Do employee-owned firms produce more positive employee behavioural outcomes? If not why not? A British-Spanish comparative analysis

How to cite:

For guidance on citations see FAQs.

© 2017 Not known

Version: Accepted Manuscript

Link(s) to article on publisher's website:
http://dx.doi.org/doi:10.1111/bjir.12247
http://rdcu.be/tjf1

Copyright and Moral Rights for the articles on this site are retained by the individual authors and/or other copyright owners. For more information on Open Research Online’s data policy on reuse of materials please consult the policies page.

oro.open.ac.uk
Do employee-owned firms produce more positive employee behavioural outcomes? If not why not? A British-Spanish comparative analysis

Imanol Basterretxea (Universidad del País Vasco UPV/EHU, Spain)
John Storey (The Open University, UK)

British Journal of Industrial Relations (2017)

Abstract

Whether ‘employee ownership’ takes the form of worker cooperatives, co-ownership or simply employee share ownership plans, there are normally high expectations that a range of positive outcomes will result. Yet many empirically-based studies tend to find a much more complex picture. An influential segment of that empirical literature has posited the need for a number of mutually-reinforcing workforce management components to be in place alongside co-ownership. Drawing on detailed case research in two large and successful co-owned retailers in Spain and Britain this paper examines the role of these wider elements supporting employee ownership. We find that employee ownership can be linked to higher productivity and lower employee turnover, while at the same time being linked to higher absenteeism and mixed effects on attitudes. Expectations held by managers and employees are higher; these expectations are not always fully met. The role of managers was also found to be crucial.

KEYWORDS: employee ownership; cooperatives; satisfaction; motivation; engagement; absenteeism; turnover

Acknowledgements:
This article drew on two research projects: “Dirección de Innovación y Personas”, funded by the University of the Basque Country UPV/EHU (GIU-15/08); and “A Better Way of Doing Business?” funded by the Economic & Social Research Council, (ES/K000748/1)
The generous help of senior managers at Eroski and JLP is also acknowledged.

1 Corresponding author:
Postal address:
Imanol Basterretxea
Dpto. Economía Financiera II.
Fac. CC. Económicas y Empresariales UPV/EHU
Avenida Lehendakari Aguirre, 83, 48015, Bilbao
E-mail: imanol.basterretxea@ehu.es
**Introduction**

One of the many rationales advanced as justifying employee-owned enterprises is the idea that workers in such enterprises will be more engaged and more productive. The suggestion is that workers in such enterprises will think and behave differently: the essential nature of that difference being that they can be expected to act more like ‘owners’. This means, for example, that they will be more customer (and market) focused as they see the customer rather than the boss as the source of their economic futures; they would also be expected to be willing to make sacrifices in hard times in order to sustain the enterprise. They would be expected to expend ‘discretionary effort’. In managerial language, they might be expected to be more willing than an employee in a conventional firm, to ‘go the extra mile’.

Many studies find that employee-owned firms derive favourable effects in terms of satisfaction, motivation and behavioural measures such as lower absenteeism and reduced labour turnover (Bakan et al. 2004; Brown et al. 1999; Kruse et al. 2004, 2010; Long, 1980, 1982; Mc Carthy et al. 2010; Oliver, 1984). Moreover, studies also find that these firms have higher productivity on average (O’Boyle et al. 2016). But other studies find neutral effects or even find lower levels of satisfaction and higher levels of absenteeism (Arando et al. 2011; Blasi et al. 2008; Keef, 1998; Kruse, 1984; Rhodes and Steers, 1981).

Existing research reports generally fail to explain the reasons for such dispersed and mixed results. Kruse and Blasi (1995: 25) considered that the mixed results remained unexplained because “research has only scratched the surface of the range of other human resource policies that might produce positive complementarities with employee ownership”. The purpose of this paper is to get beneath that surface. We draw upon the results of a detailed comparative study of behaviours in two large retailers with employee-ownership characteristics in order to trace the precise impacts of ‘membership’ of an employee owned enterprise. We did this by locating the study of such behaviours in the context of wider economic factors and the wider array of human resource management policies and practices.

One of these retailers, Eroski, is based in Spain and is part of the Mondragon Cooperatives group, the other, the John Lewis Partnership, is based in the UK and is by far the largest co-owned enterprise in that country. We analyze the results from employee surveys conducted over multiple years in both companies and we examine behavioural responses using measures such as productivity, absenteeism and voluntary turnover. Our analysis complements the existing literature by also reporting on the reasoning used by managers to account for employee attitudes and behaviours. This adds an extra dimension to the understanding of the employee ownership model as does the attention we pay to the wider economic context over time.

The John Lewis Partnership has two major business units: John Lewis department stores and Waitrose supermarkets. JLP employs nearly 90,000 ‘partners’, mainly in its 48 John Lewis department stores and shops and in the 350 Waitrose supermarkets and branches. In the 1930s, the founder, John Spedan Lewis, took the highly unusual step of giving away a large portion of his ownership of the business to his employees by placing his shares in a trust using an ‘irrevocable settlement’ (Spedan Lewis 1954). The stock as a whole rests with the Trust. Managers and workers talk routinely of this arrangement as a
co-owned business. The founder also created a checks-and-balance governance system, set out in a Constitution. In the founder’s own words, he was embarking on ‘an experiment in industrial democracy’ (Spedan Lewis 1948). Partner influence and voice is based on a series of elections to representative bodies. Nearly all employees are Partners but in recent years some outsourcing arrangements and innovative company to company joint enterprise arrangements have resulted in some workers being non-members. This division has triggered internal debate and concern.

Eroski S.Coop was founded in 1969 as a result of the merger of ten small consumer cooperatives located in the Basque Country. In the early 1990s, Eroski began a regional expansion to other parts of Spain, opening new hypermarkets and acquiring many supermarket chains. As a result of this expansion, Eroski Group became the biggest company in Mondragon and the third largest food retailer in Spain. This growth path has changed since 2008 as a consequence of the economic crisis. There has been a reduction in the number of employees from 52,711 in 2008 to 33,832 in 2014.

Eroski is a consumer and worker cooperative with by-laws that give consumer-members and worker-members equal representation on its elected governing bodies. There are two governing authorities: the General Assembly and the Governing Council with both consumer and worker members being represented on each. The main business of the Eroski Group is concentrated in hypermarkets and supermarkets, although the Group has diversified into new businesses including drugstores, petrol stations and sports equipment stores. In the last two decades, Eroski has employed three kinds of employees: (i) ‘cooperative owners’, mainly located in the cooperative parent company Eroski S.Coop; (ii) employees with partial ownership (often found in subsidiary companies); and (iii) employees without ownership.

In 2013, 33.7% of Eroski employees were ‘employee owners’. Of these, the composition was as follows: 8,196 of them were cooperative owners of the parent company EROSKI S.Coop., 3,632 were cooperative owners of the second order subsidiary cooperative EROSKI Hipermercados S.Coop.,‘ and 467 were employees with partial ownership of the subsidiary Gespa Forum sport stores. The majority of people working for Eroski are employees without ownership. This has been the case for the last 20 years (Storey et al. 2014). The different kinds of employees working for Eroski are of particular interest for this research since they allow for a revealing comparative analysis in a controlled way of the link between ‘ownership’ and outcomes as measured by behaviours and attitudes.

The positive and negative effects of employee ownership

Several systematic reviews of the literature that analyze the links between employee ownership and employee attitudes and behaviours (Caramelli, 2011; Kaarsemaker and Poustma, 2006; Kruse, 2002; Kruse and Blasi, 1995) tend to confirm that there is no automatic effect of employee ownership on employee attitudes and behaviour. Those studies find mixed results and highlight the need for new research to account for contingency relationships such as organizational strategy, the internal fit between employee ownership and the HRM system, and wider contextual factors.

The arguments used by advocates of employee ownership to justify their mainly positive view of the correlation between employee ownership and attitudinal and
behavioural responses, are largely based on agency theory. Linkage of employee remuneration and rewards to corporate performance will align employees’ interests with those of their employer thereby encouraging them to exert more effort, share information, and cooperate with managers and peers to promote the success of the company (Pendleton and Robinson, 2010). Within this paradigm, tying employee incentives to firm performance is expected to heighten employee morale, provide a direct motivation for individual effort, and furnish a rationale for mutual monitoring (Bonin et al. 1993). Greater employment security offered by employee-owned companies is also seen as a motivational factor (Blair, 1995; Kramer, 2010; Pendleton and Robinson, 2010).

Klein (1987) presented three models of the psychological effects of employee ownership. The first, the “intrinsic satisfaction model”, suggests that a sense of employee ownership is, in itself, sufficient to increase employees’ commitment to, and satisfaction with, the company. The second, the “instrumental satisfaction model”, suggests employee ownership must be matched with an increase in the opportunities for worker participation in decision making. The third model, ‘extrinsic satisfaction’, suggests that employee ownership increases commitment if it is materially rewarding to employees.

Klein (1987) found no support for the intrinsic satisfaction model, but her results did lend support to the extrinsic and instrumental satisfaction models. She noted that ‘there must be an intervening variable - financial gain or participative management or both - for employee ownership to be associated with employee satisfaction and commitment.’ (1987: 329)

The ‘instrumental satisfaction’ model has been the subject of much research. Many researchers underscore the necessity of complementing employee ownership with an increased employee participation in decision making in order to increase satisfaction and commitment. So, the ‘complementary hypothesis’ is that there is a mutually-reinforcing effect that derives from ownership and influence. Nevertheless, as Kaarsemaker and Poustma (2006) and Pendleton and Robinson (2010) observe, the empirical evidence for the apparent link between employee ownership and its positive impact on participation is still remarkably weak.

Kruse et al (2004) propose a “three prong hypothesis” which adds innovative human resource policies to the mix. This suggests a positive interplay between ownership, participation in decision making, and supportive HR policies. Kruse et al (2004) using data from 14 ESOP companies, find positive evidence for this hypothesis (2010) relating worker-reported outcomes to ownership, participation and HR policies that encourage participation and reduce the free riding problem. According to Kruse et al. (2010) and Kurtulus and Kruse (2017), satisfaction increases when shared capitalism is combined with increased participation in decision making and with high-performance HR policies (e.g. being in an employee involvement team, job security and training) and low levels of supervision. Explaining the model even further, Kaarsemaker and Poustma (2006) consider that in order to create an “Ownership High-Performance Work System”, employee ownership needs the additional presence of five core HRM practices: participation in decision making; information sharing; training for business literacy; mediation; and profit sharing.
Among the factors of employee owned companies that can generate negative effects on employee attitudes and behaviours, the risk of “free-riding” is the most cited (Bonin et al 1993; Klein, 1987; Kruse et al. 2004; McCarthy et al. 2010; Pendleton and Robinson, 2010). Given that financial rewards are shared with co-owners, as the number of employee owners grows, the link between an individual’s effort and the reward s/he receives becomes weaker and the risk of shirking or free-riding increases. The opportunity to free ride ‘can undermine even the best ownership incentive… destroying employee morale’ (Kruse et al. 2004, 105).

Another potential source of dissatisfaction in employee owned companies, especially for risk averse, low paid and economically insecure workers, is the extra risk that employee ownership implies to the income of partners (Blasi et al. 2010; Kruse and Blasi, 1995; Kuvaas, 2003). Raised and not fulfilled expectations among employee owners may also cause negative outcomes (Arando et al. 2011; Ben-Ner and Jones, 1995; Klein and Hall, 1988; Kruse and Blasi, 1995; McCarthy et al. 2010).

Employment security is normally expected to have a positive effect on employee attitudes and behaviours, but Blasi et al. (2008) find higher absenteeism rates among employee owners and suggest that “it may be” that a greater sense of job security underlies those results. According to Long (1982) and Kruse (1984), a process of ‘involvement deterioration’ over time can occur in employee owned companies. This implies that a lack of impact might result from a taken-for-grantedness of the ownership status. Its saliency can subside unless active steps are taken to periodically refresh the idea.

In the research reported below, we seek to take this body of literature forward by presenting evidence of positive and negative outcomes of employee ownership in two large comparator firms, and by digging deep into the reasoning which managers bring to the evidence they have before them. We analyse their practical theorising of the links between the employee owned models they promote and the behavioural results which they monitor.

**Methodology**

One distinctive feature of the study design is that it combines positivist methods with interpretivist methods. The cases we investigated met the guidance offered by Stake (1994), that is, they offer significant opportunities to learn about the issues under investigation. Having access to knowledgeable informants, and to rich and longitudinal quantitative data of the two biggest employee owned retail companies in the world, offered the possibility to gain rich insights. Choosing those two companies also highlighted a key issue, given that one of them (JLP) has been very commercially successful, while Eroski has faced many problems since 2008. As these two different economic situations can themselves affect attitudinal and behavioural responses, we have included quantitative data over extended periods.

We gathered quantitative data from diverse sources. In Eroski we had access to the results of the 2008 hypermarket employee satisfaction survey answered by 4,328 employees and to a more complex culture-leadership-satisfaction survey conducted in 2011 and answered by 23,543 employees. Eroski offers the possibility of conducting between-groups cross-sectional comparisons of attitudinal and behavioural responses of
employee owners and non-owners because it employs considerable numbers of each category. We also gathered data on absenteeism and voluntary turnover rates for cooperative owners and non-owner employees for the 2005-2014 period.

In the case of John Lewis, we had access to the results of the 2011, 2012 and 2013 Partner Surveys. The survey results in John Lewis include a comparison of the responses given by partners with responses to similar questions in surveys conducted by an external benchmarking sample of 1,824,040 employees working for 337 large organizations. Additionally, we were able to correlate results from the attitude surveys with behavioural results such as absenteeism and productivity from selective stores.

We were not able to conduct regressions because we didn’t have direct access to the microdata of those surveys. Instead we relied on the data owners, the HR managers of both companies, to provide tabulations and run the descriptive statistics we requested.

Armed with the accumulated data on employee behaviours and attitudes we interrogated managers about their own interpretations of the data and the ways in which they made sense of the data. Beyond that, using interview techniques, we inquired into their intended strategies and their rationales. We constructed a common framework to research the two cases and drew on our extensive background knowledge of both cases extending over ten years. The initial comparative framework was iterated between the two research teams in the UK and Spain and then applied to both JLP and Eroski. In the most recent phase of our work with John Lewis, interviews took place over a 24 month period. Interviews were conducted with members of the main board and also with members of the management boards of John Lewis (department stores) and Waitrose (supermarkets). Further interviews took place with senior managers in finance, logistics, human resource management and other central functions. A total of 25 managers were interviewed. All interviews were recorded and transcribed. Further, we were allowed access to the archives and from these a very detailed timeline was constructed which revealed variations in business policy and democratic arrangements over time. Additionally, we were able to observe managerial and board meetings.

In Eroski, eleven interviews were conducted with senior managers. We placed a special focus on human resource policies and practices. In order to reinforce the longitudinal view for the case of Eroski we also interviewed the former president for the period 1995-2011 and used the data emerging from four conferences held between 2011 and 2015 with the currently serving president, the chief executive officer and the former president. Each of these interviews and events were recorded, transcribed and used in the research. An additional interview was held in February 2016 with the researcher in Mondragon University in charge of conducting the culture-leadership satisfaction survey in Eroski and in other Mondragon cooperatives.

As recommended in the literature (Gibbert et al. 2008), in order to increase the reliability of our analysis of the interviews, two peers not co-authoring the paper independently analyzed the transcripts of the interviews and discussed and reviewed the draft of the paper. With the same purpose in mind, a review of drafts was also made by key informants in both companies between December 2015 and January 2016.

Results
For each case we consider: productivity; employee turnover; and attitudes/satisfaction levels.

**Eroski**

**Productivity**

According to managers in Eroski, productivity measured both by sales per employee and by sales per square meter, has normally been higher in the cooperative business than in subsidiaries without cooperative members. Data is shown in Table 1 for the 2008-2015 period.

<table>
<thead>
<tr>
<th>Table 1. - Productivity measured as sales per employee in Eroski S.Coop vs subsidiaries (in thousands €).</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sales Eroski S.Coop</td>
</tr>
<tr>
<td>Average N coop workers Eroski S.Coop</td>
</tr>
<tr>
<td>Average N non-coop workers Eroski S.Coop</td>
</tr>
<tr>
<td>Sales/Employee Eroski S.Coop</td>
</tr>
<tr>
<td>Sales subsidiaries</td>
</tr>
<tr>
<td>Average N employees subsidiaries</td>
</tr>
<tr>
<td>Sales/Employee Subsidiaries</td>
</tr>
</tbody>
</table>

Source: Data gathered from annual accounts. Available at [www.cnmv.es](http://www.cnmv.es) (National Stock Market Commission)

As Table 1 shows, productivity in the parent company has been higher than in subsidiaries every year from and including 2008 to 2015. The same pattern occurred in the pre-crisis 2001-2007 period. The gap has been reduced in the 2008-2015 period mainly due to the sale or closure of deficit stores in the subsidiaries. The reduction of stores in subsidiaries has also resulted in a reduction in the sales of the cooperative parent company to its subsidiaries, thus reducing the productivity of the cooperative parent company.

So, in headline terms, there is clear evidence that productivity is indeed higher in the employee-owned parts of the organisation. However, it is necessary to dig deeper in order to consider other variables. For example, productivity ratios can be influenced by other factors such as the different sizes and kinds of stores in the cooperativized business and in the subsidiaries. Productivity comparisons need to be conducted comparing stores of similar size and kind. Such a comparison is available from research data from 2006 and 2007. This revealed that monthly average sales per employee were 34% higher in Eroski coop hypermarkets than in partially employee owned hypermarket subsidiaries. In the case of supermarkets, sales per employee were 39% higher in coop stores than in supermarkets partially owned by employees and 41% higher than in stores with no employee partnership (Arando et al. 2014, p. 45)
However, all of the managers we interviewed contended that, as far as they were concerned, there is no scientific study that fully convinces them that the higher productivity of the cooperativized business can be unequivocally be attributed to its cooperative nature. For example:

We have data that shows that there is higher productivity in stores with cooperative members than in stores with non-members. Are these differences because the employees are members or due to differences in the geographical areas where those stores are? If the stores where the majority of members are, are located in a region where we are leaders, where we have higher sales per square meter, logically productivity is higher in those stores. Simply because there is more activity. (Eroski Manager 1)

Nevertheless, many of the interviewees – including the President, the CEO, and the managers of the area of human resources tended to hold to a belief that the cooperative nature did impact on behaviour. So, for example:

We want to cooperativize the subsidiaries, because we believe that at this cooperative stage there are much higher levels of engagement in all professional levels, particularly in stores. We also believe there are differences in intangible elements, such as strictly relational elements, the way in which the stores have some positive energy, a positive energy that is transmitted by the people that work in the organization they co-own and therefore feel they are working for themselves. That is an absolutely unique competitive advantage, it is not imitable by other organizations. And so we know that there's a certain differential element between the cooperativized business and the non-cooperativized one, although there is no scientific study that correlates the higher productivity of our cooperativized business with its cooperative nature (Eroski manager 6)

Thus, the interim conclusion from the productivity data is that there is a prima facie case that the cooperative characteristics are conducive to positive productivity outcomes, but that because of confounding variables, it is necessary to dig deeper to gain a more rounded assessment.

**Labour turnover**

Low voluntary turnover rates were considered as one indicator of commitment among coop members in the Mondragon cooperatives by Bradley and Gelb (1982). According to our interviewees, thirty years after those studies, voluntary turnover rates of coop members in Eroski are still lower than that of non-members and lower than those of other food retailers in Spain. Comparative data on labour turnover are shown in Table 2.

Unfortunately, the data does not differentiate between voluntary and involuntary turnover. But the HR manager and other informants were able to make interpretations of the data that helped distinguish the roles of voluntary and involuntary turnover.

**Table 2: Average monthly labour turnover rates in Eroski (2005-2014)**

<table>
<thead>
<tr>
<th>Coop owners in Eroski S. Coop.</th>
<th>Employees with partial ownership (since 2012 coop)</th>
<th>Employees without ownership</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
High turnover rates are found among temporary employees, but it is difficult to read too much into this because often this group is hired on very short term contracts. Informants attributed the higher turnover of temporary employees in years previous to the crisis (2005-2007) to higher voluntary turnover. Both in the economic boom and in the crisis years, turnover rates of permanent employees and employees with partial ownership have been low, and even much lower in the case of the parent company cooperative owners. Those low turnover rates reflect low voluntary turnover in both collectives. The low turnover of coop cashiers and professionals was seen as a sign of commitment and also as a response to a suite of human resource policies, mainly pay policy (since the salaries of the majority of members are higher than the market), profit sharing and employment security. The effects of those human resource practices on turnover were considered in conjunction with other contextual factors. Given the high unemployment rates in the Spanish economy, informants argued that employment security offered by Eroski is a key factor that ties coop owners to the company - as in other Mondragon coops (Heras, 2014). However, job security ties to the company not only the highly engaged members, but also a number of members who are unsatisfied but have no better employment alternatives.

If pay policy helps to explain the low turnover of most coop members, it doesn’t explain the retention of managers. The principle of ‘wage solidarity’, one of Mondragon’s cooperative principles, presupposes low pay differentials in Mondragon cooperatives. The salary of the President of Eroski is limited to 7.8 times the salary of the lower paid coop member, and the salary of the CEO is limited to 7 times the lower rate. As a consequence, their salaries are 72% lower than in similar firms. Some 75 managers of first and second tiers of the organizational chart receive salaries that are 50-60% lower than in comparable size firms. Managers in each hypermarket and most technicians in central offices, earn 10-20% less than those in competitors. Despite these levels of remuneration, voluntary turnover of managers in Eroski remains very low (1 or 2% per
year among the 80-90 positions of maximum responsibility of Eroski S.Coop and 2% among hypermarket managers).

Satisfaction and attitudes

A further possible indicator is the attitude to wage restraint. Since 2008, Eroski has been facing challenging financial problems. In order to help address these, Eroski working members have increased working hours and reduced their own wages. According to interviewees, those decisions are a sign of high adhesion and commitment levels:

We have just subjected the decision to reduce our pay to the vote of members. 92% of members voted, and 79% said ‘yes’ to a reduction of their wage. The average member is a cashier with a salary not much higher than 1,000 euro a month and has said yes to reduce the salary. I think that this shows an extreme level of commitment and adhesion. (Eroski Manager 2)

The explanation given by some managers to those high levels of commitment is in line with Klein’s (1987) instrumental satisfaction model:

As a partner you have much more information, more data, you know how the business is, you feel it is part of you. This allows you to take difficult steps like the decision to increase our working hours and reduce our wages. (Eroski Manager 9)

However, as we will see, not all managerial analysis reflects such a straightforward link between employee ownership participation and employee attitudes and behaviours.

Apart from higher productivity and lower voluntary turnover, some of the first researchers of the ‘Mondragon Experience’ highlighted that absenteeism rates of coop members were about half those in comparable local firms (Bradley and Gelb, 1981; Thomas and Logan, 1982). However, three decades on, the situation is quite different. In the specific case of Eroski, this cooperative annually exceeds the sick leave payment goals established by Mondragon’s corporate social provision body. Absenteeism rates of coop members have been consistently higher than those of non-members since 2009 (see Table 3).

<table>
<thead>
<tr>
<th>Coop owners</th>
<th>Eroski S. Coop.</th>
<th>Employees with partial ownership (since 2012 coop owners of second degree coop)</th>
<th>Permanent employees</th>
<th>Temporary employees</th>
</tr>
</thead>
<tbody>
<tr>
<td>2005</td>
<td>6.61%</td>
<td>6.52%</td>
<td>6.15%</td>
<td>2.52%</td>
</tr>
<tr>
<td>2006</td>
<td>6.36%</td>
<td>6.58%</td>
<td>7.19%</td>
<td>2.38%</td>
</tr>
</tbody>
</table>

Table 3: Sick leave rates* of Eroski working coop members; employees with partial ownership and non-members (2005-14)
Given older workers tend to have more health problems, we considered age differences as a control variable. The average age of coop members and non-members was provided for 3 different years. In 2005 these were 37.02 for coop members vs 31.78 for non-members. In 2010: 40.46 vs 35.70; and 2014: 43.66 vs 38.79. Interviewed managers considered that older average age of members can explain some sick leaves, but it wouldn’t be a major explanation for the differences seen on Table 3. In fact, the average age of coop members was also higher in the 2005-2008 period when absenteeism rates of coop members were no higher than those of permanent non-owner workers.

Interviewed managers interpreted absenteeism rates as a “silent response” of some cooperative owners to austerity measures and were concerned about the possible link between absenteeism, low commitment and shirking:

We think that a proportion of coop members are dissatisfied or have a low commitment with their job and, when they get sick, they lengthen the time they stay at home two days more than the average employee in society. (Eroski Manager 6)

This idea that measures such as absenteeism may reflect a lack of responsible engagement with the cooperative project goes to the heart of the debate about behavioural outcomes of employee ownership. For example:

During the first two years of the crisis, 2009-2010, there was a very strong reduction in absenteeism within the non-co-operative subsidiaries of Eroski Group, but there was a rise in the parent cooperative firm. That rise in absenteeism was a reflection of discomfort on the part of the working members ... as working members, having a job virtually guaranteed allowed them to have that kind of reaction. (Eroski Manager 6, emphasis added)

Higher productivity levels in the cooperative parent company imply higher stress and workload for coop members. During the crisis there has been a reduction in the number of non-owners working in the cooperative parent company (as a sign of this reduction, wage costs of non-owners in Eroski S.Coop went from 47 million euro to 28.5 million euro in 2009). This increased the workload of cooperative workers. Most of the managers highlighted the decision of coop members to increase their working hours (by 10% in 2009, then lowered to a 5% in 2011) and to reduce their wages as a sign of high commitment, but some also highlighted that those measures have a negative impact on

<table>
<thead>
<tr>
<th>Year</th>
<th>Sick Leave</th>
<th>Accident Leave</th>
<th>Total Leave</th>
<th>Overall Leave</th>
</tr>
</thead>
<tbody>
<tr>
<td>2007</td>
<td>5.99%</td>
<td>6.01%</td>
<td>6.79%</td>
<td>2.95%</td>
</tr>
<tr>
<td>2008</td>
<td>5.40%</td>
<td>5.51%</td>
<td>6.45%</td>
<td>2.82%</td>
</tr>
<tr>
<td>2009</td>
<td>6.02%</td>
<td>5.12%</td>
<td>5.88%</td>
<td>1.98%</td>
</tr>
<tr>
<td>2010</td>
<td>7.21%</td>
<td>4.54%</td>
<td>5.48%</td>
<td>1.59%</td>
</tr>
<tr>
<td>2011</td>
<td>6.51%</td>
<td>4.08%</td>
<td>5.02%</td>
<td>1.50%</td>
</tr>
<tr>
<td>2012</td>
<td>5.26%</td>
<td>3.11%</td>
<td>4.05%</td>
<td>1.19%</td>
</tr>
<tr>
<td>2013</td>
<td>5.44%</td>
<td>2.96%</td>
<td>4.09%</td>
<td>1.32%</td>
</tr>
<tr>
<td>2014</td>
<td>5.82%</td>
<td>3.32%</td>
<td>4.69%</td>
<td>1.28%</td>
</tr>
</tbody>
</table>

*Sick leave rates = % of sick and accident leave hours / total working hours

Source: Data gathered from the company.

Higher productivity levels in the cooperative parent company imply higher stress and workload for coop members. During the crisis there has been a reduction in the number of non-owners working in the cooperative parent company (as a sign of this reduction, wage costs of non-owners in Eroski S.Coop went from 47 million euro to 28.5 million euro in 2009). This increased the workload of cooperative workers. Most of the managers highlighted the decision of coop members to increase their working hours (by 10% in 2009, then lowered to a 5% in 2011) and to reduce their wages as a sign of high commitment, but some also highlighted that those measures have a negative impact on
satisfaction and absenteeism levels of many members. Working longer hours, together with the increased number of tasks each member has to handle in each store have generated fatigue and that would be an important cause of higher absenteeism among coop owners in the 2009-2014 period.

Employee attitude results

We found lower satisfaction rates of coop members as recorded in a series of employee satisfaction surveys conducted in Eroski. The results of the 2006 and the 2008 satisfaction surveys revealed lower satisfaction among coop members significant at the 1% level for the 2008 survey and at the 5% level for the 2006 survey (Arando et al. (2011; Luu, 2011). They found lower satisfaction across a range of measures including attitudes to recognition, salary, labour conditions, information and communication, management style, training, promotion, innovation, change management and so on.

The lower satisfaction is striking since those surveys came after a long period of strong economic results and high levels of profit sharing among coop owners (Hernando, 2013). Besides, coop members received higher pay, had many more possibilities for participating in decision making and were subject to a greater variety of initiatives normally associated with sophisticated human resource management. The three-prong hypothesis was thus found to be problematic in Eroski (Arando et al. 2011; Luu, 2011). Such results were attributed to higher expectations among members.

In order to explore these issues more deeply, we accessed the results of a ‘culture-leadership survey’ conducted in 2011. This surveyed 5,362 employees of the cooperative parent company and 18,181 employees of subsidiaries. This survey also included three questions to measure the satisfaction of employees and four questions to measure their commitment. Perceptions of the availability and strength of human resource policies (training, participation, information and autonomy) were evaluated via three questions for each policy. The comparative results between the different Eroski employee collectives (coop owners, employees with partial ownership, permanent employees and temporary employees) can be seen in Table 4.

Interviewed managers noted that most of the survey questions related to satisfaction received a relatively high mark by employees and cooperative owners (over 4 on a 1-6 scale). Those results, they argued, were better than in most industrial cooperatives of Mondragon that use the same survey. Nevertheless, as in the 2006 and 2008 surveys, satisfaction measured in 2011 for cooperative members was significantly lower than for the other employee categories. Commitment was also lower, especially when compared with employees in subsidiaries with partial ownership.

Even if training, participation, autonomy and information opportunities provided in the parent cooperative company to coop owners are higher than those provided to employees with partial ownership in subsidiaries, the perception of those policies by coop owners is poorer. Those poorer perceptions of HR policies by coop members were also present in 2006 and 2008 Eroski satisfaction surveys analyzed by Luu (2011) and Arando et al (2011). In the 2011 survey, the perception of one of the policies, training, is lower for cooperative owners than for the rest of the employee groups.
Given the large sample sizes, even small differences are highly significant, mainly when we compare coop owners with employees of subsidiaries with partial ownership. That is why we have measured the effect size. Low Cohen’s d effect sizes in some of the HR policy items (cohen’s d<0.3) suggest that the differences between coop owners and employees without ownership on different perception levels of HR policies are lower than previously predicted.
Table 4 Comparative Satisfaction, engagement and evaluation of HR policies by Eroski coop members vs. Rest of employees, 2011.

<table>
<thead>
<tr>
<th>Variable</th>
<th>Group</th>
<th>N</th>
<th>Mean (std)</th>
<th>Comparison Group</th>
<th>N</th>
<th>Mean (std)</th>
<th>Mean difference from coop owners</th>
<th>Cohen’s d</th>
</tr>
</thead>
<tbody>
<tr>
<td>Satisfaction</td>
<td>Coop owners</td>
<td>4,548</td>
<td>4.4871 (0.98)</td>
<td>Employees with partial ownership</td>
<td>3,427</td>
<td>4.8685 (0.81)</td>
<td>-0.38142***</td>
<td>0.42</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td>Permanent employees</td>
<td>11,589</td>
<td>4.7932 (0.95)</td>
<td>-0.30610***</td>
<td>0.32</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td>Temporary employees</td>
<td>3,126</td>
<td>5.0729 (0.82)</td>
<td>-0.58587***</td>
<td>0.65</td>
</tr>
<tr>
<td>Engagement</td>
<td>Coop owners</td>
<td>4,563</td>
<td>4.0235 (1.19)</td>
<td>Employees with partial ownership</td>
<td>3,432</td>
<td>4.4308 (1.01)</td>
<td>-0.40732***</td>
<td>0.37</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td>Permanent employees</td>
<td>11,602</td>
<td>4.0523 (1.14)</td>
<td>-0.02876</td>
<td>0.02</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td>Temporary employees</td>
<td>3,133</td>
<td>4.1386 (1.02)</td>
<td>-0.11508***</td>
<td>0.10</td>
</tr>
<tr>
<td>Training</td>
<td>Coop owners</td>
<td>4,581</td>
<td>3.3872 (1.21)</td>
<td>Employees with partial ownership</td>
<td>3,445</td>
<td>3.9172 (1.08)</td>
<td>-0.52996***</td>
<td>0.46</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td>Permanent employees</td>
<td>11,641</td>
<td>3.7416 (1.14)</td>
<td>-0.35843***</td>
<td>0.29</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td>Temporary employees</td>
<td>3,144</td>
<td>4.1361 (1.02)</td>
<td>-0.74892***</td>
<td>0.63</td>
</tr>
<tr>
<td>Participation</td>
<td>Coop owners</td>
<td>4,569</td>
<td>3.6752 (1.24)</td>
<td>Employees with partial ownership</td>
<td>3,447</td>
<td>4.1573 (1.04)</td>
<td>-0.48213***</td>
<td>0.42</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td>Permanent employees</td>
<td>11,606</td>
<td>3.7312 (1.28)</td>
<td>-0.05600**</td>
<td>0.04</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td>Temporary employees</td>
<td>3,111</td>
<td>3.5954 (1.26)</td>
<td>0.07979**</td>
<td>0.06</td>
</tr>
<tr>
<td>Autonomy</td>
<td>Coop owners</td>
<td>4,568</td>
<td>3.9370 (1.24)</td>
<td>Employees with partial ownership</td>
<td>3,445</td>
<td>4.2439 (1.14)</td>
<td>-0.30698***</td>
<td>0.26</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td>Permanent employees</td>
<td>11,620</td>
<td>3.7475 (1.32)</td>
<td>0.18942***</td>
<td>0.15</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td>Temporary employees</td>
<td>3,125</td>
<td>3.6190 (1.27)</td>
<td>0.31797***</td>
<td>0.25</td>
</tr>
<tr>
<td>Information</td>
<td>Coop owners</td>
<td>4,569</td>
<td>4.2433 (1.00)</td>
<td>Employees with partial ownership</td>
<td>3,447</td>
<td>4.5707 (0.89)</td>
<td>-0.32738***</td>
<td>0.35</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td>Permanent employees</td>
<td>11,629</td>
<td>4.1768 (1.10)</td>
<td>0.06654***</td>
<td>0.06</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td>Temporary employees</td>
<td>3,140</td>
<td>4.1636 (1.10)</td>
<td>0.07967***</td>
<td>0.08</td>
</tr>
</tbody>
</table>

**The mean difference is significant at the 0.05 level; ***The mean difference is significant at the 0.01 level
The effect of age or tenure on those different perceptions of HR policies was not measured in these surveys.

Interviewed managers considered that raised, but unfulfilled, expectations among coop members was the main cause for lower levels of satisfaction. This reflects previous research (Arando et al. 2011; Ben-Ner and Jones, 1995; Klein and Hall, 1988; Kruse and Blasi, 1995; McCarthy et al. 2010). Another reason, shared by most interviewed managers, for employee dissatisfaction was the policy of egalitarianism and consequent subdued link between pay and performance:

We consider everybody equally, independently of them doing a good, mediocre or poor work. In other companies, if you do a better job, you have a bonus for your individual performance. (Eroski Manager 1)

The way profit sharing is conducted in Eroski, based in cooperative principles, reinforces egalitarianism and makes it difficult to see a link between individual effort and financial reward. One reason they cited for the failure to make changes is the strong opposition from cooperative members sitting on the governing bodies. Thus, the guardians (custodians) of the cooperative system are seen to act as a brake on managers’ pragmatic commercial instincts.

Informants argued that in the context of the financial crisis it became more necessary than ever to promote pay-for-performance but that they met resistance:

I've had no more problems than when we tried to change the remuneration of partners to differentiate it more. Yet the modification was relatively minor. This year a cornerstone in our strategic plan is to link pay and performance. We aim to do this for survival. (Eroski Manager 2)

The ‘ideal’ of egalitarianism is seen as less tolerable when survival is at stake. The implication is that the policy is perceived as an ideal which, in ‘normal times’, is pursued for reasons other than commercial advantage. There is an underlying tension in cooperative environments where the interdependence of work contributions is valued and so group-based incentive schemes seem a natural fit. But, as equity theory would predict, workers as well as managers may regard equal reward for unequal effort and contribution as unfair. In this case however, managers believed that they were the ones being restricted in taking the necessary measures to address this tension. Arguably, this reflected a failure of communication.

A related tension was found in the policy of employment security. This also had dual effects. On the one hand, managers contended that they found it difficult to sanction cases of poor performance. They suggested that this prompted supervisors to shirk in their monitoring tasks:

We have many supervisors not doing well what they have to do, which is to be exigent with their teams and get results (...) He who wants to works, works, and the one who doesn’t want to work, shirks. And the supervisor that has to say something to the shirking member thinks: “why will I say something to him, if it’s going to be a problem for me, if nobody will help me to make this guy work. There is no current corporate culture that will encourage the manager to use tools
of negative discrimination, so you generate a culture of lack of demand, a culture of comfort (Eroski Manager 9)

Yet, on the other hand, a sense of employment security can have positive effects including, for example, that it allows workers to exercise productive voice (Freeman and Medoff, 1984). However, the managers interviewed tended not to make this counterbalancing point preferring instead to emphasize their sense of restricted action.

Other factors mentioned were that engagement deteriorated over time; the increased workload for members following the 2008 crisis; and there had been a failure to build on the previous long period of success in order to foster a culture of ‘pride of belonging’. The researcher in charge of conducting employee surveys in Eroski offered an additional explanation: the “hyper-critical attitude” of coop owners and their willingness to voice complaints. This attitude can lead to lower expressed satisfaction, even if conditions are objectively equal or even better than for non-owners. This explanation is in line with previous research comparing satisfaction of unionized versus non-unionized workers (Freeman and Medoff, 1984).

With these findings in mind we can now turn to the second case-study in order to see whether similar patterns emerge.

**Behavioural and attitudinal responses in the John Lewis Partnership**

**Productivity**

The first point to note in relation to JLP is that in terms of measures of comparative commercial performance in recent years, it has been extraordinarily successful. In a tough market where many competitor retailers have folded and others have lost sales, JLP has been noted as bucking the trend. In the media, its success is routinely attributed to its employee ownership. In other words, one major possible positive outcome from the employee-ownership effect might be sheer survival.

Commercial success there has certainly been. The Partnership continues to grow year by year both in sales and in staff numbers. Table 5 below summarises JLP’s financial performance since 2007

**Table 5: JLP: 6-year performance summary (£m)**

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Sales (£m)</td>
<td>10172</td>
<td>9541</td>
<td>8730</td>
<td>8206</td>
<td>7422</td>
<td>6968</td>
<td>6763</td>
<td>6362</td>
</tr>
<tr>
<td>Sales growth over previous year (%)</td>
<td>6.6</td>
<td>9.3</td>
<td>6.4</td>
<td>10.6</td>
<td>6.5</td>
<td>3.0</td>
<td>6.3</td>
<td>-</td>
</tr>
<tr>
<td>Revenue (1)</td>
<td>9028</td>
<td>8466</td>
<td>7759</td>
<td>7362</td>
<td>6735</td>
<td>6267</td>
<td>6052</td>
<td>5686</td>
</tr>
<tr>
<td>Revenue growth over previous year (%)</td>
<td>6.6</td>
<td>9.1</td>
<td>5.4</td>
<td>9.3</td>
<td>7.5</td>
<td>3.6</td>
<td>6.4</td>
<td>-</td>
</tr>
<tr>
<td>Net (Post-Tax) Profits (2)</td>
<td>304</td>
<td>312</td>
<td>301</td>
<td>322</td>
<td>258</td>
<td>359</td>
<td>320</td>
<td>263</td>
</tr>
<tr>
<td>(3)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Partnership Bonus (£m)</td>
<td>203</td>
<td>211</td>
<td>165</td>
<td>195</td>
<td>151</td>
<td>125</td>
<td>181</td>
<td>154</td>
</tr>
<tr>
<td>Bonus (% of Salaries)</td>
<td>15</td>
<td>17</td>
<td>14</td>
<td>18</td>
<td>15</td>
<td>13</td>
<td>20</td>
<td>18</td>
</tr>
</tbody>
</table>
### Retained Profits (£m)

<table>
<thead>
<tr>
<th>Year</th>
<th>Profits</th>
</tr>
</thead>
<tbody>
<tr>
<td>2007</td>
<td>102</td>
</tr>
<tr>
<td>2008</td>
<td>101</td>
</tr>
<tr>
<td>2009</td>
<td>136</td>
</tr>
<tr>
<td>2010</td>
<td>127</td>
</tr>
<tr>
<td>2011</td>
<td>107</td>
</tr>
<tr>
<td>2012</td>
<td>233</td>
</tr>
<tr>
<td>2013</td>
<td>(2)</td>
</tr>
<tr>
<td>2014</td>
<td>130</td>
</tr>
<tr>
<td>2015</td>
<td>108</td>
</tr>
</tbody>
</table>

**Notes**

1. Revenue = Sales less VAT and ‘sale or return’ sales
2. Profits after tax but prior to Partnership Bonus
3. Profits affected by exceptional gain

Hence, if one measures performance on the basis of sales, this co-owned business is doing remarkably well: it enjoyed a 60% growth in sales between 2007 and 2014. This was a period of double dip recession in the economy as a whole. There has also been consistent year on year growth in partner numbers: from 76,800 in 2010 to 90,962 in 2013.

So, sales are evidently consistently healthy over long periods. However, senior management remain convinced that they have not yet been able to fully exploit the co-ownership potential. This is a constant theme. There is more productivity to achieve, more efficiencies to be implemented. This is why increasingly senior management emphasize not only the rights and rewards of partners but their responsibilities. The level of managerial expectation of the value to be gleaned from the Partnership model is high.

**Sickness absence**

Across the Partnership, sickness absence is lower than average compared with the retail sector as a whole. The retail sector average in 2012 was 6.8% and average rates across the economy in 2012-13 were 7% (CIPD 2013). In the JLP Waitrose supermarkets division, the sickness absence rate hovered around 3% between 2010 and 2013, the John Lewis Department store rates were the same. Corporate staff and those in partnership services had even lower rates at around 1%. The average sickness absence rate in Waitrose in 2013 was 3.32% this was a slight increase over the 3.08% of 2012. So, these data contrast with the pattern found in Eroski. The explanation may be traced rather more to management than to ownership per se.

**Attitudes and satisfaction**

If engagement can be indicated by attitude survey response rates then the JLP scores are very high – averaging around 96%. Staff newly recruited to the Partnership – as in those instances where new branches are opened – consistently award higher scores on all question items than established members. For example, the advocacy question, ‘I would recommend the partnership as a great place to work’, achieved a 92.9% average positive answer in the new branches in 2013 compared with 88.6% in existing branches (still an impressively high score). These data also suggest a novelty effect and perhaps more demanding expectations of established partners.

Data was assembled which identified the highest scoring branches in the partnership attitude surveys – that is, those branches where employees reported they were most satisfied and apparently more highly committed. This revealed that the branches scoring highest on these surveys increased sales by 7% per annum during the three-year period (2011 to 2013 inclusive). This compared to an average sales increase across all branches
during this period of 3.5%. Verbatim, free text, responses relating to local management were: personal qualities such as showing trust and respect for partners, being open and honest. When interacting with partners these branch managers were seen to take an interest in the partners, deal with questions in an open manner and listen to partners. They also gave feedback and were seen to manage performance.

Direct comparison can be made between Partners and non-partner employees in the warehousing/Regional Distribution Centres (RDCs). Some are operated by partners and some are outsourced to a provider company (Kuehne and Nagel). The results show that the contractor company is just as productive as the partner-operated sites. Managers tend to argue that the real ‘partnership difference’ is felt (and counts more) not so much in these support roles but in the customer-facing settings of the selling floor.

The results of partner satisfaction surveys conducted in JLP in 2011, 2012 and 2013 show positive overall results compared to an external benchmarking sample of 337 organizations. The survey shows, for each of the 35 questions, a comparison with median and upper quartile responses of similar questions by employees of the benchmarking sample. For 18 questions, satisfaction of JLP partners is higher than the upper quartile of the sample and in 6 other question areas the answers are over the median of the sample. Table 6 shows some key examples.

**Table 6: JLP employee attitude scores compared with benchmark firms (positive comparisons)**

<table>
<thead>
<tr>
<th>Question</th>
<th>JLP score</th>
<th>External benchmark firms’ scores</th>
<th></th>
<th></th>
<th>Sample size (no. of employees)</th>
</tr>
</thead>
<tbody>
<tr>
<td>I understand how my work contributes to the success of the organisation</td>
<td>92</td>
<td>Median external: 86, Upper quartile external: 91</td>
<td>286</td>
<td>255</td>
<td>1,450,688</td>
</tr>
<tr>
<td>I value the range of benefits that are available to me</td>
<td>95</td>
<td>Median external: 47, Upper quartile external: 61</td>
<td>224</td>
<td>21</td>
<td>1,492,977</td>
</tr>
<tr>
<td>We manage change well</td>
<td>66</td>
<td>Median external: 34, Upper quartile external: 44</td>
<td>224</td>
<td>21</td>
<td>484,765</td>
</tr>
<tr>
<td>This is a socially responsible employer</td>
<td>88</td>
<td>Median external: 72, Upper quartile external: 83</td>
<td>21</td>
<td>21</td>
<td>24,141</td>
</tr>
</tbody>
</table>
I would recommend [organisation] as a great place to work | 87 | 63 | 73 | 337 | 1,824,000

As Table 6 shows, the Partnership even as a large employer with around 90,000 employees records some well-above average scores when compared with benchmark companies. The value of the benefits stand out as a distinctive feature. Some 95% of respondents answered in a positive way to this which compared very favourably with only 47% of median responses in benchmark companies and 6% of upper quartile companies. JLP is likewise seen as ‘a great place to work’ and as a socially responsible employer.

These are, perhaps, as expected for a well-known, employee-owned organisation. And yet, as with the Eroski case, the results are not always in the positive direction. On the contrary, there are some surprising patterns as shown in Table 7.

Table 7: JLP employee attitude scores compared with benchmark firms (negative comparisons)

<table>
<thead>
<tr>
<th>Question</th>
<th>JLP score</th>
<th>Median external</th>
<th>Upper quartile external</th>
<th>Sample size (No of firms)</th>
<th>Sample size (no. of employees)</th>
</tr>
</thead>
<tbody>
<tr>
<td>My line managers communicates with me regularly and effectively</td>
<td>73</td>
<td>74</td>
<td>78</td>
<td>120</td>
<td>328,889</td>
</tr>
<tr>
<td>My line manager encourages us to find better ways to do things as a team</td>
<td>67</td>
<td>72</td>
<td>76</td>
<td>130</td>
<td>370,019</td>
</tr>
<tr>
<td>My ideas to improve our business are welcomed</td>
<td>65</td>
<td>77</td>
<td>81</td>
<td>171</td>
<td>693,765</td>
</tr>
<tr>
<td>My line manager gives me regular feedback</td>
<td>60</td>
<td>63</td>
<td>69</td>
<td>297</td>
<td>1,522,678</td>
</tr>
<tr>
<td>There is a strong sense of teamwork</td>
<td>72</td>
<td>81</td>
<td>86</td>
<td>109</td>
<td>364,765</td>
</tr>
</tbody>
</table>

As Table 7 shows, the Partnership scores relatively low marks in some items in which there should be an employee-owned advantage: teamwork, communication,
acknowledgement, participation, ideas welcomed. On the face of it, these are all surprising results.

The most obvious explanation of these lower scores relative to the benchmark firms is that JLP staff have been encouraged to believe that their organization should be exemplary in these regards. In other words, the baseline of expectations is much higher than in comparative firms where expectation on such dimensions may be much lower. There is some evidence to support this thesis in the tendency for staff in retail outlets acquired by JLP to record very high satisfaction rates in the first couple of years after take-over. But, there could possibly be another reason: increasingly, managers appear to be taking the important decisions and the long-standing partners with longer memories may be expressing their displeasure at this development.

Also on the negative side, it seems that even if JLP managers are able to engage partners in day to day work, it is more difficult to engage them in participation on democratic bodies:

> From my experience, only a fraction of the workforce actually engages with councils and partner voice or believes it's effective and actually buys into it. There is apathy towards the councils. Whether you say it's 50% of partners or two-thirds of partners are apathetic, it's a big chunk of the workforce. (JLP Manager)

It seems that peer-monitoring plays a bigger role in JLP than in Eroski. In part, this is linked to a pay for performance system that is criticized in many interviews as insufficient:

> The Partnership is completing a review of its pay policy regarding pay for performance. There are partners who clearly recognise that we don’t performance manage well, and it articulates itself at a local level around partners not liking to be taken for a ride for somebody who’s off sick, but they know they were out the night before and couldn’t get up in the morning. It’s also come in because there’s a feeling that we haven’t got the link right between pay and performance. (JLP Manager)

The limited pay differentials issue was also found in JLP though to a far lesser extent than in Eroski. Part of the reason here is that the scope for pay differentials is much higher in JLP. The highest salary in JLP is limited to 75 times the average pay of a selling partner (a huge contrast with the 7.8 to 1 differential in Eroski). These higher pay differentials in JLP have enabled it to attract high-performing managers from competing firms. Hence, JLP is not reliant on internal promotion. Access to leading-edge knowledge is made available and the competition among managers means that there is far less scope for complacency.

One director identified three components of the JLP model and insisted that the basis was the collective ownership even if it was not the whole story. Ownership gave commitment and engagement, it also promoted trust because the business was not run on the basis of exploitation of one group of another. And shared ownership allows a basis for investment decisions of a long term nature.
Ownership is mediated through a whole series of institutions, structural and normative, to achieve its full impact. There is a psychological and moral implication. As one senior manager commented, ‘when you own the place you make sure the lights are off when everyone leaves a room’. The sense of ownership was thus regarded as hugely important as a source of discretionary effort. But, paradoxically, managers also argued that partners’ commitment and system efficiency could be negatively related; the reason being that high commitment and exceptional discretionary effort by individuals and teams may be used to compensate for process and system inefficiencies.

The overall managerial analysis was that while JLP builds on an emotional base of ownership, ultimately it is the contribution from leadership that matters. Without leadership, it was claimed, there is a tendency for co-owned businesses to become too complacent.

The JLP case suggests that employee ownership is used as a foundation upon which can be built a complex array of interlocking values, meanings, performance management methods and a rationale for leadership.

**Discussion and conclusions**

We began the analysis by noting that a key rationale for employee-owned enterprises is the idea that workers in such enterprises would be more engaged and would be inclined to expend discretionary effort for the success of the enterprise. In other words, they would take-on many of the attributes of conventional owners. To an extent we found this to be true but, in addition, we have noted the perceived minuses of employee ownership and the way some managers tended to give voice to these.

As a reaction to the mixed results arising from research based on the simple ownership variable, more sophisticated analyses have been undertaken. Most notably, these have included exploration of the “three-pronged” hypothesis (Kruse et al. 2004; Kaarsemaker and Poustma, 2006). This underscored the necessity of complementing employee ownership with increased employee participation in decision making and with supportive human resource policies. We sought to contribute to this body of literature by helping to explain why some empirical studies such as those by Arando et al (2011) and Luu (2011) have produced results which appear not to support the three-pronged hypothesis.

The methodology used in our study, and mainly the information obtained from interviewed managers, allows us to shed some additional light on this debate. As a consequence, we do not consider that the “three pronged hypothesis” actually does fail in the cases of Eroski and JLP. The reason for some of the negative attitudinal and behavioural responses of employee owners in Eroski could be that some of the human resource policies considered as ‘innovative’ by previous researchers, also generate some negative outcomes. We also find that some environmental factors, not considered in previous research, also explain in part some negative outcomes in Eroski and that some Eroski managers tended to give emphasis to the restrictive elements of cooperative enterprises especially in an economic context which they saw as requiring decisive adaptive action.
Eroski managers argued that the employment security policy can promote 'complacency' – an argument also found in JLP. The patterns and causal relationships found in both cases allow us to support some of the theoretical and empirical research that has been reported in relation to behaviours in employee owned firms. In both cases, we find some positive responses to employee ownership running alongside negative scores based on higher expectations. In addition, we found a tendency, especially among Eroski managers, to take for granted the positive attributes of co-ownership. As a result, these managers were inclined to emphasize the restrictive elements as far as managerial action was concerned and to discount the positive aspects. In JLP, there was an established cultural expectation for managers to rehearse the positive attributes. In addition, JLP managers had built an acceptance of the legitimacy and need for agile responses to commercial pressures – including, for example, redundancies in special circumstances, subject to due process.

Klein’s extrinsic satisfaction model suggests that employee ownership increases commitment if it is materially rewarding for employees - something that was true in both companies until 2008. But the situation has not been like this in Eroski for the 2009-2015 period. Instead of profit sharing and receiving interests for the capital invested in the company as in the past, coop members in Eroski have had to face “externos” or loss sharing, together with wage reductions and increasing working hours. Those decisions have been ‘supported’ by a huge majority of voting members (in terms of votes). This was interpreted by managers as a sign of commitment. Yet, at the same time, the resulting measures have generated dissatisfaction and a growing absenteeism rate. Such responses have not been analysed in previous Mondragon literature.

Limitations arising from the methodology need to be borne in mind. The first point to note is that the cases researched represent two of the biggest and longer lasting employee owned companies in the world. Those kind of companies are scarce and many of our findings may be difficult to replicate in much smaller employee-owned companies. Second, in addition to the empirical data on absenteeism, employee turnover and employee satisfaction survey results, we gave special attention to the ways in which managerial actors made sense of these data and employee ownership effects more generally. In interview situations these informants tended to emphasise the restrictions on managerial action and in so doing they tended to take for granted the positive aspects of employee ownership.

However, the benefits of our methodology were that in selecting two successful and long-standing cases in different international cultural contexts we were able to assess developments over time and across economic cycles. The two cases were in similar industry sectors and they shared many attributes.

Even the researchers that have analyzed the resilience of Mondragon cooperatives have usually ignored that fact that the austerity measures that allow resilience (lower wages, longer working hours) also impact on dissatisfaction. A recent Mondragon internal analysis (Ortega and Uriarte, 2015) which seeks to explain why its biggest and oldest industrial cooperative, Fagor Electrodomésticos, failed in 2013, allows insight into some of the negative attitudinal and behavioural responses – such as emotional distance of the coop owner towards the cooperative, complacency and shirking, and a readiness to voice demands. Together with other negative outcomes such as low self-
responsibility and supervisors shirking their monitoring tasks, these problems resonate with those we have identified in Eroski. Likewise, an analysis of the failure of Fagor Electrodomésticos (Ortega and Uriarte, 2015) noted that egalitarianism between coops and maintaining similar pay levels in both successful and unsuccessful companies through inter-cooperative solidarity had impeded a rapid response when the first symptoms of the crisis appeared. In other words, attributes of strengths also contained seeds of weaknesses.

Kaarsemaker and Poustma (2006) and Caramelli (2011) stress the need of new research to account for environmental factors. The effect of environmental factors in Eroski (low dynamism of Basque and Spanish labour markets, high unemployment rates) partially explains the extremely low voluntary turnover rates. While low voluntary turnover can be a positive indicator, under some circumstances it can also be a negative one. The more dynamic labor market in the parts of the UK where JLP mainly operates (the affluent south) makes it easier for dissatisfied partners to leave the company.

The research in John Lewis revealed that managers were alive to the commercial potential of the co-ownership model and took many active steps to realize its potential. They invested heavily in the model through ensuring the health of the partner democracy structures and procedures. They intervened to periodically revitalize the democratic features to counter any drift to atrophy. Further, they invested heavily in communication of the meaning of the partnership. The Partnership had to be ‘nicer’ (taking into full account the interests of its members) but it also had to be ‘better’ (in all respects including customers service and the shopping experience as a whole) than the competition. The two were part of one whole. The key point was that the managers added a very strong ‘fourth prong’ – namely, an extraordinarily active managerial input to shore-up the employee-ownership mechanisms and crucially to interpret and continually reinterpret its ‘meaning’.

Thus, each of the prongs of employee ownership are required (intrinsic/emotional attachment to the idea of being an owner, the accrual of financial reward from ownership and associated effort, and the participation which ownership rights confer) but on their own these may still not be enough. Alongside an emphasis on external economic and social factors, we have added a governing inner-contextual factor – the influence of management in harnessing the employee ownership idea, breathing life and meaning into it, investing in the necessary support systems to make it real, and, most of all, communicating a sense of direction and legitimacy to a version of industrial democracy which is viable and sustainable.

References


Kramer, B. (2010). Employee ownership and participation effects on outcomes in firms majority employee-owned through employee stock ownership plans in the US. *Economic and Industrial Democracy, 31*(4) 449–476


---

i Since 1997 Eroski offered partial employee ownership in different subsidiaries. In 2012, following a re-cooperativization process, close to 4,000 employees with partial ownership in hypermarket subsidiaries were offered the possibility of becoming cooperative owners (Storey et al., 2014)

ii Some of the 35 questions of the Partner Survey are broadly used in satisfaction surveys everywhere; while others are more specific to the culture and idiosyncrasy of the firm. Thus, the size of the external benchmarking sample differs from question to question

iii The number of employees without ownership gathered in the interviews sums permanent and temporary employees, since these data weren’t available for 2007 (acquisition of Caprabo by Eroski) and for some other years.