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How did employee owned businesses perform during and post-financial crisis?

New research from Cass Business School examines the data

Employee owned businesses (EOB), while performing on par with non-EOBs during periods of strong economic growth, outperformed non-EOBs during the recent financial crisis. They are better at maintaining both top-line financial performance and employment levels, than their non-EOB counterparts.

These are the lead findings of new research released today by Cass Business School, part of City University London. The paper was launched today at an Employee Ownership Symposium at Cass attended by Chief Secretary to the Treasury, the Rt. Hon. Danny Alexander, who delivered the keynote speech.

He commented: "Working for an employee owned organisation has a particular appeal for many people and produces a number of personal, social and economic benefits, including higher levels of engagement and productivity. The government is fully committed to the sector and has recently made £75 million available to it in the form of tax incentives."

The study: *Does employee ownership confer long-term resilience*, by Cass Professors Joseph Lampel and Ajay Bhalla and Dr. Pushkar Jha from University of Northumbria, is supported by the Employee Ownership Association.

It is an update of research the team conducted in 2010 to examine how EOBs perform under adverse economic conditions when compared to (a) their own performance during a period of economic growth and (b) the performance of non-EOBs.

The report examines whether EOBs continue to demonstrate resilience when economic disruption is prolonged.

The analysis, which extends to 2010-2011, shows that EOB performance, is on par with non-EOBs during periods of strong economic growth, but outperformed non-EOBs during the recent crisis.

Notwithstanding EOBs performance during the recession, non-EOBs still enjoy better access to finance, and a tax environment that gives them advantages when economic conditions are favorable that are not open to non-EOBs. Rectifying the constraints that EOBs face in the current banking and tax environment is under active consideration by UK policy makers.

The Cass studies show that compared to EOBs, non-EOBs are unable to maintain both top-line financial performance and employment levels, whereas EOBs seem to be better at doing this. The contrast can be attributed to the ownership culture of EOBs, which supports higher employee engagement and links employee initiative taking to superior performance. For instance, EOBs are more likely to empower their front-line employees and to use feedback from them to pursue customer-oriented growth.

EOBs support higher employment levels than non-EOBs. This is in line with findings that suggest that EOBs view employees as their biggest asset, and employee commitment as their central advantage. The research team found an increase in employee numbers in 2008-09 and 2009-10, which points to the long-term orientation of EOBs and their ability to plan

ahead for a time when the economy begins to look up. Research suggests that on account of preserving their social capital and knowledge base, EOBs should be well positioned to bounce back strongly as the recession ends.

The analysis of profitability highlights a clear difference in the objectives of EOBs and non-EOBs. While non-EOBs are clearly focused on preserving margins, EOBs seem to be less concerned with profitability alone. Pressure from the capital markets is commonly acknowledged as the driver of decisions in non-EOBs; the need to increase share value leads to acute concern over efficiencies and cost cutting, especially during a downturn. Long-term needs are therefore undervalued. EOBs, on the other hand, do not face such pressure from external shareholders, and are able to pursue other non-economic goals, which are a key feature of the employee ownership model.

Professors Joseph Lampel and Ajay Bhalla comment: "The failure of a wide range of firms during the recent adverse economic environment suggests that we need to think beyond the dominant shareholder model where we often see cracks emerging because of wedge between employees, executives and shareholder interests. A credible alternative is the 'employee owned business model'- where employees have both ownership and voice in the governance of enterprise. Cass has been at the forefront of research on employee ownership and our research shows that employee owned businesses continue to demonstrate resilience over a long period of economic crisis. In partnership with Employee Ownership Association, Cass symposium on Employee Ownership, held today, is a step function towards our intent to ensure that both public and private institutions are not only aware of this model but are also educated and trained on how to make employee ownership work."

Iain Hasdell, CEO of the Employee Ownership Association, comments:
"The Employee Ownership Association has been calling for additional measures in support of employee owners for some time now. Employee ownership is an effective solution to a number of economic issues. The recent confirmation of new tax incentives for employee ownership, and the announcement of £75m each year from April, mark another key step towards our widely endorsed target of 10% of GDP being delivered by employee owned businesses by 2020. These measures will help to create more of the higher productivity and long term investments that employee ownership delivers in every sector of the economy."

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Notes to Editors:

For more information or to speak to one of the researchers, please contact Helen Merrills, helen.merrills.1@city.ac.uk 020 7040 4191

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