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Employee Ownership - Transparency drives cooperation in decision making - John Lewis Pension scheme reforms -2019

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I am often asked how organisations who are employee owned tackle the thorny issues that can arise, for instance when existing employee perks prove to be unsustainable. There is undoubtedly a myth portrayed that employees would never agree to a reduction in their terms and that within an employee owned structure staff have the right to block any such move from the leadership. I would strongly suggest that such a lack of cooperation may be more indicative of a poorly managed employee owned organisation rather than an inherent vulnerability in the ownership structure. It might also point to a failure of recognising the shared responsibility for business success.

So much of successful employee ownership and engagement leans on the consistency of shared information, trust and transparency. I recall how these were central to the John Lewis Partnership's navigation of a reduction in pension benefits to thousands of Partners in 2019.

Unlike many retailers, whose shareholder control and autocratic leadership enabled their leadership to decide and dictate new pension terms to employees - often in very short timeframes - the Constitution of the John Lewis Partnership included many explicit expectations of the Chairman, the Board and its senior directors. Many were timelessly crafted to harness the advantages of employee influence, to encourage a commitment of listening and above all a transparent accountability. Each was aimed to contribute to a purpose stated as employee '*happiness through worthwhile and satisfying employment in a successful business*'. All shared the responsibility of ownership. Specifically the Constitution stated that '*pensions are set at a level which the Partnership Council*[1] *judges will provide for Partners needs during retirement*'. Therefore at the starting point there was a clear understanding that any changes in pension provision would be determined by employees, each chosen by their peers, in conversation with leadership.

The long journey required diligent explanation to employees who were not pension experts. Such narratives were also periodically shared with the wider business. Initially they focussed on the 'burning platform' of a defined benefits pension system. Transparently showing the risk this posed to the business's financial stability was key. Internal and external experts were quizzed by the Council on the assumptions of affordability and the latter was able to provide independent context of the pension perks available in other similar organisations.

Meetings and elected subgroups met frequently to learn, discern and debate. The business allocated independent project leaders, strengthened the pension team to facilitate Q&A's from throughout the business and especially the elected Councillors who would ultimately vote on any pension change. Council was relatively quick in their affirmation and acceptance that a pension review was fundamentally required. Their business needed to find annual savings approaching £80m.

The bulk of the work was phased over the next 12 months or so. This included multiple meetings with Council, each live streamed to every area of the business enhancing transparency of the challenge, the possible solutions, their impact on future pension earnings and business financial

[1] an elected body of 58 employees from across the business

stability. Here it is worth reflecting on both the cost and the mechanism of what employee engagement and genuine influence means to employee owners. Ultimately a cost justified by the prize of collective ownership of the challenge, a solution honestly engineered and ultimately voted for by the employee council. Rarely would employees dance for joy at staff benefits being reduced but their future buy-in anchored in knowing they have shaped and ultimately agreed a change is worth the investment. No-one could reasonably claim being done to when their own employee council played the main cards.

This is in stark comparison to private organisations that would 'inform' staff of decisions'. So too is the landscape for leaders in employee owned organisations - they start a project knowing that every stone can be upturned - they start a process wanting each employee representative to understand the tough choices and they genuinely feel more comfortable seeing others bring an equally valid perspective as they weigh up the balance between higher benefits, deferred or current reward and the risks to long term employment.

Within the lengthy debates, Council sought to answer their own poignant questions. What constitutes fair reward? Should it be weighted to favour the lower paid? How should long service influence pensionable reward? How should the current versus future generations share fairly the impact of the changes? Openly grappling with all of these questions takes huge investment to build knowledge - but flowing from that comes the confidence that when it is time to make a crucial business decision, employee owners have left no avenue unexplored.

So what happened in the debates? Slimming it down to the bare bones - actuaries and pension experts evaluated the possible options which would deliver the scale of financial savings agreed. These options were rigorously explored by the Council, alternatives were suggested, weightings were explored and every permutation then re-evaluated.What ultimately appeared fairest? What could the business contribute? What could employees feasibly afford or expect to contribute? Independent chairing of these debates was crucial - as such, honesty of answers was always guaranteed - nothing was ever ducked, no question or option too foolish to be given respectful consideration. As the Council progressed its thinking to a shortlist of best options - the leadership undertook a huge communication programme to make the complex subject accessible to thousands of Partners - some Partners chose not to engage but over 10,000 actively engaged in regional debate and through more formal influence in Q&A's and polls. All inputs were captured and summarised transparently for Council so they could understand how their short list of options were viewed by their peers.

Well over a year down the line the outcomes became ever clearer - employee contributions, employer contribution, thresholds and qualifications were agreed. No solution would suit everyone, employee ownership can't be a remedy to this. But a solution ultimately crafted by employees which fairly reflected the need to safeguard the business was fully grounded in reality, compassion and financial prudence. A process echoing the values of the organisation can reinforce the fundamental difference of employees influencing business choices or choices being imposed.

The Partnership employees chose a pension outcome still favourable compared to many equivalent retailers, a pension scheme and savings to be proud of - but most importantly achieved through a transparent, inclusive approach. In the light of the challenge facing retail in 2020 - the shared responsibility to make those necessary changes has even greater significance 18 months on.

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