



# Model Growth:

Do employee-owned businesses  
deliver sustainable performance?

*Professor Joseph Lampel*

*Dr Ajay Bhalla*

*Dr Pushkar Jha*

## Table of contents



<b>Acknowledgements</b> .....	2	<b>Appendices</b> .....	20
<b>Foreword</b> .....	3	<b>Notes</b> .....	27
<b>Executive Summary</b> .....	4	<b>About the Research Team</b> .....	28
<b>1. Introduction</b> .....	6		
<b>2. Research Methodology</b> .....	7		
Sample .....	7		
Survey data .....	7		
Financial performance data .....	8		
<b>3. Structure of the Report</b> .....	8		
<b>4. Findings</b> .....	9		
Part 1. Firm size and EOB performance .....	10		
Part 2. Employee sales contribution and EOB performance	13		
Part 3. EOB response to economic crisis .....	17		
Part 4. Challenges .....	18		

2

## Acknowledgements

We would like to thank the John Lewis Partnership and the Employee Ownership Association (EOA) for their backing and contribution. The commitment of the John Lewis Partnership and the assistance we received from the wider EOA community was crucial to the success of our project. Many people helped this project along the way. We would like to express special appreciation to members of the steering committee – Patrick Lewis, Sanjay Patel and Sam Hinton-Smith from the John Lewis Partnership, Patrick Burns from EOA, and Deborah Saw from Citigate Dewe Rogerson, for their valuable feedback and unflagging support during the course of our study. We are also thankful to John Alexander and Nigel Mason from the Baxi Partnership, Mike Thompson from Childbase Ltd, and Peter Gammie from Halcrow for their insightful comments at various stages during our study.

**Professor Joseph Lampel**  
**Dr Ajay Bhalla**  
**Dr Pushkar Jha**

January 2010

# Foreword

Britain stands at a crossroads. In the aftermath of a global recession, the UK faces major decisions about the way we run our economy, the role of the state, and the kind of society we want to live in. The response to these challenges could set the nation's course for decades to come.

Organisations in the private and public sectors face tough choices about their shape, function and operations. But they will need to restructure in a way that preserves their capacity to innovate and to meet the future demands of consumers and citizens.

Government and business will need to work together to lay the foundations for future growth, encouraging long-term investment in knowledge-based industries and helping to create the conditions in which high-growth firms can thrive. And we need to create a balanced economy that supports long-term sustainable growth and a fairer society. That requires us to rethink what companies are for, asking not simply about the wealth they produce, but *how* they create value and *for whom*.

The John Lewis Partnership's structure – owned by and run for the benefit of its employees – has served our business well for over 80 years. But I also believe that employee ownership has an important contribution to make in addressing the great challenges of our age. That is why the John Lewis Partnership has supported this report – and why we welcome its findings at this critical moment.

Cass Business School has studied the commercial performance of employee-owned firms, comparing them with conventionally structured businesses. Their analysis highlights the commercial benefits of employee-owned firms: they create new jobs more quickly and are at least as profitable as conventionally structured businesses. The report finds that employee ownership is a more resilient model: employee-owned firms have a lower risk of business failure, and during the recession they have outperformed the market, demonstrating higher rates of sales growth and job creation. It also finds that employee ownership offers particular advantages to small businesses and in knowledge and skill-intensive sectors, where employee-owned companies significantly outperform competitors.

Importantly, the benefits of employee ownership

extend beyond commercial considerations. If we want a more responsible society, we might begin by fostering a fairer form of capitalism. Many of the strengths of the employee-ownership model – a happier workforce, more accountable management, a closer alignment of risk and reward, a fairer distribution of profit – can help to engender a greater culture of responsibility and trust in the workplace and beyond. These are not only vital characteristics of a thriving market economy – they are also the building blocks of a better society.

Policy-makers across the political spectrum are acknowledging the potential of employee ownership in public and private sectors. But sentiment alone will not realise that potential. The report highlights the barriers to growth identified by employee-owned businesses themselves – the regulatory environment and access to finance.

Like any business model, employee ownership is most likely to flourish if the right architecture is in place. Policy-makers have a vital role to play in establishing a legal and financial framework that encourages growth and removing some of the regulatory barriers faced by employee-owned businesses – particularly small and medium enterprises and those transferring to employee ownership. In doing so, they could help to create the conditions that might foster a new era of growth in companies owned by employees or those using other alternative business models.

Every day across the UK, owners and entrepreneurs are considering the right model for their business. Despite the legal and financial barriers, more and more want to choose employee ownership, setting out on their own experiments in industrial democracy just as the John Lewis Partnership did in 1929.

Speaking in 1957, our founder John Spedan Lewis expressed his hope that employee ownership 'may be the new source of working energy of which our country is in such grave need'. As we seek to lay the foundations of the UK's future economic prosperity and create a fairer, more responsible society, I hope that policy-makers and business leaders will again be seized by that energy.

---

Charlie Mayfield  
Chairman, John Lewis Partnership

## Executive Summary

The employee-owned sector – where companies are wholly or substantially owned by their staff – is estimated to be worth £25 billion annually, equivalent to 2% of UK GDP. Employee-owned businesses (EOBs) operate in a wide range of sectors, from retail, manufacturing and engineering to financial services. Employee-owned organisations also operate in the public sector, delivering services such as health and community care.

Studies have shown that EOBs generally outperform non-employee-owned business (non-EOBs) where employees do not have a significant stake in ownership or the right to participate in decision-making. It has also been shown that employees who have a stake in the company they work for are more committed to delivering quality service and more flexible in responding to the needs of the business.

This study examines how EOBs maintain the advantages of their ownership structure as they grow in size and complexity. It also assesses the financial performance of EOBs compared with non-EOBs. It aims to answer four key questions:

- 1 As EOBs pursue growth how do they perform relative to non-EOBs?
- 2 How do EOBs retain the employee-ownership advantage as they scale up?
- 3 How well do EOBs perform during an economic downturn relative to their performance during a strong economic environment?
- 4 How well do EOBs perform during an economic downturn relative to non-EOBs?

---

### Research methodology

This report is based on a survey of 41 EOBs and 22 non-EOBs in the UK. It also draws upon secondary data on the commercial performance of 49 EOBs and 204 non-EOBs in the UK.

---

### Findings

- The employee-ownership model offers particular advantages to small and medium-sized businesses. EOBs with fewer than 75 employees do significantly better than non-EOBs of the same size measured by both Profit Before Tax and Profit Before Tax per employee.
- EOBs create jobs faster. EOBs experienced greater employment growth than their non-employee-owned counterparts in the period of economic growth from 2005 to 2008 (an average increase in employment of nearly 7.5% per annum in EOBs compared with less than 3.9% in non-EOBs). After the recession set in during 2008–09, this rate increased even faster, with EOBs increasing employment numbers by more than 12.9% compared with 2.7% in non-EOBs. This is reflected in the belief of EOBs that staff recruitment and retention are crucial in economic recovery: nearly three-quarters of EOBs strongly believe that employee commitment is a central advantage of the employee-owned model.
- The profitability of EOBs correlates with giving employees greater autonomy in decision-making. EOBs that adapt their organisational structure and empower their front-end employees are more likely to sustain their performance as their size increases.
- As EOBs grow in size they need to find innovative ways to involve staff. EOBs with higher employee numbers experience lower levels of employee involvement in new product decisions and strategy. As EOBs grow in size, management innovation is vital to actively seek new ideas from staff and involvement in key business area decisions.
- EOBs are more resilient: their performance is more stable over business cycles, displaying less sales variability. During the period of growth from 2005 to 2008, non-EOBs experienced higher average sales growth per annum (12.1%) than EOBs (10.0%). However, the average sales growth of EOBs between 2008 and 2009 was 11.08%, significantly surpassing that of non-EOBs (0.61%) during this period of recession.

- EOBs and non-EOBs are on a par for profitability, measured by Profit Before Interest and Taxes (PBIT): non-EOBs performed slightly better on this measure between 2005 and 2008, but EOBs outperformed non-EOBs in the period of recession during 2008–09. Non-EOBs perform significantly better than EOBs on PBIT per employee during the period 2005–08, but the gap narrowed in 2008–09. Analysis of survey responses shows that EOBs with high profit per employee give employees greater autonomy in the workplace and are more likely to seek innovative ideas from employees.
- The employee-ownership model confers particular advantages in knowledge and skill-intensive sectors. EOBs with average wage costs of more than £40,000 per employee have significantly higher profit per employee than non-EOBs with a similar wage costs structure.
- EOBs add more value to output and human capital than non-EOBs, measured by value added per employee. The value added by EOBs was somewhat stronger than that of non-EOBs in the period 2005–08. The difference was dramatic in the period 2008–09, with EOBs improving their value added by 33%, whereas non-EOBs improved their performance by just over half as much (17%).
- EOBs are better employers not only in consistently recruiting more employees but also by rewarding them with higher wages. EOBs believe that their ability to attract and retain talented employees and leverage their innovation potential are strong advantages of the employee-ownership model and will be key in driving recovery.
- EOBs confront more regulatory and policy challenges than non-EOBs, citing problems with government-approved share plans, lack of support from government and policy-makers, issues with tax treatment and the approach of HM Revenue & Customs.
- EOBs have difficulties obtaining favourable financing from institutions that are more accustomed to dealing with listed companies. Lack of specialist support from business advisers during transition to employee ownership is also a problem.
- EOBs that are focused on international sales do better than EOBs that are predominately focused on the UK market.

## 1. Introduction

The employee-owned sector is estimated to have a value of £25 billion, accounting for 2% of UK GDP. Employee-owned companies operate in a wide range of sectors in the UK – from retail, manufacturing and engineering to financial services. They also use several different models of ownership. Some adopt direct ownership, with employees becoming registered shareholders owning a majority of shares in the company. Many companies hold ownership collectively – usually in trust – with employees as beneficiaries. Others use a hybrid of these two models, with some collective ownership and some shares distributed to individual employees.

The financial crisis and the subsequent global recession have stimulated a far-reaching debate about the future of capitalism and about the way that companies are owned and run. This has led to renewed interest in employee ownership – and about the role that employee-owned companies could play in future economic growth.

Studies show that employee-owned businesses (EOBs) generally outperform non-employee-owned businesses (non-EOBs) whose employees have neither a stake in ownership nor the right to participate in decision-making.<sup>1</sup>

The advantage for EOBs comes from taking a stakeholder rather than a shareholder view of management, which is known for promoting accelerated growth and rewarding short-term profitability even if it comes at the cost of long-term sustainability. In the UK and elsewhere it has been shown that employees who have a stake in the company they work for are more committed to delivering quality and are more flexible in the face of the needs of the business.<sup>2</sup>

Despite the widely acknowledged potential for sustainable market and financial performance, EOBs face a challenge as they grow in size and complexity. The same governance model that confers advantage in a small EOB may come under pressure as an organisation exercises its natural propensity to grow. Increasing size could put greater distance between front-line employees and senior management. It could also make it more difficult to maintain inclusive decision-making without sacrificing the speed and flexibility that is essential for high performance in today's dynamic commercial environments.

As EOBs grow and scale up their operations, they may introduce more managerial controls and put in place structures that reduce the advantages of employee involvement and participation. Managerial innovation is therefore fundamental to balance the need of increasing management control mechanisms with sustaining flexibility to ensure continued employee engagement in governance, strategy and operations.

This study examines how EOBs deal with the issues of size and growth. In the main it asks the following questions:

- As EOBs pursue growth how do they perform relative to non-EOBs?
- How do EOBs retain the employee-ownership advantage as they scale up?

As we began to design our study in the autumn of 2008 the emerging economic crisis gave us a unique opportunity to compare the performance of EOBs and non-EOBs under adverse circumstances. We therefore added the following questions to our study:

- How well do EOBs perform during an economic downturn relative to their performance during a period of economic growth?
- How well do EOBs perform during an economic downturn relative to non-EOBs?

To answer these questions we not only collected company financial and commercial data, but also designed a questionnaire that probed attitudes on key issues that are of relevance to EOBs in general, and of particular

salience when the employee-ownership model is being tested by difficult economic circumstances. Our findings are therefore not only about the challenges facing EOBs as they grow in size and complexity, but also assess the strength of employee ownership as a governance model that is not only fairer but also more resilient.

Over the past two decades, resilience, or the ability of firms to sustain employment and growth during difficult economic conditions, has been generally ignored as a crucial aspect of company performance. Instead, a view to maximising share value dominated business strategy and public policy. This perspective naturally marginalised the employee-ownership advantage. In the current economic conditions, however, it is clear that the resilience associated with employee ownership is of value not only to EOBs, but to other stakeholders as well.

In the long run this augurs well for the EOB model. Business history suggests that governance models that enhance firm survival are more likely to proliferate. As they spread they attract business innovators who develop new practices and devise new configurations that make these models more resilient and more successful. Seen from this perspective the current EOB model is past the experimental phase – but a period of further development and innovation lies ahead.

## 2. Research Methodology

---

### Sample

The study is based on a survey of 41 employee-owned businesses (EOBs) and 22 non-employee-owned businesses (non-EOBs) in the United Kingdom.<sup>3</sup> The study also draws on secondary data to conduct comparative analyses of commercial performance of 49 EOBs and 204 non-EOBs in UK. We use the Employee Ownership Association (EOA) definition for EOBs as businesses that “are substantially or wholly owned by the people who work for them”. The sample firms include a broad spectrum of businesses and all the EOBs are members of the EOA with employee ownership ranging from 32% to 100%.<sup>4</sup> These firms self-certify themselves as employee owned.

Firms in the sample vary in size from seven employees to 69,000 employees with sales turnover ranging from £20,000 to nearly £7 billion. Our data for the EOB and non-EOB firms includes companies operating in a wide range of sectors including consultancy, software development, retail, manufacturing, energy, health care and financial services. We control for the industry effect in the sample by accounting for any influence on results due to concentration from certain sectors. We also control for the effects of change in governance, change in employee ownership and strategy type in looking at growth and business performance.

---

### Survey data

Survey data using structured instruments was generated for 41 UK-based employee-owned firms with varying degrees of employee ownership and for another 22 firms that were not employee owned. All the respondents are senior personnel at the surveyed firms; most are either chief executive officers or hold directorial positions at their respective organisations. The survey was carried out in July 2009.

To examine how EOBs deal with the challenge of growth we divided the sample into two groups based on their relative growth rates. The first group comprises 17 EOBs with relatively lower growth, and the remaining 24 comprise the second group of EOBs with relatively higher growth. We take high-growth firms as firms with growth in employees or turnover of over 20% over the three-year period 2005–08.<sup>5</sup> This meets the definition used by the Organisation for Economic Co-operation and Development (OECD), and also adopted by the Department for Business, Innovation and Skills (BIS).<sup>6</sup> The findings for EOB firms are compared with findings for non-EOBs firms on some key dimensions. This relative split in the sample is important because we are examining the growth of EOBs from a dual perspective, namely: why do some EOBs perform better than others, and how do they compare to the growth of non-EOBs?

The survey data allows us to compare and contrast the two EOB groups, and uses non-EOBs as a control group to benchmark issues related to growth in the employee-owned sector. It draws inferences on a range of variables that explain growth and performance. These relate to business characteristics and advantages, business performance, the nature of growth challenges, and strategies to manage growth.

The survey instrument for EOBs comprises 18 questions with a total of 125 sub-items within these questions. The survey instrument for non-EOB firms comprises 13 questions with a total of 95 sub-items that are mapped to 11 of the questions in the EOB instrument. The areas that were mapped to for reasons of comparison include business challenges, drivers of growth, market spread, operations and management control, employee influence and involvement, growth strategy and the present economic downturn, and strategy types (five descriptions, broadly capturing proactive to reactive strategies).

---

### Financial performance data

---

We use company data from the FAME database<sup>7</sup> for 49 EOBs and 204 non-EOBs to examine the financial performance of EOBs in relation to non-EOBs. This purposive sampling takes into account different industries, and the relative size and performance of firms within the industry clusters.

We use replacement sampling to account for the difference in sample size between the EOB and non-EOB groups.<sup>8</sup> The data is analysed by testing for difference of means. Median values are reported to put into perspective the extent of heterogeneity. A median value higher than the mean indicates that the mean has been more affected by smaller values for the variable under consideration. In other words, because of heterogeneity in the sample, poor performance of some firms pulls down the overall average for the sample, and vice versa. The tables report standardised scores for both and the statistically significant effects are highlighted by shaded scores in the tables to indicate where  $p \leq 0.1$ . The tables include a short commentary on the reported statistics, and are preceded by a discussion of the findings they present.

## 3. Structure of the Report

Our findings are organised in four parts. In the first part we analyse scale effects in terms of size of the firm indicated by sales turnover and employee numbers. The second part investigates *growth in terms of employee sales contribution* and how it relates to company performance. In the third part we examine the *impact of changing economic conditions on performance*. This analysis compares the recent downturn with the period of economic growth before the onset of the downturn. Finally, in the fourth part we present findings which *highlight the challenges EOBs face in taking advantage of growth opportunities*.



# 4. Findings

PART 1. FIRM SIZE AND EOB PERFORMANCE

PART 2. EMPLOYEE SALES CONTRIBUTION AND EOB PERFORMANCE

PART 3. EOB RESPONSE TO ECONOMIC CRISIS

PART 4. CHALLENGES

---



## Part 1. Firm size and EOB performance

---

### 1.1 Small EOBs are more profitable than their non-EOB counterparts

---

Our first task, consistent with the basic premise of our study, is to examine the relationship between size and performance. In principle, regardless of ownership model, as the number of employees increases, organisations add layers of management and controls become more elaborate. The question that concerns us here is whether the impact of scale will be different in EOBs compared with non-EOBs. To test this, we divided our sample of EOBs and non-EOBs into three sub-groups each: firms with fewer than 75 employees, firms with 75–200 employees, and firms with more than 200 employees (see Appendix I).

Our results show that EOBs with fewer than 75 employees do significantly better than non-EOB firms on the same scale for Profits before Interest and Taxes (PBIT) and also on PBIT per employee. This is true both for the financial year ending 2005 and the financial year ending 2008. By contrast, there was no significant difference in the performance of EOBs and non-EOBs above this size.<sup>9</sup> This suggests that the employee ownership advantage will diminish as organisations grow larger, but it also poses a challenge for EOBs that wish to maintain this advantage – a point that we discuss later in this report.

---

### 1.2 EOBs support greater employment than non-EOBs

---

Studies comparing companies before and after the adoption of employee stock ownership plans (ESOPs) have found faster employment growth after ESOP adoption, particularly among firms that had greater levels of employee participation in decision-making.<sup>10</sup> Although a distinction must be made between EOBs as defined here and ESOPs more generally, our analysis obtained similar results (see Table 1.1).

Closer examination of Table 1.1 also shows that although EOBs had greater employment growth during the strong economic conditions that prevailed until 2008, the rate increased even further as the economy entered the recession. What is interesting to note, however, is the difference in the relative position of mean and median for both EOBs and non-EOBs. Whereas during the period 2005–08 the median exceeds the mean considerably, in the 2008–09 period the mean values for increase in employment are higher than the median. This suggests that a disproportionate number of firms relative to the rest of the sample grew at a very slow rate during the period 2005–08, whereas others grew disproportionately faster during 2005–08. What is striking in the results, however, is the extent to which EOBs grew relative to their non-EOB counterparts. While non-EOB employment increase slowed down considerably, the rate in EOBs picked up.

This counterintuitive response to harsh economic conditions can be explained if we take into account the shifting market for labour during the recession. Many EOBs took advantage of the worsening employment situation to recruit highly skilled and knowledgeable individuals on favourable terms. Survey findings further validate this assertion. These show that EOBs consider staff recruitment and retention as crucial for recovery from the recession.

Our survey results show that nearly three-quarters of the respondents from EOBs strongly believe that *employee commitment* is a central advantage of the EOB model (see Appendix II). On the other hand, survey data shows that non-EOBs find *motivating employees* to be a significantly stronger challenge than EOBs.

That employee commitment is seen as a central advantage of the employee-ownership model comes as no surprise, given the premise on which this model is founded: greater employee ownership leads to better employee performance, which in turn improves the long-term sustainability of the firm. The employee-ownership model is also widely perceived as better for job creation, and also for doing so at a much faster rate than the non-employee-ownership model.<sup>11</sup> With the current policy focus on entrepreneurship and new business start-ups to re-energise the economy on the one hand, and small businesses bearing the brunt of job losses and facing difficulties accessing finance on the other, the employee-ownership model therefore holds greater potential for businesses and employment.

**Table 1.1** Increase in number of employees

Increase over the period...	2005–08 <sup>a</sup>		2008–09	
	EOBs	Non-EOBs	EOBs	Non-EOBs
Increase in employee numbers (mean)	7.46% <sup>b,c</sup>	3.87%	12.91%	2.70%
Increase in employee numbers (median)	10.21%	5.61%	11.03%	1.81%
	The median values are higher than the mean for EOBs and non-EOBs. This indicates a skewed distribution in rates of employment growth due to a disproportionate group of firms growing at very low rates		The median values are lower than the mean for EOBs and non-EOBs. This indicates that some increased their hiring disproportionately to the rest of the sample for EOBs and non-EOBs	

<sup>a</sup>Average per annum increase reported for 2005–08 data. <sup>b</sup>t-test for the difference of means; statistically significant differences between EOBs and non-EOBs are shaded ( $p \leq 0.01$ ). <sup>c</sup>Raw scores reported, scaled normalised scores were used for analysis.

As indicated earlier, we are interested not only in how EOBs compare with non-EOBs in general, but also in how EOBs compared with their peers on certain key criteria. Using employee numbers as a proxy for size, we split the EOB and non-EOB samples into two groups. Based on the spread of firms in terms of employee numbers, firms with 120 or fewer employees were grouped together as relatively small/medium EOBs. Firms with more than 120 employees were grouped together as large firms. This roughly corresponds to the difference between small and medium enterprises, and large firms. This allowed us to conduct a four-way comparison between small/medium and large EOBs and small/medium and large non-EOBs, which led to statistically significant results. These are summarised in Figure 1.1.

**Figure 1.1** Distinguishing characteristics of the EOBs relative to non-EOBs from survey data based on the relative number of employees (small/medium and large)

Employee numbers		Non-EOBs	
		Small/medium firms	Large firms
EOBs	Small/medium firms	<ul style="list-style-type: none"> <li>Small/medium EOBs are more likely than non-EOBs to consider lack of specialist legal and advisory services to be a problem</li> </ul>	<ul style="list-style-type: none"> <li>Small/medium EOBs are more likely than large non-EOBs to encourage employee involvement in business area decisions</li> </ul>
	Large firms	<ul style="list-style-type: none"> <li>Large EOBs are less likely than small/medium non-EOBs to brainstorm how customers/clients use their products and services</li> </ul>	<ul style="list-style-type: none"> <li>Large EOBs are more likely than large non-EOBs to seek innovative ideas from staff</li> <li>Large non-EOBs place more importance than EOBs on standard operating procedures</li> </ul>

Statistical significance level:  $p \leq 0.1$

To begin with, our four-way comparison reinforces the importance of delegating and empowering front-line staff. This is true for EOBs as well as non-EOBs.

The comparison supports the assertions that as EOBs grow in size they are likely to lose the relative advantages that stem from employee involvement and empowerment. EOBs with higher employee numbers lag behind non-EOBs with lower employee numbers on key attributes of employee involvement such as *employee say in business area decisions*. EOBs with lower employee numbers are ahead on this attribute relative to non-EOBs with higher employee numbers.

That managerial innovation is central to countering this seems to drive EOBs with high employee numbers to actively *seek innovative ideas from staff*. This is further reinforced by our analysis, which shows that EOBs with high employee numbers are better than their counterpart non-EOBs in giving their employees greater flexibility.

Our survey results comparing EOBs with high employee numbers and EOBs with relatively lower employee numbers indicate that the higher the employee numbers or size of the firm, the lower are the key indicators of employee involvement and participation, for example *employee involvement in new product decisions* and *their say in overall strategy and direction of the business*.<sup>12</sup> Within the non-EOB sample such perceptions are indistinguishable based on *number of employees*, indicating that non-EOBs are relatively less susceptible to such scale effects.

Thus there is a clear indication that scale effects impact and matter more for EOBs. Greater management control and complexity kicks in as EOBs scale up their operations. As a result, the distance between the front-line managers and senior management may increase.

### 1.3 EOBs display less sales variability across the business cycle

Sales growth is to an important degree a function of top management's market perceptions, risk taking and the cost of capital. Our study examined sales growth of EOBs and non-EOBs during a period of strong demand and more easily available credit, and at the onset of the present economic downturn. Our results show that the mean sales performance of EOBs and non-EOBs was very different in each of these periods. Average sales growth for non-EOBs was greater than for EOBs during the 2005–08 period. On the other hand, the average sales growth for EOBs surpassed considerably the average sales growth for non-EOBs when the economy entered the recession (see Table 1.2).

It is possible to attribute the contrast between EOBs and non-EOBs to slower strategic decision-making and far greater reluctance of management in EOBs to take advantage of market opportunities when the economy is strong. But this is contradicted by the strong sales performance of EOBs relative to non-EOBs during difficult economic conditions.

A more likely explanation in our opinion is the limited financing options available to EOBs compared with non-EOBs. As our survey suggests, EOBs in general experience difficulties in obtaining favourable financing from institutions that are more accustomed to dealing with listed companies. During periods of strong economic growth, these institutions lend readily to non-EOBs but are more reluctant to finance EOBs. This reluctance tends to constrain the growth opportunities of EOBs at the lower end of the scale. By contrast, when the economy entered the recession, many EOBs could capitalise on their reputation for stability and used their retained earnings to increase sales, often at the expense of non-EOBs that were forced by high indebtedness to cut back.

Increase over the period...	2005–08 <sup>a</sup>		2008–09	
	EOBs	Non-EOBs	EOBs	Non-EOBs
Increase in sales turnover (mean) <sup>a</sup>	10.04% <sup>b,c</sup>	12.10%	11.08%	0.61%
Increase in sales turnover (median)	10.81%	11.12%	10.52%	1.02%
	EOBs have lagged behind non-EOBs on increasing their sales turnover during this period		EOBs have managed to increase the difference with non-EOBs in this period. This is largely due to the huge decline in non-EOB sales	

<sup>a</sup>Average per annum increase reported for 2005–08 data. <sup>b</sup>t-test for the difference of means; statistically significant differences between EOBs and non-EOBs are as shaded. <sup>c</sup>Raw scores reported, scaled normalised scores were used for analysis.

## Part 2. Employee sales contribution and EOB performance

Employee commitment to operational excellence is a key source of sales performance in any organisation. Since employee commitment to the organisation is one of the key strengths of the employee-ownership model we would expect employees in EOBs to make a greater contribution to sales than employees in comparable non-EOBs. However, a comparison of employee contribution to sales is difficult without controlling for a wide variety of factors such as the balance between number of employees engaged in support services versus employees directly involved in producing and delivering goods and services. An indirect measure of employee contribution to sales is the employee contribution to growth in sales. This measure has the advantage of using the organisation's own sales as a benchmark for comparison, thus allowing for an evaluation of performance of a diverse range of operations.

### 2.1 EOBs deliver higher employee sales contribution

Our analysis finds a difference between EOBs and non-EOBs in sales turnover per employee for 2005–08 and for 2008–09. For the period 2008–09 sales per employee performance of EOBs was significantly better than for non-EOBs (Table 2.1). It is worth noting that this is despite the greater rise in employee numbers over 2008–09 (Table 1.1), indicating that sales have been increasing at an even greater rate than employment for EOBs.

Increase over the period...	2005–08 <sup>a</sup>		2008–09	
	EOBs	Non-EOBs	EOBs	Non-EOBs
Increase in sales turnover/employee (mean)	1.33% <sup>b,c</sup>	2.94%	0.97%	0.22%
Increase in sales turnover/employee (median)	2.10%	4.42%	0.52%	0.71%
	The median values are higher than the mean for both EOBs and non-EOBs. This indicates that the sample mean is more affected by firms with relatively lower sales turnover/employee		The median values are lower than the mean for EOBs. This indicates that the sample mean is more affected by firms that have seen a relatively higher increase in sales turnover/employee	

<sup>a</sup>Average per annum increase reported for 2005–08 data. <sup>b</sup>t-test for the difference of means; statistically significant differences between EOBs and non-EOBs are as shaded. <sup>c</sup>Raw scores reported, scaled normalised scores were used for analysis

Our results are consistent with past studies that looked at growth rates of EOBs, but these studies also suggest that employee ownership per se will not deliver superior growth performance unless ownership is combined with greater participation in firm governance.<sup>13</sup> When we turn to our survey data we find substantial support for this assertion.

Overall our survey shows that EOBs are characterised by significantly higher levels of participation by employees in decisions that influence governance, strategy-making and operations than non-EOBs. Nearly half the EOB respondents to the survey consider employee say in business area decisions and new product decisions as important practices at their firm; by comparison less than one-tenth of the non-EOB respondents feel this is the case. The interest employees show in board level decisions and their say in overall strategy and direction of the business also show a similar dichotomy between the EOBs and non-EOBs. From a 'good practices' perspective, therefore, EOBs are doing much better as far as employee participation and involvement in business decisions are concerned, and other factors held constant, this often translates into superior performance relative to non-EOBs.

To explore organisational practices further we conducted a four-way comparison of EOBs with low/high contribution to sales and non-EOBs with low/high contribution to sales (see Figure 2.1). We split the EOB and non-EOB samples into two groups. Based on the spread of firms in terms of employee numbers, firms with less

than or equal to the median value for increase in sales turnover per employee (employee sales contribution) in the present time (0.5% for EOBs and 0.7% for non-EOBs) were grouped as those with relatively lower growth. Firms with more than the median sales contribution were grouped as high-growth firms.

Our results show that organisations with high-growth employee contribution to sales recognise the importance of empowering front-line managers, regardless of whether they are EOBs or non-EOBs. However, as we noted earlier (and as other studies confirm<sup>14</sup>), EOBs are more likely to implement practices to empower front-line managers than non-EOBs. Furthermore, as our analysis shows, when comparing high-growth EOBs and non-EOBs we find that information on competitors – an important part of improving sales – circulates more freely in EOBs than in non-EOBs. Likewise, EOBs give their employees greater discretion when it comes to selecting the means that are best suited for accomplishing their assigned tasks. This suggests greater emphasis on finding and recruiting suitable personnel. A comparison of EOBs with low-growth employee contribution and non-EOBs with a similarly low-growth profile also supports this point.

**Figure 2.1** Distinguishing characteristics of the EOBs relative to non-EOBs from survey data based on the growth indicated by increase in employee contribution to sales (low/high)

Growth rate as increase in employee contribution to sales		Non-EOBs	
		Low growth rate	High growth rate
EOBs	Low growth rate	<ul style="list-style-type: none"> <li>Low-growth EOBs see recruitment of skilled staff as more important for taking advantage of growth opportunities than low-growth non-EOBs</li> </ul>	<ul style="list-style-type: none"> <li>High-growth non-EOBs put greater emphasis than low-growth EOBs on increasing the decision-making powers of front-line managers</li> </ul>
	High growth rate	<ul style="list-style-type: none"> <li>High-growth EOBs put greater emphasis than low-growth non-EOBs on allowing employee participation in decisions that influence operations</li> </ul>	<ul style="list-style-type: none"> <li>Employees are more likely to share information on competitors in high-growth EOBs than in high-growth non-EOBs</li> <li>High-growth EOBs give personnel more freedom than high-growth non-EOBs to select the means needed to accomplish goals</li> </ul>

Statistical significance level  $p \leq 0.1$

14

## 2.2 EOBs and non-EOBs are on par for profitability

We now turn our attention to profitability per employee. Our results show that profitability of EOBs and non-EOBs is not significantly different during the 2005–08 period, even though non-EOBs performed slightly better than EOBs during this period. But the relative performance changes during the recession in the 2008–09 period, with EOBs outperforming non-EOBs (see Table 2.2a). This is commensurate with the findings on sales performance discussed earlier in the report.<sup>15</sup>

**Table 2.2a** Increase in profits before interest and taxes (PBIT)

Increase over the period...	2005–08 <sup>a</sup>		2008–09	
	EOBs	Non-EOBs	EOBs	Non-EOBs
Increase in PBIT (mean)	10.91% <sup>b,c</sup>	14.88%	3.12%	2.08%
Increase in PBIT (median)	12.70%	16.61%	4.20%	3.00%
	The median values are higher than the mean for both EOB and non-EOB samples over both comparison time periods. This difference is very marginal between EOBs and non-EOBs indicating similar levels of heterogeneity in the two samples			

<sup>a</sup>Average per annum increase reported for 2005–08 data. <sup>b</sup>t-test for the difference of means; no statistically significant differences were found. <sup>c</sup>Raw scores reported, scaled normalised scores were used for analysis

Our findings also show that the increase in PBIT per employee is lower for EOBs during 2005–08. However, in keeping with superior sales performance in times of downturn EOBs seem to have closed the gap on PBIT per employee during 2008–09 (see Table 2.2b).

Increase over the period...	2005–08 <sup>a</sup>		2008–09	
	EOBs	Non-EOBs	EOBs	Non-EOBs
Increase in PBIT/employee (mean)	1.51% <sup>b,c</sup>	3.78%	0.25%	0.68%
Increase in PBIT/employee (median)	3.11%	4.31%	0.30%	1.19%
	Non-EOBs are significantly higher on increase in PBIT/employee. This points to a split between the group of EOBs that have a high PBIT/employee and others that do poorly in this regard		The difference between mean and median values decreased considerably for EOBs, suggesting that strong performers during the 2005-2008 period slowed considerably	

<sup>a</sup>Average per annum increase reported for 2005–08 data. <sup>b</sup>t-test for the difference of means; statistically significant differences between EOBs and non-EOBs are as shaded. <sup>c</sup>Raw scores reported, scaled normalised scores were used for analysis

A four-way comparison of EOBs with low/high profitability per employee with low/high profitability per employee non-EOBs as shown in Figure 2.2 reinforces the importance of organisational practices in delivering strong performance. We split the EOB and non-EOB samples into two groups. Firms with less than or equal to the median value for increase in PBIT/employee in the present time (see Table 2.2b) were grouped as those with relatively low PBIT per employee. Firms with more than the median value were grouped as those with high PBIT per employee (Figure 2.2).

PBIT/employee		Non-EOBs	
		Low PBIT/employee	High PBIT/employee
EOBs	Low PBIT/employee	<ul style="list-style-type: none"> <li>Low PBIT/employee EOBs see lack of support from government policy as a bigger challenge than low PBIT/employee non-EOBs</li> </ul>	<ul style="list-style-type: none"> <li>Employees in high PBIT/employee non-EOBs are more likely to share information on competitors than low PBIT/employee EOBs</li> <li>Relative to high PBIT/employee non-EOBs, EOBs with low PBIT/employee are more likely to let other firms try out an innovation before they try it themselves</li> </ul>
	High PBIT/employee	<ul style="list-style-type: none"> <li>Employees in high PBIT/employee EOBs have a greater say in business area operations than those in low PBIT/employee non-EOBs</li> <li>High PBIT/employee EOBs exercise less control over minor decisions than low PBIT/employee EOBs</li> </ul>	<ul style="list-style-type: none"> <li>Relative to high PBIT/employee non-EOBs, EOBs with high PBIT/employee are more inclined to seek innovative ideas from staff</li> </ul>

Statistical significance level:  $p \leq 0.1$

Our analysis shows that EOBs with high profitability per employee have greater control over minor decisions than non-EOBs, i.e. EOBs with high profitability per employee are more decentralised. Likewise, top management in EOBs with high profitability per employee are more likely to seek innovative ideas than their counterpart in non-EOBs with high profitability per employee.

**2.3 EOBs show superior financial performance in knowledge and skill-intensive industries**

Up to this point we have compared EOBs and non-EOBs without reference to sector or industry type. Studies of EOBs suggest that they tend to concentrate in industries where competition for knowledgeable and skilled human resources tends to bid up wages. This may account in part for the higher labour costs borne by EOBs relative to non-EOBs that we observe in our sample, but it also raises the question of whether controlling for wage costs will reveal additional information on the comparative performance of EOBs relative to non-EOBs.

To conduct this analysis we therefore divided the two samples into three sub-groups: firms with wage costs of less than £20,000 per employee, firms with wage costs of £20,000–40,000 per employee, and firms with wage costs of more than £40,000 per employee. Our results on comparing the samples show that EOBs with wage costs of more than £40,000 per employee do significantly better than their counterpart non-EOB firms on profitability per employee. By contrast, we find no significant statistical difference between EOBs and non-EOBs when comparing performance below the £40,000 per annum wage level (see Appendix III).

**2.4 EOBs add more value to output and human capital than non-EOBs**

The strong relationship between employee ownership and high salaries points to the tendency of the EOB model to become more prevalent in knowledge-based firms. By extension, this leads to a wider adoption of this model in a knowledge-based economy.<sup>16</sup> It also suggests that traditional measures of employee contribution to firm performance cannot be confined to output measures but must include investment in human capital that adds to the knowledge and skill stock of the firm.

The best measure currently available for capturing both employee contribution to output and corresponding investment in human capital is value added per employee.<sup>17</sup> The value-added index (VAI) that reflects this can be calculated as follows:

$$\text{VAI} = (\text{PBIT} + \text{wage cost}) / \text{employee numbers}$$

where PBIT and wage costs are expressed in million £s

We examine this index using company data to arrive at results that contrast the performance of EOBs with non-EOBs (see Table 2.3).

16

Time period		Financial year ending 2005		Financial year ending 2008		Improvement in performance on VAI over 2005–08	
EOBs	Non-EOBs	EOBs	Non-EOBs	EOBs	Non-EOBs	EOBs	Non-EOBs
Mean <sup>a</sup>		0.045 <sup>a</sup>	0.041	0.060	0.048	33.05%	17.11%
Median		0.062	0.051	0.039	0.079	(0.015)	(0.007)
		EOBs do marginally better than non-EOBs, but in both instances the presence of high VAI performers accounts for the higher medians		EOBs do significantly better than non-EOBs Median VAI fell below mean VAI for EOBs, but not for non-EOBs. This suggests that some EOBs with high VAI declined relative to past performance		EOBs have improved significantly more than non-EOBs on VAI	

<sup>a</sup>t-test for the difference of means; statistically significant differences between EOBs and non-EOBs are as shaded

Our results show a striking difference between EOBs and non-EOBs. During the 2005–08 period the value added per employee of EOBs was somewhat stronger than that of non-EOBs. The difference, however, increased dramatically during the recession year 2008–09. EOBs improved their VAI by 33%, whereas non-EOBs improved their performance by just over half as much (17%). However, the distribution of VAI as gauged by looking at the relative positions of mean and median values shifted in the EOB sample, but not for the non-EOB sample. This suggests that strong VAI performers in the 2005–08 period declined relative to their past performance.



Our analysis of this data needs to be viewed with some caution given that the VAI comprises a selection from numerous measures that could be used. It uses PBIT to account for firm performance where economic performance would typically include firm performance and performance from an employer perspective. It does not account for the difference in firm activities where some firms would typically be involved in high depreciation and amortisation activities affecting PBIT. To an extent this difference is accounted for by controlling for industry affiliation of the sample firms.

Profitability of the EOBs in this study has been comparable with non-EOBs while wage costs and employee costs are significantly higher for EOBs. One interpretation could also be that the rise in wage costs has been ahead of the rise in employee numbers to give us this result. That EOBs reward employees better and also tend to intake at a much faster rate is clearly more desirable from the viewpoint of better economic performance.

## Part 3. EOB response to economic crisis

### 3.1 The employee-ownership model of business is more robust

This study covers the period from 2005 to 2009. As noted, we have divided our sample into two time periods: 2005–08 and 2008–09. This divide marks the onset of a severe economic downturn, and forms a natural ‘experiment’ that tests the relative resilience of the employee-ownership and non-employee-ownership models of business. In earlier sections we show that EOBs delivered better performance during the economic downturn than did non-EOBs. To some extent this is due to excessive borrowing and expansion decisions by non-EOBs with good access to financial markets, which soured when economic conditions turned negative. At a deeper level, however, our survey was administered at a point in the business cycle when questions regarding management practices had special relevance for the respondents.

Our survey results show that respondents see the stability of EOBs measured by indicators such as ‘lower risk of business failure’ as a central advantage of the employee-ownership model. This is especially important, as this perception is markedly stronger in EOBs characterised by lower growth rates relative to EOBs characterised by higher growth rates.

The *inherent stability of the employee-ownership model* is just one factor contributing to the resilience shown by EOBs in trying economic conditions. We have also discussed findings from survey data that indicate there is greater emphasis on employee involvement in decision-making for EOBs despite the difficulties in doing so as they scale up. Our survey data also indicates that there is a considerable focus on managerial innovation in sample EOBs despite the pressures of growth. However, there remains the concern that with poor financial performance EOBs tend to become more conservative and risk averse (see Figure 2.2).

We discuss next what EOBs consider to be central for recovery from the present downturn, and how they differ from non-EOBs on issues that may arise in taking advantage of growth opportunities.

### 3.2 Recruiting and retaining talent, and leveraging the innovation potential are going to be central to recovery

We asked respondents from EOBs to indicate the extent to which key characteristics of the employee-ownership model will help recovery from the present downturn (see Appendix IV).

Nearly half the respondents from EOBs with low growth in terms of employee sales contribution saw ‘employee commitment’ as the most important factor. These respondents also saw *favourable business image, stronger customer loyalty, staff recruitment and retention*, and *innovation potential* as important. Respondents from EOBs with high employee sales contribution seem to be in agreement with their low-growth counterparts. In this category, however, more than one-third also see employee commitment as crucial. We found statistically significant differences for *innovation potential* and *staff recruitment and retention* between the EOBs with high employee sales contribution and those with low employee sales contribution. Respondents from high-growth EOBs consider both these as significantly stronger advantages that could help recovery relative to low-growth EOBs.

Superior performance may well be the reason why high-growth EOBs put such emphasis on recruiting and retaining talent. It could also explain their propensity to be more innovative as they have the capacity and confidence to commit resources and take the risks that come with innovation. Furthermore, this demonstrates that as EOBs scale up, they place more importance on leveraging managerial innovation, and on ensuring talent recruitment and retention.

### 3.3 EOBs are doing better than non-EOBs on customer communications and empowering front-line managers

We asked respondents from the EOBs and non-EOBs to indicate which issues are likely to arise if they were to take advantage of growth opportunities (see Appendix V). The results from testing the significance of means (Wilcoxon rank sum test,  $p \leq 0.05$ ) indicate that: (a) *Rethinking customer communications* is a major issue that confronts EOBs with relatively high growth in terms of employee sales contribution; and (b) *Substantially increasing the decision-making powers of front-line managers* is a major issue that confronts non-EOBs relative to high-growth EOBs.

Low-growth EOBs seem to be concerned about customer communications. Plausibly, this may be a reflection of their inability to hold on to customers – especially in recent times. By contrast, increasing decision-making powers of front-line managers is more of a concern for non-EOBs, reinforcing the importance of decentralised decision-making that is integral to the employee-ownership model of business but less common in their non-EOB counterparts.

## Part 4. Challenges

### 4.1 EOBs confront more regulatory and policy challenges than non-EOBs

Our findings on performance in relation to scale and growth (Figures 1.1 and 2.1, respectively) have shown that small and medium EOBs, and EOBs that are relatively less profitable see the existing regulatory and policy environment as a major constraint affecting their growth (see Appendix VI). We examine a range of such challenges in the survey to draw inferences about how EOBs differ from non-EOBs in their perception of business challenges. Below we report results that contrast the perceptions of EOBs with non-EOBs on business challenges.<sup>18</sup>

Analysis of the survey data shows that *in comparison with the perceptions of non-EOBs, EOBs with high employee sales contribution perceive*

- *seeking finance from banks and other institutions* as relatively more challenging
- *favourable portrayal in the media* as less of a challenge than non-EOBs
- *problems with government-approved share plans* as more of a challenge.

Analysis of the survey data shows that *in comparison with the perceptions of non-EOBs, EOBs with low employee sales contribution perceive*

- *lack of support from government and policy-makers* as more of a challenge
- *issues in tax treatment* as more of a challenge
- *the approach of HM Revenue and Customs* as more of a challenge
- *lack of specialist support during transition times* as more of a challenge.

Lack of business support underlines the perceptions about business challenges, particularly by EOBs with low growth in terms of employee sales contribution. Difficulties in tackling tax issues, accessing finance, accessing specialist business support and seeking a favourable policy environment are central to differentiating low-growth EOBs from high-growth EOBs, and from non-EOBs. High-growth EOBs also find it more difficult to access finance than non-EOBs.

The perception about the challenge of implementing government-approved share plans is most likely explained by the ownership structure of EOBs. Finally, the favourable portrayal by the media being a challenge for non-EOBs and not for EOBs validates the assertion that despite performance differences between EOBs, they have a favourable business image that can also be seen as another important advantage of the employee-ownership model.

---

#### 4.2 A focus on international sales results in higher growth in EOBs

---

We record data for international sales relative to national sales, and sales in the primary national market as a percentage of national sales. We used all 41 EOB firms in the sample to conduct a regression analysis to examine if the geographical spread in markets offered any explanation for growth in terms of employee sales contribution. We control for industry affiliation, strategy types, change in governance and change in ownership.

Our main finding here is that the higher the international sales relative to percentage of national sales, the higher is the growth in terms of employee sales contribution of EOBs ( $R^2: 0.20, p < 0.05$ ). In effect, increasing internationalisation, even at the expense of growth in sales in the domestic market, will improve the sales growth of EOBs. This finding is also consistent with survey results on what the EOBs perceive to have generated the most growth for them (see Appendix VII). In general EOBs see *new markets (geographic)* and *new customers* as being more important than other factors. These include new pricing policies, new products, new systems and more growth options like acquisitions, among others. High-growth EOBs show stronger agreement for *new markets* and *new customers* to have contributed greatly to their growth relative to the low-growth EOBs. *Acquisitions* fare as having contributed the least to the growth of EOBs indicating their risk-averse, but more intensive, organic growth-oriented strategy.

The findings suggest that EOBs perceive that they do well if they expand their customer base overseas. However, this perception usually stems from high-growth EOBs with the resources and momentum to do so. For the same reason there may be a need to balance such an orientation with a focus on wider policy and regulatory issues that EOBs with relatively slower growth are facing.

## Appendices

### Appendix I

Profitability comparison based on employee numbers				
Employee numbers	2005		2008	
	EOBs	Non-EOBs	EOBs	Non-EOBs
	PBIT (mean) (million £s, normalised by the maximum for the sample group)			
< 75	0.21 <sup>a*</sup>	0.12 <sup>*</sup>	0.32 <sup>*</sup>	0.11 <sup>*</sup>
75 ≤ 200	0.12	0.14	0.21	0.24
> 200	0.18	0.12	0.35	0.42
	PBIT/employee (mean) (million £s/employee, standardised by the maximum for the sample group)			
< 75	0.12 <sup>+</sup>	0.06 <sup>+</sup>	0.28 <sup>+</sup>	0.08 <sup>+</sup>
75 ≤ 200	0.11	0.17	0.05	0.15
> 200	0.21	0.19	0.03	0.02

<sup>a</sup>Normalised scores reported where the maximum for a sample group is taken as 1. This is for reasons of statistical comparison between the groups. If the maximum profits reported for the sample group was 1 then 0.21 was the average profit PBIT, profits before interest and taxes

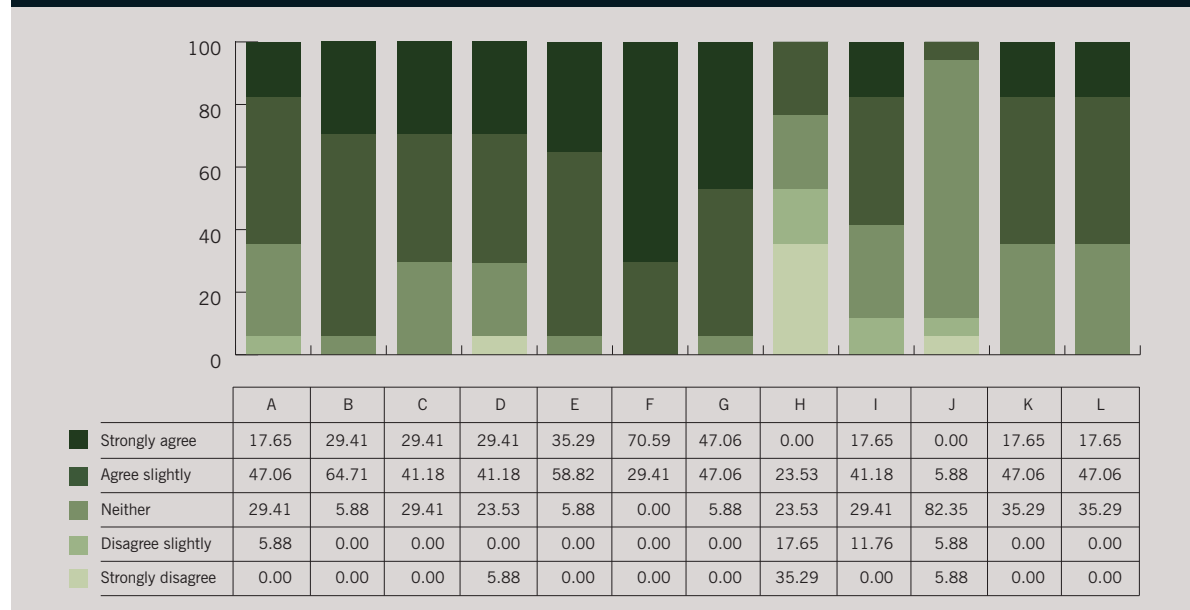
\*: Statistically significant at  $p \leq 0.05$ , +: statistically significant at  $p \leq 0.1$

### Appendix II

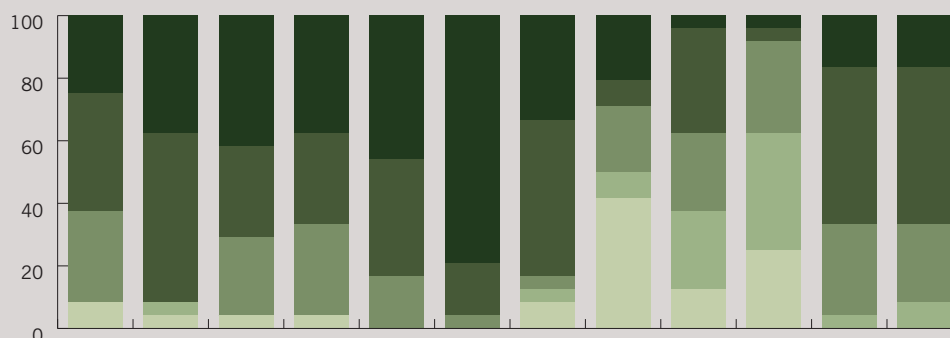
#### Descriptive statistics from survey data: perceptions about advantages of the employee ownership model

- |   |                                |   |                                |
|---|--------------------------------|---|--------------------------------|
| A | Superior financial performance | G | Lower staff turnover           |
| B | Higher productivity            | H | Significant tax advantages     |
| C | More innovation                | I | Lower risk of business failure |
| D | Stronger customer loyalty      | J | Lower cost of capital          |
| E | More favourable business image | K | Lower staff absence            |
| F | Stronger employee commitment   | L | Lower work-related sickness    |

#### Perceptions about advantages of the employee-ownership model in low-growth EOBs (%)



### Perceptions about advantages of the employee-ownership model in high-growth EOBs (%)



	A	B	C	D	E	F	G	H	I	J	K	L
Strongly agree	25.00	37.50	41.67	37.50	45.83	79.17	33.33	20.83	4.17	4.17	16.67	16.67
Agree slightly	37.50	54.17	29.17	29.17	37.50	16.67	50.00	8.33	33.33	4.17	50.00	50.00
Neither	29.17	0.00	25.00	29.17	16.67	4.17	4.17	20.83	25.00	29.17	29.17	25.00
Disagree slightly	0.00	4.17	0.00	0.00	0.00	0.00	4.17	8.33	25.00	37.50	4.17	8.33
Strongly disagree	8.33	4.17	4.17	4.17	0.00	0.00	8.33	41.67	12.50	25.00	0.00	0.00

### Appendix III

#### Profitability comparison based on wage costs as a proxy of knowledge intensity of industries

Wage costs/employee	2005		2008	
	EOBs	Non-EOBs	EOBs	Non-EOBs
Low to high knowledge intensity	PBIT (mean) (million £s, standardised by the maximum for the sample group)			
< £20,000	0.11 <sup>a</sup>	0.12	0.05	0.11
£20,000 ≤ £40,000	0.12	0.18	0.19	0.12
> £40,000	0.23 <sup>+</sup>	0.11 <sup>+</sup>	0.27 <sup>+</sup>	0.13 <sup>+</sup>
	PBIT/employee (mean) (million £s/employee, standardised by the maximum for the sample group)			
< £20,000	0.04	0.01	0.03	0.02
£20,000 ≤ £40,000	0.13	0.11	0.05	0.04
> £40,000	0.08	0.05	0.09	0.04

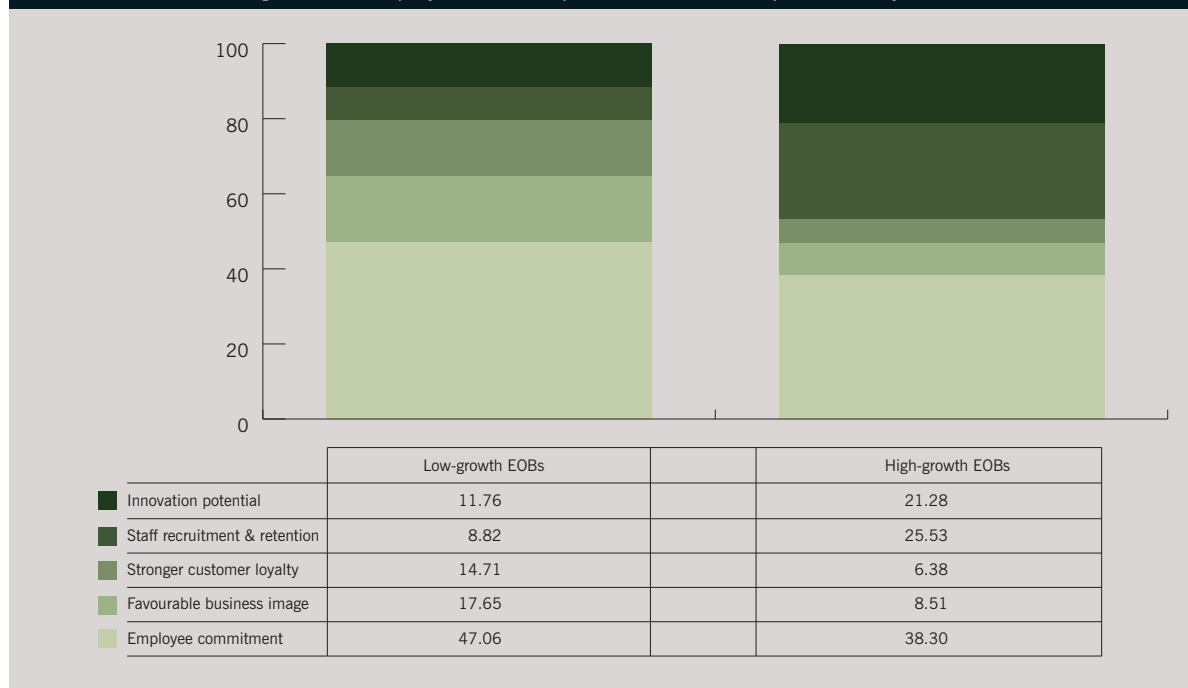
<sup>a</sup>Normalised scores reported where the maximum for a sample group is taken as 1. This is for reasons of statistical comparison between the groups. If the maximum profits reported for the sample group was 1 then 0.11 was the average profit.

\*: Statistically significant at  $p \leq 0.05$ , +: statistically significant at  $p \leq 0.1$

Appendix IV

Descriptive statistics from survey data: perceptions in EOBs about characteristics/advantages of the employee-ownership model that will help in recovery from the present economic downturn

Characteristics/advantages of the employee-ownership model that will help in recovery (%)

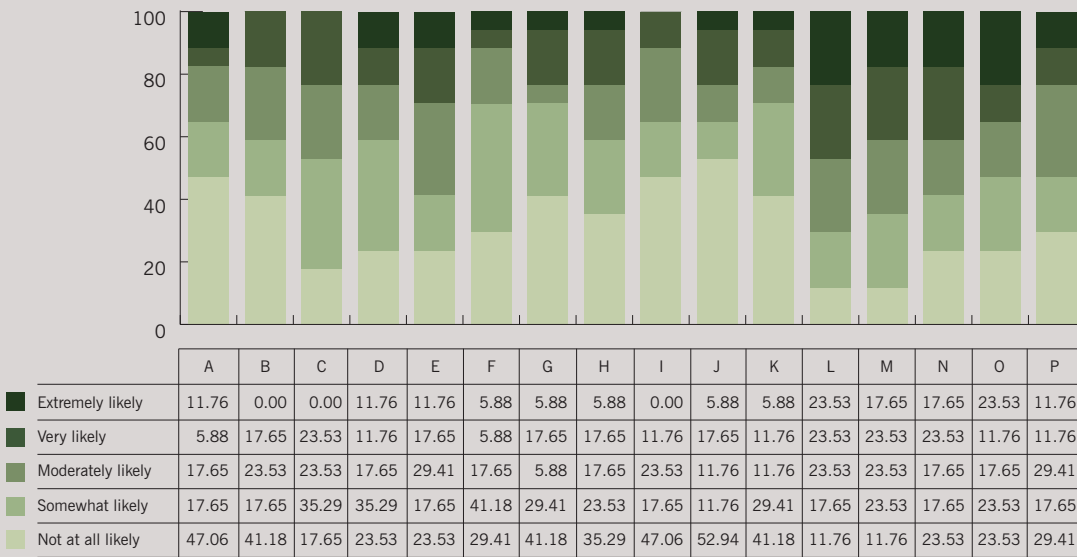


Appendix V

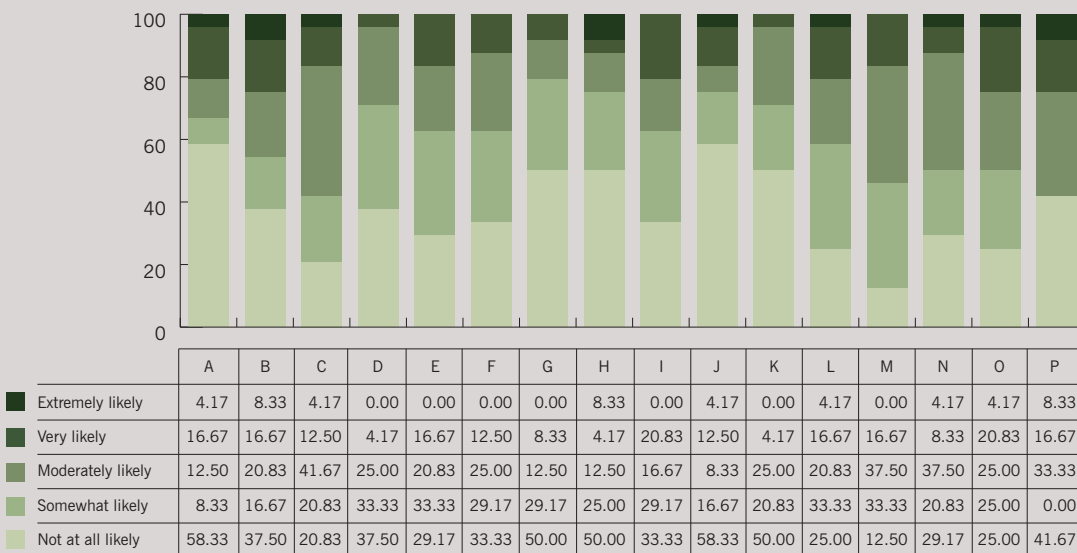
Descriptive statistics from survey data: issues in taking advantage of growth opportunities

- A Restructuring the job classifications currently used in our organisation
- B Recruiting many more skilled staff to deal with new systems (e.g. IT, logistics)
- C Substantially increasing our investment in training
- D Fundamentally changing our organisational structure
- E Creating new business units
- F Significantly expanding our marketing staff to cope with increasing demand
- G Significantly changing the composition of the board
- H Opening many more new facilities/new locations
- I Significantly altering our equipment and workflow organisation
- J Negotiating new credit lines
- K Reorganising our procurement
- L Significantly changing the way we communicate with our customers
- M Significantly improving our communications with employees
- N Substantially increasing the decision-making powers of front-line managers
- O Making important changes in the responsibilities of top management
- P Changing our incentive systems

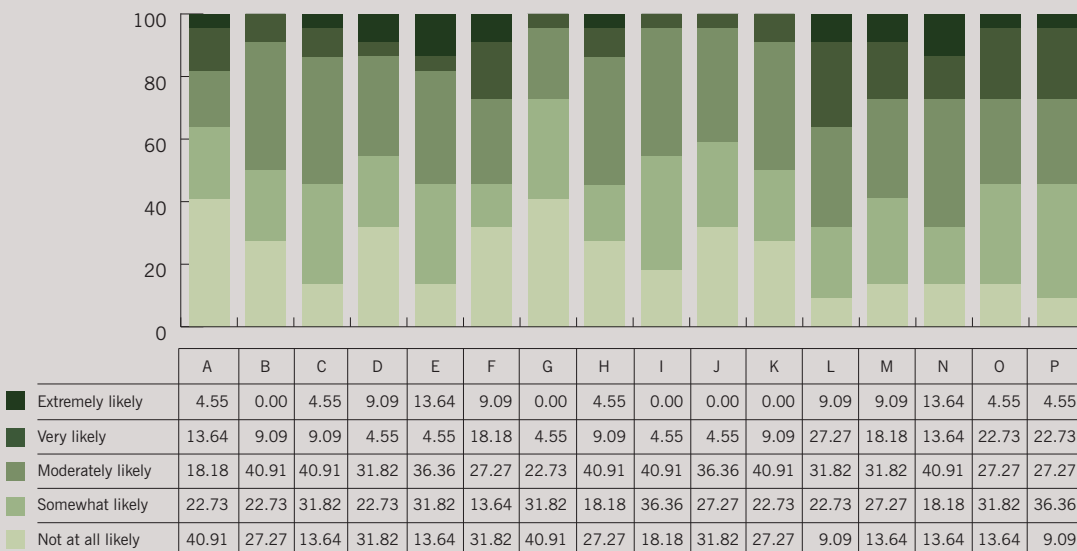
Issues in taking advantage of growth opportunities: low-growth EOBs (%)



Issues in taking advantage of growth opportunities: high-growth EOBs (%)



Issues in taking advantage of growth opportunities: non-EOBs (%)

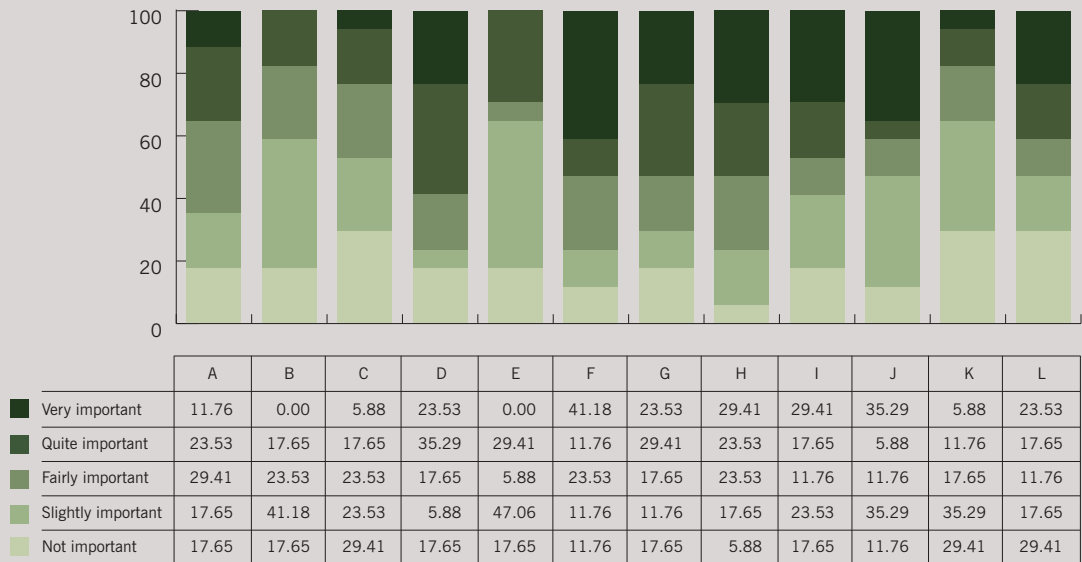


Appendix VI

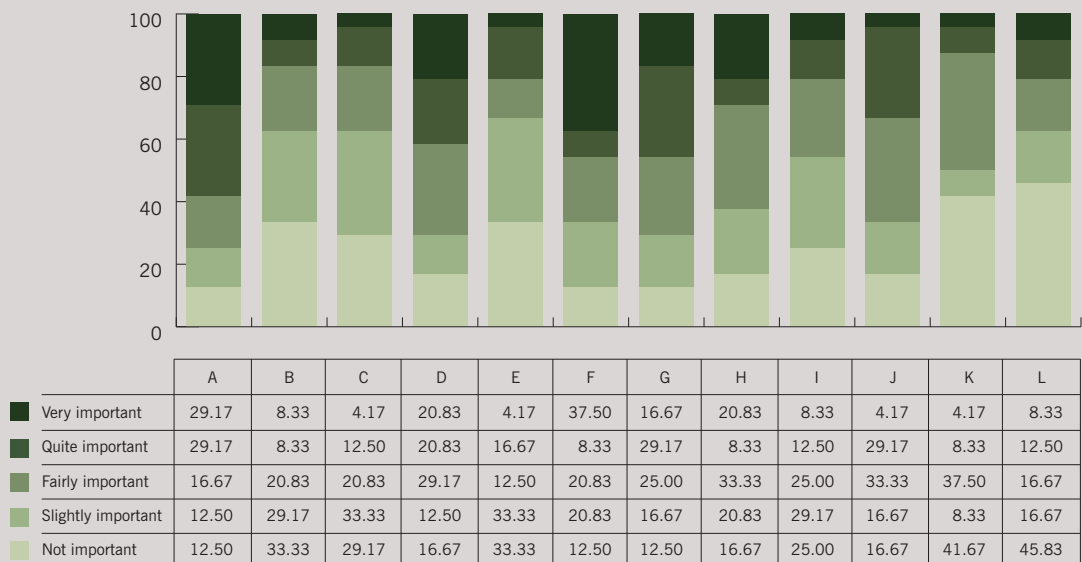
Descriptive statistics from survey data: view on the importance of business challenges

- A Seeking finance from banks and other financial institutions
- B Lack of specialist legal and advisory services
- C Lack of specialist financial providers
- D Lack of support from government/policy-makers
- E Less favourably portrayed in the business media
- F Issues in tax treatment
- G Problems with government-approved share plans
- H Overall approach of HM Revenue & Customs
- I Lack of specialist consulting advice during transition to employee ownership
- J Finding and developing managerial skills for an EOB
- K Customers' lack of understanding of employee ownership
- L Motivating employees to be part of the board

Views on importance of business challenges: low-growth EOBs (%)

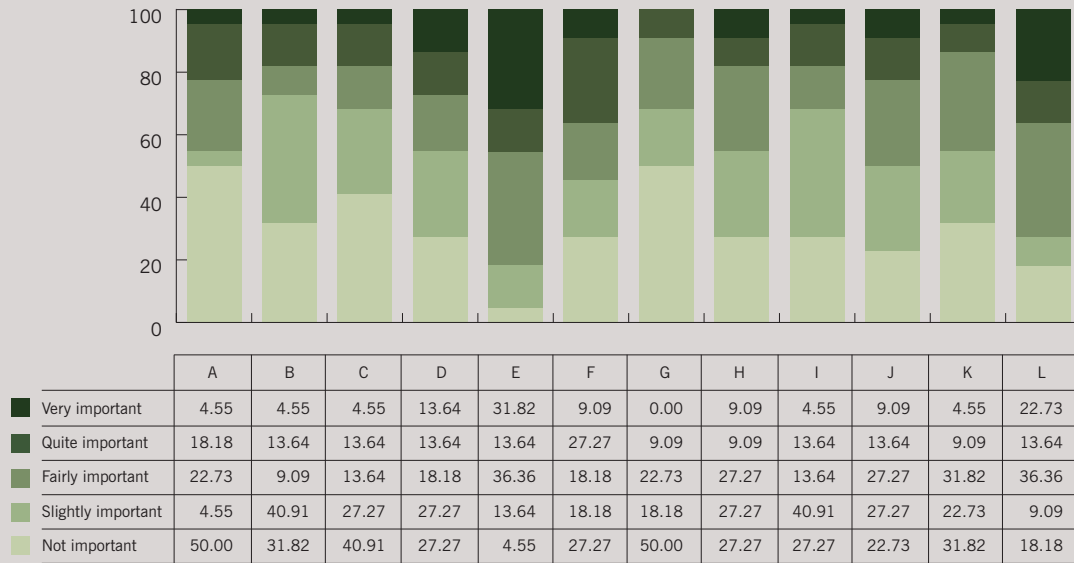


Views on importance of business challenges: high-growth EOBs (%)





Views on importance of business challenges: non-EOBs (%)

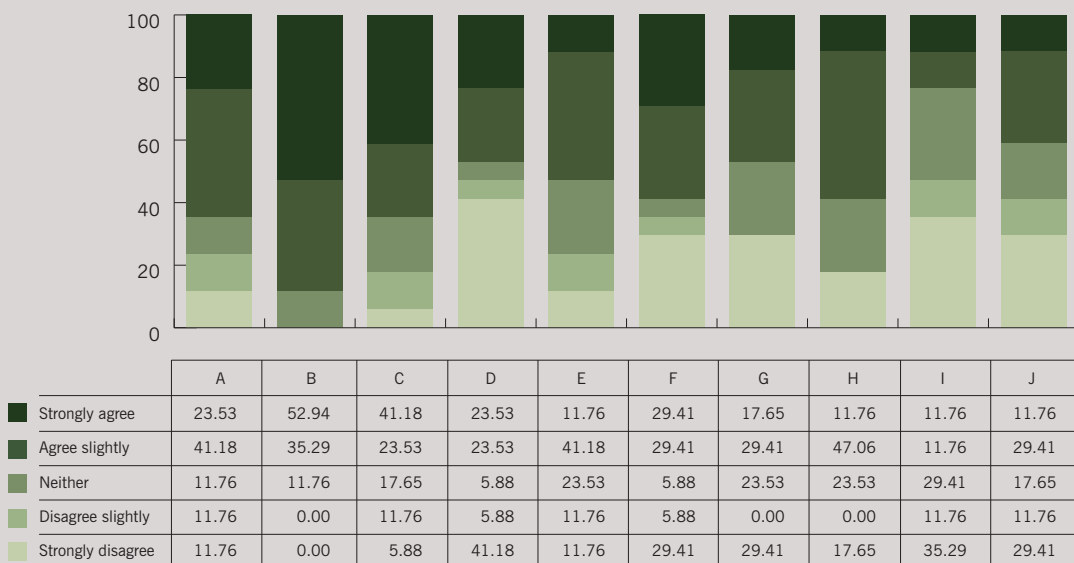


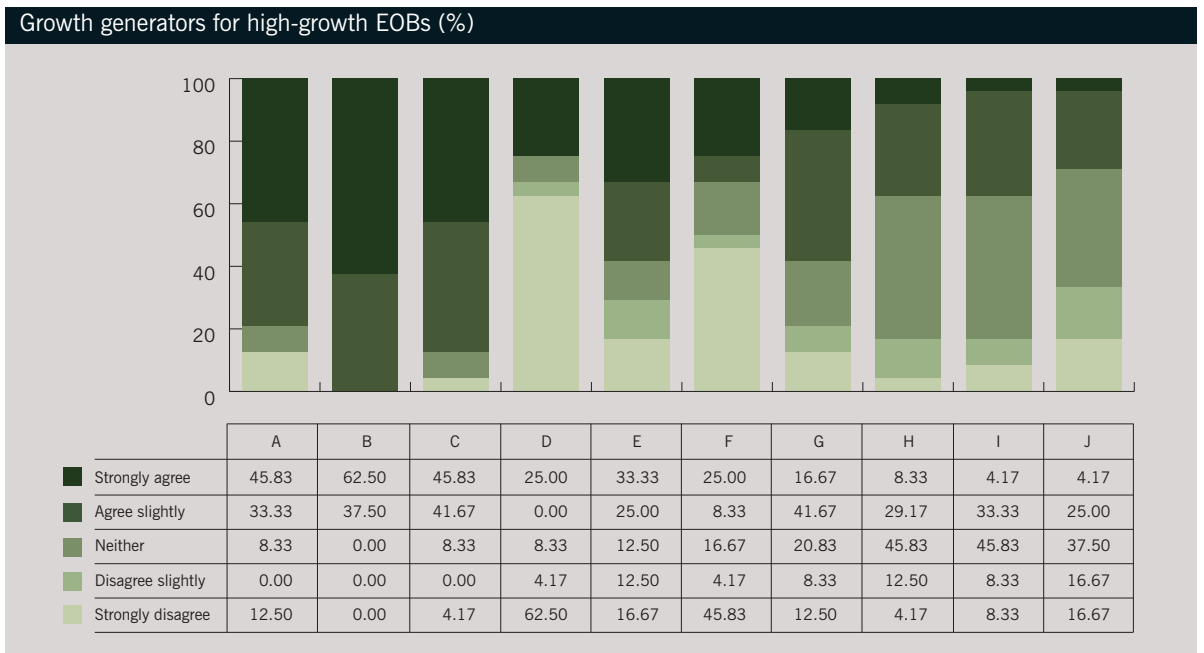
Appendix VII

Descriptive statistics from survey data: generators of growth for employee-owned firms

- A New products
- B New customers/clients
- C New markets (geographic)
- D Acquisition(s)
- E Alliances and joint ventures
- F Opening new sites
- G Revamping operations
- H New systems (e.g. IT)
- I Improved logistics
- J Implementing new pricing policies

Growth generators for low-growth EOBs (%)





## Notes

- 1 Kruse, D., Freeman, R. and Blasi, J. (2010), *Shared Capitalism at Work: Employee ownership, profit and gain sharing, and broad-based stock options*, Chicago and Cambridge, MA: University of Chicago Press and National Bureau of Economic Research; Blasi, J., Freeman, R., Mackin, C. and Kruse, D. (2008), *Creating a Bigger Pie? The effects of employee ownership, profit sharing, and stock options on workplace performance*, Working Paper 14230, Cambridge, MA: National Bureau of Economic Research.
- 2 Davies, W. (2009), *Reinventing the Firm*, London: Demos.
- 3 We sent out 78 invitations to EOBs and 206 invitations to non-EOB firms for participation in the survey study.
- 4 The average level of employee ownership is 64% with a median value of 75%. Only 10% of the employee-owned firms have ownership of less than 50%.
- 5 Delmar, F., Davidson, P. and Gartner, W. (2003), 'Arriving at the high-growth firm', *Journal of Business Venturing*, 18 (2).
- 6 Department for Business, Enterprise and Regulatory Reform (BERR) (2008), 'High growth firms in the UK: lessons from an analysis of comparative UK performance', available at [www.berr.gov.uk/files/file49042.pdf](http://www.berr.gov.uk/files/file49042.pdf) (last accessed 18 January 2010); Department for Business, Innovation and Skills (BIS) (2009), 'Appendix A: Definition, calculation and uses of value added', in *2009 BIS Value Added Scoreboard*, available at [www.innovation.gov.uk/value\\_added/default.asp?page=81](http://www.innovation.gov.uk/value_added/default.asp?page=81) (accessed 30 November 2009).
- 7 FAME (Financial Analysis Made Easy) is a database that provides profit and loss, balance sheet, ratios and trends for major public and private British companies; see <http://fame2.bvdep.com> (last accessed 20 January 2010).
- 8 Chernick, M.R. (2007), *Bootstrap Methods: A guide for practitioners & researchers*, New York: Wiley Blackwell, 2nd edn.
- 9 The firms with a higher number of employees, i.e. in the groups of 75–200 employees and over 200 employees.
- 10 Winther, G. and Maren, R. (1997), 'Participatory democracy may go a long way: comparative growth performance of employee ownership firms in New York and Washington states', *Economic and Industrial Democracy*, 18 (3); Quarrey, M. and Rosen, C. (1993), *Employee Ownership and Corporate Performance*, Oakland, CA: National Center for Employee Ownership.
- 11 Rosen, C. and Klein, K.J. (1983), 'Job-creating performance of employee-owned firms', *Monthly Labor Review*, 106.
- 12 Spearman rank order correlation:  $-0.36$  and  $-0.30$  respectively,  $p < 0.05$ .
- 13 Rosen, C. and Quarrey, M. (1987), 'How well is employee ownership working?', *Harvard Business Review*, Sept/Oct, 65 (5).
- 14 Ibid.
- 15 BERR (2008), 'High growth firms in the UK'; BIS (2009), 'Appendix A: Definition'.
- 16 Nordenflycht, A-V. (2010), 'What is a professional service firm? Towards a theory and taxonomy of knowledge intensive firms', *AMR*, 35 (1); Sveiby, K-E. (2001), 'A knowledge based theory of the firm to guide strategy formulation', *Journal of Intellectual Capital*, 2 (4).
- 17 Sesil, C.J., Kroumova, M.K., Blasi J.R. and Kruse, D.L. (2002), 'Broad-based employee stock options in US "new economy" firms', *British Journal of Industrial Relations*, 40 (2); Smith, S.C., Cin, B-C. and Vodopivec, M. (1997), 'Privatization incidence, ownership forms and firm performance: evidence from Slovenia', *Journal of Comparative Economics*, 25 (2); Blasi, J., Conte, M. and Kruse, D. (1996), 'Stock ownership and corporate performance among public companies', *Industrial Labor Relations Review*, 50.
- 18 Wilcoxon rank sum test ( $p \leq 0.05$ ).

## About the Research Team

Joseph Lampel is Professor in Strategic Management at Cass Business School in London. A PhD from McGill University, Lampel was Assistant Professor at the Stern School of Business, New York University, from 1989 to 1996. He has published more than 45 papers in leading journals and has authored five books including *Strategy Safari* (with Henry Mintzberg and Bruce Ahlstrand) and is co-editor of the fourth edition of *The Strategy Process* (with Henry Mintzberg, James Brian Quinn and Sumantra Ghoshal). Among the organisations that he has worked with are Lovells, Pratt and Whitney Canada, EMI, Rexam, Woolworth, GlaxoSmithKline, Hagemeyer and the International Chamber of Commerce in Paris. He is a regular invited guest on BBC TV, ITV, Channel 4, Sky News and CNBC.

**lampel@city.ac.uk**

Ajay Bhalla is Associate Professor in Information and Knowledge at Cass Business School and a research scholar at Indian School of Business in Hyderabad. His current research examines the impact of governance structure on firm vitality and growth. He is an award-winning researcher and teacher, and works closely with managers to execute thought leadership. Among the firms he has consulted are Barclays, Ernst and Young, International Chambers of Commerce and EMI. He has published articles in a number of top journals and is on the editorial board of *International Journal of Business and Emerging Markets*.

**a.bhalla@city.ac.uk**

Pushkar Jha is Lecturer in Strategy at Newcastle University Business School. He completed his PhD from Cass Business School in 2007. Prior to this, Pushkar worked on an EPSRC research project that partnered seven blue chip firms in examining project-based organisational learning. He has successfully carried out an Eli Lilly sponsored research study at Newcastle University using state of the art data modelling techniques to inform managerial decision-making. He lectures on strategic management, research methods and business systems. He has also been involved in research studies with the International Chambers of Commerce, music majors and enterprise development projects funded by the World Bank and the UNFPA.

**pushkar.jha@newcastle.ac.uk**

# John Lewis Partnership

## John Lewis Partnership

John Lewis Partnership is the UK's largest employee-owned business. The Partnership's 69,000 Partners own the leading UK retail businesses – Waitrose, John Lewis and Greenbee. Our founder's vision of a successful business powered by its people and its principles defines our unique company today. The benefits and profit created by our success are shared by all our Partners.

[www.johnlewispartnership.co.uk](http://www.johnlewispartnership.co.uk)

---



Employee Ownership  
Association

## Employee Ownership Association

The Employee Ownership Association is the voice of co-owned business in the UK, representing a sector of the economy now worth an estimated £25 billion in combined annual turnover. A network of approaching a hundred companies where employees own anything from a substantial to controlling stake in the business, EOA's members include the John Lewis Partnership; other long established co-owned companies such as Scott Bader, Tullis Russell and Swann-Morton; global corporations such as Arup, Unipart and Mott MacDonald; other major enterprises such as eaga, Pertemps, Wilkin & Son and Blackwell; and a range of smaller companies from a wide spread of sectors.

[www.employeeownership.co.uk](http://www.employeeownership.co.uk)

---



**Cass Business School**  
CITY UNIVERSITY LONDON

## Cass Business School

Cass Business School, City University London, delivers innovative, relevant and forward-looking education, training, consultancy and research. Located in the heart of one of the world's leading financial centres, Cass is the business school for the City of London. Our MBA, specialist Masters and undergraduate degrees have a global reputation for excellence, and the School supports nearly 100 PhD students. Cass offers the widest portfolio of specialist Masters programmes in Europe and our Executive MBA is ranked 21st in the world by the *Financial Times*. Cass has the largest faculties of Finance and Actuarial Science and Insurance in Europe. It is ranked in the top 10 UK business schools for business, management and finance research and 90% of the research output is internationally significant. Cass is a place where students, academics, industry experts, business leaders and policy-makers can enrich each other's thinking.

[www.cass.city.ac.uk](http://www.cass.city.ac.uk)



## **Model Growth:**

Do employee-owned businesses  
deliver sustainable performance?

**Professor Joseph Lampel**  
**Dr Ajay Bhalla**  
**Dr Pushkar Jha**

---

Copy edited by Julie Pickard  
Design and layout by Howard Malone  
Printed by Warners Digital



## **Model Growth:**

### **Do employee-owned businesses deliver sustainable performance?**

The employee-owned sector – comprising companies that are wholly or substantially owned by their staff – is worth around £25 billion annually, accounting for 2% of UK GDP. Employee-owned companies operate in a wide range of sectors in the UK – from retail, manufacturing and engineering to financial services.

The financial crisis and the subsequent global recession have stimulated a far-reaching debate about the future of capitalism and the way that companies are owned and run. This has led to renewed interest in employee ownership – and in the role that employee-owned companies could play in future economic growth.

This report assesses the financial performance of employee-owned businesses compared with conventionally structured companies where employees do not have a significant stake in ownership or the right to participate in decision-making. It also examines how employee-owned companies maintain the advantages of their ownership structure as they grow in size and complexity. The research by Cass Business School is based on an in-depth survey of senior executives and analysis of the financial data of over 250 companies.

It finds that employee-owned firms create new jobs more quickly than conventionally structured businesses and demonstrate the same levels of profitability. Employee-owned businesses are more resilient: their performance is more stable over business cycles, and they have outperformed the market during the downturn. They are also more robust: employee-owned businesses have a lower risk of business failure. The employee ownership model offers particular advantages to small and medium-sized businesses and in knowledge and skill-intensive sectors, where employee-owned companies significantly outperform competitors. Employee-owned businesses also add more value to output and human capital. They recruit more employees at a faster rate and reward employees with higher wages.

*Supported by the John Lewis Partnership*