

Institution: City University London
Unit of Assessment: 19 Business and Management Studies
Title of case study: The case for employee ownership in the United Kingdom
<p>1. Summary of the impact</p> <p>Research on employee ownership (EO) conducted by Professors Lampel and Bhalla at City University London has made a substantial contribution to the evidence base used by the UK government to formulate and introduce policies aimed at boosting employee ownership. Evidence on the resilience and flexibility of EO firms, as well as the barriers that they confront, played an important role in the launch on 4th July 2013 of a new government policy to make employee ownership more accessible, including the injection of £50M annually to support EO models. Greater adoption of the EO model in the private sector benefits employees and employers and improves the wider economy. The evidence provided by this research has also led to a greater focus on EO in the public sector, with government policies now being formulated to encourage greater adoption of EO, specifically in the areas of health and social care, benefiting additionally the recipients of services and their families.</p>
<p>2. Underpinning research</p> <p>In the past decade, research in the UK has shown that employees who have a stake in the organisation they are employed by have greater commitment to quality and are more flexible in responding to the needs of the organisation. Joseph Lampel and Ajay Bhalla at Cass Business School, City University London (Professors at City since 2002 and 2001 respectively), have been researching the impacts of ownership structure on decision-making and firm performance since 2007. In 2008, they were invited by the John Lewis Partnership to submit a proposal to study employee ownership in the UK. After successive competitive rounds, Lampel, Bhalla and Jha (Northumbria University, former Cass PhD student) were awarded the study.</p> <p>Lampel and Bhalla's conceptual approach was based on their preliminary research, which indicated that employee-owned businesses (EOBs) face challenges as they grow in size and complexity (Lampel and Bhalla, 2010). EOBs are defined as firms which are substantially or wholly-owned by employees; their stake underpins the organisational structures that ensure employee engagement. The researchers posited that the governance model that confers advantage in a small EO firm may come under pressure as the firm exercises its natural propensity to grow. As EOBs scale up their operations, they introduce more managerial controls that reduce the advantages of employee involvement and participation. The increasing size puts a greater distance between front-line employees and senior managers, making it more difficult to maintain inclusive decision-making without sacrificing the speed and flexibility that is essential for high performance in today's dynamic commercial environments.</p> <p>The Lampel and Bhalla study sought to alert policy-makers and managers of EOBs to these issues. The study examined how EOBs deal with the issues of size and growth and addressed the following questions. (i) As EOBs pursue growth, how do they perform relative to non-EOBs? (ii) How do EOBs retain the employee-ownership advantage as they scale up? And (iii) how well do EOBs perform during an economic downturn relative to their performance during a period of economic growth and relative to non-EOBs?</p> <p>To answer these questions, company financial and commercial data were collected and interviews that focused on key issues of relevance to EOBs were conducted. This was of particular salience when difficult economic circumstances tested the employee-ownership model (Lampel and Bhalla, 2012a). The findings of the study therefore concern not only the challenges facing EOBs as they grow in size and complexity, but also how employee ownership performs as a governance model that is both fairer to employees and more resilient.</p> <p>The key findings showed that the EO model offers particular advantages to small and medium-sized businesses with fewer than 75 employees. EOBs experienced greater employment growth than their non-employee-owned counterparts during the period of strong economic growth from</p>

2005 to 2008. After the recession began during 2008/09, this rate continued, with EOBs increasing employment numbers by more than 12.9% compared with 2.7% in non-EOBs. This reflects the common belief held by EOBs that staff recruitment and retention are crucial in economic recovery: nearly three-quarters of EOBs strongly believe that employee commitment is a central advantage of the employee-owned model (Lampel and Bhalla, 2012b). More importantly, the profitability of EOBs correlates with giving employees greater autonomy in decision-making.

Of particular practical importance are the researchers' findings indicating that EOBs that adapt their organisational structures and empower their front-line employees are more likely to sustain their performance as the increase in size. EOBs are more resilient to the changing economic conditions: their performance is more stable over business cycles and displays less sales variability.

Finally, the EO model confers particular advantages in knowledge intensive sectors such as specialist engineering and architectural services.

3. References to the research

Lampel J., Bhalla A., & Jha P. (2010). [Model growth: Do employee-owned businesses deliver sustainable performance?](#) London: Cass Business School.

Lampel J., Bhalla A., & Jha P. (2012a). [The Employee Ownership Advantage: Benefits and Consequences](#). London: The UK Department of Business Innovation and Skills (BIS).

Lampel J., Bhalla A., & Jha P. (2012b). [The Employee Owned Business Model During Growth and Adversity: How Well Does it Hold Up?](#), *European Business Review*, July-August, 20-23.

Lampel J., Bhalla A., & Jha P. (2013). [Does Governance Confer Organisational Resilience? Evidence from UK employee owned businesses](#), *European Management Journal*, forthcoming (available online July 2013).

Publications 1 and 2 are practitioner-oriented research outputs which employ robust research methodology but are written to engage practitioners and to be directly usable by them. The Association of Business School Journal Quality Guide lists *European Business Review* and *European Management Journal* as 2* journals.

4. Details of the impact

The 2010 report caught the Government's attention and featured in a discussion in the House of Lords on 25th February 2010 [1]. The striking vulnerability of many corporate and private businesses during the recent economic downturn gave rise to keen government interest in the EO model as an alternative to the reliance of the UK economy on private and shareholder- ownership models. This interest extended to the discussion of EO as a promising alternative to the privatisation of state-owned and not-for-profit public services. Scotland and Wales, which have proportionally more small firms, cooperatives and family-owned businesses than England, are moving in the same direction. 'Making a positive difference to public services', a 2011 policy paper by Cooperative Development Scotland (CDS), refers to evidence from the Lampel/Bhalla report to make the case for the benefits of the EO business model. CDS is a premier policy and business advisory body supporting the development of cooperative and employee-owned enterprises across Scotland [2]. The Wales Cooperative Centre, in a report by its Bevan Foundation, also makes a case for the benefits of cooperatives, citing evidence from the Lampel/Bhalla study [3].

The coalition government has continued the previous Labour government's commitment to the development of social enterprises to deliver health and social care as part of a programme of public service reform. A 2010 Department of Health report sought to encourage health care providers to consider EO and the development of mutuals, with the aim of creating the largest and most vibrant social enterprise sector in the world. In a report titled 'Social Enterprise in Health Care - Promoting Organisational Autonomy and Staff Engagement' (August 2011), the King's Fund, a premier charity in the health and social care sector, recognised that the new policy environment presented both opportunities for social enterprises to play a significant role as providers of health care and several challenges and risks which meant that they would need to develop effective and sustainable business models [4]. The report, which contains key recommendations for government on reforming the health and social care sectors along the lines of the EO model, cites the

Lampel/Bhalla findings extensively to support its arguments.

In a speech at the Mansion House on responsible capitalism on 16th January 2012, the Deputy Prime Minister, the Rt Hon Nick Clegg MP, focused attention on employee ownership, citing the Cass study: "*Lower absenteeism, less staff turnover, lower production costs. In general, higher productivity and higher wages. [EO firms] weathered the economic downturn better than other companies*"[5].

In February 2012, the Department of Business, Innovation and Skills (BIS) initiated the Nuttall Review of Employee Ownership to review promoting the benefits of employee ownership in the private sector and invited Lampel and Bhalla to contribute to the review and conduct further analysis on the long and short-term benefits and consequences of the employee ownership model.

This research, conducted over a four-month period, provided further evidence to support the EO model [6] [7]. On 4th June 2012, the BIS study: '*The Employee Ownership Advantage: Benefits and Consequences*' was released in conjunction with '*Sharing Success: the Nuttall Review of Employee Ownership*'. Both studies were presented at the Summit for Employee Ownership held on 4th July 2012, which opened with a keynote speech by the Deputy Prime Minister and at which Lampel presented the Cass research findings. Other speakers included Sir Charlie Mayfield, Chairman of the John Lewis Partnership, the Rt Hon Francis Maude MP and the Rt Hon Norman Lamb MP. The two reports and this event generated a commitment from the Government and a wide range of stakeholders to take forward the Nuttall recommendations for increasing employee ownership and removing barriers to it occurring. The Government published its formal response, '*Next steps for employee ownership*', in October 2012.

Another policy perspective recommending and laying out a template for the public sector's move towards EO can be found in the BIS position paper '*Mutualisation of the Post Office*'. This report, published in September 2011, cited the central finding of the Lampel/Bhalla research in making a case for 'mutualisation' or employee ownership. The Government's response to the consultation published in July 2012 also cited the Cass research in relation to sustainability of EO firms through economic downturns and the potential for the engagement of staff to improve the Post Office's financial performance under the proposed new model [8].

Lampel and Bhalla were subsequently invited to join the Government's Implementation Group for Employee Ownership [9] which was formed in November 2012 with a remit to advise the Minister of State on the implementation of EO policy. The Group is chaired by Jo Swinson MP, Minister for Employment Relations and Consumer Affairs, meets bi-monthly and brings together other government departments, the business and professional services sector and the EO sector. The recommendations of the group have informed recent policy initiatives launched to promote employee ownership. For example, on 4th July 2013 the Government announced plans to make £50M available annually to encourage EO in the UK and launched a consultation on providing two new forms of tax relief [10].

The research also informed the Liberal Democrat policy 106 on employee ownership [11]. On 27th March 2013, the Deputy Prime Minister launched a consultation on 'a relief on tax on bonuses paid through benefit trusts, where a significant chunk of the business is owned by employees'. In his speech announcing the consultation, Nick Clegg said: "*Employee ownership works because it so neatly aligns incentives and puts the workers at the heart of the business.... The Cass Business School concluded in 2010 that employee-owned businesses are between nine and 19% more productive than traditionally structured companies. So not only does employee ownership help build a more motivated, more committed workforce, but it improves the bottom line too*"[12].

The research has received extensive media coverage which has raised general awareness of the benefits of employee ownership [13]. Print media coverage has included articles in the *Financial Times* and *The Economist*. Following the Deputy Prime Minister's Mansion House speech, Bhalla was invited to present the key findings on the BBC News on 18th January 2012. The study was discussed at length in the BBC *Newsnight* programme on 25th May 2012, during which, in response to a question from Emily Maitlis on what British businesses can learn from the partnership model, Norman Lamb, Minister for Employment Relations, said: "*Cass Business School demonstrated that they [Employee-owned firms] have been more resilient through difficult economic times and they have been more profitable. So this is a powerful concept and the key is*

how we can unlock the potential of this for use in the rest of the economy.” On 17th July 2012, the research was acknowledged in a discussion about mandating all companies to have employees on boards during a House of Commons Debate on Enterprise and Regulatory Reform Bill [14].

In March 2013, the Deputy Prime Minister backed a call from the Employee Ownership Association for a threefold increase in the value of EO firms to UK GDP (currently standing at 3% of GDP) by 2020. The Deputy Prime Minister said: “*Through tough economic times, these firms can outperform others...from April next year we will inject £50M into the sector, making it easier for staff to take over the running of companies and for new firms to set up under EO models*” [12]. On 30th April 2013, while outlining changes to over-burdensome share buy-back rules aimed at boosting direct employee ownership and cutting red tape, Jo Swinson MP, Minister for Employment Relations and Consumer Affairs, again cited the Bhalla/Lampel report to support the case for employee ownership.

The Cass research has had a substantial impact on government policy by providing evidence that has enabled policy-makers to argue the case for EOBs as an attractive organisation model. The key beneficiaries of these developments are: (i) companies, with the potential for increased flexibility in the workforce leading to new initiatives and increased productivity and staff retention; (ii) employees, both financially through the sharing of profits and through greater job satisfaction and wellbeing; and (iii) communities which benefit through the quality of services delivered (for example, EO firms such as Waitrose are well regarded for their charitable giving activities). This is of particular significance at a time when the knowledge and skills-intensive sectors are critical to long-term economic sustainability. It is also significant for employment in sectors such as health and social care where those in need of care benefit because care professionals may have a stronger sense of commitment when they have a stake in the health or care organisation.

5. Sources to corroborate the impact

1. House of Lords Debate, ‘[Employee-owned Organisations](#)’, 25th February 2010, Column 1093, Hansard.
2. Scottish Enterprise (2010). [Making a positive difference to public services: Co-operatives and employee owned businesses in public services delivery](#), A report by Cooperative Development Scotland.
3. Wales Co-operative Centre (2012). [Co-operatives in the Welsh Economy report](#) Published: 9th January.
4. Addicott, Rachael (2011). [Social enterprise in health care](#), The King’s Fund, Published 4th August.
5. Rt Hon Nick Clegg MP [Speech on Responsible Capitalism](#). 16th January 2012.
6. Department of Business Innovation and Skills (2012). [Nuttall review of employee ownership](#), Ref: BIS/12/933, Published: 4th July.
7. Lampel, Joseph; Bhalla, Ajay and Jha, Pushkar (2012). [Employee Ownership Advantage: Benefits and Consequences](#). Department of Business, Innovation and Skills. Published: July.
8. Department of Business Innovation and Skills (2011). [Consultation: Mutualisation of the Post Office](#), (Consultation ran from 19th September to 12th December 2011).
9. Department for Business, Innovation & Skills and HM Treasury (2013). [UK Government Employee Ownership Implementation Group](#) web site. Last updated 4th July.
10. Department for Business, Innovation & Skills (2013). [Government measures boost direct employee ownership](#), Press Release: 30th April.
11. Liberal Democrats (2012). [Mutuals, Employee Ownership, and Workplace Democracy](#), Policy Paper 106.
12. Wintour, Patrick (2013). [Nick Clegg proposes tax breaks on bonuses at employee-owned firms](#), The Guardian, Wednesday 27th March.
13. Groom, Brian (2012). [Expansion: Chief Executives express caution about pace of growth in the sector](#). Financial Times, 2nd July
14. House of Commons Debate (2012). [Enterprise and Regulatory Reform Bill](#), 17th July, Column: 689, Hansard.