

A Research Report on behalf of the Employee Ownership Association

**Employee Ownership: Awareness and the Best Conditions for it to flourish.**

**A Comparative Study between Sheffield and Liverpool**



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Executive Summary

Employee ownership centres on employees owning a significant stake in the company they work for and they now account for £25 billion, more than 2% of GDP, and therefore why a move to employee owned businesses is encouraged. This is supported by the fact that employee owned businesses grew by 11.1% in the recession years of 2008-2009, compared to non-employee owned businesses which only grew by 0.6%. One of the key problems facing employee ownership is the lack of awareness and understanding amongst the public and therefore a reluctance to consider Employee Ownership as a business model. As viable alternative to conventional models of ownership, employee ownership is negatively perceived by many potential new businesses. There is an uneven distribution of employee owned businesses, with most of them being concentrated in the North; hence employee Ownership particularly flourishes in Sheffield. Our research aimed to identify business conditions that are best suited for helping to nurture employee ownership, having the scope to identify the areas that need to be concentrated on by the Employee Ownership Association in order to best raise awareness and increase the probability of businesses adopting the Employee Ownership model.

This suggests that there are conditions necessary for employee ownership to work. To test this, we compared Sheffield to Liverpool, since in terms of economy, population and history, both are relatively similar; yet Liverpool has very few employee owned businesses. In implementing our research, interviews were conducted to collect current, relative and qualitative data which we chose via purposive sampling. Both employee-owned and non-employee owned businesses were interviewed in order to gain insight from both perspectives. Attending an Institute of Directors event in Manchester allowed us to gain further insight by discussing employee ownership with experts. Content analyses took place to identify the themes that were emphasised most by each person that we spoke to. After this, conditions that appear in these finding were organised into a truth table in order to isolate the options that were present in Sheffield and not Liverpool, which would highlight the conditions needed for employee ownership to best flourish.

Our primary research suggested that the constraints of employee ownership were primarily legal and political. With further analysis, it became apparent that the promotion of employee ownership is cross partisan rendering local MP’s political affiliation irrelevant. The conference in Manchester provided us with an insight into the legal hindrances of employee ownership leaving legal teams reluctant to promote employee ownership as a viable alternative. The interviews also provided us with an opportunity to uncover business owners’ preconceptions of employee ownership. We found that they mainly expressed concern with the decision making process in an employee owned business model. Others, however, said that higher levels of communication among employees meant that the response to consumers was quicker. Another vital theme was the method by which non-employee owned businesses received their information on employee ownership, namely media reports, suggesting that that is the most effective channel of communication to promote employee ownership. We also found that the cost of employee ownership implies that it is not suitable for new businesses particularly if they are struggling to locate funding. The manufacturing industry contributes significantly to the amount of employee owned businesses suggesting that cities with a high percentage of manufacturing companies are more predisposed to having higher levels of employee ownership. However, the professional and business service sector in each city does not affect the levels of employee ownership. Our findings indicate that local culture and attitudes instead play a significant role with regard to employee ownership, something that is particularly apparent in Sheffield. Finally, local business networking is apparently vital in raising awareness about employee ownership and its benefits.

Our policy implications and recommendations are split into legal issues, social issues and political issues. We address the matter of legal advisors’ concerns about employee ownership and recommend that the EOA provide further education whether it be via events or workshops to clarify the and irradiate any misconceptions. This in turn will help financially assist businesses wishing to make the transition. Social suggestions include raising the level of opportunity for business networking therefore helping employee ownership to flourish, particularly as employee owned businesses tend to be enthusiastic to share their experiences and discuss possibilities for current non-employee owned businesses to adapt. Finally, politics and culture are significant variables and we recommend the EOA work with regional constituencies to raise awareness and expel misconceptions through local government channels across all constituencies.

Rationale

**Why Is Employee Ownership Important?**

We feel that in the current economic climate, our research is more important than ever before. With the UK facing a triple-dip recession it would seem the British economy is looking for a new direction. At no point in our research have we set out to promote employee ownership. We only seek to highlight both positives and negatives in a balanced and impartial way. As mentioned, the economy is looking for a new way to move forward and innovate business. Nick Clegg, deputy Prime Minister of the Coalition Government, has previously stated that he wanted to build a ‘John Lewis’ style economy. Initial impressions suggest that employee owned companies tend to flourish during recession. Hence, we feel it is important to further investigate and to find out just how much non-employee owned companies and start-ups know about the options they have available. Beyond this, we also seek to understand the conditions and requirements companies are faced with when becoming employee owned.

**Why Employee Ownership Is Relevant**

The evidence suggests that increased employee ownership in the UK economy can help contribute to growth and aid economic recovery. It is for this reason that vital research is conducted into the conditions that allow employee ownership to thrive and those that diminish the possibilities for adoption and success. Georgetown University and McDonough School of business produced a paper in the US which suggests the success of employee owned businesses is augmented in times of recession (Swagel & Carroll, 2012). Cass Business School support the research findings  by reporting that sales turnover from employee owned companies between the recession years of 2008-2009 increased by 11.1%; whereas the turnover of non-employee owned companies only grew by 0.6% (Lampel et al, 2010). Overall, the risk of business failure for employee owned businesses is claimed to be 75.8% of the risk faced by non-employee owned businesses (Matrix Evidence, 2010).

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Swagel and Carroll, ‘Resilience and retirement security: performance of S-ESOP firms in the recession’, Georgetown University & McDonough School of Business, 2010.

**Why Our Research Matters**

The research that we are carrying out is vital for the Employee Ownership Association and businesses around the world that may be looking into different methods of ownership. This is because it helps promote the positive aspects that an employee ownership model may bring to companies that they didn’t know of before, therefore giving them an opportunity to review the helpful traits of this particular ownership model. This in turn will help educate businesses about employee ownership that in the past would have little knowledge of what it does. In addition, the research we are carrying out can help highlight trends and patterns in relation to the amount of employee ownership that exists in particular areas of the country and what drives these inclinations. Finally the research that is carried can induce further study into employee ownership for others to expand and develop key concepts from within our work.

**Literature Review**

A variety of reports are available to guide potential companies on how to adopt employee ownership. One example is the joint publication between the Baxi Partnership, EOA, Field Fisher Waterhouse and OPM *How to become an employee owned mutual: An action checklist for the public sector* (2011). This provides a valuable guide for employees in publicly owned companies considering the transition to employee ownership. However, it does not offer in-depth information regarding the transition but serves to highlight questions and a sense of the direction organisations will need to take. How to become an employee owned mutual is therefore a solid foundation on which to begin to understand the transition from a public company to one employee owned.

Another report which has proved hugely influential is Graeme Nuttall’s *Sharing Success: The Nuttall Review of Employee Ownership* (2012). Written to advise the government on policy direction regarding employee ownership it outlines recommendations to promote its growth in the UK by means such as raising awareness. One of the central points of the review is how to overcome barriers to employee ownership and promote it to new audiences. *The Nuttall Review of Employee Ownership* therefore provides a thorough overview of how to overcome barriers to employee ownership and a list of recommendations for the government to implement to increase its growth.

*Beyond the Corporation* (2011) by David Erdall details at length the vast array of perceived advantages that employee ownership provides to employers, employees and, more broadly, the economy. In using both case studies and interviews, analysing enterprises of disparate sizes and compositions, this literature is a useful precedent. However, it is arguably too specific,  and there is room to expand on other ideas of employee well-being.

In *Owning our Future* (2012)*,* Marjorie Kelly regards employee ownership as a “Generative Model” of business; servicing the community as a way to make a living rather than the conventional business models.  Analysis of enterprises such as the John Lewis Partnership, with regard to its success and longevity, provide a useful starting point for our research. Again however, there does not detail how converting existing businesses to employee ownership may occur and how a stakeholder is defined. This is an area in which our research can contribute.

**Limitations of Our Research**

A key limitation of our research was having a restricted budget. This meant that we were unable to visit our focus cities of Sheffield and Liverpool, meaning we resorted to conducting interviews with relevant companies in those areas. We then had to apply what we had learnt to the focus cities, rather than primarily using these areas. Another constraint was the time scale. With such a broad and in depth topic, a longer time frame would have been beneficial to fully implement our plan and conduct research. Finally, being a student research group, we do not have the contacts to be able to convince people to take part. Many people have preconceptions of student research and chose not to participate in our interviews, which made it harder to encourage volunteers to be contacted

**Research Sub-Questions**

Our research will address what barriers are preventing the transition from more traditional business models to an employee-ownership model. Part of this will include asking why some companies have chosen to make that move and others have not. We will answer whether size and industry have an effect on transition. Similarly, companies may be faced with a number of legal constraints and we wish to know if this diminishes incentive. We will find whether economic incentives affect the willingness of some companies to adopt an employee-owned business model. Awareness of the benefits of employee-ownership may also be a significant factor in encouraging employee-ownership that needs to be investigated. Another vital area of our research is questioning why Sheffield has more employee-owned businesses than Liverpool. This will allow us to focus and identify which local conditions help nurture employee-ownership such as local support available, perhaps from local city councils, or local business networking, which could affect awareness. We want to isolate these factors to see exactly what affects the rate of employee-owned businesses.

**Why We Chose Liverpool**

There are a number of key reasons as to why we chose Liverpool as one of our case study cities. First, it is roughly the same size as Sheffield in terms of both population and economy. Liverpool has a population size of around 465,000 people, similar to Sheffield’s 550,000. By contrast, Liverpool’s economy in 2009 according to the Office of National Statistics Gross Value Added (GVA) of £8,767m compared with Sheffield, which boasts a comparable GVA of £9,578m (ONS). The key reason for choosing Liverpool is mainly due to the disparity between the number of employee owned companies between itself and Sheffield. Liverpool by comparison has very few employee owned companies in the UK whereas Sheffield has one of the largest. Furthermore they both occupy a similar area of the country; in the process shifting away from the heavy engineering industries that have been in decline since the 1960’s. Both cities are shifting predominantly toward new service sector industries such as banking and IT. It is down to these similarities that we feel Liverpool presents itself (particularly when compared with Sheffield) as the perfect city to use for our case study.

ONS - Table B6: Gross Value Added (GVA £m) 1997-2009 – December 14th 2011

Methodology

**Why Did We Use Our Chosen Methods**

Firstly, we chose to use semi-structured interviews to provide our report with relevant, qualitative data. Each interview was semi-structure to ensure the information collected was on topic, yet still allowed for flexibility if the interviewee wanted to add supplementary data. In addition, by choosing interviews, we were able to collect up-to-date and relevant data . This is vital for our report, as employee ownership is constantly growing and changing, with an annual growth rate of 10%. The sampling method we chose for our interviews was based on purposive sampling. This enabled us to select the cases for interview, allowing us control over most variables related to the interviews. With a limited time-span, it was essential that the cases we chose would have a quick response rate and were easily accessible.

The second method we chose to use was truth tables, a concept introduced by Charles Ragin. Truth tables, based on Boolean mathematics, involve the conditions and variables highlighted in the interviews. This suggests that the methods can complement the findings of one another. Furthermore, we chose to use truth tables as it provides a clear visible representation of causation by highlighting relevant and irrelevant variables. This allows for easy comparisons between Liverpool and Sheffield.

**How We Intend to Answer Our Research Question**

We will use the data found through our interviews at the Manchester Conference to apply what we know to see what is evident in Sheffield and Liverpool. To do this we will construct Truth Tables, based on the design of Charles Ragin (1987), which have proved to be useful solution to finding the necessary conditions that make something successful. In our case, we shall find the conditions that are present in both Sheffield and Liverpool and classify these as relevant and those that have no effect. From this, we will be able to conclude the conditions that are present in Sheffield that a fundamental for Employee Ownership to flourish. We should also be able to see what conditions have dependant relationships. For example, if one condition cannot exist without another, we know they are both important for Employee Ownership.

References

Ragin, C. (1987) The Comparative Method. Berkley: University of California Press.

**Interviews**

We felt that qualitative interviews would be a vital part of our research to gain detailed and insightful knowledge for our project. Our research focused on interview high ranking employees of both EO and normal companies because we felt it vital in gaining balanced and fair results. Naturally the questions we asked were dependant on the type of company. Questions posed to employee owned companies generally covered their origins, benefits, disadvantages and recommendations to any business considering the switch. Questions for other companies covered awareness and knowledge of employee ownership as an option; had it been considered? If so why? All interviewees were required to sign a consent form and were emailed in advance with an information pamphlet and a question plan to increase response rates. All participants were also given the option to remain anonymous and were informed of their right to withdraw from the process at any time. Interviews were voice recorded and transcribed. Signs of hesitation, or anything alike, from the interviewee were duly noted.

**Why Did We Choose Each Variable for the Truth Table?**

Using the data from our interviews and the conference in Manchester, we compiled a list of variables that potentially have an effect on the levels of employee ownership present in a city or region.

Our research highlighted that the transition from a non-employee owned business to employee owned can be an expensive process. During the transition of Landmark wholesales, Steve Parfett notes that the transition required a loan of £20 million from Lloyds Bank, which was secured against the value of their depots. This may not possible for all businesses, particularly new and small businesses. It is for this reason that we chose to look at the percentage of small and new businesses in both Liverpool and Sheffield to analysis, as to whether it could be a reason for high or low levels of employee ownership.

Furthermore, interviews with the representatives from Waitrose and Savant emphasised the importance of complete employee support for a change in ownership to be successful. It is this support that our non-employee owned businesses believe is lacking amongst the average UK employee. One representative, who wishes to remain anonymous, claims that employees actively avoid taking on extra responsibility and instead prefer to remain outside the decision making process. It is for this reason that we have chosen to look at the economic activity of each city. If the level of citizens economically active is low, it could be suggested that the employee culture of the city does not reflect a desire to take on more responsibilities through increased engagement.

Data found during research suggests that the level of employee ownership varies between industries. The professional and business service sector represents the greatest proportion of employee ownership with the manufacturing sector representing the second largest employee owned sector. It is for this reason that percentage of manufacturing businesses and professional and businesses services will feature on our table.

The conference held by the Institute of Directors highlighted the importance of social networking between non-employee owned and employee owned businesses. Parfett noted the role that the “fear factor” plays in preventing non-employee owned businesses making the transition. The fear factor has been proven by Savant and Landmark Wholesales to be eradicated through networking. First-hand information can be given to educate sceptics and it is for this reason that local networking features as a variable in our truth table.

**Content Analysis**

Part of the methodology we have adopted to answer our research question is qualitative content analysis of talks given by Steve Parfett, Chairman of Parfetts and Graeme Nuttall, a partner at field fisher waterhouse. The talks were based on the various obstacles of transferring the existing ownership structure to an employee owned model. Steve Parfett recently embarked upon this process, and content analysis of his speech will provide a firsthand insight to the process. Graeme Nuttall is author of the Nutall review and a legal specialist who has aided in the restructuring process of Parfetts as well as having legal expertise on the legal process involved. Qualitative content analysis “is concerned with uncovering meanings, motives and purposes in textual content” (Harperlin and Heath, 2012, p310). By reviewing the content of speechs given, we are able to determine what factors legal or otherwise can prevent or encourage companies to adopt employee ownership. Analysis of the findings can then be used to see if they help explain the variation in employee ownership between Sheffield and Liverpool.

Halperin, S and Heath, O. (2012) - Political Research: Methods and Practical Skills – Oxford University Press – New York

Findings

When conducting our research, our literature review showed that the levels of employee ownership depend on legal and political constraints. During our primary research, we gathered information regarding the political background of both Liverpool and Sheffield and the legal constraints affecting employee ownership. However, it became apparent that the promotion of employee ownership is cross partisan, making the political affiliation of local MPs irrelevant to our research. Speakers at the Institute of Director’s event held in Manchester emphasised that legal constraints are also a crucial factor. It appears that legal teams lack knowledge of employee ownership and are therefore unwilling to promote it as a viable alternative. Increased education within the legal sector of employee ownership could increase its awareness. Workshops offering a chance to network and discuss employee ownership would heighten confidence levels on the topic, thus enabling the legal sector to promote employee ownership as a viable alternative to conventional business models.

In analysing the data from the interviews, key concepts and themes became apparent. The interviews conducted with the non-employee owned businesses revealed certain preconceptions of employee ownership. SDS London and a representative from an anonymous company both expressed their concerns that decision making in employee owned companies was slow and disrupted by the layers of bureaucracy. Both companies described their current business model as “less bureaucratic” and “simple” to operate. This view was supported by the findings from our interview with Waitrose. The representative noted that potential risk for employee ownership is the speed at which decisions are made due to the “duty to consult”. However, Savant expressed the belief that they are “able to respond to consumers quicker” due to the high levels of communication present in employee owned businesses.

Another theme that became obvious within our research was the method by which non-employee owned businesses became aware of employee ownership.  The majority of the businesses interviewed highlighted media reports as the main way by which they became aware of employee ownership. This suggests that media reports are a particularly effective to reach business professionals. We also noted that government reports appear to be acting detrimentally to the promotion of employee ownership as the representative from Savant notes. Numerous responses suggest they felt that the government did not adequately understand employee ownership, yet still promoted it due to the nature of its ethical qualities. This suggests that in order to successfully raise awareness of employee ownership, more detailed and structured reports should be promoted for all businesses.

Our findings also suggest that many businesses believe that employee ownership is not appropriate for new businesses. As highlighted by business owner Steve Parfett, making the transition from a privately owned company to employee owned is an expensive process.  Landmark Wholesalers required a substantial loan from Lloyds Bank of around £20 million secured against the value of their assets. New and growing businesses with relatively small assets may not be able to locate funding, therefore preventing them making the transition.

**Boolean Truth Table - conditions that favour the employee owned business model and conditions that hinder it (1 trait present, 0 trait absent)**



Manufacturing represents the second largest employee owned industry according to statistics, therefore it could be suggested that cities with a high percentage of manufacturing companies are better positioned to nurture higher levels of employee ownership. Evidence of this can be derived from the truth table, as Sheffield has both a higher level of manufacturing business and employee ownership suggesting correlation. Furthermore, the Employee Ownership Association members map, present on their website, suggests that 30% of all employee ownership businesses in Sheffield are in Manufacturing, supporting previous evidence from the EOA.

The next variable suggests that the percentage of professional and business service sectors in each city does not affect the levels of employee ownership. This outcome goes against preconceived opinions that the professional and business sector is the sector with the most employee ownership.  The conclusion is supported by the evidence suggesting that Liverpool has more employed in professional and business service sector yet has little employee ownership.

Local business culture also plays a large role in the high level of employee ownership in Sheffield. Sheffield MP Nick Clegg openly endorsed a “John Lewis economy” and pushed for tax breaks and bonuses for employee owned businesses (Wintour, 2013). Clegg further promoted employee ownership by detailing their benefits in a recent London conference regarding trends in lower absenteeism, less staff turnover, lower production costs and higher productivity (Clegg, 2012). Tracey Moore, Operations Director for Capita, also claims that staff tend to have a “very positive experience in Sheffield” (Creative Sheffield, 2013). As representatives from Savant and Waitrose highlighted, employee engagement and support is vital for a successful transition to an employee ownership model. Liverpool City Council is a registered member of the Employee Ownership Association but seems to lack an active promotion of the alternative business model.

Networking for businesses also plays a large role in the level of employee ownership in Sheffield. As noted by Steve Parfett, networking through EOA events convinced him to push for employee ownership with Landmark Wholesales. Since 2007 the EOA have endorsed 38 events, 5 of which have been located in Sheffield and only 1 in Liverpool. This could suggest that the opportunity to network has a great effect on the level of employee ownership in a city.

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Policy Implications and Recommendations

The main issue surrounding Employee Ownership is there is little awareness of it which therefore generates perceptions about it. From our research, key themes emerged that need to be addressed for Employee Ownership to be fully understood. Easily accessible information about it and its implications would make a more stable foundation employee ownership to grow. The recommendations can be classified by the following sections:

**Legal**

A main constraint for Employee Ownership is that legal advisers appear to lack the knowledge and training on employee ownership, its benefits and how best to implement it. This means there is little support for companies to convert to the Employee Ownership business model, as highlighted by some employee owned businesses that were interviewed.

We therefore suggest the establishment of Employee Ownership Association endorsed workshops for legal advisers to network with employee owned businesses and increase their knowledge of this area. Employee Ownership events, such as the IoD event in Manchester mentioned in the report, could also be held explicitly for the legal sector, inviting them to learn about how best to support businesses, especially in the transition to this type of business model. This in turn could help with access to funds to help businesses become employee owned. The legal sector will become more educated and therefore encourage businesses to apply for funding. Increased awareness in the legal sector may lead to more funds becoming available from investors due to having less preconceived notions surrounding Employee Ownership.

**Social**

Our research suggests that networking plays a key role in the promotion of Employee Ownership and helps raise awareness of it from first-hand experience. This is of huge benefit for the Employee Ownership Association because employee owned businesses tend to be content with and proud of their business model and therefore will act favourably towards it. Networking is also less evident in cities dissimilar to Sheffield. Social issues are arguably a decisive factor because businesses are not going to adopt a business strategy they have little knowledge about.

As a result of this, we suggest increased opportunities to network across the country. Many events have been concentrated in northern cities such as Birmingham and Manchester. If Employee Ownership Association events were evenly distributed, this would allow for more networking. A positive business culture in Sheffield is evident, suggesting it may be beneficial for this to occur in cities in order for employee ownership to best flourish. The Employee Ownership Association could work with local councils to help increase communication between businesses by organising meetings or other events for both business owners and workers. This will encourage discussions concerning the most effective method for businesses to engage employees, creative a more productive environment to work within.

**Political**

Our research shows that local culture is an important variable in accommodating employee ownership. With Sheffield MP Nick Clegg strongly endorsing the “John Lewis economy” and pushing for tax breaks and incentives for employee owned businesses, there is an excellent environment for businesses to make the transition with the support of local authorities. Liverpool, on the other hand, has little in way of support or encouragement from local politics. We found relatively little policy support or active encouragement from the city council with regard to business support and education.

Employee ownership is a non-partisan initiative with support across the political spectrum. Currently, few constituencies are politically exposed to considering employee ownership as a viable alternative. With more MPs encouraging employee ownership at a local level, businesses may consider it a more appealing business model. The involvement of local authorities will help contribute to networking, with regard to dispelling misconceptions and clarifying the benefits. We recommend that the Employee Ownership Association encourage local government involvement, especially as this is across party initiative. The aim is to extend Sheffield’s attitude to employee ownership across the country to help other constituencies benefit from the positive effect of such a business model. Only then, with the help of a local business networking do we expect employee ownership to flourish.

**Limitations and Future Research Possibilities**

Due to the limits of time and funding we were given for our research, it would be beneficial to conduct further research into employee ownership. To further validate our findings, the same method of interviewing small, medium and large businesses could be replicated on a much larger scale. Our research gives a broad view of the situation; therefore taking a larger sample would enhance and build on what we have found.  This would clarify our policy implications so the EOA can help target potential business owners looking to adopt an employee owned business model.

Similarly, our research used qualitative methods that put limitations on inference as it relies upon case studies. One way to enhance and extend our research would be to conduct it using quantitative methods. A survey would be suitable, as this could be standardised and used on a much larger sample size. Our research provides the basis for this, now we have collected preliminary quantitative data this used in more targeted research, particularly regarding legal, social and political issues, and consolidate and clarify our findings.

A particularly difficult limitation to overcome was encouraging non-employee owned businesses to take part in our research. We understood that discussing business models and share holdings was a sensitive topic that we had to approach with an unbiased attitude despite our enthusiasm for employee ownership and we are very grateful to all those who took part. With further research it may prove beneficial to provide non-employee owned businesses with some incentive that really engages them in the idea of employee ownership, particularly as perceptions of it are sometimes inaccurate.

Employee ownership is a growing trend in nations all across the world. Our participant businesses were from the UK, the conference was held in Manchester and we applied our findings to Sheffield and Liverpool because of the similarities these cities have. With further research it would be particularly interesting to look at employee ownership in other countries and answer whether our findings correlate or not. Our findings of legal issues, social issues and political issues could extend beyond our borders, or they could just be localised. Either way, there is potential for further study to see what Britain could learn from abroad, especially as employee ownership is starting to thrive further afield.

To conclude, the main focus of our findings suggests that the culture of business in Sheffield needs to spread across the country. Our research into this has developed into recommendations that should help employee ownership grow into a more popular and alternative business model. We hope that our findings and suggestions, especially for future research, will be beneficial for the Employee Ownership Association to help them best raise awareness on this issue.