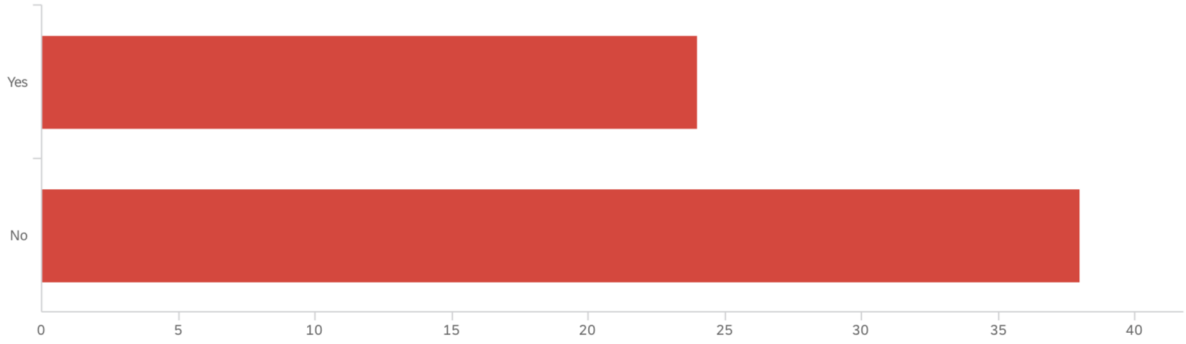


Despite the economic and social shock created by the pandemic, EOB investments in training and learning indicate a long-term perspective and investments for the future.

Business support

While 40% of EOBs had sought business advice during the pandemic (Figure 16), this ranged widely across diverse areas including: clarification on government support packages, deferring / delaying payment to exiting directors. export/ import procedures for Brexit, HR legal advice, accountancy advice.

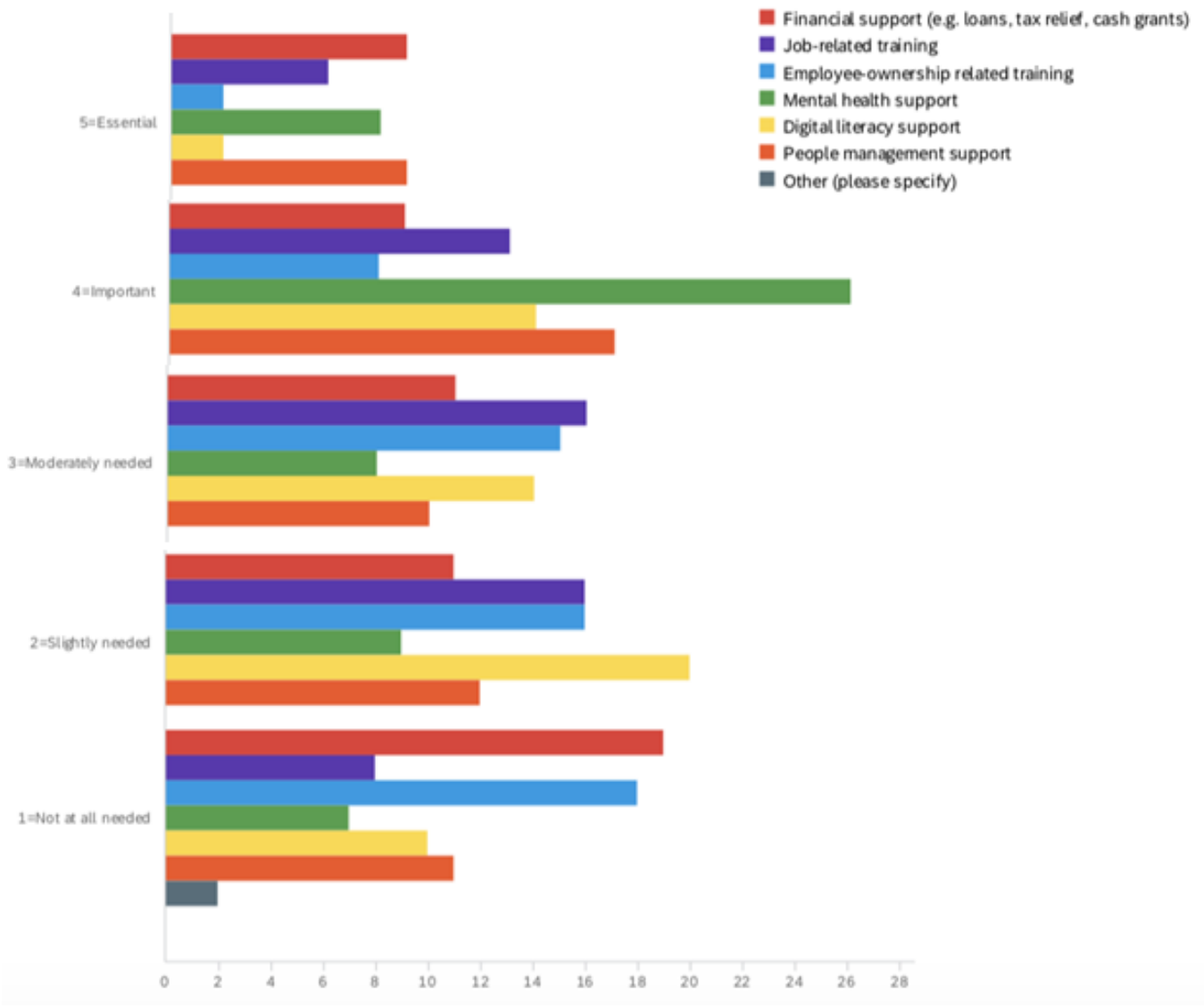
Figure 16. Has your EOB sought business advice during the pandemic?



In terms of the most needed forms of support across the six categories asked about in the survey (Figure 17), when 'essential' and 'important' responses are combined, mental health support and people management support appear as the most necessary.

- mental health support 59%
- people management support 44%
- job-related training 32%
- financial support 30.5%
- digital literacy support 27%
- EO-related training 17%

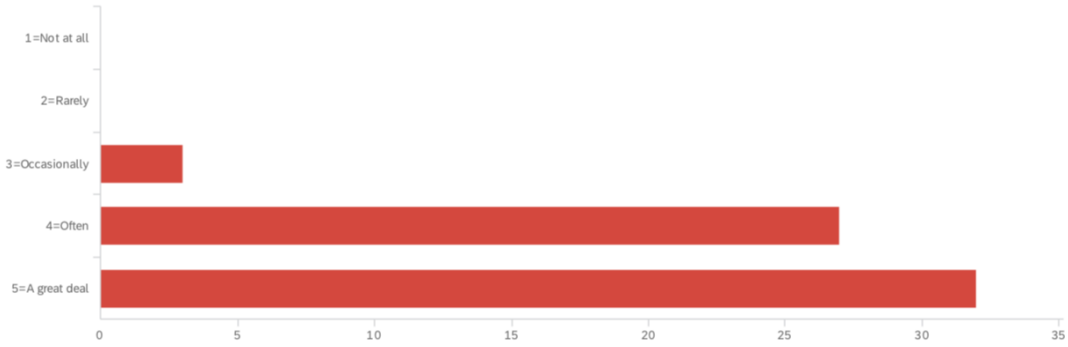
Figure 17. To what extent is each type of the following support needed at the moment for your organisation?



Peer support

Socioemotional skills and a focus on peer support are apparent in EOBs – with 94% reporting that kindness, empathy and caring had been shown in their EOB during COVID (Figure 18), and 87% considering that empathy is extremely or very important to their ability to respond effectively to the pandemic.

Figure 18. To what extent have kindness, empathy and caring been shown in your organisation during COVID?



Actions that mattered ranged from "*Allowing additional time off for bereavement and stress counselling*" to "*Sending cards, cake and encouraging messages to the team*".

While "*online mindfulness classes*", "*Providing time off for wellbeing and relaxation training*" and "*Random Acts of kindness schemes*" have been used, tea and cake also represent support and thoughtfulness: "*Might seem strange but they make tea for each other*", "*Cake sharing*" and "*one of my colleagues dropped in cake to the other team, leaving it at the back door*".

Importantly, providing care also meant "*Totally ignoring the need to cut costs*" and "*not laying off staff*".

However, despite resilient and supportive relationships among organisational members, an opportunity exists to enhance collaboration and support among EOBs, with 65% of EOBs indicating that the pandemic had not changed their level of communication with other EOBs (Figure 19), and 74% responding that support from other EOBs had not been at all important to them in their response to the pandemic (Figure 20).

Figure 19. Compared to before the pandemic, is your level of communication with other EOBs: more / less / the same

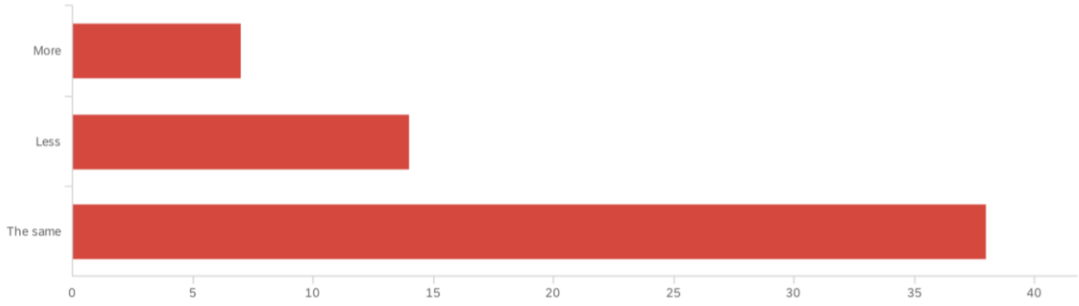
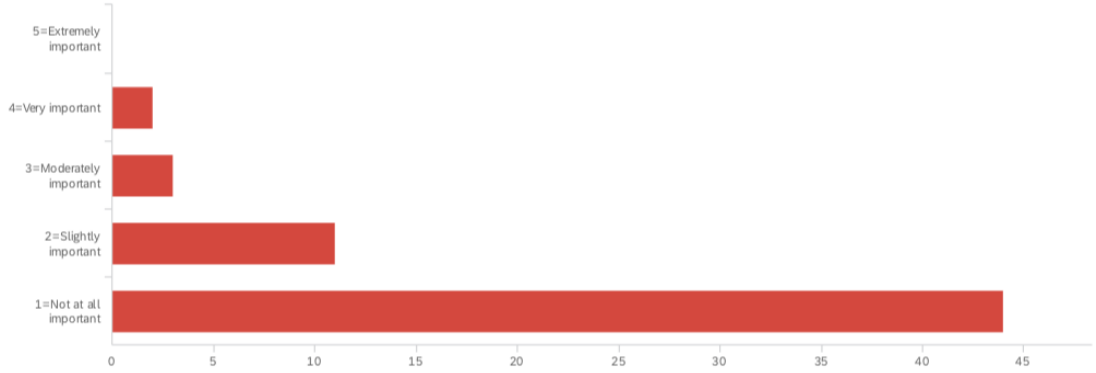


Figure 20. How important to your EOB's response to COVID has been support from other EOBs?



In conclusion, the social contract within many EOBs seems to have been enhanced and developed during COVID. This has not been without its issues but, within EOBs, increased collaboration and kindness has been widely observed.

4 The Employee Ownership Story

This section considers the data in greater depth as a function of the level of employee ownership (section 5.1) and as a function of change in turnover during the pandemic (section 5.2).

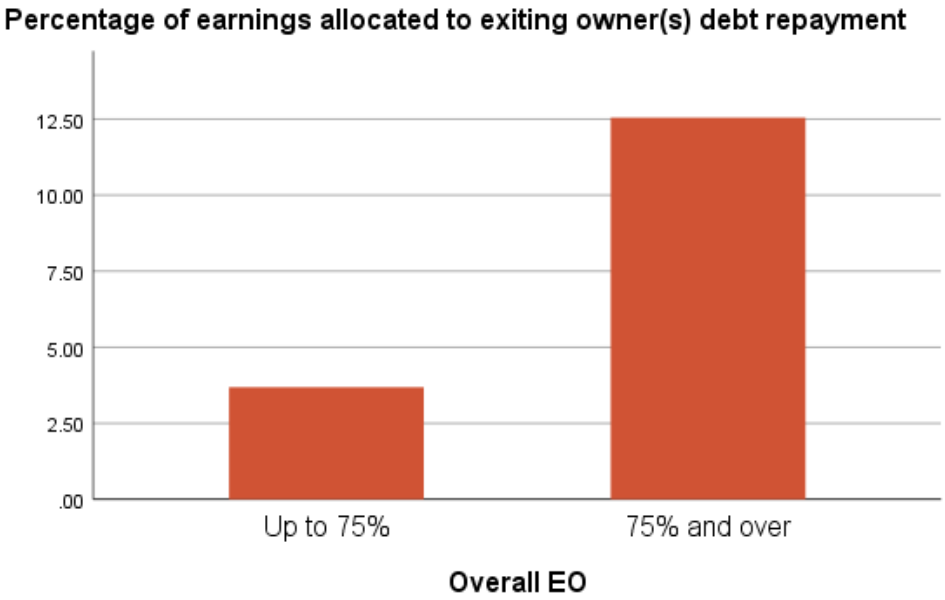
4.3 Level of employee ownership and response to COVID

Half of the organisations taking part in the survey (50.6%) had a level of combined direct and indirect EO of 75% and over, or what could be termed a super-majority of employee ownership[19]. The analyses below examine the profile of these organisations and compare their COVID response to organisations with lower levels of EO.

4.1.1. Profile of high employee-owned firms.

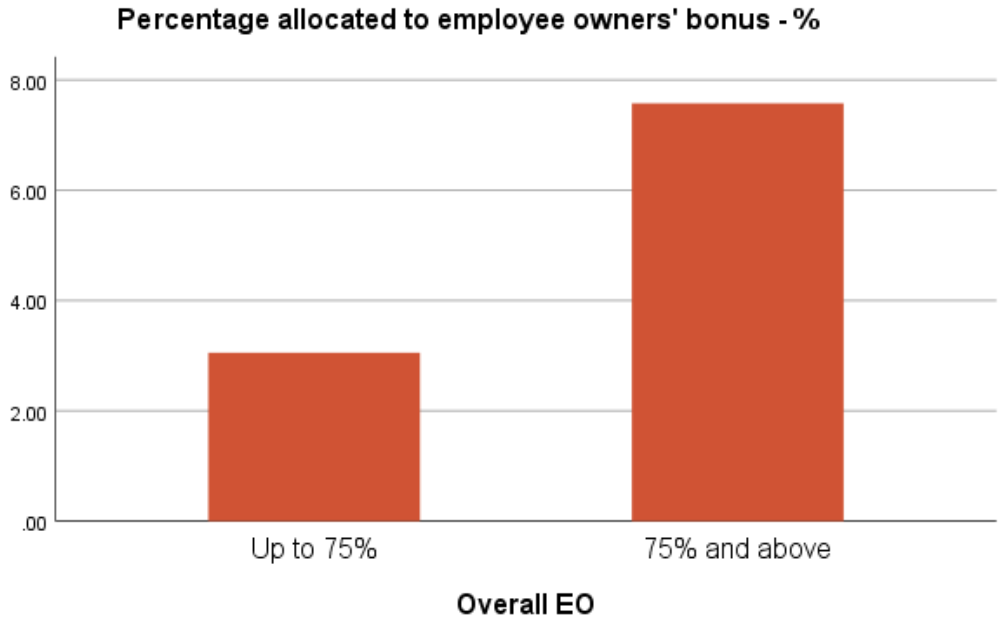
A high percentage of employee ownership is associated with greater amounts of exiting owner debt repayments (Figure 20) and these firms are more likely to pay employee owner bonuses (Figure 21).

Figure 20. Majority employee ownership and exiting owner debt repayment



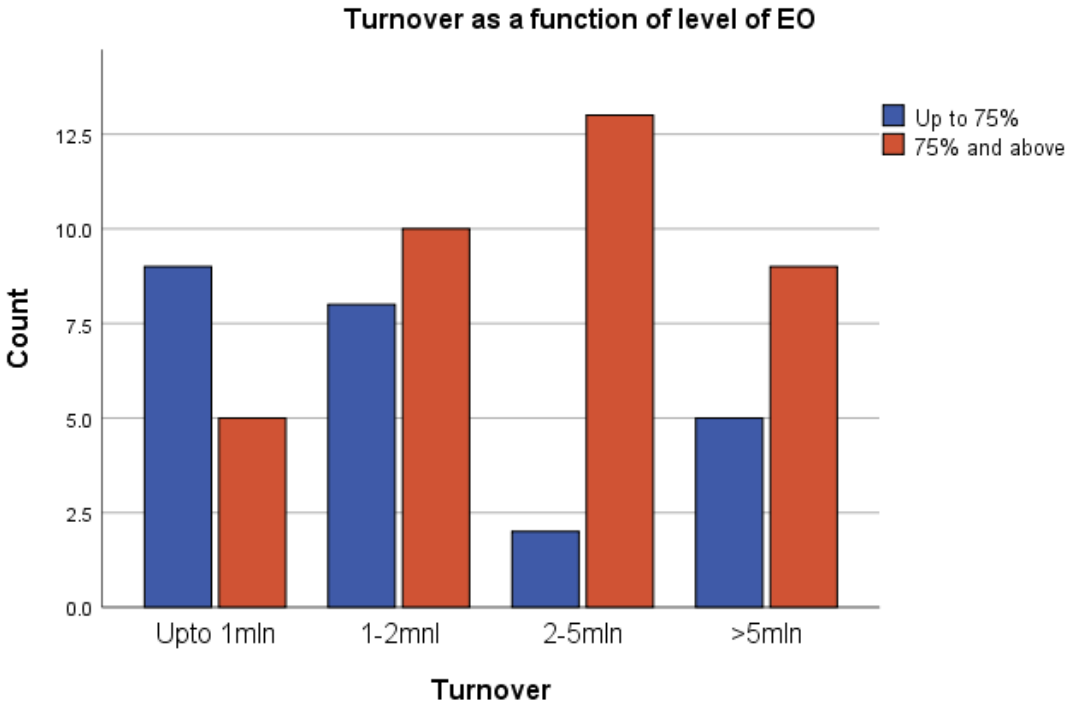
[19] Hypothesising that a higher level of EO could induce a higher level of 'psychological ownership' among employee owners (Pierce J. & Rodgers L 2004). The psychology of ownership and worker-owner productivity. Group & Organization Management. 29(5): 588-613)

Figure 21. Majority employee ownership and payment of employee owner bonus



High EO firms are also more represented in the higher turnover categories (Figure 22).

Figure 22. Majority employee ownership and turnover



The two groups did not substantially differ in age, number of employees, cash reserves, loan repayment, and investment in the EOB.

4.1.2. Responses to COVID

Those firms with a level of employee ownership of over 75% experienced somewhat greater external pressures during COVID (Figure 23) and also reported more challenges to democratic and participative operations (Figure 24), although these differences did not reach standard levels of significance.

Figure 23. Majority employee ownership and external pressures

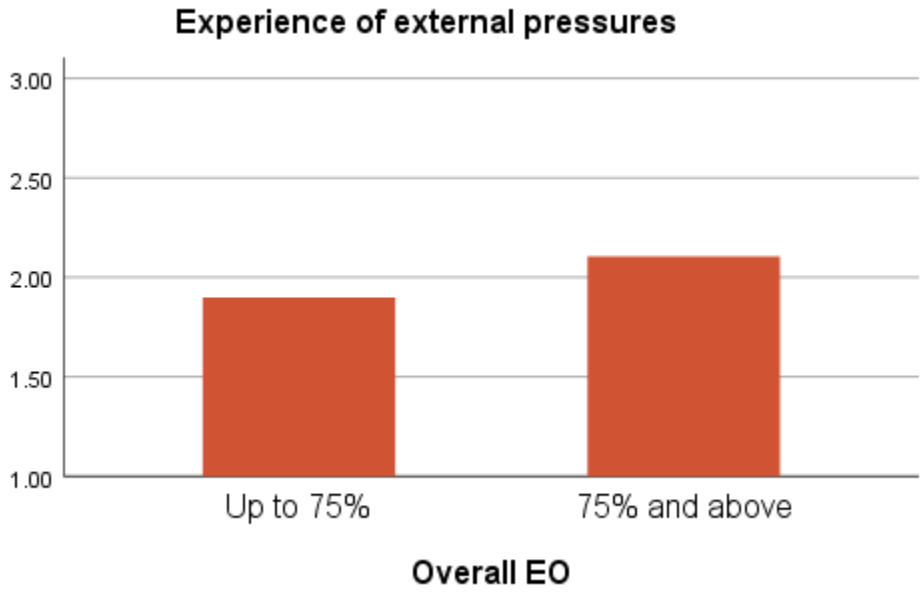
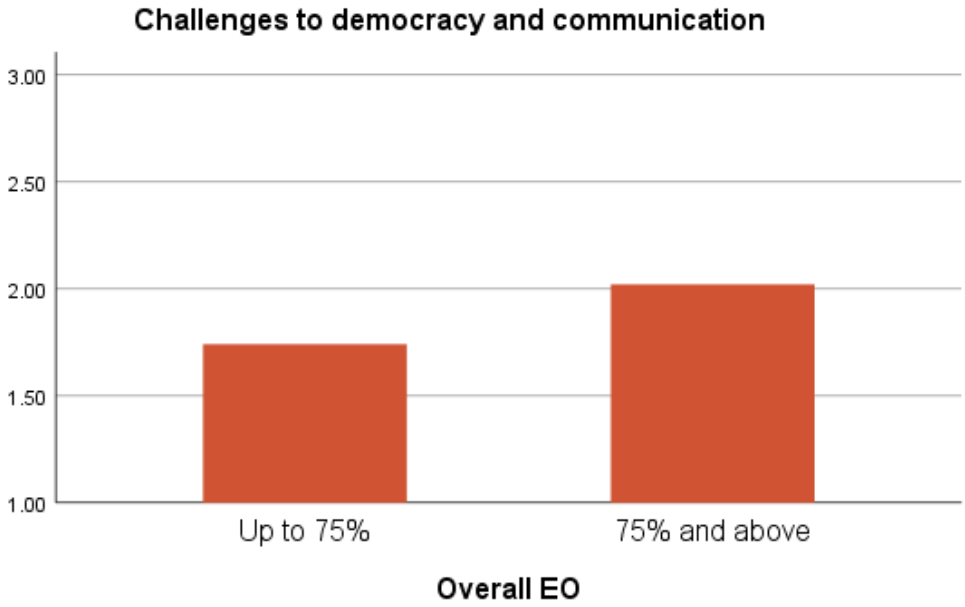


Figure 24. Majority employee ownership and challenges to democracy and communication



However, in response, majority EOBs (despite their debt burdens) were more likely to take actions to enhance democracy and participation (Figure 25) and to protect employees (Figure 26) than firms with lower levels of employee ownership – indicating an association between level of EO and democracy enhancing activity during the pandemic.

Figure 25. Majority employee ownership and democratic actions

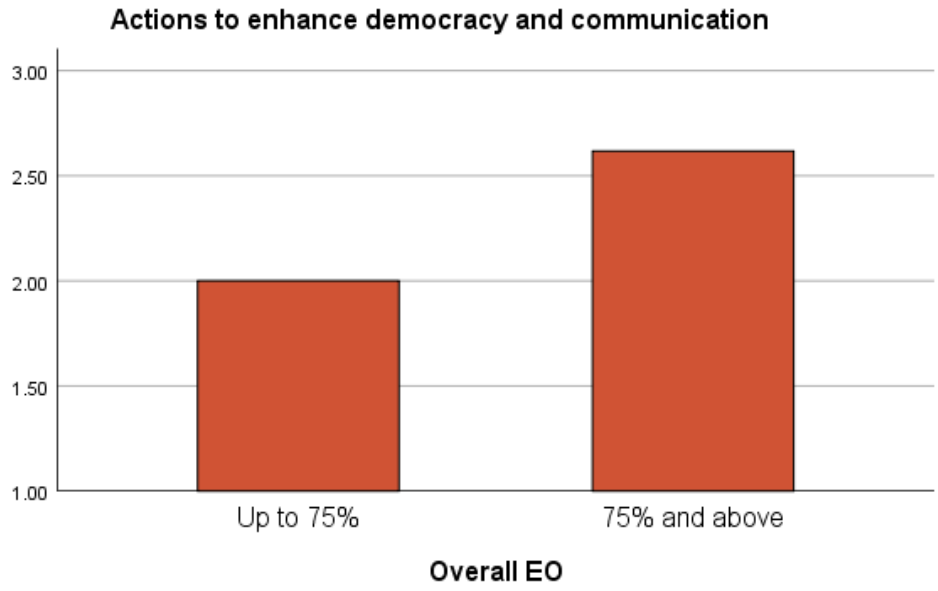
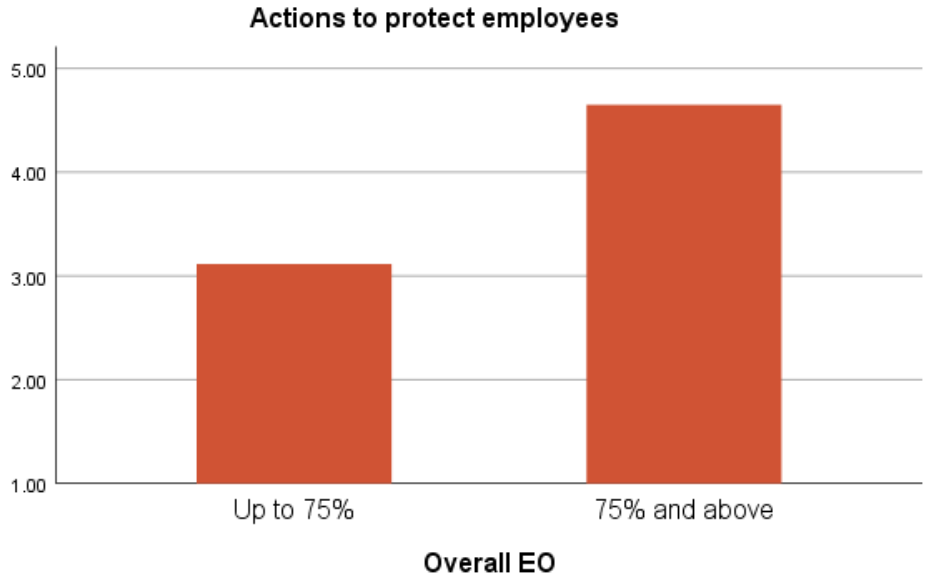


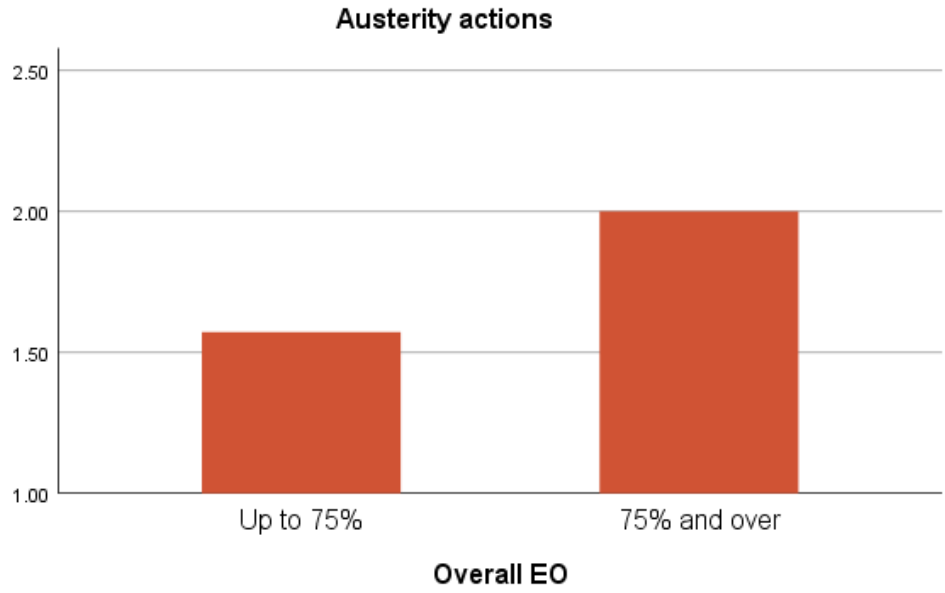
Figure 26. Majority employee ownership and employee protection actions



Yet, firms with more than 75% employee ownership also took more austerity options (Figure 27), at the same time as taking more actions to protect their employees, including investing more in training. Although there is limited evidence available for non-EOBs, EOBs appear to

compare favourably, since during the pandemic "a third [of firms in the Highlands and Islands] have cut back staff and training" (SCDI[20])

Figure 27. Majority employee ownership and austerity actions



A possible explanation of these results is that a high level of EO is likely to be associated with more employee influence or control within the firm, and these higher levels of employee influence may mean that such EOBs have a broader range of responses to threat and are therefore more flexible and inclusive in their responses to the pandemic. Even where they support cost cutting measures, they retain a focus on employee protection and voice. Consequently, their resilience appears to be both financial and employee welfare focused.

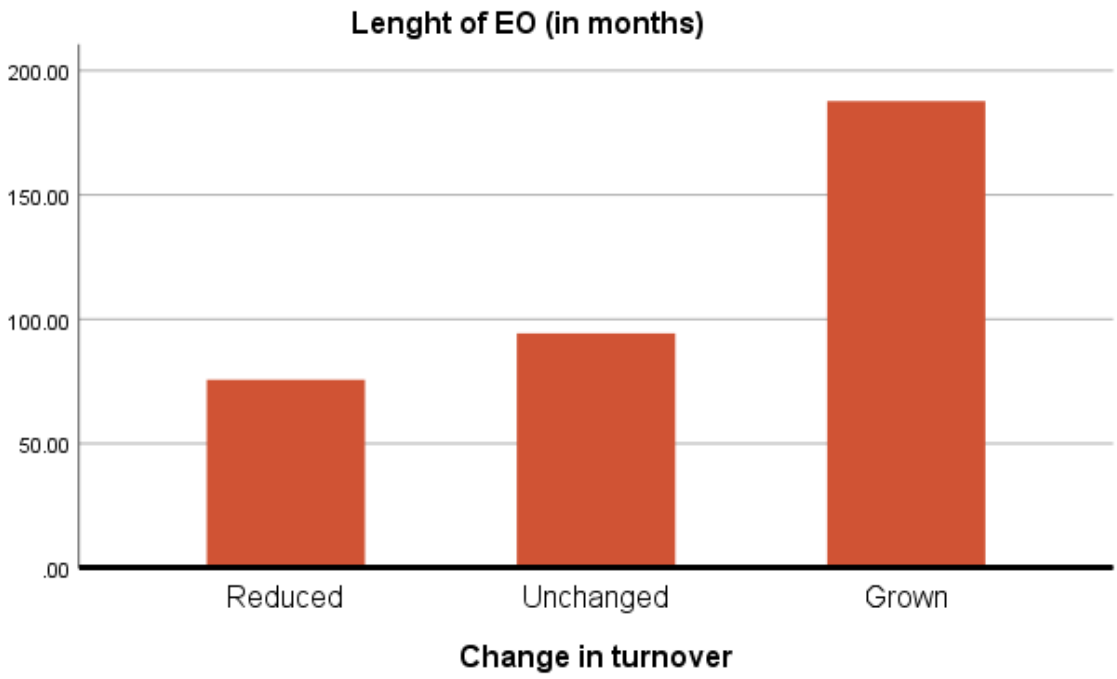
4.2 EOB changes to turnover and EOB resilience

4.2.1. Profile of EOBs as a function of change in turnover

From the sample of firms who completed the survey, 32 reported a reduction in turnover during the pandemic, 20 reported no change, and 16 experienced growth. There are no statistically meaningful differences among the three groups on a number of characteristics, including and importantly, level of employee ownership, as well as size, overall turnover, and allocation of retained earnings to cash reserves, share dividends, investment in the EOB, and loan repayment. The only characteristics where statistically meaningful differences are observed are in relation to length of employee ownership (Figure 28) and level of debt repayment to exiting owners (Figure 29).

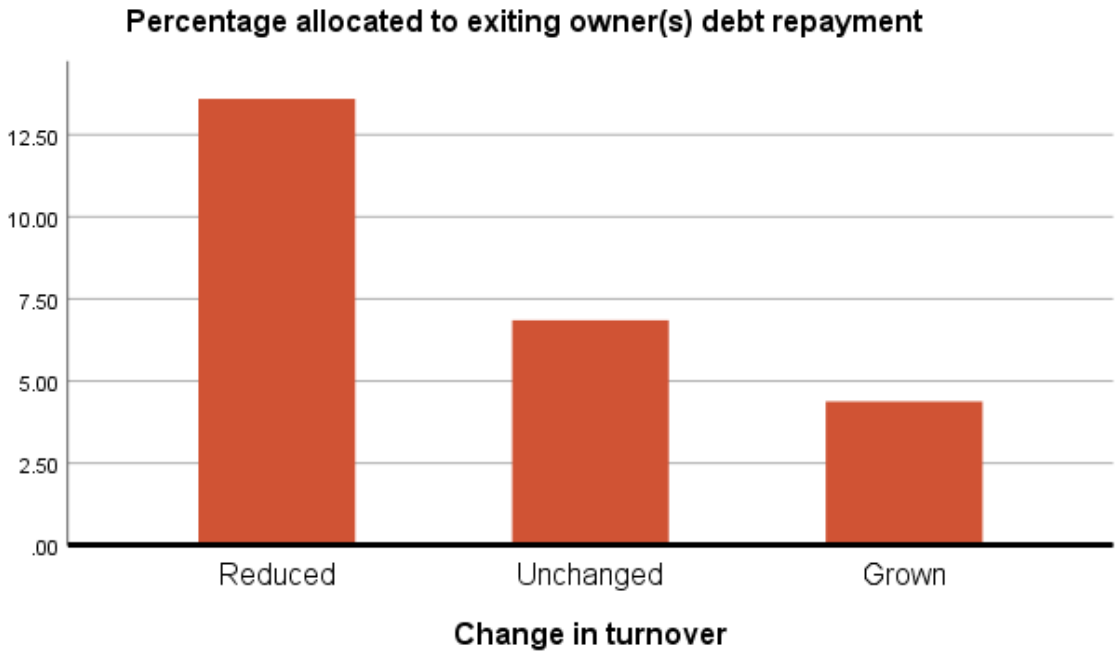
[20] Scottish Council for Development and Industry (SCDI) (2021). *State of the Nation SCDI's Economic Data Briefing*. January 2021.

Figure 28. Change in turnover and length of employee ownership



Embedded and established employee ownership appears to be beneficial for adapting to the changed circumstances and facilitates growth when presented with emerging opportunities[21]. Somewhat relatedly, firms experiencing growth carried a lower debt burden to exiting owners going into the pandemic, which may have further enabled their prosperity (Figure 29). Firms who experienced reduction in turnover, on the other hand, entered the pandemic with heavier debt burdens, which may have compromised their resilience.

Figure 29. Change in turnover and exiting owner debt repayments



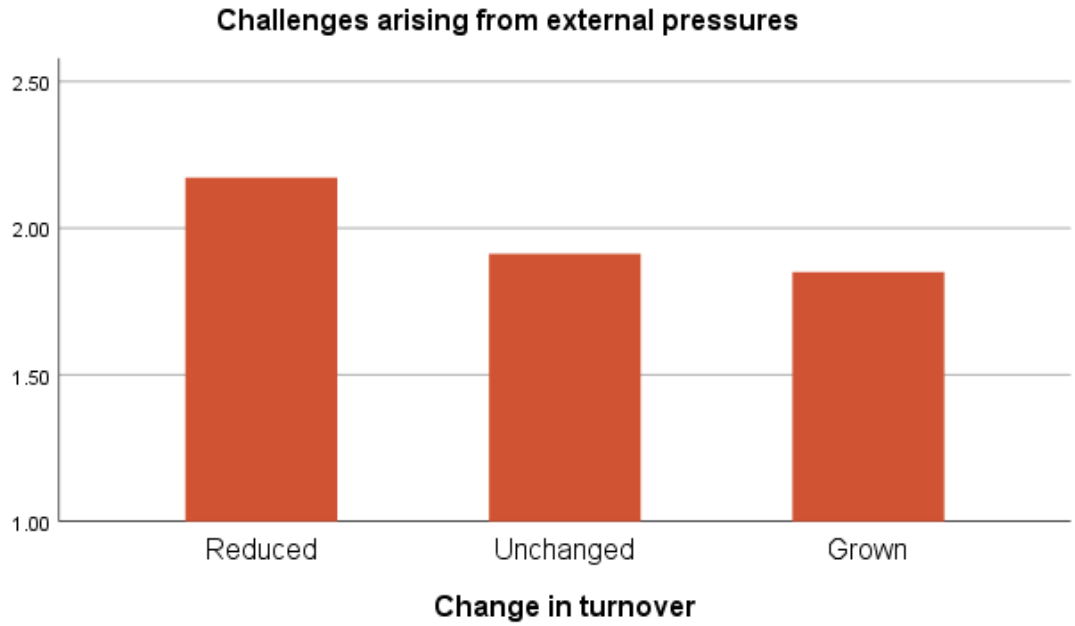
[21] The sector in which the firms experiencing growth operate has also undoubtedly played a role.

Apart from the differences in length of EO and debt, the EOBs across the three categories of change in turnover are largely equivalent. Their responses to the pandemic are examined below, with a particular focus on those who experienced a reduction in turnover. A commentary on the findings for those who experienced growth is provided at the end of the section.

4.2.2 Responses to COVID

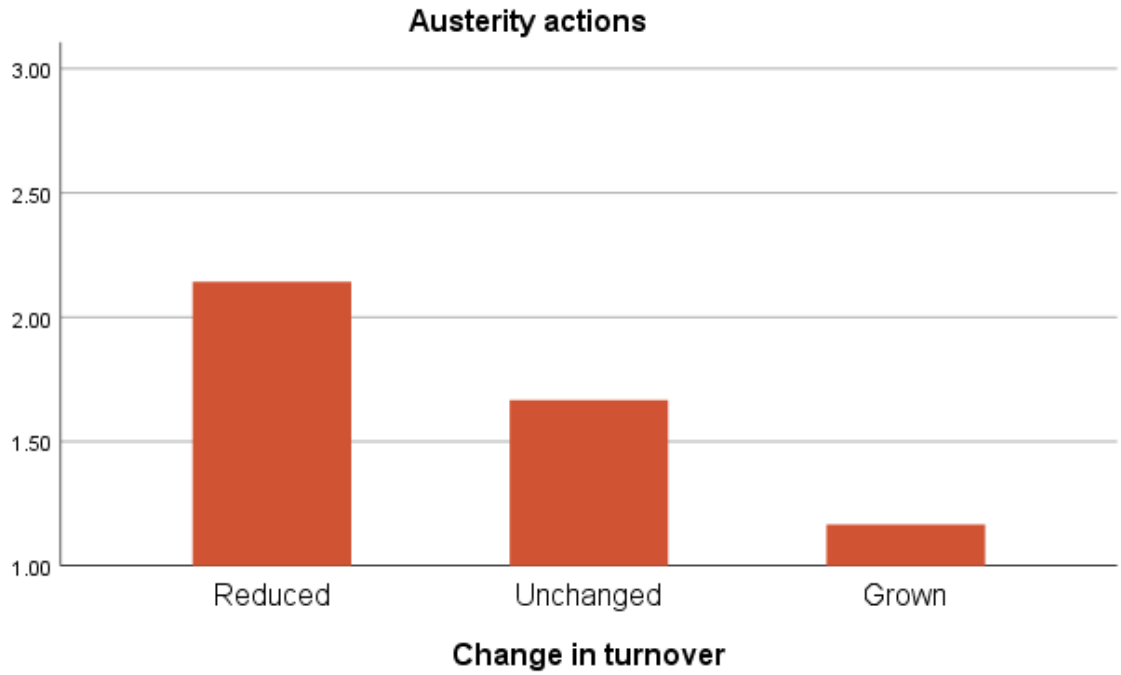
Unsurprisingly, firms with reduced turnover experienced greater external pressures (Figure 30).

Figure 30. Change in turnover and external pressures



And even though EOBs with reduced turnover did not place a greater importance on austerity as an organisational objective, they were more likely to engage in austerity actions nevertheless (Figure 31), arguably under the force of the unfavourable circumstances.

Figure 31. Change in turnover and austerity actions



In keeping with the pressures experienced due to unfavourable external environment, those with reduced turnover attributed lower importance to pursing business growth (Figure 32), reported lower need for job related training (Figure 33), and digital literacy support (Figure 34)

Figure 32. Business growth objectives

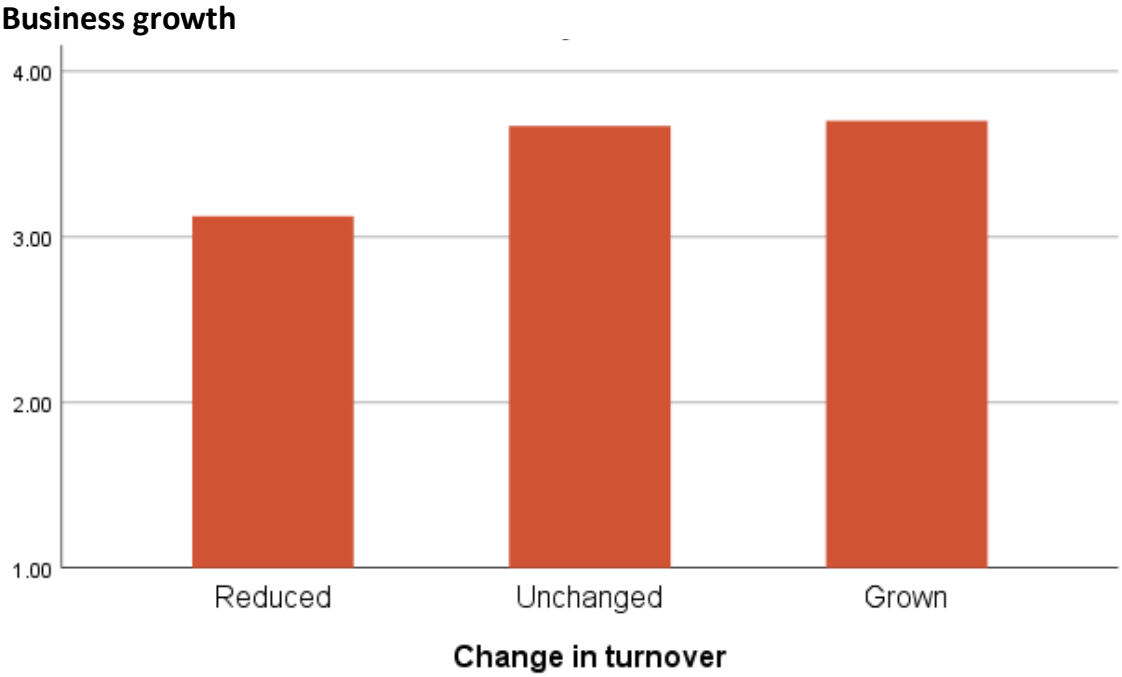


Figure 33. Change in turnover and need for job-related training

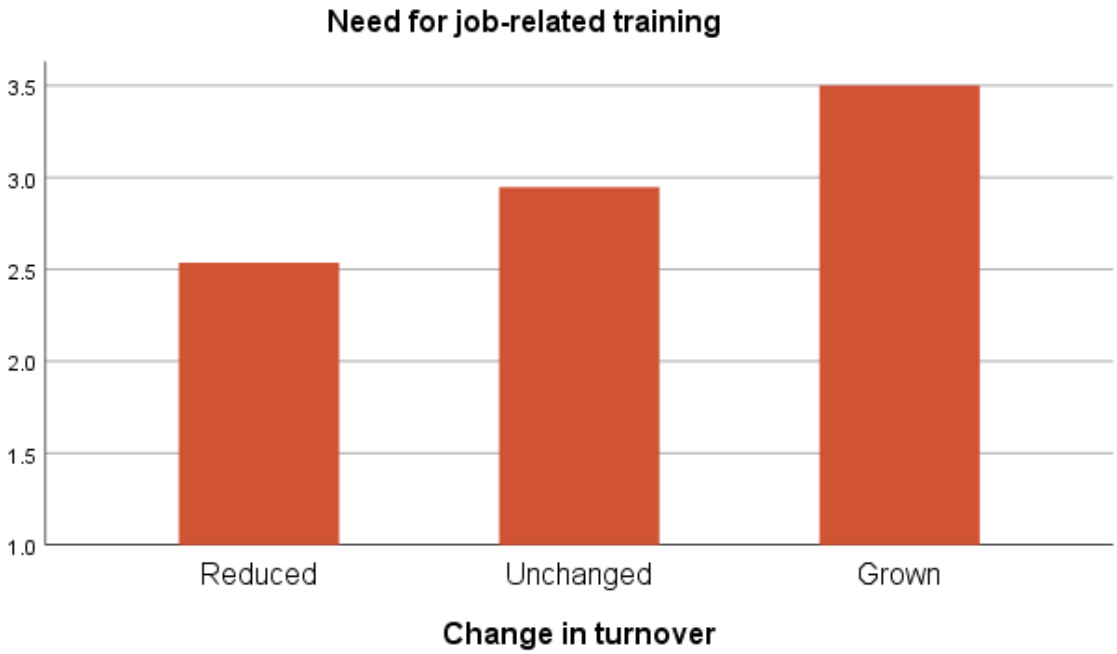
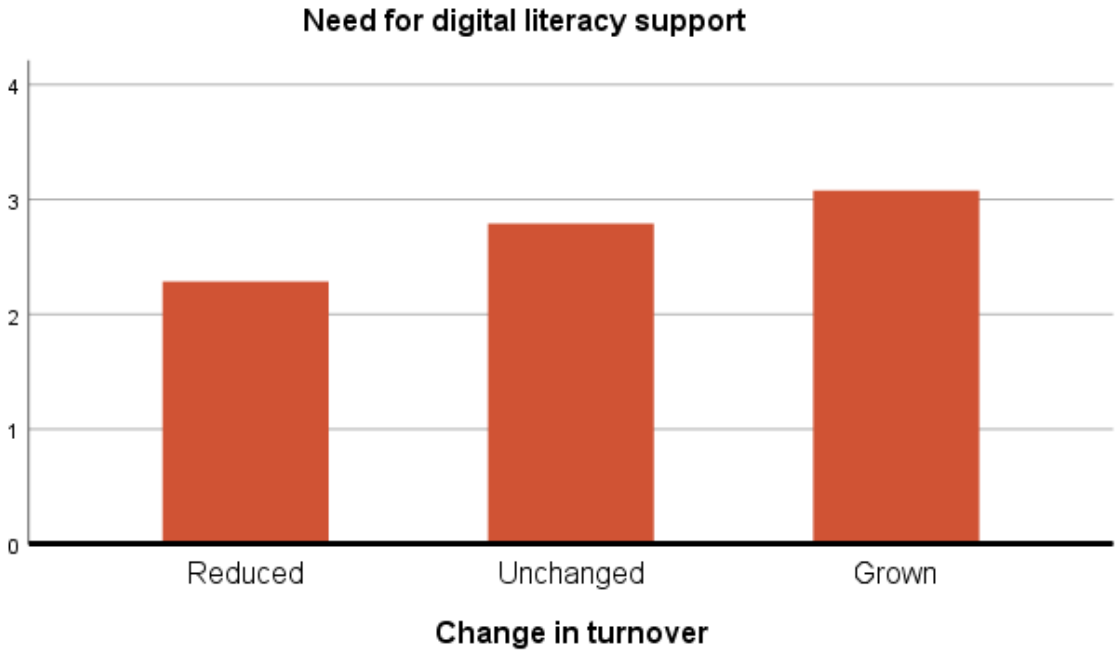
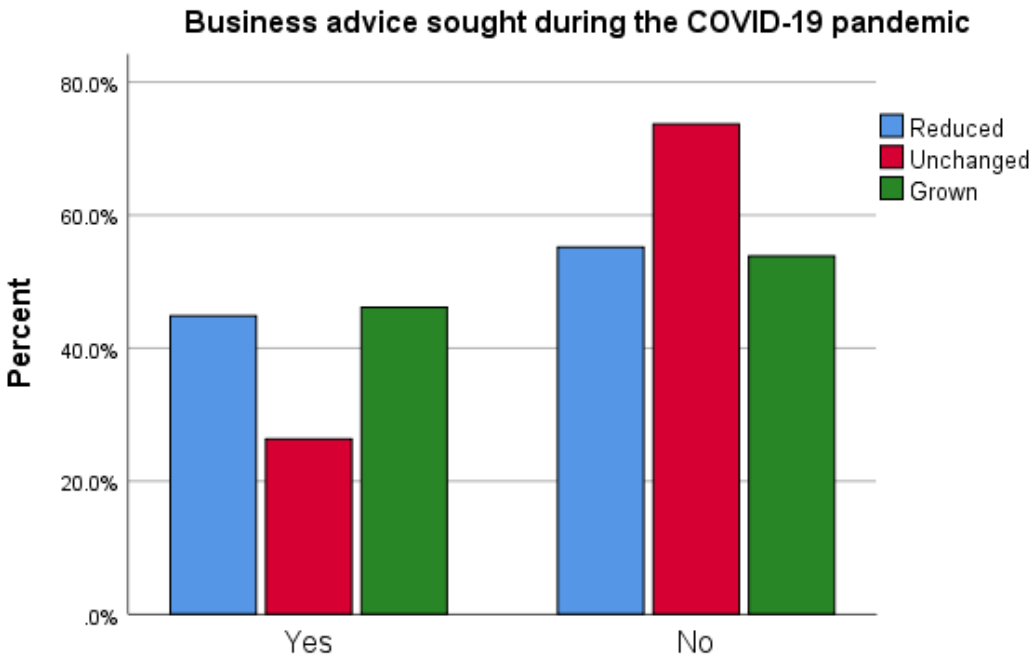


Figure 34. Change in turnover and need for digital literacy support



Nevertheless, they sought business advice at a rate comparable with the group experiencing growth (Figure 35).

Figure 35. Change in turnover and business advice sought



These findings suggest that despite the hit EOBs with reduced turnover experienced, they were still striving to survive, adapt, and navigate the stagnated business environment during the pandemic. The question that arises is how did they undertake this difficult journey? Were they able to preserve the ethos of EO and maintain the democratic practices in their organisation? The following analyses explore these questions.

Although the internal pressures and the challenges to democracy and communication reported by firms with reduced turnover were comparable to their counterparts whose turnover grew or stayed the same during the pandemic, they placed somewhat lower importance on employee protection (Figure 36) , lower importance on democracy and communication as an organisational objective (Figure 37), and lower importance on further developing democratic skills (Figure 38).

Figure 36. Change in turnover and employee protection as organisational objective

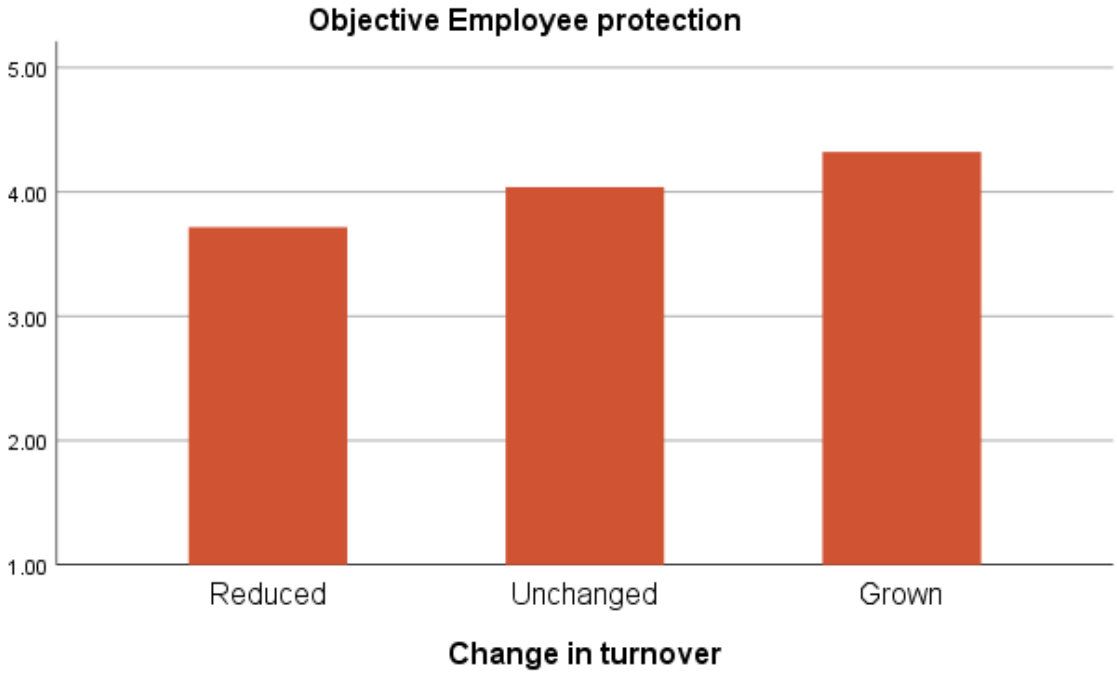


Figure 37. Change in turnover and democracy & communication as organisational objective

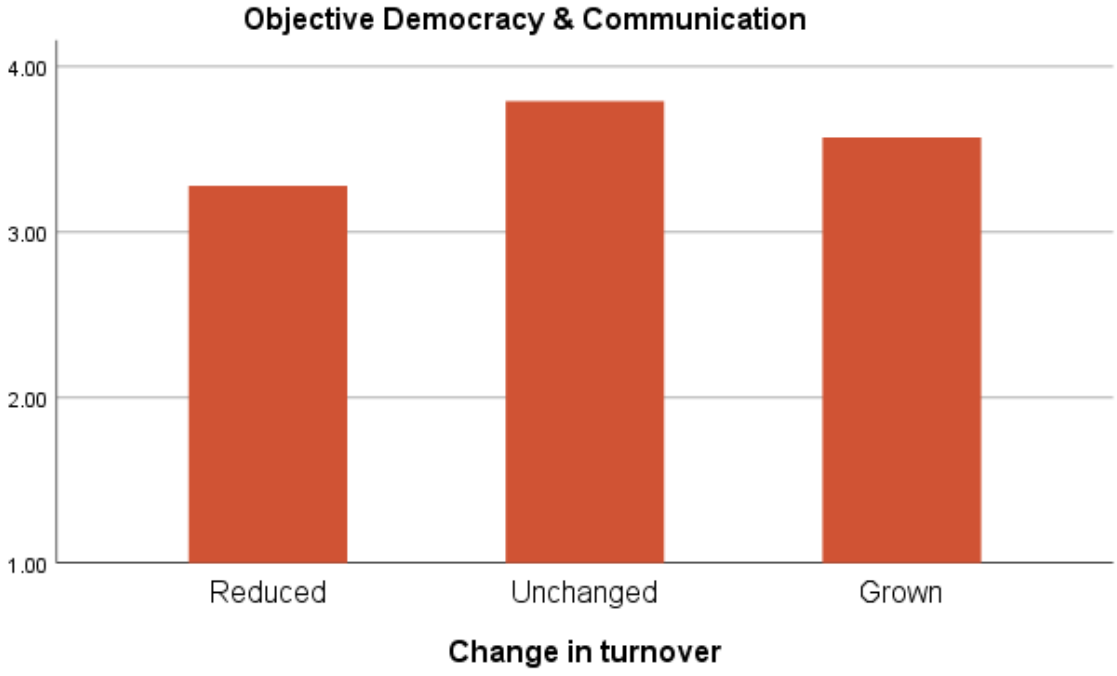
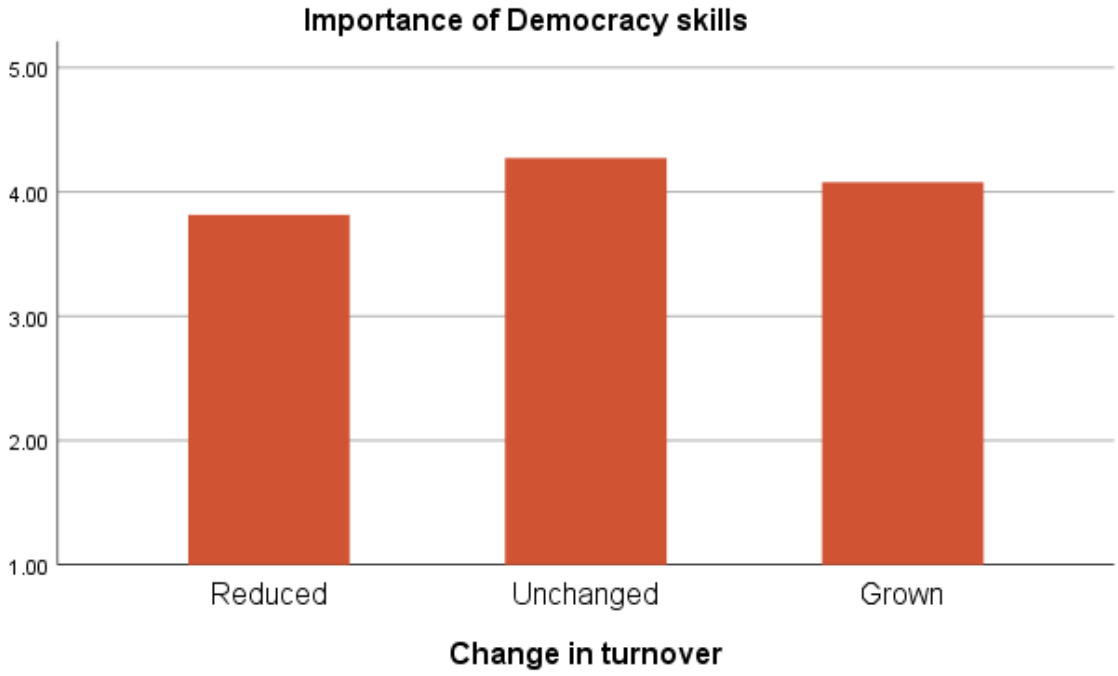


Figure 38. Change in turnover and importance of democracy skills as organisational objective



They also reported lower need for people management support (Figure 39), and lower levels of staff collaboration compared to EOBs whose turnover stayed the same (Figure 40).

Figure 39. Change in turnover and need for people management support

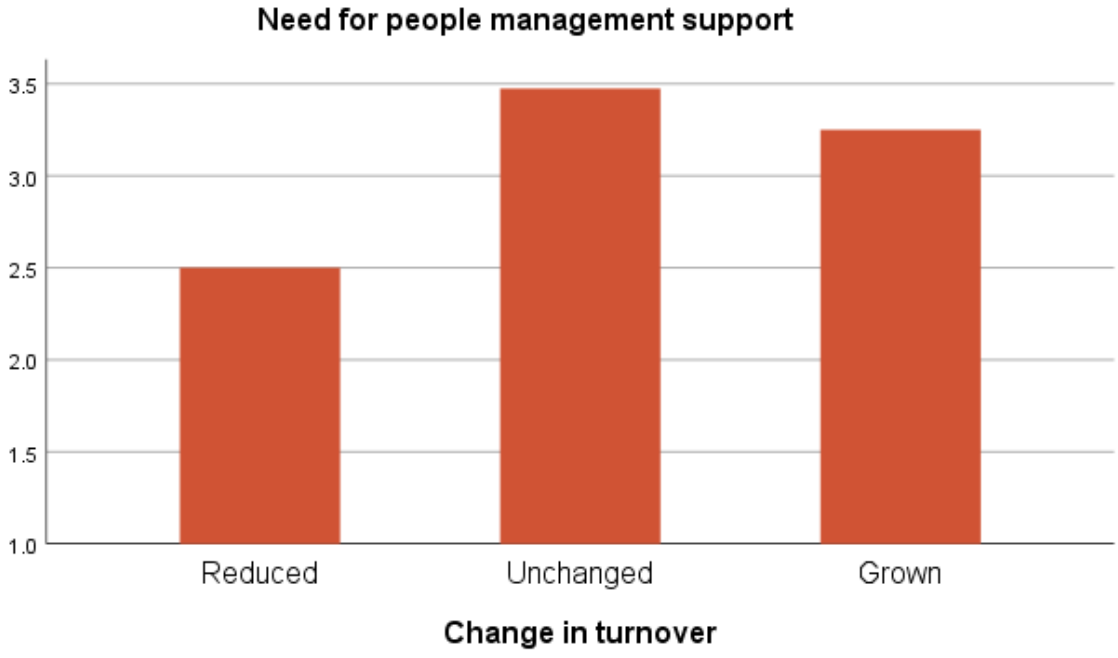
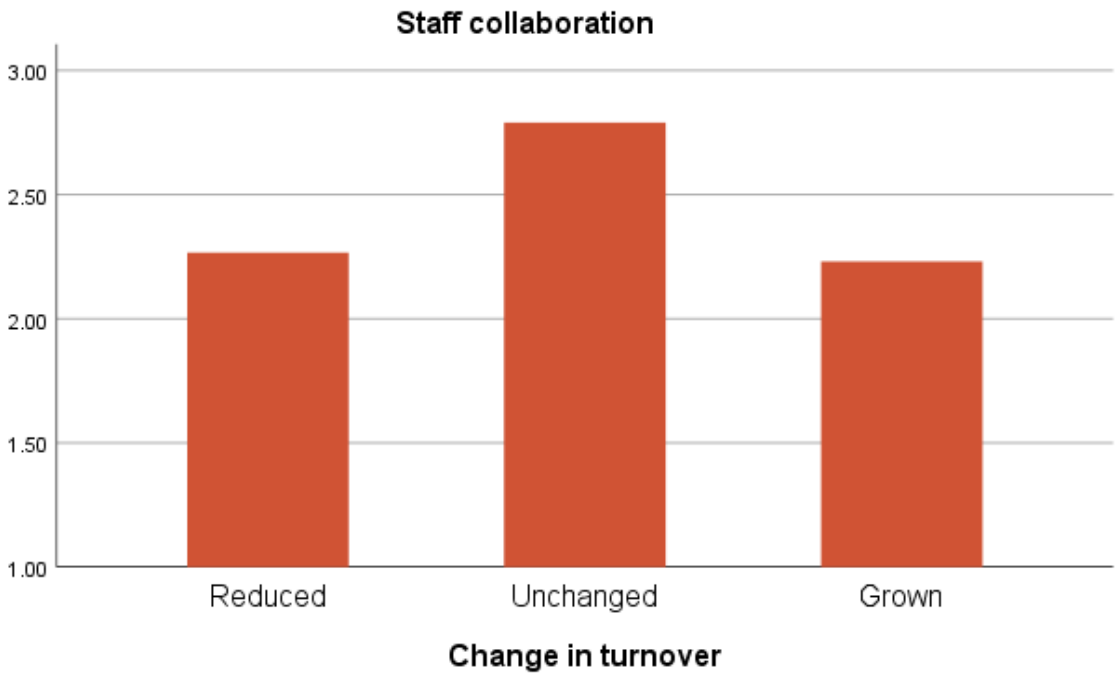
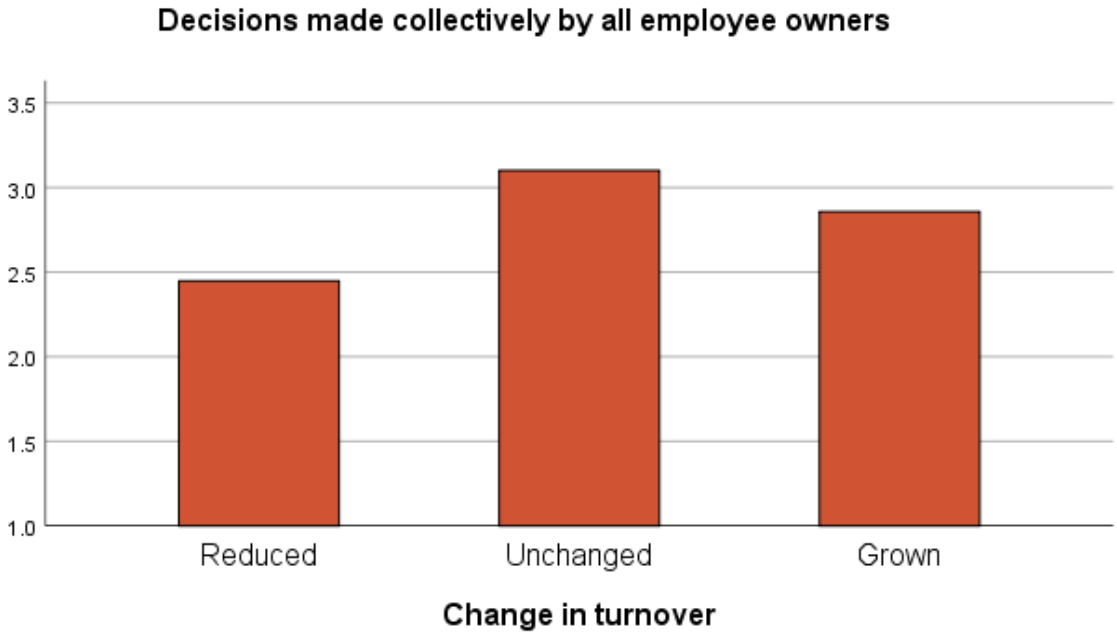


Figure 40. Change in turnover and changes to level of staff collaboration



Finally, EOBs with reduced turnover reported lower levels of collective decision making by all employee owners (Figure 41).

Figure 41. Change in turnover and decisions made collectively by all employee owners



These findings paint a concerning picture for EOBs experiencing a reduction in turnover. They appear to enter into a crisis mode, where cost cutting and business survival become a priority. This seems to cause a damage to their business confidence and ability, yet, there are signs

they seek business advice. The debt burden to exiting owners that they carried into the crisis may further undermine their resilience, whereas firms experiencing growth carried a lower debt burden to exiting owners. However, the deeper damage caused by the crisis appears to be in the social and democratic aspects of their operation. Across a number of measures, they experience a weakened EO ethos, with reduced focus on employee protection, reduced importance placed on democracy and communication, reduced staff collaboration, coupled with an unacknowledged need for support in people management, and finally, a reduced participation of employees in decision making. This may lead to a democratic scarring effect that could outlast the business problems experienced by the firms. Recognising this necessitates a proactive offer of support in this domain.

Along with the social and democratic problems experienced by EOBs with reduced turnover, the pattern of results suggests that those experiencing growth also face challenges in this domain. Although they show a strengthened focus on employee protection, they nevertheless show a dip on the remaining social measures, albeit to a lesser extent. This suggests that change, whether positive or negative, is disruptive for people management and employee relations.

5 CONCLUSIONS

EOB resilience is both financial and social, with a significant focus on people, job security, health, equality and wellbeing alongside financial resilience, suggesting important lessons for building back a better and more inclusive economy in Scotland, one which can be aligned with the Scottish Business Pledge and fair work dimensions.

Many EOBs are demonstrating a socially balanced, inclusive way of being economically and socially viable and resilient, however not all do. EOBs with greater debt burdens going into the pandemic have less financial and social resilience, with a tendency to see reduced turnover and a focus on cost cutting measures – including cutting labour costs.

There is however a window of opportunity to proactively address the potential democratic scarring impact of COVID on these EOBs since the data indicates that these EOBs are less likely to recognise the need for or seek out business support.

A further prospect is the enhancement of peer support for the EOB community in Scotland. While many EOBs demonstrate strong socioemotional skills and resilient collaborative relationships among employees, the opportunity also exists to enhance collaboration and support between the firms themselves.

Appendix 1: METHODOLOGY AND APPROACH TAKEN

Collaborative and iterative design of the survey (St Andrews Principal Investigator and Cooperative Development Scotland staff) took place in December 2020 and early January 2021 examining the understandings, expectations and experiences of Covid-19 among EOBs in Scotland,and incorporating a number of key 'census' questions (EOB turnover, employee numbers and ownership form).

Cooperative Development Scotland provided the Principal Investigator with potential participants' contact information and respondents were personally contacted by email with a link to the survey provided. Respondents were provided with information that outlined the nature of the research (provided by the researcher and including a link to Scottish Enterprise's privacy notice) at the start of the questionnaire which contained a summary of the project and a downloadable Participant Information Sheet.

At the end of the survey, participants were requested to download the Participant Information Sheet before electing to submit the questionnaire. Given COVID-19 lockdown conditions, research was conducted entirely using remote methods.

Initial contacts were made with EOBs in January 2021 with the survey taking place between January and February 2021. All survey data is reported anonymously in this report.

Milestones

Inception meeting (via Microsoft Teams)	8th December 2020
Survey design finalised	Jan 2021
Survey launch	w/c 25th January 2021
Survey close	March 2021
Final report	May 2021

Timeline

All contact emails were personalised to key contacts in the firms, where necessary this was achieved using desk-based web searches. The survey distribution list used an initial database of 141 firms provided by Scottish Enterprise, which was reduced to 119 EOBs once uncontactable firms (11), companies that were no longer in operation (3), and those that were not employee owned (8) were accounted for. Only one firm explicitly declined to take part. A web search was undertaken to determine further employee-owned companies operating in Scotland, which elicited an additional 5 responses from worker cooperatives.

1. A personalised email containing a survey link was sent from the Principal Investigator at St Andrews to 125 EOBs[22] in the week beginning 25th January 2021.

[22] Not including the 8 SfEO Board EOBs and 8 database firms with no contact details.

2. At the same time a personalised email was sent from CDS to 8 SfEO Board member firms (the named sender was Darah Zahran of CDS). In total therefore 133 EOBs were directly and individually contacted in the w/c 25th January.

3. There were 8 uncontactable EOBs and 3 repeated 'undeliverables'.

4. A further 3 undeliverable emails were identified, through web searches, as companies no longer trading.

5. 5 firms on the database contacted the Principal Investigator to indicate they were not employee owned. A web search indicated that a further 3 were not employee owned. One firm contacted the Principal Investigator to decline to participate.

6. A follow up, personalised reminder email was sent to the St Andrews contacted non-responders (92 companies) on 8th February 2021.

7. An additional web search was undertaken to determine further worker owned companies operating in Scotland, which elicited a further six EOBs. Making a complete database of 133 EOBs.

8. Emails were sent to the additional six organisations on 18th February 2021, and a follow-up reminder on 25th February. Five responses were received, three complete, two partial responses.

9. A personalised email reminder was sent to the CDS contacted EOBs by the St Andrews Principal Investigator on 22nd February.

10. A second reminder email was sent to the St Andrews contacted non-responders on 22nd February (68 firms).

11. A personalised email was sent by CDS (the named sender was Glen Dott) to key St Andrews contacted non-responders (23 companies) on 26th February 2021 which elicited a further four complete and two partial responses.

Appendix 2. GLOSSARY

Indirect employee ownership
Where all or a portion of a company is owned on behalf of all employees by a Trust – either using the Employee Benefit Trust or the Employee Ownership Trust (Finance Act 2014) schemes.

Employee Benefit Trust (EBT)
HMRC defines an Employee Benefit Trust as "usually a discretionary trust set up by an employer for the benefit of its employees and directors."[23]

Employee Ownership Trust (EOT)
The Employee Ownership Trust (EOT) was introduced in the Finance Act 2014[24]. An EOT purchases the shares from the exiting owner(s), often through retained earnings over a period of years. The Trust holds at least 51% of company shares on behalf of all employees. An EOT can hold 100% of company shares or can sit alongside exiting owners' minority shareholding, other employee share schemes or a family trust.

Employee Owner Bonus
Where a company is owned by an Employee Ownership Trust, it can opt to pay employee owners an annual, Income Tax-exempt, cash bonus of up to £3,600 per employee.

Share Incentive Plan (SIP)
A SIP is an all-employee, direct form of employee share ownership where shares are owned individually by employees. If an employee keeps their company shares for at least 5 years, they will not pay Income Tax or National Insurance on their value. As outlined by HMRC, shares can be acquired by individual employees in the following ways[25]

- **Free shares** are those gifted to employees by the EOB to a value of £3,600 in any tax year.
- Shares bought out of an employee's salary before tax deductions are **partnership shares** (to a value of £1,800 or 10% of income for the tax year, whichever is lower).
- The EOB can gift employees up to 2 free **matching shares** for each partnership share bought.
- Finally, EOBs can opt to allow employees to buy **dividend shares** with dividends from free, partnership or matching shares.

Enterprise Management incentives (EMIs)
An EMI allows companies with assets of £30m or less to grant share options to specific employees (up to the value of £250,000 in a 3-year period[26]) to be held directly by the individual employees.

SME
Small or medium-sized enterprise

Furlough
Furlough is a UK Government-supported scheme introduced during the COVID-19 pandemic where employees have temporary leave of absence from work.

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[23] https://www.gov.uk/hmrc-internal-manuals/business-income-manual/bim44501
[24] [24] https://www.scottish-enterprise.com/support-for-businesses/business-development-and-advice/employee-ownership/frequently-asked-questions
[25] https://www.gov.uk/tax-employee-share-schemes/share-incentive-plans-sips
[26] https://www.gov.uk/tax-employee-share-schemes/enterprise-management-incentives-emis