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This submission is based on evidence from '*Fit for Work? Health and Wellbeing of Employees in Employee Owned Businesses*' (2012) and '*The Growth of Employee Owned Businesses in Scotland*' (2013). These reports examined job quality and employee wellbeing in employee owned firms.

1. Summary

- 1.1 This submission provides supporting evidence in conjunction with Dr Dutton's appearance at the Scottish Parliament Economy, Energy and Tourism Committee's current inquiry into work, wages and wellbeing in the Scottish Labour Market.
- 1.2 This evidence is based on the work of researchers within the Employment Research Institute (ERI), Edinburgh Napier University, on the effects of employee ownership on the health and wellbeing of employees.
- 1.3 The ERI is a research institute within Edinburgh Napier University. We employ a team of academic researchers that are commissioned by the Scottish Government, local authorities, the European Commission and other public bodies to conduct consultation and evaluation work on social policy issues specifically in relation to work, employment, welfare and equalities.
- 1.4 There is evidence that workers in employee owned businesses (EOBs) have lower levels of absenteeism, lower levels of employee turnover and greater involvement in decision making (Blair et al., 2000; Park et al., 2004; Morris et al., 2006; Lampel et al., 2012). There is also some evidence to suggest that EOBs provide higher financial returns, productivity, growth and employment stability (Lampel et al., 2010; Field Fisher Waterhouse LLP, 2012a).
- 1.5 The strengths of EOBs appear to arise from employee engagement and involvement leading to increased productivity, innovation and (in some cases) employee wellbeing. Where EOBs had created share offerings that were widely taken up by employees, there was felt to be a link between employee motivation, productivity and financial reward. Crucially, employees also felt that owning shares gave greater control over strategic direction and provided greater influence over job security.
- 1.6 What are the lessons of the research for the development of policies on job quality in Scotland? Firstly, high levels of job satisfaction and job security in EOBs may be attributable to employees in EOBs having more control over their work. Employees with greater control over the tasks they do, the times at which they start and finish and their involvement in communication and decision making affect job quality. Secondly, when asked to make comparisons of experiences of working in non-EOBs, employees felt they had more influence over the way in which their work was structured, more support from their managers and subsequently were more motivated to do their job. These factors appear to be important in the presence of job satisfaction in EOBs.

2. Background Evidence: The EOB Sector

- 2.1 Employee ownership can take one of three forms:
1. Direct employee ownership – employees become registered individual shareholders of a majority of shares in their company.
 2. Indirect employee ownership – shares are held collectively on behalf of employees through an employee trust.
 3. Combined direct and indirect ownership – a combination of direct and indirect ownership (source: Employee Ownership Association, 2015).
- 2.2 The UK Government commissioned Nuttall review of employee ownership has described employee ownership as a firm in which employees have a 'significant and meaningful stake in the business' (Nuttall, 2012).
- 2.3 The Nuttall Review identified several benefits of employee ownership. These can be summarised as: improved business performance; increased economic resilience; greater employee engagement and commitment; driving innovation; enhanced employee well-being; and reduced absenteeism.
- 2.4 On the link between job quality, employee wellbeing and employee ownership, the Nuttall Review argues that giving employees a greater stake in the company they work is a 'powerful way of aligning the interests of employees with that of the business. A workers who has a financial and personal stake in a company will take more responsibility for its success' (Nuttall Review, 2012: 2).
- 2.5 This summer, the Financial Times highlighted results from the annual survey of the Employee Ownership Association. The top 50 worker owned companies increased their annual turnover in 2014 by 4.6 per cent to £21.5bn while their workforce grew by 4.3 per cent to 164,000. The Employee Ownership Association has claimed that the sector is worth £30bn or 3 per cent of UK gross domestic product (Financial Times, 2015).
- 2.6 High profile examples of employee owned firms include: the John Lewis Partnership; Mott MacDonald and Arup.
- 2.7 The research outlined in this submission compared the wellbeing of workers within EOBs with the national Workplace Employee Relations Survey (WERS). The WERS sample is representative of all British workplaces with 5 or more employees. The research also interviewed workers in EOBs and compared data on the financial performance of EOBs with non-EOB peers.

3. Evidence: Good Work and Bad Work

- 3.1 Job quality has several dimensions. These include: wages and additional benefits; job security; work intensity; job control; access to training opportunities; access to flexible working opportunities; work life balance; trust in management (WERS, 2013). Job control is a major factor of the way in which employees assess the quality of their job. Job control can be

understood as an assessment of how much influence an employee has over their work in terms of: how their work is done; the order in which tasks are carried out; the pace of work; tasks done in the job; start and finish times.

- 3.2 From a job quality perspective, 'good work' would be expected to include the presence of: job security; personal autonomy to complete tasks; trust between managers and employees; workforce stability. Conversely 'bad work' could be characterised as reducing the level of control that an employee has over their work environment and their work tasks; high work intensity; distrust between management and workers; repetitive or monotonous work; low pay.
- 3.3 When compared to the workforce as a whole, workers within EOBs show higher levels of wellbeing and satisfaction on several fronts.

Satisfaction at work: Workers within EOBs had higher scores across all categories of work satisfaction than those from the WERS survey. 4 out of 5 respondents were either very satisfied or satisfied with work compared to the WERS sample where 72% stated they were very satisfied or satisfied.

Job security: 72% of EOB employees were either very satisfied or satisfied with job security. The figures for the WERS sample showed lower levels with only 64.4% very satisfied or satisfied.

Pay: EOB employees were more satisfied with their levels of pay (45%) than their non-EOB counterparts from the WERS data (25%).

Control over work: When asked how much influence they have over tasks at work, 88% of those working in the EOBs stated they had some or a lot of control compared to the national WERS findings, where 36.1% stated they had a lot of control and 37.8% had some control (73.9% in total).

Communication and decision making: Responding to a general question about their involvement in decision-making within their workplace, 58.2% of respondents in EOBs stated they were very satisfied or satisfied - far higher than the WERS response of 39.9% for the same options. When asked about how good managers at their workplace are in seeking views of employees or employee representatives, 70.2% said they were very good or good; by contrast only 47.7% of the WERS sample said they were good or very good. Nearly twice as many EOB employees felt that managers allowed employees or employee representatives to influence final decisions, compared to those in WERS. Some 57.1% stated management were very good or good; while 31.8% of in WERS stated management were very good or good.

- 3.4 When comparisons are made of the financial performance of a sample of Scottish based EOBs with non EOBs in the same sector, EOBs appear to have, on the whole, significantly higher turnover, number of employees, profit margin and return on capital than their peers.
- 3.5 EOBs pay on average £3,640 less than their peers. Salary variation could be attributable to the market sectors that participated in the research, and also

EOBs are more likely than non-EOBs to have profit-related bonuses which complete their basic salary levels.

- 3.6 When each EOB that participated in the research is compared to around 10 non-EOB peers matched by size and business sector, the performance of EOBs was generally superior to their peers. On average, EOBs both employ more staff and exhibit higher turnover growth than their peers. The value added index, crudely measuring the contribution to the Scottish economy, was marginally greater for the EOBs than the peer groups.
- 3.7 Employees and managers within EOBs were interviewed to explain why EOBs appear to show better financial performance than their non-EOB peers.
- 3.8 Working in a company that viewed employees as stakeholders in the business gave a common purpose and voice to employees. Listening to employees was cited by those interviewed as key to the success of a company. Doing so ensured that workers had a common goal and were invested in the success of the company.
- 3.9 Employees had formal mechanisms for influencing the direction of the company. Employee representatives were elected for a term to sit on the Board and feed employee views into meetings of the Board.
- 3.10 For employees sitting on the Board discussing issues that affected their colleagues and being open to senior staff members could be daunting at first.

“The first time you go up it’s really quite a daunting thing to talk to the head of the company but after 5 or 6 meetings it becomes a lot easier and a lot more open and honest because you can ask a question without a fear of losing your job I suppose” (Employee).

- 3.11 Directors cited the value of the contributions made by employee representatives at these meetings.

“The biggest change for me as a decision-maker is the significant contributions I get from the employee groups and it’s just so much better to have six opinions than two” (Director)

Other methods of involving employees were through annual general meetings and ballots. Directors from two companies cited that they had an open door policy and a culture where all employees could speak to directors about the business.

“Well we’re a very flat organisation I think it is fair to say and we don’t differentiate between different levels within the company so it is not even an open door policy, there are no doors. People can come and speak to myself, or one of the other directors, about any aspect of the business. That is encouraged” (Director)

4. What can the Scottish Government do to improve job quality?

- 4.1 EOBs are strengthened by their employee engagement, leading to increased productivity, innovation and employee wellbeing. Where EOBs had created share offerings that were widely taken up by employees across the business, there was felt to be a link between employee motivation, productivity and financial reward. Employees also felt that by owning shares in the business and exercising control over its strategic direction, they had greater influence over job security.
- 4.2 One of the principles of EOBs is to ensure that employees are stakeholder in the business and can influence the factors that can create a 'good job': personal autonomy, workforce stability, job security, workplace trust.
- 4.3 However, low levels of understanding of employee ownership among financial institutions continues to act as a barrier to economic growth among EOBs. At a time when financial institutions are seeking to minimise their lending risks in the aftermath of the 2008-09 economic crisis, a lack of understanding of EOBs may be undermining their willingness to lend to the EOB sector.
- 4.4 The routes into EOB status are varied. There is insufficient understanding of models of employee ownership among employees, businesses, political arenas and economic development agencies. This means that opportunities for a wide variety of EOBs (both as new start-ups but also as conversions from other forms of business), and greater consideration of EOBs as a possibility for business succession, may not be given sufficient consideration when opportunities arise.
- 4.5 The process by which a business can become an EOB appears to be expensive, complex and time consuming. HMRC regulations, although clearly, and correctly, intended to ensure that businesses are using employee ownership for legitimate reasons, may also be a barrier to the greater uptake of the employee ownership form of organisational governance. The Government could ensure that business support agencies are providing adequate and up to date advice for companies seeking to become employee owned.

5. Relevant Publications

Blair, M., Kruse, D. & Blasi, J. (2000). 'Is Employee Ownership An Unstable Form? Or A Stabilizing Force?' in Blair, M. and Kochan, T. eds., *The New Relationship: Human Capital in the American Corporation*. (Brookings Institution: Washington, D.C.).

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Financial Times. *Employee owned UK companies raise their game*. July 1, 2015.

Fit for work? Health and Wellbeing of Employees in Employee Owned Business. Final Report to the Employee Ownership Association. Employee Ownership Association. 2012.

Lampel, J., Bhalla, A., & Jha, P. (2010). Model growth: Do Employee Owned Businesses Deliver Sustainable Performance. Available at: <http://goo.gl/8AQdMt>

Morris, D., Bakan, I. & Wood, G. (2006). Employee financial participation: evidence from a major UK retailer. *Employee Relations*, 28, 4: 236-341.

Nuttall, G (2012). *Sharing Success. The Nuttall Review of Employee Ownership.* London: Department for Business, Innovation and Skills.

Park, R., Kruse, D. & Sesil, J. (2004). Does employee ownership enhance firm survival?, in Virginie Perotin & Andrew Robinson (ed.) *Employee Participation, Firm Performance and Survival (Advances in the Economic Analysis of Participatory & Labor-Managed Firms, Volume 8)*, Emerald Group Publishing Limited, pp.3-33.

The growth of employee owned businesses in Scotland. Scottish Enterprise. 2013

The Workplace Employment Relations Study. *Employment Relations in the Shadow of Recession.* 25th November 2013. Available at: <http://goo.gl/QVgwJR>