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Employee ownership in the UK

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Abstract

Purpose – The paper traces the development of employee ownership in the UK since the 1980s. It proposes that employee ownership is a function of macro-level contexts and micro-level decisions, with the latter framed and guided by the former. The macro context comprises the regulatory framework and the provision of incentives to adopt employee ownership. The paper shows how the evolution of these has led to a steep increase in employee ownership in the last eight years.

Design/methodology/approach – The paper draws on several sources of empirical data to chart the development of employee ownership in the UK since the 1980s and to identify the current features of employee ownership. Two firm-level surveys conducted in 2015 and 2020/21 are supplemented by qualitative case study data collected in the early 1990s. An annual census of all employee-owned firms facilitates a comprehensive overview of the current state of UK employee ownership.

Findings – It is found that there has been a steep increase in the number of UK employee-owned firms since 2014 after several decades of uneven growth. This is attributed to the introduction of new incentives and to refinements of the regulatory framework. Over the period, there has been a shift from hybrid employee ownership, combining direct and indirect forms, to indirect ownership associated with the employee ownership trust model.

Originality/value – The paper provides an original history of employee ownership in the UK using rich and unique data, along with the most comprehensive picture of current employee ownership to date.

Keywords Employee ownership, Employee trusts, Worker ownership

Paper type Research paper

Introduction

Employee ownership is an increasingly important form of business ownership and organisation in the UK, with over 1,000 companies now substantially employee-owned and around 200,000 employees currently employed in employee-owned businesses (EOA, 2022a). Although some firms, such as John Lewis Partnership, have been employee-owned for many years, employee ownership started to become more prevalent from the 1970s. Following encouragement of worker co-operatives in the 1970s (Jones, 1980), a wave of conversions took place in the late 1980s and early 1990s, often using an "ESOP-type" structure

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(Pendleton, 2001). After a lull in the late 1990s, conversions to employee ownership picked up in the 2000s, with the pace escalating from around 2010. Following recent policy initiatives, most notably the introduction of legislation in 2014 to support the employee trust model of employee ownership, there has been a steep rise in the number of employee-owned companies in the UK. An employee trust meeting certain requirements is now defined by statute as an employee ownership trust (EOT). The EOT, which is now the dominant form of employee ownership in the UK, has become a role model for employee ownership, and there is considerable interest around the globe in imitating this form of employee ownership.

In this article, we argue that the adoption and incidence of employee ownership is a function of macro-level contexts and micro-level decisions, with the latter framed and guided by the former. Decisions to move to employee ownership are taken by firm-level actors, but their willingness and capacity to do so is substantially influenced by macro-level contexts. The latter comprise regulatory context, providing a practical framework and the removal of actual or perceived obstacles to employee ownership, along with the provision of incentives to micro-level actors. Government action with other policy objectives, such as privatisation, has also had an important influence on the development of employee ownership in the UK. Other potential contextual factors are the establishment of a supportive infrastructure for the provision of information, advice and finance by the state and private actors.

A key consideration for understanding the recent development of employee ownership in the UK is that employee ownership has usually arisen from the conversion of successful privately owned firms rather than enterprise creation or company failure. Further, owners or senior managers are nearly always the prime movers and decision-makers in the conversion transaction. In so far as non-managerial employees are involved in the process, it is often as the ownership transaction takes place, or even shortly afterwards, and their activities tend to focus on the creation, refinement and operation of governance institutions to accompany ownership. The regulatory context, the practical framework and the provision of any incentives therefore have to appeal to business owners, and it is the features of the EOT in these respects that explain its success. The EOT has provided a model that is potentially very attractive to many exiting owners, as we go on to show in the article. Furthermore, in its orientation to business owners rather than employees, it sidesteps many of the traditional obstacles to employee ownership conversions, such as employee risk aversion and wealth/liquidity constraints, identified in the literature on labour-managed firms (Ben-Ner, 1988).

Throughout the paper, we draw on results from the White Rose Employee Ownership Surveys conducted in 2015 and 2020, along with the White Rose Employee Ownership Census (an annual census of the population of employee-owned firms conducted in collaboration with the UK Employee Ownership Association). We also draw on data used for a study of employee ownership in the 1990s (Pendleton, 2001; Pendleton *et al.,* 1996).

In the paper, we first provide our working definition of employee ownership and further details on our data sources. We then provide a short history of the recent development of employee ownership in the UK, drawing attention to the importance of government action in stimulating the growth of employee ownership. We emphasise the role of privatisation for much of the period between the 1980s and about 2015 and suggest that governments enacted limited changes to regulatory contexts and provided few incentives to encourage employee ownership with this approach. This changed in 2012 when the then government adopted employee ownership as a distinct policy objective, culminating in the codification of key elements of the employee trust model in the form of the EOT. We show how employee ownership has evolved since the 1980s from a predominance of certain hybrid forms (the "case law ESOP") to indirect forms today. We then provide a "snapshot" of the current size and characteristics of the employee ownership sector before discussing elements of the conversion decision-making process at the micro level.

Definitions and data sources

The Nuttall Review of Employee Ownership, an independent review for the UK government conducted to identify and suggest remedies to the obstacles to employee ownership in private companies, defined employee ownership as: 'a significant and meaningful stake in a business for all its employees. If this is achieved, then a company has employee ownership: it has employee owners. What is 'meaningful' goes beyond financial participation. The employees' stake must underpin organisational structures that ensure employee engagement. In this way employee ownership can be seen as a business model in its own right.' (Nuttall, 2012, pp. 74–75).

In terms of ownership, we have operationalised this definition to mean that ownership by or on behalf of all employees should exceed 25% of total ordinary share capital, with no other single party holding a controlling share. This minimum was recommended in the Nuttall Review and is based on the significant influence a 25% plus shareholder can have under UK company law. In particular, these shareholders have the right to prevent the passing of certain shareholder resolutions, such as to change a company's constitution or share capital. In principle, external investors might also hold shares but this is rare (and such firms would not be defined as employee-controlled if the external investor had a majority shareholding). This shareholding must also underpin organisational structures that ensure employee participation or representation in governance. There may be a qualifying period of employment before employees benefit fully from employee ownership.

This definition of employee ownership differs from those associated with workers' co-operatives which require, among other important conditions, that all of the voting power in the organisation is owned directly by all its employees (or, if not all, that the opportunity to become an owner is offered to all employees). However, whilst the threshold for employee ownership in our definition is set at over 25%, the typical employee component of ownership is much higher than this. There are certain EOT tax incentives that are only available if an EOT holds more than 50% of ordinary share capital, and thus nearly all recent employee ownership conversions provide a majority share to employees (albeit indirectly). In the White Rose Employee Ownership Survey 2020 a large proportion are 100% employee-owned, with the median level of employee ownership being 100% and the mean 85%. Thus, although references to employee ownership may include companies with a minority employee shareholding, in practice UK employee-owned companies are typically majority or 100% employee-owned. Employee ownership can be contrasted with 'employee share ownership', as found in many UK listed companies, where the employee stake is usually only a few per cent and employees usually have no role in governance.

Several data sources are drawn upon in the paper. The oldest is qualitative case study data collected from 62 firms with employee ownership in the early-mid 1990s (see Pendleton, 2001). We make more use of two recent surveys of employee-owned firms conducted by two of the authors (Pendleton and Robinson): one is the White Rose Employee Ownership Survey 2015, conducted in that year of all firms (excluding workers' co-operatives) known to be employee-owned at the time (180): 100 firms responded to the survey, a response rate of just under 60%. A similar survey - the White Rose Employee Ownership Survey 2020 - was then conducted in 2020/21 of all firms that had been identified as employee-owned in the White Rose Employee Ownership Census. 280 firms responded from a sampling frame of 600 firms, a response rate of 47%. These surveys collected information on ownership levels, structure, and forms, along with broader information on company characteristics (size, sector, governance etc.) and more qualitative information on evaluations of and influences upon ownership. Accompanying this is information from the White Rose Employee Ownership Census we have collected on the entire employee-owned sector each year since 2018: this is seen as the definitive snapshot of the size of the sector and is widely used by the UK media in discussions of employee ownership - see https://employeeownership.co.uk/resources/what-the-evidence-tells-us/.

We mainly use information taken from the White Rose Employee Ownership Surveys in 2015 and 2020 and the White Rose Employee Ownership Census 2022 (undertaken in June

2022), supplementing this with data from the earlier study where there is comparable information.

The recent history of employee ownership in the UK

The recent history of employee ownership in the UK highlights the importance of governmental action to create supportive regulatory frameworks, remove actual or perceived obstacles (regulatory and otherwise), and provide incentives for firms to convert to employee ownership. Over the last forty years, UK governments have been supportive of employee share ownership (i.e. share option and share purchase schemes), but they have varied in the extent and ways in which they have taken action that promotes employee ownership. The motives for supporting employee ownership have also varied, with employee ownership often being subsidiary to other objectives such as privatisation of public sector activities. Until the statutory recognition of the employee trust model in 2014, waves of employee ownership conversions correspond with privatisation initiatives. Two main phases can be discerned: the first is the privatisation programme of the Thatcher-Major Governments in the 1980s and first half of the 1990s; and the second is the privatisation of public services into mutuals mainly implemented by the Conservative-Liberal Coalition Government from 2010–2015 but initiated by the Labour Government preceding it.

Fifty years ago, governmental action focused on the promotion of workers' co-operatives. Worker co-operatives, where ownership is shared equally and directly between all employees, had been the main traditional form of employee ownership in the UK Yet although the co-operative movement began in the UK in the mid-nineteenth century, this form of worker ownership has ebbed and flowed in popularity. By the early 1970s there were only around 20 worker co-operatives in the UK (Sammallahti and Doherty, 2021). Substantial attempts were made to promote co-operatives in the mid/late 1970s by the Wilson-Callaghan Labour Governments, including the passage of the Industrial Common Ownership Act 1976; Cooperative Development Agency Act 1978, along with high-profile conversions of some large, failing companies. The Minister for Industry, Tony Benn, believed that failing companies could be rescued by workers, with government help, and turned into worker co-operatives. An example is the Triumph motorcycle plant which was occupied by its workforce for two years when its owners proposed to close it and then, with government financial support, turned into a workers' co-operative (Jones, 1980).

The government also provided an infrastructure to promote co-operative formation by establishing and funding Co-operative Development Agencies in various parts of the country, funded by central government. These created around 1,000 worker co-operatives (about 7,000 employees) over ten years, whilst the Industrial Common Ownership Fund provided finance. However, this marked the high-water period of co-operatives in the UK with the number of worker co-operatives declining since then. Currently, there are estimated (by Co-operatives, 2021) to be just under 400 worker co-operatives, employing around 2,000 workers [1].

The election of an unsympathetic government led by Margaret Thatcher in 1979 set back the cause of workers co-operatives, as did the high-profile failures of some of the companies that had been converted to co-operatives. These were plagued by problems of managerial organisation arising from the interplay of co-operative and trade union structures which, coupled with severe underlying economic and management problems in these companies prior to conversion, led to organisational failure (see Eccles, 1981). The perceived failure of workers' co-operatives at this time continues to tarnish the reputation of workers' co-operatives, at least amongst politicians with long memories, and has stimulated attempts to bring about alternative forms of employee ownership that can be differentiated from co-operatives.

The Thatcher Governments (1979–1991) were more sympathetic to individual employee share ownership than collective worker ownership, and passed legislation to create two plans (Save As You Earn and Executive Share Options, the latter since renamed the Company Share Option Plan). These plans formed part of a programme of 'popular capitalism', of which

privatisation of a range of state assets took pride of place (see Baddon *et al.*, 1989). Privatisation was to provide a significant impetus to the implementation of new forms of employee ownership (especially the 'case law ESOP') designed mainly by employee ownership advocates rather than government. Government, however, provided some incentives for public sector firms to go down the employee ownership route in the form of preferential price treatment for management-employee bids. A further factor was the insistence of some Labour-led local authorities that privatisation buy-outs had to have a substantial employee ownership component.

In the first phase of privatisation, employee ownership conversions included the National Freight Consortium (see Bradley and Nejad, 1989), and many state and local authority-owned bus passenger companies in England and Scotland. At its peak, most of the major bus operators in most of the largest English and Scottish cities were employee-owned. However, none of these bus companies survive as employee-owned entities, and employee ownership appears to have been a transitional stage in the re-concentration of the industry (see Pendleton, 2001, pp. 193–195) [2].

The new form of employee ownership that emerged in the late 1980s, and adopted by many of the organisations under-going privatisation, was an adaptation of the Employee Stock Ownership Plan (ESOP) found in the United States (see the collection edited by Wilson, 1992). It combined an employee trust and a separate share or share option plan or plans. The employee trust acquired shares for subsequent allocation to employees. In some cases, ownership of shares was retained within the trust but in most instances shares were subsequently distributed to employees under one or more share ownership or share option plans.

This form of employee ownership was often referred to as the 'case law ESOP' as it welded together long-standing case law, in particular, on the tax deductibility of contributions by a trading company into an employee trust (now prohibited), and specific legislation on share and share option plans. Unlike US ESOPs, UK case law ESOPs typically gave employees access to shares after a three-year holding period rather than at retirement. This ownership structure could be used for employee share ownership in listed companies or to support employee ownership in management-employee buy-outs.

The case law ESOP was the dominant form of employee ownership conversion from the late 1980s until the early 2000s but the numbers of conversions each year was small compared to current conversions (see Pendleton, 2001). Advocates differentiated this form of employee ownership from the workers' co-operative by stressing that these firms used 'conventional' management and organisational structures, although two-thirds of management-employee buyouts in the bus industry had worker directors on the company board (Pendleton, 2001, p. 131) [3]. Nevertheless, in the bus industry employee ownership proved not to be sustainable primarily because high levels of debt inhibited investment whilst the rapid increase in share valuation as buy-out debts were repaid provided incentives for employee owners to sell out.

Based on the successful operationalisation of the case law model, and in response to employee ownership advocates' calls to put the case law ESOP form on a clearer regulatory footing, the so-called 'statutory ESOP' was created by legislation in the late 1980s. This provided for capital gains tax rollover relief for owners selling their ownership shares to a QUEST ('Qualifying Employee Share Trust') and a statutory right to a tax deduction for contributions to the QUEST. Despite this attractive tax benefit for exiting owners, the 'statutory ESOP' was not widely adopted as a form of employee ownership, probably because the employee ownership business model was neither widely known nor understood at the time (Nuttall, 2012). The requirement that a majority of the trustees be elected from the workforce probably did not commend the model to those uncertain about employee ownership. The QUEST was more widely used by listed firms to secure further tax deductions for the use of individual employee share ownership plans (when the QUEST regulations were liberalised somewhat in 1996). Since this was clearly contrary to the policy intent the legislation was repealed in 2003. Other occasional initiatives to promote employee

ownership before 2005 by, or supported by, governments also failed to grow employee ownership (for example, the Employee Share Schemes Act 2002), again probably because few appreciated the potential of the employee ownership business model, especially as a business succession solution.

A new form of employee ownership did come to the fore at the end of the first decade of the twenty-first century, stimulated by governmental concern to 'spin-out' services provided by local authorities, national government, and the health service (the second phase of privatisation favouring employee ownership). Divestments from the National Health Service (NHS) were introduced by the 2005–2010 Labour Government whereby staff were given the 'right to request' the formation of social enterprises to deliver community health services (see Ellins and Ham, 2009). The Coalition Government continued this policy with its 'right to provide' policy for NHS trusts and adult social care. Support has also been given for the creation of public service 'spin-outs' from national and local government services by the Mutuals Support Programme. By mid-2014,100 'public service mutuals' had been 'spun-out'. Examples include children's social care, youth services, and libraries, as well as healthcare.

These organisations draw on some elements of the worker co-operative such as equal shares and membership rights (Le Grand and Roberts, 2018). The main purpose of these organisations – to deliver not-for-profit public services - meant that employee ownership was attached to social enterprise business models. There were also regulatory reasons why such legal models were preferred, including the provision of continued access to public sector pension plans. Most public service mutuals are registered as Community Interest Companies (56%) or Community Benefit Societies (13%), though a small number (7%) have taken a more standard corporate form (see Social Enterprise UK, 2019). These companies are membership-based organisations (hence 'mutual'): some open membership to their employees on payment of a nominal amount, others add consumers or clients as well. 22% described themselves as employee-owned, and a further 15% as co-operatives (Social Enterprise UK, 2019). In many cases these organisations are dependent on a single or small number of public sector contracts, usually issued by the organisation of which they were formerly a part, and have a limited asset base (office buildings and major equipment may remain in public ownership). A key challenge for many of these mutuals has been to diversify their revenue streams to protect themselves from adverse changes in their primary contracts (Social Enterprise UK, 2019), and not all have been successful.

By 2012 the number and spread of employee-owned firms was greater than twenty years previously but, given the transient character of much privatisation-induced employee ownership in the 1990s, the growth was 'bumpy' rather than linear or cumulative. The primary governmental influence on employee ownership had been indirect via privatisation initiatives and support for individual employee share ownership. Focusing more specifically on employee ownership, an evaluation of the 1990s suggested that government action had primarily 'diluted the obstacles to ESOP (sic.) formation rather than . . . provide positive inducements to their formation' (Pendleton, 2001: 70). This all started to change in 2012.

The 'game-changer' in UK employee ownership - the EOT – has also been the outcome of government action. Government action created a new regulatory framework and strong tax incentives in place of indirect encouragement of employee ownership via privatisation. The background to this change was a government review of obstacles to employee ownership, set in motion after successful lobbying by the Employee Ownership Association of the Liberal Democrat members of the coalition government (see Pendleton and Robinson, 2016). This review, the Nuttall Review of Employee Ownership (Nuttall, 2012), achieved government support in various ways (both regulatory and non-regulatory) for all forms of employee ownership. Most notably, the EOT legislation was introduced because of the findings of the Nuttall Review.

The Nuttall Review emphasised the benefits of the employee trust model and its proven success as a model of employee ownership. Since the 1960s there had been a small but steady number of "pioneering experiments" in employee ownership structures in 'conventionally' managed businesses (including Arup, Baxi Partnership, Swann Morton, Scott Bader Commonwealth, Tullis Russell and Wilkin & Sons), as well as the more long-standing John Lewis Partnership An increasingly common feature in these experimental structures was the use of an employee trust as a long-term or permanent owner of a majority or 100% of shares on behalf of all employees. The Finance Act 2014 codified key elements of the employee trust model to create a standard model of trust ownership, the EOT.

The EOT is an indirect form of employee ownership based on, in effect, the John Lewis Partnership model. This company has been seen as the doyen of employee ownership in the UK for many years as a result of the longevity of its employee ownership, and has been extensively written and commented on by academics, employee ownership practitioners, and policy-makers (for example, EOA, 2022b; Flanders *et al.*, 1968; Basterretxea and Storey, 2018). One of the EOT tax incentives was designed to correct an anomaly that firms with 100% indirect employee ownership such as John Lewis Partnership could not take advantage of tax-advantaged employee share plans such as the Share Incentive Plan to reward employees.

Government provided a clear and simple regulatory structure, along with model documentation (BIS, 2013), for the ownership of companies to be passed to an EOT. This was not a new method of transferring a company to employee ownership as such: employee trust ownership could be achieved under existing laws. Instead, the EOT helped dispel concerns identified in the Nuttall Review that employee ownership was an unusual and complicated business model, whilst also providing (in the Finance Act 2014) a clear set of incentives to encourage transfers to EOTs. Owners who sell a controlling interest (meaning essentially more than 50% of a company's ordinary share capital) to the trustee of an EOT receive a capital gains tax exemption on the growth in value along with an exemption from inheritance tax liabilities (employee beneficiaries also indirectly benefit from this) if the shares are transferred below market value. The effective value of the capital gains tax exemption has risen since 2020 because the lifetime limit for Business Assets Disposal Relief (formerly known as Entrepreneur's Relief) on capital gains from business assets was reduced from £10 million to £1 million. The CGT allowance on sales to an EOT is exempt from this reduction. At the same time, companies that are controlled by an EOT can distribute tax-free profit shares to their employees each tax year up to an annual value of £3,600 per person (see Pett, 2022; Postlethwaite and Gadd, 2019). The use of cash profit shares, and of employee ownership by trusts sidesteps the complexities of administering share distributions (and buybacks) to individual employee shareholders. The EOT provides a very attractive form of owner exit and business succession with a clear and simple regulatory structure and strong incentives to adopt it.

The EOT also mitigates many of the traditional obstacles to employee ownership, such as (un)availability of finance and the long-standing lack of awareness of employee ownership amongst professional advisers (All Party Parliamentary Group on Employee Ownership, 2008; Nuttall, 2012). The typical financing mechanisms of EOT transfers, whereby owners can take deferred consideration (i.e. the owner receives the sale price in instalments over time) based on future profit streams, removes or limits dependence on external sources of finance to achieve the ownership transfer. Taking deferred consideration from an EOT based on future profit streams rather than selling to an external buyer also simplifies and provides greater certainty in the valuation and purchase process. This form of transaction can also facilitate a staged, rather than cliff-edge, exit by retiring owners.

The powerful incentives for business owners to exit using the EOT model has also put employee ownership onto the agenda of professional advisers since arguably it would be negligent not to draw attention to the EOT with clients who are seeking to sell their business. There is now much greater discussion of employee ownership in the professional adviser

community (accountants, lawyers, financiers etc.) than at any previous time (googling 'employee ownership professional advisers' generates a rich list of firms providing information on the EOT). Strong private networks, which include various employee ownership trade associations and lobbying bodies such as the Employee Ownership Association, compensate for the lack of state infrastructure at UK level to promote and support employee ownership. The devolved administrations, however, have been more active. In 2022 the Scottish and Welsh Governments set formal targets for the number of employee-owned firms: 500 by 2030 in Scotland and double the current number (40) by 2026 in Wales. Both governments include promotion of employee ownership as part of the remit of their business departments.

Overall, the EOT is a very successful form of employee ownership in the UK It has transformed the employee ownership 'scene' in the UK with a very large increase in the number of employee-owned firms since the EOT legislation was enacted in 2014. Many firms that were already employee-owned have converted to the EOT form. As a result, the EOT is now the dominant mode of employee ownership in the UK with nearly all ownership conversions each year now taking an EOT form.

Forms of employee ownership in the UK

Employee ownership may take several main forms. All can be observed currently in the UK but the primary form, especially associated with the EOT, is currently indirect. There has been a long-term trend from predominantly hybrid forms of ownership, though to more or less equal distribution of each type, and recently to dominance of the indirect form:

Direct - where employees become individual owners of shares or membership rights, possibly through one or more tax-advantaged share ownership plans;

Indirect - where shares in a company are held collectively on behalf of employees, usually, in an employee trust; and

Hybrid - where there is a combination of direct and indirect employee ownership.

Each form is outlined, along with a consideration of the strengths and possible weaknesses of each, before we provide further details of incidence and discuss the trend towards the indirect form of ownership.

Direct employee ownership

Direct employee ownership is where employees own shares or membership rights directly in their employer. The UK offers a mature legal framework to encourage the direct ownership of shares by employees through four tax-advantaged share plans. These plans have been instituted from the late 1970s onwards, with the Approved Profit-Sharing Plan in 1978 (updated and re-launched as the Share Incentive Plan in 2000) and the 1980 Save As You Earn Scheme being the main all-employee plans. Although these plans can be used to achieve employee ownership, for the most part they are not used to provide significant levels of share ownership by employees. For example, the Employee Share Schemes Act 2002 mentioned above was intended to promote the Share Incentive Plan as a business succession solution. It introduced a special deduction (see https://www.gov.uk/hmrc-internal-manuals/business-income-manual/bim44255) for a company for contributions to a Share Incentive Plan to acquire more than 10% of the company's shares from non-corporate shareholders. The capital gain on such sales can be rolled over into the acquisition cost of replacement assets so as to avoid an immediate tax charge. Notwithstanding these significant tax incentives and increased awareness of employee ownership since the Nuttall Review this "ESOP-style" model is little, if ever, used. The Save As You Earn plan is mainly used by listed companies,

where the total combined employee share arising from such plans rarely exceeds five per cent (Kaarsemaker *et al.*, 2010). Direct ownership may also be achieved outside the ambit of these tax-advantaged share plans, and there are some employee-owned companies of this sort. Share subscriptions by employees are occasionally used to raise the finance necessary to buy-out companies into employee ownership, as was the case in the now defunct but well-known Tower Colliery in South Wales (Smith *et al.*, 2012).

Some argue that direct shareholding is more likely to deliver the benefits of employee ownership than trust ownership because it is more 'personal' and 'real' and employees benefit from any increases in company value (EOA, 2019; Nuttall, 2017). Those initiating this form of employee ownership argue that it creates more 'responsible' ownership because employees are exposed to the downside risks of ownership. Against this, challenges in securing conversions to employee ownership using the direct ownership route include the difficulties of coordinating purchases by risk-averse and wealth-constrained employees. Securing the participation of all employees in ownership can be challenging, and it is common for sizeable proportion of employees not to participate. A further administrative cost arises from the need to maintain an internal market for shares to provide liquidity for exiting employees (also important if control is to be maintained within the firm).

Other forms of direct ownership include worker co-operatives whereby employees may be required or offered the opportunity to buy into the organisation. In some cases, this takes the form of a membership right – typically offered at a token one pound – whilst in others the right may be linked to a valuation of the company. In the case of the former, employees have rights to control and to surpluses but not a share of the company's value. The latter provides an opportunity for capital growth arising from ownership but an obstacle to employee ownership associated with this is that the value may serve as a barrier to entry of new members whilst potentially encouraging existing members to exit. It may also lead to a drain on cash flow of the company if the company provides financial assistance to new employees to acquire shares.

'Public service mutuals' also include elements of direct ownership in that employees may acquire membership rights. These rights often, but not always, include some partial control rights but rarely include rights to returns as these organisations are typically not-for-profit. There is also no right to the capital value of the organisation (Le Grand and Roberts, 2018).

Indirect employee ownership

The Nuttall Review (2012) advanced the case for the indirect model of employee ownership in which shares in a company are held permanently in a trust on behalf of all employees for their benefit. The exemplar for this form of ownership in the UK has been the John Lewis Partnership, owned by a trust for the benefit of employees past, present, and future (EOA, 2022b; Salaman and Storey, 2016). The EOT model aimed to popularise employee ownership through a capital gains tax exemption on the disposal of a controlling interest into an EOT alongside an income tax exemption for bonuses paid by EOT-controlled companies (Nuttall, 2017). The latter was designed to counter the criticism that indirect employee ownership can provide little in the way of financial benefit for employees or, as in the case of the John Lewis Partnership, that any associated profit-sharing arrangements are less advantageous to employees than tax-advantaged employee share plans.

Nuttall (2017) argues that trust model provides a more stable and lasting form of ownership, and one that better maintains the company's independence as the decision to sell shares is no longer made by individuals but by the trustees of the trust (whose duty is to protect the interests of the employee beneficiaries). The EOT trust inherits the capital gains tax liability from the departing owner, and if the trust is UK tax resident this can inhibit, though not fully prevent, an onward sale of the company to a third party. Further, the trustees

as 'custodians' of the company, protect employee interests by having a collective say in how the company is owned and governed. Profits that might otherwise be paid as a dividend to the trustee are instead paid as bonuses, typically annually, to employees. This is one of the structural simplifications to the trust model promoted by the EOT. Instead of the more complex process of employees receiving cash distributions from the EOT's trustee, their employing company pays their employee ownership "dividends" directly to them through pay roll. The EOT income tax exemption (with its £3,600 annual limit) encourages the annual distribution of profits to all employees, rather than their accumulation and payment as a "capital" amount on retirement or other situation.

That said, the scope for financial benefit to employees with indirect ownership may be more limited than in direct share ownership plans because of the discretionary nature of such annual bonuses. The lack of individual shareholdings may also make it difficult in some businesses to instil a complete sense of ownership and realise the full benefits of employee ownership (Nuttall, 2017). As yet, it is unclear whether this is a widespread or significant limitation of the EOT form, and research is needed on the extent to which employees in EOTs feel a strong sense of ownership.

Hybrid employee ownership

The hybrid form of employee ownership combines the trust-based model with individual share ownership by employees, and in so doing aims to combine the benefits of both forms of employee ownership [4]. For example, a majority of a company's shares could be held in an EOT, with the remainder held directly by employees through one or more tax-advantaged share plans. The extent to which the hybrid model is skewed towards the indirect or direct model of employee ownership will influence the degree to which the benefits are more aligned with either form. Notwithstanding these points, hybrid models may be favoured where trust ownership is preferred but a company wants some individual share ownership to provide some degree of capital growth for employees and/or a direct feeling of ownership (EOA, 2019).

The 'case law ESOPs', developed in the 1980s, exemplify the hybrid form of employee ownership by combining employee trusts with individual employee share ownership plans (such as the 1978 share-based Approved Profit-Sharing Plan) to distribute equity over time from the employee trust to individual employees. The type of trust used was a forerunner of the EOT, known as an employee benefit trust (EBT). The EBT had more flexibility in its design but because of this might, for example, only be used to benefit executives. In many of these cases the ultimate objective was direct employee ownership or a predominance of direct ownership, but the use of an EBT expedited the conversion to this. Many companies with direct employee ownership need to use an EBT to act as a "warehousing trust", buying shares from leavers and holding them until new awards are made, and/or to function as a "share dealing trust" to provide an internal share market.

From hybrid to indirect ownership

When forms of employee ownership other than workers' co-operatives emerged in the UK in the late 1980s, the dominant form came to be a hybrid of direct and indirect ownership. This is because the 'case law ESOP' was generally viewed as a more effective way of securing employee ownership in large firms than could be achieved by direct ownership. Even when this initial wave of employee ownership subsided in the mid-1990s, most subsequent employee ownership conversions viewed the use of a trust as an effective 'half-way house' to getting substantial ownership into the hands of employees.

With the emergence of public sector mutuals from the early twenty-first century, direct ownership came to be more prominent, though the membership rights provided by these did not usually give profit sharing or capital accumulation rights. However, once the EOT arrived

on the scene from 2014, indirect ownership has come to be the dominant mode because of the spectacular growth in the number of EOTs relative to other forms of employee ownership. Some prior existing employee-owned firms have changed their ownership to an EOT from direct ownership, as in the case of scientific and mathematical consultancy firm Quintessa (see https://www.quintessa.org/about-us/employee-ownership) or from hybrid arrangements (architect Donald Insall Associates, for example – see https://www.donaldinsallassociates.co.uk/about-us/an-employee-owned-practice/). Although the EOT can co-exist with individual, minority direct ownership, most EOTs hold all of their company's equity. Table 1 provides details of the distribution of direct, indirect, and hybrid ownership.

As shown in Tables 1 and in the mid-1990s most employee-owned firms were hybrids of direct and indirect ownership. By 2015, the distribution between direct, indirect, and hybrid forms was approximately equal. By 2020, however, the growth of the EOT resulted in indirect ownership being the dominant form. 86% of employee-owned firms have a trust (EOT or EBT) but no direct ownership, whilst only eight per cent have direct ownership without a trust. The hybrid form has reduced considerably from being the dominant form in the mid-1990s to around a third of employee ownership firms in 2015 to just nine per cent in 2020. A further change concerns the specific growth of the EOT: in 2014 just seven per cent of employee-owned firms had an EOT; by 2020 this had risen to 80% (and by early 2023 is likely to be higher).

Incidence and characteristics of employee-owned firms in the UK

Number of firms

The White Rose Employee Ownership Census 2022 shows that there has been a dramatic increase in the number of employee-owned firms since 2014 (see Figure 1 below). By mid-2022 there were 1,070 employee-owned firms, with the sector growing by 250–300 firms per year [5]. On top of this there are also just under 400 workers' co-operatives (Co-ops UK, 2021), nearly all of which have just a handful of members/employees (not included in Figure 1).

Sectoral distribution

Employee ownership can be found in each of the main sector sections of the UK standard industrial classification (SIC) of economic activities (Table 2 reports only those where there are 10 or more cases) but employee-owned firms tend to be concentrated in a narrower range of activities. Most employee-owned firms can be found in 'professional, scientific, and technical' (28% of the total) followed by 'manufacturing', 'construction', and 'wholesale, retail; repair of motor vehicles'. 'Information and communications' and financial services also have concentrations of employee-owned firms. Ex-public sector firms ('public sector mutuals') tend

Form of employee ownership	2020	2015	Mid-1990s
Trust only (no direct ownership)	83	35	11
Trust (EOT or EBT) present	92	66	84
Hybrid direct and trust ownership	9	31	73
Direct ownership present	17	65	89
Direct ownership only	8	34	16
n	*260*	*100*	*62*

Note(s): The 'only' category denotes that this is the only form of employee ownership used: it does not exclude other non-employee ownership' shareholdings (e.g. directors, external investors etc.)
Source(s): White Rose Employee Ownership Survey 2015, 2020; Pendleton (2001) (recalculation of original figures)

Table 1. Forms of employee ownership (percentages)

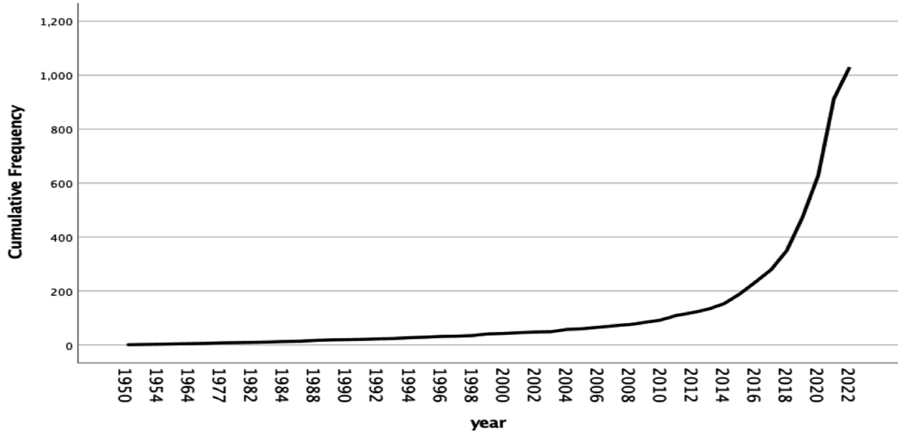

Figure 1. The growth and incidence of employee ownership in the UK

Source(s): White Rose Employee Ownership Census 2022. This figure comprises organisations that are employee-owned in 2022 so under-estimates numbers of employee-owned firms that were present in earlier years but are now dissolved or are no longer employee-owned

Table 2. Sectoral distribution of employee-owned firms 2022

Sector	Number of firms	Percentage of total
Manufacturing	132	13
Construction	136	13
Wholesale and retail; repair of motor vehicles	108	11
Information and communications	94	9
Finance, insurance, and real estate	53	5
Professional, scientific, and technical activities	291	28
Administrative and support services	103	10
Education	15	1
Human health and social work	42	4
Arts, entertainment, and recreation	12	1
Other services	12	1
Other	21	2
Missing	8	1
Total	*1039*	*100*

Source(s): White Rose Employee Ownership Census 2022. Sectors organised by SIC classification

to be concentrated in ‘education’, human health and social work’ and ‘arts, entertainment, and recreation’. Behind many of these sectoral classifications, the type of firms that have converted to employee ownership take the form of consultancies or providers of specialist expert services: many of the firms in the ‘construction’ category, for instance, are specialist construction engineering advisory and design firms. Within ‘professional, scientific, and technical’ there are many architecture practices, and this sector is notable for the number of employee-owned firms. More than a quarter of the UK’s 100 largest architectural practices are now employee-owned (*Architects Journal 4*th *May 2021*).

Although there are some employee-owned firms with substantial physical assets, it is striking that employee ownership has come to be concentrated in firms which are dependent on human capital for the generation of value, and who need to attract, retain, and develop high

quality human resources to achieve and maintain competitive advantage (Pendleton, 2011). It is notable that many of the firms that have recently adopted employee ownership, such as architects and engineering consultancies, rely on skills that are general or industry-specific as well as firm-specific, and are vulnerable to losing staff to other companies. 59% of firms in the 2015 survey indicated agreement with the statement that 'our staff tend to be much in demand in competitor companies'. A further notable feature of sector concentrations of employee ownership is that mimetic processes become important, with information about employee ownership percolating through sectors via trade journals and professional networks. This has helped to legitimise employee ownership and encourage imitation.

Size of firms

A common criticism of employee ownership, based on evaluations of workers' co-operatives and labour-managed firms, is that employee-owned firms are small, labour intensive, and economically peripheral (Jensen and Meckling, 1979). Whilst this is a reasonable, though not uncontested, view of worker co-operatives, where average size in the UK is around 5 employees, it is much less applicable to employee-owned firms. Employee-owned firms are on average substantially larger. The RM2 Employee Ownership Top 50 records characteristics of the 50 largest employee-owned companies: when first published by Nigel Mason in 2014 a company needed a minimum of 143 employees to feature in the list. This had risen to 433 by 2022, with a combined employment in these 50 firms of 181,000 (RM2, 2022). The largest company featured, as it has been throughout, is the John Lewis Partnership with 80,900 employees. The White Rose Employee Ownership Census is currently attempting to track the total number of employees in the sector but this has not been finalised due to complexities arising from the distribution of employees between entities within a company (the overall corporate structure of firms can become more complicated when converting to employee ownership because of the desirability of creating a holding company structure). Using the White Rose Employee Ownership Surveys instead shows that the average size of employee-owned firms in 2020 was 449 employees though the median was much smaller (36) (see Table 3). Focusing specifically on EOTs, the EOT is an 'SME' phenomenon: 83% of EOTs have between 10 and 250 employees, though there are some firms with several thousand employees that have adopted an EOT. 11% have less than 10 employees. But there are few (3%) amongst micro-companies (1–5 employees) that are more directly comparable with most worker co-operatives: the requirement that those benefiting from the sale of a company to an EOT should not exceed 40% of the workforce tends to preclude EOTs in firms with 5 or less employees.

Levels of ownership

Table 4 presents descriptive statistics for ownership levels from the mid-1990s and the White Rose Employee Ownership Surveys 2015; 2020. The average and median levels of employee ownership increased from the mid-1990s to 2015 whilst they are stable between 2015 and

	All employee-owned firms	EOTs
Average size (employees)	449	120
Median size (employees)	36	32
% of firms with 50 or more employees	42	37
% of firms with 1,000 or more employees	2	2
n	*249*	*204*

Source(s): White Rose Employee Ownership Survey 2020

Table 3. Size of employee-owned firms (employees) (2020)

2020. In both 2015 and 2020 the average level of employee ownership is 85% with the median being 100%. In both 2015 and 2020 around 60% of employee-owned companies were 100% employee-owned. Over half of EOT's (53%) are 100% employee owned with an average level of 84% employee ownership. The increase in average and median levels of ownership between the mid-1990s and 2015/2020 can be attributed to the EOT setting a base-line level of employee ownership of over 50% and the supportive financing characteristics of the EOT (see later): earlier reliance on bank debt or employee subscriptions, and often the need for management to have a controlling or substantial share to secure debt finance, tended to constrain the level of employee ownership.

The EOT is now the dominant form of employee ownership in the UK In the White Rose Employee Ownership Survey 2020, 81% of employee-owned firms have an EOT but the proportion has grown further since then since nearly all ownership conversions are now EOT-based. 14% have an EBT, with 92% overall having trust-based ownership. Three-quarters of current EBTs in the survey were created before 2014 (when EOTs were launched). The EOT legislation enabled prior-existing EBTs to be deemed as EOTs if they functioned as if an EOT, so that the EOT tax exemptions could apply without the need to reconstitute trusts. Total numbers of reported EOTs (or of reported EBTs) may therefore include deemed EOTs. The White Rose Employee Ownership 2020 Survey indicates that 44% of prior-existing EBTs have been deemed as EOTs, and that this group constituted 14% of EOTs at the time. Overall, the EOT has supplanted the EBT as the primary form of trust-based employee ownership.

Governance

A key issue concerns employee involvement in the governance of employee-owned companies (Ben-Ner and Jones, 1995), and in particular their role in the direction of EOTs. As with any trust, an employee trust needs a trustee to carry out the terms of the trust. A corporate trustee tends to be preferred because administratively it is less cumbersome (especially when there is a change of trustee directors) and gives directors of the trustee company greater safeguards from limited liability should it be required (Postlethwaite and Gadd, 2019, p. 26). In nearly all cases an EOT trustee is a UK-incorporated company formed exclusively to administer a single EOT, though there is some limited use of professional and off-shore trust companies.

Employee trust companies (usually companies limited by guarantee) typically comprise directors of the trading company, employees, and independents, with some arguing that a 'paritarian' composition is ideal (equal numbers of trading company directors and employee representatives, plus one or more independents) (Nuttall, 2017, p. 11). In a minority of cases, the retiring shareholder is also a trust director, with their presence on the trust reflecting a concern to protect their deferred sale arrangements and/or a continuing role in the management of the company. Their presence is likely to reduce as EOTs complete the payment of the deferred consideration.

Table 4.
Levels of employee ownership (all employee-owned firms) (percentages)

	2020	2015	Mid-1990s
Average level of employee ownership	86	85	59
Median level of employee ownership	100	100	60
Firms that are 100% employee-owned	58	62	n/a
Firms that are 50% or more employee-owned	96	84	n/a
n	*260*	*100*	*62*

Source(s): White Rose Employee Ownership Survey 2015, 2020; Pendleton (2001) (recalculation of original figures)

Table 5 shows the presence of various actors on trust boards of employee-owned companies.

Employee representation on trust boards comprises between 25 and 50% in 82% of boards where employees are trustees. Employee trustee directors are elected by the workforce in 61% of cases, selected by an employee council in 8%, and selected by the trust in 2%. They are selected by management in 28% of cases, though this may well be an interim arrangement adopted at the EOT transaction that is replaced subsequently by more democratic means of selection.

The role of the trustees may vary from a custodial role of the company's values and in particular the employee ownership ethos, to a more hands-on approach where the trustees are more actively involved in decision-making and the sharing of management responsibilities (Nuttall, 2017, p. 14). As yet, research has not established the balance in practice between these varying conceptions of the role of employee trusts.

Most EOTs have additional employee representation in governance. Just over half (51%) have one or more employee representatives on the trading company board. 36% have an employee or partnership council that can provide guidance and represent employee interests to the company board as part of the internal employee engagement mechanism (i.e. separate from the company board). 28% hold regular employee meetings, whilst 23% of companies (usually smaller ones) have more informal forms of employee governance.

Firm-level decision-making and employee ownership conversions

Employee ownership in the UK now primarily occurs as an outcome of business succession, whereby ownership of a business passes from an owner, or group of owners, who wish to sell to employees (usually through an EOT). This is a firm-level response to the framework and incentives established by government. This contrasts with previous experience where a significant impetus for conversions to employee ownership arose from governmental privatisation initiatives.

Table 6 presents findings from 2020, 2015 and the mid-1990s to illustrate the change in employee ownership conversions. In the mid-1990s, most conversions occurred as a result of privatisation, with only a handful arising from business succession. In 2015, privatisation, mainly in the form of 'public sector mutuals' continued to account for just under one-fifth of employee-owned firms. Business succession had come to be much more important than in the 1990s with a third of employee-owned firms becoming employee-owned in this way. By 2020 business succession was the primary reason, with privatisation accounting for only 5% of firms in the survey (this slightly under-estimates the role of privatisation but not by much, given what we know about the number of public service mutuals (Social Enterprise UK, 2019)). The second most important set of circumstances for employee ownership is where owners want to share ownership with a wider group of employees (just under 30% of cases in 2015 and 2020). Firms in this category are often human capital-intensive partnerships,

Trustee type	Proportion of trusts where present (%)
Directors of trading company	73
Retiring shareholder	43
Employees	78
Independents	63
Professional trust company	4
Offshore trust company	4

Note(s): n = 224 (all employee-owned firms with a trust)
Source(s): White Rose Employee Ownership Survey 2020

Table 5. Composition of trustee boards

such as consultancies, architects, and legal firms, where ownership is distributed amongst a group of senior employees, and these partners wish to widen ownership. This is often viewed as a prelude to eventual exit so the boundary with business succession is not clear-cut.

It is notable that throughout the period surveyed employee ownership rarely occurs as an outcome of company restructuring ('divestment from larger company'). Nor, contrary to some other countries (e.g. in Latin America) does employee ownership arise from failing companies or rescues (Giovannini and Vieta, 2017). Employee ownership is primarily a phenomenon affecting successful firms, in contrast to the expectation associated with workers' co-operatives and theories of worker-managed firms that ownership conversion will be found primarily during downturns of the business cycle when risk-averse workers' jobs are under threat (Ben-Ner, 1988; Perotin, 2006). Finally, employee ownership is uncommon in start-ups, and has become relatively less important in the five years up to 2020: this is not surprising as the now dominant form of employee ownership – the EOT – works best as a conversion from existing businesses.

Given the current dominance of business succession as the context for employee ownership, it is interesting to note that employee ownership was not the only transaction considered by business owners in three-quarters of cases. Most commonly, a trade sale was considered. Employee ownership is typically chosen as an alternative to a trade sale because of fears that purchasers will restructure the company or because of difficulties in the valuation and negotiation process. See Table 7.

Given the importance of business succession as the context for most conversions to employee ownership, the reasons for the choice of employee ownership rather than other exit routes are of obvious interest. The 2020 survey shows that the most important reason for choosing the employee ownership route is to maintain the stability of the company in the

Table 6. Circumstances of conversion to employee ownership (percentages)

Reason	2020	2015	Mid-1990s
Business succession	69	33	18
Owner(s) desire to share ownership	20	29	–
Spin-out from public sector/privatisation	5	16	70
Start-up	3	14	2
Divestment from larger company	2	7	11
Rescue of failing firm	1	1	–
n	*247*	*100*	*56*

Note(s): Note that column percentages do not add up to 100
Source(s): White Rose Employee Ownership Survey 2015, 2020; Pendleton. (2001) (recalculation of original figures)

Table 7. Alternatives to becoming an EOT (2020)

Alternatives considered	Percentage of EO companies
Trade sale to another company	59
Management buy-out	37
Sale to private equity	20
Closure of company	10
Break-up of company	1
Employee ownership only alternative considered	25

Note(s): N = 187; Note that percentages do not add up to 100 as more than one alternative may be considered in each case
Source(s): White Rose Employee Ownership Survey 2020

long-term (see Table 8), followed by sharing rewards of economic success with employees. Passing ownership of companies to EOTs assists business owners in preserving their ‘legacy’ and protecting employees, in contrast to trade sales where it is common for acquired firms to be restructured in a way that destroys their identity. Tax incentives appear subordinate to providing stability to the firm and its employees though they may have become more important since the survey because of the reductions in alternative tax reliefs mentioned earlier.

The context and rationale for conversion to employee ownership is related to who is involved in the conversion process within the firm. Employee ownership is nearly always now instigated by business owners rather than employees, with the EOT not requiring that employees be directly involved in the ownership transaction. This contrasts with the privatisation conversions in highly-unionised firms in the 1990s when employees and/or their representatives were often equal and sometimes dominant partners in the design of ownership structures and principles (see Pendleton, 2001). Table 9 provides firm-level information on who is involved.

Reason	Strongly agree	Agree	Neither agree nor disagree	Disagree or strongly disagree	Mean score (1–5 scale)
Long term stability for the company	73	19	5	3	4.61
To share rewards with employees	65	26	6	3	4.52
Tax efficient for previous owners	54	28	12	7	4.23
The socially responsible thing to do	47	27	16	10	4.06
Keep company and jobs local	40	25	24	12	3.86
Could not find another buyer	5	12	16	67	2.04

Note(s): $n = 193$
Source(s): White Rose Employee Ownership Survey 2020

Table 8. Reasons for becoming employee-owned: EOTs (2020) (percentages)

	Named stakeholder ‘exerts quite a lot of influence or more on ownership arrangements’) 2020	Named stakeholder ‘exerts influence or a lot of influence on ownership arrangements’) 2015
Owners	93	31
Directors and senior managers	70	72 (directors only)
Employees	25	44
Venture capitalists/ private equity	7	1
Trade union representatives	0	3
n	*180*	*100*

Source(s): White Rose Employee Ownership Survey, 2015, 2020

Table 9. Who influences employee ownership (percentage of employee-owned firms)

That employee ownership conversions are now typically initiated and organised by business owners may well be a strong contributing factor towards the current strong growth in employee ownership. Aside from easing aspects of the valuation and sale negotiation process, it sidesteps the obstacles highlighted in the worker-managed firm literature which emphasises the role of employee wealth constraints and risk aversion in inhibiting employee ownership (Mygind and Poulsen, 2021). EOTs in particular are not typically dependent on employee finance to secure conversion to employee ownership whilst employee risk preferences have little direct bearing because ownership is assumed by a trust rather than employees directly.

The use of the EOT for business succession has also obviated the need to fund conversions using external finance since owners can opt to take deferred consideration, enabling the company to pay for the conversion over a period of years from revenue streams. Traditionally, securing access to finance from banks and other financial institutions could be challenging because of a lack of awareness or a suspicion of employee ownership. The White Rose Employee Ownership Survey 2020 shows that deferred consideration has been used in 82% of cases, with external bank or private equity finance used in just 12% of cases. Employee contributions were used in just 3% of companies. Access to finance for the conversion was viewed as a significant problem in only 12% of cases in 2020. Nevertheless, allocating surpluses to repayment of acquisition debt may constrain investment in growth and other activities, and may well pose a challenge for many EOTs in the future. Further research is necessary to determine whether this is a significant issue for EOTs.

Conclusions

This paper has argued that governmental action has been critical to the development of employee ownership in the UK. Government action has provided regulatory frameworks, removed or mitigated obstacles and provided incentives for firms to convert to employee ownership. For much of the period under review, governments provided only partial regulatory support and reduced only some regulatory obstacles to employee ownership. They did little to provide incentives to convert and had not reduced long-standing obstacles outside the regulatory framework such as access to buy-out finance. Much of the impetus for employee ownership in fact came from government policies with a different focus – privatisation. This portrayal changes dramatically in 2014 when legislation to support EOTs provides both a clear and supportive regulatory framework along with a strong set of incentives. The nature of the EOT also resolves many of the non-regulatory barriers to employee ownership such as access to finance, a perception of complexity and lack of awareness of employee ownership. As a result, there has been a very steep increase in the number of employee-owned firms since 2014.

That governmental action has been so important to the development of employee ownership may be viewed as confirmation of the view that employee ownership is an "unnatural" form of corporate ownership (Jensen and Meckling, 1979). The persistence of some employee-owned firms over a long period of time in the UK, such as the John Lewis Partnership, suggests that this view is misplaced especially as there was little regulatory support for employee ownership of this sort for much of the period since their formation. Nevertheless, there are barriers to conversions to employee ownership, as identified in the worker-managed firm literature (see Mygind and Poulsen, 2021). These include employee risk aversion, employee wealth and liquidity constraints and the challenges of coordinating heterogeneous employee interests (Ben-Ner, 1988; Hansmann, 1996). The EOT sidesteps many of these problems by *de facto* shifting the onus for conversions to existing owners and providing a means of financing conversions that is not dependent on either employees or external sources of finance. Equally, EOTs, unlike ESOPs and firms with direct ownership,

do not usually pass "lump sums" to employees on retirement or otherwise leaving a company, and some may argue that the full benefits of employee ownership are unlikely to be achieved. Nevertheless, it looks like the EOT is a sustainable form of employee ownership because of the centrality of indirect ownership and the barriers (albeit not insuperable) to onward sale of the company. Time will tell whether this is indeed the case.

Notes

1. Note that this estimate includes a small number of companies who would not view themselves as cooperatives.
2. These companies were vulnerable to acquisition, especially as the growth in value of employee shares emanating from the leveraged nature of employee buy-outs provided incentives for employees to sell. These companies were constrained from embarking on the acquisition trail themselves because of the need to service debts arising from the employee buy-out.
3. Worker directors were much less common in business succession conversions (termed 'paternalist' conversions in Pendleton, 2001).
4. An alternative form of hybrid is where trust ownership is combined with an executive share ownership or option plan.
5. The number of employee-owned firms had grown to just over 1250 by the end of 2022.

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