



THE MORALDNA OF EMPLOYEE OWNED COMPANIES.

Ownership, ethics and performance.

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Interim findings July 2015

MORALDNA™

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This paper was written by Professor Roger Steare, Corporate Philosopher in Residence at Cass Business School; psychologist Pavlos Stamboulides of Psycholate; and Peter Neville Lewis, Visiting Fellow at Brunel University, London. Significant contributions were also made by Graeme Nuttall OBE of Field Fisher Waterhouse LLP, Alden Whittaker-Brown of Arup, Patrick Woodman of the Chartered Management Institute and Ruth Yeoman, Research Fellow, Kellogg College and Saïd Business School, Oxford.

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FOREWORD



Ann Francke MBA CMgr CCMi FIC
Chief Executive, CMI

“We should have more employee owned companies and we should learn from their success”

Managers and managed alike all pulling together for their common advantage – John Spedan Lewis

How far does the ownership of a firm shape its culture?

That was the question behind the “experiment” started by John Spedan Lewis with his family’s retail business in 1929, aiming to align “managers and managed” and laying the foundations for the UK’s most famous employee-owned company. It’s also the question behind this short paper, which presents interim findings from new research into ethics in employee owned companies across a range of sectors.

The evidence here is that employee ownership improves employees’ commitment, positively shapes their thinking about ethical decisions and influences management action for the better. Compared to our cross-sector sample, people are twice as likely to report that their organisation is managed democratically and consensually – and far fewer say that command and control prevails.

For managers in employee owned companies, the question will be whether their organisation, or their team, lives up to the benchmark that emerges here – or how they might do better.

The findings are also relevant for managers in other types of business and public services alike. If employee ownership increases people’s commitment to the organisation, what can those managers do to recreate that sense of engagement? How else can they attract talented people in an ever-more competitive labour market?

And how can managers in other business types take decisions that don’t sacrifice long-term sustainability in the interests of short term targets and quick wins?

Spedan Lewis urged others to run their own experiments in ownership. This research shows that such experiments have been successful. We should have more employee owned companies and we should learn from their success.

A handwritten signature in black ink, appearing to read 'J Spedan Lewis', written in a cursive style.

July 2015



INTRODUCTION

There is growing interest in employee ownership as an alternative to more conventionally used business models such as PLCs, LLPs and family owned companies. The Nuttall Review of 2012 examined barriers to the more widespread use of employee ownership and the UK Government has demonstrated its support for the employee trust model of employee ownership, with the Finance Act 2014 providing tax reliefs for those wishing to adopt this business format.

Part of that interest is because of the impact that employee ownership can have on how the business is managed. Employee ownership is often associated with high levels of motivation and engagement, and with impressive company longevity. We wanted to explore whether it is also connected to different ethical standards.

This paper presents interim findings from an ongoing research project, with data from a survey of 829 employees – managers and non-managers alike – across 14 employee owned companies. It is unique in providing insights into companies owned through the employee trust model of ownership in particular.

The findings have been aggregated into one anonymous group and analysed to see if there are any correlations which may indicate that the moral standards of employees from employee owned trust companies differ from other sectors and may have a significant impact on business performance. The results are compared with employees in other sectors, using the MoralDNA™¹ database, and to the sample of managers surveyed for the previous CMI reports in this series.

MoralDNA was designed by Roger Steare, Visiting Professor in the Practice of Organisational Ethics at Cass Business School in London, and Pavlos Stamboulides, a Chartered psychologist and Director of Psycholate in Athens. Since its launch in 2008 more than 130,000 people from over 200 countries and working in 47 occupations have completed MoralDNA. The authors worked with CMI to publish two reports in 2014: *Managers and their MoralDNA* and *The MoralDNA of Performance*.

¹ MoralDNA™ is a trademark of Roger Steare Consulting Limited

WHAT IS MoralDNA?

MoralDNA is a diagnostic tool that measures our thinking preferences when making moral decisions. It is built around three ethical decision-making philosophies: the ethic of obedience (rules), the ethic of reason (principles) and the ethic of care (outcomes that benefit all).

It also measures which values or principles we use to make these decisions about what's right; and how these insights can be correlated with conduct and behaviours. MoralDNA also detects changes in the way we make ethical decisions in both our professional and personal lives. These differences offer clear insights into the influence of organisational culture on how we think, decide and act at work.



The ethic of obedience or compliance and the law



The ethic of reason or principles



The ethic of care or love and empathy

How does MoralDNA assess organisational culture and performance?

Organisational culture is a complex, adaptive and systemic phenomenon. Therefore, attempts to change culture using simplistic and deterministic controls and processes will inevitably lead to failure, simply because we can never fully understand nor predict the consequences of the changes we make in these processes and controls. In this paper, we explore how people in employee owned companies prefer to make decisions based on obedience to rules (deterministic controls), reason (moral values) and care (for colleagues, customers and communities) – and how these cognitive biases change at work.

MoralDNA measures factors that have been correlated both with risk of organisational failure and exceptional, sustained financial performance. In *How The Mighty Fall (2010)*, Jim Collins conducted research on a number of firms that had failed or were failing, including Hewlett Packard, Merck and Fannie Mae. From this research he identified five destructive behaviours including “hubris born of success”, “undisciplined pursuit of more” and “denial of risk and peril”. MoralDNA detects cognitive bias towards arrogance, greed and dishonesty in decision-making.

In contrast, *Firms of Endearment (2014)* by Raj Sisodia, Jag Seth and David Wolfe analysed the consistent factors that determine the exceptional

long-term success of firms such as BMW, Commerce Bank and IKEA. The authors conclude that:

“Today’s best companies get it. From retail to finance and industries in between, the organizations who recognize that doing good is good business are becoming the ultimate value creators. They’re changing their culture and generating every form of value that matters: emotional, experiential, social, and financial.”

The common factors in the success of these firms include having a clear purpose to serve others and caring deeply about all stakeholders. MoralDNA identifies mindsets that focus on good outcomes and how much people care.

KEY INSIGHTS

Ethics at work

MoralDNA looks at people's decision-making preferences both in their personal and their professional lives. At a personal level, the MoralDNA scores of people working in employee owned companies are consistent with the moral norms of our global database of 130,000 people.

Although the deterministic culture of workplace organisations increases robotic compliance with rules and suppresses care and empathy for others, these negative effects are significantly less pronounced within employee owned companies. **This suggests that the culture in employee owned companies is closer to the norms of a democratic and fair society than other forms of private or public ownership.**

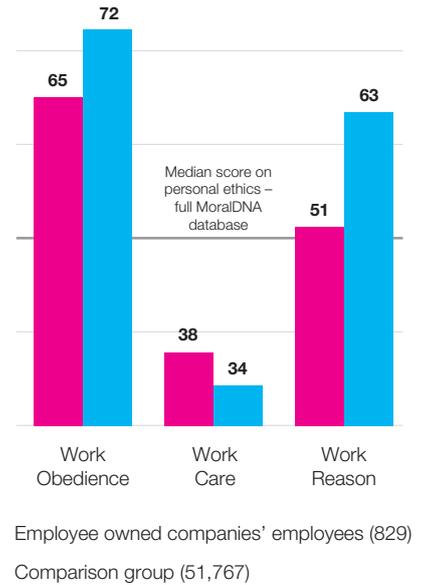


Figure 1: How people's ethics change at work. The ethics of obedience and reason are stronger at work than in people's personal lives (i.e. they are above the median line), while the ethic of care is generally weaker (below the line).

Ethics and hierarchy

When we examine differences in obedience, care and reason scores by leadership status, we observe that the scores vary much less between shop floor employees and those in senior management roles.

Unlike in other sectors, in the employee ownership sample there are no significant differences between seniority levels. This is particularly true for the ethic of obedience, which is a strong indicator of fear-driven hierarchies. This finding therefore strongly suggests that **the cultures of employee owned businesses are much less hierarchical and more collegiate than others.**

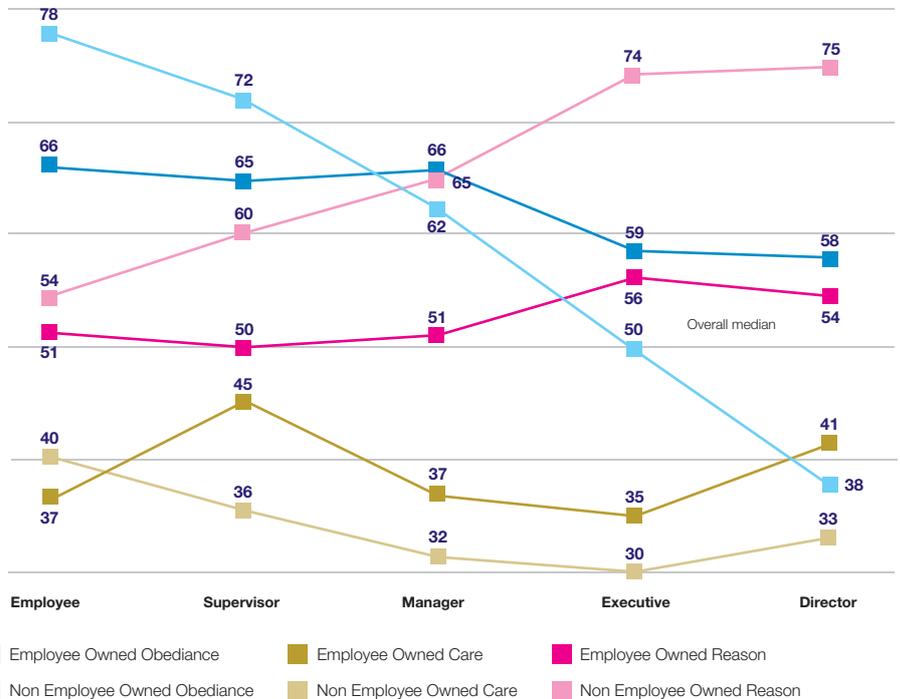


Figure 2: Comparing ethics at work between employee owned companies and the comparison group by level of seniority

Leadership styles

When comparing leadership styles, consensus scores higher than control: 90% of people working in employee owned companies experience **high-performing visionary, affiliative, democratic and coaching leadership styles**². **Only 10% experience poor-performing pace-setting and commanding leadership styles.** In contrast, with a comparable group profiled in The MoralDNA of Performance³ in 2014, only 59% worked in high-performing, consensual leadership cultures, whilst 41% worked in low-performing directive cultures.

Figure 3 shows how employee owned companies score compared to companies in all sectors on the six different leadership styles. Remarkably, the proportion of

employees who believe their working environment is democratic and consensual more than doubles in employee owned companies.

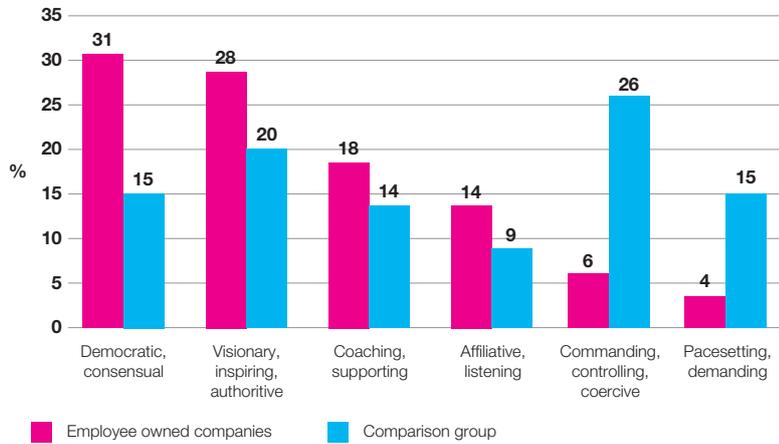


Figure 3: Comparing different leadership styles in employee owned companies and companies in all sectors

The impact of employee ownership

In addition to completing their MoralDNA profiles, people in the employee owned companies were asked questions about the effect of this ownership model on a number of specific and positive cultural features.

Employees' commitment to the organisation and the organisation's performance stand out as being particularly high in employee owned companies, as does the ability to attract new staff. It also encourages longer-term decision-making.

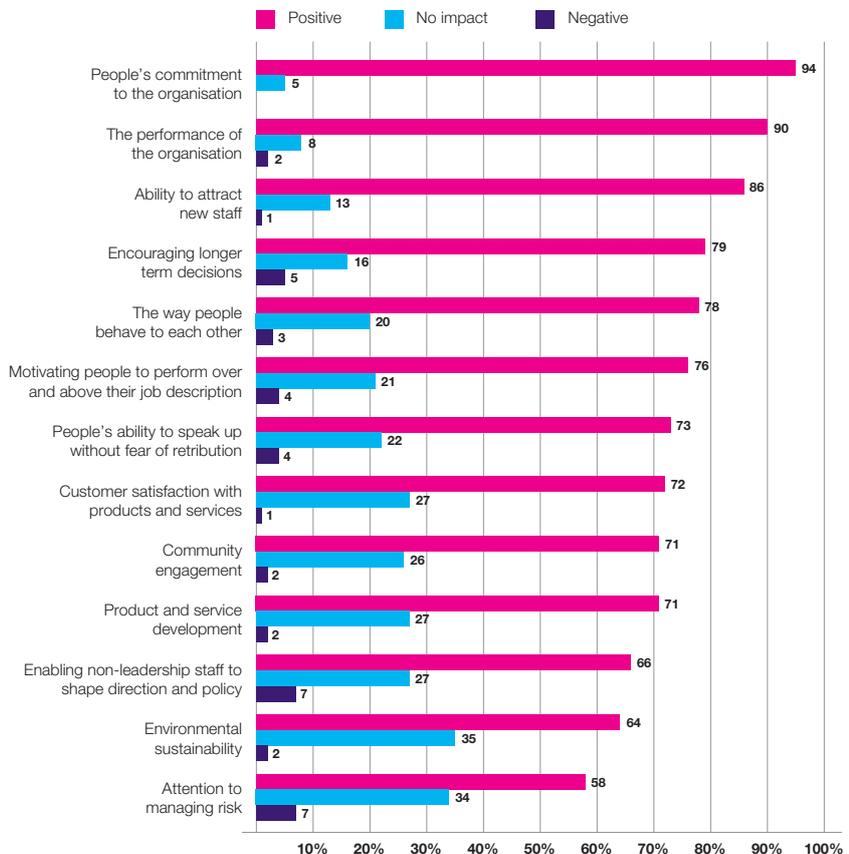


Figure 4: The effect of the employee ownership model on various aspects of the business

² Leadership that gets results, Goleman, D., Harvard Business Review, March-April 2000, pp. 76-90

³ The MoralDNA of Performance, Chartered Management Institute, October 2014 – www.managers.org.uk/moraldna

EMERGING CHALLENGES

- Overall, this research endorses the core ethos and impact of the employee owned company as both higher performing and more ethical. However, there are also clear opportunities for improvement, particularly in avoiding the robotic compliance, bureaucracy and controlling leadership styles of direct competitors with other forms of ownership.
- More democratic management styles should go hand in hand with a culture that is open, with extended information flows and encouragement for constructive dissent and challenge. This should enhance an organisation's ability to respond to blind spots, cognitive dysfunctions and risks.
- MoralDNA results consistently show the difference between individuals' ethics at home and at work. It is likely that ethical preferences will be influenced by the structures in which employees are situated. Employee ownership represents a particular form of organisation which may be more stable than others. How far do institutional settings which help people feel secure and appreciated for their contribution enable more balanced ethical preferences?
- For companies with other ownership models, what does this research suggest they should be reviewing in their own cultures? Whilst an immediate change in model might be impossible in the short term, what can they do to shape cultures where people are able to think, decide and act like owners to the benefit of all?
- For the Government, we believe this research highlights the need for further work on its employee ownership "tool kits". In addition to those already created during the Nuttall Review we would ask for an employee engagement tool-kit to be created that reflects best practice across the sector and allows employee owned companies to accelerate the employee engagement benefits of this business model.

TAKE ACTION

- Take the MoralDNA Profile for yourself to receive instant feedback on your ethics: www.moraldna.org. If you want to use it in your workplace, a commercial license applies. Please email research@managers.org.uk for more information.
- Download our Management Ethics Toolkit, a practical one-pager with Top Ten Tips for Creating an Ethical Organisation or read more about our previous research at www.managers.org.uk/moraldna.
- Read more about the employee ownership business model at www.gov.uk/employee-ownership and www.gov.uk/government/publications/nuttall-review-of-employee-ownership-one-year-on

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We are a UK awarding body for management and leadership qualifications, and the only body that awards Chartered Manager, the hallmark of any professional manager.

Through in-depth research and policy surveys CMI maintains its position as the premier authority of key management and leadership issues.

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