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

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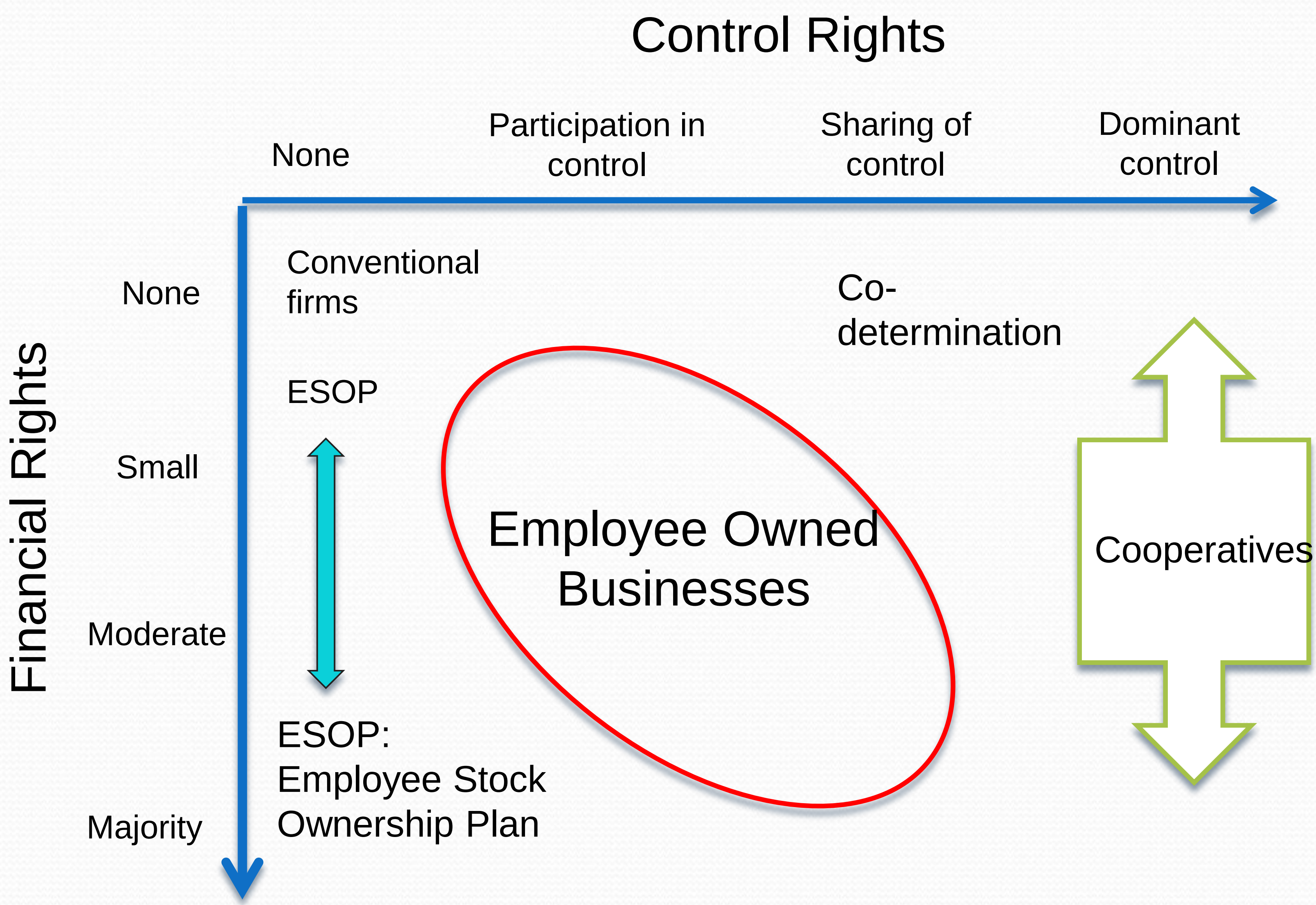
What are Employee Owned Businesses?

- 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
None
Participation in control
Sharing of control
Dominant control
Financial Rights
None
Small
Moderate
Majority
Conventional firms
ESOP
ESOP: Employee Stock Ownership Plan
Co-determination
Employee Owned Businesses
Cooperatives

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(?)**

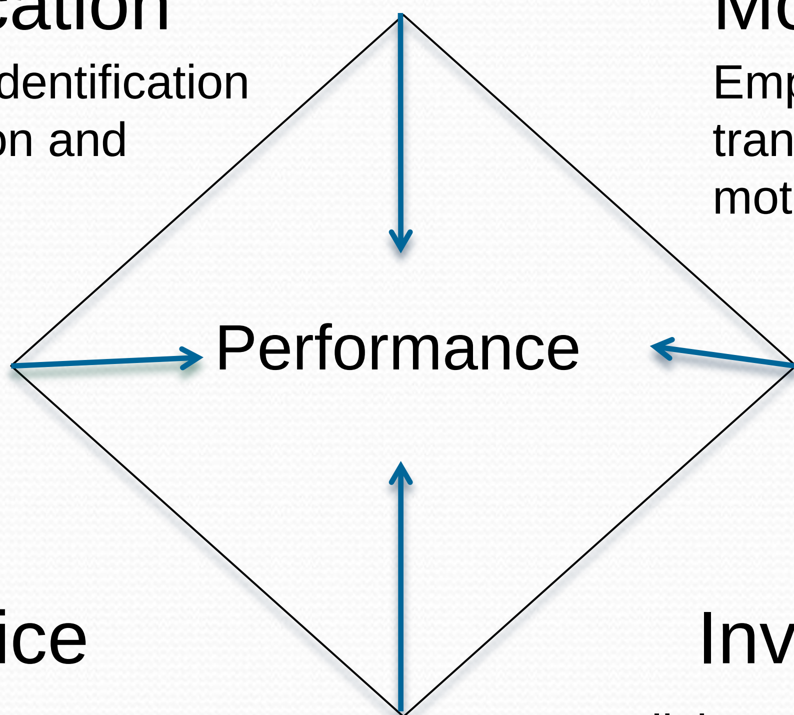
The EOB Advantages at the Firm Level

Identification

Increase employee identification with company mission and objectives

Motivation

Employee profit sharing transform into stronger task motivation



Voice

Encourage information flows

Involvement

Elicit greater participation in decision making

The Challenge to EOBs

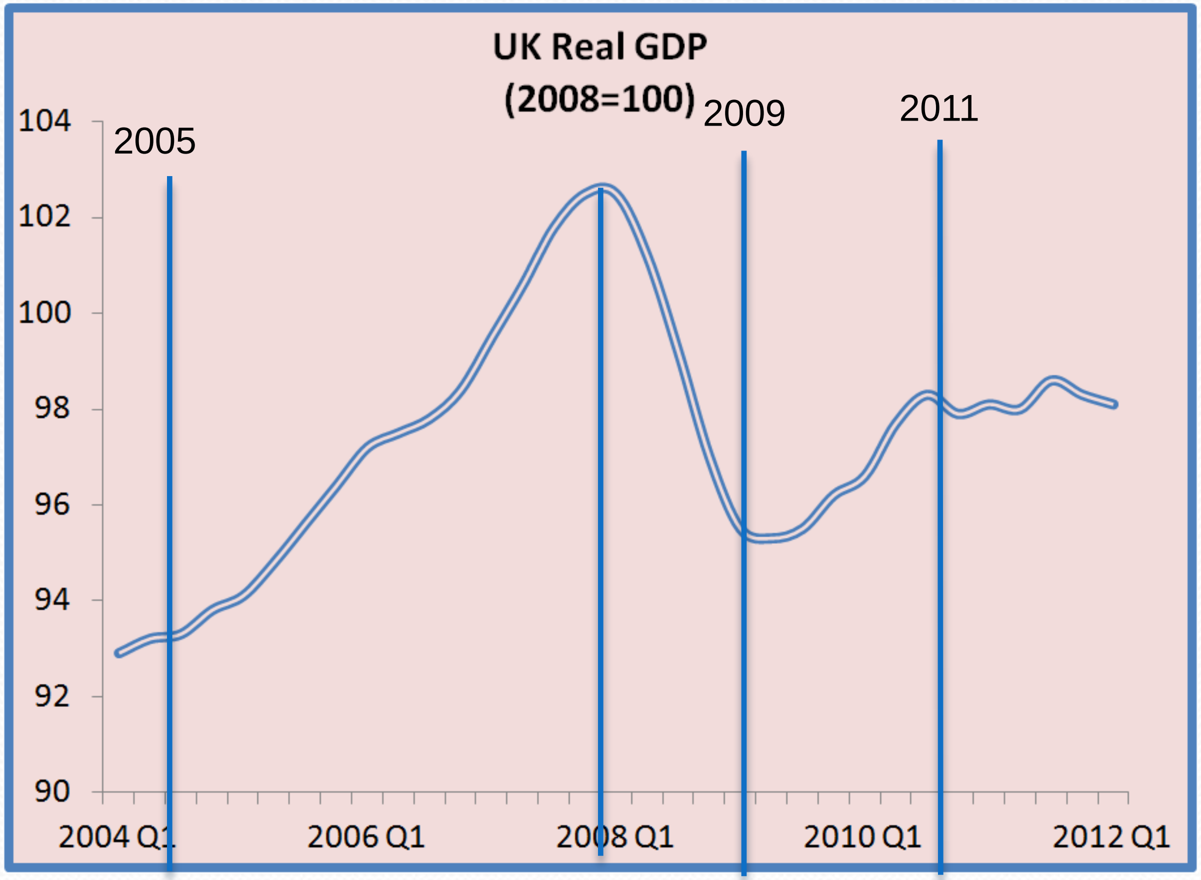
- Most researchers agree that employee ownership is better for employees and society
- But many researchers argue that they do not perform as well economically:

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 Economic Performance 2004-2012

Gathering the Evidence…

- We compared the financial performance of employee-owned businesses and non-employee-owned businesses
- We conduced 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:

1. Lampel, J., Bhalla, A., and Jha, P. 2010 Model Growth: Do employee-owned businesses deliver sustainable performance? Employee Ownership Association Report. http://www.saxbam.com/_ClientFiles/uploads/)
2. Lampel, J., Bhalla, A., and Jha, P. 2012. The Employee Ownership Advantage: Benefits and Consequences, UK Government, Department for Innovation Business &Skills. (https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/31668/12-929-employee-ownership-advantage-benefits-and-consequences.pdf)
3. Lampel, J., Bhalla, A., Jha, P., Chordia, M.(2014) ’Does Employee Ownership Confer Long-term Resilience? A follow up study to the Report: Model Growth – Do Employee Owned Businesses Provide sustainable advantage', London: Employee Ownership Association and Cass Business School

Publications:

4. Lampel, J., Bhalla, A., and Jha, P. 2013. The Employee Owned Business Model During Growth and Adversity: How Well Does it Hold Up? European Business Review, July-August: 20-23.
5. Lampel, J., Bhalla, A., and Jha, P. 2014. Does governance confer organisational resilience? Evidence from UK employee owned businesses, European Management Journal, 32 (1), 66-72