Employee ownership: what does it mean? – 4/6/20

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Opinion: Employee-owned businesses tend to perform better than traditionally owned ones.

Alex Sims looks at what share schemes look like for employees.

Covid-19 has seen the rapid adoption of new ways of working, such as working from home and Zoom meetings. However, these things have been in use for many years. Some organisations allowed or even required employees to work from home for part of the week. Zoom meetings, and before that Skype, were routine for many organisations.

As the science fiction writer, William Gibson, said in 1999 after seeing virtual reality for the first time, "The future is already here – it's just not evenly distributed".

Another example of organisations embracing alternative ways of working is employee ownership. Sinead Boucher, following the recent management buyout of Stuff, the news media company, signalled she plans to develop an employee ownership model.

Employee-owned businesses are not new. Boucher noted that Beca, a successful New Zealand engineering and management consultancy firm, operates with its staff as shareholders. Even more recently, Countdown announced it is awarding shares to over 14,000 of its permanent employees due to their efforts keeping stores open during the lockdown.

Research has shown that employee-owned businesses on average perform better than more traditionally owned businesses. Such results are understandable: employees are more likely to be engaged in businesses in which they are part owners.

Just how Stuff's employee ownership model will work has yet to be decided. There are many different forms of employee ownership. For example, while Beca is described as employee-owned, not all employees own shares and while employees own the majority of Beca's shares, they do not own all of its shares.

Share schemes can be used to give employees shares or allow employees to purchase shares, sometimes enabled by a loan from the company. As with Countdown, the employee shareholders can be just one of the many different shareholders. Or the employees may own the majority of the company's shares as with Beca.

In truly employee-owned firms, employees would own all of the shares.

Shares can be awarded to all those entitled in one tranche, as Countdown will do. Or, as occurs in Beca, they can be given to certain employees because of time served and/or the employee's perceived value to the company.

Employee shareholders' rights can be further whittled away as some employee shareholders have fewer rights than ordinary shareholders, for example, they may have no voting or dividend rights.

Employee share ownership is only part of the equation even for employees whose shares have full voting rights. In reality, the employees may have no power and influence, no say, in how the company is operated. For example, the Countdown employees, even if their votes are combined, represent a small minority of Countdown's votes and the decision-making power of shareholders is limited.

How can employees have a say in how the company is managed? One way is for employees to elect employee representatives to sit on management boards and other bodies. Employee representation is not new. Germany operates a "co-determination" system. German companies with more than 500 employees must have a third of the seats on their supervisory boards for employee representatives and one half of the seats for companies with over 2000 employees.

German companies with more than five employees can also have employee input as employees are entitled to have a works council if they ask for one. Works councils have considerable rights: they can oversee the implementation of employment laws, deal with appointments and dismissals and even how a workplace is laid out.

Another model is the much lauded John Lewis Partnership, which operates department stores, Waitrose supermarkets and other retail activities in the UK. John Lewis is owned entirely by its permanent employees as partners. John Lewis' employees are able to vote on key decisions and elect representatives to its partnership council and board. The partnership board's role is to hold the chairman of the board to account, influence policy and make key governance decisions. These decisions include selecting board-elected directors, with the chairman's agreement changing the constitution and dismissing the chairman.

As partners, John Lewis' profits go directly to the employees as a bonus. In 2019, the employees had their lowest bonus for decades and received 3 percent of annual pay as a bonus. In 2012, the bonus was as high as 17 percent, equivalent to nine weeks of pay. John Lewis' use of the percentage of pay to calculate bonuses has been criticised as those earning more receive higher bonuses. And because partners in John Lewis do not have shares as such, once they leave employment, they have no shares to sell to realise a growth in John Lewis's value.

It will be interesting to see what employee ownership model Stuff adopts.