THE OWNERSHIP EFFECT

EVIDENCING EMPLOYEE OWNERSHIP AS AN ECONOMIC AND SOCIAL ENABLER

The Ownership Effect Inquiry: What Does the Evidence Tell Us?

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1. Executive summary:

A review of the current literature shows:

1.1 Employee ownership has a positive influence on the economic performance of firms.

1.2 Over the long run, firms with larger employee ownership stake demonstrate stronger performance.

1.3 The evidence of positive influence of employee ownership on economic performance is stronger for smaller firms which make up the bulk of the UK economy.

1.4 Studies lend support to the view that employee ownership positively influences productivity.

1.5 Employee ownership increases the ability of firms to deal with economic and business crises.

1.6 Evidence shows a positive influence of employee ownership on factors of employee engagement such as reward sharing, employee satisfaction, organisational commitment, identification with the organisation, job attitudes, and motivation.

1.7 Evidence shows that employee ownership increases employee retention.

A review of the policy environment shows:

1.8 Policies that promote employee ownership have greater relevance, and potential impact in the current economic environment. Employee ownership models have received significant attention as part of the current policy debate on boosting UK productivity (Productivity Review), raising standards of corporate behaviour through corporate governance reforms (UK Government Corporate Governance Reform), new forms of work driven by digital businesses on employment practices, engagement and workplace relations (the Taylor Review), and industrial strategy (Industrial Strategy Green Paper).

1.9 We find renewed focus on corporate governance in the UK policy environment. Employee owned firms are likely to be better governed as employee ownership facilitates greater employee participation in key aspects of corporate governance such as transparency and accountability in decision around executive pay and stakeholder engagement.

1.10 Employee ownership continues to attract the support of all the main political parties. The most recent manifestos of the Conservatives, Labour and LibDems, all reference explicitly either employee ownership or greater employee involvement in businesses.

1.11 The Finance Act 2014's support for employee owned trusts that followed the publication of the Nuttall Review in 2012 has had significant and positive influence on building awareness and reputation of employee ownership models.

A review of the key enablers and major obstacles show:

1.12 Political support expressed by members of government, members of both the houses, along with legislation, and policy incentives play a crucial role in promoting employee ownership.

1.13 Communities of specialists, experts, sector associations, and employee ownership champions are important in influencing policy and promoting employee ownership awareness and best practices.

1.14 The greatest challenge to the expansion in the number of employee owned businesses is posed by obstacles that hamper transition from owner-led to employee-ownership.

1.15 The greatest risk facing firms with high employee ownership is the inability to sustain and reinforce the foundational values of employee ownership.

2. **Introduction**

To establish the contribution of employee ownership to the UK economy, and how it can contribute to the Government's aim of raising productivity and standards of corporate behaviour, The Employee Ownership Association has launched the Ownership Effect Inquiry. The objective of this report is to provide for the Ownership Effect Inquiry a summary of the current research on employee ownership. The survey of the published literature will primarily focus on (i) indicators of performance of employee-owned firms, comment on (ii) the recent developments in the policy environment relevant for employee ownership, and (iii) the main enablers and hurdles for the development of employee ownership.

For purposes of our survey, we define employee-owned firms as firms in which employees own a *significant* and *meaningful* stake in the business. Furthermore, we adopt the Nuttall Review's (2012) position which states that in addition to financial participation, for a firm to be meaningfully employee-owned, "the employees' stake must underpin organisational structures that promote employee engagement in the company" (p.20)[1].

3. **Current Employee Ownership landscape**

Employee-owned firms contribute between £30-40 billion per annum to UK GDP. Currently there are about 300 employee-owned firms in the UK and this number has been growing on average at about 10% per annum. EO firms can be found in a range of sectors such as retail, manufacturing, health services, social care and consulting services. In 2016, the top 50 employee-owned firm had a combined turnover of £22.6 billion, and posted growth of 10.2%, compared to the UK GDP growth of 7.7%. These top 50 employee-owned firms had a combined workforce of 175,000, which has grown by 15% over three years, compared to growth in the workforce in the UK economy of 5.8% over the same period.[2]

4. **Methodology of the literature survey**

Although we used the definition of employee ownership stated in the Nuttall Review 2012[1] as the main inclusion criteria for selecting studies; in our analysis, we have also included research articles that explicitly addressed employee ownership issues in firms – but where ownership stake was not quantified or formally acknowledged.

We conducted a literature search in relevant databases (business and economics) that include peer reviewed journal articles, as well as other types of research publications that include conference proceedings, book chapters, and books, as well as reports, policy documents, and prominent news articles. Our focus is on the relevance of the literature and summarising current evidence considering the issues raised by this literature.

5. Indicators of performance of employee owned firms

Employee ownership influences performance of firms through a variety of mechanisms[3]. In this section, we first review the direct evidence on the influence of employee ownership on economic performance of firms, and then review the evidence of how intermediary mechanisms such as productivity, organisational resilience, employee engagement, and retention are influenced by employee ownership.

5.1 Influence on economic performance

A number of studies show that employee-owned firms have either superior or similar economic performance when compared to non-employee owned firms. The observed differences in economic performance is clearer for Small and Medium-sized Enterprises (SMEs), which account for 60% of employment and 47% of turnover in the UK private sector[4]. The impact on performance is clearer over a longer time horizon, and is stronger in firms with larger employee ownership stakes. Furthermore, the difference in performance is more significant in times of economic downturn, which is indicative of the resilience of employee owned businesses (Also see section 5.3).

There are however, couple of important caveats. First, some researchers point out that employee ownership on its own, like any other governance model, does not confer a permanent survival advantage. We find studies that show that employee-ownership models can fail, with firms often reverting to non-employee owned status as a result[5, 6.] This has methodological consequences that should lead us to consider whether existing studies of employee ownership and performance are limited by selection bias i.e. the possibility that studies of employee ownership contain a disproportionate number of high performing firms because they survive as employee owned. Second, there are also a few studies that indicate no significant relationship between employee ownership and performance[7, 8]. Failure to find a significant relationship between employee ownership and performance does not mean that the relationship does not exist, but it does point to the reality that economic performance of firms is usually the result of a complex set of factors, with employee ownership as an important influencer but by no means a sufficient condition for superior economic performance.

Delving into research on employee ownership we find the following:

5.1.1 Greater performance stability: UK studies that use sales turnover and profitability as measures of economic performance show that employee ownership is positively associated with greater stability in economic performance. This is accompanied by longer investment payback horizon when compared to non-employee owned businesses [9,10].

5.1.2 Clearer impact on performance in firms with higher employee ownership stake: Similar results have been reported by US studies that use sales or sales per employee to assess economic performance. A notable study of 300 US firms reports that sales per employee are higher for firms that are employee-owned. The study finds that this effect (i.e. higher sales per employee) was greater among smaller firms, and increases as employees' ownership stake in the firm rises[11]. Another study which compares corporate performance of US public companies: those in which employees owned more than 5% of the stake against other firms where employees held no stake finds that while no differences exist in case of large firms, employee ownership did matter for smaller firms as smaller employee owned firms tend to perform better than non-employee owned firms[12]. As this study is based on firms that have small employee ownership stakes, it also underlines the observation that the effect on economic performance is clearer for firms where employees hold higher ownership share.

5.1.3 Evidence from EU studies: The majority of existing studies on the impact of employee ownership rely on UK and US data. The question inevitably arises if a similar positive relationship between employee ownership and performance can be observed in countries where labour laws are less flexible than in the UK and US. EU studies on this issue confirm a similarly positive influence of employee ownership on the economic performance of firms. A study of the Spanish retail sector, reports evidence of faster sales growth in employee owned retail stores[13]. This study is consistent with studies that show that employee owned firms perform better in terms of economic value-added, which is an indicator of the operational or economic activity of the firm[14].

5.1.4 Financial returns: Studies of economic performance by public companies point to employee ownership as a strong predictor of share value. This supports research findings that suggest that employee share purchase programs (ESOPs) positively influence financial returns[15, 16]. These results have been found to be robust even after adjusting for a variety of influences such as risk and business cycles[17]. Scholars have concluded that the positive influence of ESOPs on financial performance is further enhanced by the governance structure of employee ownership which improves monitoring and thus confers greater efficiency on the firm[18].

5.1.5 Return on Assets (ROA): Similar results have also been observed for EU firms using Return on Assets (ROA) as a measure of economic performance. But in the case of ROA, the relationship between employee stock ownership and economic performance is strongly influenced not only by firm specific characteristics, but also by governance systems, country, and industry[11]. Scholars have drawn particular attention to employee participation, arguing that for employee ownership schemes to have a strong positive impact on economic performance it should be accompanied by greater employee participation in decision making[9, 19].

5.2 Influence on productivity

The evidence on the relationship between employee ownership and productivity is mixed – indicating either a positive influence or no statistically significant influence. However, there is evidence for higher productivity in studies that combine micro-level factors such as individual motivation and team dynamics, with macro-level factors, in particular governance. These studies tend to show statistically significant higher levels of productivity in employee owned businesses only when the difference is large[20]. A problem facing studies of the relationship between employee ownership and productivity is the role of other factors such as the regional context, since productivity is strongly influenced by infrastructure or cost of inputs, which can have a major impact. A review of current evidence on productivity indicates the need for more UK based research. We also need research designs that use a wider range of productivity measures, in addition to the purely economic measures like labour productivity or self-reported measures of productivity that are prone to measurement bias.

5.2.1 Strength of ownership: Some US studies suggest that the level of employees' ownership stake – defined as proportion of the firm's stock owned by employees – is strongly and positively related to productivity. Comparative studies that contrast employee owned and non-employee owned business are less conclusive – indicating either positive or no significant difference in productivity between the groups [16, 21, 22].

5.2.2 Employee involvement: Employee ownership is expected to increase employee involvement – defined as participation of employees in goal setting, planning, and decisions that influence work practices. Employee involvement increases the motivation of employees to improve their performance, and thus is competitively important. A study of Spanish shop floor workers that examined the extent to which employee ownership influences employee involvement found that workers with a stake in the business are more likely to identify with the business, and more likely to actively seek greater efficiencies by cutting costs, thereby raising productivity and improving quality. Employees achieve the productivity gains in part by monitoring the work of their colleagues – a strong indicator or employee involvement[13]. A follow-up study of Spanish firms suggests that efficient use of capital by employees and the employees' willingness to adjust work practices may be responsible for the higher productivity of employee owned businesses [23].

5.2.3 Experimental studies: Empirical studies of employee ownership usually rely on interviews, surveys, and indirect indicators. Testing the 'mind set' of employee ownership is difficult using this data. Research has begun to use experimental designs - the gold standard in science in general and social psychology in particular - to examine the employee ownership mind set [24]. A recent experimental study shows that participants who are exposed to the principles of employee-owned firms exhibit higher productivity at the tasks that were assigned to them. This suggests that employee owned business may inculcate an employee ownership mind-set that generates initiatives that reduce waste, create more efficient designs, and improve coordination with other employees or parts of the business.

5.2.4 Employee autonomy: Employee autonomy is related to, but distinct from, employee involvement. Employee autonomy is the extent to which employees can control their work, and the discretion that they are allowed when dealing with suppliers and customers. Studies suggest that compared to non-employee owned businesses, employee owned firms tend to allow non-managerial employees greater autonomy. A quantitative study of US firms finds that workers in employee owned firms often influence the firm's economic performance by innovating around work processes related to new products and marketing[11]. Top management willingness to allow employees the autonomy to adopt changes can be crucial for performance. Where non-managerial employees are included in ownership schemes, research shows a clear statistical relationship between ownership and productivity if the employees are accorded greater autonomy in decision making. In contrast, if the ownership schemes are confined to managerial staff, i.e. it excludes non-managerial employees, the positive relationship between autonomy and productivity no longer exists[25].

5.2.5 Innovation: Researchers point out that in general it is difficult to verify the influence of ownership on product and process innovation using statistical methods. However qualitative evidence indicates that employees in employee owned organisations feel more empowered to adopt changes to their tasks, roles, and routines, which could positively influence innovation. A study of the John Lewis Partnership[26] shows a correlation between employee ownership, open information flows, high wages – all factors that are positively associated with high productivity and innovation.

5.3 Influence on resilience

Organisational resilience – the ability of an organization to absorb financial or market shock and recover from it – is of concern to a variety of stakeholders, especially as businesses increasingly operate in uncertain times. Researchers have debated whether employee owned firms are likely to be more resilient. One line of argument is that employee owned firms can generate crucial additional resources in times of crisis. These resources could be internal e.g. employees are more likely to forgo part of their remuneration for the longer-term benefit of the firm, as well as external e.g. capital markets viewing increasing employee commitment to the business as a positive signal of health and long-term survivability of the firm[27].

5.3.1 Long-term thinking: UK based evidence suggests that employee owned firms are more resilient than non-employee firms[9]. This indicates that employee ownership could be a source of resilience as employee owners are more likely to make decisions in the longer-term interest of the firm.

5.3.2 Firm survival: Using a matched sample of companies with and without employee ownership, a study of U.S. public companies from 1988-2001 shows that companies with employee ownership stakes were more likely to survive during this period[28].

5.3.3 Investment in human and social capital: Research shows that businesses that added communication, training, and participation are more likely to report performance gains. In general, investment in these areas is likely to decline when companies face economic threats. However, research also shows that a cut back is less likely to happen in majority employee owned companies that face economic threats, which in turn suggests that as a result employee owned firms are more likely to perform better in times of crisis[29].

5.3.4 Flexibility and resilience: Flexibility in resource allocation is an important source of organisational resilience. One of the studies we surveyed shows that managers in employee owned businesses play a crucial role in developing a culture that promotes flexibility. This highlights that a culture that increases resource availability, the serviceability of those resources to the business, and flexibility in the allocation of resources is more likely to make the business more adaptable and therefore resilient[30]. For instance, employees in an employee owned business can be more flexible in redefining their roles, undertaking training, or deferring remuneration.

5.3.5 Contribution to community resilience: In addition to increasing firm resilience, employee ownership also has positive influence on community resilience. Employee-owned firms create jobs three times faster than their conventional counterparts[31]. A study of US based public companies shows that because companies with employee ownership stakes are more likely to survive, they may have an important role to play in improving job and income security, as well as decreasing unemployment [28]. Furthermore, research in specific sectors such as tourism, show that the employee ownership model has a positive socio-economic impact on the development of new business models such as sustainable tourism[32].

5.4 Influence on employee engagement

A large body of evidence suggests that high levels of engagement of employees with their tasks, teams, and the organisation in general is greater in employee owned organisations, which can positively influence performance[33]. There are however a handful of studies that have not found any effect[34] – suggesting that stock ownership by itself does not necessarily ensure increased employee engagement. Instead, developing meaningful forms of ownership though increased employees' participation in decision making is more likely to increase employee engagement[35, 36, 37].

5.4.1 Key factors: A large body of research indicates employee engagement in employee owned businesses is positively correlated with factors such as reward sharing, employee satisfaction, organisational commitment, and identification with the organisation, job attitudes, and motivation[38, 39, 40, 41].

5.4.2 Sharing rewards: Rewards consist of not only the salary but also other benefits such as retirement plans, parental leave, or tuition reimbursement. Employee owned firms tend to perform better in sharing rewards particularly with employees across all levels. A recently published survey of US workers reports that employee owners have 33% higher income compared to non-employee owners and this holds true at all wage levels. The impact of better reward sharing is even clearer at the household level – with the household wealth of employee owners being 92% higher than non-employee-owners[42].

5.4.3 Participation in decision making: A UK study finds that employees' participation in decision-making generates stronger sense of employee ownership than stock ownership alone. The study also shows that employees' feelings of ownership are significantly associated with higher levels of commitment and satisfaction[43]. A US based study also shows that ownership programmes are positively linked to greater participation in decisions, higher quality supervision and treatment of employees, more training, higher pay and benefits, greater job security, and higher job satisfaction[44]. Research also indicates that employee owners tend to have higher quality of work, with fewer complaints, but perform a similar quantity of work[38].

5.4.4 Top management role: Researchers have concluded that employee engagement at employee owned businesses is higher because top management in these firms are more likely to seek employees' input in strategic decision making. Likewise, top management encourages feedback from operations in employee owned business when it comes to setting the strategic direction for the firm[9, 37].

5.4.5 Cooperation and less conflict: Studies often attribute the overall positive relationship between engagement and performance in employee owned businesses to shared interests which in turn leads to greater cooperation. This is often accompanied by less conflict between workers, managers and shareholders. Employees are also more likely to show more flexibility towards remuneration, especially when the company is confronting a crisis[14].

5.4.6 Perception of fairness: There is evidence to show that employees in employee owned firms have greater sense of fairness in remuneration. These employees also have higher levels of involvement with their tasks and show a greater propensity to interact with and help their co-workers[45].

5.4.7 Absenteeism: Absenteeism is an important contributor to lower performance. Research on absenteeism in employee owned business shows that absenteeism declines with increasing employee ownership[46, 47]. In a study on absenteeism in French firms that had different profit-sharing and employee share ownership schemes running in parallel, researchers find that while all types of schemes are associated with statistically significant reductions in absenteeism, using only employee share ownership scheme led to a reduction of absenteeism by approximately 14%, while the using profit sharing and employee share ownership together led to a reduction of approximately 11%, and the use of only a profit-sharing reduced absence by approximately 7% [48].

5.4.8 Investment in training and development: There is limited but clear evidence that employee-owned firms are likely to invest more and have greater focus on training, health, and safety topics[49]. A study reports that employee ownership and participation have a significant positive influence on the decline in issues of health and safety at the firm level. This effect is a result of worker participation in specific training and awareness programs[50].

5.5 Influence on employee retention

Research shows that employee ownership, most often through ESOPs, has been widely used as tools for retention, especially for top talents and senior managers. UK research that examines this issue is not extensive, but evidence indicates a clear positive relationship between ownership and retention that is supported by studies in other countries. This effect is clearer in sectors that traditionally have high employee turnover, limited supply of labour, or shortage of skills.

5.5.1 Turnover intention: Turnover intention by employees, even before it translates into an exit, can create stress within the organisation. Results from a large survey based study shows that employees report lower turnover intention when they expect substantial financial benefits from their company's share ownership. Evidence for lower turnover intention is also found when the company's management is highly committed to the principles of employee ownership, and when top management maintains extensive communications with employees[51].

Employee retention rates: Organisations that experience high turnover experience disruption and loss of talent and expertise. Employee retention rates measure aggregate exit decisions, and therefore signal the organisation's positive or negative internal working environment. Studies with US based firms find evidence that employee ownership that combines financial rewards with greater perceived influence on decision making is positively related to organisation commitment and job satisfaction, which in turn increases retention rates [52, 53, 54]. A recent US-based survey reports that the median tenure of employees in employee owned businesses is 5.2 years, compared to 3.4 years for the non-employee owned businesses[41]. Similar results have been reported across economies: A Spanish study shows that employees with a stake in the business are more likely to remain with the business14.

5.5.2 Inequality Reduction: Research shows that in addition to direct financial benefits, employees are also more likely to remain in employee owned businesses because of lower inequalities in terms of income, wealth, power, prestige, privileges, as well as lower differential in social status between managers and employees. [55]

5.6 Summary of the evidence

Research evidence shows that the relationship between employee ownership and performance is overwhelmingly positive. In the following table (see table 1) we summarise the quality of evidence along each dimension of performance and highlight the main limitations.

Table 1: Summary of the quality of evidence along each dimension of firm performance and its main limitations

Dimension of performance	Quality of evidence	Main limitation
Economic performance	We find a clear positive relationship between employee ownership and economic performance for smaller firms, over longer time horizons, firms with larger employee ownership stakes, and in times of economic crisis.	Research shows that economic performance is the result of a variety of factors that are often difficult to identify and measure. Therefore, even though we find a positive relationship (i.e. correlations) , we have incomplete understanding of the causal pathways by which employee ownership leads to better economic performance of the firm.
Productivity	We find either positive or no influence of employee ownership on productivity – indicating that on balance the evidence is inconclusive. This calls for more and better research designs to isolate the positive influence of employee ownership on productivity.	A significant body of evidence is built of on definitions of productivity such as labour productivity or self-reported measures of productivity – that do not adequately capture the essence of sustainable long term productivity espoused by employee owned businesses.
Resilience	We find a clear positive relationship between employee ownership and resilience of the firm as well as the wider community.	There are only a few research papers on this topic – indicating the relatively more recent interest of scholars in exploring the relationship. There is insufficient understanding of the underlying mechanisms of how employee ownership makes businesses more resilient.

Employee engagement	We find a clear positive relationship from several studies. We find indications that reward sharing, participation in decision making, perceived fairness, lower absenteeism, better training, health and safety are all positively related with employee ownership.	The relationship is heavily influenced by firm level variables such as quality of leadership and profit-sharing principles.
Retention	We find a clear positive relationship between financial benefits from being employee owned and retention.	The research evidence is primarily from the US

6 Comments on key developments in the policy environment

The Nuttall Review[1] presented three main areas of policy intervention in support for employee ownership. These are (a) Raising awareness (b) Increasing resources available to support employee ownership and (c) Reducing the complexity of employee ownership. We find there has been some progress along all three recommendations.

6.1 The Finance Act 2014 - For employee ownership, the most significant policy update is the introduction of tax exemptions for companies owned by employee ownership trusts (EOT). The Finance Act 2014, Schedule 37, introduces three new tax reliefs to promote employee ownership [56, 57]**.**

6.1.1 Employees of firms under direct employee ownership i.e. if the employer offers its employees company shares, already enjoy tax benefits like not paying Income Tax or National Insurance on the value of the shares [58].

6.1.2 The update in the Finance Act 2014, Schedule 37, puts employee trust ownership on a par with the tax advantages enjoyed by direct employee share ownership.

6.1.3 As pointed out earlier, firm performance is influenced by a combination of factors. Thus, it may be unwise for firms to undertake restructuring to an employee ownership trust purely to gain tax benefits. Nevertheless, the policy update has greatly improved awareness about the benefits of the employee ownership model and provides financial incentive for firms that wish to become employee owned[59].

6.2 Diversity of employee ownership: Over the past decades, successive governments have promoted different types of employee share ownership schemes; most notably Approved Profit Sharing (1979), the now discontinued Share Incentive Plan (2000) and policies to promote employee ownership, for example, Qualifying Employee Share Trust (1989) and more recently The Finance Act (2014). These initiatives have been accompanied by growing awareness, as well as increasing political support, for employee ownership (See for instance the Ownership Commission 2012, Hunt Review on Mutuals, 2014, and successive parliamentary group inquiries on the wider topic of employee ownership [60, 61, 62].

6.3 Even more relevant in the current economic environment: Two aspects of the current economic environment are useful when considering further policy interventions to promote employee ownership

6.3.1 Shift towards services: The UK economy is increasingly shifting from manufacturing to services. The increasing shift involves the development of firms with greater focus on human capital though the attraction, development, and retention of talent – all of which are positively influenced by models of employee ownership.

6.3.2 Economic turbulence: Increasing uncertainty due to economic crises and Brexit calls for the development of more resilient businesses and communities – both of which are better supported by employee ownership models.

6.4 Government focus on corporate governance: The UK has always had a strong reputation as a world-leader in corporate governance. More recently the UK government has shown strong intent to strengthen trust and accountability of management through the publication of a green paper that is designed to invite feedback and initiate a discussion on three aspects of corporate governance: executive pay, employee and customer voice, and corporate governance in large private businesses[63].

6.4.1 Increasing awareness: These initiatives have wide support. Even as a green paper i.e. as a policy proposal, these initiatives help in generating awareness of better corporate governance through practices such as employee representation on the board, employee stock-ownership, and various types of employee ownership.

6.4.2 Employee owned firms are well positioned: So far academic effort on the relationship between employee ownership and corporate governance has been conceptual and case based. These studies indicate that employee owned firms are likely to be better governed as employee ownership facilitates greater employee participation in corporate governance[64]. Robust empirical evidence that tests this relationship would be very useful from a policy perspective.

7 Key enablers and major obstacles

Political and policy support is essential for the enablement and development of employee ownership. Under the last Conservative-Liberal Democrat Coalition Government, the employee ownership agenda received significant support that has attracted more attention, awareness, and growth[65]. This support has boosted the employee ownership ecology:

7.1 Employee ownership champions: Studies show that employee ownership benefits from the creation and development of communities of experts and employee ownership champions[65]. The expert community, Employee Ownership Association (EOA), and champions like the John Lewis Partnership have helped create momentum to influence policy, diffuse best practices, and create more awareness about the ownership models and their suitability.

7.2 Problems of transitioning to employee ownership models: Studies show there are three main challenges in transitioning to employee ownership [66]

7.2.1 Lack of awareness: Even though there is a steady increase in awareness of employee ownership – the concept is not widely known and more importantly it is insufficiently understood by both owners and advisers[, 67]. Therefore, uncertainty and misconceptions about employee ownership often leads to an avoidance of transitioning into such models.

7.2.2 Complexity in transition: Many owners are known to consider other forms of exit such as trade sale, Management Buy Out (MBO), or Management Buy In (MBI) as these are seen as easier and quicker – often led by the owner without significant consultation with the employees[68].

7.2.3 Lack of transition planning: Studies show that the owner's decision to exit is often triggered by the lack of succession planning. In a recent study, we find that 61% of SMEs reported no succession planning in place[69]. However, often due to a lack of planning in transition – most notably in financing at the time of transition - employee ownership does not emerge as a viable option.

7.3 Sustaining employee ownership models: A central risk to the vitality of the employee ownership model is the bureaucratisation of employee ownership – the creation of organisational systems and structures that progressively distance employee ownership from its foundational values. Studies show that for employee ownership to sustain itself, firms must invest in developing a culture that reinforces the values through education and leadership[70].

8 Conclusion

The evidence of the impact of employee ownership on performance is overwhelmingly positive. The clearest evidence is for smaller firms, firms with larger employee ownership stakes, and in studies over longer time horizons. Employee owned firms tend to be more productive, have higher employee engagement along factors like rewards sharing, job satisfaction, organisational commitment, and motivation – which is reflected in higher retention and lower absenteeism. Employee owned business are more resilient in crises and appear to have a positive impact in the wider community. This evidence has salience in the current economic climate.

While the general awareness of employee ownership models is improving, complexities involved in transitioning appears to be a significant hurdle. There is also need for further evidence to examine if greater employee participation in key aspects of corporate governance such as transparency and accountability enables employee owned firms to perform better not only financially but also contribute to wider society.

This can be more actively addressed through the combined work of policy makers and employee ownership champions in generating awareness, providing incentives, and creating best practices making The Ownership Inquiry highly relevant and timely.

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