Case Study 7.1

Economic benefits of employee ownership – recent evidence

One of the more recent empirical studies of the economic benefits of employee ownership was conducted on behalf of the Employee Ownership Association (EOA) by researchers in the CASS Business School, London. Published in January 2010, the 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. The following is a summary of some of the main findings of the report (the full report can be accessed at http://www.employeeownership.co.uk/publications/model-growth-do-employee-owned-businesses-deliver-sustainable-performance/.).

- 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.
- 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.
- 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 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.

Source: J. Lampel, A. Bhalla, and J. Pushkar, *Model Growth: Do Employee-Owned Businesses Deliver Sustainable Performance?* (CASS Business School London. EOA Report, 2010).