



White Rose Employee
Ownership Centre

EMPLOYEE OWNERSHIP IN BRITAIN TODAY

Interim findings from the 2014-15

Employee Ownership Survey

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The White Rose Employee Ownership Centre was established by employee ownership academics at the universities of Leeds, Sheffield, and York to foster collaboration between academics, policy-makers, and company practitioners. It is open to all those with an interest in employee ownership.

<http://lubswww.leeds.ac.uk/wreoc/home/>

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Introduction

Employee ownership is an increasingly important form of business ownership and organisation in Britain. Employee-owned firms are found in a range of sectors, including retail, wholesale, ancillary health services, social care, business consultancy, and manufacturing. Although some firms have been employee-owned for many years, employee ownership started to become more prevalent from the mid-1980s. A wave of conversions took place in the late 1980s and early 1990s, often using an ESOP-type structure. After a lull in the late 1990s, conversions to employee ownership picked-up in the 2000s, with the pace escalating from around 2010. Following recent policy initiatives, there is currently considerable interest in employee ownership within the business community.

There is considerable heterogeneity across the employee-owned sector in Britain. Traditionally, workers co-operatives were the most common form of employee ownership, but since the late 1980s new ownership forms and structures have developed. Some firms have indirect employee ownership, with shares held collectively in an Employee Benefits or Employee Ownership Trust, whilst others have direct employee ownership whereby individual employees own shares. It is common for ownership to take a hybrid form, combining direct and indirect ownership.

In this paper we consider the influences on the development of new forms of

employee ownership since the 1980s, and highlight the factors contributing to the current rise in employee ownership conversions. Political support for employee ownership is found to be the strongest but not the only influence on levels of employee ownership activity.

The paper highlights variations in ownership and governance characteristics of employee-owned firms. It will be argued that the diversity of ownership and governance arrangements reflects the interaction of choices and interests of those involved in the transition to employee ownership and the circumstances of the conversion (see Pendleton 2001).

Initially, the features of the main ownership forms will be outlined. We then consider the influences upon the development of employee ownership. Finally, the paper will identify and discuss groupings of employee-owned firms, based on the circumstances of their conversion. Four main groups are identified: ownership conversions arising from privatisation, business succession, sharing ownership, and business start-ups.

The paper draws on interim findings of a major research project conducted by members of the White Rose Employee Ownership Centre during 2014-2015 in collaboration with the Employee Ownership Association (EOA) (<http://employeeownership.co.uk>). All firms in Britain with significant levels of employee ownership are being surveyed. Currently, around 100 firms have responded: we draw on a sub-set of 57

firms in the analysis that follows. For a short summary of other recent findings see *Employee Ownership in Britain* <http://employeeownership.co.uk/resources/reports/>

Disclaimer: the views expressed in this paper are those of the authors and should not be attributed to those assisting the research such as the Employee Ownership Association.

References to specific companies in the paper are drawn from publicly available information such as company web-sites and not from any data supplied to the survey

Forms of employee ownership in Britain

There is no universally-accepted definition of non-co-operative forms of employee ownership, with the result that identifying employee-owned firms is not straightforward. Krusi and Blasi (1997) highlight four main dimensions of employee ownership: the proportion of company shares owned by employees, the proportion of employees owning shares, the distribution of ownership amongst employees, and the nature and extent of rights associated with ownership. Whilst this identifies key dimensions of employee ownership, identifying the divide between employee-owned firms and those said not to be employee-owned is not straightforward. For instance, a firm might be 100% owned by its employees but most of the ownership is held by a small group of senior employees. Should this firm be said to be employee owned?

Our working definition here is that employee ownership refers to firms where 25 per cent or more of the

ownership of the company is broadly held by all or most employees (or on their behalf by a trust), taking into account that in most cases the remainder of the ownership may be held by a smaller group of employees. 25 per cent is chosen as a cut-off because ownership of a 25 per cent stake is viewed in some company legislation as a 'material stake'. In practice, levels of employee ownership are much higher in most cases: the average in our sample is 83 per cent (median = 100).

In the analysis that follows we distinguish between indirect or trust-based employee ownership, direct ownership, a membership-based version of direct ownership, and a hybrid model that combines indirect and direct ownership.

Indirect ownership

Indirect ownership is where ownership is vested in an Employee Benefits or Employee Ownership Trust. The employees do not directly own the company but are the beneficiaries of the trust. The primary duty of the trust is to operate in accordance with the interests of the beneficiaries as set out in the Trust Deed. Although the Deed may not stipulate it as such, trust ownership provides the basis for employees to participate in the governance and returns of the company.

The most well-known case of indirect ownership in Britain is the John Lewis Partnership, operator of John Lewis department stores and Waitrose supermarkets with 91,000 employees in 2014. John Lewis has been a beacon for employee ownership in Britain, especially in recent years

when it has been far more overt in advertising its ownership to customers, lobbying governments, and supporting the development of the employee ownership sector. The Partnership was initially established in 1929 to provide profit-sharing to the employees, with the firm being passed to the Trust in 1950. The trust deed requires that the trust benefit employees past, present, and future. Although employees do not directly own John Lewis (technically, it can be argued that John Lewis is not employee-owned as such), they are the beneficiaries of the Trust and receive a substantial portion of the profits each year in the form of a profit share. This has been as much as 17 per cent of annual salary in recent years. Employees also have a substantial role in governance, with elected institutions at store, region, divisional, and head office level.

Direct ownership

The opposite of the indirect, trust-based model is direct ownership of shares by employees, which they acquire either by gift, or purchase, or a combination of the two. An exemplar of the direct model is Sheffield-based Gripple, manufacturers of a wire joining and tensioning device used in fencing and construction known as a Gripple. Currently, all of Gripple's 460 strong workforce directly own shares in the company, with new employees since 2004 required to purchase £1000 of shares within a year of joining the company, assisted by a loan from the company (EOA 2014; Silcox 2009). Somewhat earlier, the privatisation of the National Freight Corporation in 1982 was brought about by individual subscriptions to shares by employees: 35 per cent of the company's 24,500-strong workforce chose to buy into ownership of the new company with an average shareholding of around £700 (Bradley and Nejad 1989).

A key advantage claimed by adherents of the direct model of employee ownership is it provides a highly tangible and direct form of ownership, with employees benefiting directly from company growth (Employee Ownership Association 2013). Against this, achieving successful conversions to employee ownership may be more dependent on the wealth and liquidity of employees. Since individual circumstances and preferences determine participation in ownership, it is common for ownership to be less widespread amongst the workforce and for shareholdings to be unequal in the direct form of employee ownership.

A variant of the direct share ownership model is the membership model. In this, employees can become a member of the company by purchasing a nominal share (often £1). The roots of this form of ownership can be found in the worker co-operative and friendly society tradition, and it is common for firms using this model to register as a membership society under the Co-operative and Community Benefit Societies Act 2014 and its predecessors. As in worker co-operatives, ownership rights are equally distributed amongst eligible and participating employees.

This membership model is not usually suitable for raising capital to bring about an ownership conversion but can be appropriate where conversion does not involve a substantial purchase price. Examples include transfers of employees to newly-formed organisations with no prior trading history or where there are few physical assets. This form of ownership is common in the public service spin-outs from central and local government and the National Health Service which have been taking place since the late 2000s. A notable feature of many of these public service 'mutuals' is that service users can also become members. For instance, Explore – the

spin-out of library services from the City of York Council – will become two-thirds owned by members of the local community and one-third owned by its staff.

Hybrid model

A hybrid model of employee ownership comprises elements of both direct and indirect models by combining trust ownership with share distributions to individual employees. This form of employee ownership first developed in the mid-1980s based on the ESOP form that had developed in the United States after the passage of the 1974 ERISA pension legislation. In this model ownership is initially held collectively in an employee trust but over time all or some of this ownership is transferred to individual employees.

This model emerged in Britain when advocates of employee ownership developed structures that linked trust vehicles to the share-based profit sharing legislation introduced by the Labour Government in 1978. Typically, the initial ownership conversion is achieved using an Employee Benefits Trust, with shares held in this trust then being passed to an Approved Profit Sharing Trust (since replaced by the Share Incentive Plan) for distribution to employees (see the technical discussions in Wilson 1992). The benefit of this arrangement is it sidesteps the liquidity constraints and coordination costs that arise if capital contributions are sought from individual employees. Shares are passed to employees after the profit sharing scheme acquires shares from the Employee Benefit Trust using company profits. The profits passed to the EBT are then used to repay the loan typically incurred by the EBT to acquire the shares in the first place

The first ESOP to be formed in Britain is said to be the motorway services organisation Roadchef in 1986. In this case an EBT initially

acquired a 12.5 per cent stake, later rising to 34 per cent, in the company from the estate of the recently deceased Finance Director (See Pendleton 2001: 19)³. The ESOP structure was then widely imitated during the wave of bus company privatisations in the late 1980s/early 1990s (ibid; 87-94). More recent ESOPs have used the Share Incentive Plan (SIP) to distribute shares (this plan replaced Approved Profit Sharing from 2000). SIPs can be used to distribute shares at no cost to employees ('Free Shares') or to provide a means for employees to purchase shares ('Partnership Shares') on highly advantageous terms (tax concessions and the potential award of Matching Shares). Some firms using an ESOP-type model enable employees to purchase shares, some award free shares, and some use a combination of the two.

Table 1 provides details of the distribution of the main ownership types in our sample.

³ Roadchef ceased to be employee owned in 1998 when the business was sold. A long-standing issue has been a transfer of shares from the main EBT to a trust controlled by the CEO. This was taken to court in 2014, with the court deciding that the transfer was null and void. A final settlement was achieved in February 2015. For further information see <http://www.independent.co.uk/news/uk/home-news/roadchef-workers-win-legal-fight-for-shares-after-20-years-10016119.html#>

Table 1 **The main structures of employee ownership**

Percentages of respondent companies

	Employee benefit trust only	Direct ownership only	Hybrid of trust ownership and direct ownership
<i>Proportion of total sample (%)</i>	23	40	37
<i>Average level of employee ownership (median) %</i>	84 (100)	89 (100)	76 (89)

N = 57

The merits of each ownership type

The choice of the most appropriate structure for employee ownership has been the subject of continuing debate within the employee ownership community for many years. Some prefer the trust-based model because ownership conversion is less reliant on employee wealth and liquidity. Once trust ownership has been achieved, the level of risk-bearing by individual employees is clearly lower than where employees have purchased shares. Finally, trust-based employee ownership appears to offer greater ownership sustainability because ownership is less susceptible to individual preferences.

It is notable that John Lewis has been trust-owned for over fifty years, during which time other well-established employee-owned firms have converted out of employee ownership. For instance, the individual owners of the National Freight Corporation sold their shares on the open market once the company had listed, and a very rapid dilution of employees' shareholding in the company took place. This is not to say that the trust-based form of employee ownership is immune from re-conversion to 'conventional' ownership: if trustees have clear grounds for believing that the employee beneficiaries want to liquidate the share-holding in the company their

fiduciary duty is to implement these wishes. This is what happened with the bus company ESOPs during the latter half of the 1990s, to the extent that substantial employee ownership has disappeared from the bus industry.

The primary argument advanced by advocates of the direct form of employee ownership is that individual share-holdings promote responsible ownership. Employees more clearly perceive links between their own actions and company outcomes, and are more likely to be motivated by them because they have a direct and immediate stake in these outcomes. They receive some support from the findings from the literature on ownership and employee attitudes which suggest that employees need to receive a direct financial benefit from ownership to feel like owners (French 1987; Buchko 1993).

The hybrid model combines benefits of both the trust and direct models of ownership by enabling conversions at low up-front cost to employees whilst facilitating direct participation in ownership. A further benefit is that the trust can be used to re-purchase shares from departing employees, thereby limiting the potential for dilution of employee ownership when employees want or are required to sell their shares. However,



a potential problem with such arrangements is that the trust may require resources for repurchases, with the company being the most likely source of these. This has led to severe cash-flow problems in firms with large proportions of employees approaching retirement.

The development of employee ownership

Employee ownership is clearly not a common form of business ownership. Currently, we estimate that there are around 250-300 firms with significant employee ownership in Britain. The forms of employee ownership described earlier have mainly developed since the early 1980s, with an intensification of interest and acceleration of ownership conversions in the last five years. Employee ownership was no by means new in the early 1980s – there had been an upsurge in the number of worker co-operatives in the 1970s – but the ownership structures and forms of conversion in the mid-1980s were relatively novel. Why did these new forms develop, and what explains the subsequent patterns of growth in employee ownership conversions?

Contextual factors favouring employee ownership

Several long-run developments provide a favourable context for the development of employee ownership. One is the shift from manufacturing to services in advanced industrial economies. This has favoured the development of firms that are rich in human capital and less dependent on physical assets for the generation of value. Firms that are dependent on human capital clearly need to attract, retain, and develop high quality human resources to achieve competitive advantage (Rousseau and Shperling 2003). As

value generation by the firm resides in employee skills and knowledge, it seems appropriate to provide employees with rights to control and to the returns to human capital. It is notable that employee ownership is spreading fast amongst ‘human capital’ firms providing business consultancy, architecture, and engineering design services, with some world-leading firms such as Arup owned by or on behalf of their employees.

A second development is increasing economic and employment insecurity. Globalisation, competition, and deregulation have made it increasingly difficult for firms to offer the implicit guarantees of long-term employment, career progression, and social benefits that became common in large firms post-Second World War. But how can firms achieve employee commitment, especially when they are increasingly dependent on human capital, when they can commit less in terms of careers and job security in return? Margaret Blair (1995) has argued that employee ownership provides a means to break out of this ‘hold-up’ situation by giving employees control and return rights commensurate with those of other shareholders (see Pendleton and Robinson 2011). The adoption of employee ownership in the American airline industry and the British bus industry can be viewed as a way of securing employee support for changes to traditional wage and employment structures in response to increased competition, deregulation, and new entry (Gordon 2000).

Finally, the financial crisis of 2007-8 and its aftermath have heightened interest in alternative forms of corporate organisation. It has been argued that the dominant forms of corporate ownership and organisation, most notably public limited companies (PLCs), tend to be characterised by short-termism and limited engagement by owners (Ownership

Commission 2012). Employee ownership can ameliorate both problems. It can also reduce inequalities by passing greater control to workers, as argued in the influential book on inequality *The Spirit Level* (Wilkinson and Pickett 2010). In so doing employee ownership may contribute to better health and well-being (McQuaid *et al* 2012)

Micro-level support

At the micro-level, an important factor is the emergence of an employee ownership 'expert community' as a body able to develop forms of employee ownership, and penetrate and influence the policy-making process. The initial ESOP form in the 1980s was developed by a small number of professional services providers, primarily lawyers, who were able to weld together various legal instruments such as Employee Benefits Trusts and profit sharing schemes to create feasible means for converting conventional firms. Their role model was the ESOP form of ownership that had developed in the United States after the 1974 ERISA legislation, and their interest in this stemmed in part from the perceived failure of the hitherto main form of employee ownership – the worker co-operative. There had been considerable growth of workers' cooperatives in the 1970s but the perceived failure of the 'Benn Co-operatives' in the late 1970s left a legacy of disillusion with this form of worker ownership. One of the appeals of the emergent ESOP form of employee ownership was that worker ownership could be combined with conventional forms of company management.

The role of employee ownership 'champions', with a deep personal commitment to employee ownership, cannot be underestimated. Through relationships with key lobbyists they have been able to exert

influence on policy-makers, leading to a series of legislative and policy changes. The articulation of interests within the employee ownership community (employee-owned firms and their advisers) has developed as the sector has grown, assisted by the development of an employee ownership trade association (the Employee Ownership Association) and the decision of key employee-owned firms, John Lewis Partnership especially, to act as champions for the employee ownership cause. Waitrose, for instance, now highlights employee ownership in its mass consumer advertising. This lobby group has been able to exploit the opportunities provided by a favourable political context: the sometimes uneasy governing coalition between Liberals and Conservatives, with both interested in developing employee ownership though for different motives.

In addition to lobbying, the active diffusion of information through a variety of networks has enhanced mimetic processes of ownership conversion. We can now observe clusters of employee-owned firms in various sectors such as social care, architecture, design and advertising and retail/wholesale.

Government action and policy development

- i) Regulatory and legislative initiatives.

Developments in government policy towards employee ownership have had a major influence on the growth of employee ownership. There are two elements to this: regulatory initiatives and privatisation. Regulatory initiatives comprise the establishment of share plan legal identities and the provision of tax concessions. Since the late 1970s successive UK governments

have initiated several employee share schemes, including Approved Profit Sharing (1978) and the Share Incentive Plan (2000). Although these schemes were not designed with substantial employee ownership as a primary objective, they have nevertheless provided mechanisms for employee-owned firms to distribute equity to employees⁴.

There have also been several initiatives targeted more specifically at promoting employee ownership. In 1989 the Conservative Government introduced the Qualifying Employee Share Trust (QUEST), commonly referred to as a Statutory ESOP to distinguish it from the 'case law' ESOP developed from the amalgam of trust and profit sharing instruments described earlier. This was designed to simplify ESOP creation by enabling the use of one rather than two trusts, and by making expenses incurred in establishing a trust tax deductible by statute (rather than case law). Most notably, however, it provided an incentive for owners to establish QUESTs by allowing capital gains tax (CGT) rollover relief if at least 10 per cent of the company's equity was sold to the QUEST. The QUEST form was not widely used, however, because the conditions for securing tax concessions were seen as inflexible (eg. a requirement, later relaxed, that a majority of trustees should be elected by the entire workforce). It was sunk, however, by its use in some large listed companies to secure a corporation tax concession when operating SAYE schemes (see Pendleton 2001: 68-71).

Recently, a series of initiatives by the Conservative-Liberal coalition has promoted employee ownership. In 2012 the Government initiated a major review (known as the 'Nuttall Review') of employee ownership by employee ownership expert

Graeme Nuttall to consider the barriers to employee ownership (Nuttall 2012). The Coalition Government undertook to implement most of the proposals put forward in the review, most of which focused on overcoming obstacles to employee ownership such as inadequate information and financial support.

In the Finance Act 2014 a series of measures were implemented to encourage trust-based employee ownership. Owners selling 50 per cent or more of their company to an Employee Ownership Trust were exempted from capital gains tax on the growth in value, whilst firms with at least 50 per cent ownership by a trust became able to award profit shares to employees that are exempt from income tax up to a value of £3,600 each year. This was designed to mirror the tax reliefs available in the SIP scheme for distributions of shares in direct ownership schemes. At the time of writing these legislative changes are new so it is difficult to evaluate their effectiveness. However, they have helped to stimulate a great deal of interest in employee ownership.

These kinds of initiatives provide incentives for firms and their owners to consider conversion to employee ownership. Their justification is that they counter-balance obstacles to employee ownership, such as the expense of establishing trust structures (where used), a lack of awareness and knowledge of employee ownership amongst professional advisors such as lawyers and accountants, as well as amongst business owners, and a perceived unwillingness of financial institutions to provide support for employee ownership conversions (see All Party Parliamentary Group on Employee Ownership 2008).

⁴ However, SIP limits the length of time shares may be held in trust before distribution to employees

ii) Privatisation

Privatisation is the other main government activity that has stimulated employee ownership. Waves of employee ownership conversions correspond with privatisation programmes in Britain. Two main phases can be discerned: the first is the privatisation programme of the Thatcher-Major Governments in the 1980s and first half of the 1990s; and the second is the current privatisation programme mainly implemented by the Conservative-Liberal Coalition Government from 2010 but initiated by the Labour Government preceding it.

In the first phase of privatisation notable conversions to employee ownership included the National Freight Consortium, and state and local authority-owned bus passenger companies in England and Scotland. At its peak, most of the major bus operators in most of the largest English and Scottish cities were employee-owned. Privatisation into employee ownership was encouraged by governmental offers of preferential pricing. Whilst many local authorities were ideologically opposed to privatisation, they viewed employee ownership as preferable to acquisition by companies based elsewhere with consequent loss of local control of bus services. Although national trade unions were generally hostile to privatisation, local union organisations often preferred employee ownership to acquisition by new entrants to the bus industry with reputations for changing wage and employment structures. However, none of these bus companies survive as employee-owned entities, and employee ownership appears to have been a transitional stage in the re-concentration of the industry (see Pendleton 2001: 193-195).

The second phase of privatisation has involved the divestment of local authority, national government, and National Health

Service activities into 'public service mutuals'. This is a continuation of contracting-out measures initiated in the first phase of privatisation. Divestments from the Health Service were introduced by the 2005-2010 Labour Government whereby primary care trust staff were given the 'right to request' the formation of social enterprises to deliver community health services (see Ellis and Ham 2009). The Coalition Government has continued this policy with its 'right to provide' policy for NHS trusts and adult social care. Support has also been given for the creation of public service 'spin-outs' from national and local government services by the Mutuals Support Programme.

By mid-2014 100 'mutuals' had been 'spun-out'. Examples include children's social care, youth services, and libraries, as well as healthcare. The Coalition Government is also keen to extend the mutual model to the fire and probation services. Some members of the government have been ardent advocates of the mutual form as a way of empowering workforces and improving services, but others have probably viewed employee ownership as a relatively less contentious means of privatising services, especially in the politically sensitive health service.

iii) Policies of the political parties

A deeper question concerns the origins and rationales for the policies of the political parties in Britain. As argued elsewhere (Pendleton 2001), all political parties have found employee ownership attractive though arguably some policy-makers have had ulterior motives for supporting employee ownership.

Over the years, the Liberal Party has perhaps been most committed to employee ownership

as a desirable end in itself, emanating from its philosophy of closing the gap between both sides of industry. In his Mansion House speech in 2012 the Liberal Party leader Nick Clegg quoted John Stuart Mill in advocating employee ownership to “end the feud between capital and labour” (see Brione and Nicholson 2012: 8). Some of the most significant policy initiatives have taken place because of Liberal Party activity to promote employee ownership, such as the recent measures to stimulate employee ownership conversions using employee benefit trusts.

The Conservative Party has also provided practical support for the extension of employee ownership, with a series of policy initiatives over the years. This has included preferential terms for employee buy-outs during the privatisation of the bus industry in the 1990s and an allocation of 10 per cent of for employees during the recent part-privatisation of Royal Mail. Employee ownership has formed an element of broader policies to encourage ‘shareholding democracy’ and entrepreneurialism. Some Conservatives have seen employee ownership as an alternative to trade unions and employment regulation, as exemplified by the Shares for Rights legislation passed in 2013. It has also been viewed as a way of ‘shrinking the state’ and privatising public services.

The Labour Party has also supported ESOPs and employee ownership over a long period of time. Employee ownership formed a part of the discourse surrounding efforts to move the party’s philosophy away from nationalisation as a key means to achieve social ownership and towards the notion of a ‘social market economy’. When in government (1997-2010) Labour’s efforts mainly focused on promoting share schemes to achieve corporate growth rather than encouraging employee ownership to bring

about economic democracy. The Share Incentive Plan and Enterprise Management Incentives were important innovations, with the former acting as a useful instrument for employee-owned firms to distribute equity to employees. However, shortly after the introduction of the SIP, the government withdrew the corporation tax deduction for contributions to case-law employee trusts, resulting in fewer transfers to employee ownership (Mason 2009). Nevertheless, Labour initiated employee ownership amongst NHS spin-outs with its Right to Request programme. It has also recently proposed an employee right to request employee ownership when businesses are about to change ownership.

The current high level of activity in support of employee ownership by the Conservative-Liberal Coalition is unprecedented in Britain. It is perhaps best explained by competition between the two government parties (cf. Carter and Jacobs 2013), with the Liberal Party in particular keen to introduce policies that give it a distinct identity within a government in which it is a minority member. Policies to support employee ownership during privatisation have been emanating from the Treasury and Cabinet Office, primarily controlled by the Conservatives, whilst policies that encourage employee ownership conversions during business succession have been introduced by the Department of Business, Innovation, and Skills, headed by a Liberal-Democrat. Policy experts, lobbyists, and ‘flagship’ employee-owned firms, aided by ‘policy entrepreneurs’ in the employee ownership community, have been able to exploit this competition to push employee ownership further onto the political agenda (cf. Kingdon 1995).

The nature of the employee ownership sector.

The employee-owned sector in Britain is heterogeneous in character. Clusters of employee-ownership can be found in a variety of sectors such as social care, health services, retail, business consultancy, and manufacturing, to name but a few. In an earlier discussion, based on employee ownership in the late 1990s, several main forms of employee ownership were identified according to the circumstances in which they were created: privatisation, paternalist divestments, and ‘forced divestments’ (ie. worker responses to shut-downs) (Pendleton 2001).

Nearly twenty years on, with the further development of the sector, the balance of activity within the sector has changed: business succession has become much more

important and there are more employee-owned start-ups. There are also more firms where groups of owner-managers are choosing to share substantial ownership with a wider body of employees. Nevertheless, a key structuring variable remains the circumstances in which employee ownership is created. Superimposed on top of this is the range of actors involved in the ownership conversion. The interests and objectives of these actors influence the structures of ownership and governance adopted, taking into account the circumstances in which employee ownership is created.

Based on early stage findings of a major survey of employee ownership in Britain, we identify four main contexts in which employee ownership is typically created: business succession, privatisation, sharing ownership, and start-ups. The proportions of each types are as shown in Table 2.

Table 2 Employee ownership: ownership and governance characteristics of employee ownership groups

Percentage of firms in each category

	<i>Business succession</i>	<i>Privatisation</i>	<i>Sharing ownership</i>	<i>Start-ups</i>
<i>Proportion in the total sample (%)</i>	31%	22%	26%	21%
<i>Average level of employee ownership (%)</i>	85	85	76	88
<i>Proportion using a trust (%)</i>	93	23	67	42
<i>Proportion with worker directors (%)</i>	40	69	27	50
<i>Proportion with employee shareholder council (%)</i>	67	62	33	8
<i>Median employees (n)</i>	76	650	350	29

N = 58



As can be seen, the distribution of cases between the privatisation, sharing ownership, and start-ups is similar, with business succession cases being somewhat more prevalent than the others. Although the sample currently comprises a minority of employee-owned firms in Britain, we believe it to be broadly representative of the employee-owned sector.

Business succession

Employee ownership of this sort arises when business owners want to exit the business but do not want to sell the company to a competitor or to pass the company to a family member (often because family members do not wish to take over the business). It can include cases where the owner wishes to retire or to share part of the ownership as a stage in the process of withdrawing from ownership. Employee ownership is a way of protecting the company and the interests of the company's workforce as the owner exits. There has been a steady expansion of these cases in recent years: whereas they accounted for 16 per cent of the population of employee-owned firms in the late 1990s they are now nearly one-third of the sample.

Ownership conversion in these cases is nearly always instigated by the business owner, and the design of the ownership and governance structures typically reflects this. Employees often have little direct involvement in the conversion, and sometimes only become more deeply involved once the ownership conversion has taken place. The level of employee ownership is typically fairly high (average employee ownership is 85 per cent) to provide protection against acquisition by other firms. There is widespread use of employee trusts amongst these firms (93 per cent of cases) tempered by the view of some

owners that direct ownership is more likely to lead to 'responsible' ownership.

In most cases the owner sells the ownership share to the trust but there are cases where owners gift the company and in some instances owners either defer the payment or provide a loan to the EBT to purchase the shares off them. In others, the EBT secures an external loan to purchase shares from the owner, backed by future income streams. The advantage of an EBT in these circumstances is that lack of worker expertise, and employee wealth and liquidity constraints, do not prevent the conversion from taking place. Owner instigation of the conversion also sidesteps the coordination problem that would arise if workers themselves were to organise the buy-out.

The predominance of the business ownership in the initiation and design of employee ownership effects governance as well as ownership structures. Whilst these companies are often highly participative, employee representation on the company board of directors itself is less widespread than the use of employee councils to represent the views of employee shareholders to the board.

Privatisation

Privatisation was an important backdrop to many conversions to employee ownership in the late 1980s/early 1990s, accounting for over 50 per cent of conversions at the time. It then declined in importance until very recently. The Conservative-Liberal Coalition Government of 2010-2015 reinvigorated privatisation, primarily by spinning-off parts of public services out of the private sector. This has focused especially on the National Health Service and central government. Local

government spin-outs have been less common, in part because of ideological objections amongst local authorities, but are likely to become more common given severe constraints on local authority finance.

Although the mean level of employee ownership is very similar, public service 'spin-outs' differ from business succession conversions in several ways. Firstly, because many of these organisations provide public services at nil cost to the service user, they have typically registered as either Industrial and Provident Societies (a typical co-op form of registration) or Community Interest Companies (CICs). Secondly, because of lower capital requirements than in business succession companies, there has been less perceived need to vest equity in Employee Benefit Trusts (found in just 23 per cent of cases).

In the health service spin-outs, ownership is usually offered directly to the workforces, typically in the form of £1 shares. Subscription by employees, along with users, gives them membership rights. The typical subscription level within these organisations is around 80 per cent of the workforce. There is greater use of employee benefit trusts in local authority spin-outs but ownership is nevertheless mainly vested in direct, individual ownership. Unlike business succession and sharing ownership conversions, these conversions are typically instigated by managers and employees, often with substantial trade union involvement. As a result, there tends to be extensive employee involvement in governance. There are worker directors in 69 per cent of cases and employee councils in 62 per cent (some companies clearly have both).

Sharing ownership

The sharing ownership group is comprised of cases where, prior to employee ownership, the company is typically owned by a group of owner-managers serving as company directors. Often these companies are human-capital-rich firms providing business and professional services (see Pendleton 2011). They devote more resources to training and development than the other groups of companies in our sample, and experience greater difficulty in recruiting employees with specialist skills. Employee ownership serves to extend ownership to a wider group of employees than hitherto. Unlike many business succession cases, owner-managers typically continue to work in the firm though the conversion may form part of a longer-term succession plan.

The average level of employee ownership tends to be somewhat lower than in business succession firms because of continuing ownership by directors. The use of an employee trust is also somewhat less widespread than in business succession firms, and a third of these firms require employees to subscribe to shares to become owners. Employee directors are relatively uncommon (found in just over a quarter of cases), reflecting a concern to maintain existing management approaches and practices. The use of employee shareholder councils is also less widespread than the business succession and privatisation companies.

Start-ups

In the past, employee ownership does not seem to have been that well-suited to business start-ups. There have been significant barriers to the supply of capital and the assumption of risk by employees, except in the case of the smallest companies. For this reason, there were no business start-ups

in our survey of employee-owned companies in the late 1990s. However, with the continuing shift to services, and the importance of human capital in some service industries (such as business consulting) these barriers to employee ownership are much less significant. Employee ownership can be a form of 'glue' that links together members of an otherwise fairly loose network of consultants or creative employees. 21 per cent of the current sample are start-ups. As in business succession and privatisation conversions, the average level of employee ownership is high (88 per cent).

Several features flow from these circumstances of employee ownership creation. One, ownership tends to take the form of direct ownership: employees may be required to subscribe to shares to supply working capital and to show their commitment to the emergent organisation. There is a trust in 42 per cent of cases but these hold on average lower levels of equity than business succession and sharing conversions. Two, as most are relatively recent start-ups they are typically considerably smaller than companies in the other ownership categories, with median employment of 29 employees at the time of the survey. Three, perhaps reflecting the small size of these organisations, formal institutions of employee governance are in some respects less in evidence than the other groups, with just 8 per cent of these companies holding employee shareholder councils. The proportion with employee directors is, however, relatively high at 50 per cent of cases.

Rescue conversions?

It might be anticipated that the financial crisis of 2007-8 would have led to employee

ownership conversions involving firms in economic distress. It has been argued that co-op formation will increase during downturns of the business cycle because the opportunity costs for risk-averse workers of forming co-ops will be lower than during better economic times (Ben-ner 1988). In practice, however, ownership conversions of this type are rare in Britain, though there have been some well-known examples such as the rescue of Tower Colliery in South Wales in the 1990s (where miners contributed £8,000 of their redundancy money from British Coal to acquire the colliery). In our sample so far there are no cases of rescue conversions.

The reason that they are so rare in Britain is that they are fraught with risks. Raising cash from financial institutions to effect a buy-out is extremely difficult where firms are in distress for obvious reasons. Meanwhile, many workers may be reluctant to risk investing any money they might be due in redundancy payments. To the problems of raising capital, have to be added those of a lack of expertise amongst many of those involved in the rescue. Finally, compared with some other European countries, there is little support from government and local agencies in Britain to find innovative ways to prevent failing companies from going into receivership or administration.

Conclusions

This paper has endeavoured to review the development of non-cooperative forms of employee ownership over a thirty year period, and draws on research conducted during this time. The role of political support for employee ownership emerges as critical to the development of employee ownership, with the extent of conversion activity broadly correlating with levels of policy activity and

innovation. The current level of support for employee ownership is unprecedented, and this is reflected in a vibrant and growing employee ownership sector.

This review has also highlighted the variety of ownership forms and contexts within the employee ownership sector. This makes it difficult to generalise about the sector, and highlights the imperative that policy prescriptions should be sensitive to the various contexts in which employee ownership is created. Nevertheless, our current research suggests there are distinct constellations of employee-owned firms, created in distinct sets of circumstances. As yet, this research draws on a modest number of firms but the patterns observed are not dissimilar from those generated by earlier research and we believe our findings to be representative of the broader population of employee-owned firms. Our interim findings provide a detailed portrait of the growing employee-owned sector: as the research develops further we hope to portray in greater depth the richness of employee ownership in Britain today.

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