

# The Effect of Employee Ownership on Employee Engagement

JOE JORDAN, SMITHFIELD PERFORMANCE LIMITED

LIS MCCORMICK, CENTRE FOR TEAM PERFORMANCE LIMITED

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## **Acknowledgements**

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## **Copyright Statement**

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## ***Executive Summary***

1. Employee Engagement was measured in seven employee owned organisations ( $n=209$ ), and in nineteen non-employee owned organisations ( $n=513$ ) using The Good Work Survey, a measure of engagement developed by Smithfield Performance and Centre for Team Performance
2. There were large and statistically significant differences between the two sets of engagement data, with employee owned organisations reporting much higher levels of employee engagement compared to the non-employee owned organisations ( $p < .000$  in all cases)
3. A further measure was used to determine what aspects of employee ownership were the driving forces behind such significantly raised engagement scores. Proximity to Decision Making was the most significant driving force followed by Ownership Motivation. Employees in employee owned businesses are more engaged and satisfied because of the stronger voice that they feel they have in decision making, and because they see themselves as 'owners' of the business and not just employees

## ***Introduction***

Employee engagement has become one of the enduring concepts of modern business management. The measurement of employee attitudes by many organisations across a considerable time period has resulted not only in establishing employee engagement as an important business metric, it has also resulted in the availability of a large and rich source of data from which to draw conclusions about the nature of job satisfaction, and to assess with scientific rigour the impact of employee satisfaction on the performance of the organisation.

Harter et al. (2002)<sup>1</sup> found a very significant correlation of  $r=0.32$  between employee engagement and business performance, based on nearly two hundred thousand people across eight thousand business units. They used the figure to calculate a utility analysis comparing top-quartile with bottom-quartile engagement business units. They found a 21% improvement in productivity, a 10% improvement in customer loyalty, a 70% improvement in safety incidents, and a 41% improvement in the absenteeism rates.

This report will investigate the relationship between employee ownership and its impact on employee engagement. We will also explore which aspects of employee ownership are driving the impact on employee engagement. Our research model is as follows:



## ***Study Participants***

Our study participants were seven employee owned companies based in Scotland, and nineteen organisations that were not employee owned, all of them also based in Scotland. The employee owned businesses are all supported by Scottish Enterprise, Scotland's main economic development agency and a non-departmental public body of the Scottish Government.

A description of the employee owned companies and corresponding response rates to this study are shown in Table 1. The non-employee owned organisations are made up of mainly small businesses operating in a range of sectors including the IT sector, manufacturing sector, consulting sector, service sector, and public sector. The mean response rate of the nineteen organisations is  $n=42.7$ , showing that the two study groups are very similar in size and business activity.

<sup>1</sup> Harter, J. K., Schmidt, F. L., & Hayes, T. L. (2002). Business-unit-level relationship between employee satisfaction, employee engagement, and business outcomes: A meta-analysis. *Journal of Applied Psychology*, 87(2), 268-279.

Table 1.

<b>Company</b>	<b>n =</b>
<i>Firm of consulting structural and civil engineers</i>	44
<i>A brand management design agency</i>	46
<i>A manufacturer of children's playgrounds</i>	12
<i>Firm of architects</i>	28
<i>Firm of IT specialists</i>	16
<i>Firm of architects</i>	37
<i>Firm specialising in digital voice capture</i>	23
<b>TOTAL</b>	<b>206</b>

## **Measures**

We employed two measures. The dependent variable of employee engagement was measured using The Good Work Survey (GWS). The independent variable was measured using a specifically designed question-set measuring various aspects of employee ownership (EO).

Table 2.

<b>Factor</b>	<b>Reliability</b> <i>Cronbach's Alpha</i>
<i>Fulfilment</i>	0.88
<i>Opportunity</i>	0.90
<i>Respect</i>	0.88
<i>Security</i>	0.83
<i>Employee Voice</i>	0.89

### **The Good Work Survey (GWS)**

This relatively recent tool was designed by Joe Jordan of Smithfield Performance, and Lis McCormick of the Centre for Team Performance. It is a 26-item measure of employee engagement which is designed for use across a whole organisation. It has a five factor model of engagement, each factor corresponds to the ideals of the Fair Work Framework<sup>2</sup>. The factors, along with the internal reliability scores, are shown in Table 2. The GWS has been used in nineteen companies since it was developed in 2016.

The scoring of the GWS is on a six point rating scale, and the factor scoring is the average score of all of the question scores that load against the factor. In addition, an Over-all Engagement score is calculated by averaging the scores across all 26 questions.

<sup>2</sup> The Fair Work Framework. Crown Copyright 2016

### ***The Employee Owned (EO) questions***

The purpose of this measure is to assess the importance of key factors associated with employee ownership amongst employees who work in employee owned businesses and to test the impacts of these factors on employee engagement.

The question-set was established using an 'a priori' guide that included: *Understanding*, how well do employees understand how the company is owned; *Feeling*, to what extent do employees identify as owners; *Impact*, to what extent does the employee voice have a real, practical impact and influence on decisions at company level; *Access*, to what extent do employees have access to company information; and *Actions*, to what extent do employees have an entrepreneurial mindset in exploring innovation opportunities within their jobs. A 13-item question set was established covering these elements.

### ***Method***

Through the spring of 2017 both the GWS and the EO surveys were sent to 268 people from the seven participating companies. There were  $n=206$  returns representing a response rate of 77%. The resulting database has been used in this study to represent the EO data. As already described, the data for the non-employee owned control group was drawn from the existing dataset of the GWS, made up of nineteen organisations totalling  $n=513$ , and gathered around the same time as the EO data.

Our research questions are: Are there any statistical differences in employee engagement between employee owned and non-employee owned businesses? If so, what aspects of engagement are being affected by what aspects of EO.

The first exercise was to establish the efficacy of the EO measure by factor analysing the data in order to see whether the statistical factor structure matched the 'a priori' factor structure. The resulting statistical factor structure was used in the analysis.

We then moved to testing the main research question. For this we brought in the data from all of the non-EO organisations that have completed the GWS. We used a series of t-tests to determine whether there were any statistical differences between the EO and the non-EO data.

Finally, we explored which of the EO factors were impacting on which of the GWS factors. For this analysis we used only the data from the EO businesses, which we put through a stepwise regression analysis.

Table 3.

### **Ownership Motivation**

- *I feel like I contribute to improving the business more because I own some of it, compared to how I would contribute if I didn't own some of it*
- *I see myself as an owner of this company, not just an employee*
- *Because I own some of this business I feel more like an entrepreneur than an employee*
- *I participate fully in employee-owner meetings*

### **Ownership Understanding**

- *I have a good understanding of the ownership structure of this business*
- *I have a good understanding of how employees in this company benefit from share ownership (personally and/or through a Trust)*
- *I have a good understanding of the role of the Trust & Trustees*
- *I pay close attention to the company's performance*

### **Proximity to decision making**

- *Employees have a strong voice and can influence board-level decision-making in this business*
- *In my view, we have good systems for conveying employee opinions to management*
- *When I get company information it is presented in a format that is easy for me to understand*
- *I receive regular information from management about the performance of the business*
- *I believe that employees could significantly change decisions being made within the business if the weight of their opinion was strong enough*

## **Results**

### **Factor Analysis of the EO question-set**

Using the data from the EO businesses (n=206) we factor analysed the EO question-set. This resulted in a factor structure with 3 dimensions, see Table 3. The questions that make up the first factor all represent the original 'feeling' and 'action' elements of the 'a priori' model, the extent to which people are motivated by the fact that they own a part of the business. For this reason we have called it 'Ownership Motivation'.

The questions that make up the second factor all represent the 'understanding' element from the 'a priori' model. For this reason we have called it 'Ownership Understanding'.

The questions that make up the third factor appear to cover the original ideas around 'access,' and around 'impact'. The statistical model for this factor is strong, the internal reliability score for the factor is high (cronbach's alpha = 0.834)

suggesting that the combination of, 1) information exchange, and 2) employee influence in decision making, is a strong combination. Neither aspect is as strong alone as the two aspects are together. Because the factor represents 'influence' over decision making we have called it "Proximity to Decision Making".

***Differences between employee-owned and non-employee owned businesses on employee engagement***

We used t-tests to compare the scores from the GWS for the employee-owned organisations (n=206), and the non-employee owned organisations (n=513). T-tests are used to test the difference in scores between two groups to determine if two sets of data are significantly different from each other.

Table 4 shows the results. As can be seen, employees from employee owned companies score much higher on the over-all engagement score, and much higher on all of the GWS factors. The differences are highly significant with  $p < .000$  in all cases.

Were we to pose a hypothesis, that employee engagement is higher in employee owned organisations compared to non-employee owned organisations we would accept the hypothesis without hesitation.

Table 4.

<b>Independent Samples Test</b>					
<i>t-test for equality of means</i>					
		<i>Mean Scores</i>	<i>Mean Difference</i>	<i>t score</i>	<i>Sig. (2-tailed)</i>
<i>Over-all Engagement</i>	<i>EO</i>	4.4696			
	<i>Non-EO</i>	4.1580	0.3116	4.684	.000
<i>Fulfilment</i>	<i>EO</i>	4.5250			
	<i>Non-EO</i>	4.3144	0.2106	3.014	.000
<i>Opportunity</i>	<i>EO</i>	4.3738			
	<i>Non-EO</i>	4.0273	0.3465	3.866	.000
<i>Respect</i>	<i>EO</i>	4.7233			
	<i>Non-EO</i>	4.4012	0.3221	4.416	.000
<i>Security</i>	<i>EO</i>	4.6854			
	<i>Non-EO</i>	4.3205	0.3650	4.651	.000
<i>Effective Voice</i>	<i>EO</i>	4.6932			
	<i>Non-EO</i>	4.2503	0.4429	5.743	.000

Table 5.

<b>Impact of EO factors in Over-all Engagement</b>			
<i>Stepwise Regression Analysis</i>			
	<i>Beta</i>	<i>t score</i>	<i>Sig.</i>
<b>Model 1</b>			
<i>Proximity to Decision-Making</i>	.810	19.716	.000
<b>Model 2</b>			
<i>Proximity to Decision-Making</i>	.660	11.927	.000
<i>Ownership Motivation</i>	.215	3.882	.000
<b>Excluded Variable</b>			
<i>Ownership Understanding</i>	.059	1.202	.231

### **Regression Analysis**

Since there are such large differences between the employee owned businesses and the non-employee owned organisations it makes sense to explore the driving forces that are creating this outcome. We tested the strength of impact of each of the EO factors on the GWS Over-all Engagement score using a stepwise regression analysis in which the EO factors were the independent variables and the GWS Over-all Engagement score was the dependent variable. The results are shown in Table 5.

Stepwise regression analysis adds the independent variables into the regression one after the other resulting in a number of regression models showing the result of each step. The adding of additional variables only proceeds when the variable is shown to add a statistically significant impact on the dependent variable.

In our case, the regression analysis shows that two of the variables have a statistically significant impact on the dependent variable. The first, and most important, is Proximity to Decision Making, which is three times as influential as the second significant variable, which is Ownership Motivation (beta values are .660 and .215 respectively).

Our third independent variable, Ownership Understanding, does not have a statistically significant impact on employee engagement and is therefore excluded from the final regression model.

## **Discussion**

The results show that there is a statistically significant difference in employee engagement between employee owned organisations and non-employee owned organisations, and that this difference is, in the main, being driven by the close proximity of employees to decision making, and to a much lesser extent to the motivating effect of ownership itself that exists in employee owned businesses.

These quantitative results support more qualitative results found in other studies. Macleod & Clarke<sup>3</sup> (2009) found that: "Employee ownership was a profound and distinctive enabler of high engagement".

The Nuttall Review<sup>4</sup> states:

"The key condition under which employee ownership is recognised to succeed best is when it allows employee owners to exercise their voice internally. It is this combination of share ownership and employee engagement that drives higher performance."(p22)

Whether the higher level of engagement in employee owned businesses results in better business outcomes for the businesses is not something that was measured in this study. However, as described in the introduction, the Harter et al study (2002) is as definitive as it is possible to be in establishing significant positive differences between high engagement businesses and low engagement businesses on a whole range of business performance outcomes.

Methodological issues have been minimised throughout this study. The two study groups are matched in many respects; both are predominantly small and medium sized businesses, operating in the same business sectors, all based in Scotland and delivering services to an equivalent customer base, and all the data was collected over the last twelve months.

Employee ownership and its impact on employee engagement is a topic that needs further enquiry. This study has been promising in showing the significant benefits of ownership on engagement, and it would be worthwhile expanding the research into bigger organisations with bigger sample sizes, and bringing in business outcome measures such as well-being, absenteeism, innovation and business performance.

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3 MacLeod, D. and Clarke, N. (2009) Engaging for success: enhancing performance through employee engagement. Department for Business Innovation and Skills.

4 The Nuttall Review (2012). Crown Copyright