The employee ownership effect: a review of the evidence

John Lewis Partnership

Employee Ownership Association
About Matrix Evidence and the project sponsors

About Matrix Evidence
Matrix Evidence provides expertise in a range of high quality research methods and tools. We design tailored research approaches to support decision-makers with the highest quality, most relevant evidence to inform the choices they make.

Matrix Evidence is part of the Matrix Knowledge Group, which offers innovative consulting, research and informatics to international organisations, governments, public service providers, businesses and the charitable sector. Our clients operate in sectors including healthcare, social care, crime and justice, education, technology, transport and environment, all of whom call on Matrix to solve complex problems in a wide variety of disciplines.

About the project sponsors

The Employee Ownership Association is the voice of co-owned business in the UK, representing a sector of the economy now worth an estimated £25 billion in combined annual turnover. A network of companies where employees own anything from a substantial to a controlling stake in the business, EOA’s members include the John Lewis Partnership; other long established co-owned companies such as Scott Bader, Tullis Russell and Swann-Morton; global corporations such as Arup, Unipart and Mott MacDonald; innovative providers of public services such as Central Surrey Health and Circle; public companies such as Eaga and Cyril Sweett; and a range of smaller companies from a wide spread of business sectors.  

www.employeeownership.co.uk

The John Lewis Partnership operates 29 shops across the UK (28 department stores and one John Lewis at home), johnlewis.com, and 227 Waitrose supermarkets. The business has an annual turnover of over £7.4bn. It is the UK’s largest example of employee ownership where all 70,000 staff are Partners in the business. Our Founder’s vision of a successful business powered by its people and its principles defines our unique company today. The benefits and profit created by the business’s success are shared by all the Partners.

www.johnlewispartnership.co.uk

Circle is Europe’s largest partnership of clinicians and healthcare professionals, created to redefine the way healthcare is delivered. Circle has Europe’s largest development pipeline of new-build hospitals, with contracts and plans for 25-30 innovative healthcare facilities in the UK. Circle hospitals are designed by Circle partners alongside world-class architects, in order to challenge conventional thinking and improve the effectiveness of healthcare delivery. Circle’s first new hospital is in Bath, and has been designed by Foster + Partner architects. Circle’s uniqueness is that it believes healthcare is best delivered by putting decision-making in the hands of those closest to the patients – the healthcare professionals. Everyone who works at Circle is a co-owner of the business, and everyone is actively encouraged to contribute to daily improvements in the way patients are treated. Measurement of clinical outcomes, patient experience, and costs of delivery is a key part of the Circle operating philosophy, and is used to drive continuous improvements.

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1.0 Key implications

- Greater employee ownership could bring economic and social benefits to both the public and private sectors in the UK, according to the available research;

- Employee ownership can improve employee engagement, rates of innovation, business sustainability and productivity, where it is delivered effectively;

- Policy aimed at extending employee ownership in the public sector should take account of evidence suggesting that it is the conditions under which employee-owned enterprises operate, specifically employee involvement and participation among others, that can work together with employee ownership to maximise the potential of these enterprises to deliver benefits;

- Likewise, policy aimed at encouraging business owners to transfer ownership to employee-owned businesses should heed the evidence that employee involvement and participation appears to be an important ingredient of success;

- Establishing employee-owned enterprises is likely to be more successful when the specific wishes of employees and other local conditions are taken into account rather than imposing so-called “off-the-shelf” models;

- Government policy aimed at encouraging the expansion of employee ownership might usefully look at ways in which the financial services sector could be encouraged to extend the same support to these enterprises as it provides for enterprises operating on more traditional forms of ownership;

- Employee-owned companies appear to be more resilient over business cycles and may therefore be particularly relevant to investor and Government interest in more sustainable business models;

- Given the wide variation in models of employee ownership, and the importance of specific features of these enterprises as precursors of success, valuable information could be gained from systematically monitoring and evaluating the development and performance of new employee-owned enterprises.
If the last two years have taught us anything, it is that economies and businesses - and especially banks - benefit from diversity, diversity of ownership as well as diversity of trade. The dominant culture of investor-controlled companies chasing short-term shareholder value has been found badly wanting, and people are once again questioning what business is for.

The Employee Ownership Association welcomes this debate and the renewed interest being shown by policy-makers and politicians in the idea of employee ownership.

We believe ownership matters, because the way business is owned largely determines its behaviour, its horizons, its values, its longevity and its performance. Different ownership systems will either diffuse wealth or concentrate wealth; they will connect people to business or disengage them; they will encourage a long-term view or short-term view that either husbands resources or exploits them.

Our members – approaching one hundred companies substantially owned by their employees or held in trust for their employees – believe that employee ownership is an essential ingredient, and in some cases the defining quality, of their culture, values and performance as businesses. Our mission, as their representative body, is to help create a climate in which employee ownership of all kinds can flourish and prosper.

One of our roles is to commission and publish research on employee ownership. The evidence base is already very substantial, covering everything from co-operatives to stock option fuelled multinationals, and examining hypotheses on measures as broad as productivity, sales growth, absenteeism, innovation and even health and mortality.

With so much research available we thought the time was right to commission an independent review of this substantial body of existing evidence, and to ask an independent company, Matrix Evidence, to sift through it and to draw impartial conclusions in an accessible way that could be easily presented to policy-makers. We also wanted to expose any gaps in the research which future studies might fill.

What follows is just a glimpse of the evidence on this topic. Some of it is utterly compelling; some is much more equivocal or nuanced. It all seems to point to one clear outcome, namely that, properly structured, and with appropriate attention to leadership and management style, employee-owned businesses have the potential to transform our economy and individual businesses, to spread wealth and make work a better and more fulfilling experience.

We are very grateful to our two sponsors, the John Lewis Partnership and Circle, for their generous financial support for this project, and for their unstinting commitment to the idea of employee ownership.

Sir Stuart Hampson  
President  
Employee Ownership Association
The Employee Ownership Association (EOA) commissioned Matrix Evidence to undertake a review of the evidence concerning the benefits of employee ownership as a business model. This report summarizes findings from the evidence review, taking a detailed look at the impact employee-owned businesses have on employees in particular, and on economic performance more broadly.

Employee-owned companies operate across different sectors, showing strong sustained performance, and delivering benefits for employees and society. Previous reviews of the literature have found mixed but broadly positive results across a range of outcomes, including productivity and employee satisfaction.

Government can help to promote employee ownership through a range of policy instruments. This narrative review provides a summary of the evidence relevant to making the case for government intervention to support the further development of employee-owned enterprises. The need for good evidence in this area is widely accepted, not least by the 2008 report of the All Party Parliamentary Group on Employee Ownership.

The EOA worked closely with the Matrix team in developing the methods for the review, advising on the scope of the review and the outcomes it examined.

We delivered the narrative review in four key stages:

- searches of the research literature;
- screening references for inclusion;
- data synthesis; and
- writing of the report.

Search strategies for the review were pragmatic and recursive using focused clusters of terms to rapidly identify the most robust evidence on particular topics. Sources for the review included:

- EconLit (The American Economic Association’s electronic bibliography of economic literature)
- Labordoc (The International Labor Organisation Library’s database, containing references and full text access to the world’s literature on the world of work.)
- MOS (Management and Organisation Studies) (Includes the full text of 38 journals published by SAGE (publishers of over 500 journals) and participating societies, some journals going back 57 years, encompassing over 10,000 articles.)
- Planex (Provides online access to the most comprehensive collection of bibliographic abstracts on all aspects of best practice and governance in the UK public sector.)

We used additional sources including: references made available by EOA, web search engines including Google and Google Scholar, and websites of relevant organisations such as the EOA, the US-based National Center for Employee Ownership (www.nceo.org), and the European Federation of Employee Share Ownership (www.efesonline.org).

3.0 Executive summary

Context

The Employee Ownership Association (EOA) commissioned Matrix Evidence to undertake a review of the evidence concerning the benefits of employee ownership as a business model. This report summarizes findings from the evidence review, taking a detailed look at the impact employee-owned businesses have on employees in particular, and on economic performance more broadly.

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Approach

The Matrix team used a narrative review methodology for this review. Narrative reviews provide accessible summaries of the available evidence in a time- and resource-efficient way, based on broad searches of research literature.

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Searches were conducted within Matrix for publicly accessible sources and by our specialist evidence partners at the Centre for Evidence and Policy, part of King’s College London, for subscription research databases.

The review team screened all references, focusing on more robust research studies (e.g. those that control for confounding variables) and on systematic reviews of the evidence where these are available, in order to rapidly identify the most reliable research findings. We prioritised research conducted in the UK, but also included research conducted elsewhere where the findings are transferable (much of the available research came from the US).

The full text of key relevant references was retrieved using the resources of the Centre for Evidence and Policy, who accessed materials via the King’s College library and the British Library as necessary.

We then used the research to produce a narrative synthesis drawing together findings from all the included studies, organised under two broad headings:

1. The impact of employee ownership on employees; and
2. The impact of employee ownership on businesses.

Findings

The review has served as a timely reminder that there is certainly good evidence to support the view that employee ownership can have positive benefits for both employees and business performance. Whilst the evidence reviewed supports the assertion that employee-owned businesses can be just as successful as those operating on more traditional ownership models, it has also demonstrated the need to be aware that:

- Employee-owned businesses take many forms (e.g. cooperatives, mutuals, companies with Employee Share Ownership Plans (ESOPs)), so should not be thought of as a single business model;
- The benefits that can accrue to employees and businesses alike are not a given – they depend on the specific circumstances of employee ownership models, particularly around employee involvement and participation among others; and
- Government can maximise the impact of its interventions by recognising the circumstances under which employee ownership can deliver benefits such as employee satisfaction, rates of innovation, business sustainability and productivity, and tailor policy accordingly.
More specifically, the evidence in relation to the impact on employees and businesses can be summarised thus:

**Impact on employees:**
- Employee commitment and job satisfaction tends to be stronger in employee-owned businesses, although the relationship between satisfaction and commitment is complex and depends upon, among other things, employee views on ownership, e.g. whether employees regard ownership per se as important;
- The evidence supports the view that the primary benefits of ownership to employees flow from their influence on managerial decisions (one of the rights that typically flows from ownership); the evidence that ownership per se increases satisfaction is less convincing;
- Evidence suggests that employees tend to be better off from being an owner, both in terms of financial income and other benefits such as increased job satisfaction; and,
- Whilst the review did not uncover a large body of evidence on the issue, it is reasonable to infer that the greater degree of employee autonomy, influence and task discretion in employee-owned firms is likely to have a beneficial overall effect on occupational health, given the known negative impact on well being from lack of control over work and decisions.

**Impact on businesses:**
- Evidence suggest that businesses owned by employees perform at least as well as businesses operating under other models of ownership;
- Evidence suggests, that under certain circumstances, there are productivity gains from being employee-owned;
- Productivity benefit tends to be most noticeable when ownership is combined with participation in decision-making; and
- Evidence suggests that employee-owned businesses are at least as likely, and in certain circumstances more likely, to survive difficult economic conditions than non-employee owned businesses.
- There is some limited evidence that suggests the higher degree of employee commitment and awareness in employee-owned companies is likely to be associated with increased propensity to innovate.

**Implications**
- Benefits can accrue to encouraging the expansion of employee ownership in the UK in both the public and private sectors;
- Employee ownership can improve employee satisfaction, innovation and productivity; Policy needs to take account of evidence that it is the conditions under which employee-owned enterprises operate that maximise their potential to deliver benefits;
- Bespoke solutions to establishing employee-owned enterprises are likely to be more successful than "off-the-shelf" models;
- The financial services sector might need encouragement to provide appropriate support to employee-owned businesses; and
- Valuable information could be gained from systematically monitoring and evaluating the development and performance of new employee-owned enterprises.
4.0 Introduction

The Employee Ownership Association (EOA) commissioned Matrix Evidence to undertake a review of the evidence concerning the benefits of employee ownership as a business model. Since the 1970s, a considerable body of research has looked at the performance of employee-owned businesses relative to their more conventionally owned counterparts. This report summarizes the findings of this research in an effort to establish the unique contribution employee-owned businesses bring to an economy.

Employee-owned organisations are those owned wholly or partially by their employees (majority ownership is sometimes distinguished from “co-ownership”, where employees hold a substantial but minority stake), and where this ownership is broadly based across the organisation, including lower-level employees as well as senior management.

Employee ownership can take many forms, ranging from full workers’ co-operatives to share option schemes, and can be either direct or indirect through instruments such as trusts. Employee-owned organisations generally, although not always, demonstrate a high degree of participation by employees in the management and strategic direction of the organisation, and are strongly committed to employee engagement and consultation.

As a consequence, the practice landscape relating to employee ownership is complex; any attempt to understand the relevant evidence base will need to pay specific attention to both the type and distribution of ownership within the organisation, and to its interrelations with management practice, organisational strategy and culture.

Employee ownership has a long history, with employee-owned companies in many different sectors showing strong sustained performance, and benefits for their employees and the broader society over decades. Employee ownership is concentrated in particular sectors, with independent private companies, small businesses (SMEs) and quoted companies accounting for most employee-owned organisations in the UK. However, there is increasing interest in how the lessons of employee ownership might inform the work of public service organisations such as the NHS, indicating the potential for the benefits of employee ownership to reach across the whole economy. Internationally, the US has shown the most extensive uptake of employee ownership, mostly in the form of share option, share purchase and ESOP schemes, while the sector has also grown rapidly in Europe in recent years.

The employee-owned sector is estimated to have a value of £25 billion, representing 2 per cent of the UK economy – and it is growing. Employee-owned businesses take a variety of forms and operate in almost every sector of the economy. They are united by an ethos that puts people first, involving the workforce in key decision-making and realising the potential and commitment of their employees.

Government can help to promote employee ownership through a range of policy instruments, including taxation (a major factor in promoting uptake of employee ownership in the US) and regulations regarding public service contractors, as well as by helping to disseminate evidence and raise awareness of the benefits of employee ownership.

An improved understanding of the evidence on employee ownership, and its potential benefits both economically and in terms of the well-being and prosperity of employees and communities, could help to inform policy on a number of levels. A robust synthesis of the evidence will help to illuminate the role of employee ownership in delivering key policy goals, regarding not only economic productivity and the promotion of a fairer society and employment opportunities for all, but also the broader health and well-being of the population and the creation of stronger communities.

There is a widely recognised need for more empirical research on the benefits of employee ownership and its impact, as stated, for example, in the 2008 report of the All Party Parliamentary Group on Employee Ownership.
For this project we have focused on empirical research concerning the relationships between employee ownership and key outcomes. Many primary studies have investigated differences between employee-owned organisations and non-employee owned companies in terms of financial performance and productivity; employee attitudes; and organisational performance. There is strong evidence of a positive relationship for many of these outcomes.

However, the primary studies are often variable in quality, and it is not easy to tell where positive findings of particular studies might be outweighed by negative findings elsewhere in the literature. Research synthesis in this area is not common, and where it has been done, most has not been fully systematic. However, with those caveats in mind, the reviews of the literature that have been conducted have found mixed but broadly positive results across a range of outcomes, including productivity and employee satisfaction.

Why a review?

Evidence reviews are key strategic tools when it comes to establishing the current state of knowledge in a particular field. Knowledge develops by accumulating evidence. Breakthroughs do not happen on the back of eureka moments; they are the result of multiple studies replicating the same findings. That puts research synthesis at the heart of developing a robust evidence base to inform decision-making. The sheer scale of research evidence available for synthesis is staggering. For example, the ISI Web of Knowledge (the largest online academic database of scientific information) currently covers 23,000 journals, 110,000 conference proceedings, and 700 million cited references.

Robust reviews are especially valuable in synthesizing evidence around social policy interventions. Because effective social policy typically brings about modest, albeit important, change it is particularly important for research syntheses to reduce the impact of bias and chance when summarizing findings.

By the late 1970s, scientists were beginning to look at the issue of synthesizing research findings as a discipline in its own right. By the turn of the new century, robust research syntheses were being commissioned in fields as disparate as advertising, ecology, education and zoology.

Matrix Evidence conducted this review during late 2009/early 2010. We used established review methods to identify the most relevant and robust studies within the time and resource constraints. We have recorded each step of our search and review processes to ensure objectivity consistent with our commitment to producing robust evidence. Given the time and resources constraints, we have not used full systematic review procedures. Consequently, we would not wish to claim to have reviewed every piece of relevant research on this topic. However, we are confident that our search procedures are unlikely to have missed multiple high-quality empirical research papers that would materially alter the report’s key conclusions.
5.0 Review methods

We delivered our review of the evidence in several discrete stages.

Initial data and abstract sourcing

As a first stage, the EOA provided our review team with several articles and references that we used to identify a larger body of evidence, adding reports and articles cited in the EOA material.

Where we were unable to get hold of the full text, we reviewed research summaries or abstracts.

Screening process

Abstracts and articles, where available, were screened on three dimensions of relevance. However, the first of these – employee ownership type – had to be relaxed during the search as otherwise too few studies would have been included in the review: we stuck to the exclusion criteria but had to abandon segmentation by ownership type, e.g. ESOP, majority employee ownership, minority employee ownership, etc.

From the exclusion criteria listed under point (1) below, the first bullet point below had to be relaxed.

1. Employee ownership type – exclusion criteria had been provided by the EOA to define what is meant by "employee ownership". The articles were categorised in one or more of the following categories if applicable:
   - Exclude studies of non-employee owned organisations (where employees own less than 10 per cent of the organisation);
   - Exclude studies where employee owners are limited to senior management;
   - Exclude studies of employee engagement alone, without consideration of employee ownership;
   - Exclude studies of profit sharing schemes alone;
   - Exclude studies of worker co-operatives; and
   - Exclude studies published in languages other than English.

2. Research quality – the methods used in the research articles were categorised in one or more of the following categories:
   - Primary research;
   - Secondary research;
   - Quantitative research;
   - Qualitative research;
   - Comparative studies; and
   - Case studies.

3. Areas of interest – the EOA had provided categories of interest that the review was aiming to cover. The intention was to provide evidence in each of these areas:
   - Productivity – Measures of employee efficiency in undertaking work tasks;
   - Growth – Measures of company size in terms of sales and employment;
   - Returns – Measures of share price change in publicly traded companies, profit growth or return on capital employed in both private and public companies;
   - Customer loyalty and customer service levels – Measures of customer satisfaction with service and repeat business;
   - Commitment – Measures of employee absenteeism and morale;
   - Recruitment and retention – Measures of staff turnover and labour market demand for jobs;
   - Employee engagement – Measures of engagement such as:
     - emotional engagement – being involved emotionally with work;
     - cognitive engagement – being interested and focusing hard on work; and
     - physical engagement – being willing to give extra effort at work when necessary;
   - Innovation – Measures of innovation within the organisation or market;
   - Civic engagement – Measures of civic participation;
• Health and mortality – Measures of health and mortality;
• Longevity and sustainability – Measures of organisation longevity and resilience;
• Wages and benefits – Measures of employee remuneration; and
• Taxation – Comparative measures of taxation between employee-owned and non-employee owned organisations.

We excluded from our review articles that described models of employee ownership outlined in point (1) above and any articles, reports of studies or books that used methods of limited use for building a high-quality evidence narrative.

The review team did not exclude reports unless they were in full agreement over the reasons for rejection at this stage of the process.

Further data sourcing

Once the review team had screened the material provided by the EOA, and articles identified from that material, they looked at coverage of the areas of interest and sought to fill gaps through additional, targeted searching in the following academic research databases:
• ABI Inform;
• BL Direct;
• EconLit;
• Labordoc;
• MOS (Management and Organisation Studies);
• Planex; and
• Urbadoc.

The team also consulted a panel of academic experts convened by the EOA and asked them to provide further research articles and references that, in their view, warranted including in the review. The team sourced article abstracts where necessary and then screened them as described above.

Data extraction

Once we had a final list of screened articles, we accessed the full reports and extracted the relevant information from them.

The team summarised information relating to employee ownership type, method, area of interest and key findings to build a body of evidence to be used in our narrative review. In a few cases, we excluded articles at this stage on the grounds that, when read in detail, they failed to meet our agreed inclusion criteria.

The review synthesized evidence from 55 different articles and reports.
6.0 What the evidence says

In testimony presented to the US House of Representatives Committee on Education and the Workforce in 2002, Douglas Kruse, Professor at Rutgers University School of Management and Labor Relations, concluded that, based on US research, evidence concerning the social and economic benefits suggests that government policy should facilitate employee ownership.

Our review also found good evidence to support claims of both social and economic benefits associated with employee ownership. In the following sections, we summarise that evidence under two discrete headings:

1. Impact on employees; and
2. Impact on businesses.

6.1 Impact on employees

Being the co-owner of a business can benefit employees for intrinsic, instrumental and extrinsic reasons:

• Intrinsic: when the act of owning a business itself is satisfying;
• Instrumental: when employee ownership increases employee influence in company decision-making which is satisfying; and
• Extrinsic: when employees benefit from financial rewards from the businesses they own.

This section summarises the evidence that employees benefit in these ways.

Intrinsic benefits: Employee satisfaction and commitment

In terms of intrinsic benefits, people who work in employee-owned businesses are generally more satisfied than other employees. This is because:

• they are more involved in the management of the company, which employees find beneficial; and
• being an owner often leads to greater rewards.

The evidence as to whether being an owner in and of itself is of benefit to employees is more equivocal.

We found 12 articles that looked at employee commitment and/or positive feelings towards the company. While they generally supported the view that employee ownership promotes commitment, the findings suggest that the relationship between ownership and commitment is not straightforward.

The studies involved companies with differing levels of ownership that operated across economic sectors. The research included eight studies of US companies, one of Chinese companies, one of UK companies, one of companies from New Zealand, one of Norwegian companies.

Two studies that tracked employee attitudes in individual companies both before and after they became employee-owned provided evidence that ownership per se does increase commitment (i.e., confirmed the intrinsic benefit of ownership). However, as these were based on case studies of individual companies, their findings cannot be generalised.

Three of the studies we reviewed reached a different conclusion, namely that there is no intrinsic value associated with ownership.

The first two examined attitudes in individual companies. Keef’s study also examined attitudes before and after a move to employee ownership and found a general decline in commitment to the company and employee satisfaction. The (New Zealand) company was a large organization operating in a high-technology sector of the economy.
When the shares were offered to employees, a third of the company was floated on the stock exchange through a public issue. This could have been partly due to the status of the economy and company’s performance, and highlights the risk of drawing general conclusions from individual studies.

Several studies found that employee owners have more positive attitudes than their non-owning counterparts (see, for example, Dong’s study on attitudes in recently privatised companies in China), but not necessarily that this is directly a reflection of ownership itself.

For example, Buchko found that while employees did not benefit from simply being owners, they did benefit from the rights that flow from ownership such as increased say in decisions that affect them and their jobs, and from increased rewards for their work.

Five of the studies provided evidence that it is the combination of employee ownership and engagement/participation in management decisions that increases organisational commitment. Assuming that organisational commitment is related to employee satisfaction, this supports the view that the benefit of employee ownership is instrumental, not intrinsic.

However, two different studies suggested that changes in commitment/satisfaction are not automatic, but depend in part on:

- employee attitudes to influence in company decision-making – i.e., the more influence an employee believes they should have in company decision-making, the less satisfied he or she is with the company Employee Stock Ownership Plans (ESOP);
- preferences regarding ownership and perceptions of the fairness of the ownership plan.

Four papers, based on two studies, provided evidence that the financial value of being an owner adds to employee commitment. This provides support to the extrinsic benefit of being an employee owner.

Evidence on benefits that could flow to the companies as a result of the increased employee satisfaction/commitment are described below in Section 6.2.

Instrumental benefits: Engagement

The evidence suggests that the clearest benefit from employee ownership is when employee-owners have more say in the running of the company. What is less clear is the extent to which employee ownership inevitably leads to increased employee participation in decision-making.

Eight studies addressed the extent to which being an employee owner affects influence in the company’s decision-making process. Four of these were of individual companies, which limits the ability to generalise from the findings. Four of the studies were from the US, three from the UK, and one from Sweden.

Greater participation and engagement by employees in the running of the company can be considered a benefit in its own right as, on the whole, people like to be able to influence decisions that affect their life. But, while greater employee participation is often seen as going hand-in-hand with employee ownership, each business is different; employee ownership and engagement, or employee participation, are not necessarily correlated.

There are indeed cases of individual companies in which the move to employee ownership has been associated with increased engagement and participation. But in other cases the link is not clear. For example:

- Long (1981) noted that the initial enthusiasm for increased participation diminished over time;
- A study of employee ownership in the bus sector found that nearly 70 per cent of respondents indicated that employee ownership had not given employees a greater say in company decision-making, while only around 20 per cent suggested that levels of participation had increased;
- A further two studies concluded that employee ownership was not associated with increased participation in decision-making. However, the former study noted that, while employees did not feel that the ESOP allowed them more direct participation in the decision-making process itself, they acknowledged that they were being kept informed of decisions made in the firm.
Four studies identified benefits of participation in addition to the positive impact on organisational commitment described above:

- Two studies found that employee participation was associated with positive attitudes toward employment\textsuperscript{17,24}; and
- Two studies noted that employee engagement was associated with higher levels of company performance\textsuperscript{7,25}. The finding from the GAO study is significant because it did not find that employee ownership itself was related to improved performance, but only when accompanied by increased employee participation.

On a related issue, Pendleton (1995) reported that for 13 employee-owned and for 26 "conventional" bus companies, the transition to employee ownership did not have the dire effects on union functions and representation predicted by many in the trade union movement and in the earlier literature on employee ownership.

Extrinsic benefits: Growth in wages and benefits

A key element of the extrinsic type of benefit is the financial reward from being an owner. The evidence suggests that employee compensation is higher, or more evenly distributed, in employee-owned firms than in non-employee owned firms. Note, however, that this is based largely on data from US companies where the tax systems are different.

Four articles noted that participating in employee ownership plans in the US results in a net gain to employees:

- One paper found that only small ESOPs (where ownership is less than 5 per cent) result in increases in employee compensation\textsuperscript{26};
- However, another study\textsuperscript{27} found that employee-owned firms in which employee ownership exceeded 5 per cent of the value of the company in 1990 had higher compensation per employee than did their non-employee owned counterparts;
- One paper noted that, in the US, Employee Stock Purchase Plans are essentially a risk-free way of increasing gross compensation for workers but did not test this empirically. Noting that participation rates are on average around 40 per cent, the author suggested that many employees are either liquidity constrained, do not fully understand these plans, or face significant costs in participating financially\textsuperscript{28};
- One paper noted the evidence that nearly half of all ESOPs are adopted without any reductions in other forms of compensation and therefore in those cases ESOPs present a net gain to employees\textsuperscript{29}.

While still supporting the finding that employee-owned businesses compensate their employees more than other businesses, but not supporting the idea that broad-based stock options increase compensation, one study\textsuperscript{30} found that companies that established such plans paid their employees more (than similar firms) before they instituted the plan but did not significantly increase their compensation after shares were issued.
Though not a direct measure of wage and benefit growth, a study of Chinese companies found that employee share ownership had a positive effect on reported satisfaction with income and benefits.

Finally, a comparison of 100 per cent employee-owned companies, in which there was also some sort of participatory management, found that income, wealth, power, prestige and privileges were distributed more equally among the workers in an Employee Owned and Managed (EOM) firm than in a conventional capitalist firm. This might benefit some, but not necessarily all, employees.

Benefits to shareholders who, by design, overlap with employees, are discussed in Section 6.2.

Job security

One obvious benefit of employee ownership could be job security, as companies that face difficulties might look to employee ownership as a route to survival. However, the search identified only one study that addressed this issue. A study of Chinese companies found that employee share ownership has a positive effect on reported job security.

A US study used data from the General Social Survey (a national random sample of US workers) and a National Bureau of Economic Research-sponsored company-based survey to analyse the association between job security and an index measure of shared capitalism.

The study found that employees higher in the index of shared capitalism reported a lower likelihood of losing their jobs and a lower likelihood of being laid off in the past year. Interestingly, the analysis found that the highest levels of job security were to be found among ESOP participants; employees owning company stock reported having higher job security than those who did not own company stock.

Although these findings are very positive, the authors caution that their study is not able to demonstrate that employee ownership causes higher level of job security.

Two studies of company survival both found greater employee stability in ESOP firms; both greater stability and increased survival imply greater job security.

More research is needed on whether job security is indeed higher – rather than simply perceived to be so – in employee-owned businesses.

Section 6.2 does provide some evidence that the survival rate of employee-owned businesses is at least as high as that of non-employee owned businesses, which obviously impacts job security.

Health

Only one paper researched health benefits of employee-owned businesses. The study found that employees of employee-owned businesses receive health and safety benefits through worker participation in quality circles.

As with other benefits noted above, this is not simply the result of ownership, but is linked to the combination of ownership and engagement.

6.2 Impact on businesses

This section looks at the impact on businesses from being employee-owned as opposed to operating under a different ownership model. Employee ownership is expected to generate higher shareholder value than non-employee owned counterparts because greater employee motivation leads to:

- higher productivity of employees; and
- input from employees on how to improve the company’s performance.

In addition, depending on tax policies and regulatory structures in place, the company might benefit from tax or other benefits granted to employee-owned businesses by the government.
However, there are two particular problems in trying to identify such benefits in addition to the usual methodological problems in conducting social and economic research:

1) In a free market, competitive advantages are hard to maintain and hence hard to isolate. If employee-owned businesses tend to out-perform other businesses (or vice versa), over time the non-employee owned businesses would adopt the practices that lead to the advantage, such as employee engagement through involvement in decision-making.

This will dilute the distinctions between employee-owned and non-employee owned companies and weaken any comparisons between the two groups. For various reasons, markets do not always behave according to free market economics, and other factors might intervene that counter the predicted convergence.

For example, a sector plagued by a labour shortage could see a sudden increase in employee ownership as companies seek to increase employee commitment. But, none the less, traditional economic theory predicts that the benefits of employee-owned businesses to the economy as a whole will be hard to find.

2) All but one of the studies focus on companies that survive rather than fail. Any comparison of employee-owned with non-employee owned companies is therefore based on a subset of companies that satisfy a minimum requirement, namely survival, of a competitive market. This is known as the survivorship problem.

A fuller analysis of the relative performance of employee-owned versus non-employee owned businesses would compare survival rates. We identified three studies that did this.

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**Productivity**

The evidence is mixed on whether employees in employee-owned businesses have higher levels of productivity than their counterparts in other types of businesses. On balance we found more articles that identified higher levels of productivity in employee-owned businesses (nine) than articles that did not (five). But the ambiguity of the evidence and the methodological difficulties are highlighted by the finding that:

- one pair of authors found evidence of higher productivity in one study using data from 1981 to 1987, but no evidence in a similar study that used data from 1981 to 1985; and
- one study found that whether their empirical analysis found employee-owned businesses had higher levels of productivity than other businesses depended on methodological choices such as what measures to use and what other explanatory factors to include.

This suggests that employee ownership by itself is not a simple, determining factor, in promoting higher productivity.

Nine out of 15 papers that addressed the issue provided evidence that productivity is higher in employee-owned businesses than in other types of business. Of these, seven were studies of US companies, one was a study of Japanese businesses, and one was a study of UK businesses. The only sector-specific study was one of “New Economy” companies operating in sectors such as pharmaceuticals, software, high-technology manufacturing, and semi-conductors. These are sectors where technical knowledge has a premium.

Eight of the nine studies found ESOPs or similar plans were associated with higher levels of productivity. The study of Japanese companies quantified the boost to productivity from becoming employee-owned at four to five per cent (Jones, 1995). The ninth study was based on a self-reported increase in productivity resulting from employee participation in a survey.
Productivity is likely to be higher the broader the ownership base, although the evidence is not unanimous on this. Three studies found higher productivity levels when more than 50 per cent of the non-management employees were eligible for stock option grants\textsuperscript{26,29,32}. Another study found that higher productivity was associated only with greater numbers of employees covered by the ESOPs\textsuperscript{31}. In contrast, one study inferred that only small ESOPs (where employee ownership is less than 5 per cent of the business) lead to higher productivity\textsuperscript{22}.

The research suggests that productivity gains might be higher for smaller companies. One study found that the addition of 100 extra workers led to a decrease in productivity based on sales per employee (Kramer, 2008). This is also supported by a study that generally provided mixed results and is not one of the nine that found a productivity gain\textsuperscript{23}.

Further illustrating the complexity involved in trying to isolate the impacts of employee ownership on productivity:

- Two studies found that the productivity effect was delayed. One found that productivity did not increase immediately upon changing to an employee-owned business\textsuperscript{33} and one found gains became stronger over time (Kumbhakar, 1993).
- One found strong evidence to believe that productivity effects might be further enhanced with other participation in decision-making schemes\textsuperscript{30}.
- As noted above, one study showed mixed results in that some analyses showed productivity benefits when higher value-added-per-employee was used as the measure, but not when sales-per-employee was used as the measure\textsuperscript{23}.

By contrast, five studies\textsuperscript{21,42,43,44,45} showed no increase in productivity from ownership directly.

However, two of these studies found that employee ownership and profit-sharing when taken together did increase productivity:

- Ohkusa (1997) found that profit-sharing in Japan is enhanced by the existence of ESOPs and information-sharing, even though ESOPs and information-sharing do not increase productivity if they are introduced without profit-sharing in large firms; and
- Bryson (2004) found a link between employee ownership and labour productivity only when a profit-sharing scheme was in place, and when the coverage of the scheme is broadest.

**Absenteeism**

Two studies discussed absenteeism at employee-owned businesses. As they provide conflicting evidence it is difficult to draw firm conclusions from such a small number of studies.

Analysis of data of a panel of French firms found that the presence of a share ownership plan was associated with a reduction in employee absence of approximately 14 per cent\textsuperscript{46}.

However, a case study of a small manufacturing firm in the North-eastern US, found that over a period of 30 months (18 months under traditional ownership and 12 months under employee ownership) overall attendance had not improved.

While voluntary absenteeism declined, this was offset by an unpredicted and unexplained increase in involuntary absenteeism\textsuperscript{47}. 
Recruitment and retention

Overall, there is some evidence in the literature about how employee ownership can positively impact on recruitment and retention of staff. However, the evidence is patchy. Large-scale, comparative, UK-based research in this area would be required to provide robust conclusions as to the exact nature of the effect of employee ownership on recruitment and retention.

Several US studies on retention of staff were identified. Klein (1987) examined 37 ESOP companies for “turnover intention” – a three-item scale measure of whether staff in the company were intending to leave it. The study found that perceptions of worker influence were correlated with turnover intention. In other words, the higher the level of perceived worker influence, the lower the intention of workers to leave. But this correlation was not statistically significant.

The correlation between perceived worker influence and intention to leave was supported by Buchko (1992a), who examined turnover intention in an ESOP company where employee ownership gradually increased from an initial purchase of 22.7 per cent of stock in 1984 to 80.9 per cent in 1987. The study found that the larger the financial value of the employees’ share in the company and the higher the perceived influence of the employee in the company, the less the intention to leave. Interestingly, the effect size of financial value was approximately half that of perceived influence.

Using the same data, Buchko (1992b) later added an analysis of actual turnover using company employment records. This found no support for the theory that turnover was related to the financial value of the employee ESOP, but perceived influence was a significant predictor of turnover, with greater influence being associated with reduced turnover.

The main limitation of these studies is that they offer no comparison with non-ESOP companies and so cannot identify whether any reductions in turnover would not be present in non-ESOP companies with similar changes in perceived employee influence.

Investment returns (e.g. share price, profitability, return on assets, return on equity)

The evidence on whether employee-owned businesses provide higher returns to shareholders is mixed. Seven articles included data on such a comparison.

Four of these articles found that employee-owned organisations did have higher returns and three did not.

This ambiguity is not surprising given the issues noted at the beginning of this section and two further methodological twists.

First, there are several direct and indirect measures of the returns on investment in businesses, such as share price, profitability, and returns on asset and equity. They do not always directly correlate with each other. This makes the analysis of investment returns complicated and the results not so robust.

Secondly, the trade-off between returns and risk is well-known, but this was not included in the studies we reviewed. Therefore the analyses are typically incomplete. It could be that returns are comparable, but the risks associated with those returns are not. This is an opportunity for further research.

Even in the four studies that found evidence of higher returns there is some ambiguity. One study of ESOPs found that returns are higher than those of comparable non-ESOP companies, but the effect of adopting an ESOP is negative.

In other words, returns are generally higher, but there is a decrease in returns after a plan is announced, possibly because share prices typically increase on the announcement.

So shareholder value might increase, but future returns on the investment decrease. The companies included in the study typically employed fewer than 500 people.
Similarly, a case study of three companies that became employee-owned found that two of them – a trucking company and a knitting mill – experienced a significant increase in their returns\textsuperscript{49}. The third – a furniture company – experienced a modest increase. There were noticeable contextual differences between the companies, such as the sector in which they operated, the state of the local economy, the age of employees, and, importantly, the degree of employee participation.

The increase in participation was greatest in the trucking company, which also experienced the greatest increase in returns. All of this highlights the rather mundane fact that context and implementation are important with regard to whether a move to employee ownership boosts financial returns.

The company sector was also an influence. A similar study found that cumulative returns between 1992-1997 for New Economy companies that offered broad-based stock options to their employees were higher than for comparable firms that did not \textsuperscript{29}, though, again, these results need to be “interpreted cautiously”, as the authors suggest.

Notably, while the returns were higher, the study found that the change in Tobin’s Q (market value over book value) over the period when options were issued was not different between the sets of firms.

This suggests that markets were neutral on the issuance of stock options, or had already accounted for the financial benefits that ownership was meant to bring.

The last of the studies to find higher returns was a study of ESOPs in the US where more than 50 per cent of non-management employees are eligible for stock option grants.

The authors found that employee-owned firms are more profitable than their same-size/same-industry pairs across all sectors (Sesil, 2007). The returns were higher for all three measures they used, productivity (see above), profitability, and market value. Even though the authors concluded that stock option firms are “clearly different” from other firms, they also proposed caution in drawing conclusions about the role of causality (i.e., whether it is the issuance of stock options that leads to greater company returns or whether they are both the result of something else).

Three articles found there was no difference between returns for employee-owned businesses compared with other businesses. A study of ESOPs found that while there was a short-term improvement in company performance, there was evidence of underperformance by the company shares over time\textsuperscript{35}.

In another study of ESOPs, for companies where more than five per cent of the market value of the company was owned by employees in a broad-based employee ownership plan, employee-owned firms had levels of profitability similar to those of other firms of the same size in the same industry in 1990.

However, where this study did find differences, the differences favoured employee-owned businesses of a small size.

The third study was of French employee-owned businesses and also highlighted methodological issues around the choice of performance measure.

The study found no relationship between employee ownership and market-based performance indicators, but did find an inverted U-shaped relationship between employee ownership (based on employee stock ownership and employee voting rights) and performance using accountancy measures (Guderi, 2008).

At mid-levels of employee ownership and voting rights, performance was relatively high compared to non-employee owned companies, but less so at low or high levels of employee ownership.
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Growth

Enterprise growth has not been studied as much as other measures of company performance. This could be because there is less of a theoretical basis for differences in growth rates of employee-owned businesses and other businesses.

The results are mixed. Of the three articles we identified that examined growth rates, one found that employee-owned businesses had higher growth rate in sales and employment than other companies. Another found higher levels of growth in company performance in contrast to the other two that found no difference.

Part of the difficulty in using growth as a measure of benefit is that the particular measure is important. The size of an enterprise might grow (in terms of sales and employment), but performance measures (such as productivity and returns) might not.

One study compared the performance of broad-based stock option companies to companies similar in size and industry that do not sponsor stock option plans and to the overall population of firms in the economy.34

Part of the comparison involved matching employee-owned companies with similar non-employee owned companies. The study found that companies in which more than 50 per cent of their non-management employees were eligible for stock option grants generally had higher growth in productivity, sales, employment, and return on assets between 1992 and 1997, though this pattern was not true of all subgroups.

In general, the results were that companies with broad-based stock option plans have higher levels of growth in employment and sales, but not higher levels of growth in company performance.

The same authors similarly found no difference in the growth of company performance in a study of broad based stock options of US New Economy firms in which more than 50 per cent of company employees actually received stock options.35

Again, matching employee-owned businesses with non-employee owned counterparts, the study compared changes in Tobin’s Q between 1992 and 1997. While there was evidence of higher levels of performance (in terms of Tobin’s Q) between employee-owned and non-employee owned businesses, both before and after the introduction of stock options, there was no difference in the growth of this measure.

The above two studies found no difference in the growth of performance measures of employee-owned businesses.

ESOPs – where ownership was greater than five per cent of the value of the company – which found that employee-owned businesses had significantly stronger 1980-90 growth on returns on assets and equity and profitability.28

There was no significant difference in these variations in performance by the degree of employee ownership. However, the relationship between employee ownership and profitability growth was strongest among the smallest companies.
Longevity and sustainability of organisations

Higher survival rates of employee-owned businesses could provide a stronger indication of the benefits to an enterprise of being employee-owned, although it could also suggest a greater commitment to independence or more flexibility in the face of a down-turn.

The evidence is limited, but of the four studies that provided empirical evidence, two studies found that employee-owned businesses were more likely to survive as enterprises than non-employee owned businesses.

One found that the performance of the employee-owned model is more stable over business cycles. One found that ownership type made no difference, but this study was probably methodologically the weakest of the three.

Using Standard and Poor's Compustat data on the level of employee-owned stock among all US public companies between 1988 and 2001, one study compared the likelihood that an employee-owned business will disappear in a given year with the same risk for all companies and non-employee owned companies matched to employee-owned ones.

The study found that employee ownership is strongly related to a higher rate of firm survival after controlling for employment size, capital stock, and the presence of other benefit plans. Specifically, the likelihood that an employee-owned business will disappear in any year is only 75.8 per cent of the risk for a comparable non-employee owned company.

The hazard rates – the likelihood of not surviving – were lower for companies with more than five per cent of stock owned by employees than for companies with less than five per cent of stock owned by employees. These findings were broadly the same whether the comparison was with the matched companies or all companies.

Using a simple measure of whether a company continued to exist several years after the study began, another study also found that employee-owned firms had a higher survival rate than their non-employee owned counterparts. The authors matched 27 employee-owned businesses that had approximately 20 per cent or more of their stock in employee hands, either directly or through employee benefit plans, with a control.

Not only did the employee-owned firms have a higher survival rate than their matched counterparts, but only one of the employee-owned firms disappeared via bankruptcy, liquidation, or private buyouts while 11 of the matched comparison firms disappeared for one of these reasons.

One recent study by the Cass Business School found that employee-owned businesses are more resilient: their performance is more stable over business cycles, displaying less sales variability.

The study found that average sales turnover of employee-owned businesses between 2008 and 2009 increased by 11.1%, significantly surpassing that of non-employee-owned businesses (0.6%) during this period of recession. The authors suggested that this may, in part, reflect the limited financing options open to employee-owned businesses.

They found that employee-owned businesses can find it difficult to get favourable financing from institutions more used to dealing with listed companies. Whilst this can limit opportunities during periods of economic growth, the authors opined that perversely it can put them at an advantage in a recession where they can capitalise on their reputation for stability and use retained earnings to increase sales.

The one study that found that survival was not significantly related to the ownership model tracked the survival of 107 non-financial companies that initiated Initial Public Stock Offerings (IPOs) in 1988.

These were largely US companies. Each company’s ownership status after the IPO was classified as one of three: CEO-owned, management team-owned, or all-employee-owned.

But all-employee-owned was simply measured as to whether or not the company had an incentive stock option plan in place, not the actual degree of ownership. This constraint limited the robustness of the study.
Consumers

Consumers might benefit from employee-owned businesses if improvements in employee satisfaction and productivity lead to a better customer service and help companies meet customer needs through improvements to the goods and services they provide.

But there has been very little attention paid to this possibility in the research about employee-owned businesses.

We identified only one study: a case study of the employee buyout of United Airlines through an ESOP. The study reported that using a combination of market research, employee teams, and process analysis, United Airlines cut costs and improved operations, and in so doing generated higher customer satisfaction levels and improved their market share.

However, as a single case study, these results cannot be generalised and so they are of limited use.

Innovation

The one study we identified on innovation covered companies that were majority employee-owned matched to non-employee owned companies. The study found that production worker influence on innovation in work processes, new products, and marketing did have a substantial and significant effect on the sales-per-employee advantage of employee-owned firms, holding firm size constant. In other words, the greater the influence of workers on the company’s operations and innovations, the greater the sales per employee.

This is consistent with the above findings on productivity and the theory that employee participation helps a company improve. The impact of promoting innovation is important because innovation is recognised to have significant externality effects. In other words, as innovations are adopted by others, the benefits spread. While this is not a finding that increased innovation is a benefit of employee ownership, it does suggest that the higher the levels of worker participation in developing new work processes (which is often associated with employee ownership as described above), the greater the productivity benefits.
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7.0 References

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