

<p>Institution: University of York</p>
<p>Unit of Assessment: 19, Business and Management Studies</p>
<p>Title of case study: Employee ownership plans: individual behaviour and company outcomes</p>
<p>1. Summary of the impact (indicative maximum 100 words) Research on employee share plans and employee ownership has made an impact in the media and on government policy. Pendleton’s research has influenced and increased media discussions of participation in share plans, financial knowledge, and plan outcomes in the specialist reward and financial press. Additionally, the research impacted upon government policy in two ways: one in informing a government decision not to remove the tax benefits connected with share ownership plans; and two, in contributing to an enquiry which has subsequently had a significant influence on the views of the main political parties towards employee ownership.</p> <p>2. Underpinning research (indicative maximum 500 words) This research has been conducted by Andrew Pendleton, Professor of Human Resource Management at York since 2005.</p> <p>Employee ownership has been of persistent interest to policy-makers and corporate practitioners. Every UK government since 1974 has introduced legislation and other measures to develop employee ownership, with Professor Pendleton being directly and deeply involved in the development of new legislation in Finance Act 2000. Many large companies in the UK now operate all-employee ownership plans – most FTSE 100 companies have at least one all-employee share plan – and the Wealth and Assets Survey finds that 7 per cent of UK households participate in employee share ownership plans.</p> <p>Much of this research has been conducted in collaboration or with close involvement of industry and practitioner bodies such as the Employee Ownership Association, <i>ifsProshare</i>, and various professional services companies. The research has had three main strands.</p> <ol style="list-style-type: none"> 1) Research into employee participation in share ownership schemes commenced at the start of the 2000s and continues to the present day. An initial project was conducted with Proshare, Abbey National, and Halifax PLC. This continued with a project conducted with HBOS Employee SharePlan Solutions Ltd in 2005, and then further projects in 2007-2008 with <i>ifsProshare</i>. The latest phase of the research (2012 onwards) has involved a project with the Yorkshire Building Society to identify influences on employee behaviour in share ownership plans. The research has primarily been carried out using large-scale employee surveys, with several thousand respondents in each wave. The research has identified the demographic and attitudinal profiles of those participating in share ownership, and has highlighted the role of financial literacy and financial education in influencing behaviour. Some aspects of the research and findings have been entirely novel in the UK context (e.g. in highlighting the dangers of individuals holding substantial proportions of their total savings in risky company shares). See items 3.1, 3.2, and 3.3 below. 2) A programme of research on the characteristics of workplaces with share ownership and the effects on workplace/corporate outcomes has been conducted throughout the period, involving statistical analysis of secondary data provided by the 2004 Workplace Employment Relations Survey (Pendleton was a member of the team that designed the share ownership and governance component of this DTi/ESRC/Policy Studies Institute/ACAS survey). This research conducted by Pendleton and a colleague (Professor Andrew Robinson, University of Leeds) has illustrated systematic variations between types of company in ownership and voice mechanisms, and shown that share ownership can have beneficial effects on economic performance, as measured by workplace productivity. It has also shown that employee share ownership is conducive to firm-provided employee training, and that this can have a beneficial impact on productivity. See items 3.4 and 3.5 below.

A third strand of the research has been concerned with identifying the key characteristics of employee-owned companies, and the determinants of these, along with the linkages between ownership, employee participation, and management structures. Through analysis of key characteristics, obtained through interviews and documentary sources, this research has created a morphology of employee ownership in the UK. This research has shown that business succession and concerns to retain valuable human capital have led to distinct 'constellations' of employee ownership. Company distress has been far less important in stimulating conversions to employee ownership. Overall, the research has identified the conditions under which employee ownership develops and thrives. See items 3.3 and 3.6 below.

3. References to the research (indicative maximum of six references)

- 1) 'Employee participation in employee share ownership: an evaluation of the factors associated with participation and contributions in Save As You Earn plans', British Journal of Management, 2010, 21 (2): 550-570 (journal ranked as 4* in Association of Business Schools' (ABS) Journal List). Submitted in REF2
- 2) Employee share ownership and investment concentration: which employee shareholders fail to diversify? Human Resource Management Journal, 2010, 20 (2): 157-174 (journal ranked as 3* in ABS list). Submitted in REF2
- 3) 'Employee share ownership' in A.Wilkinson, P.Gollan, M.Marchington, and D.Lewin (eds.) The Oxford Handbook of Participation in Organisations, Oxford: Oxford University Press. (with Erik Kaarsemaker and Erik Poutsma). This series has a strong reputation for providing research-based analysis of key topics, with contributions written by eminent researchers.
- 4) 'Employee share ownership and human capital development: complementarity in theory and practice' Economic and Industrial Democracy, 2011, 32 (3): 439-457 (with Andrew Robinson) (journal ranked as 3* in ABS List). Submitted in REF2
- 5) 'Employee stock ownership, involvement and productivity: an interaction-based approach' Industrial and Labor Relations Review, 2010, 64 (1): 746-772. (with Andrew Robinson) (journal ranked as 3* in ABS List). Submitted in REF2
- 6) 'Employee ownership in Britain: diverse forms, diverse antecedents' in Employee Ownership and Shared Capitalism: New Directions and Debates for the Twenty First Century edited by Ed Carberry. Ithaca: Cornell University Press, Labor and Employment Relations Association, 2011, pp. 311-339. (Annual research monograph on topic selected competitively by the Labor and Employment Relations Association, the leading US scholarly association in the area of employment and industrial relations).

Publications available on request

4. Details of the impact (indicative maximum 750 words)

In the last three years there has been considerable governmental activity to develop employee ownership, and the research has contributed to these policy discussions and developments. Key issues are the impacts of employee ownership on individuals and companies, and whether they are beneficial for individuals, companies, and the national economy. The research outlined above has engaged with all of these issues.

Pendleton's research has made an impact in several ways: it has made an impact in the specialist reward and financial services business media; it has influenced the development of government policy on employee ownership. This latter impact has two aspects: one impact has been on a decision to retain an existing policy; the other has been a contribution to the evolution of government policy

The research conducted on employee choices to participate in share ownership, and the important issue of financial literacy, has been identified by the business media as an important contribution to debates amongst practitioners about desirable company practices in these areas (see items 3.1 and 3.2). The magazine *Employee Benefits* (aimed at reward managers: audited circulation of 62,000 in 2012) described in March 2010 how Pendleton was 'leading a charge to teach staff about money matters' (see 5.1). In a follow-up article (April 2010) he was described as a 'crusader against cash confusion' for his research on financial education and share ownership schemes as reported in items 3.1 and 3.2 (see 5.2).

Research into productivity has also had an impact in the business media. An article on share ownership schemes in *Money Marketing* in April 2008 (aimed at those in retail financial services; circulation 82,000 in 2012), highlighted the value of Pendleton's research on productivity to those managing employee share schemes (item 3.5, see 5.3). A substantial feature on 'Employee share schemes: sharing in the wealth' in *Workplace Savings and Benefits* in January 2013 (target readership of finance directors, HR directors, and reward directors) draws on Pendleton's research on productivity and employee outcomes, noting that 'share schemes can be particularly attractive to employers that want to promote an ethos of employee participation in the company' (see item 3.5; reported in 5.4).

Pendleton's research has made an impact on government policy, with awareness of his research stemming in part from its impact on the specialist business media. In one important instance this contributed to a decision not to change existing policy. In 2011 the Office of Tax Simplification (OTS) was established in HM Treasury, with one of its main remits to consider the simplification of taxation arrangements for employee share ownership plans. The OTS "considered the possibility of abolishing all tax advantaged share schemes" (p.39) (see 5.6). To address this, the OTS review "wanted to understand why companies use share schemes and whether ... share schemes were effective" (p.5). The OTS team believed "that the question (of productivity) is fundamental to our work, as it links to the policy objective of the reliefs inherent in the share schemes" (p.63)

The working group of civil servants and tax experts identified Pendleton's work as an important area of research (see Minutes 13 December 2011 in 5.5 below) and this informed their deliberations on the outcomes of employee ownership. Summaries of Pendleton's research provided a substantial portion of the chapter on performance outcomes in the main report by the OTS to the Chancellor of the Exchequer (see 5.6 below). Three of the items in section 3 above (3.3, 3.4, and 3.5) were explicitly considered in the chapter: a working paper version of item 3.3 is referred to in the report as the '2009 Pendleton Review, and is quoted at length. The OTS note that "the 2009 Pendleton Review is of particular interest because it reviews the main strands of research on employee share ownership over the last forty years" (p.65).

Pendleton's evidence that employee ownership can have favourable performance outcomes was used by the OTS working group to recommend that removing the tax concessions for all-employee share ownership schemes would not generate net benefits (pp. 39-40), and that any tax reforms should focus on simplification of tax concessions rather than removal. This report was presented to the Chancellor of the Exchequer, who stated in the 2012 Autumn Statement that "the Government supports employee ownership as a business model, which offers benefits to employers and the wider economy" (p.43; para 1.128). Those benefiting from the decision to retain the tax advantaged schemes include the 380,000 employees who joined SAYE (one of the two tax-advantaged all-employee schemes) in 2011/12 (the most recent year for which statistics are available) and the 700,000 participants in the other all-employee tax-advantaged plan (SIP). The cost of the tax and NIC concessions for these two schemes was £450 million in that year, with each participant in SAYE, for instance, benefiting on average from income tax concessions of just under £300.

Pendleton's research has also had an impact on the development of government policy towards full employee ownership through the contribution his research has made to work conducted by various representative groups. His research was used in a landmark investigation by the All-Party

Impact case study (REF3b)

Parliamentary Group on Employee Ownership (composed of MPs and Peers) in 2008. He submitted written evidence and was the sole academic invited to give oral evidence at the Houses of Parliament. His research was used in the final report (see item 5.7 below for details) to highlight the diversity of employee ownership and the need to take account of this diversity in policy responses, drawing explicitly on 3.6 above. His findings that employee ownership has a beneficial impact on employer-provided training was also used to show the positive effects of employee ownership (item 3.4). The Government announced in the 2013 Budget that £50 million will be allocated annually to promote and support employee ownership (2013 Budget Statement, item 2.71)

In the view of the then Chief Executive of the Employee Ownership Association, this “enquiry had a substantial effect because, as you know, the EO 'profile' in policy terms at that point [2007] was extremely low - probably not seriously on any of the main parties' policy agendas. It didn't achieve a 'big bang' in publicity terms but it unquestionably became a recognisable and - most importantly - highly authoritative hook for policy discussions with the main parties. Most of what it proposed is now part of the Coalition Government policy agenda. The enquiry was clearly rigorous, cross-party, and the eventual report was a major and comprehensive study. Having very prominent academic thinkers giving evidence, as you did, added immensely to the enquiry's and report's perceived credibility” (see item 5.8).

Pendleton was subsequently asked to present further oral evidence to the All-Party Parliamentary Group on the role of employee ownership in public services and Royal Mail in 2011 (see item 5.9) on the basis of his research into employee ownership. He showed that employee ownership can be an effective way to privatise organisations such as Royal Mail because it provides guarantees to workers in return for concessions (p.13 of 5.9 below: see items 3.4 and 3.6 above). At the launch of the report, government minister Francis Maude MP suggested that employee ownership is “the way of the future” and indicated that the Government would “follow up a lot of the suggestions” (item 5.10). The Government announced its plans for an employee share scheme in Royal Mail in July 2013.

5. Sources to corroborate the impact (indicative maximum of 10 references)

1. 'Financial education: interview with Andrew Pendleton of York University', *Employee Benefits*, 29th March 2010
 2. 'Crusader against cash confusion', *Employee Benefits*, April 2010
 3. 'Share and share alike', *MoneyMarketing* magazine, 1 April 2008
 4. 'Employee share schemes: sharing in the wealth', *Workplace Savings and Benefits*, January 2013
 5. Office of Tax Simplification (2011). *Employee share schemes committee: Minutes of evidence*. London: HM Treasury (Office of Tax Simplification)
 6. Office of Tax Simplification (2012) Review of tax-advantaged employee share schemes. London: HM Treasury (Office of Tax Simplification)
 7. All-Party Parliamentary Group on Employee Ownership (May 2008) *Share Value: How Employee Ownership is Changing the Face of Business*. Elstree: All Party Parliamentary Group on Employee Ownership.
 8. Written communication from former Chief Executive of the Employee Ownership Association, April 29th, 2013
 9. All-Party Parliamentary Group on Employee Ownership (June 2011) *Sharing Ownership: The Role of Employee Ownership in Public Service Delivery*. London: All Party Parliamentary Group on Employee Ownership.
- 'Employee ownership is the future for public services, says Maude'
http://www.civilsociety.co.uk/governance/news/content/9652/employee_ownership_is_the_future_for_public_services_says_maude