18 / ALIGNING INTERESTS

John Lewis

The Partnership bonus

What does employee ownership require when there may be no surplus to share?



John Lewis, Oxford Street during lockdown, May 2020. Photograph: Kwh1050.
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The Partnership must weigh a valued bonus against financial resilience, future investment and the interests of employees who depend on the business continuing.

Sharon White and the Partnership Board | September 2020 • reconstructed board decision

35-45 minutes to prepare / 75 minutes to discuss
Original public-source teaching case • First member edition • 1 November 2026

PRINCIPLED BUSINESS IN PRACTICE

Introduction

About Principled Business

Principled Business (PB) is a nonprofit organization that brings together business leaders to advance capitalism through education, relationships and action. It helps founders, executives and investors understand free enterprise, apply its principles in their organizations, and explain the contribution business makes to people's lives.

The PB manifesto grounds capitalism in individual agency, private ownership and voluntary production and trade. These commitments take practical form in everyday business decisions.

Aligning interests

PB asks business leaders to embody aligned interests. Rewards, risks and authority should give people reasons to create lasting value together.

John Lewis Partnership makes aligned interests concrete when employees are also beneficiaries of ownership. A bonus can reward work and participation, but it must be supported by the business's resources. Students must distinguish accounting results from cash and explain a decision that affects present and future Partners.

PB presents this case to make the principle usable in a real business decision. Your recommendation should connect the principle to a workable policy, account for the people affected, and identify evidence that could change your mind.

What you will learn

01 Distinguish employee ownership, wages and a distribution of surplus.

02 Separate accounting loss from cash available for a bonus.

03 Design a transparent funding and reinstatement rule with meaningful employee voice.

> **Apply it to your own business**
> Which reward in your organization has become an expectation? What determines whether it is an earned contractual payment, a discretionary distribution or an investment decision?

Source: About Principled Business; Capitalists for Capitalism Manifesto, Section 4: Be the best representatives.

NOTES FOR STUDENTS AND TEACHERS

Using this case study

This packet includes the case, exhibits, worksheet, sources, answers and teaching notes. Allow 35-45 minutes to prepare and 75 minutes for discussion. Have a calculator or spreadsheet available.

Pages	What to use and when
4-8	Decision, evidence, exercise and alternatives. Read before discussion.
9	Decision worksheet. Complete before reading the answers.
10	Sources and reading notes. Check the evidence and its limits.
11-12	Worked answers, outcome and teaching plan. Read after deciding.

For students

Read once to identify the decision, then work through the exhibits. Separate historical facts from the invented classroom exercise. Use the case's decision boundary; write down assumptions when evidence is missing. Complete the calculation and worksheet on page 9. Be ready to defend your recommendation and the strongest objection to it.

For individual study, decide before turning to pages 11-12. Compare your reasoning with the worked analysis and write a short reflection on what you would change. Choose one action to try in your own organization.

For teachers and discussion leaders

Read the full packet and timed plan before teaching. Assign pages 1-10 first and reveal the final two pages after students commit to a choice. Record the alternatives, evidence and disagreements on the board.

Do not let students treat a large impairment as an equal cash outflow or total liquidity as freely distributable cash. Ask how current Partners and future employees are represented in the decision.

> **How to assess the work**
> Look for a clear choice, accurate analysis, stated assumptions, attention to affected people, a fair objection, and an implementation plan with an owner and review point. Assess reasoning rather than agreement with the historical decision.

SEPTEMBER 2020 • A DISTRIBUTION UNDER PRESSURE

The decision

The John Lewis Partnership faced a difficult first half in 2020. Its published results reported a £55m loss before Partnership Bonus, tax and exceptional items, and a £635m loss before tax after exceptional items. The organization's employees were Partners in an employee-owned business. [J1]

Reconstruct the board's choice about the next annual bonus. Partners had worked through disruption, and the payment was an important expression of shared success. Yet the business also needed resources for continuity and change. The decision could not be reduced to gratitude for effort or to a single accounting headline.

Choose a distribution policy

Take the position of Sharon White and the Partnership Board. Decide whether to preserve a bonus, suspend it or set a conditional payment linked to a funded financial threshold. Explain how Partners will understand the reasoning and how leadership will review the decision.

This is a reconstruction from public information, not a report of private board deliberations. The exercise supplies a fictional cash budget so that you can test a policy without treating published accounting loss as the available cash balance.

> **Decision boundary**
> Distinguish wages and other commitments from a discretionary distribution. Explain both the immediate effect on Partners and the resources needed to sustain their business.

THE BUSINESS LOGIC

Ownership includes a residual claim

Effort and surplus are different

People can work hard during a period in which the enterprise has little surplus to distribute. Recognizing effort remains important, but calling a payment a share of success does not create the resources to fund it. The board must be clear about what the bonus represents and what other commitments it has made.

Cash and profit answer different questions

An impairment reduces the accounting carrying value of an asset; it is not necessarily a payment made that period. Conversely, a business can have cash obligations that do not appear as an immediate expense of the same size. A bonus decision needs a forward cash plan as well as an understanding of performance.

Partners have more than one interest

A current employee may value immediate income, future employment, pension security, working conditions and the continuing business. These interests can conflict. Employee ownership does not remove the tradeoff; it makes the explanation and the process of voice especially important.

A reinstatement rule can make restraint more credible by stating what would need to improve. It should use measures people can understand, allow for exceptional circumstances and avoid rewarding short-term cuts that weaken the enterprise’s future.

> **A governance question**
> How can Partners challenge the assumptions and priorities without implying that every distribution decision must follow the most popular immediate preference?

EXHIBIT 1 • PUBLISHED HALF-YEAR MEASURES

Read the financial signals correctly

Measure, period to 25 July 2020 [J1]	Reported amount	Interpretation
Loss before bonus, tax and exceptional items	£55m	A defined performance measure.
Loss before tax	£635m	Includes exceptional items.
John Lewis branch impairments	£471m	Asset-value adjustment within exceptional items.
Liquidity	£2,076m	Not the same as cash freely available for a bonus.

What the board still needs

A forward cash forecast should identify operating needs, debt and lease obligations, investment, restrictions and a prudent reserve. The reported liquidity figure alone cannot answer what may safely be distributed. Equally, subtracting the accounting loss from that figure would not produce a valid cash budget.

What Partners need to see

Explain the difference between weak performance, asset-value adjustments and cash commitments. Show the proposed distribution’s effect on resilience. State the assumptions most likely to change and how the board will respond if they do.

> **Separate the next exercise**
> The cash amounts on page 7 are fictional. They are not derived from the reported £2,076m liquidity measure and should not be presented as a reconstruction of the actual balance sheet.

EXHIBIT 2 • INVENTED CLASSROOM EXERCISE

What bonus can be funded?

Use hypothetical sterling millions for one planning period. The opening cash resource is £200m. Net operating cash outflow is £80m, planned investment is £40m and debt payments are £20m. These are separate cash-flow items. The minimum closing reserve is £50m.

Bonus option	Rate on eligible payroll
A	0%
B	1%
C	3%

Eligible payroll for calculating the bonus is £500m. Ordinary payroll is already included in operating cash outflow; subtract only the additional bonus. Ignore tax and any further financing. In the downside, operating cash outflow rises to £100m while other items remain unchanged.

01 Calculate closing cash under all three bonus options in the base case.

02 What is the largest bonus rate consistent with the reserve?

03 Repeat the reserve test in the downside. Is suspending the bonus sufficient?

04 What additional choices must the board address if the downside occurs?

> **A constraint, not a recommendation**
> The maximum affordable rate does not automatically become the right rate. The board must also consider uncertainty, investment needs, fairness and the purpose of the payment.

ALTERNATIVES • IMPLEMENTATION • ASSIGNMENT

Explain the choice to Partners

Policy	Potential value	Main concern
Preserve a bonus	Recognizes participation and maintains an expected benefit.	May weaken resilience or rely on optimistic cash assumptions.
Suspend the bonus	Retains resources for continuity and change.	Can damage trust if the reasoning or burden-sharing is unclear.
Conditional payment	Connects the reward to explicit funding and performance.	Complex or unstable rules can appear discretionary after the fact.

Your assignment

01 Recommend a policy and show its effect on the reserve.

02 Explain why the accounting loss and liquidity figures cannot settle the decision alone.

03 Set a transparent review or reinstatement rule and a route for Partner questions.

04 Identify the strongest objection from a Partner facing immediate financial pressure and respond respectfully.

Write a message that recognizes the contribution of employees while explaining the resources the enterprise needs. State how leadership will be held accountable for the plan and when Partners will receive an update.

> **The long-term test**
> A policy should be explainable to a current Partner who wants the payment and a future employee who depends on the business’s capacity to invest.

WORKSHEET • COMPLETE BEFORE READING THE TEACHING NOTES

Your decision

Write as the decision-maker. Use the historical evidence and the classroom model for their stated purposes. A recommendation needs a boundary, an owner and a test.

My recommendation and the principle it puts into practice

The calculation or evidence that matters most; its main limitation

Who bears the risk, and how their choice or voice is protected

The strongest objection and my response

First action, accountable owner, review date and stop/change trigger

EVIDENCE • METHOD • LIMITS

Sources and reading notes

A reconstructed September 2020 board decision using the published half-year results and accompanying message. The cash budget, payroll and bonus alternatives are invented and do not reproduce the Partnership's actual budget.

J1 John Lewis Partnership, half-year results to 25 July 2020

Published results and Sharon White's message: losses, exceptional items, liquidity and bonus decision.

Open source document →

J2 Principled Business, Capitalists for Capitalism Manifesto

Section 4's call to embody aligned interests provides the framework.

Open source document →

How to read the evidence

The announcement contains both reported results and forward-looking expectations. Accounting measures have different definitions; use the labels in the exhibit. The model's cash resource is intentionally separate from the published liquidity figure.

All quantities in the classroom exercise are invented unless explicitly identified as historical. The models omit factors deliberately for discussion; they are not company forecasts. Photographs are documentary context, with dates and licenses on the cover.

Original Principled Business teaching material. No company approval or affiliation with Harvard Business School is implied. No private interviews or unpublished company records were used. Public sources checked 1 November 2026.

TEACHING NOTES • READ AFTER COMPLETING THE DECISION

Worked analysis

Base-case cash

Bonus rate	Bonus cost	Closing cash	Reserve position
0%	£0m	£60m	£10m above
1%	£5m	£55m	£5m above
3%	£15m	£45m	£5m below

Cash before bonus is £200m − £80m − £40m − £20m = £60m. The maximum distribution consistent with the £50m reserve is £10m, or £10m ÷ £500m = 2% of eligible payroll.

The downside changes the decision

With £100m operating outflow, cash before bonus falls to £40m. Even a zero bonus misses the reserve by £10m. Suspending the payment is therefore insufficient: leadership must revise other cash flows, secure credible funding or reconsider the plan. A 1% payment would increase the gap to £15m.

A credible recommendation

A zero or modest conditional bonus can be argued under the base assumptions, but the board should explain the downside and preserve time to respond. A reinstatement rule should connect performance, cash resilience and investment needs, with transparent review. It should not imply that reaching one number eliminates all judgment.

> **Common errors**
> Do not subtract ordinary payroll twice, treat an impairment as an equal cash payment, or assume reported liquidity is an unrestricted distribution fund.

TEACHING NOTES • READ AFTER COMPLETING THE DECISION

Outcome and teaching plan

What happened next

In September 2020, the Partnership confirmed there would be no bonus the following year given the profit outlook. It also stated financial conditions under which it expected to resume payments. Those were dated expectations, not an unconditional promise. [J1]

A 75-minute discussion

Minutes	Facilitation plan
0-10	Choose preserve, suspend or conditionally pay.
10-25	Separate effort, ownership, accounting performance and cash.
25-40	Calculate the bonus options and downside reserve gap.
40-55	Draft the Partner explanation and reinstatement rule.
55-65	Reveal the announced decision; examine how expectations should be communicated.
65-75	Apply the funding and voice questions to another reward policy.

> **Closing question**
> How should an employee-owned business explain a decision that protects future shared value by limiting a benefit people expected today?

Assess the decision at its stated boundary. Later success cannot prove the original choice was sound; later failure cannot, by itself, prove it was unreasonable.