

Research Bulletin 24/1 | The Employee Ownership Model in Northern Ireland

Roy Mitchell & Fiona Bell, Analytical Services Division, Department for the Economy

August 2024

Summary

There are only a small number of employee owned businesses across Northern Ireland, but the model is gradually becoming ever more common and is poised for future growth.

This research looks at how employee ownership operates in practice, its advantages and challenges, local case studies of employee owned firms and options for removing any barriers to expansion. England, Scotland and Wales have made great strides in employee ownership in recent years and Northern Ireland can possibly emulate this.

Typically, there are three types of employee owned business, with Employee Ownership Trusts the most common form. Transitioning to employee ownership offers benefits such as tax incentives, improved financial and wider wellbeing for employees, as well as business continuity. Due to the characteristics and performance of employee owned businesses, the model seems to align well with the Minister for the Economy's Economic Vision, in particular, the four key objectives of Good Jobs, promoting regional balance, raising productivity, and reducing carbon emissions.

Background

The UK Government has defined employee ownership as where all employees, either directly or through a trust, have a 'significant and meaningful' stake in a business. This means employees must have both: a financial stake in the business (e.g. by owning shares); and a say in how it's run (known as 'employee engagement').ⁱ In the UK it is generally accepted that an over 25% shareholding in a private company is a significant sized stake. The tax reliefs available when a company is controlled by an Employee Ownership Trust (EOT) mean, in practice, there is usually a majority or 100% shareholding.ⁱⁱ

Employee owned businesses are diverse, spanning various industries and sizes, but they typically share the characteristic of being well established firms, rather than new startups. The decision to transition to employee ownership can stem from various motivations, ranging from an owner's retirement plans, to changes in personal circumstances, or a desire to acknowledge employee contributions to a company's success.

When a company transitions to an employee ownership model, ownership is transferred to the employees, granting them either direct control, or control through an Employee Ownership Trust. This inclusive approach contrasts with a

management buyout, which usually involves only a select group of senior employees. Although ownership is collective, the day-to-day management of the company may still be handled by a specific management team, rather than by the workforce at large.

Employee owned companies have been operating in the UK for decades. However, work by Graeme Nuttall OBE was instrumental in creating the conditions for the rapid growth seen in the last decade. In his paper 'Sharing Success: The Nuttall Review of Employee Ownership' (BIS, 2012), for the UK Government, Graeme Nuttall identified barriers to the employee ownership of private companies and provided solutions for the removal of these impediments.

The UK Government responded positively to the Nuttall Review's recommendations and, in particular, his ideas for promoting the trust model of employee ownership. As a result of the Nuttall Review, the trust model received statutory recognition in the Finance Act 2014 in the form of the EOT.ⁱⁱⁱ

In recent years, there has been a notable increase in the prevalence of employee owned firms. By the end of 2023, it was estimated that around 1,650 businesses in the UK had embraced the employee ownership model^{iv}, supporting 541,000 jobs.^v High profile examples of employee owned firms include John Lewis, TTP Group and Aardman Animations.

Employee ownership is just one business model within the 'democratic economy'. There are many co-operatives, building societies, financial and other mutuals. Co-operatives are flexible businesses in themselves - members could be consumers, workers, residents, suppliers or even have a combination of different types of owners.^{vi} Employee owned firms may operate as co-operatives.^{vii} Employee owned firms may also operate as social enterprises.^{viii}

Employee Ownership Models

Employee ownership is designed to give workers a stake in the businesses they work for, fostering a culture of co-ownership and engagement. The criteria for establishing such models typically include legal and structural considerations, but firstly, the business must decide on the form of employee ownership. There are typically three types of employee ownership models:

- **Direct Ownership** – Employees personally hold shares in the company. Each individual member of staff will be a direct shareholder;
- **Indirect Ownership** – Company shares are held on behalf of employees in a permanent or long-term trust, or sometimes (especially in the USA) a pension fund. Employee Ownership Trusts are a form of indirect ownership and are the most common form of employee ownership in the UK; and
- **Combined Hybrid Ownership** - Companies can use a combination of both the above forms of employee ownership according to their needs. A portion of the company might also be owned by others, such as a founder-owner or external investors.^{ix}

The governance of the employee owned company must also be addressed, with the establishment of mechanisms for employee representation and participation in decision making processes. This can involve creating employee

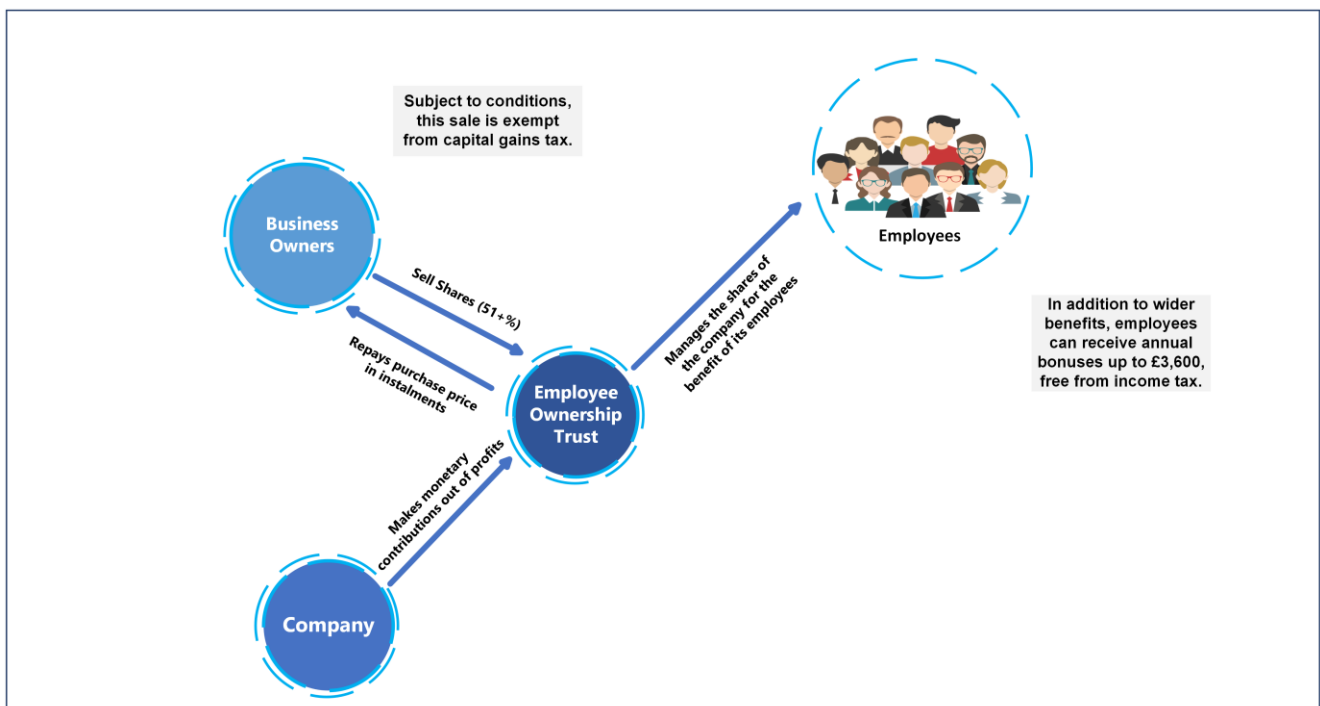
councils or including employee representatives on the company's board of directors. A constitution may be used to formally define the company's values and its relationship with employees.^x

Overall, the criteria for employee ownership models are designed to ensure fairness, inclusivity, and compliance with legal frameworks, while promoting the ethos of shared ownership and the potential for enhanced business performance through increased employee engagement and motivation.

Employee Ownership Trust Models

EOTs are the most common form of employee ownership in Northern Ireland, as well as across the rest of the UK. Figure 1, illustrates how an EOT works.

Figure 1: Employee Ownership Trust Model



Note: This illustration has been adapted / expanded upon by DfE from an original diagram created by OutsourcedAcc.^{xi}

The transition to an Employee Ownership Trust^{xii} begins with an independent valuation of the company to establish a fair market price for its shares. Following this assessment, a legal document - often referred to as the trust deed - is drafted and the EOT is formally established. The trust deed, and the constitution of the trustee that administers the trust, describe the operational framework of the trust, including its governance rules, and the trustee's responsibilities.

The next step involves the current owner selling their shares to the EOT and the company adopting a new constitution containing governance provisions that support its employee ownership. This sale is typically financed through the company's future earnings, which means that employees are not required to provide upfront capital for share

acquisition. With the EOT holding the shares, employees gain indirect ownership of the company, sharing in its success and contributing to its future direction.

The Finance Act of 2014 introduced EOT legislation. It defined an EOT. This definition includes ensuring that the trust operates for the benefit of all employees and that there are restrictions on the allocation of shares to prevent disproportionate benefits to only some employees and company directors.^{xiii} To qualify for certain tax advantages, the transition to employee ownership must be structured in a way that meets additional requirements of the Finance Act 2014. Specific criteria must be met, such as the trust holding a controlling interest (more than 50%) in a trading company or group.

According to the Financial Times: *"Sales to EOTs tend to be made at a valuation multiple of about four to six or seven times earnings, experts say, depending on the type of business. EOTs have become particularly popular among professional services firms, because their real assets are their people, according to the Employee Ownership Association, which represents employee-owned businesses."*^{xiv}

WPI Economics examined the average 'payback' time period for UK EOTs in a survey. They state: *"For EOTs, depending on the price agreed by the EOT with the vendors, the selling shareholders may be paid over multiple years (referred to as deferred consideration / vendor loan repayments). The vendor debt is a liability for the trust. It does not appear on the company's balance sheet, however the company will pay (service) the EOT's debt out of the profits its earned (distributable reserves), until the original owner(s) has been fully paid or the debt is written off. This point is sometimes known as 'financial freedom day' (FFD). Once the vendor debt has been paid off, future profit can be used to increase profit share to the employees, subject to working capital requirements."* WPI Economics explored with EOTs when this day occurred in their businesses – for those that had a deferral period, the average time was after 6.8 years.

The use of deferred payment out of profits, to exiting owners, over time, means that relatively few EOTs need to take out external finance for the transaction.^{xv}

There is a need to get valuation, payback period and timing right. As noted in Financial Management Magazine, Abi Knight, managing director of UK-based software developer NC Squared, recommends that the timeframe for owner repayment should offer fair consideration to the departing owners without overburdening the company with too much to repay in a short time. However, if the payout period is too long, the employee owners may feel that the company will never really become their own, thus dampening some of the excitement and engagement of ownership.^{xvi}

Benefits of Employee Ownership

Governments have acknowledged the value of employee ownership and are actively endorsing and incentivising this model. Primarily looking at EOTs, the benefits, both direct and indirect, extend to former owners and employees alike, and can include:^{xvii}

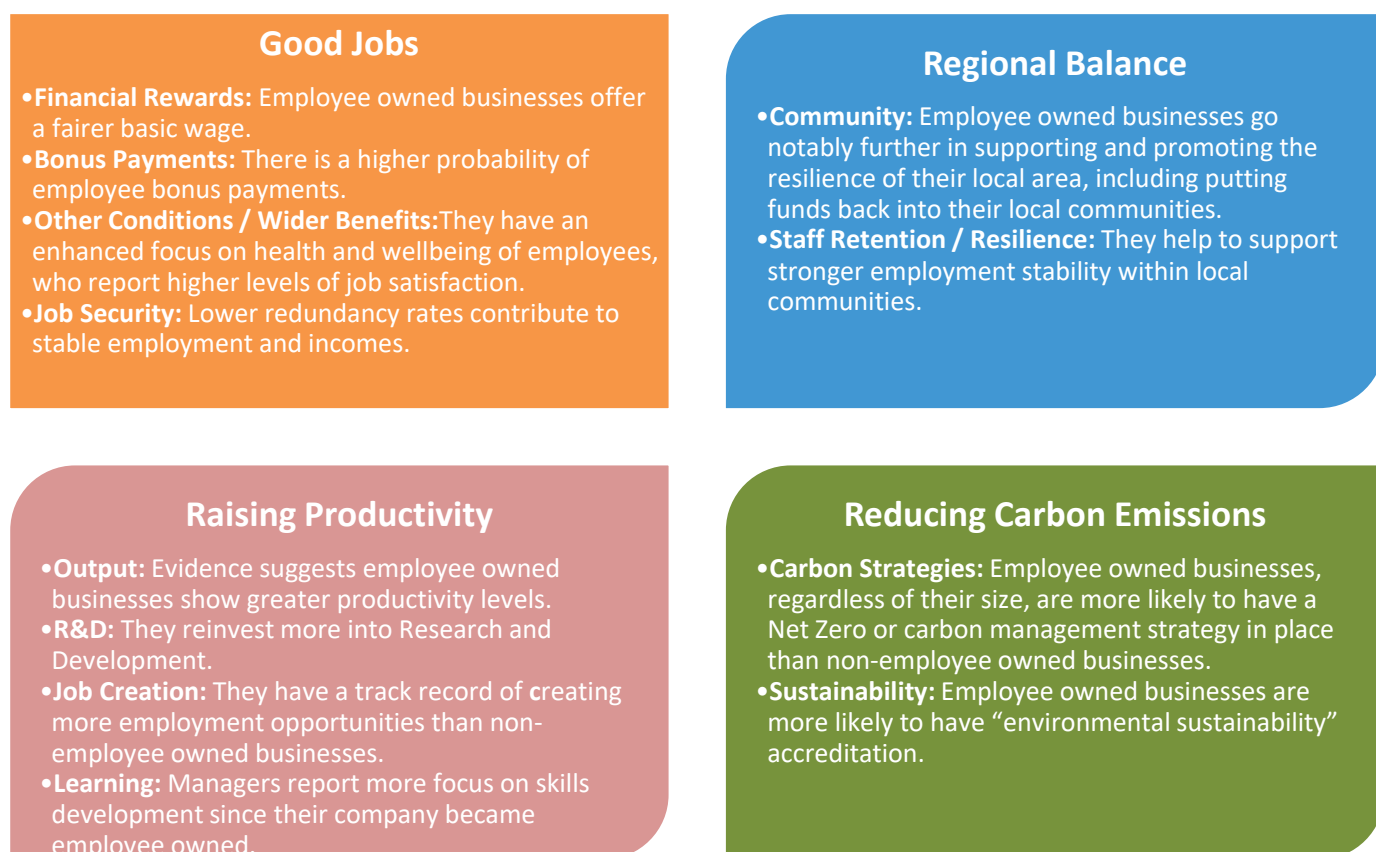
- **Tax Incentives** - When a business owner sells a controlling interest (greater than 50%) in their company to employees through an EOT, the transaction is exempt from capital gains tax (CGT), subject to certain conditions being met^{xxviii}. This is beneficial for owners who would otherwise be subject to CGT at the full rate of 20%.^{xxix} Furthermore, the new employee owners can receive income tax-free bonuses up to £3,600 each tax year. A relief from inheritance tax on certain transfers into and from the EOT may also be available.^{xxx}
- **Continuity** - For business owners looking to retire or shift focus, employee ownership ensures the legacy and continuity of the business. Customers will still be served. Suppliers and customers may view their link to an employee owned company as a positive. Sellers don't have to leave the business immediately, they can stay on the trading company board and they may retain minority shareholdings.^{xxxi} This means of succession planning can be a more seamless transition than alternatives, with minimal disruption to day-to-day business activities.^{xxxii} Some conventional sales can lead to staff layoffs / redundancies.^{xxxiii}
- **Purchase can be Straightforward** – The trust is a 'ready-made' purchaser^{xxxiv} and a buyout can be completed without disclosing confidential information to competitors. Different financing options can allow the business to be sold for a fair price, even if the employees could not normally afford to buy it outright.^{xxxv} According to IBB Law: *"The sale process is often more straightforward than with a trade sale, with lower transaction costs. While it is necessary to establish the EOT structure, this is not an onerous process. Nor is it necessary to market the business for sale and find a suitable external buyer. The amount of due diligence and negotiation required is also substantially reduced, as is the risk of a failed sale."*^{xxxvi}
- **Improved Financial Packages** – Employee owned businesses tend to offer higher wages and profit sharing, with EOT payments averaging £2,729 per employee in 2020.^{xxxvii}
- **Greater Employee Engagement, Wellbeing and Company Performance** - With a stake in the company, employees often exhibit higher job satisfaction, reduced staff turnover, and enhanced motivation, which can translate into greater productivity.^{xxxviii} Research by WPI Economics for the Employee Ownership Association found employee owned firms are 8%-12% more productive¹ per employee, than non-employee owned firms.^{xxxix} Published in July 2024, research for the Labour Relations Agency undertaken by Professor Chris Warhurst and Dr Emily Erickson from the Warwick Institute for Employment Research found that positive employee engagement and wellbeing was mutually beneficial for both workers and business performance.^{xxx}
- **Wider Community Benefits** – Profits are usually held and distributed locally by employee owned businesses, thus benefitting local communities. Furthermore, they can exhibit more resilience during downturns, and in weathering other economic headwinds.^{xxxxi}

¹ Productivity measured against a control group. May not mean a well-run productive business that moves to employee ownership then automatically experiences an 8% to 12% productivity gain at point of transition.

The increasing levels of employee ownership can foster a more inclusive business landscape in Northern Ireland. It may also align well with DfE’s Economic Vision as set out by Minister Murphy on 19 February 2024.^{xxxii} This set out four key objectives: for Good Jobs, regional balance, raising productivity and reducing carbon emissions / decarbonisation.

Recent analysis by WPI Economics, YouGov and CBI Economics offers insights into the sector’s possible impact on the above objectives. A YouGov survey included 152 employee owned businesses (roughly 9% of the total number operating in the UK) alongside 285 non-employee owned businesses. The cohorts cover all major sectors of the economy, all parts of the UK and a comparable mix of business sizes.^{xxxiii} Some caution should be taken when looking at the findings of one survey, but results from October 2023 have been used to complete the illustration below.^{xxxiv}

Figure 2 – How Employee Ownership Might Impact on DfE’s Objectives



Notes: Findings taken from October 2023 research report by WPI Economics using results from YouGov and CBI Economics. These findings were allocated by DfE to the four Departmental objectives for Good Jobs, regional balance, raising productivity and reducing carbon emissions. These are general findings; there may be a range of performance across employee owned businesses.

Source: [Exploring the Potential of the Employee Ownership Business Model | WPI Economics](#).

Challenges and Considerations

While employee ownership offers numerous benefits, it's important to recognise that this model comes with its own set of challenges compared to traditional ownership structures. Key challenges and considerations of the employee ownership model include:

- **Lack of Awareness** - It is fair to say, that at the present time, employee ownership is not yet a typical business model across the thousands of Northern Ireland firms. As such, there is a relatively low level of awareness of employee ownership, how it operates in practice and if it can be a viable option for business owners.
- **Perception of Being Novel** - Business owners considering a sale might exhibit caution towards adopting a model that seems unfamiliar and new, particularly when the well-being and livelihoods of their employees and their own financial security are at stake. The novelty of employee ownership in Northern Ireland is reducing however, as the model becomes ever more common and established here.
- **Setup and Administration** - Establishing an EOT involves incurring professional fees. It is a process that requires careful planning, legal expertise, and financial structuring. The ongoing administration of the trust also requires management and governance that can handle the unique aspects of employee ownership, which usually means a fee for an independent trustee director. If a company has direct employee ownership, an employee share plan must be registered with HMRC and annual returns submitted.^{xxxv}
- **Risk** - Employee ownership is not without risk. According to the Financial Times: *"The risk for the sellers is that there is no guarantee they will receive the full sale price — with repayments from the trust contingent on future profits. Sometimes the trust can take out a bank loan (with a company guarantee) to speed up the payment, but this adds to costs and banks have historically been reluctant to lend for EOT financing."*^{xxxvi} Sellers may need to be patient for their funds if payments are made over a number of years.^{xxxvii}
- **Financing** - Employee owned businesses can encounter difficulties in securing capital, necessitating creative and innovative financing strategies to support their growth and operations.^{xxxviii}
- **Tax Complications** - Although a sale to an Employee Ownership Trust is generally considered to be tax advantageous, the position in practice can sometimes be complex and restrictions apply. Various tax anti-avoidance provisions can apply to impose onerous tax liabilities if there is not a demonstrable genuine move to employee ownership by the former owners. The trust will have to pay stamp duty on the full purchase price for the shares acquired in the company (at 0.5%).^{xxxix}
- **Succession Planning Issues** - EOTs are often used as a succession solution for business owners looking to retire. However, the transition can be challenging and may need to be delayed if there is not a strong management team in place to manage the strategic direction of the company. Previous owners can still be involved in some capacity, in order to avoid a leadership / knowledge vacuum.
- **Ensuring Sustainability** - Balancing financial rewards for employees, with the company's long-term financial health, is crucial for the sustainability of the business. If facing liquidity concerns, bonus payments in a

company can be reduced or even scrapped.^{xi} For EOTs, where a bonus payment is made to a former employee, it must be made in the 12-month period beginning when the employment ceased, according to HMRC.^{xii}

- **Governance** - Developing a governance model that effectively represents employee-owners while ensuring efficient management can be a challenge. The Finance Act 2014 EOT legislation does not provide guidance on this aspect.
- **Trustee Board Composition** - It is important from a tax point of view, and to ensure a genuine move to employee ownership, that former owners are not a majority on the board of the trustee company that administers an EOT.
- **Assessing Business Compatibility** - Not all companies may be suited to an employee ownership model, making it essential to evaluate its appropriateness for each business. One of the conditions that must be satisfied to be eligible for an EOT is that the target company must have a minimum proportion of employees who are not the owners or connected persons (such as a spouse)^{xiii}. The majority of businesses (89%) in Northern Ireland are microbusinesses (less than 10 employees).^{xiiii} Some very small firms within this cohort may not be good candidates for employee ownership, simply because they have too few employees not connected to the owner.^{xliv}

It is important to note that when selling any business, some of the above concerns may still materialise, even in a 'conventional' sale. Furthermore, it is important to note that the rise in employee ownership comes from a relatively small base. Some of the evidence is anecdotal. As the landscape of employee ownership continues to evolve, it is crucial for companies to approach this model with a strategic mindset and a clear understanding of the potential risks and rewards. A small number of employee owned companies have entered administration recently, showing that the business model is not immune to the economic struggles that many firms have faced of late.^{xlv}

The Landscape in Northern Ireland

Out of the thousands of businesses in Northern Ireland, only a very small number are employee owned. There is scope to increase this. Paul Prenter, corporate finance advisory director at Grant Thornton noted in March 2024 that *"there is every likelihood that we will see a rise in EOTs [Employee Ownership Trusts] as a popular option in succession planning and securing a business sale in Northern Ireland."*^{xlvi}

Current employee owned businesses² in Northern Ireland include:

- Boyce Precision Engineering - a company that specialises in manufacturing component parts and operates out of Portadown;^{xlvii}

² May not be an exhaustive list.

- People 1st – a training and Employment firm operating across Northern Ireland and Donegal;^{xlviii}
- Relinea - known for producing Glass Reinforced Plastic (GRP) products, with its base in Crumlin;^{xlix}
- S&W Wholesale - which oversees a distribution network through its fleet of lorries, headquartered in Newry;^l
- White Ink Architects - a firm engaged in designing a diverse array of buildings, located in Belfast;^{li} and,
- Cornerstone Veterinary Clinic- based in Belfast.^{lii}

These firms are headquartered in various locations across Northern Ireland, vary somewhat in size, and operate across a range of sectors in the local economy.

Local Case Studies

As part of our research we conducted a number of discussions with senior people in some of the local employee owned firms identified above, namely People 1st, Relinea, S&W Wholesale and White Ink Architects. These case studies provided valuable, real-life, practical insights from local companies that have went through the employee ownership transition. The consultees were forthcoming with details about their employee owned experience, sharing both positive outcomes and challenges encountered.

Key observations from the case studies included many of the aforementioned issues discussed in this paper (such as a need to raise awareness of employee ownership locally, etc), but also included the following specific views:

- **Communication** - The importance of ongoing communication with staff during the transition to employee ownership was mentioned by a number of firms. This would alleviate concerns and confusion amongst employees who may be apprehensive about the process.
- **Legal Issues** - Some advisers have only recently started advising on employee ownership and may lack the experience to provide bespoke advice. A consultee noted that templates were provided for some of the legal documents used in the setting up of the EOT. For some parts they answered yes/no questions as to which clause would apply.
- **Role of Previous Owners** - A number of firms mentioned that having the previous owners still involved was good for stability and the organisation benefitted from their know-how and experience. One company said it was a challenge for some owners to realise that they are not fully in charge anymore, but this resolved itself as the new regime bedded in. Planning succession step-by-step and then sticking to the timetable was advisable.
- **Employee Benefits** - Since becoming employee owned, some businesses are now looking to enhance employee remuneration packages. A business mentioned how they pay at least the living wage to all employees, including trainees. Life insurance was added to the employee benefits and they are looking to add a healthcare package. Some surplus funds are also being directed to charitable causes.
- **Profit Sharing** - Many of the firms have paid or intend to pay regular employee bonuses. One business welcomed the income tax-free advantage of bonuses up to £3,600, but thought the UK Government should

also scrap the national insurance contributions, in tandem. Others stressed the need to keep the bonus scheme simple, fair and equal for all employees.

- **Operational Considerations** - One consultee stressed that while employees have a greater say in company operations, standard employment practices such as disciplinary proceedings (including termination) for contract breaches still apply.
- **Financial Institutions** - A number of consultees mentioned that banks and other financial organisations could be more accommodating to employee owned businesses, as raising finance can sometimes be challenging. Banks seem to want an individual to put their 'house on the line', not a trust, and the UK Government should fix this. One firm said financial institutions in England had more familiarity with the employee ownership model (including dedicated experts / teams), than the local establishments.
- **Long-Term Cultural Shift** - Some of the feedback focused on how staff became more attentive in reducing waste (of supplies, materials, etc) since the company became employee owned. One consultee stressed the importance of fostering an employee ownership mindset and culture. They recommended establishing and maintaining a local network to provide support those employees in newly transitioned companies, who may be unfamiliar with the business model and the scope for change.

All participants in the case studies believed that a greater adoption of employee ownership in Northern Ireland would have a positive impact on DfE's Economic Vision and the objectives for an economy with Good Jobs, regional balance, high productivity and with a reduction in carbon emissions.

Figure 3: Selection of Quotes from Local Firms



The companies we approached varied notably in terms of economic sector and size, with S&W Wholesale being the largest, with around 300 people employed.^{liii} The consultation with these local employee owned businesses has been highly insightful and the Department for the Economy is grateful for their time and experiences that were shared.

The Experience Regionally and Internationally

Although Northern Ireland has seen a measured pace in the establishment of employee ownership models, uptake has been more successful in other regions, such as Scotland and Wales. These regions are actively promoting employee ownership as a viable and attractive option for businesses and economic development. The governments in Wales and Scotland have made significant commitments to support the growth of employee owned businesses. To inform the research work, we met with individuals from Cwmpas (formerly known as the Wales Co-operative Centre)^{liv} and from Scottish Enterprise.^{lv}

According to the Welsh Government, employee ownership delivers numerous benefits for employees and for businesses, with evidence showing employee owned businesses are more productive and more resilient. They are also rooted in their local areas and regions, securing good quality jobs for the longer term within communities across Wales.^{lvi}

The Welsh Government's Programme for Government included a commitment to increase the number of businesses with employee ownership in Wales, by offering enhanced support and specialist advice for employee buyouts. As of May 2021, there were 37 such businesses, with the aim to increase this figure to 74 by May 2026. By June 2024, the count of employee owned businesses had already reached 74, therefore achieving the goal of doubling the number before the current government's term concluded; almost two years ahead of schedule.^{lvii}

The Scottish Government has set a target for 500 employee owned businesses operating in Scotland by 2030, as they seek to widen the benefits of employee ownership to as many businesses and as many employee-owners as possible.

Latest figures from the Scottish Employee-owned Business Census 2024 show there are currently 286 employee owned businesses operating in Scotland (up from 195 in 2022) – comprised of 177 Scottish-registered employee owned businesses, 25 Scottish-registered workers' co-operatives and 84 employee owned businesses with trading/production operations in Scotland, but which are registered elsewhere. The number of employee owned businesses operating in Scotland has grown 47% since the 2022 Census. Scottish-registered employee owned businesses and worker cooperatives have a combined turnover of £1.47 billion and employ 7,593 people.^{lviii}

In England, the London Ownership Hub was launched in 2022, promoting and supporting employee and worker owned businesses in London. According to the Greater London Authority, the Hub *"supports good jobs and boosts workforce wellbeing, making businesses and local economies stronger, sustainable, and more productive. The programme provides tailored business support, works to raise awareness, and seeks to work with colleagues and partners*

for a favourable business and policy environment.” The London Ownership Hub is a partnership between the Greater London Authority, Co-operatives UK and the Employee Ownership Association.^{lix}

In the Republic of Ireland, the concept of Employee Ownership Trusts is still relatively rare.^{lx} However, the Irish digital marketing firm Wolfgang Digital Limited recently made headlines as they transitioned to an employee ownership model through the establishment of an EOT, as widely reported in May 2024.^{lxi} In January 2020, Seetec, an organisation that employs over 130 skilled professionals at over 40 locations across Ireland, became one of the largest employee-owned companies in Ireland and the UK (with around 2,500 staff across both jurisdictions),^{lxii}

The USA has proved fertile ground for firms adopting employee ownership models, with over 6,000 companies, and over 10 million workers operating under such models.^{lxiii} These companies span a diverse range of industries, including professional, scientific and technical services (which represents 21% of employee owned firms).^{lxiv}

The most widely adopted model in the USA, is the Employee Stock Ownership Plan (ESOP), which shares some similarities with the UK’s Employee Ownership Trust. An ESOP is an employee benefit plan that provides workers with an ownership interest in the company. The popularity of ESOPs in the USA can be partly attributed to several tax incentives.^{lxv}

Interventions and actions can be delivered at the state level in the USA. For example, the state legislatures of Colorado and Washington have recently enacted laws that expand tax incentives to encourage employee ownership.^{lxvi} The Colorado Employee Ownership Office established a network of training, support, education, and consulting for businesses considering employee ownership structures. The office brings together partners, including employee owned businesses, attorneys, financial and accounting professionals, and other employee ownership organisations.^{lxvii}

There are some employee owned firms and worker co-operatives in Canada, but they are in relatively small numbers (with the exception of Quebec, where the sector is more substantial).^{lxviii} However, Canada has recently brought in various incentives for businesses to move to an EOT regime. These were announced in the 2023 Federal Budget, and then followed up with additional tax changes, introduced in 2024, to encourage business owners to consider an EOT as a viable business succession option.^{lxix}

In Australia, the tax system is arguably not as conducive to the EOT model as the UK or Canada, with the Employee Share Scheme (ESS) and ESOP models more common among businesses.^{lxx} The Australian Tax Office provides various tax incentives to promote these models.^{lxxi} These include, subject to certain conditions: employees can receive a tax-free discount up to 15% on share purchases; shares held for at least 12 months may be eligible for a 50% discount on capital gains.

Employee ownership is not restricted to English speaking countries. For example, Emilia Romagna, a region of Italy, is notable for its relatively high concentration of employee owned co-operatives,^{lxxii} while the Basque region of Spain has a strong culture of co-operatives and employee ownership (especially within the Mondragón Corporation).^{lxxiii}

Options for Northern Ireland

Even with anticipated substantial growth over the next decade, employee owned businesses are expected to remain a modest segment of total businesses locally. Nonetheless, alongside other companies in the democratic economy - such as cooperatives, mutuals, and building societies, the grouping are significant and can play a role in the achievement of DfE's Economic Vision.

In the UK, as noted above, both Wales and Scotland governments have recognised the benefits of employee ownership and have set up organisations to support and promote this business model. Employee Ownership Wales / Cwmpas,^{lxxiv} offers fully funded start-to-finish support through a specialist team of advisors, whilst Scottish Enterprise^{lxxv} through Co-operative Development Scotland, has also been actively promoting employee ownership through its dedicated program of advice and support. Both organisations aim to grow the sector by raising awareness of its benefits, providing or arranging practical support to businesses, and informing policy. Northern Ireland is clearly lagging behind the rest of the UK in terms of its share of employee owned businesses, but it does show the potential for growth in Northern Ireland and what is possible in a relatively short space of time.

There is scope to increase local activity and interventions in this space. There has been a general lack of awareness and publicity regarding employee ownership in Northern Ireland. However, that may be changing. As more firms become employee owned then the model becomes more familiar, and this will be aided by word of mouth. Seminars, such as the Ownership Succession Events held in June 2024 were well attended at the various host locations in Northern Ireland (Newry, Cookstown and Belfast). The Economy Minister made an opening speech at the Belfast session and the event received notable media coverage.^{lxxvi}

In addition to awareness and publicity, businesses would likely welcome additional advice and support throughout the decision making, implementation and post-transition phases of moving to employee ownership.

NIBusinessInfo provide advice on selling a business, including via the employee ownership option and this information can be accessed at: [Selling your business | nibusinessinfo.co.uk](https://nibusinessinfo.co.uk). As alluded to above, employee ownership may not be a perfect fit for all firms. It is essential that businesses consider the best structure for them, given their circumstances and aims. NIBusinessInfo advises that both the business owner and employees will need professional advisers such as solicitors and accountants to help negotiate the buyout. If an employee trust is being set up, the trustees also need advice.^{lxxvii} The owner, employees and trustees all need independent advice as their interests are not necessarily the same.^{lxxviii}

Local businessman, Aidan O'Neill, is the founder of the DLD Fund and has helped inform this research, especially as to the current state of play of the local employee ownership landscape.^{lxxix} The DLD Fund are keen to support and encourage the growth of employee ownership within Northern Ireland (through the EOT model). The DLD Fund has devised a process which will support up to twenty companies based here, who seriously want to explore what

employee ownership and an EOT exit route would look like. Initial indications are that there is healthy interest in the fund, amongst prospective firms, thus far. Further information is available at: [DLD Fund](#).

Invest NI have informed us that they are supportive of the employee ownership model and recognise the timely opportunity for many Northern Ireland businesses owners to consider the option within their succession planning and therefore the need to increase awareness of employee ownership across the local business community. Invest NI applaud Aidan O'Neill and the DLD Fund for championing employee ownership and making the initial investment to test the model in Northern Ireland. The benefits of employee ownership are well documented and over and above the financial gains; there is a significant impact on maintaining good jobs within the Northern Ireland economy. Invest NI can currently provide support through the existing client engagement model, raising awareness via Client Facing Workshops and the Leadership Programme. However, Invest NI reflect that other longer-term options may be worthy of consideration, including an Employee Ownership Voucher scheme that will enable business owners the option to avail of a pool of employee ownership experts. Invest NI will continue to work in collaboration with relevant stakeholders in shaping and delivering appropriate employee ownership transitional solutions.

It is important to note that while DfE and its delivery partners have a number of support options available to help remove barriers to employee ownership, some powers, including relevant taxation (capital gains tax, income tax, national insurance, etc) reside with the UK Government.^{lxxx}

Beyond government efforts, there is also an opportunity for non-governmental organisations to step up, including those in finance and banking, legal and accountancy. A paper by Andrew Pendleton, Andrew Robinson, and Graeme Nuttall, published in 2023 notes that: *"The powerful incentives for business owners to exit using the EOT model has also put employee ownership onto the agenda of professional advisers since arguably it would be negligent not to draw attention to the EOT with clients who are seeking to sell their business."*^{lxxxi}

The wider social economy has an important role to play, to achieve the Economic Vision.^{lxxxii} DfE has initiated setting up a Social Enterprise Group consisting of practitioners and has outlined plans in the DfE Research Programme 2024-27, research being taken forward to estimate the social enterprise sector in Northern Ireland and identify the main barriers to growth for the sector as a whole.^{lxxxiii}

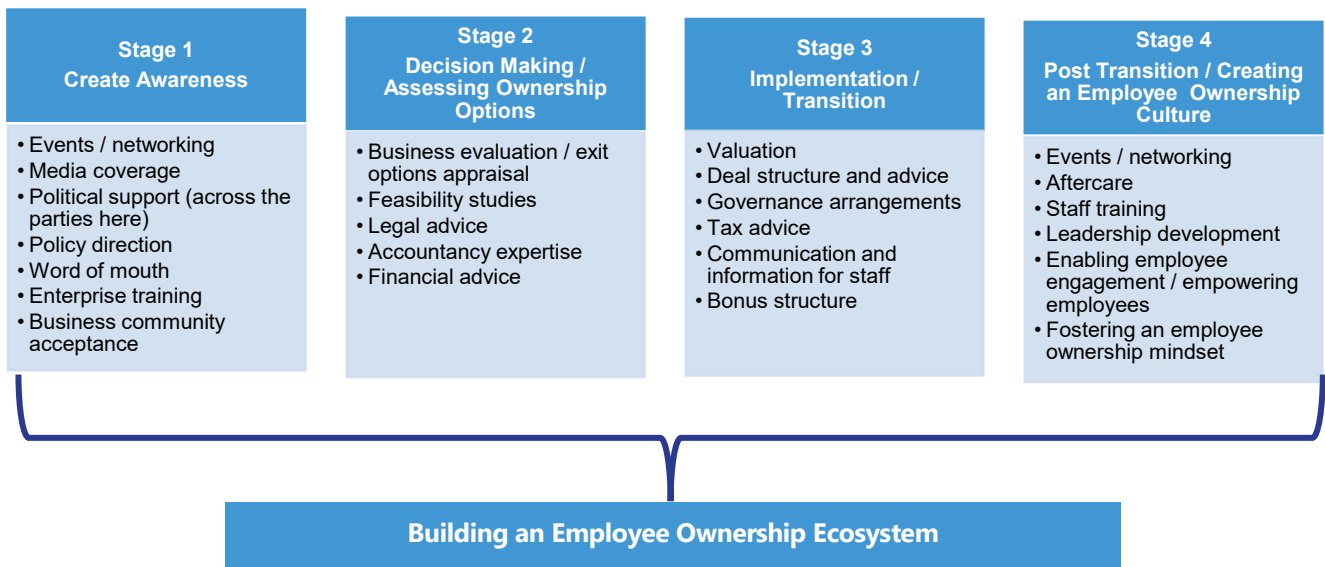
As noted above, one local employee owned business that we spoke to recommended a local network be set up and maintained. Such a network would principally assist employees of a newly transitioned company, many of which would be unfamiliar with the business model and the scope for change. As the number of employee owned businesses in Northern Ireland grows, this network could become a sizeable and diverse forum, where local people share experiences and ideas.

Thomas Dudley is cofounder and CEO of Certified Employee Owned, while Ethan Rouen is an assistant professor at Harvard Business School. In an article for the Harvard Business Review, they discuss the need for firms to build an employee ownership culture within the business. They state: *"Typically, this begins with a celebration announcing the*

new ownership opportunity. But as all business leaders know, cultural change requires dedication. There are many ways that employee-owned companies can help their people think and act like owners. Common activities include regular education on the rights and responsibilities of ownership, financial literacy training, recognizing individuals who act with an ownership mentality, and changing organizational processes to give employee-owners an increased role in day-to-day decision-making.”^{lxxxiv}

Figure 4 below sets out a range of options for improvements and capacity building, at various stages of the employee ownership process. If the Department for the Economy and/or its partners were to set up or utilise a dedicated team, say with a remit to further grow the numbers of employee owned companies in Northern Ireland, the advice imparted could be delivered via in-house consultants, or by linking firms up with knowledgeable third parties. It should be noted that some of these options explored below may not necessarily mean interventions that are government-led. This is especially important in such times of budgetary restraint within the public sector.^{lxxxv}

Figure 4: Range of Options - Scope for Improvements and Capacity Building, at Various Stages



When considering government measures to promote employee ownership, it is important to ensure that such interventions complement rather than replicate existing meritorious initiatives within civil society. The success of government intervention through assistance to the private, voluntary or community sectors is usually assessed in terms of its 'additionality'.^{lxxxvi}

Monitoring the performance of employee owned businesses in Northern Ireland over time is advisable³, including tracking the growing number of employee owned businesses in Northern Ireland as they get announced.⁴

³ Some possible information / metrics for capture include: the transition day; EOT-status or other; employment levels; turnover; staff bonuses; working conditions; payback time period; etc.

⁴ While many businesses that transition to employee ownership tend to make a public announcement, some may choose not to.

Furthermore, as employee owned businesses get more established in Northern Ireland there is potential for further research, that delves deeper than the scope of this work, perhaps capturing the perspectives of the employees themselves, alongside, those of former owners and other stakeholders. Once the employee owned companies are trading for a few more years, longitudinal studies / analysis might be possible.

Consideration should be given as to whether there would be merit in setting a target(s), either soon or sometime in the future, to be achieved by a given date. However, any target would ideally need to be rigorously informed by evidence and understanding for what is achievable, built on a well-established baseline and be commensurate with the scale of any interventions to be provided. In line with best practice, any objectives / targets generated should be SMART - Specific, Measurable, Achievable, Relevant and Time-constrained.^{lxxxvii} Like many things however, target setting can have its advantages and its disadvantages.^{lxxxviii} If a target is adopted, it can be best to focus on delivery of wider outcomes on the ground, than on narrow outputs, as such.

Contextually speaking, even if rapid growth is achieved locally, employee owned firms are likely to represent a modest fraction of the overall business landscape in Northern Ireland, in the near future at least. It is important also, to be mindful that employee ownership is only one model within the democratic economy. Moreover, there are numerous other broader DfE policies to help achieve DfE's Economic Vision (skills, R&D, exports, employment regulations, etc), but within this broader framework, employee ownership can also play a role. Once established, employee owned businesses have the potential to deliver lasting benefits to their employees and local communities for years to come.

Conclusion

There is scope for rapid growth of employee ownership in Northern Ireland, offering a pathway to enhanced employee engagement, job satisfaction, and economic resilience. While the transition to this model involves navigating intricacies such as legal structuring, financing, and governance, the potential rewards may justify the effort. With the right support and infrastructure, employee ownership can contribute to a more inclusive economy and sustainable business practices, ensuring that companies thrive while equitably sharing success among those who contribute to it. As research continues and more case studies emerge, the role of employee ownership in achieving economic and social objectives will become clearer, potentially shaping the future of business ownership and governance.

Locally, employee owned businesses are small in number currently, however if this increases notably, then collectively they have the potential to assist in achieving the Economic Vision of Good Jobs, regional balance, raising productivity and reducing carbon emissions.

This article has summarised the main aspects of employee ownership in Northern Ireland, based on the best information available at the time. However, it does not constitute professional business advice - company owners and employees should seek detailed expert advice and guidance before considering the employee ownership route.

The authors of this research article greatly appreciated the contributions of those involved in employee ownership in Northern Ireland and further afield, who have helped inform this paper. In particular: People 1st, Relinea, S&W Wholesale; White Ink Architects; DLD Fund, Cwmpas (Wales), Scottish Enterprise, Employee Ownership Association, Professor Andrew Pendleton, the Oxford Symposium on Employee Ownership 2024 and Graeme Nuttall OBE.

Roy Mitchell & Fiona Bell

For further information or queries please contact Roy.Mitchell@economy-ni.gov.uk and Fiona.Bell@economy-ni.gov.uk.

-
- i [Employee ownership businesses - GOV.UK \(www.gov.uk\)](#)
- ii [Employee Ownership in the UK – Pendleton, Robinson & Nuttall](#)
- iii [Celebrating-10-years-of-employee-ownership.pdf - 2022-08-31-Nuttall-G.- \(employeeownershipwales.co.uk\)](#)
- iv [Employee Ownership Manifesto](#)
- v [Employee Ownership Manifesto](#)
- vi [Co-operative and Mutual Economy 2023-web.pdf \(uk.coop\)](#)
- vii [Employee ownership businesses - GOV.UK \(www.gov.uk\)](#)
- viii [Employee Ownership in the UK – Pendleton, Robinson & Nuttall](#)
- ix [All About EO Types](#)
- x [Employee ownership businesses - GOV.UK \(www.gov.uk\)](#)
- xi [Outsourced acc - employee-ownership-trusts](#)
- xii [Gov.uk - Moving to Employee Ownership](#)
- xiii [Tax Incentives for Employee Ownership Trusts](#)
- xiv [Would you sell your business to your staff? \(ft.com\)](#)
- xv [Employee Ownership in the UK – Pendleton, Robinson & Nuttall](#)
- xvi [Finance best practice in moving to an employee ownership trust - FM \(fm-magazine.com\)](#)
- xvii [Employee Ownership Manifesto](#)
- xviii [Employee Ownership Trusts: Their place in business succession planning | Azets UK](#)
- xix [Employee ownership trusts | Crowe UK](#)
- xx [Gov.uk - Taxation of Employee Ownership Trusts and Employee Benefit Trusts.](#)
- xxi [Celebrating-10-years-of-employee-ownership.pdf 2022-08-31-Nuttall-G.- \(employeeownershipwales.co.uk\)](#)
- xxii [Employee ownership trusts: the pros and cons \(penningtonslaw.com\)](#)
- xxiii [Employee Ownership Trusts \(EOT\) – What are they and how do they work? - IBB Law](#)
[Sammy Wilson blasts Wiggle Chain Reaction Cycles job cuts as a 'betrayal' | BelfastTelegraph.co.uk](#)
- xxiv [Employee ownership trusts: the pros and cons \(penningtonslaw.com\)](#)
- xxv [Advantages of an employee buyout | nibusinessinfo.co.uk](#)
- xxvi [Employee Ownership Trusts \(EOT\) – What are they and how do they work? - IBB Law](#)
- xxvii [Employee Ownership Manifesto](#)
- xxviii [can the productivity crisis be reversed with employee ownership? \(thehrdirector.com\)](#)
- xxix [Exploring the Potential of the Employee Ownership Business Model | WPI Economics](#)
- xxx [Reversing the £1billion cost of workplace conflict | Labour Relations Agency - Official \(lra.org.uk\)](#)
- xxxi [The employee ownership advantage: benefits and consequences \(publishing.service.gov.uk\)](#)
- xxxii [Statement from Minister Murphy - economic vision | Department for the Economy \(economy-ni.gov.uk\)](#)
- xxxiii [EO Knowledge Programme \(employeeownership.co.uk\)](#)
- xxxiv [Exploring the Potential of the Employee Ownership Business Model | WPI Economics](#)
- xxxv [Employee ownership: what are my options? - FTAdviser](#)
[Employee share plan returns - are you ready to file? | The RM2 Partnership](#)
- xxxvi [Would you sell your business to your staff? \(ft.com\)](#)
- xxxvii [Employee ownership: what are my options? - FTAdviser](#)
- xxxviii [What is an Employee-Owned Business? All You Need to Know - Small Business Kings | SBK](#)
[What are employee ownership trusts? | Insider Media](#)
- xxxix [Employee ownership trusts: the pros and cons \(penningtonslaw.com\)](#)
- xl [Can employee-owned firms afford to stick to their principles? - Raconteur](#)
- xli [EIM03052 - Employee Ownership Trusts: qualifying bonus payments: definition - HMRC manual \(www.gov.uk\)](#)
- xlii [Is My Company Too Small for an EOT? | The RM2 Partnership](#)
[ibblaw - employee ownership trusts](#)
- xliiii [Northern Ireland Business; activity, size, location and ownership, 2023. NISRA.](#)
[Business population estimates for the UK and regions 2023: statistical release - GOV.UK \(www.gov.uk\)](#)
- xliv [Exploring the Potential of the Employee Ownership Business Model | WPI Economics](#)

-
- xlv [Construction News/ Are employee ownership trusts a flawed model](#)
- xlvi [Paul Prenter of Grant Thornton: The rise of the Employee Ownership Trust model in Northern Ireland | BelfastTelegraph.co.uk](#)
- xlvii [Power to the people: Employees take ownership of Northern Ireland engineering company \(newsletter.co.uk\)](#)
- xlviii [Employee-ownership-trust-people-1st-embarks-on-exciting-new-ownership-structure](#)
- xliv [Relinea | Employee Ownership](#)
- l [One Whole Year of Being an EOT Business | News | S&W Wholesale \(savageandwhitten.com\)](#)
- li [We've become an EOT! - Whiteink Architects](#)
- [Becoming an employee-owned company – White Ink Architects | nibusinessinfo.co.uk](#)
- lii [Belfast vets - employee-ownership-trust](#)
- liii [S&W Announce Innovative New Business Structure | News | S&W Wholesale \(savageandwhitten.com\)](#)
- liiv [Our services - Cwmpas](#)
- liv [Support and advice for businesses in Scotland | Scottish Enterprise \(scottish-enterprise.com\)](#)
- lvi [Welsh Government on track to double the number of employee owned businesses in Wales | GOV.WALES](#)
- lvii [Not your 'run of the mill' business model! | Welsh Government News](#)
- lviii [Scottish Enterprise on track to meet 2030 employee ownership target \(scottish-enterprise-mediacentre.com\)](#)
- [Scottish Employee-owned Business Census 2024 – Co-operative Development Scotland \(cdsblog.co.uk\)](#)
- lix [London Ownership Report \(london.gov.uk\)](#)
- lx [Ireland urged to follow UK in encouraging employee ownership | Irish Legal News](#)
- lxi [Wolfgang Digital - employee-ownership-trust](#)
- lxii [Our employee ownership journey | Seetec Ireland](#)
- lxiii [Employee Ownership by the Numbers | NCEO](#)
- lxiv [Employee Ownership by the Numbers | NCEO](#)
- lxv [How an Employee Stock Ownership Plan \(ESOP\) Works | NCEO](#)
- lxvi [Colorado and Washington Expand Tax Credits for ESOPs | BDO | BDO](#)
- lxvii [Colorado Employee Ownership Office | Colorado Office of Economic Development and International Trade](#)
- lxviii [Expanding democratic employee ownership in Canada: policy options | Canadian Centre for Policy Alternatives](#)
- lxix [Employee ownership trusts: Another business succession alternative | BLG](#)
- lxx [Meld Studios first to introduce employee ownership by an Employee Ownership Trust \(EOT\) EOA Press Release 27 May 2021 - \(1\) \(hubspotusercontent20.net\)](#)
- lxxi [Employee Share Option Plans \(ESOPs\) - BoardRoom \(boardroomlimited.com.au\)](#)
- lxxii [Expanding democratic employee ownership in Canada: policy options | Canadian Centre for Policy Alternatives article-logue.pdf \(socioeco.org\)](#)
- lxxiii [Mondragón Corporation – Employee Ownership : Wellbeing Economy Alliance \(weall.org\)](#)
- lxxiv [Employee Ownership Wales](#)
- lxxv [Scottish Enterprise - Employee Ownership](#)
- lxxvi [Staff can turn succession into success as employee ownership gathers momentum in NI \(newsletter.co.uk\)](#)
- [Employee Ownership Gathers Momentum In NI - Business Eye](#)
- lxxvii [Help and advice for employee buyouts | nibusinessinfo.co.uk](#)
- lxxviii [Help and advice for employee buyouts | nibusinessinfo.co.uk](#)
- lxxix [Employee Ownership - DLD Fund](#)
- lxxx [Devolution settlement: Northern Ireland - GOV.UK \(www.gov.uk\)](#)
- lxxxi [Employee Ownership in the UK – Pendleton, Robinson & Nuttall](#)
- lxxxii [Statement from Minister Murphy - economic vision | Department for the Economy \(economy-ni.gov.uk\)](#)
- lxxxiii [DfE Research Programme 2024-27 | Department for the Economy \(economy-ni.gov.uk\)](#)
- lxxxiv [The Big Benefits of Employee Ownership \(hbr.org\)](#)
- lxxxv [Executive agrees 2024-25 Budget | Department of Finance \(finance-ni.gov.uk\)](#)
- lxxxvi [Better Business Cases NI | Department of Finance \(finance-ni.gov.uk\)](#)
- lxxxvii [Better Business Cases NI | Department of Finance \(finance-ni.gov.uk\)](#)
- lxxxviii [targets-public-services.pdf \(instituteforgovernment.org.uk\)](#)