

# Why do founders choose to exit via Employee Ownership? A comparative analysis of employee-owned businesses in the UK

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# Founders' motivations as a trigger for transition (succession) to Employee Ownership

- *Succession* is the set of steps taken by the founder(s) that leads to the transfer of equity ownership and leadership of the business from them to their successors – in this case – employees of the business (Le Breton-Miller et al., 2004; Sharma et al., 2011)
- Founders play a central role in all matters of the business and their exit can have a long-term impact if it is not managed actively (Cadieux, 2007; De Massis et al., 2008)
- Initiating an appropriate succession process is a key decision that founders make (Bennedsen et al., 2007; Zahra & Sharma, 2004)
- Founders themselves play a central role in orchestrating a smooth transition that can have a significant impact on the continuity of the business as well as the legacy of the founders (Nave et al., 2022; Kesner & Sebora, 1994; Miller et al., 2003; Molly et al., 2010)

# Overview of the data and description of the sample

## Data

- Empirical evidence from 60 UK-based employee-owned businesses (EOBs) and 18 advisors to EOBs – including the founders of the businesses and present management teams
- Evidence submitted to the Ownership Effect Inquiry and collected by the Employee Ownership Association (EOA)
  - Pre-hearing survey responses from EOBs
  - Inquiry hearings - transcriptions
  - Post-hearing additional submissions from EOBs
- The identity of the respondents and businesses have been anonymised

## Sample description

- 38% of the 60 EOBs transitioned to employee ownership in 2015 or later
  - Finance Act 2014 provides financial benefits if founders release equity/ exit via Employee Ownership Trust (EOT)
- 75% of the EOBs have less than 250 employees
- 92% of the EOBs have revenues of less than £100m p.a.
- 44% of the EOBs are professional services and 16% manufacturing
- 75% from England, 13% from Scotland, 12% from Wales

# Triggers to transition and the choice of employee ownership

- Retirement and succession planning as a trigger

“I was becoming aware that questions were being asked, well it’s his birthday isn’t it, how old is he now, and what’s going to happen to us when he finally hangs up his boots, and these are people, like [names], they’re good people, they’ve worked hard, they’ve worked with me and as far as I was concerned this had to be taken into account when looking at my exit strategy.”

- Absence of immediate financial need

A trade sale is the most common exit option and several owners tended to view a trade sale as a more financially lucrative option – certainly in the short term as they would recover the financial benefit more swiftly.

- Divestment as a trigger

Public sector divestment “ ... was sold from government ownership, employee ownership was part of the sale expectations and process”

- Gift as an exit route

- Awareness of employee ownership as an enabler

Even though some respondents reported that they became aware of employee ownership during succession - i.e., when they were actively looking for options, and even then, mostly by chance – there is consensus that the Finance Act 2014 has had a significant influence in bringing the option of an Employee Ownership Trust (EOT) into the mainstream

- Motivations to choose employee ownership over other models

- Viewing employees and the company as a family
- Protecting the special culture of the business
- Protecting jobs and the community
- Keeping the business location
- Lack of trust in the stewardship of outsiders
- Faith in employees to carry on the business and legacy

# Discussion and contributions

- The primary contribution of this paper is to establish an empirically-informed theoretical understanding of why founders choose to exit via Employee Ownership
  - Business exit is increasingly recognised as a legitimate field of study within entrepreneurship (Cefis et al., 2021)
  - However, although there is recognition of the diversity of exit routes, this has hitherto ignored the role of employee ownership as an exit route.
- When considering an exit, founders are motivated by the sense of their own legacy and seek to secure the future of friends and colleagues who built the business with them
- There are other drivers as well namely financial motivation, but these are not the primary reasons to pursue an exit via employee ownership
- We also make a contribution to the employee ownership literature by highlighting that founders often judge the suitability of employee ownership as a future model based on their assessment of the organisational culture and management leadership
- We highlight the common approaches of founders to establish the ‘fit’ between their personal vision and organisational readiness for employee ownership