HOW EMPLOYEE-OWNED BUSINESSES DELIVER SUSTAINABLE PERFORMANCE IN THE UNITED KINGDOM?

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What are Employee Owned Businesses?

- Businesses that are substantially owned by the employees
- Businesses where the employees share in the profits directly
- Businesses where employees have significant influence over key business decisions, but managers retain considerable autonomy when it comes to making key decisions.
Control Rights

Financial Rights

- None
- Small
- Moderate
- Majority

Participation in control:
- None
- Conventional firms
- ESOP
- ESOP: Employee Stock Ownership Plan

Sharing of control:
- Co-determination

Dominant control:
- Cooperatives

Employee Owned Businesses
The Case for EOBs

- Employee ownership reduces economic inequality
- Employee ownership empowers workers to participate more widely in society
- **Employee ownership increases the economic efficiency of firms**
The EOB Advantages at the Firm Level

**Identification**
Increase employee identification with company mission and objectives

**Motivation**
Employee profit sharing transform into stronger task motivation

**Performance**

**Voice**
Encourage information flows

**Involvement**
Elicit greater participation in decision making
The Challenge to EOBs

- Most researchers agree that employee ownership is better for employees and society
- But many researchers argue that they do not perform as well economically:

How well do EOBs perform relative to non-EOBs?
We Split the Question in Two:

- How well do EOBs perform relative to non-EOBs during **economic growth**?
- How well do EOBs perform relative to non-EOBs during an **economic crisis**?
Testing EOB Performance over the Business Cycle

UK Real GDP (2008=100)

UK Economic Performance 2004-2012
Gathering the Evidence…

• We compared the financial performance of employee-owned businesses and non-employee-owned businesses.

• We conducted a survey of equivalent policies and practices in employee-owned and non-employee-owned businesses.

• We covered the following sectors: manufacturing, retail, energy, financial services, software development, energy, health care and consultancy.
EOBs vs. Non-EOBs During Economic Growth

- EOBs and non-EOBs are on par for profitability
- EOBs deliver higher employee sales contribution
- EOBs show superior financial performance in knowledge and skill-intensive industries
- EOBs add more value to output and human capital than non-EOBs
EOBs vs. non-EOBs Over the Business Cycle

EOBs performance was on par with non-EOBs for 2005-2008

EOBs were more ‘resilient’ than non-EOBs during the crisis (2008-2009)

- Better financial performance
- Less sales variability
- Increased hiring

How well did EOBS hold up in the post-crisis economy?
The Resilient Firm

- Able to maintain core operations during economic downturns
- Recovers sales and market position faster than its competitors
- Responds flexibly to hostile business environment
- Brings strong employee commitment to crisis situations
- Empowers problem solving by managers and teams that are closest to critical areas
Why Resilience Matters?

- Proponents of ‘creative destruction’ argue that firm failure is good for the economy because it frees market spaces for new dynamic enterprises.

- Critics point out that tacit coordination and skill-based relationships at the firm level are crucial for success in a knowledge intensive skill-based economy.

- Firm failure often leads to loss of these resources with negative consequences for the economy.

- Firm resilience increases the ability of firms to retain and further develop these resources.
Implications of EOB resilience to UK Economy

• EOBs increase resilience by encouraging employee voice, participation, and involvement.
• Difficult economic conditions increase the value of resilience.
• The management principles of EOBs set standards for non-EOBs that wish to increase their resilience.
• Focus on resilience should increase employee ownership across the board - and with it the diversity of governance forms.
Reports and Publications

Reports:


Publications:
