Adam Gray
Long-term Focus Consultation
Corporate Law and Governance
Department for Business, Innovation and Skills
1 Victoria Street
London
SW1H 0ET

23 December 2010

Dear Mr Gray

A Long-Term Focus for Corporate Britain Call for Evidence Response.

I am writing to you regarding the Department for Business, Innovation and Skills' Call for Evidence on the review into 'A Long Term Focus for Corporate Britain'.

The questions outlined in your Call for Evidence focus on the relationship between markets and the corporate behaviour of shareholder plcs, and are therefore not directly applicable to the John Lewis Partnership's (JLP) employee-owned business model. However, at this early stage in the development of your agenda we are keen to explore the opportunity to broaden the review's scope to consider the role of alternative business models in delivering a long-term focus for corporate Britain.

Employee ownership (EO) has worked for JLP for 80 years and we would like to see it reflected in mainstream debates about growth, innovation and skills particularly at this critical juncture in our economic history. We believe employee ownership has a role to play in building an economy in which employees and others have a real stake, and in which success is judged not just by short-term returns but by long-term sustainable performance.

We have set out below what we hope is a useful contribution, based on our own business practices, and the evidence base supporting the performance of the EO sector in the wider UK economy.

Please let me know if we can provide you with any additional information, or whether it would be helpful for you to meet in person with any of my colleagues to talk more about JLP's business model.

Yours sincerely

Charlie Mayfield
Chairman

John Lewis Partnership Response to BIS Call for Evidence: A Long-Term Focus for Corporate Britain

December 2010

Context

The John Lewis Partnership

The John Lewis Partnership (JLP) is the largest employee owned company in the UK, operating 30 John Lewis shops across the UK, 231 Waitrose supermarkets and our online sales platforms. Unlike PLCs, the value of the JLP business is held in a Trust. The beneficiaries of that Trust are every one of the 70,000 employees of the company, all of whom are called Partners to reflect their status within the business. They each take an equitable annual share the profits that their work generates, and influence management decisions through a number of democratic bodies.

Employee Ownership

The UK Employee Ownership (EO) sector is currently worth £25 billion annually, equivalent to 2% annually of UK GDP, and is a growing force in the wider economy.

In 2009, JLP sponsored a major piece of research with Cass Business School into the economic performance of EO businesses:
http://www.employeeownership.co.uk/download/MTE3

The Employee Ownership Association also commissioned Matrix Evidence to undertake a review of the evidence base concerning the benefits of EO as a business model, which was published in March this year. The full report is available here:
http://www.matrixknowledge.com/evidence/wp-content/uploads/2010/03/EOA-report.pdf

The evidence contained in these 2 reports underpins the points made below.

Points specifically relevant to BIS Call for Evidence:

Employee owned business models contribute to a long-term, sustainable economy

Relevant questions in consultation response:

- Question 1: Do UK boards have a long-term focus – if not, why not?
- Question 3: What are the implications of the changing nature of UK share ownership for corporate governance and equity markets
- Question 7: Is short-termism in equity markets a problem and, if so, how should it be addressed?

- Question 15: Do boards understand the long-term implications of takeovers, and communicate the long-term implications of bids effectively?

- The structure of EO businesses – in which management are accountable for long-term performance to employees as opposed to external shareholders, aligning the long-term interests of staff and management – means that executive decision-making is less prone to chasing rapid growth and short-term profitability than the plc model, instead focusing on the long-term sustainability of the business. This approach does not prohibit risk-taking, nor does it mean businesses such as JLP do not raise capital in order to fund growth. It simply means that these decisions do not expose the business to unacceptable levels of risk for the sake of immediate gain on behalf of external shareholders.

- The fact that EO businesses are not reliant on, nor answerable to, external shareholders means they are not exposed to the variability of the equity markets, and are protected against unwanted acquisition scenarios such as the Kraft takeover of Cadbury in early 2010.

- EO businesses have outperformed the market during the downturn and have a lower risk of business failure. EO businesses generally outperform non-employee-owned businesses whose employees have neither a stake in ownership nor the right to participate in decision-making. EO businesses are also shown to be more resilient through tough economic times, with greater stability over business cycles and faster rates of employment. This leads us to conclude that EO businesses could provide the one of the cornerstones of sustainable long-term economic growth within the wider economy, and help protect against vulnerability to future economic crises

JLP's Partnership culture encourages sustainable business performance

Relevant questions in consultation response:

- Question 2: Does the legal framework sufficiently allow the boards of listed companies to access full and up-to-date information on the beneficial ownership of company shares?
- Question 4: What are the most effective forms of engagement?
- Question 11: What are the main reasons for the increase in directors' remuneration? Are these appropriate?

- JLP pride ourselves on the strength of our internal 'Partnership culture' in which all Partners are treated as genuine co-owners engaged in a shared enterprise. The benefits of our approach include increased productivity, greater staff motivation, high levels of staff engagement with management decision-making, low levels of staff absenteeism, and high levels of individual staff well-being.

- We operate in an environment of openness and transparency and our partners possess a constitutional right to knowledge and information about the organisation's objectives and performance and any difficult decisions which need to be taken.

- Our approach to governance ensures that the management is held to account by Partners. We have a 'Partnership Council' which embodies our democratic structure. Representing Partners as a whole, most of its members are elected by Partners, its main role is to engage with the management, to influence policy and to make key governance decisions. The Chairman appears before the Council twice a year to report and answer questions on his running of the Partnership. It is possible for Partners, through the Council, to sack the Chairman (though this has not happened to date).

- The relationship between staff and management within JLP is also an equitable one. For instance, we pay our Partners an annual bonus. We aim to distribute a similar dividend to the FTSE 100 long term average market dividend yield of 3 per cent per annum, although typically in recent years it has been significantly greater than that. Pay reflects the different contribution of each Partner, but is fair and proportionate. Our bonus is the same rate of pay for all Partners, from the Chairman to the newest checkout assistant in Waitrose. Also, the Chairman's salary is capped to prevent it exceeding an amount greater than 75 times that of the average non-management salary.