

SUBMISSION FROM THE JOHN LEWIS PARTNERSHIP

1. The John Lewis Partnership welcomes the opportunity to submit written evidence to the Economy, Energy and Tourism Committee's inquiry into the Scottish labour market.
2. The Partnership is the largest employee-owned business in the UK, operating 3 John Lewis shops, 7 Waitrose supermarkets, and a contact centre in Scotland, alongside johnlewis.com and waitrose.com.
3. The Partnership welcomes the Scottish Government's commitment to six strategic priorities, as outlined in the *Government Economic Strategy* published in 2011. In particular, the focus on improving productivity and strengthening sustainable economic growth – aspirations which the Partnership seeks to support.

The changing labour market

4. When the UK economy was in recession in the early 1980s and again in the early to mid-1990s, productivity continued to grow. However during the most recent recession productivity has suffered a dramatic slowdown and has not yet recovered.¹
5. In the 10 years prior to the economic crisis, growth in hours worked accounted for 23% of overall economic growth with the other 77% of growth accounted for by growth in productivity. Since 2013 however, the equivalent figures are 91% from hours growth and 9% from productivity growth.²
6. Data suggests that the UK faces a structural challenge of skills mismatching – both in the underuse of skills and skills gaps. Almost half of employers in the UK have staff with skills and qualifications beyond those required for their job, equating to 4.3 million workers.³ Ensuring employees' existing skills are used effectively is a key challenge for the UK economy.

Improving productivity is key to long-term growth and wage increases

7. Based on projections by the Scottish Government, increasing Scotland's total factor productivity by an additional 0.1% a year over a 10 year period could boost GDP by 1.3%, employment by 11,000 and tax revenue by £400 million.⁴ Alongside policy changes in the economy at large – infrastructure investment and a well-funded skills system - specific measures to improve productivity will also be required in individual sectors to help meet these projections.
8. A key factor holding back productivity and performance in retail is a lack of progression opportunities for workers in modestly paid jobs, who dominate

¹ Office for National Statistics, *Labour Productivity: historical data*

<http://www.ons.gov.uk/ons/rel/productivity/labour-productivity/q1-2014/info-labour-productivity-historical-data.html>

² Sir Jon Cunliffe, Bank of England, 22 June 2015. Speech to the Automotive Fellowship international dinner

³ UKCES, *The Labour Market Story: An Overview*, p.8

https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/343448/The_Labour_Market_Story_-_An_Overview.pdf

⁴ Scottish Government, *Benefits of improved economic performance*, <http://news.scotland.gov.uk/Multimedia-Library/Benefits-of-improved-economic-performance-d37.aspx>

employment in the sector. Given the labour intensity of the industry, along with advances in technology in the sector, there is much to gain in focusing on creating good jobs and progression pathways that recognise and support employees to use and develop their talents. Practical action from businesses at a grass roots level will be key to addressing this, supported by a strong partnership with the Scottish Government to address practical barriers to concerted action.

9. In most economies, between 5 and 12 per cent of all employees work in retail, and an even higher share when wholesale is included.⁵ Addressing the productivity shortfall in the retail sector could therefore have a significant impact on overall productivity growth in Scotland.
10. The Partnership uses a 'pay for performance' approach whereby, rather than spot rates, we use wide pay ranges for each role in John Lewis and Waitrose branches. This is to enable Partners' (employees') improved performance to be recognised in their hourly pay. This is a crucial aspect of the Partnership's employment approach, and ensures that the proceeds from improvements in productivity can be returned to Partners in their hourly pay.
11. The Partnership's employee-owned model, discussed in more detail below, is a key factor in driving productivity in the business. Evidence shows that productivity increased 4.5% year-on-year in employee-owned businesses.⁶ This can be partly attributed to the propensity for employee-owned businesses to take a long-term view in decision making, whilst engaging employees in driving sustainable business growth.

Employee ownership can help create sustainable economic growth

12. Employee-ownership can play an important role in tackling the linked challenges of improving productivity and creating sustainable economic growth, and the sector makes an important contribution to the Scottish economy. There are currently 71 employee-owned businesses and worker co-operatives in Scotland, with approximately 6500 employees and £900 million turnover.⁷ Across the UK the sector is growing at an annual rate of almost 10% per year.⁸
13. Employee owned businesses typically report higher levels of employee engagement and wellbeing as a result of their model. Survey data shows that more than 80% of employee-owners strongly agreed with the proposition that employee ownership makes employees 'more committed to company success' and over 80% either agreed or strongly agreed with the proposition that employee ownership leads to employees holding 'more responsibility'.⁹

⁵ MGI, *Can long-term global growth be saved?* http://www.mckinsey.com/insights/growth/can_long-term_global_growth_be_saved, p.70

⁶ Employee Ownership Association, *The economic case for EO*, <http://employeeownership.co.uk/resources/facts-and-figures/>

⁷ Co-operative Development Scotland, September 2015.

⁸ Employee Ownership Association, *Employee ownership: impact report*, <http://employeeownership.co.uk/wp-content/uploads/The-Impact-Report.pdf>, p.15

⁹ JOL, *Good business: the employee ownership experience*, http://employeeownership.co.uk/wp-content/uploads/Good_Business_The_employee_ownership_experience.pdf

14. The Partnership's employee-owned model means the business has democratic channels embedded at all levels of the business – from PartnerVoice representatives in each John Lewis and Waitrose branch, to the elected divisional Councils for John Lewis and Waitrose.
15. The overall democratically elected body – Partnership Council - represents Partners as a whole and is the voice for ensuring that the business is run for and on behalf of Partners. The Council has an important role in influencing Partnership policy and how our profits are spent. It has the power to discuss, to ask questions, and to make recommendations on any subject. The Partnership's Chairman appears before the Council twice a year to answer questions on the running of the business and the Partnership Council is responsible for holding the Chairman to account.
16. The Partnership Board has ultimate responsibility for developing and reviewing major policy decisions and allocating the Partnership's resources. It consists of a mix of appointed and democratically-elected Partners. The current Board includes:
 - The Chairman
 - Executive Directors, including the Managing Directors of John Lewis and Waitrose, the Group Finance Director and the Personnel Director
 - Three Non-executive Directors, who bring extensive external expertise
 - Five Elected Directors – Partners from across the business who sit on the Board in addition to their existing roles
 - The Partners' Counsellor, who is responsible for democratic engagement and ensures the independence, health and effectiveness of the Partnership's representative bodies
17. Each year the Partnership distributes a proportion of profits equally to Partners as a percentage of salary. In 2014 Partners received 11% of salary in bonus – equivalent to approximately 6 weeks' pay. 20 - 25% of bonus paid to Partners is spent at shops in the same local authority area, strengthening the local economies in the areas where the Partnership trades.
18. In addition, after converting to employee ownership:
 - 70% of companies report increased quality in terms of the goods and services they provide
 - 57% report better labour productivity
 - 55% report better financial performance¹⁰
19. In light of the body of evidence in support of employee ownership, the Partnership is working with Scottish Enterprise and the Royal Bank of Scotland to host a free conference in Edinburgh on Monday 26 October for businesses who are interested in adopting the employee ownership model. The conference –

¹⁰ White Rose Centre for Employee Ownership and the Employee Ownership Association, *Employee ownership in Britain*, <http://employeeownership.co.uk/wp-content/uploads/Employee-Ownership-In-Britain.pdf>

Inspire EO Scotland - will provide insights into the different models of employee ownership and how business owners can adopt the model. Further information can be found at: www.inspireeo.co.uk