

## **Employee ownership: a panacea for corporate problems or a business model that is past its prime?**

**Those who champion the model believe it can improve engagement, innovation and productivity but it can also slow down decision-making and leave businesses vulnerable to market swings.**

by [Andrew Saunders](#) - Management Today - 9/8/24

Hands up who remembers the David Cameron/Nick Clegg 'bromance' of the early 2010s? So much ick, as the kids say now. Ironically for a coalition, the Con/Lib love-in may chiefly be remembered for ushering in the most divisive era of British politics since the 1970s, but one more collegiate idea that did flower briefly in that ill-starred era was employee ownership. In 2013 it was this government that commissioned the Nuttall Report into Employee Ownership, with a view to kickstarting a new era of 'mutualisation' as a useful corrective to all those companies that were then – and still are now – being taken off the public markets and into private ownership.

From banks to builders and from movies to manufacturing, enabling workers to own at least a part of the organisations to whose benefit they toiled daily was supposed to solve a whole host of pressing business problems – from poor employee engagement and a lack of innovation to the productivity crisis. There was even a short lived plan to mutualise the Post Office, an idea that in light of the appalling Horizon scandal should have been pursued years earlier than it was. Would a company that was owned by its staff have been quite so eager to unjustly criminalise so many of them?

But in the end the prospects of an ownership revolution seemed to fizzle out. As with so many other issues in business, it's easy to point an accusing finger at the B word (Brexit). But the truth is rather more nuanced, because the turbulent and uncertain world in which we all now live and work has presented obvious difficulties for some of the highest-profile employee-owned businesses (yes John Lewis Partnership, that means you). This in turn has raised questions about the suitability of the whole model. Questions which go something like this: does employee ownership, with its ponderous processes and complicated stakeholder management requirements, really lend itself to forging the agile, fast-moving, shapeshifting creatures that contemporary business demands? Or put more simply, are employees who own the business ever ready to fire themselves if the need arises?

David Howden, founder and CEO of employee-owned reinsurance group Howden, believes that employee ownership is no bar to making tough decisions, so long as the structure is appropriate. "I've probably had six CFOs since I started the business – they were all great people but some were right for one stage and some for another. So long as you treat people with respect, I think everybody understands that."

Processes do not have to be ponderous or slow, he adds, and far from hampering growth it has accelerated it, he adds. "Firstly because employee ownership enables us to attract the best talent – I say to people, why work for a US plc when you can come to us and work for yourself? And secondly because rather than being political and backstabbing, our people collaborate. Collaboration is our superpower."

Howden may be employee owned, but it is not employee run – a crucial distinction compared to the likes of John Lewis or the Co-op where employees do get a say in major business decisions. "We run the business in a normal way, with a board and executive committees," says Howden. He must be doing something right because in the 30 years since starting the business (employee owned from the off), it has grown from "three people and a dog" to an international player

turning over approximately £2.5bn a year, employing 18,000 and boasting an enterprise value of around £20bn. Shares are not given to employees, they must buy or earn them – so around a third of employees own around a third of the company, making them not majority owners but the largest single group of shareholders. The result of so much skin in the game? “We win more clients and are much faster than our competitors,” he says.

So perhaps the death of employee ownership has been, as Mark Twain might have said, exaggerated. In fact, by some measures, it is booming – according to the Employee Ownership Association, there are now over 1600 employee-owned businesses in the UK, a rise of over 37% year on year. But most of them are SMEs, and many of the transitions are prompted by an issue that has plagued small and family-owned businesses forever – who takes over from the founders? “Succession is definitely one of the trigger points,” says Keely Lead, head of communications at the EOA. “There may not be a successor in the family but the founders do not want to just get rid of it completely – the business is their legacy.”

Much of that growth has been spurred on by another legacy of the coalition era, the Employee Ownership Trust. This is a legal instrument introduced in 2014 and designed to encourage businesses who want to become employee owned to take the plunge. “It has created a really stable succession solution for businesses,” says Lead.

Under an EOT structure, the sale of a business to its employees is exempt from capital gains tax, while employees can receive up to £3,600 per annum each in dividends, tax free. And as the name suggests, shares aren’t owned directly, they are held in a trust. EOA research suggests that employee-owned businesses are 50% more likely to grow profits post-transition than non-employee owned firms and 50% more likely to invest in R&D, whilst employees are up to 12% more productive, 73% more likely to have better job satisfaction and earn on average £2,700 a year more.

If employee ownership is so great why isn’t everyone doing it? There are a few downsides, says Hossam Zeitoun, reader in strategy and behavioural science at Warwick University Business School. For one thing, the transition absorbs a lot of resources, financial and otherwise, and can leave a business vulnerable to market swings or more focused competitors. And for another, ongoing funding for majority employee-owned firms can be a challenge because the business may not be able to raise equity in the usual ways. “It’s difficult to get new equity capital because equity has to come from the employees.”

For businesses that are employee owned and employee run, the challenge of trying to keep everyone happy can ultimately get in the way of strategic decision making. “You are trying to run a company with however many employees, and they’ve all got their view on how you should be doing things. You need a filter so that you are not constantly distracted by minority views,” Zeitoun says.

So responding to sudden changes in market dynamics, or shifts in the competitive landscape, can be slowed down by processes designed to arrive at collegiate decisions. Employee ownership is not the only way of ensuring that the employees get to make themselves heard by the leadership, adds Zeitoun. “Many Japanese companies are not employee owned, but they are very employee focused. And in continental Europe, employees have seats on the board in many countries.

“Employee ownership is one strong form of institutionalisation, but I would not say it is the gold standard. The pros are that you get more buy in and commitment from employees. The cons are that it can be difficult to set up, and harder to change strategic direction.”

It may not be perfect, but the virtues of employee ownership mean that it has remained quietly popular out in the real world. Whether or not it returns to the political agenda under the new Labour government, that seems unlikely to change.