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Employee Share Ownership Plans: A Review

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ABSTRACT

This paper reviews the main strands of research on employee share ownership over the last forty years. It considers research findings in the literature on types of share ownership, the incidence of share ownership plans, the 'determinants' of the use of share plans by companies, influences upon employee participation in share plans, the effect of share ownership on employee attitudes and behaviour, the effect on company performance, and the relationship between share ownership plans and other forms of employee participation. The paper does not provide a comprehensive review of the literature on these topics: instead it highlights the main findings that have emerged in the literature to date, and suggests some avenues for future research. It is suggested that majority worker ownership is different in character and effects from 'mainstream' minority employee share plans in large companies but the literature has tended to conflate the two. It is argued that future research needs to distinguish the various forms of employee share ownership if the impact of share ownership is to be more precisely calibrated.

INTRODUCTION

Employee share ownership is now a widespread form of employee participation in many industrialised nations. It is where employees acquire equity shares in their employer so that they become shareholders. In recent years governments in North America, Europe, Australasia, and Asia have promoted various forms of employee share ownership, though the incidence of schemes and the level of employee participation varies considerably between countries. In principle, employee ownership gives employees additional rights to those normally expected by employees: a right to share in the company's profits, access to information on company finances and operations, and rights to participate in the management of the company (Rousseau and Shperling 2003). These may bring about fundamental changes in employee attitudes and behaviour, which may in turn be reflected in a range of company-level outcomes such as productivity and financial performance.

Employee share ownership takes a variety of forms, some of which may have greater significance and effects than others. Employees may acquire large proportions of company shares, possibly even a majority or the entire share capital, or just a small minority stake. Shares may be held individually or collectively. Participation in the share ownership plan may be limited to just a few individuals, typically senior managers, or open to the entire workforce. The extent to which employees possess profit-sharing, information, and participation rights also varies considerably (Ben-ner and Jones 1995). This variety means that generalisations about employee share ownership have to be made with caution.

Perspectives on the significance of employee share ownership also vary widely. Policymakers in some countries have identified incentive effects from aligning workers interests with those of the firm and its shareholders. Some go further and see it as heralding a significant

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change in the nature of employment in advanced industrial societies by blurring traditional boundaries between workers and owners (Rousseau and Shperling 2003; Gates 1998). A form of 'economic democracy' may be created whereby employees achieve a greater share of the benefits of economic activity, hitherto concentrated amongst the few (see Blair et al. 2000). Some doubt that it will become a widespread form of corporate organisation, because of the difficulties of coordinating diverse worker interests (Hansmann 1996) and of its diluting effect on managerial and owner incentives (Jensen and Meckling 1979). Others have viewed it as a sham: owning small proportions of company shares (as is the case in most share ownership plans), exposes employees to the risks of ownership but not substantial gains (d'Art 1992). Some have argued that employee share ownership is a tool to undermine trade unions and head-off employee dissent when labour is strong (Ramsay 1977; Pendleton 2005).

The modern academic literature on employee share ownership dates back to the late 1970s, with the emergence of the Employee Stock Ownership Plan (ESOP) in the USA. The origins of the recent literature on employee share ownership has coloured the theoretical perspectives and approach of much contemporary analysis of this topic. Much of the literature in the 1970s and 1980s examined majority employee ownership. The big issues in this literature were the impact on employee attitudes and behaviour (Long 1978; Rhodes and Steer 1981), the role of participation in decisions (Hammer et al. 1982; Long 1981), the implications for trade unions (Hammer and Stern 1986; Stern et al. 1983), and the impact on performance (Long 1980; Conte and Svejnar 1990). In the more recent literature (late 1980s onwards), the focus has tended to be far more modest employee share ownership. However, the concerns, assumptions, and questions from the earlier literature have largely carried over into this newer literature. It is questionable whether these questions, or the theoretical and conceptual concerns associated with

them, are always entirely appropriate or relevant for the analysis of 'mainstream' employee share plans. It also means that some issues that are pertinent to 'mainstream' employee share ownership plans, such as factors influencing voluntary employee participation and the wealth effects of employee share ownership, have been barely considered.

TYPES OF EMPLOYEE SHARE OWNERSHIP

Employee share ownership plans can take several different forms. At the outset it is important to distinguish between share ownership where employees own a majority or substantial minority of company shares and that where employees own a small minority, typically 5 per cent or less. In modern industrialised economies, the latter is more common and, because this type of share ownership is concentrated in larger firms, employee coverage is far higher. Although both forms of employee share ownership have features in common – they typically use the same mechanisms to transfer shares to employees – they usually have a very different character. In majority employee-owned firms, employees may have a strong sense of ownership, and may expect to be deeply involved in the governance and management of the firm. Employee ownership may have come about via an employee buy-out or by an exiting owner wanting to pass on the business to the employees. By contrast, in 'mainstream' employee share ownership, the plans will typically be one of several components of the company's reward package, and employees may have little expectation or interest in participating in governance and management. Instead their orientation to the plan may be primarily financial (French 1987)

In the USA and UK, majority employee share ownership has often been achieved via an Employee Stock Ownership Plan (henceforth ESOP), the mechanism by which shares can be acquired by a trust functioning on behalf of employees (see Pendleton 2001). Share acquisition

might be financed by a loan to the trust. In some cases the loan might be provided by the company itself. Alternatively, the shares might be gifted to the trust by the company. In most cases the shares will then be distributed over time to individual employees (tax reasons may necessitate this) but in some cases shares are held in trust in perpetuity so that there is collective ownership (the John Lewis Partnership is the most well-known UK example). Where shares are distributed, the typical process is for a share of annual profits to be passed to the trust so that it can pay off the loan. As the loan is repaid shares are released from the trust to employees. The advantage of this arrangement is that employees acquire ownership at little or no direct personal cost or risk. The disadvantage can be that ownership comes cheaply to employees, with the result that they may not take on the full responsibilities of ownership.

Another route to employee ownership is direct purchase by employees but this obviously carries a great deal more risk for employees and the potential for this route to ownership is restricted by employees' liquidity constraints. Some firms combine direct purchases by employees and acquisition of shares by a trust. Some combine individual and collective ownership.

In 'mainstream' employee share ownership plans, employees typically acquire shares in three main ways. The first is the donation of shares by the company to employees or the purchase of shares on employees' behalf by the company. This was the arrangement in the UK's Approved Profit Sharing scheme, which ran from 1978 to 2002. Up to 5 per cent of pre-tax profits could be used to purchase shares in the company for distribution to employees. The successor to this plan – the Share Incentive Plan – also allows for companies to distribute shares to employees (though potentially with differential allocations linked to performance criteria). The second route is purchase of shares by employees, typically on favourable terms. For

instance, the UK's Share Incentive Plan allows employees to subscribe up to £1,500 each year to 'Partnership Shares'. Contributions are encouraged by very favourable tax concessions and the potential for companies to match employee contributions with additional shares ('Matching Shares'). Contributory schemes are also common in some other countries such as the United States (so-called Section 423 plans) and France (where employee contributions to the Plan Epargne d'Entreprise – company savings plan – can be channelled into company shares. A variant is the 401 (k) pension plan in the United States in which employees can allocate funds to employer shares (and receive matches for pension contributions in employer shares) in some firms. The final means to acquiring shares is via share options. In this instance employees take out options to purchase shares at some point in the future (typically between three and ten years time). At the end of the period, employees may choose to forego the option to buy the shares, acquire and immediately sell ('cashless exercise'), or purchase and retain the shares. In the UK's SAYE (or 'Sharesave') scheme, employees enter a savings plan to save the money to purchase the shares.¹

The arrangements by which employees become shareholders have important implications for the character and effects of employee share ownership within companies. Clearly, some schemes – most notably free share distributions - facilitate involvement by all or nearly all employees whereas in others participation is dependent on employee willingness to contribute financially. Where participation is voluntary participation rates may be low, with the result that the hypothesized effects of share ownership on employee behaviour and company performance may not be realised. Voluntary participation also means that some groups of employees

^{1 &#}x27;Phantom shares' are a variant of employee share ownership. These are instruments linked to shares which do not have the legal rights associated with actual share ownership.

(possibly those with higher disposable income) may be more likely to participate in the plan than others, thereby limiting the redistributive potential of employee share ownership.

Overall, the character of share ownership can vary considerably between companies. In some, employees own a substantial portion of the company with all employees participating in ownership equally. In others, a minority of employees may own a small proportion of the company's shares. These considerations should be borne in mind when assessing the character and effects of employee share ownership plans.

INCIDENCE OF EMPLOYEE SHARE OWNERSHIP

The incidence of employee share ownership plans varies considerably by country, as does the number of employee participants. The United States is seen as the paragon of employee share ownership, with schemes promoting employee share ownership emerging in the 1920s (see Blair et al. 2000). The recent phase of employee ownership is seen to date from the mid-1970s when legislation to promote ESOPs was passed. Currently, nearly 10,000 companies use an ESOP, a stock bonus plan, or a stock-based profit sharing plan, and about eleven million employees are thought to participate in these (National Center for Employee Ownership 2008). 750 companies have a 401 (k) pension plan with substantial holdings in company stock (around 1.5 million employees), 3000 offer broad-based stock options, and around 4,000 have a stock purchase plan. This combination of contributory and non-contributory share ownership plans is estimated to involve about 20 per cent of the US private sector workforce in share ownership (Blasi et al. 2003). Most publicly-traded companies offer minority employee ownership, with the combined employee share of the company under ten per cent in most cases. By contrast, employee ownership in privately-owned companies is often far more substantial.

Employee share ownership in the United Kingdom also dates from the 1970s and 1980s. There are two main all-employee plans with favourable tax status: the Save As You Earn share option scheme (introduced in 1980) and the Share Incentive Plan (introduced in 2000 to replace Approved Profit Sharing (1978)). The latter can offer free shares and share purchases. In addition, there are two other tax-approved plans which, though usually selective, can be used for all employees: the Company Share Options Plan (introduced in 1984 as Discretionary Share Options, and revised in 1996) and Enterprise Management Incentives (introduced in 2000). In 2005-6, 1,400 companies operated one of the all-employee plans (HMRC 2008).

In mainland Europe there is a wide divergence between companies in the promotion of and incidence of share ownership plans (see Pendleton et al. 2001). France appears to have the highest incidence with a well-developed employee savings system which allows employees to channel bonuses and savings into employer stock. Germany has not traditionally promoted employee share ownership though redistribution of wealth has been a policy objective for some years. Recently, however, there has been an active debate on this topic, and new legislation is expected soon. In Western Europe, the countries with the lowest use of employee share ownership have tended to be the Mediterranean countries (Greece, Italy, Portugal, and Spain). For a while some Eastern European countries had high levels of employee ownership as a result of the transition from soviet-style economies but this has faded in most cases (Mygind et al. 2006).

It is noticeable that, for the most part, share ownership plans are most prevalent in the Anglo-American economies or what Hall and Soskice call the 'liberal market economies' (2001). In part, this is because governments in these economies have passed legislation and offered tax concessions to promote these plans. Comparative studies have shown that regulation and fiscal

concessions are key influences on the national incidence of financial participation schemes (Uvalic 1991; Vaughan-Whitehead 1995; Poutsma 2001; Poutsma et al. 2003). But the deeper question concerns why governments have pursued these policies? Part of the answer lies in well-developed stock markets. The liberal market economies (USA, Canada, UK, etc.) are notable for having relatively large numbers of stock market listed firms, and for having active secondary equity markets with dispersed ownership. The level of minority investor protection is also said to be higher in the liberal market economies, such that the value of company shares are less subject to expropriation by dominant bloc-holders (La Porta et al. 1997). The potential attractiveness (and hence their value to the employee) of company shares lies partly in their liquidity: where shares are easily convertible into cash they will be more attractive to the employee. By contrast, in countries such as Germany large firms are more likely to be privately-owned than in the liberal market economies, and in many European countries ownership and control of large listed firms is dominated by large, often hidden, owners.

The greater dispersion, transparency, and liquidity of ownership in the liberal market economies comes at a price. Ownership is often said to take a 'low commitment' form, leaving firms at the mercy of exiting shareholders (Hutton 1996). This low commitment relationship is said to also extend to the company-employee relationship (Blair 1995; Black et al. 2007). The appeal of employee share ownership to policy-makers and corporate managers is that it is a means of promoting employee commitment that is consistent with the norms of governance and business organisation in the liberal market economies. It also provides an alternative to statutory forms of employee involvement in decisions (e.g. works councils) that are found in many European countries.

DETERMINANTS OF ESO

As well as clear differences between countries in the promotion and incidence of share ownership plans, there are also clear differences *within* countries. Certain kinds of firms are far more likely to use employee share ownership plans than others. In general, 'mainstream' employee share ownership plans, where a small minority of equity is acquired by employees, are mainly found in larger firms that are stock market listed (Pendleton et al. 2001). They also tend to be especially prevalent in the financial services sector. It is much less easy to generalize about firms with majority employee ownership as there are far fewer of them, and the reasons for conversion to employee ownership tend to be idiosyncratic. The following discussion focuses, therefore, on firms with minority employee ownership plans. We consider the factors and characteristics associated with the presence of ESO schemes.

The literature on this topic is substantial and long-standing (see Bryson and Freeman 2007; Cheadle 1989; Festing et al. 1999; Jones and Kato 1993; Kato and Morishima 2002; Kruse 1996; Pendleton 1997; Poole 1989; Poutsma and Huijgen 1999). This literature tends to use a principal - agent framework, in which the employer or management is considered to be the principal and employees the agents. The issue is how the principal gets the agents to do what the principal wants (Jensen and Meckling 1976). Opportunities for moral hazard and adverse selection are greater in some workplaces than others, and the costs of countering these will be correspondingly greater. The general presumption has been that employee share ownership will be used as a substitute for other forms of monitoring in certain circumstances, such as where individual performance pay is difficult to use (e.g. Pliskin and Jones 1997). Studies of determinants, therefore, concern themselves with the costs of monitoring. Since these are difficult to measure directly, studies typically use proxies for these costs based on characteristics

of the company, workplace, and employees. In the course of this agency-inspired literature a number of factors have been important.

Size

Information asymmetries and monitoring are said to become more costly as firm size, and managerial hierarchies, increases. For this reason, size is widely predicted to be associated with the adoption and use of share plans, and indeed many studies find this to be the case (see e.g. Festing et al. 1999; Kruse 1996; Pendleton 1997; Pendleton et al. 2001; Kruse et al. 2007; Landau et al. 2007). Employee share ownership appears to be a large-firm phenomenon and it seems likely that high fixed costs associated with the administration of share ownership plans may also be important in explaining the distribution of share schemes (Pendleton 1997; Lenne et al. 2006). However, the problem with this finding is that company size is likely to be inversely related to the incentive effects of share ownership, because of the free-rider effect. Hence, the rationale for using share ownership plans is not so obvious (Prendergast 1999). The literature deals with this by emphasizing the need for complementary forms of employee participation to engender cooperation and peer pressure. An alternative possibility is that employee share ownership is not used to provide 'high-powered' incentives.

Characteristics of work settings and workforces

Information asymmetries and monitoring problems could be more intense in work situations where individual performance and output is hard to measure because of tacit elements of the work, task inter-dependence, and product immateriality and complexity (Alchian and Demsetz 1972; Ben-Ner et al. 2000; Kruse 1996; Sesil et al. 2002; Fakhfakh and Pérotin 1993). There are

a range of measures which may be used to proxy these processes: the proportions of various categories of staff, the proportion of highly-educated staff, the complexity/interdependence of work tasks, the use of automated technology, capital intensity, investments in R&D, and growth opportunities (ratio of market to book value) (Core and Guay 2001; Frye 2004). To varying degrees, these all may indicate degrees of indeterminacy in the nature of tasks and products. For instance, higher-ranked staff are assumed to undertake more complex tasks (more costly to monitor) and to have more discretion (greater opportunities to make 'wrong' decisions).

The findings to date have been ambiguous and contradictory. There is some evidence that share plans are more likely to be found in sectors with high proportions of professionals, such as the professional services and computer services industry (Kruse, Blasi and Park 2006), and that stock options are more likely to be used when production is human capital intensive and employee performance hard to monitor (Jones et al. 2006). However, other studies have not found that workforce composition is related to use of share plans (Pendleton et al. 2001), whilst Kruse (1996) found negative relationships between share plans and teamwork. Pliskin and Jones (1997) found a positive relationship between stock purchase plans and machine-paced work, contrary to expectations.

Risk

Agency theory predicts that optimal contracts will be a trade-off between incentives and risk. There is substantial evidence elsewhere in the pay literature that firms facing high risk are less likely to use incentives-based pay schemes, probably due to employee risk aversion (see Bloom and Milkovitch 1998). It has been suggested that the need to pay premia to employees to compensate them for bearing significant risk can make contingent rewards costly for firms. However, Prendergast (2002) posits a positive relation between risk and incentives, since in more uncertain settings the principal is often better off delegating responsibility to the agent(s), and the delegation necessitates the use of incentives. Oyer (2004) argues that when uncertainty is high, fixed wage contracts require frequent revision, but the transaction costs of rewriting the contracts become prohibitively costly. To retain the best employees, it is better to tie compensation to a measure that correlates with the business cycle, such as share price. Most studies do not measure the role of risk in the firm's operating environment (Sesil et al. 2002 being an exception), but it is common for measures of competition to be used. The results, however, tend to be inconclusive.

Liquidity Constraints

According to Yermack (1995), firms with severe cash constraints and high capital needs may substitute equity compensation for cash pay. For instance, IT companies that have not yet secured positive income streams and are investing heavily relative to their assets may use equity-based pay (especially options) for this reason. Core and Guay (2001) found that firms use non-executive option grants as a substitute for cash compensation to a greater extent when they face cash flow constraints and when the costs of external capital are greater. However, Jones et al. (2006) found no support for this in a Finnish panel study.

Assessment

The clearest conclusion from the determinants literature is that 'mainstream' stock plans are most likely to be found in large, stock-market-listed companies. Yet share ownership is a 'noisy' reward in these firms because many of the influences on share price are outside company, let alone employee, control. Coupled with the free-rider factor in larger firms, a line-of-sight issue (it is difficult for employees to see how their behaviour influences share price), and inconsistent empirical results for monitoring costs, this casts doubt on the agency perspective. It seems questionable that firms use share ownership plans as simple, direct, or 'high-powered' incentives. There is evidence that firms and workplaces using share plans also use other, more high-powered incentives, suggesting that share plans might be used for alternative objectives (Pendleton 2006). Instead a perspective gaining ground in the literature is that share plans signal to employees that investments in human capital will be protected or insured (see Robinson and Zhang 2005). They guarantee that employees will share in the fruits of human capital development and, in so doing, encourage employees to invest in firm-specific human capital despite the insecurity and risk. This perspective might help to explain the preponderance of share ownership in listed firms. In liberal market economies, it is said to be difficult for listed firms to commit to their workforces because of the 'uncommitted' nature and structure of shareholding by institutional investors (Gospel and Pendleton 2005). In turn, employees may be reluctant to commit to the firm. Employee share ownership is a means of developing commitment, using instruments that are well-developed in this kind of economy.

EMPLOYEE PARTICIPATION IN SHARE OWNERSHIP

One issue that has received little attention in the literature is employee participation in employee share ownership. Why do some employees participate, and others do not? What factors influence levels of participation in share ownership plans? The reason for this gap in the literature seems to be its origins in the ESOP and majority employee ownership literature in the 1970s: here this issue is of little interest because typically all employees receive shares. However, many 'mainstream' share plans are voluntary, and thus this issue is far more relevant.

A literature is starting to emerge (see Degeorge et al. 2004; Pendleton 2009), drawing on insights that have emerged in the US literature on 401 (k) pension plans. This literature tends to focus on individual-level influences on participation: as yet there has been little empirical work on company-level influences such as communications about share plans. It finds that employee orientations to plans are predominantly financial and that employees' capacity (income etc) to participate is a key influence on participation (Dewe et al. 1988; Pendleton 2009).

This literature indicates that job position and income are the most important influences on participation and contributions to voluntary share ownership plans. A recent European Foundation study using the 2005 European Working Conditions Survey finds that employees in managerial positions are more than four times as likely to participate in these schemes as skilled, semi-skilled or unskilled 'blue-collar' workers (Welz and Fernández-Macías 2008). This applies after controlling for sector, establishment size, and education. Kruse et al. (2007) find a similar picture in the USA, whilst in the UK Pendleton (2009) finds that income is the most important factor influencing the decision to participate and the level of contributions.

Financial participation is also distributed unevenly between the sexes and between types of contract: the European Foundation study found that men are more likely to participate than women, and workers on tenure are more likely to participate than those on temporary contracts, suggesting that financial participation is subject to similar forms of differentiation as general pay structures. The type of employee most likely to have shares in their company is a male manager in the financial sector with a tertiary level of education. These findings are important because they cast doubt on the claim that employee share ownership will lead to a more equal distribution of wealth. Although some kinds of share plan may have redistributive tendencies (e.g. free share distributions to all employees), others (e.g. voluntary subscriptions-based plans) do not. A further issue that is starting to emerge is the degree of concentration of employee savings in company shares (Blasi and Kruse 2006). Any employee share ownership plan, especially one with tax benefits, may encourage employees to hold 'all their eggs in one basket'. There is now extensive evidence that many employees with 401 (k) pensions plans tend to invest disproportionately in employer shares where there is the potential to do so. This has been criticized because in most cases concentration will deliver lower returns than a diversified portfolio (Meulbroek 2002), and because employee share ownership concentrates financial and human capital risk, both of which tend to co-vary (i.e. employment tends to be most at risk when share values are most under threat). Recent evidence indicates that employee share plans have similar tendencies to 401 (k) plans: Pendleton (2008) has found that nearly 20 per cent of share plan participants have 50 per cent of more their savings tied up in employer shares. Those on higher incomes are more likely to tie up their savings in this way.

IMPACT OF EMPLOYEE SHARE OWNERSHIP PLANS ON EMPLOYEE ATTITUDES

A primary rationale amongst policy-makers for employee share ownership has been its apparent capacity to influence employee attitudes and behaviour, such as turnover, turnover intention, commitment, motivation, and satisfaction, and thus to affect company performance. Since the 1970s there has been a rich vein of research into the relationship between employee ownership and employee attitudes and behaviour, mainly conducted in the US and UK. Over fifty quantitative academic studies have been conducted and more than two-thirds have found a favourable relationship between employee ownership and employee attitudes and behaviour. The results of most of the other studies have been inconclusive.

Employee ownership has been widely predicted to have favourable effects on employee attitudes and behaviour. In a landmark study, Klein (1987) identified three ways in which employee ownership affects attitudes: intrinsic satisfaction – ownership per se is sufficient to bring about attitudinal and behavioural change; (2) extrinsic satisfaction – ownership leads to attitudinal and behavioural change because it is financially rewarding; and (3) instrumental satisfaction – ownership brings about attitudinal and behavioural change by facilitating other outcomes that are desired by employees such as participation in decision-making.

Pierce and colleagues (e.g. 1991, 2001, 2003) developed this theory further by proposing that employee ownership leads to a change in an employee's mindset, which they coined psychological ownership. It is this changed mindset that in turn leads to attitudinal and behavioural change. Pierce et al. (2001, 2003) further claimed that psychological ownership emerges because it satisfies certain human motives such as *self-efficacy* (being able to exert control over one's direct environment), *self-identity* (ownership as an expression of the self), and having a place (the need to have a place of one's own). These motives can be satisfied in organizations - empirical evidence shows people expressing feelings of ownership towards their work, their job, the product of their work, and their organization (Pierce et al. 2001: 300-301; Pierce et al. 2003: 88-91). Several empirical studies have shown the important role played by 'psychological ownership' in employee share ownership plans (Kaarsemaker 2006; Pendleton 2001; Pendleton et al. 1998; Wagner et al. 2003). In Pierce et al.'s view, a sense of ownership develops in at least three ways: (1) through enhanced control over particular organizational factors such as the job, department, procedures, or product lines; (2) through increased information about, and more *intimate knowledge* of particular organizational factors; and (3) through *self-investment* (of one's time, skills, ideas, energy) into the potential target of ownership (Pierce et al. 2001 pp.301-02; Pierce et al. 2003 pp.92-93).

Although the results of employee ownership research to date have been overwhelmingly positive, there are some issues that require further investigation. First, no studies have compared the attitudinal effects of different types of employee ownership (ESOPs, share options, direct ownership, etc.). Also, most have used very simplistic measures of employee ownership, such as whether employees are shareholders or not. Only about fifteen percent of studies have used more sophisticated measures of employee ownership such as the size of the individual employees' stakes. Second, it is not clear under what conditions employee share ownership has favourable effects on psychological ownership and work attitudes/behaviour. It has been apparent for some time that employee ownership needs to fit with other organizational practices, such as employee involvement in decisions, but for the most part the relative importance of these other practices has not been determined. Even though participation in decision-making is found to influence employee attitudes (as in Pendleton et al. 1998), few studies have analysed interactions between employee ownership and participation (exceptions include Freeman et al. 2004 and Kaarsemaker 2006).

It is apparent from the literature that the fit with other HR practices (besides participation in decision-making) with employee ownership should be considered (Bernstein 1976; Kaarsemaker and Poutsma 2006; Rosen et al. 2005). Ownership of an asset comes with a few rights – the right to use the asset, the right to its returns, and the right to sell it. These rights can be translated into HRM practices. Besides participation in decision-making, these practices include: information-sharing, profit-sharing, training for business literacy (so that employees can understand information and participate in a meaningful way), and means for resolving disputes. Together with employee ownership, these practices theoretically form a "high-performance work system" that can signal to employees the importance of employee ownership to the firm and its leadership (Kaarsemaker and Poutsma 2006). Together, these practices may underwrite an 'ownership culture', and it is within organisations that possess such a culture that the strongest impacts of employee ownership on employee attitudes and behaviour have been found (e.g., Beyster and Economy 2007; Blasi et al. 2003; De Jong and Van Witteloostuijn 2004; Gittell 2003; Kaarsemaker 2006; Maaløe 1998; Rosen et al. 2005). However, the relative importance of these HR practices, and the means through which they affect attitudes, needs to be further tested.

In sum, as predicted by theory, empirical research on the impact of employee ownership on employee attitudes and behaviour has found strong evidence that employee ownership has positive effects. However, the research to date has a number of significant shortcomings. It has not clearly distinguished the various types of employee ownership, and measures of employee ownership have often been simplistic. Most studies have neglected the mechanisms underlying the relationships between employee ownership and employee attitudes and behaviour, as well as the conditions under which employee ownership yields effects.

THE IMPACT OF EMPLOYEE SHARE OWNERSHIP ON WORKPLACE AND COMPANY PERFORMANCE

The most important rationale for employee share ownership amongst policy-makers has been its apparent potential to enhance workplace and company performance (HM Treasury 1998; CEC 2002). The 'hard' version of this rationale suggests that linking employee rewards to corporate outcomes, such as share price, will provide a direct incentive for employees to work in ways that are conducive to good collective performance. The 'softer' version suggests that making employees owners will support favourable attitudes and behaviour, as outlined in the previous

section. Other explanations include a 'sorting' effect: employee share plans will attract high quality employees and those who are favourably inclined to share-based rewards to employment in the company (Lazear 2000). Further explanations emphasise the capacity of share plans to retain valuable employees either by signalling the firm's commitment to these employees (Blair 1995; Robinson and Zhang 2005), by 'locking-in' employees through the deferred character of share plans (Sengupta et al. 2007), or by linking employee rewards to the business cycle (share value tends to be highest when alternative employment opportunities are greatest) (Oyer 2004).

There is a great deal of evidence on the relationship between share ownership plans and performance, with more than seventy studies since the 1970s. The research on the impacts of employee ownership on firm performance has investigated relationships with financial performance measures such as profit margins and return on assets, and with productivity measures such as value added per employee and sales per employee. In some studies, the performance measures have been taken from company accounts (see OXERA 2007, for instance), whilst in others (such as those based on the UK Workplace Employment Relations Surveys) subjective evaluations of relative performance have been used.

It is difficult to do justice to the volume of research but there is a number of surveys of the literature which provide a useful guide to the results to date (Conte and Svejnar 1990; Doucouliagos 1995; Kruse and Blasi 1997; Pérotin and Robinson 2003). The consensus from this literature can be stated as follows. Employee share ownership has positive effects on performance (especially productivity) but these outcomes are often small and/or statistically insignificant. Positive effects tend to be larger and stronger amongst firms with majority employee ownership than amongst firms with 'mainstream' employee share plans (Doucouliagos 1995), though there is some evidence to the contrary (e.g. Conte and Svejnar 1988). Finally, the effects of employee ownership are greater, or are only achieved (as in General Accounting Office 1987), when there is also participation in decision-making.

Although these broad themes and results can be discerned, there are a host of important difficulties with research on this topic. The first is the theoretical basis of the performance prediction. Given the free-rider effect mentioned earlier, it seems unlikely that share ownership alone will bring about performance enhancements. This is the reason why the literature emphasizes the importance of participation in decisions and complementary HRM practices to accompany share ownership. By generating cooperation, peer pressure, and an ownership culture these practices will mitigate any tendencies for employees to free-ride in the share ownership The theory and evidence on this is not, however, clear cut. Whilst complementary plan. practices may support more favourable employee attitudes and behaviour, as outlined in the previous section, it is not axiomatic that these will feed through to corporate level performance because the latter will be affected by a variety of other factors. Empirically, results are diverse. Though some studies provide clear evidence of the combined effects of share ownership and participation on performance (e.g. Kato and Morishima 2002), others find that participation does not add to the effects of share ownership (Kalmi et al. 2005; Robinson and Wilson 2006). Some studies find differences between types of participation: for instance, Addison and Belfield (2001) find that share plans have positive effects on financial performance in workplaces with downward communication (team briefing, for example) but not those with 'upward' participation such as quality circles. Finally, some studies find that participation can detract from positive effects of share ownership in certain circumstances (Pendleton and Robinson 2008).

There is also a host of problems with research into the effects of share ownership on performance. As mentioned earlier, one possible problem is that studies of majority employee ownership are considered in the same vein with studies of 'mainstream' employee share plans even though there are very important differences between them. The literature also does not distinguish clearly between types of share ownership plan (voluntary purchase plans versus free share distributions, for instance) even though they might function in very different ways. Then there is a range of important methodological problems which affect most studies to varying extents. These include selection bias and reverse causality, omitted variable bias, and the crosssectional nature of many studies. As a result it is not possible to conclude with any degree of certainty that share ownership improves company performance.

PARTICIPATION

The relationship between employee share ownership and other forms of employee involvement and participation has pervaded the literature. It has been widely argued that participation in decision-making is necessary for employee share plans to secure attitudinal change and to achieve improvements in company productivity, and this argument has been widely accepted by policy-makers (Commission of the European Communities 2002). There is also widespread evidence that share plans are more likely to be found in participative firms and workplaces. However, it is not always clear what forms of employee participation are likely to have the most synergistic effects. There is some evidence from WERS that 'downward communication' (team briefings, etc.) are more likely to have a complementary relationship with share ownership than 'upwards participation' (participation in decisions) (Addison and Belfield 2001) but at this stage diverse measures of participation across the literature mean that no firm conclusions can be drawn. One issue which has contributed to a lack of clarity in predictions about complementarities between share plans and other forms of participation is the tendency to conflate 'mainstream' share plans (minority ownership in conventionally-owned large firms) with majority or fully worker-owned companies. Participation may function in different ways between the two types of organization. In conventional firms, participation appears to be necessary to counter the free-rider and line of sight problems found in larger, listed firms. But there is the possibility that too much participation might impede the authority and status relationships that pervade many of these organizations. By contrast, in employee-owned firms extensive participation appears vital for employees to realize a full sense of ownership, given that the right to determine how an asset is used is a fundamental component of ownership. Even so, finding a balance between employee participation in decisions and managers' ability to manage can be challenging.

Evidence on linkages between employee share ownership and indirect or representative participation is more complex. There are substantial differences between countries in the structure and nature of representative participation. Some countries have decentralized systems of indirect participation, others have centralized arrangements, and others still have combinations of the two. Some countries, such as the UK, have mainly single channel representation (all or most representation occurs through union and bargaining channels) whilst others, such as Germany, have dual systems (union representation in collective bargaining and separate representation through works councils). This means that generalizations about linkages with share ownership are difficult to make. That said, there is consistent evidence over many years that share ownership plans tend to be found in unionized establishments in the UK (Gregg and Machin 1988; Pendleton 1997), and there is also some evidence that the conjunction has

favourable impacts on workplace performance (Sengupta 2008). Elsewhere in Europe, the evidence is less supportive (Festing et al. 1999; Poutsma et al. 2006). However, even where union representation and employee share ownership co-exist, the two appear to function largely independently of each other (Pendleton 2005), with little union involvement in the design, implementation, and operation of employee share plans in most cases. The major exception to this is majority employee-owned firms where unions were involved in mounting the buy-out.

Much of the separation between union representation and employee share ownership plans can be attributed to union suspicion. Unions have traditionally been wary of share ownership plans because of fears that it may either bypass and undermine union representation or draw unions into representing shareholder interests. There have been fears that employers may use share ownership to weaken union representation. Although many unions are now more favourably inclined towards share ownership plans (share plans have not had dire effects on union representation in most cases), there is residual suspicion of employer motives amongst some unions in some countries (see Pendleton and Poutsma 2003). This is often well-founded as some employer groups have highlighted the apparent potential of share plans to decentralize bargaining and secure greater pay flexibility. However, share ownership plans function independently of pay bargaining to a large extent because they are governed by separate regulation (securities laws, etc.). As a result their capacity to bring about major changes in bargaining structure is probably very limited.

CONCLUSION

At the start of this paper we highlighted several perspectives on employee share ownership. These either argued that share ownership will bring about fundamental changes to the employment relationship or else they will change very little. The logic of the evidence presented in this paper is that the truth is generally somewhere in-between. Most share ownership plans do not appear to fundamentally transform the employment relationship. This is because, in most cases, the amount of equity passing to employees is proportionally small, and there is little expectation on the part of those involved that share ownership will transform the way the company is run. But there are exceptions, especially where there is substantial employee ownership. However, even focusing on minority ownership there is substantial evidence of attitudinal and behavioral impacts in certain circumstances. There is also enough evidence to suggest that share ownership has favorable effects on company and workplace performance. Despite consensus in the literature on these effects, it is also apparent that there is a lack of clarity. The literature has not distinguished clearly between levels or types of ownership, nor indeed between types of complementary participation. It has also not addressed some issues very much, such as the reasons and factors behind employee participation in these plans. There is, therefore, a rich agenda for future research in this area.

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