Employee ownership, motivation and productivity

A research report for Employees Direct from Birkbeck and The Work Foundation

By Jonathan Michie, Christine Oughton and Yvonne Bennion

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About Employees Direct

Employees Direct is a working party established in July 2001, following a report commissioned by Mutuo[1] on how the government's aim of enhancing productivity through the motivational effects of employee shareholding might best be realised.[2]

Employees Direct brings together academics, practitioners and opinion formers. Its intention is to report on the potential for employee shareholding to:

- first, play an active role in improving the corporate governance and accountability of firms
- second, to enhance employee motivation and productivity.

This report has been commissioned to help inform this process.

The Working Party members include Mutuo, the CBI, Job Ownership Ltd, the TUC, Unity Corporate Advisers, Cobbetts Solicitors, the Co-operative Bank, the UKCC, Balpa, Prospect, Birkbeck and The Work Foundation (formerly The Industrial Society). For more information see www.employees-direct.org

The research for this report has been undertaken for Employees Direct by staff from Birkbeck and The Work Foundation. The three authors are all members of the Employees Direct working party.

About the authors

Jonathan Michie is the Sainsbury Professor of Management at Birkbeck, University of London. He has just completed a three-year research project on 'workplace reorganisation, HRM and corporate performance', led jointly with Professor David Guest, within the ESRC's Future of Work programme. He is a Board member of Mutuo.

Dr Christine Oughton is Reader in Management and Head of the Department of Management at Birkbeck, University of London. She has recently completed a two-year research project on the impact of globalisation and technological innovation on growth and employment, funded by the European Commission, and also co-ordinates a regional innovation network funded by the DTI and The Work Foundation.

Yvonne Bennion is a Policy Specialist at The Work Foundation (formerly The Industrial Society). She has been a board member of Job Ownership Research and is a member of the DTI Partnership Fund Assessment Panel.

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ICOM, the federation of worker co-operatives, kindly provided contact details for their member companies, and several ICOM members allowed us to conduct follow-up surveys among their employees.

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1. Mutuo is a new publishing title belonging to Communicate Mutuality. It is a partnership between organisations that wish to show the value and potential of the mutual sector to a modern society. You Can find out more about Mutuo by visiting www.mutuo.co.uk
2. See Michie and Oughton (2001).

Foreword

Employee-owned companies exist for a variety of reasons, from the personal vision of an owner to management and employee buy-outs, a way out of family succession problems or employees responding to closure threats. The evidence is that companies with high levels of employee ownership outperform others, and the government has demonstrated through the introduction of the Share Incentive Plan that it sees employee share ownership playing a significant part in its policy to increase the UK's productivity. This interim report addresses the question of whether the government's approach will bear fruit.

The majority of companies may admire the track record of the best-known employee-owned businesses, but have never regarded employee ownership as more than marginal to their own practices. Yet there is a fascination to know whether employee-owned businesses have the essence of a commitment and enhanced performance that is not otherwise accessible.

These are risky times for shareholders, but there is no better time to put the spotlight on employee ownership. People are at the heart of the productivity challenge. The skills, flexibility and ability to adapt of workers are key components of broader economic performance. Creative, knowledge-rich, innovative, highly productive work requires a high trust, people-driven organisation. The UK's productivity balance sheet suggests that our businesses are failing to create such environments and to get the best out of the UK workforce.

Employee ownership by definition challenges traditional management attitudes towards employees. At the very least it creates an expectation of achieving a genuine balance in the interests of the company and employees. This research shows that the inter-relationship of sound employee involvement practices with employee ownership has a positive effect on motivation and performance. It does not ignore the hard work necessary over time to achieve this, nor the disenchantment of employees when they cannot see employee ownership changing the company's style or benefiting them directly.

Employee ownership may imply collective practices but this does not always happen. The government's new scheme, being based on tax incentives, is individualised. The report, however, makes a case for the collective voice of employee owners and shareholders being integral to realising the full potential of employee ownership and its potential contribution to productivity.

I appeal to the government to give urgent consideration to these interim findings.

Will Hutton

Executive summary

Raising productivity is a key government objective. Skills, motivation and commitment are vital to how productive people are at work. This is the context in which tax incentives were introduced for employee shareholding. Will it work? That is the question the report addresses.

Chapter 1 discusses current research on the causal links, grouped within three categories.

- First, the Chancellor assumes share ownership will be seen by employees as a financial incentive, leading them to be more committed and motivated. Research supports this, with a caveat that employees are aware that an increase in their individual effort at work will not have a significant enough impact. Any such effect would require increased effort from the workforce collectively.
- Second, the Chancellor assumes that increased commitment and motivation will lead to increased productivity and profitability. There is a large body of literature supporting this.
- Third are additional effects to those assumed by the Chancellor, namely that share ownership may lead to employees having a collective voice, with a positive effect on commitment and motivation.

In Chapter 2 the 'qualitative' links between these various factors – of share ownership, consultation and participation, motivation and commitment, and performance outcomes – are explored by interviewing management and employees from ten selected companies. The businesses were as follows:

- the generation and supply of electricity (Coolkeeragh)
- a leading UK airline
- a leading business consultancy, IT and outsourcing company
- an independent Scottish papermaker (Tullis Russell)
- a partnership of fuel efficiency experts
- a national bus and rail company (Stagecoach – bus interests only)
- an advertising agency (St Luke's Communications)
- a family-owned department store
- a telecommunications company
- a computing consultancy firm.

Next, we wanted to explore further the motivational effects of employee share ownership by surveying companies where such policies had been pursued for some time. Chapter 3 reports on a survey of ICOM member companies, the federation of worker co-operatives, followed up with a questionnaire to employees. We also followed up our interviews with the airline employees, receiving further responses from flight crew members.

The ICOM survey and the airline employee responses provide support from both the employer and employee returns for a number of the links. To explore these qualitative relations in greater depth, we revisited seven of our ten companies to conduct focus group discussions with a wider range of employees, reported in Chapter 4.

The government recognises that productivity gains are more likely when share schemes 'are combined with modern management practices which promote active employee participation'. Our own interviews, surveys and focus group discussions reported in Chapters 2, 3 and 4 respectively support this view. Within this framework of enhanced employee commitment and motivation, employee share ownership appears capable of playing an important role:

- employee share ownership may make it more likely that companies will introduce policies of participation and involvement
- such policies may be pursued more seriously by management against a backdrop of employee share ownership
- employees may take such policies more seriously within a context of employee share ownership
- if the employee shareholdings are pooled to create a collective voice, this will reinforce the above three processes
- such a collective voice may itself boost commitment/motivation
- the financial incentive requires the whole workforce to act, since one employee along cannot affect profits. This can work in the right culture.

Institutional reform

There is much to be gained by companies pursuing policies for employee involvement, and in this context employee share ownership can play a significant role. However, for this potential to be fully tapped, the government's current policy initiative needs to be further developed to include the collective voice aspect as a key component.

How government policy can best be developed in this area will be addressed by the Employees Direct working party in their Final Report, in January 2003. Feedback on this report is therefore welcome, to:

Professor Jonathan Michie
School of Management & Organisational Psychology
Birkbeck, University of London
Malet Street, London WC1E 7HX
Email: j.michie@bbk.ac.uk
Telephone: 020 7631 6761
Fax: 020 7631 6769

1. Introduction

Raising productivity in UK firms to match levels in other European countries and the US is a key objective of this government's economic policy agenda. This is, of course, a major and long-standing issue. There is a range of factors involved, each of which require action on a number of fronts. There are no simple solutions.

Closing the productivity gap will require increased investment in research and development, capital and people, improved education and training, and a modernised, productive infrastructure including transport. The problem of short-termism in British industry needs to be resolved; and within companies continuous improvements are needed in management practice, corporate governance and organisational design. But as productivity is fundamentally about how productive people are at work, their skills, motivation and commitment are key.[1] This is the context in which the government has introduced a number of new arrangements, including tax incentives in the 2000 and 2001 budgets, to encourage employee commitment through employee shareholding, with the aim of improving Britain's productivity:

> 'Share ownership offers employees a real stake in their company… I want, through targeted reform, to reward long-term commitment by employees. I want to encourage the new enterprise culture of teamwork in which everyone contributes and everyone benefits from success.'
>
> Gordon Brown, Chancellor of the Exchequer, 1999 budget speech

Will this work? What is the theory behind it, and is there any evidence in support? These are the questions that the current report seeks to address. The results suggest that in economic terms there is certainly a rich seam to be tapped here, and indeed that by further developing government policy in this area, still more could be achieved.

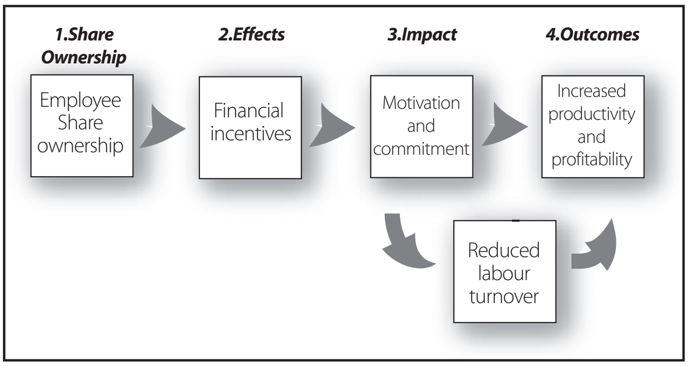
The theory

The theory is that owning shares will provide employees with financial incentives that will make them more committed to the organisation and more motivated at work. If the company is more profitable, employees will gain financially through dividend payments and an increased share price. Greater motivation will have a direct effect in improving productivity through greater effort and possibly innovation. There may be a further benefit, alluded to in the Chancellor's comments, if greater commitment to the firm results in reduced labour turnover. This will make it more worthwhile for firms to invest in training for their workforce.

Less commented on – in either academic literature or public policy discussions – is the fact that the payback from investment in product and process innovation depends crucially on the tacit knowledge accumulated by the workforce, so reduced labour turnover can increase the long-term payback from such investments. This effect may not only increase productivity and profitability, it may make the difference between the firm deciding whether or not to proceed with the proposed investment.

There is a large amount of literature on both the theory and practice of these processes which will be touched on only briefly in this report,[2] but what we need to try to test can be illustrated in simple terms along the lines depicted in Figure 1.

Figure 1: Linkages from share ownership to organisational effects, impact on employees, and organisational outcomes



We need to ascertain whether any of these causal arrows actually exist in the real world and if so, how significant they are.

The evidence

Capital Strategies produces an Employee Ownership Index (EOI) of the share prices of firms that have a 'significant degree' of employee share ownership. Over the period 1992–2000 this index outperformed the FTSE All-Share Index by 173%. What, though, are the causal mechanisms at work?

McNabb and Whitfield (1998), using the 1990 Workplace Industrial Relations Survey (WIRS) data, found financial participation positively related to financial performance. But they also show that strong interaction effects mean that the influence of financial participation schemes cannot be analysed independently of other types of

1. 'On the most recent comparative measure of output per person employed, UK productivity was found to be around 39% below that of the USA, 15% below France and 7% below Germany. There is a whole host of reasons for the productivity gap, but with specific regard to the workplace the problem seems to be one of uneven application of effective management techniques and training and development opportunities.' Philpott (2002, p 15).
2. Some of this literature was reported and discussed in Michie and Oughton (2001). See also Michie (2001).

employee participation schemes, and that the effects of problem-solving schemes, for example, are dependent on the linkage with a financial participation scheme, while downward communication tends to have a positive effect regardless. However, using the 1998 Workplace Employee Relations Survey (WERS) data, Addison and Belfield (2000) find different results, for example discerning no significant association between downward communication and firm performance. McNabb and Whitfield (2000) confirm that the two datasets generate different results, concluding that while there are enduring links between employee participation and financial performance, the precise nature of these requires more careful investigation than has thus far been possible.

Also using the 1998 WERS data, Conyon and Freeman (2001) found that firms and establishments with shared compensation arrangements perform better than other firms in productivity and financial performance. The stock price of firms with shared compensation practices also outperformed those of other firms. Conyon and Freeman (2001) then surveyed 1,518 UK listed companies and found that, of their 299 returns, those with approved profit sharing or all-employee share schemes outperformed the FTSE All Share index by 40%. They also found that firms and establishments with some form of shared compensation, particularly those with deferred profit sharing and employee share ownership are more likely to establish formal communication and consultation channels with workers than other establishments.

This raises the question of what is actually causing the improved performance; it may be through increased commitment and motivation, but what is causing this? Is it just the financial incentive, or is it the improved communication and consultation which appears to be associated with employee share ownership?

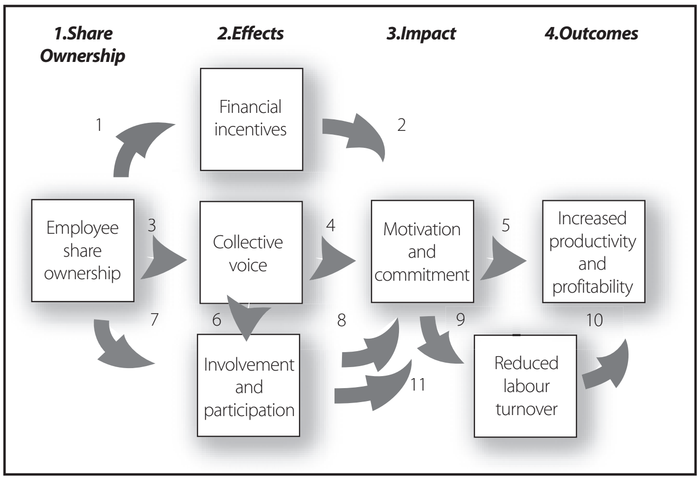
Certainly there is a large body of literature suggesting that employee commitment and motivation can be enhanced through a range of progressive human resource management practices, including but not restricted to employee share ownership. It may be that the key effect of employee share ownership on performance is through making it more likely that firms introduce these other HRM practices – of communication, involvement and participation. In addition, where such practices are pursued, the existence of employee share ownership may underpin and enhance the positive effect that these have on commitment and motivation, by increasing employees' faith that such involvement and participation is genuine and long term.

Surveying employee share ownership across the EU, Pendleton *et al* (2001) concluded that:

> 'There is a relationship between financial participation arrangements and other forms of employee participation (direct and/or representative) – enterprises that have financial participation are more likely to also have other participation and communications arrangements in place. *This supports research findings that financial participation works best when it is integrated with other participative, information and consultation arrangements, for example, in supporting 'high performance' work organisations'* (p 5, emphasis in the original).

The 'collective voice' aspect of participation at work has been found to have a significantly positive effect on motivation and commitment. Where this collective voice takes the form of an employee shareholding trust, this may again make the introduction of progressive HRM policies both more likely and more effective. These considerations introduce a number of additional causal links that need to be explored, as illustrated in Figure 2:

Figure 2: Further links from share ownership to organisational outcomes



The causal links can be grouped within three categories, the first two of which are being assumed by the Chancellor, and upon which his policy depends for its efficacy. The third category are the additional effects just described, which if found to have substance would suggest that the Chancellor's policy agenda in this area may have the potential for delivering more than he had hoped. However, to benefit from these additional effects the policies themselves may need to be further developed.

First, the Chancellor is assuming that employee share ownership will be seen by employees as representing a positive financial incentive (Arrow 1), and that this will lead them to be more committed and motivated (Arrow 2). The existing academic literature, as well as our own research, provides supporting evidence for both assumptions, with one caveat – namely, that employees are aware that an increase in their own individual effort at work will not have a significant enough impact on productivity and profitability to alter the dividend they receive on their shares, nor on the share price. Any such effect requires increased commitment and effort from the workforce collectively – the sort of teamwork that the Chancellor refers to.

Second, the Chancellor is assuming that increased commitment and motivation will lead to increased productivity and profitability, both directly through increased 'effort' (Arrow 5) and also indirectly through reducing labour turnover (Arrow 9) and hence increasing the payback that firms enjoy from investment, both in training and in new products and processes (Arrow 10), with a concomitant tendency for firms to increase such investments accordingly.[3]

These links have been tested for in what might be termed the 'High Commitment Work Systems' literature. As with any such statistical work on large datasets, measuring what are inevitably very different firms in changing circumstances, with managements and workforces that are not homogenous either within or between firms, the results from different studies differ, but most do find such a causal link from motivation to outcomes. That literature also tends to find a positive link from progressive HRM practices that encourage involvement and participation, through to increased motivation and commitment (Arrow 8). Thus there is a large body of literature already providing support for these links in the Figure 2 model.

The third group of arrows are additional effects to those assumed by the Chancellor.

- Employee share ownership may lead to employees feeling that they have a collective voice in the company (Arrow 3).
- This feeling of having a collective voice may have a direct, positive effect on commitment and motivation (Arrow 4).
- That collective voice may encourage the adoption of progressive HRM policies involving involvement and participation (Arrow 6).
- Employee share ownership itself may also make the adoption of such practices more likely (Arrow 7).
- Finally, and perhaps most important of all, the positive effect that involvement and participation policies have on motivation and commitment may be enhanced and made more effective and significant if they are underpinned by and combined with employee share ownership (Arrow 11 – ie, enhancing Arrow 8).

The interviews, surveys and focus groups reported on seek to shed light on how important managers and employees believe any of these effects to have been.

The existing literature

Before turning to these interviews and focus groups, we will put them in context by reporting on the academic research addressing these questions.

Grouping the effects into their three categories, there is evidence to support the Chancellor's view that financial participation is positively related to financial performance (McNabb and Whitfield, 1998). As also reported above, that work does suggest that these factors are inextricably linked to other types of employee participation schemes,. This supports the broader view we have sketched, whereby different progressive HRM policies may reinforce each other and indeed be linked causally. This is related to another finding from the 'High Commitment Work Systems' literature, that the effect of introducing progressive HRM policies may depend on how these are combined (or 'bundled'). There are both theoretical reasons and empirical evidence for believing that such practices may be more than the sum of their parts if implemented appropriately. Conversely, pursuing one or more policies may be a waste of effort if other symbiotic policies are not also being implemented. It may be a waste of resources to train an employee if they don't have the motivation to contribute, or if there is not the appropriate work organisation to allow them to make a greater contribution. Likewise, motivation itself may be insufficient if other factors are not in place.

As regards the second grouping of effects, of participation and involvement on motivation and commitment, and from there to increased productivity and profitability, the bulk of the research to date has been in the US, and on manufacturing. That work generally finds significantly positive linkages.[4] The work in the UK, using the 1990 Workplace Industrial Relations Survey (WIRS) and 1998 Workplace Employee Relations Survey (WERS) datasets has found similarly posi-

3. The idea that the future of work would mean 'flexibility' in the form of reduced tenure, increased turnover, 'portfolio' working and the rest has increasingly been seen to be superficial, not grounded in any serious analysis or research, and misleading as a guide to policy; see the welcome statements to this effect from the Minister for Trade and Industry and, for a report of the relevant research from the ESRC's Future of Work programme, Nolan (2002).

4. See, for example, Appelbaum *et al* (2000) which also refers to much of the previous literature (as do most of the other papers cited in the footnotes that follow).

tive linkages to outcomes,[5] including on increased innovation.[6] However, there are limits to how much those datasets can reveal. Drawing upon data from a ten-year study of over a hundred small and medium-sized manufacturing enterprises in the UK, Patterson *et al* (1997) found that HRM practices were the most powerful predictors of company performance. Conducting our own surveys, we also found significantly positive linkages, particularly with innovation as an outcome, and with the causal links sketched above seeming to correctly describe the underlying processes at work.[7] However, our latest survey finds rather mixed results when looking at productivity and profitability, with the regression coefficients on many of the links shown in Figure 2 not being statistically significant.[8]

The 'third group' of effects might lead to a greater boost to productivity as a result of government policy than would be forthcoming from the simple 'financial incentive' mechanism alone, at least if those policies were developed to capture these additional benefits. Here the existing literature is weakest. Whether the existence of employee share ownership will lead to employees feeling that they have a collective voice will depend on whether the shares are held collectively in a trust or some other such arrangement. The literature does suggest that a collective holding may encourage a teamwork culture and a co-operative company spirit that would deliver productivity benefits which would not follow from individual employee share holding because of the 'free rider' problem (ie, where individual effort and reward cannot be clearly identified and where to improve productivity and hence financial return requires a collective rather than just an individual effort (Conyon and Freeman, 2001)).[9]

In 1987, the US General Accounting Office study found that Employee Stock Ownership Plans (ESOPs) had an inconclusive impact on outcomes, except when employee ownership was coupled with employee participation in management decision making (GAO, 1987, pp. 30–31) – ie, the link depicted by Arrow 11 (the enhanced Arrow 8). Since then research findings have suggested a more positive link.

Kruse and Blasi (1995) review 'the accumulated evidence concerning the prevalence, causes, and effects of employee ownership, covering 25 studies of employee attitudes and behaviours, and 27 studies of productivity and profitability (with both cross-sectional and pre/post comparisons)'. They find that: 'Perceived participation in decisions is not in itself automatically increased through employee ownership, but may interact positively with employee ownership in affecting attitudes… The dispersed results among attitudinal and performance studies indicate the importance of firm-level employee relations, human resource policies, and other circumstances.' Kruse and Blasi report that there has been little study of the salient organisational mechanisms that might help explain the actual connection between employee ownership and performance. They call for further research on complementary HRM policies and practices, and ESOPs, which might jointly produce positive effects on corporate performance.

Logue and Yates (2001) discuss much of the existing (US) literature, and also analyse survey data. They argue that there are, potentially, strong positive links from collective employee shareholding to corporate outcomes, but only where these are combined with policies of participation and involvement.

For the UK, Conyon and Freeman (2001) analysed the 1998 WERS data, linking the financial performance and labour productivity of each establishment to the percentage of non-managerial workers covered by the Inland Revenue-approved employee ownership schemes. Their analysis took account of differences in number of employees, age of establishment, industry, distribution of workforce by skill and gender, and the degree of competition in the sector. The relationship between employee share ownership and economic performance (financial performance and labour productivity) was found to be positive.

Quantitative and qualitative research

These quantitative studies, analysing large datasets, are inevitably limited to the questions asked in the surveys and the quality of the responses given. The WIRS and WERS datasets are impressive in scope, but are of limited use in attempting to go beyond testing for the sorts of statistical correlations reported above. To discover the causal mechanisms, in order to design policies that can take advantage of these, requires an exploration of people's motivations and behaviour. This requires an interactive process whereby responses can be questioned and explored – ie, interviews and discussion. The existing quantitative work reported above was therefore built on in the current project by asking both managers and employees about motivations, attitudes and behaviour in the workplace. This was done first by visiting a number of workplaces, described in Chapter 2. We also conducted our own surveys, primarily among companies already committed to the idea of employee ownership, to test whether the preconceptions of the individuals concerned had been borne out in practice. Finally, as reported in Chapter 4, we revisited most of the workplaces to conduct focus group discussions with selected groups of employees.

5. On the 1990 WIRS, see Michie and Sheehan (1999a) and Guest *et al* on the 1998 WERS.
6. On the link from participation and involvement to increased product and process innovation, see Michie and Sheehan (1999b).
7. One of these surveys was funded by the Leverhulme Trust (grant F/112/AL). On the link from participation and involvement to innovation, see Michie and Sheehan (2003). On the link to good corporate performance more generally, see Michie and Sheehan-Quinn (2001).
8. This project was funded by the ESRC's Future of Work programme (grant L212252040); see Guest *et al* (2001).
9. See also Blasi *et al* (1996), Kandel and Lazear (1992), Kruse and Blasi (1995) and Lazear (1995).

2. Site visits and interviews

To explore the 'qualitative' links between these various factors – of share ownership, consultation and participation, motivation and commitment, and performance outcomes – we selected a range of companies to visit and to interview management and employees. Ten companies were chosen to include:

- plcs and non-plcs
- those with extensive employee share ownership and those for whom employee share ownership was less extensive
- those with some type of collective or trust arrangement for employee shares, and those where such shares were just held individually
- firms with different motivations for using employee share ownership (employee motivation, family succession, privatisation).

Four of the companies volunteered to be identified (Coolkeeragh, Stagecoach, St Luke's and Tullis Russell), and at another (the airline) the company itself was not involved in the research, but we did interview a range of employees. The other five companies are simply described rather than named. The nature of the businesses was as follows:

- the generation and supply of electricity (Coolkeeragh)
- a leading UK airline
- a leading business consultancy, IT and outsourcing company
- an independent Scottish papermaker (Tullis Russell)
- a partnership of fuel efficiency experts with a special objective of eradicating fuel poverty
- a national bus and rail company (Stagecoach – bus interests only)
- an advertising agency (St Luke's)
- a family-owned department store
- a telecommunications company
- a computing consultancy firm

We also interviewed David Young, the then deputy chairman of the John Lewis Partnership.

The electricity supplier (Coolkeeragh)

Following plans to privatise Coolkeeragh, by 1992 there was a common view that if the employees and management were unable to buy the company, there was a danger it would close. The ensuing buy-out resulted in 45% of the shares being owned by the workforce through a Trust, with a further 15% owned by management, and the remaining 40% by institutions. There has since been some restructuring, but the ownership pattern has continued along these lines. There is a worker-nominated director. Ninety per cent of employees belong to one of three recognised trade unions. The institutional investors had at first opposed the idea of the employees' shares being held collectively in a trust, but had eventually conceded.

We interviewed a number of employees, all of whom were share owners through the Trust, and all of whom were members of one of the trade unions, although they were not all trade union representatives or activists. We also interviewed a senior manager.

There has been much more employee involvement since the introduction of employee share ownership, and this has fed through to greater commitment. There has been a massive culture change and a reduction in demarcation, and a large part of this was said to be due to employee share ownership. Pre-1992, people were not aware of the company's performance; now people view their jobs much more in relation to the company.

There is some degree of profit-related pay: 'In the beginning it was about stake and commitment, once profit came on stream it became stake, commitment and profit.'

Overall, the group felt they were informed of corporate objectives, performance targets and actual performance; the latter through the company reward scheme, the bonus scheme and profit-related pay.

They also felt they were given information on new initiatives. They felt that they were involved in the formulation of corporate objectives but more through the unions than the Trust. They believed they were involved in day-to-day decision making through team working – teams make decisions about staffing levels at the plant and its day-to-day running. There is training for team building. However, they didn't feel there was employee involvement in long-term strategic plans.

They all felt that employee involvement increased motivation and commitment and that this resulted in increased productivity, increased profitability and a reduction in employee turnover.

They felt that the Trust strengthened employee participation in day-to-day decision making, and to some extent in strategic decision-making, and that it reinforced employee commitment and motivation.

They agreed with the statement that the Trust makes the company more committed to informing and involving employees: 'it would not have happened otherwise'; and also that the company's attempts to involve employees are felt to be more genuine because of the Trust.

It was stressed that there had been a big culture change. The employee share ownership was felt to be important, but was seen as only part of a change in the corporate culture towards involvement and participation.

The airline

Around 4% of the company's issued share capital is held by employees. We interviewed four employees: one from engineering, one from ground staff, one from administration and one flight crew member. All owned shares in the company, held both individually and through a shareholder trust.

All said they received information on corporate objectives, targets and actual performance. Information on performance was disseminated electronically. Only the flight crew member received information on new initiatives, delivered via roadshows.

None felt involved in the formulation of corporate objectives and only one was involved in the formulation of performance targets, via a course for co-pilots.

One of the four stated that he was involved in the design of new initiatives, but this was only through the trade union. Another said that they were pushing for a partnership approach with the company, but felt that they 'had not got there yet'.

Involvement in day-to-day decision making? The view of all four was 'yes and no'. Given the nature of the airline business, there are many areas where they are simply following set procedures. All four felt they were involved in the design of long-term strategic plans, and three cited the corporate suggestion scheme but felt that this didn't really work. The annual employee opinion survey was mentioned, but it was felt that not much notice was taken of this.

In response to the question: 'Do you feel that employee share ownership makes the company take employee involvement more seriously?', one said 'no' and three said 'minimally'. In response to the question: 'Do you feel that employee share ownership makes employees feel more confident of the company's commitment to employee involvement?', two said 'no' and two said 'minimal effect'.

In response to the question: 'Do you feel employee involvement and participation increases employee commitment and motivation?', all four said 'yes'. Three also thought this led to a reduction in employee turnover, although one said this depended on outside conditions. All four thought that this commitment and motivation fed through to both increased productivity and increased profitability.

There was no support for the statement that 'the company's attempts to involve employees are genuine because of the employee ownership', although two did think that 'without employee share ownership there would be less commitment by the company to informing and involving employees'. Another agreed that employee share ownership would have this effect on the company if it was above a certain level.

All four agreed that 'employees would feel they had a greater stake if the voting rights of shares were pooled to provide a collective voice', although it was said that this would need to be done in the right way and explained to employees.

From further discussion the following consensus was clear: the company operates in an industry that is highly regulated, with many constraints on operating procedures due to safety, and it therefore lacks flexibility. Due to the size of the company, its formal structures, etc, people do not feel that they have a real stake in it even though they own shares. Pooling the shares *would* help strengthen relationships between employees and the company and provide more of a stake, so long as it genuinely gave employees a voice.

Of the four categories of employees, it appeared to be the flight crew members that the company was making most effort with as regards information sharing and participation. We therefore followed up these interviews with a questionnaire survey to a further 30 flight crew employees, to gauge how representative the responses from the flight crew member had been. We received ten usable returns, as reported in Chapter 3. These broadly confirm the above results, that flight crew employees saw potential in employee share ownership, but that this potential was not yet being fully realised.

The business consultancy, IT and outsourcing company

This company is one of the UK's largest IT services groups, with a market capitalisation of £1.2 billion. There was a workforce buyout in 1991 and the company was floated in 1996 with a valuation of around £60 million. There are three employee share ownership vehicles:

- the Employee Trust (ET) with four employee elected directors and five Company nominees
- a Qualifying Employee Share Ownership Trust (QUEST) with four elected directors, four nominated by the company and one independent
- an all-employee share ownership plan.

We interviewed two people: the company's corporate finance officer with responsibilities for performance and sales measurement (an employee-elected trustee of the QUEST since 1995), and the deputy company secretary.

Much of the company's success is attributed to the high proportion of employee share ownership – between 95% and 100% of employees participating, owning 28% of the shares – and the corporate culture it has engendered:

> 'If a large number of your workforce is sitting on what is quite a nest-egg to them, they are going to behave differently, and really engage in understanding what our strategy is, what we are doing next and how they can make a difference.'

The extensive workforce shareholding also means that when the group makes important decisions, it is the workforce rather than the institutions that the board must convince:

> 'Institutions are still very passive on votes, whereas most of the employees will exercise their vote on any big decision – for example, the acquisitions that we have made which require shareholder approval. It is the employees that really carry the vote.'

The Trust does more than own and vote shares: employees are also beneficiaries in terms of self-development, from IT courses to sky-diving. The Trust Fund finances these awards for self-development, with people following training activities that they wish to pursue.

There is a participative management style. A number of forums have been set up. Every two years there is an employee attitude survey with the results formulated into action plans, which in turn are used for career frameworks and training.

The Employee Trust is independent from the company. There are roadshows around the company that are used to explain activities prior to voting. The Trust ballots all employees before EGMs and AGMs (UK and overseas). Other points from the interviews included:

- Employee share ownership and participation has a big effect on retention (length of service): 'Continuity of project account manager is vital because repeat business is so important. Commitment and loyalty are vital.'
- 'There are a number of HR initiatives; it's about taking a number of things together.' AGMs are held on a Sunday to encourage participation.
- The ET meets with the board formally once per year and informally more often.
- Trustees visit employees on a one-to-one basis and visit project teams on site. The visits aim to raise awareness and educate.
- The ET also works on community policy.
- 'People are willing to go the extra mile because this is our company, people treat the assets differently, they take more care. We're a people company, clients are buying project managers.'
- 'We consult with shareholders and encourage them to vote.' The widespread employee share ownership makes the company unattractive to hostile bids.

Tullis Russell

Tullis Russell is joint wholly-owned by a Trust (28%) and its employees, with the employee share being the majority. The employee holding is itself partly via an employee shareholder trust (around 40% of share total), and partly through individual share holding (around 30%). There is a Share Council which has significant powers. The majority of its members are elected by employees, and the remainder appointed by the board of directors. The Council has quarterly meetings. (On the employee shareholder trust, which plays a lesser role than the Share Council, trustees are 50% elected and 50% appointed.)

We interviewed the following people.

- The chief executive, who believes that the employee ownership plays an important role but that it is crucial this be combined with a commitment from management at all levels to openness, participation and involvement.
- The manager in charge of personnel/HRM matters.
- A previous employee who had worked at the company for many years, a s a secretary/PA. She was also heavily involved with the Share Council, in effect servicing it. She worked in particular at trying to publicise the work of the Council among the workforce. She thought the Council had a strongly positive influence, but that this was largely confined to a minority of employees and that more needed to be done to reach out to the whole workforce.
- The training and development co-ordinator, originally a 'shop floor' employee, before subsequently being promoted to a supervisory post, and also now the deputy chair of the Share Council.

The respondents agreed that owning shares makes them more motivated/committed to the organisation, as does the fact that the Trust has a voice – though this is because of the collective voice rather than the financial incentive. They also agreed that owning shares makes them more likely to stay at the firm, again because of the collective voice and not the financial incentive, and that owning shares gives them a say.

Note that these answers were from people involved in the Share Council, and for other employees they thought that the financial effect of the dividend payment was probably more significant than the collective voice. All four agreed that the share ownership made both management and employees more committed to training, made recruitment easier and reduced turnover. On training commitment, however, it was stressed that this effect is related to 'ownership *and* HR practices'. Recruitment and turnover effects are attributed to the 'good employer' effect (which may in turn be connected to employee share ownership).

Asked about whether employee share ownership encouraged employee participation in the running of the company, there was agreement that this was indeed the case, but caution about how this should be interpreted, given that managers still have to manage.

There had in the past been disagreement over whether there should be an Executive Share Ownership Scheme and, following some debate, the Scheme was abolished.

It was reported that there were no managers on the night shift, and that this was made possible because of the commitment of the employees as a result of the culture of involvement and participation. It was said that other companies in the area did not and could not pursue such a policy – supervision would be required. (This was confirmed by the ex-employee described above, whose partner works for another major employer in the area, and who was amazed at such a practice, feeling that it simply would not work in his company.)

It was reported that the company was regarded as a 'good employer' in the area. It was company policy to pay well, and it benchmarked its wages against other companies to ensure that this was maintained. This illustrates both the complex relationships between employee ownership and other aspects of HRM, and the difficult 'chicken and egg' question of whether companies with employee ownership are more successful, or whether more successful companies are more likely to pursue employee ownership.

It was said that the key HR practice leading to increased motivation was the commitment to job security. This was not absolute, and redundancies had been made, but the employee share ownership meant that this commitment could be prioritised if necessary.

Training for Share Councillors was provided and was thought to be crucial. It was thought that for those employees who had been involved in the Share Council, the feelings of involvement and motivation were strong, but that for other employees they were far weaker or non-existent.

The key conclusion from the interviews, supported in different ways from the responses received from all four, is that employee share ownership in and by itself makes little or no difference to employees. For it to make a difference requires an active commitment to progressive human resource management and other policies to improve communication and engender a sense of commitment. Such policies could be pursued in the absence of ownership, but not as successfully. It was felt that the large ownership stake of the employees meant that such 'pro-employee' practices had a material underpinning and were not simply at the whim of the current management. Additionally, if and when key decisions come to be faced, this employee voice is indeed significant.

So ownership on its own made little difference – what counted were policies of involvement. But without ownership, such policies were less likely to be pursued and even if pursued, would be less secure and less significant. By encouraging and underpinning such policies, ownership did indeed play a positive and significant role.

Partnership of fuel efficiency experts

The company manages energy efficiency schemes. It is an employee-owned company, which operates under a Partnership Constitution. The Trust owns 100% of the company and individual shares are not issued to employees. Employees are represented by their democratically elected Staff Council, with a board of eight directors driving the overall business. The head office employs over 150 staff and nationally the company employs over 400 staff. The Council has two meetings a year formally, but meets informally almost every month. The company has an intranet on which the Staff Council communicates its announcements. We interviewed:

- A director, who believes that the Partnership is based upon democratic principles, social values and commercial drive and that partners share the benefits of ownership, profit, knowledge and power. However, he also suggested that employee share ownership has the disadvantage of not allowing space to attract outstanding achievers at senior management level.
- An office administrator, working for the company for a large number of years. Her attitude to employee share ownership was strongly positive, believing that it differentiates the company and that it results in higher productivity and reduced employee turnover.
- An assistant to the personnel manager, a new joiner (she had at

the time been with the firm three months), who was attracted by the benefits that the employees enjoy.

In general, the information dissemination process was seen as being fairly comprehensive. Information on corporate objectives is given to employees via Staff Council announcements, seminars, and the intranet, while information on performance targets is given via departmental managers (though not on specific targets). Information on new initiatives is given in a monthly report distributed by departmental managers and reviewed on a six-month basis, as well as through the Staff Council or a letter.

Respondents did not feel that employees are involved in the formulation of corporate objectives (this was seen as the directors' role), performance targets, the design of new initiatives, decision making, or long-term planning.

As in Tullis Russell, respondents agreed that ownership increases their motivation and commitment, their likelihood of staying at the firm, and makes employees more motivated to work – again because of the collective voice rather than the financial incentive.

Overall the director felt that employee involvement and participation – through the Staff Council – increases commitment and motivation and gives employees a sense of security. From his experience, the Partnership has allowed the attention of employees to be focused on performance rather than day-to-day politics. He feels that employees now ask 'why?' more often, especially relating to expenses. The representation through the Staff Council 'allows a lot of questioning to take place'. Anyone can anonymously forward questions to the Council.

The office administrator believed that becoming a Partnership (in 2000) had strengthened employee commitment and motivation, and that the employee involvement through the Staff Council had increased productivity and profitability. 'Everyone feels the need for the company to perform well.'

The assistant reported that the company was regarded as an 'excellent employer' in the area. Although she has not yet directly benefited from the Partnership (having at the time been with the firm less than the one year required to receive benefits), she feels that the Partnership is a better environment in which to work. She believes that, through the Staff Council, she has all the available means to communicate her ideas at senior level and to be taken seriously.

The key conclusion from the interviews was that the Partnership was directly linked with other policies that improve communication with and involvement of employees, and that this in turn leads to increased job satisfaction and performance.

Stagecoach

Stagecoach Group plc, a transport services company, employs 39,000 people worldwide. It has 21 bus subsidiaries, and is one of the biggest franchises of its kind. It operates in the UK, 33 states in the US (buses and taxis), Canada, China and New Zealand. Stagecoach is a public limited company, partly owned by the employees, using the non-statutory ESOP scheme. Stagecoach uses three Trusts. An approved Profit Share Trust, an Employee Stock Ownership Plan (ESOP), and a QUEST. The Stagecoach ESOP holds some 5% of the Stagecoach shares, and allocates 3% of profits each year to the employees using the Profit Sharing Scheme. The ESOP board has 13 members, 3 elected by management, 9 by employees and 1 independent advisor (a lawyer). The ESOP Trustees are elected once and serve until their retirement.

We interviewed the company secretary and two bus drivers. Again, they felt that information on corporate objectives, performance targets, actual performance and new initiatives is given to employees, but that employees are not involved in the formulation of any of these or in decision making or long-term planning.

Also, they disagreed that ownership makes them more motivated to work/committed to the organisation, though it does make them and employees more likely to stay at the firm. This time, this is because of the financial incentive rather than the collective voice. They also disagreed that ownership makes employees more motivated.

The company secretary added the following comments:

- Stagecoach seeks to promote a culture of partnership with its employees, as with any other company in the service industry, where employees have front-line client exposure.
- Employee share ownership is moderately important to employees that are in need of more direct cash benefits.
- Employee share ownership does not 'really' enhance employee participation in Stagecoach, where a bus driver's career is potentially a career 'for life'.

The first bus driver made the following comments:

- Bus drivers are mostly interested in their day-to-day pay.
- Profit-related pay had been the most effective plan so far.

The second bus driver made these comments:

- Employee share ownership has little affect in plc companies but is very important in SMEs.

- Information on targets and initiatives is provided through a company magazine, which concentrates on creating a positive image, rather than adding much value to Stagecoach's communications.
- Employees are only involved in day-to-day decision making at a local level through the trade union.
- The trade unions at Stagecoach had little interest in the ESOP.
- The ESOP only meets once or twice a year.
- Employees have little interest in their shares, due to lack of education.

He argued that the following recommendations needed to be implemented:

- The ESOP Trustees should be democratically elected and should hold office for a specific period of time, rather than till their retirement.
- The trade union and the company should provide better training for ESOP trustee roles.

St Luke's Communications

This creative communications company operates using a QUEST scheme (Qualifying Employee Share Ownership Trust) under a co-operative constitution. The Trust owns 100% of the company and individual shares are issued to employees. The company has 107 employees and an annual turnover of £35 million. We interviewed:

- The company secretary who had worked at the company since 1997. He believes that the QUEST is the heart of the organisation and the key to its success so far.
- An employee who had been with the company for two years and who believed the QUEST supports very effectively a culture of partnership between the company and its employees.

Both respondents' attitudes are largely positive; they feel they receive information in all the areas listed previously, and they also feel involved in the formulation of corporate objectives, new initiatives, decision making and long-term planning, though not in the formulation of performance targets.

They also agree that ownership makes them more motivated and committed, more likely to stay at the firm, and makes employees more motivated to work (because of both the financial incentive and the collective voice).

The company secretary felt that encouraging employee participation is very important, and that the QUEST structure enhances such participation.

The employee argued that the key to the Trust's success is that it allows space for progressive human resource policies that improve communication and engender an active commitment to take place: 'Employees are in charge of the company and this is reflected everywhere you look.'

The family-owned department store

This local department store is owned 25% by the employees and 75% by one family. The company also operates a profit share scheme. At the moment, the company is in a transition process. The CEO has decided to transfer the company to the employees.

We interviewed the CEO and two employees who had been with the company for 10 and 12 years respectively. Again, their responses were fairly positive, they felt they received information on three out of the four areas (though not on corporate objectives). However, they only felt involved at implementation stage in the design of new initiatives.

They agree that ownership makes them more motivated to work/committed to the organisation and more likely to stay at the firm, both because of the financial incentive and the collective voice. They also believe ownership makes employees more motivated to work, because of the financial incentive and the collective voice.

The CEO added that:

- It is important to promote a culture of partnership between the company and its employees, to increase employee motivation and provide them with a meaningful stake and a collective voice.
- Employee profit sharing has contributed to the firm's performance, reducing staff turnover and increasing productivity.
- Not all employees will be committed to employee ownership (especially casual staff), but a proportion have developed a sense of commitment since the employee buyout process started.
- Any company considering adopting an employee ownership scheme would greatly benefit from an independent organisation which could provide advice, including on the tax implications, as the Inland Revenue had not proved effective.

'Employee 1' added that:

- She had noticed improved performance due to the profit sharing scheme.
- The organisation must adopt an open culture.
- There had been a 15% reduction in absenteeism.
- The process of transferring the organisation to employees was proving quite slow.

'Employee 2' added that:

- The profit sharing scheme has made her more productive ('like everyone else').
- She thinks that employee shareholding makes employees more than just workers.

The telecommunications company

In the process of privatisation the employees had taken an equity stake in this company, and this has been increased subsequently. The employee shares are held in a Trust and voted as a block. There is 80% trade union membership. Four of the seven trustee directors are elected by employee representatives, via the trade unions, with two appointed by management, plus one solicitor.

We interviewed a number of employees, plus a trade union representative and a company executive director.

Communication of objectives, performance targets, new initiatives

There were mixed responses to this set of questions including:

- Focus groups are held and there is a bottom-up approach; performance targets are set by agreement.
- Information is given to the Trust, but little is really passed down, although there is an intranet for communicating to trust members.

Employee share voting and company culture

On the key strategic issue of a contested takeover, after the privatisation, 149 seminars had been organised by the Trust in ten days across the country. The Trust held the casting votes in the contested takeover, so it had genuine influence. Essentially the unions and the Trust decided who was going to take over the company.

The consensus was that Trust and trade union communications were acceptable (despite the above caveat regarding how much information the trust did pass on), but that although the company issued a newsletter, it was not that good at communicating. One participant said that there is very little upward feed into strategy on corporate policy making. Others said that there was involvement through local partnership groups and partnership arrangements between company and unions.

It has been difficult to engender a sense of ownership while at the same time asking people to leave the business – 4,800 people have taken voluntary redundancy since 1998. As with Coolkeeragh, employee share ownership was part of a restructuring package where investment was needed from employees. In both cases it seems to have aided survival, but there have been redundancies. Indeed, the fact that redundancies were necessary for the firms' survival may have been what made the employees' co-operation, facilitated through share ownership, both so vital and so successful.

However, there has been a significant degree of change in work practices and structure over the past four years. There is a huge awareness of the need for the company to succeed. The whole culture of the company was said to have changed. Employees now felt they had a much greater say and stake in the company.

There was support for the following statements.

- 'Without employee ownership, there would be less commitment by the company to informing and involving employees.'
- 'There is a belief that the company's attempts to involve employees are genuine because of the employee ownership.'

The computing consultancy firm

An internet business (providing electronic and IT services) with a cooperative ownership structure; 1999's financial performance placed it among the UK's top 20 internet companies. The company is a member of the Industrial Common Ownership Movement (ICOM). There is a conventional management structure with a board and an Employee Benefit Trust. Three board members are appointed by seven trustees, who in turn have been elected by members.

We interviewed the chairman and founder, the director of corporate affairs, and a human resources manager. There was a clear consensus on all the points below.

First, the overall framework for the company tends to be set by the board and by management, but within this framework employee participation is encouraged. For example, on changing remuneration to make it tied to contribution, the board looked at this idea, a retreat staff meeting was held to discuss it, and the idea was approved. Another proposal that came from the board was for individual employee share ownership; staff rejected this idea. Retreats are held once or twice a year and take a strategic view. Traditional staff meetings are held on a regular basis, and there are also meetings related to ownership of the company.

The company sets performance targets that are communicated through the management structure. Targets and performance are reviewed. Remuneration is based on contribution and there has been a move away from seniority to skill-based structures of remuneration.

New initiatives are discussed with employees and sometimes come from them. Employees are involved in the decisions on new initiatives, such as skills-based pay and individual share ownership. There is an internet message board and an online forum for policy presentation. Staff involvement is informal as not all staff feel they can contribute – ie, there is no requirement to contribute.

Co-operative ownership probably does not affect staff turnover, but it helps with recruitment. The co-operative ownership structure motivates employees who like the ethos of the company. People have a sense of ownership and are prepared to put in extra effort. Collective ownership makes people feel they have an influence over big (strategic) questions. Ownership over the company's values gives meaning to jobs. People take responsibility to make things happen.

There was strong agreement with the following two statements.

- 'Employees have more say as the voting rights of employee-owned shares are pooled to provide employees with a collective voice.'
- 'The directors consult more with employees because the voting rights of employees are pooled in an employee-shareholder trust.'

The John Lewis Partnership

When deciding on our sample of ten firms, representing the different motivations for employee share ownership, and the variety of degrees to which employee share ownership had developed, the John Lewis Partnership came to mind, but it was decided that it was not really representative of any category of company, as it has a rather unique structure. It has also been extensively researched and reported upon. However, we did think it would be useful to reflect on the extent to which their experience contrasted with the messages we received from employees and managers at the above ten companies, and we were pleased when the deputy chairman at the time, David Young, agreed to discuss these issues.

The John Lewis Partnership has a central board of twelve comprising a chairman, deputy chairman, five directors appointed by the chairman and five elected via the central council. Strategy is presented to and endorsed by the twelve. Individual business units engage with the workforce on key issues and budget. People go through performance targets on a monthly basis. A lot of effort goes into communicating with middle management, such as heads of departments in stores.

Regarding the impact of co-ownership, it is difficult to measure. Employee ownership does appear to produce greater commitment and effort, as indicated by lower than industry-average staff turnover, sick leave and leave of absence: 'The partnership model provides a very powerful culture with particularly strong effects at senior level.'

On whether employees really support the partnership model and the democratic structures , the consensus would probably be that around a third of the workforce were committed to the partnership model and were active in its democratic structures and activities. A further third are likely to be supportive but only passively, while for the remaining third it is regarded as just a job. Nevertheless, these sorts of proportions do translate into a significant benefit to the organisation in terms of commitment and motivation, which feeds through into improved performance measures.

Conclusion

A consistent message came across from the site visits – that employee share ownership had the potential to improve motivation and commitment, and that this could have a positive effect on productivity. However, in the two big plcs (including Stagecoach) the percentage of the share capital owned by employees was insufficient for the desired effects to fully kick in. Nevertheless, the positive effect could be leveraged by pooling shares in a trust, so that first, employees will view their shareholding as potentially significant and second, they will feel they have a collective voice 'where it matters' – in relations with the boardroom and at the company AGMs.

3. Follow-up surveys

We wanted to explore further the motivational effects of employee share ownership by surveying companies where such policies had been pursued for some time, preferably with a 'commitment' objective in mind, to find out how practice had compared to expectations. We surveyed ICOM member companies.[1] Of their 607 members, 287 were relevant for this sort of survey, and from these we received 110 returns from 101 of the companies (with nine of the companies making two returns each, from both the managing director and the HR director).[2]

We followed this up with a questionnaire to employees in some of these organisations, receiving a further 53 responses. As reported in the previous chapter, we also followed up our interviews with employees, receiving a further ten responses from flight crew members, as described.

ICOM company survey

In most organisations (77%), the shares were held individually, although in the other 23% there was collective holding, in a share scheme or trust, with some (13% of the total) having some combination of individual and collective holding. Most reported that they provided information to employees on:[3]

- new initiatives – 87%
- actual performance – 85%
- corporate objectives – 83%
- performance targets – 73%
- the formulation of corporate objectives – 77%

Most also reported involving employees in:

- day-to-day decision making – 90%
- the design of new initiatives – 86%
- long-term strategic goals – 76%
- the formulation of performance targets – 65%

Employee participation was felt to:

- reduce employee turnover – 97%
- increase productivity – 94%
- increase employee commitment and motivation – 88%
- increase profitability – 70%

Employee ownership was thought to:

- strengthen participation in day-to-day decision making – 61%
- strengthen participation in strategic decision making – 60%
- help reinforce employee commitment and motivation – 60%.

Of those responding to the question (67%), 61% thought that without employee ownership there would be less commitment by the company to informing and involving employees. Of those responding (60%), 82% thought the company's attempts to involve employees appear genuine because of employee ownership.

ICOM employee survey

The 53 employees of ICOM member companies who responded to our follow-up questionnaire broadly confirmed the company questionnaire replies. Most agreed that their company provided them with information on company objectives (89%), performance targets (79%), actual performance (85%) and new initiatives (85%). Most also agreed that their company involved employees in the formulation of company objectives (72%), the formulation of performance targets (55%), the design of new initiatives (58%), day-to-day decision making (70%) and in the design of long-term strategic plans (57%).

The overwhelming majority (89%) felt that employee involvement and participation does increase employee commitment and motivation. Of these, 72% thought that the increased commitment and motivation resulted in reduced labour turnover, and 85% thought that the increased commitment and motivation resulted in increased productivity.

Asked whether they agreed or disagreed with the statement that 'Without employee ownership, there would be less commitment by the company to informing and involving employees', 72% responded, of whom 63% agreed with the statement.[4]

Asked whether they agreed or disagreed with the statement that 'The company's attempts to involve employees are genuine because of the employee ownership', 60% replied, of whom 75% agreed with the statement.

Asked whether they agreed or disagreed with the statement that 'Employees would have more say if the voting rights of employee-owned shares were pooled to provide employees with a collective voice', 53% replied, of whom 64% agreed with the statement.

Asked whether they agreed or disagreed with the statement that 'The directors would consult more with employees if the voting rights of employees were pooled in an employee shareholder trust', 53% replied, of whom 75% agreed with the statement.

The airline flight crew employees

The ten flight crew members who returned questionnaires all held shares in the company. The responses to the questions on how much information they felt they received were mixed. All agreed they

1. ICOM – the Industrial Common Ownership Movement – is a federation of worker co-operatives. Only one of the ten companies we had originally selected for visits and interviews, as reported in chapter 2, was a member of ICOM.
2. A response rate of 35%.
3. For an excellent discussion of the importance of sharing information and consulting at work, see Burns (2000).
4. Some of the organisations were not, or did not see themselves as, 'employee owned' or having 'employee ownership', and this appears to have been the main reason for the 28% either not responding, or responding 'don't know'.

received information on new initiatives, while seven felt they were informed of corporate objectives, five of performance targets, and only four felt they were informed of actual performance.

In terms of the company's effectiveness in providing information, again responses were mixed. No respondents gave a top score (on a scale of one to five)[5] for effective communication on performance or new initiatives, and, on each, one to two respondents gave the lowest score. Generally respondents focused on the middle three scores. For example, on performance targets,[6] five gave a score of 3, one a score of 2, and two a score of 1, while on the communication effectiveness of actual performance, four gave a score of 4, two a score of 3, and two a score of 1.

In terms of employee involvement in formulation of objectives, performance targets, new initiatives and day-to-day decision making, the responses were largely negative: all ten did not feel involved in the formulation of corporate objectives and performance targets, and eight did not feel involved in the design of new initiatives and day-to-day decision making. We also asked how effective the airline is at providing information on the above matters, but not surprisingly, given the above responses, almost all of the ten replies were 'not applicable'.

A resounding 'yes' from all ten was the answer to the question: 'Do you feel that employee involvement and participation increases employee commitment and motivation?', and all but one (who said it was not applicable) answered 'yes' as to whether this increase results in reduced labour turnover, and all answered 'yes' to a result of increased productivity.

For the question, 'Do you agree or disagree with the following statements?', the proportions who agreed were as follows:

- owning shares makes me more than just an employee – 80%
- owning shares gives me a say in how the company is run – 30%
- owning shares makes me less likely to quit the company – 20%
- owning shares makes me more committed to my work – 50%
- owning shares makes me more motivated – 70%
- owning shares makes me work harder – 50%

When asked whether they agreed or disagreed with the two statements below, responses were as follows:

- Without employee ownership, there would be less commitment by the company to informing and involving employees.' Four agreed, six disagreed.
- 'The company's attempts to involve employees are genuine because of the employee ownership.' No one agreed, and nine disagreed.

Asked whether they would agree or disagree with the two statements ('Employees would have more say if the voting rights of employee-owned shares were pooled to provide employees with a collective voice', and 'The company would consult more with employee-shareholders if the voting rights of employees were pooled in an employee-shareholder trust'), for both statements eight agreed and two disagreed.

Discussion

The ICOM survey appears to provide support from both the employer and employee returns for a number of the causal linkages suggested in Figure 2, as do the responses from the airline flight crew employees.

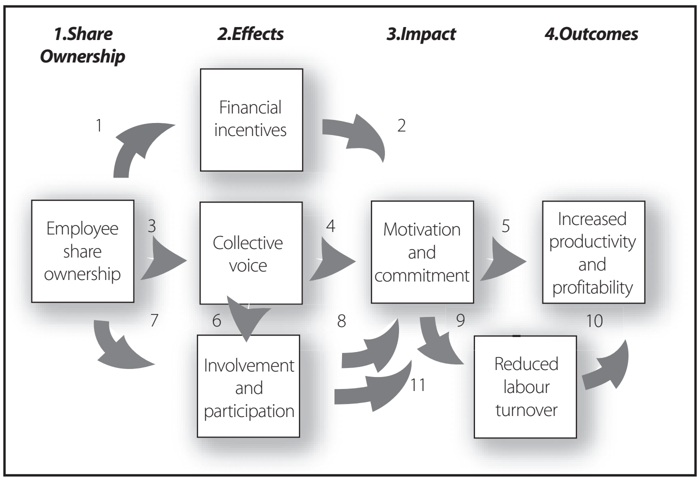
The ICOM employer survey

Arrow 4: 60% reported that employee ownership helps reinforce employee commitment and motivation.[7]

Arrow 5: This was thought to increase productivity (94%) and profitability (70%)

Arrows 6 and 7: Of those responding to the question (67%), 61% thought that without employee ownership there would be less commitment by the company to informing and involving employees.

Figure 2: Links from share ownership organisational outcomes



Arrows 6 and 7: Involvement and participation policies were thought to be strengthened by employee ownership (without distinguishing whether this was in the form of individual or collective ownership),

5. Where '1' is only 'marginally effective' and '5' is 'very effective'.
6. Where numbers do not total to 10, missing ones responded 'not applicable'.

7. Note that this could also be via Arrows 1 and 2, and/or 7 and 8.

with 60% thinking that employee ownership strengthens employee participation in strategic decision making, and 61% reporting that employee ownership strengthens employee participation in day-to-day decision making.

Arrow 8: Employee participation was felt to increase employee commitment and motivation (88%).

Arrow 9: This was also thought to reduce employee turnover (97%).

Arrow 11 (enhancing Arrow 8): Of those responding (60%), 82% thought the company's attempts to involve employees appear genuine because of employee ownership. This should strengthen the positive effect on commitment and motivation.

The ICOM employee survey

Arrow 3: Asked whether they agreed or disagreed with the statement that 'Employees would have more say if the voting rights of employee-owned shares were pooled to provide employees with a collective voice', 53% replied, of whom 64% agreed with the statement.

Arrow 6: Asked whether they agreed or disagreed with the statement that 'The directors would consult more with employees if the voting rights of employees were pooled in an employee shareholder trust', 53% replied, of whom 75% agreed with the statement.

Arrows 6 and 7: Asked whether they agreed or disagreed with the statement that 'Without employee ownership, there would be less commitment by the company to informing and involving employees', 72% responded, of whom 63% agreed with the statement.[8]

Arrow 8: The overwhelming majority (89%) felt that employee involvement and participation does increase employee commitment and motivation.

Arrow 9: Of these, 72% thought that this increased commitment and motivation resulted in reduced labour turnover.

Arrow 5: 85% thought that the increased commitment and motivation resulted in increased productivity.

Arrow 11 (enhancing Arrow 8): Asked whether they agreed or disagreed with the statement that 'The company's attempts to involve employees are genuine because of the employee ownership', 60% replied, of whom 75% agreed with the statement.

The airline flight crew employees

There was clearly an incentive effect from owning shares, with 80% responding that this 'makes me more than just an employee'.

Arrow 8: Strong support (100%) for the idea that employee involvement and participation increases employee commitment and motivation.

Arrow 9: There was also strong support (90%) for the view that this reduces labour turnover and (Arrow 5) improves productivity (100%).

Arrow 11 (enhancing Arrow 8): There was strong support for the idea that this impact from involvement and participation to commitment and motivation is strengthened by the existence of a degree of employee ownership.[9]

However, this was generally seen as a potential to be tapped, rather than representing current practice, which was regarded as weak in these areas – hence the doubts as to whether share ownership had any effect on the commitment by the company to informing and involving employees.[10] There was strong support for the view that employees would have more say if the voting rights of employee-owned shares were pooled to provide employees with a collective voice. This is something that the airline unions have attempted to pursue in the past, but found resistance rather than assistance from the company.

Conclusion

The above findings are at least consistent with the sort of causal picture outlined in Figure 2, which makes sense of the quantitative statistical findings of correlations between progressive HRM practices and organisational outcomes. To explore in greater depth these qualitative relations, we revisited seven of our ten companies to conduct focus group discussions with a wider range of employees.

8. Provided there is a causal link as indicated by Arrow 8, then by strengthening the degree of involvement and participation, the effect on motivation and commitment (and from there to performance outcomes) will be increased. This positive effect might therefore be considered to be the Arrow 11 effect (strengthening Arrow 8).

9. With 70% agreeing that 'owning shares makes me more motivated', although this could also be the Arrow 1+2, or Arrow 4 effect.

10. Asked: Do you agree or disagree with the following statement: 'Owning shares gives me a say in how the company is run', one employee wrote in 'It should do!'

4. The focus groups

Of the ten companies described in Chapter 2, seven were selected to conduct focus groups. These were conducted by staff from The Work Foundation (formerly known as The Industrial Society until April 2002) between 12 and 20 March and on 21 May and 30 July 2002. The size of the groups ranged from five to nine employees. The businesses all had significant employee ownership schemes. The interviews were designed to complement the surveys, site visits and interviews carried out by the Birkbeck research team.

The organisations were asked to provide groups of rank and file employees who would not need to be experts in scheme technicalities. The groups did not totally exclude managers; in one company managers predominated. The primary objective of these focus groups was to ascertain the employees' perception of the schemes, and in particular the degree to which the schemes enhanced motivation and commitment and, if so, whether it was thought that this fed through to improved productivity.

The seven companies selected from the ten described in Chapter 2 were those whose businesses are:[1]

- the generation and supply of electricity (Coolkeeragh)
- a leading UK airline
- a leading business consultancy, IT and outsourcing company
- an independent Scottish papermaker (Tullis Russell)
- a partnership of fuel efficiency experts
- a national bus and rail company (Stagecoach – bus interests only)
- an advertising agency (St Luke's).

The size of the organisations differed greatly as did their styles of employee ownership. For example, a 51% management/49% employee ownership with 90 employees at Coolkeeragh, to 6,000 employees, 1,500 overseas, and three schemes at the IT services plc.

The groups

Where schemes were well established a particular feature was the long service of focus group members. Trade unions were significant in five organisations of the seven. The airline focus group was arranged through the trade unions, the others through management. Key points to note are:

- The six-person team at Coolkeeragh was cross-functional and included managers, engineering and shift workers. The average age of this group was 50+.
- The airline group were TGWU and AEEU members. The three TGWU members were from baggage handling and forwarding. All were long-service employees.
- At the IT services plc, the group of eight was brought together by, and included, a head office HR manager. Although we had asked for a 'rank and file' group, the members of the group were all managers and most had been with the company for a long while, some from the first share scheme. Two secretaries had been invited but did not attend. Members of the group raised the lack of non-managerial staff present and suggested we should return for another group. Our offer to return was subsequently declined. There appeared to be sensitivities for the company in the timing of the interview.
- The eight-person group at Tullis Russell included members of the management team, union members, shareholders and members of the Share Council.
- Our facilitator reported from the fuel partnership with a serious caveat. Overall the focus group was disappointing in terms of the impact of partnership on staff. All of those interviewed were partners (with over one year of service). The consensus was that being a partner should generate more loyalty and involvement, but the company processes inhibited that. Generally people felt that the bonus scheme was the only tangible benefit of the partnership.
- The Stagecoach group of six and the company secretary represented bus interests only. The trade union voice was strong. The group benefited from the knowledge of two members who were employee share trust directors. Perceptions of employee involvement were restricted to financial participation and reward. The message was that it was difficult to do much about involvement in a business with so many difficulties/financial constraints. The facilitator felt that the group may have left some views unsaid. This was despite members' apparently cordial relationship with the company secretary who arranged and participated in the group.
- The St Luke's group of nine was a good cross-section of employees, including some long-standing employee owners and some more recent joiners. The group presented a committed impression and conviction that there was something 'special' about the company. At the same time, they are part of a maturing business that is beginning to adopt more formal management structures and procedures. They saw the need for more formality, without diluting or destroying the special essence of co-ownership.

1. It was decided for various reasons not to revisit the other three companies to conduct focus groups, in part because the site visits to these three had all included round table discussions involving employees which had covered much of the ground that the follow-up focus groups were intended for.

The questions

The focus group discussions were structured around the following seven questions:

1. Do you receive information on:
   – company objectives
   – performance targets
   – actual performance
   – new initiatives?
   If so, how is this done?
2. Are you involved in formulating:
   – company objectives
   – performance targets
   – new initiatives?
3. Are you involved in strategic plans? If so, how?
4. Do you feel that employee involvement and participation increase your motivation?
5. Do you feel that, on a scale of 1 to 5, employee involvement, and performance, are improved because there is employee ownership? If so, why?
6. Do you agree or disagree with the following statements:
   – 'Without employee ownership there would be less commitment by the company to informing and involving employees'.
   – 'There is a belief that the company's attempts to involve employees are genuine because of employee ownership'.
7. Would employees have more say if the voting rights of employee owned shares were pooled to provide employees with a collective voice? Would the company consult more with employee shareholders if the voting rights of shares were pooled in an employee shareholder trust?

Information on company objectives, performance targets, actual performance and new initiatives

With the exception of the fuel partnership, and to some extent Stagecoach, all groups responded positively, but competitor concerns and Stock Exchange confidentiality in quoted companies (the airline and the IT plc) was seen as standing in the way of communicating detailed financial information and new initiatives.

At **Coolkeeragh**, an AGM is held once each year for all shareholders, with written questions submitted prior to the meeting following publication of the annual report. Twice a year the directors (the board) address all the employees and brief them on the company's objectives, performance and any new initiatives such as the new power station, which was a suggestion from the employees.

A worker-nominated director has been in place since the buy-out. He was appointed from a trade union-sponsored bank and is an accountant by profession; it is an unpaid position, except for expenses, and he is not a shareholder. The directors address each shift annually and they also have regular monthly team meetings to discuss performance. Minutes are produced and circulated by email and hard copy, which are also put on noticeboards.

A communications group meet every two months and take issues/ideas to the senior management via supervisors. Daily production meetings take place for all departments, with both formal and informal team meetings taking place regularly. It was said that when a production problem arises, there is a culture where everyone helps to ensure the issue is resolved quickly.

The **airline group** reported use of the internal newsletter and the company intranet. There are screens in operational areas that show the share price. They pointed out that the company is obliged to go to the shareholders (ie, the City) for major initiatives, so employees heard about these first on BBC and ITV television channels.

There are emergency local business meetings with TU reps and managers. Shop stewards sit on local business/engineering negotiating forums. A trade union council exists at company level, but what happens there was said not to cascade down.

At the **IT plc** there was communication and involvement via the intranet, conferences and cascading downwards. This enables the local level objectives to be fed back into the company objectives. There is a five-year vision and the top 40 managers get together each year.

Videos are used as well as team talks, held both electronically and face-to-face. However, being a plc puts restrictions on company-specific information. Numbers are given locally but they are 'competitor wary'. There are analysts' presentations on the website with employee analysis and contractor information. But the answer to the question is 'no' on big initiatives, and 'yes' on initiatives about how they work. But the intentions are there – and the broad directions can be seen from the company's vision.

At **Tullis Russell** the Share Council is fully briefed on all four areas (company objectives, performance targets, actual performance, and new initiatives), and it reviews the company strategy via a five-year plan. Each business unit manager presents their plan and that is then subject to discussion and debate. The performance targets are updated monthly and delivered through briefings. The Share Council is generally given more information, and its members will often add a paragraph to the monthly brief for all staff in their constituency. Though the Share Council's role does not involve them in the development of the business plan, it is discussed with them and the reasons behind the decisions made explained.

The **fuel partnership group** said that in the past it had held seminars, where company objectives were reported to the Staff Council which then offered feedback to staff. In the group – aside from the member of the Staff Council – people had little awareness of company objectives beyond the broad mission. They only know if the company has done well if they get a good bonus (and even then there is a certain amount of cynicism over management discretion).[2] However, financial performance information is available on the intranet.

In the call centre (which makes up a large percentage of the business) they are told about new initiatives in order to respond to client queries, but others in the group had a sense that there were lots of things going on but that they didn't know what they were. People didn't feel that information was concealed, just that it was not provided or easy to access.

All felt that communication had improved, but that it was still not good. Some felt that they struggled even to get the information they needed to do their jobs. And some expressed concern that they were not informed about new departments being set up. A case was cited of call centre staff having to work at Christmas and not being consulted on how this would work (this was perceived as a change in terms and conditions that was not sufficiently negotiated).

There is little input from directors in terms of communications beyond individuals' jobs – though some of the group worked more closely with their director.

At **Stagecoach** information is received via the bi-monthly company magazine, though this is moving away to regional magazines. The TGWU meets at least twice yearly with the company. Company performance is discussed. There is a joint national Consultative Forum and sub-committees in the bus industry – for example, on cab design. The TGWU was the dominant union voice in the group discussion. A view was expressed that 'the other unions didn't want to get involved'. However, another member of the group volunteered that an earlier questionnaire about employee participation had included West of Scotland companies in its survey.

Information is available through the annual report. ESOP Trust directors knew what was going on in local companies, but it was said that others did not know what was happening in these companies. One group member said that the company should network and publicise the ESOP as much as pensions: 'The ESOP comes a poor second'. He said that he wrote an explanatory letter for new employee shareholders.

Performance information is felt to be received inconsistently at **St Luke's**, sometimes by email. Information on the annual accounts is made known at the AGM. Initiatives are discussed at the 'Monday morning meetings'. These are open to everyone, with the incentive of a cooked breakfast, but it was also said that the meeting is mandatory and referred to in contracts of employment. Information on the accounts is also available every second week. There was said to be a reasonably open policy, and anyone could go to the finance director and ask for information. However, it was pointed out that there needed to be some commentary on the figures; for example, on the proportion of salary costs being higher than the industry average.

The group made much of their growth from 35 to 120 people. They commented that there was a need to make information available in layperson's terms. They needed to know enough to balance risk and opportunity.

They respected the objectivity of the auditor's presentation at the AGM and acknowledged the difficulty in striking the right balance between need to know/discussion/getting the business done. It was said that the company was in tougher times with no forum for discussion and that a select group of people had taken decisions. This highlighted the difference between co-ownership and direction: 'We've never embraced the co-ownership "thing" properly. As the company grew, so did lots of grey areas'.

The company is beginning to develop a conventional management structure. This is relatively recent and ongoing. It gave rise to some confused discussion as to how the board was elected; whether shareholders had known what was going on and what their rights as co-owner shareholders were.

Formulation of objectives, targets and initiatives

At **Coolkeeragh** the strategy is set by the board and cascaded down to the rest of the organisation. A strategic planning process is believed to be in place. They, the employee shareholders (and specifically the senior management) have autonomy to develop and implement the

2. 'We're given a bonus and told about it in relation to other targets.'

plans, which are reviewed monthly by the board. Monthly performance reports are produced by each department and reviewed at board meetings. The original strategy was developed by Price Waterhouse (now PricewaterhouseCoopers) in 1992, and they assist each year with the strategic review and the accounts. Shareholder employees can raise issues of concern or for clarification in different ways: at the AGM (through written questions), through their supervisors at team meetings or through the union.

The **airline group** reported that in engineering each part of the business is asked to submit a business plan. Shop stewards input and discuss with local management. Then the plan goes to the manpower planning division and they 'strike a deal'. For instance in engineering, manpower planning discussed airport changes with the stewards, and they were willing for shop stewards to sit with planners over some weeks. Overall, however, the group said that change is happening slowly: 'When the shares were at £7 no one came to ask us. Now they are up to their axles in mud, they come to us'.

However, those involved in the company trade union council had a different perspective: 'We were all in favour on the council, but others weren't'. There was more likely to be council involvement on company level performance targets. There was discussion of performance targets at local level. There was also agreement that if the management wanted employees to be part of the business, the company had to give rewards when times were good.

At the **IT plc** it was said that these questions were down to their planning process. The strategy and priorities are defined at a special meeting; then the top managers consult with other employees – but this depends on different parts of the business and their needs. The nature of the business helps: 'We sell people – the individual's responsibility is to bill yourself to a company. Because people are in that position, they are participating.' But others pointed out that in the middle it is less clear, though team talks help. Many areas did not receive face-to-face communication via management, so they do not think their views on the strategic direction would go upwards even if expressed to their manager. Employee surveys show strong line manager–employee relationships; for example, 77% of employees trusted their line manager, but felt they lack evidence that their views are being passed upwards.

The **Tullis Russell** group said they were not involved with such formulation, but they also talked about the 'high flow of information' they received and the opportunity they have to 'provide a challenge to the company which is taken seriously'. They gave an example of an option scheme for executives which the board planned to introduce. They had communicated widely and won a vote among staff. The Share Council felt the staff had not understood the intent and recommended the board reconsider. The board did reconsider, and decided to proceed no further.

New non-executive directors are interviewed by the Share Council before being appointed. The Share Council has a quarterly review of the business with each business manager and holds a weekend meeting which is attended by three managers. All members of the Share Council also attend these weekend meetings.

Owing to the lack of communication at the **fuel partnership** about objectives, strategy and performance, there was no scope to be involved in their formulation beyond individuals' specific roles. For example, one member of the group was the parliamentary officer with a certain amount of autonomy around that strategy, but no input or even information on the wider perspective.

The ESOP's directors at **Stagecoach** are involved in strategy insofar as it relates to the ESOP. It was said that the trade unions have more chance of influencing any initiatives – 'not to say that we're that successful; we are, as trade unions, reactive, rather than trying to set the agenda.' The union had to have a major say, since labour made up 60% of the company's costs.

The **St Luke's** group said they were involved when they were client facing, but that there was no holistic involvement and it depended on the particular job and personal drive. The group pointed out that the company had taken on diversification and other developments, which had been implemented very quickly. They acknowledged a heavy responsibility on co-owners to come up with initiatives, though this was to be expected in a business where revenue was client driven.

Involvement in strategic plans

Responses were largely negative. Where there was involvement, it tended to take place after decisions had been taken and was more about the 'how' than the 'what'.

At **Coolkeeragh** employees were only involved after the plans have been agreed and formulated by the board. They are happy with this arrangement, as they trust the board. The employees develop and implement the plans.

The airline staff said they were not involved in the formulation of strategic plans. One group member attended the engineering directors' and senior managers' monthly meeting but said this was not so much about what was going to happen: 'How we are going to dig ourselves out (of the present crisis) is the only strategic involvement'. Lack of involvement did not mean that employees did not hold strong views.

The IT plc employees' involvement was the same as their response to question 2: a lot of areas did not get face-to-face communication via management, so they do not think their views on strategic direction would go upwards even if expressed to their manager. While 77% of employees trusted their line manager, they lack evidence that their views are being communicated higher up the organisation.

Tullis Russell employees were not essentially involved in strategic plans. They reported that they are involved in some discussions around the marketplace and long-term aims for the company and for the site. Discussions tend to be about the 'how' rather than the 'what'. Weekend seminars look at the long-term aims of the company and the impact on shareholder value. They also said they are discussing the distribution of the company's wealth – how much should be retained for investment and how much paid out to shareholders.

The Stagecoach group said they were not involved, but that the trade union forum and the ESOP trustees received the City presentation. A European Works Council, formed when the company acquired (since disposed of) operations in Continental Europe, is in abeyance. The company is aware of potential obligations under future information and consultation legislation, and says it intends to resume the EWC's full activities net year. It was said that the EWC discussions had only touched on future activities for 'this coming year'. The company says that longer-term issues (eg, environmental issues) have been touched on in the EWC.

At St Luke's, involvement depended on the individual's role in the company. It was said that it was necessary to be able to keep up with the strategy: 'It's knowing the point where the strategy changes. You may be working on something that runs counter to the new strategy'. Another co-owner commented 'We're not always good at listening to ourselves'. There were, it was said, some disenchanted co-owners. Comments included, 'I still can't see a common or shared goal', 'We are not concentrating on our core business', 'The wish list of clients hasn't been pursued', 'I don't know what the returns are on our investment – well, only locally', and 'We are co-owned but not co-run'. But they qualified these remarks by saying: 'As co-owners we are reminded of the collective power of our knowledge and talent'.

Links between employee involvement and motivation

Apart from wholehearted endorsement by those at Coolkeeragh, the responses to this question were mixed.

At Coolkeeragh all six people strongly agreed that there were links between involvement and motivation – because, they said, 'we all share in the outcomes, good or bad'. They also explained that it is not the only reason, citing the culture of excellent working relationships between employees, senior management and the two trade unions. All employees (as a result of being shareholders) understand the workings of the market in relation to the performance of shares. Before becoming shareholders they did not, and were not that interested in the overall performance until it directly affected them.

The airline group said it would influence their motivation if they could genuinely participate. '"Genuine" is an excellent word. The perception is sometimes that they want your endorsement. They are playing with you. "We've spoken to the unions" is a favourite phrase.' But the engineering workers were more positive, saying that partnership practices developed over the last ten years have benefited local relationships. All agreed that if involvement is genuine it has to be 'the whole way through'; 'whether it's good or bad doesn't matter, as long as they try'. They cautioned that if participation is not genuine, there is a long recovery period. For example, at one airport, they were involved in discussions with management when decisions had already been taken: 'It's taken a long time to recover the trust.'

The IT plc group said that you could not generalise about involvement over and above 'hygiene factors' (the basics in the employment relationship). They reminded us that they were all managers but thought that motivation was as good as the manager concerned, and that it could also depend on the maturity of particular customer relationships. (Certain staff spend long periods working on site at the customer's business.) They noted that there was a difference between the adrenalin of new projects and 'business as usual' and added: 'There are a lot of scared people in this industry. You won't get such positive answers as a year ago'. Involvement was also thought to be patchy because growth via acquisitions has meant there are now several cultures.

The Tullis Russell group felt that most staff were interested in the share price and its impact on what many considered a 'bonus'. Money was considered to be the main driver for most people and few people thought how they could contribute to the performance of the company. They gave examples of staff 'doing a little bit extra' but felt that was a part of pride in the job rather than being related to having a share in the company.

The **fuel partnership** group consensus on this question was that involvement would increase motivation if it happened!

Views expressed by the **Stagecoach** group on motivation included:

- 'I have felt motivated as an individual on occasions – but not among work colleagues.'
- 'Motivation has increased when there has been a rise in the share price.'
- 'I don't believe shareholding of itself motivates.'
- 'People basically do this job and go home.'
- 'There's a little purple period (the beginning and key points in the share scheme) when it helps.'

A new three-year SAYE scheme was launched in February 2002. There was good take-up from the better-paid rail employees (bus employees are less well paid) who joined for the first time; many employees are up to the £250 a month limit.

The discussion on motivation sparked other related comments. There was general agreement with the view that,'if it's not performing, you get the information quicker'. It was said that drivers tended to go through the union as it 'had the power base'.

There were examples of the local open forum as in Chesterfield, but the point was made that people had to be reminded about it. The group pointed to the consequence of growth: the MD of Chesterfield, for example was now MD of six companies within a 60-mile radius.

At **St Luke's** some felt that in the early years the involvement, excitement and pace had increased motivation to the point of damaging life outside work. There were some conflicting views ranging from the comment that the firm was not so much a hierarchy as a medieval court – a system of patronage – to the belief that it was a rich environment for broadening experience and horizons. The company demanded a strong emotional commitment.

It was also said that it was easy to fall in and out of loops, given the speed at which things happened; and that continuity was needed. Motivational highs ebbed and flowed, so there was a need for constant reference to what needed to be achieved. The monthly achievement meetings were seen as being very helpful, though they could be improved. 'We never celebrate the investments outside our core. I'd like to be more motivated – to be reminded about the great work'.

Are employee involvement and performance improved because there is employee ownership? If so, why?

Figure 3: Do you feel that, on a scale of 1 to 5, employee involvement, and performance, are improved because there is employee involvement? If so, why?

	Employee involvement	Performance
Coolkeeragh	4/5	4/5
Airline	2	0/1
IT plc	1/2 (formerly 4/5)	2/3 (formerly 4/5)
Tullis Russell	3	2
Energy partnership	1	1
Stagecoach	1	1
Advertising agency	5	5*

*can move from 5 to 1

The **Coolkeeragh** team re-affirmed their earlier remarks: 'You are directly affected by the outcomes. You can directly influence the results'.

The **airline** group, particularly the TGWU members, appeared dispirited. They pointed out that even when there was a profit share, not everyone could afford to take advantage of it. They also said several times that they felt there should be an equal profit sharing distribution formula.

At the **IT plc** the high earlier scores were owing to:

- pre-flotation high
- driving for success
- high level of motivation
- the feeling that this was the prize people had earned.

The group said that it was realised that there was a link between performance and what they received. They felt that size was critical and that they went through phases of understanding, for example:

- 1985–86 was about owning the shares, 1991–93 was about owning the company.
- People became more aware of cost containment and sales performance – and this was motivating: 'It's part of our company. We are spending our own money'.
- 'It's not just about ownership but also about share price growth and the time you came into the scheme.'

However, the group felt share ownership had affected performance more when it had been a differentiator. 'It's a bigger company now – a different company.' An attitude survey carried out by The Industrial Society (now The Work Foundation) demonstrated a strong link with pride and the share price. The 77% referred to earlier has gone down by 23% – the share price has come down by much more, and was affected by external factors. It was said that owning shares did not encourage people to work harder because they did not get more out of it; rather, harder work would be inspired by leadership. 'Share ownership tops up the soft benefits – it's part of the management ideal.'

Tullis Russell referred to their answers to the previous question, that the shares were thought of by many as part of their remuneration, in the form of a 'bonus'.

At the fuel partnership this question led to a discussion about communication shortcomings. The result of the scale questions were very poor from all members of the focus group due to these issues. A number of members wanted to believe that being a partner enhanced their loyalty and performance, but most could not move away from the 'endemic communication problems'. In the words of one person: 'I do feel more ownership and I'm aware of the impacts, but I just don't feel like I have any influence'. This is inhibiting a sense of partnership:

- 'People are still frightened to say something if it is critical – there should be more freedom to speak.'
- 'A lot of people are being told as opposed to being asked.'
- 'People don't have a clear view of the big picture so we don't get a sense of partnership.'

The Staff Council is one way that views are supposed to be fed through to the directors, and does work at times. However, because of the lack of general openness a number of the group felt that it was bogged down in small concerns that were often anonymous and therefore difficult to solve.

At Stagecoach, the employee involvement score was qualified by the remark, 'for a few who understand it all'; and in relation to employee ownership improving performance it was said, 'When there was PRP it could be reflected in up to 20% of your pay. PRP was instant. With APS you have to wait three years'. The group also emphasised that there was now less stability in the industry, with higher staff turnover.

The St Luke's employees illustrated their score with these telling remarks:

- 'Employee ownership is the opportunity to guide your destiny with a bit more hope and purpose'.
- 'A lot of it is to do with the promise of fairer things – as a pragmatist you know it won't happen every day'.
- 'It's for our collective as well as our individual good'.
- 'It's not the cash – my shares are worth half a month's salary.'
- 'The onus has gone mentally from co-ownership to management.'
- 'Our service of clients has been great, as an advertising agency really good – as an operating company, not so sharp'.

Links between involvement and informing employees, and the genuineness of this involvement

Groups were asked whether they agreed or disagreed with these statements:

- 'Without employee ownership there would be less commitment by the company to informing and involving employees'.
- 'There is a belief that the company's attempts to involve employees are genuine because of employee ownership'.

Staff at Coolkeeragh strongly agreed with both statements. There was a suspicion that some communication is only carried out because it is a legal obligation. Not all interviewees agreed that there are benefits to informing employees of all the facts, but they felt that sometimes boards hold information back. They said that shareholder employees do have a major contribution in achieving strategic aims, and they can make the difference in achieving those aims.

The airline group somewhat reluctantly agreed with the first statement but disagreed with the second.

The IT plc staff agreed with the first statement but said the second was much more influenced by management style.

Tullis Russell strongly agreed with the first statement and agreed with the second.

These comments from the fuel partnership again illustrate how poor communications appear to be clouding the potential of partnership, though it sounds as though this could be remedied:

- 'All partners are committed but we never get over the communications so I don't know if it has an impact on the way we work.'
- 'I have mixed views about these statements. I think the partnership means that they [directors] have our best interests at heart, at least I believe it most of the time – but they just don't tell us.'
- 'Generally the terms and conditions are excellent and the company looks after us – I don't know if this is because of partnership.'

The Stagecoach group disagreed with both statements: 'It's not relevant – it's the union'. The group said that 85% to 90% of employees held shares. There was a feeling that more participation wasn't realistic because the company and the bus industry lived with so many financial constraints. A senior union representative said 'it's a daily fight'. Indeed, the group scarcely recognised any form of employee participation other than financial, apart from references earlier to the trade union consultation and the EWC. Some members of the group had the perception that rail was better developed in making links between performance and reward, whereas in the bus industry performance was not linked to reward. (The Stagecoach bus employees' performance was linked to reward via PRP between 1989 and 2000.)

The **St Luke's** group agreed with both statements and said that employee ownership 'tips the balance'.

Giving employees a collective voice

The groups were asked whether employees would have more say if the voting rights of employee-owned shares were pooled to provide employees with a collective voice, and whether the company would consult more with employee shareholders if the voting rights of shares were pooled in an employee shareholder trust.

The **Coolkeeragh** group agreed and gave this example. During the buy-out in 1992 it was suggested by the employees that a pressure group be formed – to pool the strength of individual shareholders, along the lines of the Supporters Direct organisation (mentioned on page 19 of the Employees Direct report by Jonathan Michie and Christine Oughton).[3] At the time the board was very much against this as they felt it would be a union-inspired/controlled group. It was said that, as a result of the site visit by the Birkbeck researchers and the subsequent focus group visit by The Work Foundation staff, a pressure group is being looked at again.

All the members of the **airline** group were long-serving and most remembered pooling being discussed some years ago. They were in favour of both suggestions as long as this did not entail individuals giving up actual ownership of the shares. The TGWU members had some discussion about the fact that employee shareholders could then be involved in decisions that brought benefits to employees who could not afford to hold company shares, and asked why they should benefit.

The **IT plc** group answered affirmatively to these questions, illustrated by their own experience of pooling. Their discussion also illustrated attitudes to share ownership and understanding, or lack of it. The group members were well informed on how pooling worked and explained that it was reinforced by the Trust's practice of polling all employees on resolutions, even if they were not shareholders. The poll results are announced at the AGM. They gave the example of how after flotation, the board was proposing what it would do on the profit share. An employees' AGM turned the board round to pay on an equal basis.

The group pointed out the importance of the maturity of individuals, the age group and relative disposable wealth. One member asked if the main interest was from older employees like himself: 'Is it the "crumblies" with disposable wealth?'. There was also a feeling that the younger employees would like to participate if they could. It was noted that there was high retention in graduate groups.

We discussed the importance of financial education. The company brings in Killick (registrars who run the AESOP, now SIP). They said that employees do not always know what to do with shares when they have them. They don't understand the tax rules and shifting between the schemes and the company ISA, or they confuse it with the loan they have taken out for stock options. The issues of translating the employee share ownership culture to new acquisitions were highlighted by the company's experience with new overseas acquisitions. The Share Scheme manager had travelled to the newly acquired businesses to explain the schemes, with a high initial response.

The **Tullis Russell** group responded that as the company already had a pooled scheme this question was not appropriate. They felt that this was why the company really listened and some decisions were changed.

The question produced a dismissive response at the **fuel partnership** with more comments about the lack of opportunity to put their points of view and to be heard.

Stagecoach was said to be a bit different because of the Gloag/Souter ownership. Some felt that if the employees could 'get together' notice would have to be taken of them. They felt it would take the unions to organise this. Others disagreed, given the balance of shareholding. They felt that the combined employee votes would only amount to a protest vote, and could not see what issues the block vote would be used on. (The Gloag/Souter equity holding is 25%. It was 55% at flotation in 1993, and 75 to 84% before the ESOP was introduced in 1991.)

3. Michie and Oughton (2001) - this report had been given to employees by the Birkbeck staff during their site visit and interviews, prior to the focus group.

There are no other shareholders of **St Luke's** apart from the 'co-owners'. The group said that it would help if co-owners knew what their rights as shareholders were, and work is under way on how to explain them to co-owners. They understood that there was a need to know what their rights and responsibilities were under company law and beyond that. They stated that collective voting was interesting, but that there was nothing worse than making a decision in ignorance. They also believed people should be asked before a decision was made; and that there should be a fair and honest commentary and a greater flow of information.

5. Discussion and conclusion

The government has recognised the importance of employee participation, and that productivity gains are more likely when share schemes 'are combined with modern management practices which promote active employee participation' (Inland Revenue, 1999, p 2).

The importance of participation

As indicated in Chapter 1, the existing academic literature suggests that the combination of these two aspects – of employee ownership along with participation – is indeed necessary for the sort of productivity outcomes the government seeks. This was also the conclusion reached by Tomorrow's Company (2001, p.ii): 'The conclusion from UK studies, consistent with research in the US is that:

- employee ownership alone does not make a difference to performance
- there is a positive outcome in terms of performance when employee ownership is combined with high levels of employee participation
- high organisational performance is associated with the use of an employee share ownership programme and representative participation in wider policy decisions
- it is more probable that the impact of employee participation is an indirect one through the influence on employee attitudes and behaviour (and that of management), which in turn has an impact on internal performance, reflected in productivity, quality and innovation, and this in turn has an impact on sales and profitability
- employee attitudes towards the job and company are critical to employee loyalty and behaviour towards customers. The impression of customers directly affects customer retention and the likelihood of recommendations.

Our own interviews, surveys and focus group discussions also provide support for this view, that practices which promote active employee participation are vital, and indeed that, without this, employee share ownership may have no beneficial performance outcomes whatsoever. Both managers and employees repeatedly made it clear that they would not expect employee ownership to have any effect on productivity unless it was combined with policies of participation and involvement to boost commitment and motivation. And indeed that, in cases where this combination had not been achieved, neither had the hoped-for performance outcomes.

Within this framework of attempting to boost productivity through enhanced employee commitment and motivation, employee share ownership appears capable of playing at least three important roles:

- The existence of employee share ownership may make it more likely that companies will introduce policies of participation and involvement.
- Once in place, such policies may be pursued more seriously by management against a backdrop of employee share ownership.
- Employees may regard such policies as more 'believable' and likely to endure if they are being pursued within a context of employee share ownership.

If the employee shareholdings are pooled to create a collective voice, this will reinforce the above three processes. Such a collective voice may itself boost employees' commitment and motivation. As regards the direct financial incentive which the government scheme emphasises, in the absence of other policies, it is unclear how an individual employee would envisage boosting the company's profits in the hope that this would feed through to dividend payments and increased share prices.

There is an additional benefit in pursuing the government's productivity goals through policies that include employee share ownership, related to the quality of working life. Productivity can be boosted by smarter working or, at least in the short term, through increased work intensity. For any given increase in productivity, the former route clearly involves a better quality of working life. Pursuing productivity through an agenda of employee share ownership is more likely to lead to the former 'high road' option being pursued, particularly where the voting rights of that employee shareholding are pooled and represent a significant voice. Thus:

> 'The implications of alternative work practices associated with the high-performance model may be more complex than commonly assumed … what many view as "best" practice for employers may not also be best practice for workers… If so, attempts to promote the high-performance model as a means of enhancing "equity" as well as "efficiency" may be misguided … For those genuinely concerned with quality of employment issues, advocacy of more broad-based institutional reforms may be called for' Godard (2001, p 80).

Institutional reform

It is clear that there is much to be gained by companies pursuing policies for employee participation. In this context the use of employee share ownership can play a significant role, both in underpinning such policies, making them more widely accepted as being a serious and continuing commitment; and also in boosting employee commitment and motivation by providing them with a collective voice in the enterprise as well as a financial stake.

However, for this potential to be fully tapped, the government's policy initiative needs to be further developed to include the collective voice aspect as a key and inherent component. The government's current scheme allows for the employee shares to be non-voting, and for the trustees of any employee shareholding trust to be appointed by management, and removed by them at any time and for any reason.

The Employees Direct working party are in discussion with government and the Inland Revenue over these and other aspects. Cobbetts solicitors have drafted a democratic version of the Trust Deed which, it is hoped, the Inland Revenue will approve.

How government policy can best be developed in this area, to achieve the goal the Chancellor has set, will be addressed by the Employees Direct working party in their Final Report. The aim is to publish that Report by January 2003. The aim of this research report has been to feed into that process, by finding out:

- what has worked and what has not, from companies that have experimented with varying degrees and types of employee share ownership
- whether employees do indeed feel the motivational effects ascribed by government and others for employee share ownership, and if so whether this makes them feel more committed and motivated, and whether this does indeed feed through to increased productivity; and
- from both employers and employees, how such schemes could best be developed, both to encourage their more widespread adoption, and to make them more likely to deliver the desired productivity effects.

Feedback on this report is therefore welcome. We will be actively seeking this by distributing the report to the companies that participated in the study and more widely. Comments from all quarters would though be welcome and should be made to Professor Jonathan Michie (see Executive Summary section, on page 3).

Any comments received by 30 November 2002 will be discussed by the working party and incorporated in the Final Report. However, comments after that date would still be most useful. One conclusion that comes through clearly from the latest such report from the US, by Logue and Yates (2001), is that for this sort of policy agenda to have a real impact over the long term does require a huge institutional effort, involving advice, training and other support on a continuing basis. If the UK government is serious about making a success of its policy in this area, it is going to require new bodies to be established to drive through the necessary advice, training and other work. It is already clear that one recommendation which the Employees Direct working party intend making in their Final Report is that if the government does wish to pursue the benefits that are there for the taking, it will have to establish a Commission or other such body to advise on the necessary institutional reform, including the proper resourcing of the necessary support bodies.

Any feedback received on this current research report which arrives too late to be incorporated in the Final Report from Employees Direct will be forwarded on to whatever body the government charges with taking this work forward, whether this is passed to the current Inland Revenue team, or to a Commission established specifically for the purpose.

Making a success of employee share ownership

This report set out to answer a single question: is there any evidence to back the government's belief that promoting employee share ownership will assist in closing the UK's productivity gap with the other leading industrialised economies? The answer is undoubtedly 'yes', there is such evidence. This, though, begs the question: why are such policies not already pursued more widely? If they boost productivity and profitability, surely companies would pursue them of their own accord. There are at least six reasons why such schemes have not been taken up more widely.

- There has often tended to be a degree of scepticism about such schemes from employees. Sometimes this is because the offer of shares has been linked to concessions elsewhere, whether on pay or other conditions. Also, the future value of shares is uncertain.
- Trade unions have often been suspicious. The fate of Railtrack shares, not to mention Enron and others, may have made matters worse in this regard.
- If employees are to own shares, it is sensible to spread the risk by holding these in companies other than the one they work for.
- Managers may be either ignorant or sceptical of the claims from such research.

- There has been the problem of short-termism in company boardrooms, referred to above.
- To sustain employee share ownership over the long term requires continued institutional support, which has never been developed in the UK.

On the first two problems, the Inland Revenue's attempts to reach the target set for the number of firms adopting such schemes appear to have been pitched overwhelmingly at employers, and even panders to bad employers if necessary. This can only exacerbate these problems and may prevent any widespread successful uptake.

The third problem (the need for employees to own shares in other companies) is a genuine problem for which the answers available are inadequate. Until and unless this problem can be dealt with through new, imaginative thinking and policy, then the degree to which employees will choose to own shares in the company that employs them will – and probably should – remain limited. If the government is serious about wishing to see employee share ownership developing in all companies, then new arrangements need to be thought through and developed, allowing some degree of collective insurance against people loosing their life savings at the same time as they lose their job when their company folds.

On the problem of management ignorance/scepticism, it is to be hoped that the current report will shed some light, contributing to what needs to become a far more rigorous discussion.

As for the problem that those directors who do support such initiatives may find themselves outvoted on the board, or intimidated by institutional shareholders hungry for 'shareholder value', the development of employee shareholder trusts as active institutional shareholders could transform corporate governance for the good. This could contribute to improved transparency and accountability, in addition to the productivity benefits.

Finally, to enjoy any of these gains over the long term will require institutional reform, including from government.

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Offices in London, Birmingham and Scotland
Contact us by telephone on: 0870 165 6700
or by fax on: 0870 165 6701
customercentre@theworkfoundation.com

www.theworkfoundation.com