

**Some comments as foreword to Andrew Pendleton & Andrew Robinson article,  
Employee ownership trusts: an employee ownership success story  
International Review of Applied Economics, 11 March 2025**

March 13, 2025

To Andrew Pendleton & Andrew Robinson

Dear Andrews,

Thank you very much for your new success story.

We are happy to confirm most of your findings and interpretations.

We can only point out two small points of disagreement:

- Denmark: The EO company status in Denmark is in no way similar to an EOT. The comparison would be better with the *sociedades laborales* status in Spain. The effectiveness of the Danish and Spanish systems is minimal compared to that of the EOT. To be forgotten.
- Would you please note that our name is "European Federation of Employee Share Ownership" and not "European Federation of Employed Shareholders" as you are mentioning.

This is not just a detail. When I was invited in the late nineties to take part to the setting up of a European organization, the first idea came from France and it was about an organization "of employed shareholders". However it quickly appeared that such definition was not inclusive enough, this would have locked us into a Franco-French logic which was not ours. Robert Oakeshott was the most attentive to this point. That is why, along with Robert and most of the others, we chose the name "European Federation of Employee Share Ownership", considering it to be more inclusive than a federation "of employee ownership".

Finally, we would be happy to know how we could access the White Rose database or equivalent?

With best regards

Marc

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The EFES' objective is to act as the umbrella organization of employee owners, companies and all persons, trade unions, experts, researchers, institutions looking to promote employee ownership and participation in Europe.

# Employee ownership trusts: an employee ownership success story

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## ABSTRACT

Since its creation in 2014, the employee ownership trust (EOT) has become a widespread form of employee ownership in the UK, and has transformed the country's employee ownership scene. Given that it is over a decade since its inception into UK legislation, and with the EOT now firmly established as a key business succession tool, it is timely to take a closer, critical look at the role, characteristics, and potential dangers of the UK EOT model. This paper will briefly outline and discuss the key characteristics of EOTs, how the EOT came about, and why it has been so successful. Using several unique data-sets of UK employee-owned businesses, it will profile key features of EOTs, and show how the flexible approach of the EOT provides the potential to sidestep many of the obstacles faced by other forms of employee ownership.

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## 1. Introduction

Since its creation in 2014, the employee ownership trust (EOT) has become a widespread form of employee ownership in the UK and has transformed the country's employee ownership scene. Year on year figures show ever-increasing numbers of company's transitioning to employee ownership using this indirect, trust-based approach. Further afield, the UK model has underpinned the promotion of employee-ownership in Australia, Denmark and Canada, with the latter introducing its own EOT legislation in 2023.

Given that it is over a decade since its inception into UK legislation and with the EOT now firmly established as a key business succession tool, it is timely to take a closer, critical look at the role, characteristics, and potential dangers of the UK EOT model. This paper will briefly outline and discuss the key characteristics of EOTs, how the EOT came about, and why it has been so successful. Using several unique data-sets of UK employee-owned businesses, it will profile key features of EOTs, and show how the flexible approach of the EOT provides the potential to sidestep many of the obstacles faced by other forms of employee ownership. That said, such flexibility can provide some dangers and challenges to effective employee ownership. The chapter proceeds by considering

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these dangers and how they can be addressed. It concludes by addressing concerns amongst some EO advocates that the EOT is not a 'true' form of employee ownership because capital is not transferred to individual employees.

The paper draws on several data sources generated by the White Rose Employee Ownership Centre's<sup>1</sup> programme of research into EOTs and employee-owned businesses. Each year prior to 2024 the Centre conducted an annual census of the UK employee-owned sector, primarily using company records deposited at Companies House. This generated information on numbers of employee-owned companies, their sector of activity, and their employment. These results were used by the UK Employee Ownership Association for the annual Employee Ownership Day celebrations. The census is referred to here as the White Rose Employee Ownership Census.<sup>2</sup>

These data are supplemented by a series of company-level surveys conducted from 2020 onwards. These surveys collected information on ownership and governance characteristics, as well as features of the conversion process. Questions on these topics, which have been core to each version of the survey, have been supplemented by additional questions specific to each survey. The 2020 survey, for instance, had a substantial section asking questions about how employee-owned companies responded to Covid. Three surveys are drawn upon in the paper: The White Rose Employee Ownership Survey 2020 (conducted in late 2020/early 2021) of all firms believed to be employee-owned, the White Rose Employee Ownership Survey 2021 of firms believed to have become employee-owned in 2020 and 2021, and the White Rose Employee Ownership Survey 2022 of firms believed to have converted to employee ownership since the 2021 survey. The dominance of the EOT in recent employee ownership conversions means that the 2021 and 2022 surveys are almost entirely composed of EOTs. Analysis in the paper is restricted to EOTs, with the combined number of observations from the surveys drawn upon in the paper being 331 (2020–176; 2021–41; 2022–114). Where the survey data can be pooled, it is referred to as the White Rose Employee Ownership Surveys.

## 2. The EOT: characteristics

The Employee Ownership Trust was developed out of the Nuttall Review (2012), created by the Conservative-Liberal Coalition Government to consider the obstacles to employee ownership and recommend solutions to them. This review noted several significant obstacles to the formation of employee-owned firms in the UK, including a lack of knowledge and awareness of EO amongst professional advisers, companies, and Government, a lack of resources such as finance to support EO, and the complexities of the regulatory framework. The EOT, recommended by the review, is not a new concept as such but is a development of existing forms of employee benefit trusts and employee ownership exemplified by the John Lewis Partnership (Salaman and Storey 2016). The novelty, and success, of the EOT owes much to its regulatory simplicity and flexibility, along with the tax advantages associated with it. It provides an attractive long-term, stable solution to business succession issues, and this helps to explain much of its growth and success.

The EOT is an indirect and collective form of ownership whereby ownership is passed to a discretionary trust with employees as the beneficiaries. The specific regulatory and tax features of EOTs were established by the Finance Act 2014. Business owners who sell

their ownership to an EOT are exempt from capital gains tax and inheritance tax liabilities on the growth in value of their shares, as long as a controlling interest (i.e. more than 50%) of the ownership is passed to the Trust. Employees must be beneficiaries on similar terms, with those holding a 5% stake or more over the previous ten years excluded from the beneficiaries. Those holding 5% shareholdings, or occupying a directorship position, must not exceed 2/5ths of the number of employees.

Employees typically receive benefits from returns and control. They may receive bonus payments of up to £3600 per annum free of income tax, this amount being the same as that for the issue of Free Shares in Share Incentive Plans. These payments must be made to all eligible employees (usually those meeting a minimum length of employment) either equally or on equal terms linked to salary, tenure or hours of work. The shares are held by the trust on behalf of employees and employees do not become individual share owners unless there is a share scheme operating alongside but separately from the EOT. The EOT itself does not allocate shares, and hence there are not individual capital or equity accounts.

In terms of control rights, the company is controlled by the EOT Trust with the rights and responsibilities of the trust established in the company and trust Articles of Association and the Trust Deed. In most cases, the EOT trust is established as a company limited by guarantee (typically set at a minimal level such as £1), whereby the members of the company are responsible for the company's debts up to the level of the guarantee. This is a common company form adopted by not-for-profit organisations and some worker co-operatives. The directors of the EOT trust company are also referred to as the trustees. The trust directors have a fiduciary duty to act in the best interests of the employee beneficiaries. During the transaction, it is common to also create a holding company between the trading company and the EOT trust so that any changes to the structure of the trading company, or the creation or acquisition of additional trading companies, does not require formal alterations to the Articles of the trust company.

The formation of the EOT involves a transfer of ownership (either in full or in part) from the existing owner(s) to the trust. A key issue, as in any employee ownership conversion, is how the trust finances the acquisition. The trust could borrow the monies to acquire ownership from external financiers in the form of debt finance (equity cannot be used) secured against the assets or future income flows from the trading company. Instead, nearly all EOTs involve a staged buy-out whereby the owner agrees to take their consideration for the company over a period of years even though the ownership transfer takes place up-front. The White Rose Employee Ownership Surveys find that 89% of EOT conversions are brought about using deferred consideration secured against future income flows, and that the average payment term is 6.4 years (median = 6 years). The departing owner may well take a discount on the market value of the firm though our data indicates that two-thirds of transactions take place at market value. Equally, there has been little to prevent owners ratcheting up the sale price of the company above market value so as to maximise their returns though the evidence to date suggests this does not appear to have been widespread.<sup>3</sup>

The conversion process is typically initiated by the departing owner. It is they who usually establish the trust and initiate a valuation of the company. Unlike US ESOPs, there is no requirement for the trust to make its own valuation, and usually the valuation initiated by the owner serves both parties. As a result, it is desirable that the valuation is

conducted independently of the owner as far as that is possible. It is not uncommon for employees to have little or no role in the conversion process and may not even be aware of it until it has taken place. In some cases, even the top management team may not be involved until close to the transaction. The general consensus amongst professional advisers is that it is preferable that management and employees have some input into the conversion process given that they will be running the company or its beneficiaries henceforth.

The White Rose surveys have collected information on the extent of involvement and influence of various parties on the conversion to employee ownership. The dominance of the departing owner is clear, whilst in just over a third of cases employees have no influence or no involvement in the design of the ownership arrangements. Employee ownership experts and professional advisers have a substantial influence on the conversion process, commensurate with that of company directors. It is common for experts and advisers to become an independent trustee on the EOT trust after the conversion. [Table 1](#) provides further details.

We also enquired at what point employees are informed of the intention to transfer to employee ownership. In just under one-third of cases, employees were informed at the outset, with 78% receiving information before the process was complete. However, in 21% of cases employees were informed at time of, or even after, the transaction. [Table 2](#) provides further details.

In the White Rose Employee Ownership Survey 2022 we asked more detailed questions about employee involvement in specific elements of the ownership conversion. As [Table 3](#) shows, employees had little or no involvement in these various elements in most cases, though involvement tends to be greater in matters related to trust's role and composition and in governance after the conversion.

**Table 1.** Influence of stakeholders on the design of employee ownership (per cent of EOTs (rounded)).

|                           | No influence/not involved | A little influence | Fair amount of influence | Quite a lot of influence | Great deal of influence |
|---------------------------|---------------------------|--------------------|--------------------------|--------------------------|-------------------------|
| Founders/previous owners  | 3                         | 2                  | 4                        | 8                        | 83                      |
| Directors/senior managers | 10                        | 12                 | 14                       | 23                       | 41                      |
| Employees                 | 37                        | 25                 | 17                       | 12                       | 9                       |
| EO experts and advisors   | 6                         | 10                 | 18                       | 24                       | 41                      |

Source: White Rose Employee Ownership Surveys. Note that the first category is the sum of 'no influence' and 'not involved'.

**Table 2.** When were employees informed of the company's intention to become EO?

| Timing                          | Per cent of EOTs (rounded) |
|---------------------------------|----------------------------|
| At the beginning of the process | 29                         |
| Part way through the process    | 20                         |
| Towards the end of the process  | 29                         |
| When the company became EO      | 15                         |
| After the company became EO     | 6                          |

Source: White Rose Employee Ownership Surveys.

**Table 3.** How far were employees or their representatives involved in the design of ownership (per cent of EOTs (rounded)).

|   | No involvement at all | A little involvement | Fair amount of involvement | Quite a lot of involvement | Great deal of involvement |
|---|-----------------------|----------------------|----------------------------|----------------------------|---------------------------|
| Design of ownership structure           | 56                    | 25                   | 10                         | 7                          | 2                         |
| Content of Trust Deed                   | 64                    | 22                   | 6                          | 5                          | 2                         |
| Content of Articles of Association      | 63                    | 25                   | 5                          | 5                          | 2                         |
| Post-transition governance arrangements | 31                    | 30                   | 21                         | 11                         | 7                         |
| Trust composition                       | 42                    | 27                   | 13                         | 16                         | 2                         |
| Role of trustee board                   | 32                    | 27                   | 22                         | 15                         | 4                         |

Source: *White Rose Employee Ownership Survey 2022*.

**Table 4.** The role of the former owner (s) in the employee-owned business.

|                       | Per cent of EOTs (rounded) |
|-----------------------|----------------------------|
| Complete Exit         | 19                         |
| Retains some shares   | 29                         |
| Member of trust board | 73                         |
| Executive role        | 60                         |
| Non-executive role    | 9                          |
| Other                 | 4                          |

Source: *White Rose Employee Ownership Survey 2022*.

The EOT process gives considerable latitude as to the future involvement in the company of departing owners. They may decide to retain nearly half of the equity, and they may continue to occupy an executive role in the company. Alternatively, they may assume a non-executive role or walk away entirely from the trading company. It is common, however, for departing owners to become a trustee: it is in their interests to do so to protect the flow of deferred consideration and also to ensure that the company does not embark on a 'disqualifying event' that could mean that the owner would become liable for capital gains tax on the sale price. The *White Rose Employee Ownership Survey 2022* finds that exiting owners are EOT trustees in just under three-quarters of cases, and that they maintain an executive role in the company in 60% of cases. They sever their connections entirely with the company in 19% of cases. [Table 4](#) has further details. The role of departing owners on the EOT trust can be a source of concern that they exert undue influence on the trust and operating company especially if other trustees are connected (by family or professional ties) to them (see later).

To secure the CGT concessions associated with the EOT it is required that a controlling interest (50% plus) be passed to the Trust. A smaller proportion might be initially held by the EOT trust but such cases would not qualify for the tax concessions. In practice, the ownership transferred into the Trust is considerably higher, with the median ownership being 100%. [Table 5](#) provides the details.

**Table 5.** Levels of EOT ownership.

| Level of EO   | Per cent (rounded) |
|---|--------------------|
| Average level of employee ownership in EOT companies  | 86                 |
| Median level of employee ownership in EOT companies   | 100                |
| EOT firms that are 100% employee-owned via EOT        | 56                 |
| EOT firms that are 50% or more employee-owned via EOT | 99                 |

Source: *White Rose Employee Ownership Surveys*.

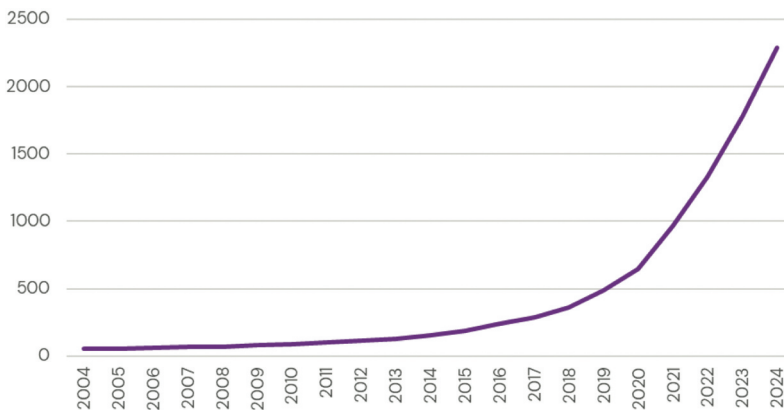
The EOT is a vehicle for business succession, and its success has derived from its benefits for this especially from an exiting-owner's perspective. EOT transactions to bring about business succession account for nearly all (certainly 95% plus) current employee ownership conversions. Some prior existing employee-owned firms have converted to EOTs, whilst Employee Benefit Trusts that meet the qualifying conditions for EOTs can be 'grandfathered' into EOTs.

### 3. Growth and distribution of EOTs

The EOT has enjoyed spectacular growth since the regulatory regime was introduced in 2014, though the precise number is not known as official statistics on the number of conversions are not published. Information on the incidence of EOTs can be derived from several sources, including press reports, official registration information, and Freedom of Information requests, though each has their shortcomings

The main means of collecting data on the number and incidence of EOTs involves searches of company records lodged with Companies House (the main official repository of corporate information required by statute in the UK). It is possible to search controlling ownership shares, formation of trust companies, references to EOTs in Articles of Association and annual accounts etc. A number of researchers have gone down this route, such as the White Rose Employee Ownership Centre and the European Federation of Employed Shareholders (2024). The limitation of this search approach is that businesses do not always lodge required documents to Companies House in a timely manner and that companies do not always call their EOTs by this name. Thus, EOTs may not show-up in searches or it may be some time before they are observable. As a result, estimates of the numbers of EOT using these methods may under-estimate somewhat the number of current EOTs.

With these provisos, the White Rose Employee Ownership Census has found an increasing number of new employee-owned businesses each year since 2014, with the rate of growth escalating over the period. [Figure 1](#) provides the cumulative number of employee-owned businesses each year: although this figure refers to all forms of



**Figure 1.** All employee ownership conversions (cumulative frequency). Source: eoa & White Rose Employee Ownership Centre, Employee Owned Business Register, December 2024.



conversion to employee ownership (excluding worker cooperatives) nearly 100% of all recent conversions are to EOTs. Provisional data from the Employee Ownership Association/White Rose Centre Business Register indicates that by January 2025, the number of EOTs is in the region of 2,000.

An alternative means of tracking the growth of EOTs is to submit Freedom of Information requests for information on the number of EOTs receiving Advance Clearance from the tax authorities. This derives from the ability to notify HMRC in advance of the EOT transaction so as to ensure that payments to departing shareholders from the EOT are not treated as taxable income and that payment from the company to the EOT are not subject to anti-tax-avoidance provisions. A FOI request by consultancy RSM in 2023 showed that the number of companies seeking clearance rose from 38 in 2019, to 100 in 2020, and then 383 in 2021 (see <https://www.rsmuk.com/insights/tax-voice/the-increasing-popularity-of-employee-ownership-trusts>). The shortcomings of this clearance information as a source of data on EOT conversions are that it pre-dates actual conversion and that some of those organisations receiving clearance may not proceed with the conversion. Equally, advance clearance has been voluntary so the figures can understate the number of EOT conversions that subsequently take place. As a result, these data do not provide an accurate indication of the number of EOTs at any one time, though they do highlight the increasing trend in EOT conversions. Change to EOT regulations in the autumn 2024 removed the benefit of seeking Advance Clearance, with the financial transfers covered by these Clearances proposed for statutory backing instead. As a result, these data on forthcoming conversions will not be available in future.

As can be seen, the number of EOTs has grown exponentially since 2018. Whilst the overall trend bears witness to the increasing legitimacy and acceptability of employee ownership (the EOT in particular) as a viable form of business succession and organisation, particular spurts in growth can be attributed to changes, or anticipated changes, in the taxation regime. The reduction in the lifetime allowance for Business Assets Disposal Relief (from capital gains tax on the sale of businesses) from 10 million to 1 million in March 2020 is likely to have contributed to the steep acceleration in the number of EOTs from 2021. Recently, speculation that EOTs might become subject to a more restrictive capital gains regime in the autumn 2024 Budget, along with known increases to CGT marginal rates, may be responsible for a 'spike' in EOT conversions in 2024. The COVID epidemic may also have had an influence on EOT growth in so far as an EOT could be an attractive option for business sales when revenues were depressed and the market for companies was muted.

In terms of the sectoral distribution of EOTs, the White Rose Employee Ownership Census found the top five sectors for employee-ownership in 2023 to be:

|                             |       |
|-----------------------------|-------|
| Professional Services       | 39.1% |
| Manufacturing               | 13.2% |
| Construction                | 12.5% |
| Wholesale & Retail Trade    | 11.6% |
| Information & Communication | 8.3%  |

Professional services, the largest category, cover the following sectors: 'professional, scientific and technical activities' as well as 'administrative and support service activities'. Notable sectors within professional services include architecture: by 2021, 110 chartered



architect firms had become trust-owned, nearly all using EOTs (Ing 2022). Clusters of EOTs within particular sectors suggests that mimetic effects are important, with converting firms following the example of others in their sector. Although there has been no research on mimetic effects in employee ownership conversions in the UK, US evidence (on employee-owned craft breweries) shows the importance of mimetic effects (see Birkhead and Hands 2024).

Although there are exceptions, the EOT is mainly a development within small and medium-sized enterprises (SMEs). The White Rose Employee Ownership Surveys show that the average size of an EOT-owned company was 108 employees<sup>4</sup> though the median was much smaller at 30 with quartile figures revealing a marked right skew to the distribution with a higher frequency of observations at the lower end of the scale and fewer high value observations. 82% of EOTs have 100 employees or less, though there are some EOTs with several thousand employees. 9% have less than 10 employees. But there are few EOTs (2%) amongst micro-companies (1–5 employees) that are more directly comparable with most worker co-operatives: the requirement that those benefiting from the sale of a company to an EOT should not exceed 40% of the workforce tends to preclude EOTs in firms with 5 or less employees.

In terms of geographical distribution, EOTs are found throughout the UK, though earlier evidence suggests they have been over-represented in London and under-represented in the North-East, Yorkshire, and Northern Ireland (Mason 2019). The devolved governments have developed policies to encourage employee ownership amongst companies in their countries. The Scottish Government has set targets for employee ownership and has a unit within Scottish Enterprise that actively promotes employee ownership. The Welsh Government is also actively promoting employee ownership and the EOT model with a target to double the number of employee-owned businesses (Welsh Government 2021). Recently, the Northern Ireland government has begun promoting EOTs, a small number of EOT conversions now having taken place in that country (Mitchell and Bell 2024). Within England, a number of regions (South Yorkshire, London) have recently established ‘Ownership Hubs’ in collaboration with Cooperatives UK and the Employee Ownership Association to promote employee ownership.<sup>5</sup>

#### **4. Why has the EOT been so successful?**

The success of the EOT clearly out-performs other forms of employee ownership in the UK by some consideration margin, both contemporaneously and historically. The closest rival is arguably the workers’ co-operative which is estimated to have grown from around 30 firms in the mid-1970s to nearly 900 ten years later (Hobbs and Jefferis 1990). Subsequently, the number of co-operatives has declined, with current estimates suggesting that the number of worker cooperatives in the UK is in the region of 380. Other, more recent, forms of employee ownership have included mutuals ‘spun out’ from various parts of the public sector: at the most just over 100 of these organisations were created, with the impetus for their creation highly dependent on governmental privatisation initiatives (which have ebbed in recent years) (Pendleton, Robinson, and Nuttall 2023). Privatisation was also important for the emergence of other forms of employee-owned business, modelled on the US ESOP, in the late 1980s and early 1990s but many of these

were sold to conventional firms after a brief period in employee ownership (see Pendleton 2001). The upshot is that the number of employee-owned firms was around 150 mutuals and employee-owned businesses (EOBs) and 350–400 worker co-operatives before the EOT arrived in 2014.

The success of the EOT has been dependent on this form of conversion circumventing many of the traditional obstacles to the formation and operation of employee-owned firms (see Mygind 2023). To demonstrate this, it is necessary to review these traditional obstacles as set out in the theory of the worker-managed firm.<sup>6</sup> Four main obstacles can be identified. One, is the evolutionary or ecological argument associated with Jensen and Meckling (1979). This argues that the worker-managed firm is inefficient and hence usually doomed to fail. This will lead to the demise of existing employee-owned firms and deter new conversions. A variant of the ecological argument, associated with the Webbs (Webb and Webb 1914), suggests that cooperatives will not be able to survive as ‘islands of socialism’ in a sea of capitalism and hence will evolve back into conventional firms. Two, in part due to the perceived limitations of employee ownership in some quarters, there will be a set of resource constraints that will deter the formation of employee-owned firms (Ben-Ner 1988). These include a high cost of capital and a lack of expert knowledge and support infrastructure (see also Blasi, Scharf, and Kruse 2024; Nuttall 2012). A further constraint, associated with the ESOP form of ownership, is the administrative costs and cashflow constraints of maintaining employee accounts. Three, employee risk aversion, along with wealth and liquidity constraints, are likely to constrain the capacity of employees to acquire their company (Ben-Ner 1988; Perotin 2006). Four, the costs of coordinating heterogeneous workforces to mount conversions and achieve effective governance will inhibit both the formation and durability of employee-owned firms (Hansmann, 1996).

The EOT has been so successful because it largely circumvents many of these traditional obstacles to the formation and operation of employee-owned firms. One, EOTs have proven to be a durable form of organisation with only a very small number failing economically (primarily in the construction sector, where margins are often small). Anecdotal evidence suggests that many firms converting to EOTs are already successful firms, often being market leaders in their sectors. Our survey evidence, using subjective evaluations of company performance, suggests that most EOTs are more productive and profitable than their industry peers, with very few having worse performance than their peers. Table 6 provides further information:

To an extent the success of EOTs as a succession solution has bred success, with many EOTs imitating what predecessors have already done in their sector. A key consideration with regard to the ecological critique of employee ownership is that, contrary to Jensen

**Table 6.** ‘Compared with other companies in the same industry how would you compare your company’s’ performance (per cent of EOTs (rounded)).

|               | A lot below average | Below average | About average for the industry | Better than average | A lot better than average |
|---------------|---------------------|---------------|--------------------------------|---------------------|---------------------------|
| Profitability | 1                   | 9             | 37                             | 41                  | 12                        |
| Labour        | <1                  | 6             | 38                             | 44                  | 12                        |
| Productivity  |                     |               |                                |                     |                           |

Source: White Rose Employee Ownership Surveys.

and Meckling's assumption, EOTs are usually organised as 'conventional' firms with 'conventional' forms of management organisation and hierarchy. The main differences between EOTs and non-employee-owned firms reside in employee involvement in governance rather than employees taking over 'management decisions' (see later). Thus, a key component of the ecological critique, that worker-managed firms are unable to monitor employee and managerial performance effectively does not apply. EOTs are usually organised with conventional hierarchies, differing mainly from other conventional firms in that employees are the beneficiaries of the profits of the firm and usually have a greater role in governance.

Two, the EOT sidesteps many of the resource constraints associated with other forms of employee ownership. In terms of financing the conversion, very few EOTs need to make use of external finance. In nearly all cases, exiting owners accept deferred consideration over a period of years, with their payments deriving from future profits from the firm. As noted earlier, the White Rose Surveys find that this approach is used in 89% of cases, with only 13% drawing on external (mainly bank) finance. Of course, the need to service the cash payments to exiting owners can act as a constraint on EOT firms, potentially limiting investment and employee pay-outs, though a counter-argument from the private equity literature is that these payments serve as a form of discipline to encourage efforts to enhance efficiency (Thompson and Wright 1995).

The large number of EOT conversions has attracted professional advisers into the EOT market, with a substantial number of accountancy, legal, and consultancy firms now providing services to EOT conversions. This has spread information and expertise about EOTs and employee ownership, and EOTs can now be viewed as a 'mainstream' form of business succession. It has been estimated that 6% of all business transfers in 2024 involved conversion into an EOT (European Federation of Employed Shareholders 2024). It is likely that the significant tax concessions associated with the EOT have been a powerful factor attracting service providers into the field: arguably they would be negligent if they did not bring EOTs onto the table in advisory work on business succession. The White Rose Surveys find that EO experts and advisers have 'quite a lot' or 'a great deal' of influence on the ownership arrangements in just under two-thirds of EOT conversions (see Table 1).

A further potential resource constraint that EOTs do not experience, unlike ESOPs and EO firms with direct employee share ownership, is the administrative costs of maintaining and servicing employee equity accounts. Nor is there any additional drain on cash flow arising from the need for share buybacks that is typically experienced by firms with direct share ownership or employee equity accounts.

Perhaps most compelling in explaining the rapid growth in EOTs in the UK are those factors relating to employee risk aversion, wealth and liquidity, and coordination (the third and fourth obstacles). Employee buy-outs have a number of major challenges. One is that employees, whose wealth portfolios mainly comprise their human capital, are said to be risk averse. As such, they will prefer to be employed on fixed wages rather than bearing the risk of ownership. For this reason, the formation of workers' co-operatives has been found to be counter-cyclical: workers create co-operatives during economic downturns when their stable employment is threatened (Ben-Ner 1988; Perotin 2006). Employees typically lack the wealth and liquidity to devote financial resources to an employee buy-out, whilst not all employees will want to subscribe. Coordinating employee preferences to achieve a successful buy-out can therefore be highly challenging. The EOT sidesteps these obstacles

for the simple reason that the conversion is usually organised by the owner wishing to exit (see [Table 1](#) earlier), and that there is no need for employees to subscribe to a share offer or buy-out fund (c.f. [Rosen 2023](#) on ESOPs). Instead, as outlined earlier, the finance to acquire the company is secured via future income streams from the company in nearly 90% of cases.

The question therefore becomes why owners wishing to exit have become so attracted to the EOT rather than alternative means of exit such as trade sales and private equity acquisition. Our survey data shows that owners have considered alternatives to EOTs in 80% of cases. In 10% of cases owners considered closing the business.

Four reasons for preferring an EOT to alternative forms of exit can be identified: tax advantage, transaction certainty, flexibility, and legacy. The balance of these is likely to vary between companies. One, the EOT is clearly highly advantageous from a tax perspective, with capital gains tax concession on the entire sale proceeds (as long as the company does not experience a disqualifying event within four years). This factor has probably become more important since 2020, when the alternative tax relief available to owners when they sell their companies – Business Assets Disposal Relief – was reduced to a lifetime allowance of one million pounds. Recent increases in CGT marginal rates in 2024 have likely added to this. Two, unlike a trade sale where there is uncertainty over the outcome of sale negotiations, in an EOT the owner establishes the EOT trust and then agrees a sale price with the trust, usually on the basis of a single valuation (unlike in US ESOPs where both owner and trust are required to obtain separate valuations). There is no need to share commercially sensitive information with competitors. Three, there is some flexibility for the departing owner to decide their role in the company after the conversion: they might exit entirely, exit from an executive role but assume a non-executive or trustee role, or continue their management role within the company (the latter usually occurs where the owner retains some equity). The White Rose Employee Ownership Survey 2022 (see [Table 4](#)) indicated that in 19% of cases the owner had completely exited the management and ownership of the company; in 60% of cases the owner continued to hold an executive management role. In a further 9% of cases the owner assumed a non-executive role.

The fourth reason for owners choosing an EOT is that it can preserve their legacy. The danger of a trade sale to a competitor or acquisition by private equity is that the acquirer will dismantle or restructure the company, thereby destroying much or all of the owner's creation and legacy. The socio-emotional wealth perspective ([Berrone, Cruz, and Gomez-Mejia 2012](#)) shows how family owners seek to preserve accumulated endowments in 'their' firm. As [Berrone et al.](#) put it, 'the value of socioemotional wealth to the family is more intrinsic, its preservation becomes an end in itself, and it is anchored at a deep psychological level among family owners whose identity is inextricably tied to the organization' (2010, p. 87). Owners may also feel loyalty to their workforce.

The importance of legacy is shown in the White Rose Surveys which ask about the reasons for converting to an EOT. As [Table 7](#) shows, the most important reason for converting to an EOT was to maintain long-term stability for the company, followed closely by a concern to share rewards with employees. The tax efficiency for the departing owner was also an important factor though less important than preserving the company and sharing rewards with employees. Converting to an EOT because a trade sale was not possible was a factor in 17% of cases, and was the least important overall of the reasons provided.

**Table 7.** Reasons for converting to an EOT.

| Reason                               | Strongly agree | Somewhat agree | Neutral | Somewhat disagree or strongly disagree | Mean score (1–5 scale) |
|--------------------------------------|----------------|----------------|---------|--|------------------------|
| Long-term stability for the company  | 72             | 20             | 4       | 4                                      | 4.58                   |
| To share rewards with employees      | 66             | 27             | 5       | 3                                      | 4.53                   |
| Tax efficient for previous owners    | 56             | 30             | 10      | 4                                      | 4.34                   |
| The socially responsible thing to do | 43             | 33             | 14      | 11                                     | 4.04                   |
| Keep company and jobs local          | 40             | 27             | 20      | 14                                     | 3.84                   |
| Could not find another buyer         | 7              | 10             | 18      | 65                                     | 2.07                   |

Source: *White Rose Employee Ownership Surveys*.

## 5. Dangers of the EOT

It is clear that the exiting owner has a great deal of influence on the terms of the sale of their share to the EOT and on the initial composition of the EOT trust. There are few statutory restrictions on the nature and character of the EOT trust with a great deal of latitude to those establishing and over-seeing it. If the trustees have been appointed by the owner they may feel obligated to accept the terms of the sale proposed by the owner. The professional advisers may also have been appointed by the owner. There is no requirement that the EOT trust undertakes a separate valuation from the owner. As a result, there is a danger that the departing owner could pursue their interests by taking value from their ownership of the firm at the expense of the company and its employees in future. The extent of the tax breaks on offer to the exiting owner are such that the EOT could attract owners who have little or no interest in employee ownership.

Cases where EOTs have been used to maximise the owner's returns at the expense of employees or where EOTs have been used to secure tax benefits rather than promote any level of employee ownership appear to be few. This may seem surprising given the latitude provided to owners to set the terms of the transaction. Price (2019) outlines a case where the owners of a construction company sold 55% of their ownership having taken out a loan secured against the company to buy their share. The interest payments on the loan, coupled with cash flow difficulties arising from delayed projects, proved fatal for the company. GoEO (an EOT advisory firm) recounts a case where senior management of the company were not given any details of the valuation and repayment schedule prior to the transaction. On the sale day, they were required to sign for the company without any time to seek advice. The founder had presented the adviser with optimistic future performance forecasts, and the latter had revised them upwards to please the founder. The senior management team believed that the adviser was working for the interests of the owner rather than the company. The trustees, appointed by the founder, were the founder himself, an independent trustee who was viewed to be a friend of the founder, and an employee who was not given time to consider the valuation. Faced with a high level of payments to the founder, the company nearly failed. It was saved by a renegotiation of the terms of the sale, along with use of a variety of external sources of advice and support.

The lack of regulation of the EOT sale process can allow these situations to develop. In the light of cases of this sort, HMRC have sought to limit the opportunities for self-interested behaviour to influence the sale process. After a period of consultation, HMRC presented a set of proposals in the Autumn 2024 Budget (which at the time of writing are being developed into statute). In terms of trust composition, it is now required that the departing owner and their associates cannot constitute 50% or more of the EOT trust. It is also now required that EOTs have to be UK-registered entities and cannot be offshore trusts. The latter had provided a potential tax loophole in that EOTs owned by offshore trusts would not be liable to CGT on a further re-sale (i.e. the sale would not be a disqualifying event). This could be a means for an owner to sell at a high price to private equity (via an EOT) and to avoid CGT. It is not clear that this was a widespread issue: White Rose Survey data suggests that no more than 3% of EOT transactions involved an offshore trust, though the survey data is unlikely to include cases where there has been a deliberate plan to re-sell the EOT and to avoid CGT liabilities. Regarding valuation, the 2024 proposals require EOT trustees to take reasonable steps to ensure that the sale price of the company does not exceed market value and that any interest payable on deferred consideration does not exceed reasonable commercial rates.

These proposals notwithstanding, clear abuse of the flexibility surrounding EOT transactions by exiting owners seems to have been very limited. A number of factors explain this. The first, and possibly most important, is that the departing owner usually has a clear interest in not extracting punishing terms or a challenging repayment schedule. This is because their consideration will usually be staged over several years, and if the payments prove detrimental to the company's continuing health and existence, the owner may well find that their payments cease. Second, where external finance is used, those providing external finance will usually want to ensure that the valuation is not excessive and to ensure that the company can manage the interest payments. Three, most professional advisers will be guided by professional ethics and codes of practice, as well as reputational factors, in navigating EOT transactions. Four, in most cases there appear to be a more altruistic set of reasons for conversion to employee ownership (see [Table 7](#)).

Even where all parties behave ethically, there are nevertheless two challenges that EOTs face after the transaction. One is the burden of the deferred sale payments. These may limit the company's capacity to invest or to pass benefits to the trust beneficiaries over the lifetime of the payment period. In the worst case, the company's continued existence may be challenged if it experiences sudden falls in revenue. So far, very few EOTs have failed: the main cases known about are companies in sectors operating on very low margins, and hence highly exposed to changes in business conditions. Our survey data indicates that debt repayments have not constrained the development of EOT companies in 63% of cases, and only 'a little' in 26% (2020 and 2021 Surveys). The second challenge relates to the owner's activities after the transaction. Where they entirely exit the company at the transaction, the company may miss their contribution to the business and find it hard to adapt. There will be a need to develop a new leadership team. Alternatively, where owners continue to have a role, this may make it difficult for the EOT to forge a new direction. As yet, there is little systematic research on these issues, and there is a clear need for further investigation.



## 6. Does the EOT bring about real employee ownership?

EOTs are a form of common ownership, following in the footsteps of the John Lewis Partnership model. Some argue that it is not really a form of employee ownership because individuals do not have individual equity stakes, individual capital accounts, or claims on the retained earnings of the firm (Ellerman and Gonza 2024). In this respect, the EOT can be contrasted with the US ESOP. The substantial influence of the departing owner on the design of ownership and governance structures, at least at the point of conversion, may also lead some to doubt the extent to which employees have ‘real’ ownership and control. A further feature of some EOTs that may lead some to doubt that they are employee-owned is said to be the presence of equity-based executive compensation (Ellerman and Gonza 2024).

Our argument is that EOTs can be an effective and sustainable form of employee ownership, and that the evidence suggests that in most cases they do deliver some degree of employee ownership. There is considerable variety, however, within the EOT form, as our findings have shown. The flexibility of the EOT form, as outlined earlier, permits this heterogeneity. Our argument is that the extent to which EOTs provide effective employee ownership is a function of the interests, values, attitudes, and behaviour of key actors within the structures of the EOT. Where the operation of EOTs is dominated by former owners, guided by a concern to maximise the value extracted from the firm, it is likely that employee ownership will be largely cosmetic. By contrast, where owners, managers, and employees are united in a concern to develop a more democratic workplace, employee ownership is likely to be a more substantive phenomenon. The shortcoming of the Ellerman and Gonza perspective is that it is based on a structural conception of EOTs, assuming that by necessity they are all the same, whilst assuming a neo-classical economics view that individual action is guided primarily by incentives and self-interest.

To show how EOTs can be an effective form of employee ownership, it is necessary to consider the core dimensions of ownership: these can be seen to involve rights to returns from the object of ownership, rights to control the use to which it is put, and rights to information relating to its operation (Pierce, Rubinfeld, and Morgan 1991). The EOT form of employee ownership does not give completely unfettered rights to employees in any of these respects: our argument is that (most) EOTs have them to a greater degree than the ‘conventional’ or typical firm.

Turning to returns, the UK EOT is permitted to pay profit shares to employees free of income tax up to a limit of £3,600 per annum, and this is the primary form of returns to employees. Ellerman and Gonza argue that it is unlikely that employees will receive anything during the period when the owner is being repaid. Although it is clearly challenging to make payments to both owners and employees, the evidence from the White Rose Surveys indicates that most firms do make profit shares to their employees. The 2020 Survey found that 63% had given a profit share to employees in the last year. The 2022 Survey found a similar proportion (63%), with a further 20% intending to pay a profit share in their first year as an EOT.<sup>7</sup> In the 2022 Survey, the average profit share in those firms offering them was £2780.

The tax breaks on offer may well serve as a ‘nudge’ to encourage firms to make these payments. As yet, it is not known how far ‘mature’ EOTs (where the owner has been paid off) make profit shares to their employees, and this is clearly an area for further research. Employees might invest these profit shares in capital accounts operated outside the firm



though there is no evidence as yet on what employees do with their profit shares. It is true, though, that employees do not have individual capital accounts within the firm, except where EOTs operate a separate share purchase or distribution plan alongside the EOT (turning the company into an employee ownership ‘hybrid’). In these cases, the EOT would not own the entire equity of the firm, and a separate trust structure may be necessary to operate a share plan. The White Rose Employee Ownership Surveys 2020 and 2021 show that employees directly own shares in around 10% of cases. We lack information on the use of executive-only share ownership within EOTs, and further research on this issue would be desirable to address the Ellerman and Gonza critique.

Whilst EOTs, unlike US ESOPs, do not provide employees with equity that can be cashed in when they retire or leave the firm, employees (as the sole beneficiaries of the EOT) nevertheless have the residual return rights should the firm be liquidated or sold.

In terms of control rights, employees may exercise these in several ways: on governance via the trust, or on management via involvement in management. A further issue is the extent to which the trust takes an active role in the governance and management of the firm. With regard to governance, the trust is the owner of the firm and hence a key actor in governance. The extent to which the trust pursues employee interests may well be influenced by the extent to which employee representatives are present as trustees. Tables 8 and 9 provide information on the extent of employee representation on EOT trusts. As can be seen, employee trustees are present in 78% of cases, and that employees constitute on average a third of trust membership. In a quarter of cases, however, employees form a majority on the trust board.

In most instances, these observations are gleaned shortly after conversion and it may be that employee representation becomes more widespread as EOTs mature. Further research is needed on the evolution of employee governance in EOTs.

Ellerman and Gonza characterise governance in EOTs as ‘childlike’ with the EOT trust acting like a parent. The evidence clearly shows that in most cases employees and their

**Table 8.** Representation of stakeholder groups on EOT trusts.

| Trust membership              | Present as trustees<br>(% of companies) |
|-------------------------------|---|
| Directors of trading company  | 73                                      |
| Selling/retiring shareholder  | 48                                      |
| Employees                     | 78                                      |
| Independents                  | 70                                      |
| UK professional trust company | 4                                       |
| Offshore trust company        | 3                                       |

Source: White Rose Employee Ownership Surveys.

**Table 9.** EOT trust size and composition.

| Size and composition   | Mean (median) |
|--|---------------|
| Average number of trustees   | 5.15 (4)      |
| Average proportion of trustees who are employees   | 34% (33%)     |
| Proportion of trust boards where employees are in the majority (50% or more)                 | 26%           |
| Average proportion of employees and independents on trust board                              | 54% (60%)     |
| Proportion of trust boards where employees and independent are in the majority (50% or more) | 74%           |

Source: White Rose Employee Ownership Surveys.

representatives have a more active role in governance and management, though we lack research-based evaluations of just how influential or effective they are. It seems unlikely that employees or employers exercise unfettered control. Instead, the configuration of representational institutions and their composition appear to provide for a balancing of interests (departing owners, managers, workers etc.) with checks and balances on any one group, at least in most cases.

There is also some diversity in the role that the trust plays in the management and governance of the firm, indicating that a blanket judgement is wide of the mark. [Table 10](#) provides information on *de facto* trust role and purpose taken from the 2022 Survey.

As [Table 10](#) show, the EOT trust has an entirely passive role in just 16% of cases. It is regularly involved in company business activities in 42% of cases, and in 15% in some management decisions. These findings indicate some diversity in the role of the trust in companies with EOTs and, taken with the earlier findings regarding employee representation on the trust, suggest that in most cases employees do not have the entirely passive role implied by Ellerman and Gonza.

In many cases employees also have other forms of representation and influence on management. In 53% of companies there is an employee director on the main company board. In 33% of cases there is a ‘partnership council’ or similar body to represent employee views to management. These findings are mainly derived from early-stage EOTs and it may be that more firms introduce employee representation as the EOT matures. Further research is needed on this issue.

Finally, ownership is usually said to confer rights to information. Employee ownership of a company would therefore be expected to lead to greater supply of information on the company and its performance to employees than is typically found in the ‘conventional firm’. The White Rose Employee Ownership Surveys find that information provision is extensive though a shortcoming of the data is the lack of a comparative dimension. [Table 11](#) provides further information:

A final question concerns the sustainability of EOTs. Earlier work on employee-owned firms has drawn attention to degeneration, whereby firms evolve back into conventional firms because departing members are not replaced (so as to maximise returns to current employees) (Ben-Ner 1988; Webb and Webb 1914). Others highlighted a ‘horizon’ problem, whereby employees with little or no claim on the future value of the firm maximise their current payouts at the expense of long-term investment (Furubotn and Pejovich 1972). As yet, there is little firm evidence regarding the extent to which EOTs have exited via onward sales or have failed as businesses. There have been some failures

**Table 10.** The purpose of the EOT trust.

| Purpose   | Per cent (rounded) |
|---|--------------------|
| Passive long term holding of shares in the company with no wider role   | 16                 |
| Custodian role with limited involvement in the company’s business activities including employee engagement  | 42                 |
| Custodian role and regularly involved in the company’s business activities, including employee engagement, but not management decisions           | 25                 |
| Custodian role, regularly involved in the company’s business activities including employee engagement, and including certain management decisions | 15                 |

Source: White Rose Employee Ownership Survey 2022.

**Table 11.** How often is information given to all employees on the following.

| Information sharing on:              | Not at all | Very occasionally | Annually | Several times a year | Monthly or more |
|--------------------------------------|------------|-------------------|----------|----------------------|-----------------|
| Financial performance                | 2          | 3                 | 21       | 38                   | 36              |
| Investment plans                     | 14         | 16                | 33       | 30                   | 8               |
| Decisions taken by the company board | 3          | 7                 | 17       | 50                   | 23              |
| Staffing plans                       | 3          | 10                | 21       | 48                   | 18              |

Source: White Rose Employee Ownership Surveys.

in the construction sector which can be attributed to a combination of low margins, project delays, and payments to departing owners (see Weinfass 2024).

In terms of the durability of employee ownership, EOTs appear to be relatively durable because of their common ownership arrangements: individuals do not have equity that they might sell to outsiders. The rollover of the CGT liability from the departing owner to the EOT also provides some disincentive to selling the company to a third party. The use of profit shares early after conversion gives employees a pay-off from ownership that they do not experience in ESOP-type firms where they need to leave, retire, or sell the firm to realise the financial value of their ownership, as happened in earlier waves of employee ownership in the UK (see Pendleton 2001). Yet employees are not usually able to maximise their profit shares at the expense of investment or cashflow, as in the horizon problem perspective, because they are not the sole or even the most important arbiters of the size of profit share distributions. More challenging is the size of payments to owners, especially when owners force a punitive schedule on the EOT, as outlined earlier. These cases are relatively uncommon, usually because most EOTs involve a balancing of various interests.

## 7. Conclusions

The EOT has been a major success story for employee ownership in the UK. As outlined in the paper, there are currently (January 2025) around 2000 EOTs, with the number increasing by several hundred each year. This has transformed employee ownership in the UK: prior to the take-off of the EOT the number of private sector firms converting to employee ownership in the first fifteen years of the century had been less than twenty each year. The EOT form is currently being imitated in several countries, though the numbers of EOT firms is yet to reach the scale of that in the UK. As a result of the EOT, employee ownership is now a widely accepted form of business succession in the UK.

The paper suggests a number of factors that have influenced the success of the EOT. It shows how the EOT has circumvented many of the traditional obstacles to employee ownership, and why the EOT has been attractive to many business owners. The generous tax concessions available to owners for EOT conversions have certainly put the EOT onto the agenda of many of those looking to exit their companies, and also those who advise on business succession, but the single most important factor in choosing the EOT is said to be its capacity to preserve the legacy of the exiting owner. Loyalty to the workforce is another very important factor.

Some have argued that EOTs are not a genuine form of employee ownership because this indirect form of ownership does not build employee wealth via equity

ownership or capital accounts. It is certainly the case that employees do not build equity wealth, except where EOT companies with less than 100% of the equity in the EOT operate share ownership schemes ('hybrids') and are unlikely to build wealth on the scale of the more successful US ESOPs. However, our research shows that a majority of EOTs offer profit shares to their employees, even in their first year of operation, that employees have a role in governance of the trust and the company in most cases, and that there is extensive provision of information to employees. Further, employees will benefit from the value of the firm should the EOT be sold-on.

What of the future? Will the growth in EOTs reach a plateau or will it continue on its current trajectory? Although there have been spikes in EOT conversions, usually because of real or anticipated changes in taxation arrangements, the general trend in the number of conversions appears to be continuing. There is clearly scope for continued growth, given that some estimates suggest that EOTs currently account for 6% of business sales. Should the growth in EOTs continue at a similar rate to that experienced over the last few years, it could be anticipated that there will be approaching 4,000 EOTs by 2030. This would be a magnificent achievement for employee ownership in the UK.

## Notes

1. The White Rose Employee Ownership Centre was established in 2013 and operates from the University of Leeds.
2. From 2025, the Employee Ownership Association and the White Rose Centre will be producing regular census figures on the number of employee-owned businesses.
3. There is anecdotal evidence from a small number of cases that this has happened. We do not have direct evidence on this point in our surveys, and it is unlikely that survey evidence on this particular issue would be reliable, for obvious reasons.
4. To avoid extreme bias we exclude the largest company in our sample.
5. Recent research has shown the importance of employee ownership federations in providing support to employee-owned firms, thereby contributing to the economic health and sustainability of the sector (Jones 2023)
6. We are grateful to Professor Derek Jones for his assistance in identifying these obstacles.
7. This was a new question in the 2022 Survey.

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